

**MEETING DATE:** November 28, 2001

**SUBJECT:** Supply Of Diesel Fuel For The Period Of April 1, 2002 To March 31, 2003

**RECOMMENDATION**

It is recommended that the Commission approve exercising the option for the second year of the contract with Sunoco Inc. for the supply of up to 58 million litres of diesel fuel for a one year period from April 1, 2002 to March 31, 2003 in the total upset limit of \$30.2 million, including all applicable taxes.

**FUNDING**

Sufficient funds for the purchase of diesel fuel are provided for in the 2002 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, 2002. The contract price is firm based on two components. A fixed margin established by Sunoco to cover the cost of refining, transportation, administration charges, overhead and profit and a firm price for the crude oil based on futures contracts. The TTC's price for diesel under the current contract is \$0.5944 per litre. Included within the current agreement is an option to extend the contract for an additional 12 to 24 month period based on the same terms subject to establishing the price for crude oil futures for the term required.

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## **SUPPLY OF DIESEL FUEL FOR THE PERIOD OF**

**APRIL 1, 2002 TO MARCH 31, 2003 Page 2**

### **DISCUSSION**

Crude oil pricing has dropped significantly during the last two months and staff believe fixing a firm 12 month diesel fuel price in the near future, to take effect April 1, 2002, will result in a better firm price for the recommended contract period. To pursue an optional twelve month contract extension, staff met with Sunoco Inc. to negotiate their fixed margin for a second year.

Staff negotiated a 4.5% reduction off the current Sunoco fixed margin. Using this reduced margin and based on the futures price for crude oil on November 16, 2001, the firm price per litre would be approximately \$0.52 for diesel fuel during the next contract period of April 1, 2002 to March 31, 2003. Diesel fuel at \$0.52/litre for the new contract would be approximately 12.5% lower than currently paid to Sunoco Inc. and based on recent trends, staff expect the price of crude to drop further in the near term.

Once Commission approval is received, staff will fix a firm twelve month price per litre effective April 1, 2002 for diesel fuel 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.

Based on an estimated usage of 58 million litres for the period April 2002 to March 2003, staff would require approval for an upset limit contract of \$30.2 million, including applicable taxes.

### **JUSTIFICATION**

The existing diesel fuel contract expires on March 31, 2002. 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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November 20, 2001

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