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WASTE HAULAGE FUEL COSTS

The Solid Waste Management Committee recommends the adoption of the recommendations contained in the following report, February 23, 2006, from the Commissioner of Transportation and Works:

1. RECOMMENDATIONS

It is recommended that:

1. The Region amend its waste haulage agreements with Verspeeten Cartage Ltd. and Green Lane Environmental to reflect current diesel fuel costs.

2. The Regional Chair and Clerk be authorized to sign the necessary agreements subject to review by Legal Services.

3. The fuel surcharge be paid for 2005 as per the revised agreements.

2. PURPOSE

The purpose of this report is to obtain authorization to amend existing agreements with Verspeeten Cartage Ltd. (Verspeeten) and Green Lane Environmental (Green Lane) to reflect current fuel costs for the shipment of waste to landfill.

3. BACKGROUND

Council adopted Clause 3 of Report No. 4 of the Solid Waste Management Committee on June 27, 2002 to enter into agreements with Verspeeten and Green Lane to haul garbage to the Onyx Arbor Hills Landfill in Michigan, and Green Lane Landfill, respectively. Under the terms of the agreement, these contractors were to be paid a fuel surcharge once the price of fuel exceeded $0.6875 per litre based on the Ontario Ministry of the Energy published Southern Ontario Average Price for diesel fuel. In June 2002, the published price was $0.599 per litre and the contracts contemplated a sliding fee scale (*see Table 1*) with an additional payment of up to $1.20 per tonne once the price of fuel exceeded $0.7875 per litre.

4. ANALYSIS AND OPTIONS

The intent of the fuel surcharge clause in our contracts was to eliminate the contractors' fuel costs risk. At the time of writing, fuel prices were $0.60 per litre and a future increase of 31% in fuel price over the term of the contract was allowed for in the contracts as shown in Table 1.

Table 1
Existing Contract Fuel Surcharge

Ministry of Energy Posted Fuel Price/litre	Surcharge/tonne
$0.4585-$0.6875 / litre	$0.00
$0.6876-$0.7875 / litre	$0.60
$0.786 / litre and above	$1.20

The average diesel price for 2002 was $0.606 per litre and in October 2005 the average price hit a high of $1.033. The January 2006 average was $0.936 per litre. This dramatic increase in fuel prices was not contemplated at the time of writing the contracts and the contract wording fixing the surcharge payment at $1.20 per tonne, regardless of the price above $0.786 per litre, is not consistent with the intent of the negotiations to transfer the risk of increased fuel prices to the Region.

In 2004 the Region paid a fuel surcharge of $46,437 and $11,288 to Green Lane and Verspeeten respectively. The contractors are preparing their invoices for 2005 payments and have requested that the Region update the contracts to reflect the new reality of high fuel costs. Current diesel fuel prices in Ontario have increased 56% compared to June 2002 when the contracts were signed and our haulage contractors have requested the Region re-negotiate the fuel surcharge clause in the contracts.

Staff believe that the Ontario Ministry of Energy posted fuel price index that is used in the calculation of surcharges in the contract is no longer appropriate as Verspeeten has stated that its current fuel prices are 14% lower than the posted Ministry prices given its volume price discounts. Verspeeten is also willing to use a different formula for calculating the surcharge. Staff propose that Verspeeten be paid its costs above $0.60 per litre as that was the Ministry of Energy posted price in 2002 when the contract was signed. Setting this baseline means that Verspeeten has taken the risk for the first 14% of fuel cost increase. To calculate the costs above $0.60 per litre Verspeeten has proposed that we use an average fuel consumption for their trucks and their posted discounted fuel price that they use when they sell fuel to its owner / operators truckers. The average fuel consumption of the trucks hauling the waste is 5.8 miles per gallon and they have agreed to allow the Region to audit their financial records to ensure the posted fuel price is appropriate. Table 2 outlines a sample of the proposed fuel surcharge and resulting budget impact for different fuel prices. On January 30, 2006 Verspeeten's actual fuel cost was $0.80 per litre.

Table 2
Estimated Fuel Surcharge Impact for Verspeeten

Actual Verspeeten Fuel Cost per litre	Existing Fuel Surcharge/ tonne	Existing Fuel Budget for 75,000 tonnes/year	Estimated Fuel Surcharge/ tonne	Estimated Budget Increase for 75,000 tonnes/year	Total
$0.75	$0.60	$90,000	$2.08	$156,000	$246,000
0.80	1.20	180,000	2.78	208,000	388,000
0.85	1.20	180,000	3.47	260,000	440,000
0.90	1.20	180,000	4.16	312,000	492,000
0.95	1.20	180,000	4.86	364,000	544,000
1.00	1.20	180,000	5.55	416,000	596,000
1.05	1.20	180,000	6.24	468,000	648,000

Our contract with Green Lane has the same term for fuel surcharges as Verspeeten. In negotiating a change to the agreement based on actual fuel costs it needs to be noted that Green lane does not receive the same volume discounts for its fuel purchases as Verspeeten. As such its fuel costs today are approximately $0.05 per litre higher. Staff propose that a baseline price for fuel be set at $0.60 per litre and that the Region pay all costs above this price as was the intent of the original contract. The estimated budget impact is shown in Table 3. The lower cost per tonne is due to the fact that the distance to the Green Lane landfill is less than the Verspeeten trip to Onyx in Michigan. Green Lane will need to provide access to its financial records to support its fuel expenditures and fuel consumption.

Table 3
Estimated Fuel Surcharge Impact for Green Lane

Actual Green Lane Fuel Cost per litre	Existing Fuel Surcharge/ tonne	Existing Fuel Budget for 75,000 tonnes/year	Estimated Fuel Surcharge/ tonne	Estimated Budget Increase for 75,000 tonnes/year	Total
$0.75	$0.60	$90,000	$1.14	$85,500	$175,500
0.80	1.20	180,000	1.52	114,000	294,000
0.85	1.20	180,000	1.90	142,000	322,000
0.90	1.20	180,000	2.28	171,000	351,000
0.95	1.20	180,000	2.66	199,000	379,000
1.00	1.20	180,000	3.04	228,000	408,000
1.05	1.20	180,000	3.42	256,000	436,000

In summary our current haulage contracts do not reflect the current diesel fuel costs that our contractors are paying and it was the intent of the contracts to transfer the risk for rising fuel costs to the Region. It is therefore recommended that the contracts be revised as per the above calculations.

5. FINANCIAL IMPLICATIONS

The proposed fuel and surcharge calculations result in a higher transportation cost to the Region but it was always the intent that the increase fuel costs for Verspeeten and Green Lane be the responsibility of the Region. In 2004 the Region paid a fuel surcharge of $46,437 to Green Lane as per the contract. Verspeeten chose to bill the Region its actual fuel cost increase of $11,288 instead of $61,955 which they were entitled to under the contract.

The contractual payments and proposed payments for fuel surcharge for 2005 are noted in Table 4. Staff has accrued sufficient funds in 2005 to pay the proposed fees and recommend that Verspeeten and Green Lane be paid. In addition to the fuel surcharge payments the contractors' service fee is adjusted by 75% of the Consumer Price Index to compensate for other inflationary cost increases.

Table 4
Proposed 2005 Fuel Surcharge Payments

Company	Current Surcharge Payment	Proposed Surcharge Payment
Green Lane	$90,345	$100,000
Verspeeten	$103,878	$210,000

6. LOCAL MUNICIPAL IMPACT

There are no local municipal impacts related to this report.

7. CONCLUSION

Diesel fuel prices have dramatically increased since 2002 when the Region entered into waste haulage contracts with Green Lane and Verspeeten. The intent of the contracts was to transfer the risk and responsibly for escalating fuel costs to the Region but the contracts did not contemplate the current high prices. It is therefore proposed that the contracts be revised to reflect the new reality of high fuel prices.

The Senior Management Group has reviewed this report.