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DIESEL FUEL SUPPLY CONTRACT FUNDING REQUIREMENTS

The Transportation Services Committee recommends the adoption of the recommendation contained in the following report dated April 10, 2012, from the Commissioner of Transportation and Community Planning.

1. RECOMMENDATION

It is recommended that:

1. Additional funding in the amount of $6.6 million plus HST be added to the existing purchase order with Ultramar Ltd. for the supply and delivery of ultra low-sulphur diesel fuel for conventional transit buses.

2. PURPOSE

This report seeks Council approval to add funding in the amount of $6.6 million to the purchase order of the existing contract with Ultramar Ltd. in order to continue the supply of fuel for conventional transit buses under this contract to December 31, 2012. There is adequate funding in the existing budget for this purchase order change.

3. BACKGROUND

A joint procurement for fuel with various Regional departments and local municipalities was awarded to Ultramar Ltd. in 2009

A joint procurement tender was issued and awarded in 2009 for the supply of various fuel types including diesel and gasoline for Regional department and branches including Roads, Transit, Environmental Services, Property Services and York Regional Police as well as the Towns of Markham, Newmarket, Richmond Hill, Aurora, the City of Vaughan and the York Catholic District School Board. The term of the contract is for three years, expiring on December 31, 2012, with an option to renew for two additional years in one-year increments.

Separate contracts were awarded to the lowest bidders based on fuel type. The contract for ultra low-sulphur diesel was awarded to Ultramar Ltd. to be used for York Region Transit (YRT/Viva) buses at the Southwest garage.

Fuel pricing under the contract fluctuates based on prevailing wholesale fuel price less a predefined discount

A purchase order was issued to Ultramar Ltd. for approximately $10.5 million to supply the estimated transit consumption of 12,700,000 litres for a contract term from August 2010 to December 2012. The intent was to supply fuel for the Southwest Division garage only. The prevailing price of diesel fuel at the start of the contract in early 2010 was $0.7906 per litre plus HST. Under the terms of the contract, the fuel price can fluctuate daily based on rack wholesale pricing.

4. ANALYSIS AND OPTIONS

There is a need to add funding to the existing purchase order with Ultramar Ltd. to continue the supply of fuel for transit service to the end of the contract term in December 2012

The Supplies and Services Branch has advised that the Region is obligated to purchase fuel with the current supplier until the end of the term on December 31, 2012. The scope change and contingency provisions of the contract have been utilized to increase the purchase order value by $3.7 million to approximately $14.2 million from $10.5 million. A further increase to the purchase order value will be required to continue the contract to the end of 2012, subject to approval by Council.

Higher prevailing fuel prices and the recent addition of the North Division transit garage using fuel under the Ultramar contract impacted total costs and fuel consumption

The following factors resulted in the need to increase the purchase order value with the fuel supplier:

- The purchase order for the supply of diesel fuel in 2010 was based on the wholesale price of $0.7906 per litre. The Region pays the prevailing wholesale price of fuel based on the terms in the fuel contract. The current wholesale price of fuel is $1.0927 which equates to a 38.2% increase in price.
- A new contract with TOK Transit Ltd. for transit service in Newmarket, Aurora, King, East Gwillimbury and Georgina commenced in February 2012 and included provisions for the Region to supply the fuel. The former operating contractor, First Canada, was responsible for the purchase of fuel.
- Additional buses have been assigned to the Southwest garage in 2012 which utilizes fuel from Ultramar.
- The Ultramar contract was used temporarily to supply diesel fuel for 116 Viva buses for a nine-month period from November 2010 to July 2011. A new fuel contract using bio-fuel has been set up with another supplier since that time.

5. FINANCIAL IMPLICATIONS

$6.6 million will need to be added to the purchase order with Ultramar to continue the contract to December 2012

The following items and amounts shown in Table 1 are the factors that resulted in the need for an increase in the existing purchase order value. The actual and planned fuel expenditures are spread over a three-year period between 2010 and 2012.

Table 1
Added Fuel Requirements Under the Ultramar Contract

Item and Year of Expenditure	Amount
Fuel price escalation (2011 to 2012)	$3.1 million
Addition of TOK Transit Ltd. contract for service in North Division (2012)	$2.0 million
Additional buses at the Southwest garage (2012)	$2.2 million
Temporary use of Ultramar to fuel Viva buses (2010 to 2011)	$3.0 million
Less purchase order increase using contract scope and contingency	($3.7 million)
Additional amount needed to increase purchase order	$6.6 million

The Region also has an existing fuel contract with Canada Clean Fuels that supplies bio-fuel used exclusively for buses operating the Viva service. This contract also expires at the end of 2012 and it is anticipated that there will be $3.8 million remaining balance in that purchase order at that time. As noted in Table 1, the Ultramar contract was used for fuelling Viva buses for a temporary period.

The 2012 Transit budget for diesel fuel is based on a wholesale price of $1.00 per litre. Fuel costs in excess of that will be covered from other budget sources including a corporate contingency fund.

6. LOCAL MUNICIPAL IMPACT

There are no local municipal impacts associated with this report.

7. CONCLUSION

Higher prevailing prices for diesel fuel and the addition of the North Division transit garage using fuel under the contract with Ultramar requires an increase in the purchase order value of $6.6 million.

For more information on this report, please contact Rick Takagi, Manager of Capital Assets at Ext. 5624.

The Senior Management Group has reviewed this report.