

TORONTO TRANSIT COMMISSION REPORT NO.

MEETING DATE: October 29, 2009

SUBJECT: PROCUREMENT AUTHORIZATION AMENDMENT - SUPPLY OF
DIESEL FUEL

ACTION ITEM

RECOMMENDATION

It is recommended that the Commission authorize the issuance of an amendment to the contract with Suncor Energy Products Inc. (Suncor) for the supply and delivery of diesel fuel to increase the total contract upset limit by \$50,000,000 to a revised upset limit of \$379,400,000 and to extend the contract term from June 30, 2010 until December 31, 2010.

FUNDING

Sufficient funds will be included in the 2010 TTC and Wheel-Trans Operating Budgets as required.

BACKGROUND

The current contract with Suncor was approved for award at the Commission meeting of November 28, 2005 for the period from April 1, 2006 to December 31, 2007 in the upset limit amount of \$114.4M, and included an option for a two year extension to December 31, 2009, which was exercised at the Commission meeting of May 8, 2007, increasing the upset limit amount by \$165M to \$279.4M.

At the Commission meeting of July 10, 2008, the Commission approved an amendment to the contract with Suncor to increase the total contract upset limit by \$50M to \$329.4M to provide sufficient funds in the contract due to the significant increase in the price for crude oil (\$136 per barrel on June 19, 2008) at that time. Subsequently on June 9, 2009, staff extended the contract term with Suncor from December 31, 2009 to expire on June 30, 2010 as there were sufficient funds remaining in the contract in order to sort out the details with the City of Toronto (City) on the feasibility of contracting jointly for the purchase of diesel fuel for both the TTC and the City's requirements.

DISCUSSION

In November 2008, staff were approached by City staff regarding the feasibility of contracting jointly for the purchase of diesel fuel with the TTC and the potential to develop a fuel hedging program similar to the existing TTC's and the City's current purchasing/hedging program for electricity. Discussions on this issue took place but were subsequently delayed during the labour dispute at the City.

City and TTC staff have agreed to explore a mutual agreement to participate in this joint diesel fuel purchasing program and to share consultant purchasing expertise and resources. Based on past experience with electricity, staff estimate that the setting up of this Fuel Purchasing Program with the City would likely take about 9 to 12 months.

Therefore, TTC and City staff have agreed to extend their respective contracts for the supply of diesel fuel to co-terminate on December 31, 2010 to allow sufficient time to make arrangements for future joint purchases.

The TTC's diesel fuel contract with Suncor is scheduled to expire on June 30, 2010. The estimated usage for TTC requirements is 88,800,000 litres for 2010. In order to satisfy the schedule requirements for the joint purchase of fuel between the City and the TTC, an extension to the current contract with Suncor is required from June 30, 2010 to December 31, 2010. Approval of an additional \$50M for the purchase of diesel fuel will cover expenditures for this time extension.

As per the contract with Suncor, staff have the ability to purchase its 2010 diesel fuel requirements on the spot market and/or lock in a fixed price through the purchase of diesel futures. Staff will continue to monitor the market for diesel pricing and attempt to establish an acceptable lock-in price target for 2010 pending market changes in the future, if and when acceptable pricing becomes available.

The recommended increase in the upset limit contract with Suncor for this six month extension is based on the current futures pricing for Diesel and usage of approximately 44,700,000 litres over the period from July 1, 2010 to December 31, 2010. The recommended upset limit also includes a 10% allowance for variation in usage and price fluctuations over the period from July 1, 2010 to December 31, 2010.

JUSTIFICATION

The existing diesel fuel contract with Suncor expires on June 30, 2010 and the increase in the upset limit contract amount is required to ensure the uninterrupted supply of diesel for the Commission's operations from July 1, 2010 to December 31, 2010 to provide time for staff to arrange for the joint purchase of diesel fuel with the City in the future.
