

TORONTO TRANSIT COMMISSION REPORT NO.

MEETING DATE: November 23, 2011

SUBJECT: PROCUREMENT AUTHORIZATION – PURCHASE OF NATURAL GAS

ACTION ITEM

RECOMMENDATION

It is recommended that the Commission approve:

- a) Staff entering into the required Agency Agreements subject to the approval of the General Counsel, to permit the City of Toronto (City) to process purchases for the supply of natural gas on behalf of the Commission from a roster of natural gas suppliers for a three-year term.
- b) Approval of funds in the amount of \$60 Million for the Commission to purchase natural gas for the heating of its surface properties for a five year period commencing September 1, 2012 to October 31, 2017.

FUNDING

Sufficient funds have been included in the 2012 TTC, TCT and Wheel-Trans Operating Budgets and will be included in future Operating Budgets as required.

BACKGROUND

Over the past 10 years the TTC has been working with City staff to co-ordinate the purchase of energy (i.e. electricity, diesel fuel and natural gas) beginning with electricity back in 2001.

More recently at its meeting of October 25, 2006 the Commission approved entering into electricity purchase agreements for a three year period from January 1, 2007 to December 31, 2009 to permit the City of Toronto (City) to process purchases for the supply of electrical power from a pool of five firms who were awarded contracts as a result of a Request for Expressions of Interest (REOI) issued on behalf of the City/ABC's, including the Commission.

At its meeting of February 18, 2009 the Commission approved continuing this arrangement

with the City for an additional five year period from January 1, 2010 to December 31, 2014.

In addition, at its meeting of March 1, 2011 the Commission approved entering into diesel fuel financial purchase agreements for a three year period to permit the City to process purchases of diesel fuel financial futures on behalf of the TTC from a roster of pre-qualified financial counterparties upon the City signing agreements with the financial counterparties.

Natural gas is the last of the energy purchases to be co-ordinated with the City. Currently the TTC has a contract with Shell Energy North America (Canada) Inc. (Shell) for the supply of natural gas for the period January 1, 2006 to August 31, 2012 for the heating of its surface locations (i.e. office buildings, garages, carhouses). TTC staff has been working with City staff with respect to the feasibility of joining the City's existing natural gas purchasing program once the current contract with Shell expires.

Currently, the TTC's natural gas purchases with Shell are administered (i.e. transportation, volume balancing) by staff that meet with Shell quarterly to discuss the short and long term market and develop purchasing strategies.

DISCUSSION

The Energy and Waste Management Office (EWMO) of the City administers the natural gas purchasing program and acts as an 'Agent' to the City and the ABC's (including the TTC) and began using a roster of multiple suppliers in 2004 using North American Energy Standards Board (NAESB) Master Agreements. At that time, the City issued a REOI that resulted in setting up a roster of 5 natural gas suppliers. The criteria used for evaluation included; credit rating, experience, performance security and the NAESB Master Agreement. The five highest scoring respondents were selected and the roster was effective for a three year duration at which time it would be refreshed for another three year term using the same REOI process. The City has recently refreshed its roster for natural gas and it is in effect until February 26, 2015. Current qualified suppliers on the roster are; BP Canada Energy Company (BP), Shell Energy North America (Canada) Inc. (Shell), J.Aron and Company (JAron), RBC Capital Markets (RBC) and Navicomm Energy Group inc. (Navicomm).

The City has the ability to purchase gas on an as required basis for up to five years from the roster of qualified suppliers. The City uses its portfolio approach in natural gas purchasing which enables the City to buy natural gas whenever market conditions meet their requirements. This enables the City to purchase from the supplier with the lowest price and to build a portfolio of purchases at favourable prices and terms to manage future price risk.

The City has a NAESB Master Agreement with each of their natural gas suppliers on the roster. The agreement contains the legal and credit terms that are required for natural gas transactions. There is no volume or price in the Master Agreement and the City purchases gas from the suppliers based upon the Master Agreement and for each purchase, a transaction is signed and becomes an appendix to the Master Agreement.

The City has retained the services of a Consultant (E2 Energy Inc.) that provides advice on the development of short and long term strategies for the purchase of natural gas. TTC staff will meet with City staff and the Consultant to develop appropriate purchasing strategies based on market conditions.

Over the five year term, September 1, 2012 to October 31, 2017, the Commission is expected to spend approximately \$60 million on natural gas for heating of its surface locations and this amount includes a 30% contingency for market price fluctuation and consumption variations from 2012 to 2017.

Commission staff recommends executing Agency Agreements with the City as they already have the infrastructure in place through the EWMO. The City will act on behalf of the Commission as an Agent for the actual transaction based on the strategy developed by Commission staff in conjunction with advice specific to the TTC from the City's/ABC's Consultant.

JUSTIFICATION

The purchase of natural gas is required to ensure the uninterrupted supply for the Commission's operations from September 1, 2012 to October 31, 2017 and entering into the Agency Agreement with the City will provide the opportunity to purchase the supply of natural gas at pricing that mitigates the risk to future budgets due to dramatic price fluctuations.

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