MEETING DATE: February 27, 2001

SUBJECT: Supply Of Diesel Fuel For The Period Of April 1, 2001 To March 31, 2002

RECOMMENDATION

It is recommended that the Commission approve the acceptance of the tender submitted by Sunoco Inc and the award of a contract for the supply of up to 58 million litres of diesel fuel for a one year period from April 1, 2001 to March 31, 2002 in the total upset limit of $35 million, including all applicable taxes.

FUNDING

The actual costs for Diesel Fuel incurred in 2000 were $27.7 million. The projected cost, based on this contract price, for 2001 represents a significant increase. Approximately 80% of the increase is due to price changes while the remainder is due to volume change (mileage increase).

Sufficient funds for the purchase of diesel fuel are provided for in the 2001 TTC and Wheel Trans Operating Budgets and will be provided for in future Operating Budgets as appropriate.

BACKGROUND

The current one-year contract for the supply of diesel fuel with Sunoco Inc. expires on March 31, 2001. Tender documents were prepared for a new contract commencing April 1, 2001.

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DISCUSSION

Five companies were invited to submit tenders in addition to a public advertisement placed in the Globe and Mail on January 12, 2001.

The tenderers were requested to provide a firm price per litre of crude for the cost for refining, transportation, administration charges, overhead and profit for a one-year term. In order to calculate their tendered price for comparison purposes, the tenderers were provided a cost for crude as well as a US to Canadian dollar exchange rate in the Request for Tender. The tenderers were also requested to provide optional pricing for the extension of the contract for both a second and a third year.

Sunoco Inc. was the only company that submitted a tender. They provided fixed pricing for the base tender as well as for the options. They stated an exception to the Commission's General Conditions regarding the Commission's right to terminate the contract at its convenience. In light of the nature and terms of the contract, this is considered acceptable.

Sunoco also qualified their tender regarding the number of litres of diesel fuel to be provided under the contract. The Request for Tender requested pricing based on 59.5 million litres, however in the previous contracts with Sunoco the TTC has consumed less volume than the estimated volume in the Request for Tender. As a result, Sunoco had to sell off the unused portion remaining at the end of the contract at a gain or loss depending on prevailing market prices. Sunoco is therefore recommending that the TTC purchase a one year fixed volume of 56 million litres (+/- 2 million litres). This means the TTC must purchase between 54 and 58 million litres during the one-year contract. Any portion under the 54 million would be purchased by the TTC at the contract price at the end of the contract. Any portion over the 58 million would be purchased by the TTC at a price based on the previous month's average Oil Buyers Guide price. This purchase structure has been reviewed by staff and is considered acceptable and the purchase of up to 58 million litres is recommended for acceptance.

For the optional years 2 and 3, Sunoco offered to fix the price of crude anytime after January 1, 2002 for the second year and January 1, 2003 for the third year based on their tendered fixed mark-up on the cost of crude. The pricing from Sunoco for the second and third year is also considered acceptable, however the extension of the contract for a second or third year will be the subject of a future report.

Once Commission approval is received, staff will fix a one-year price per litre for crude oil with Sunoco Inc prior to the expiry date of the current contract. Establishing a firm price over a fixed term best protects the Commission from the risk of sudden upward spikes in crude oil prices. The recommended upset limit includes an allowance for fluctuations in the price of crude prior to the price being fixed and for variations in the forecast verses actual usage.

Shell Canada Ltd. and Petro Canada did not submit tenders because they had low inventories and could not supply the volume required. Imperial Oil did not submit a tender as their company policy does not allow for bidding on firm price contracts.

JUSTIFICATION

The existing diesel fuel contract expires on March 31, 2001. A new contract is therefore required to ensure an adequate supply of diesel fuel for the continued operation of the TTC and Wheel Trans bus fleets.

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February 15, 2001

9-118-57

Attachment – Appendix ‘A’

APPENDIX ‘A’

SUPPLY OF #1 DIESEL FUEL

<u>SUMMARY OF TENDERS</u>

SUPPLIER	TOTAL EVALUATED PRICE
* Sunoco Inc.	$33,629,400.00
Shell Canada Ltd.	Unable to Quote (low inventory)
Petro Canada	

	Unable to Quote (low inventory)
Imperial Oil	Unable to Quote (Did not tender on firm price contracts)

NOTE:

1. Total Upset Limit recommended $35,000,000.00

* Recommended