



STAFF REPORT ACTION REQUIRED

Procurement Authorization – Physical Supply of Diesel Fuel to TTC Properties

Date:	November 23 rd , 2015
To:	TTC Board
From:	Chief Executive Officer

Summary

The purpose of this report is to obtain authorization for the award of a contract for a two year term for the physical supply of diesel fuel. This award is the result of a joint City of Toronto/TTC procurement for diesel fuel. The City issued an RFP covering both organizations. The City award was made at the City Government Management Committee meeting on November 9, 2015.

Recommendations

It is recommended that the Board:

1. Authorize the award of a contract to Suncor Energy Products Partnership (Suncor) for the physical supply and delivery of diesel fuel (based on 91 million litres each year), on the basis of lowest bid, up to the total upset limit amount of \$182,500,000.00 (incl. taxes) for a two (2) year period commencing January 1, 2016 to December 31, 2017.

Financial Summary

Sufficient funds are included in the proposed 2016 TTC and Wheel Trans Operating Budgets as reviewed at the TTC Budget Committee meeting on November 9, 2015 and will be included in future operating budgets as required. These budgets are scheduled to be submitted to the TTC Board for approval on November 23, 2015 and to City Council on February 17 & 18, 2016.

The Chief Financial & Administration Officer has reviewed this report and agrees with the financial impact information.

Issue Background

The TTC utilizes diesel fuel to operate all of its passenger buses, the Wheel-Trans fleet and some of its larger non-revenue vehicles. Storage tanks and fueling are located at all TTC bus maintenance facilities. Diesel fuel is delivered there and vehicles are fuelled at those locations.

The diesel fuel being purchased under this contract is No. 2 clear diesel refined to meet the latest federal fuel standards for our fleet.

Accessibility/Equity Matters

This recommendation has no accessibility or equity issues.

Decision History

The previous contract was approved at the March 1, 2011 Board Meeting, for the award to Suncor for the physical supply of diesel fuel in the total upset limit amount of \$513,000,000 for the period April 1, 2011 to December 31, 2015 as per report linked below.

[http://www.ttc.ca/About the TTC/Commission reports and information/Commission meetings/2011/March_1_2011/Reports/Procurement_Authoriz1.pdf](http://www.ttc.ca/About%20the%20TTC/Commission%20reports%20and%20information/Commission%20meetings/2011/March_1_2011/Reports/Procurement_Authoriz1.pdf)

The City granted authority to award its contract to Suncor for the initial two year period at its Government Management Committee meeting on November 9, 2015, with the option to renew the contract and subject to budget approval for an additional two one year periods at the City's sole discretion.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2015.GM8.23>

Comments

The City's Request For Quotation (RFQ) for the physical supply and delivery of petroleum products included quantities for TTC locations, the City of Toronto Fleet Services, and the City's participating Agencies and Corporations. The RFQ stated the contract term would be two years with the option to renew the contract for two additional one year periods.

The RFQ listed the petroleum products required by TTC as follows: No. 2 clear diesel (buses), No. 2 furnace fuel oil (Queensway Bus Garage only), and No. 2 diesel – red dyed (equipment). The RFQ also listed the City's requirements, which included two products that were common to TTC's requirements: No. 2 clear diesel and No. 2 diesel – red dyed. These technical items are all different forms of diesel that the TTC either uses or can be used as the basis of the diesel fuel pricing we obtain.

The RFQ stated the pricing for No. 2 Diesel and No. 2 furnace fuel oil would be based on the Bloomberg Oil Buyers Guide published Canadian unbranded rack prices, and bidders were requested to provide their discount (\$/litre) off the rack price as well as their delivery cost (\$/litre). In addition, bidders were required to provide pricing on a daily and weekly basis. Bidders were instructed to use the posted rack pricing from the Bloomberg's Oil Buyers Guide published on August 21, 2015 to make their submissions. This pricing was used for the evaluation of the bids. It should be noted that the price can change on a daily/weekly basis, and the price charged to the TTC can either go up or down for the physical supply of diesel fuel for that particular period under this contract.

Bidders were provided with an estimated yearly volume of 91 million litres required by the TTC to operate its revenue fleet.

Bidders were given the option to provide pricing on the City's requirements only, TTC requirements only, or on the City's and TTC's combined volume. Under the TTC only and the City only options, TTC and the City could award independent contracts to different bidders, whereas the combined option would result in the award to one company for the entire business.

Suncor submitted the lowest priced compliant bid for each option. Suncor provided all the submission requirements as set out in the RFQ, as a result its bid is considered commercially and technically compliant and is recommended for award.

Canada Clean Fuels Inc. (CCF) submitted the second lowest overall priced bid and is not recommended for award. CCF provided all the submission requirements as set out in the RFQ.

The TTC/ City combined option results in higher No. 2 clear diesel delivery fees for TTC but lower delivery of red dyed diesel and includes a larger discount off the rack price for diesel compared to the TTC only option. The increased cost of delivery for No. 2 Diesel for the TTC/City bid compared to the TTC only option can be attributed to increased number of smaller sites that the City requires delivery to as opposed to TTC which has fewer sites (8) but larger volumes.

The TTC will be paying \$231,962.56 more with the TTC/City bid than TTC only option. The City will be saving \$581,195.89 with the TTC/City option compared to the City only option. Although under the combined TTC/City option the TTC would pay \$231,962.56 more over the two year term, the overall savings across both entities would be \$349,233.33 (\$581,195.89 - \$231,962.56), therefore the combined TTC/City award option is recommended. See attached Appendix A for the TTC/City summary.

Comparing TTC's current pricing with the recommended contract based on the market diesel pricing as specified in the RFQ results in higher transportation costs and higher discount to the TTC which combined results in an overall price decrease of 1.6%, a savings of \$1.84 Million over the two year period for No. 2 clear diesel.

The recommended amount includes a contingency of approximately 20% for any increase in usage. It should be noted that under this contract the TTC will pay only for diesel fuel delivered. The contingency allows for things such as operating additional service. The TTC is not obligated to actually purchase this contingent amount. See attached Appendix B for the TTC's summary.

Diesel Fuel Hedging

In addition to this diesel fuel physical supply contract, the City also manages a fuel hedging program on behalf of the City and the TTC to mitigate the volatility of fuel prices and provide budget certainty. This hedging program has separate financial agreements with the banks that allow the City to enter into fixed price financial contracts for diesel. The TTC has 87.5% of its diesel volume hedged in 2016. The TTC has either hedged or used fixed pricing for diesel fuel purchases for about two decades. Given the current low oil prices it makes good economic sense to lock in these prices. This is an ongoing monitoring process between the City and the TTC staff. The hedging contracts are not linked in any way to the physical supply contract.

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Attachment – Appendix A and B

Appendix A

TTC/City Summary Physical Supply of Diesel Fuel to TTC Properties

Description	2 Year Total (incl. taxes)
TTC Total based on award of TTC combined with the City - Weekly Pricing	\$151,707,946.03
TTC Total based on award of TTC on its own - Weekly Pricing	151,475,983.47
Difference between TTC pricing vs. combined pricing with the City	\$231,962.56

The City Total based on award of TTC combined with the City - Weekly Pricing	\$23,976,503.19
The City Total based on award of the City on its own - Weekly Pricing	\$24,557,699.08
Difference between the City pricing vs. combined pricing with the TTC	-\$581,195.89

Difference between TTC pricing vs. combined pricing with the City	\$231,962.56
Difference between the City pricing vs. combined pricing with the TTC	-\$581,195.89
Total savings on the TTC and the City combined purchase	-\$349,233.33

Appendix B

Procurement Authorization Physical Supply of Diesel Fuel to TTC Properties

Description	2 Year Total (incl. taxes)
No. 2 Diesel (incl. discount) (based on a yearly volume of 91 million litres)	\$149,724,497.83
Delivery Cost for No. 2 Diesel	\$1,556,643.21
No. 2 Diesel - Red Dyed (incl. discount)	\$347,036.96
Delivery Cost for No. 2 Diesel - Red Dyed	\$4,812.92
Furnace Fuel oil No. 2 (incl. discount)	\$65,396.03
Delivery Cost for Furnace Fuel Oil No. 2	\$9,559.08
Total	\$151,707,946.03
Total including contingency of approximately 20% for increased usage	\$182,500,000.00