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ECL CARRIERS LP CONTRACT RENEWAL FOR RESIDUAL WASTE AND RECYCLABLES HAULAGE

The Environmental Services Committee recommends the adoption of the recommendation contained in the following report dated August 22, 2012, from the Commissioner of Environmental Services.

1. RECOMMENDATION

It is recommended that:

1. Council authorize the Commissioner of Environmental Services to extend the Region's contract with ECL Carriers LP for haulage of residual waste to the Dongara Pellet Plant and Green Lane landfill, and haulage of recyclables from the Earl Turcott Waste Management Centre to York Region Waste Management Centre for an additional five year term as provided for in the contract and Request for Tender T-09-48. The maximum value of the contract over the five year extension period is $19,800,000.

2. PURPOSE

This report seeks authorization for the Commissioner of Environmental Services to exercise the Region's option to extend its contract with ECL Carriers LP (ECL) for an additional five years. The ECL contract includes haulage of residual waste to Dongara Pellet Plant and Green Lane landfill, and haulage of recyclables from Earl Turcott Waste Management Centre to York Region Waste Management Centre. The existing contract with ECL and the original Request for Tender both provide for a five year extension at the Region's sole option. Article 18.1 (c) of York Region's purchasing bylaw requires a report to Council if a contract renewal would result in an aggregate term of greater than 5 years.

3. BACKGROUND

Contract with ECL provides haulage to Dongara, Green Lane, and York Region Waste Management Centre

York Region's contract with ECL was awarded in October 2009 based on results of a competitive tender. The value of the contract over the initial 3 year term was $9,423,100. The contract includes haulage of residual waste from the Region's transfer stations to Dongara Pellet Plant in Vaughan and Green Lane landfill in St. Thomas, and haulage of blue box recyclables collected by the Vaughan, Richmond Hill, and Markham curbside programs from the Earl Turcott Waste Management Centre in Markham to the Region's processing facility in East Gwillimbury. The initial three year term of the contract expires on December 31, 2012. As specified in the Request for Tender, the Region may extend the contract for an additional five-year term at its sole option. To exercise its option to extend, the Region must provide written notice to ECL by October 2, 2012 (90 days prior to the expiry date of the initial term).

ECL waives right of first refusal on haulage to Green Lane above 38,500 tonnes per year

The Request for Tender included an estimated annual tonnage for haulage to Toronto's Green Lane landfill of 35,000 tonnes per year based on anticipated disposal requirements. However, the contract for disposal at Green Lane allows for a maximum of 80,000 tonnes per year. This additional capacity at Green Lane is an important contingency for the Region. To provide for emergency haulage, the contract awarded to ECL increased the base tonnage to 38,500 tonnes per year at the bid price. However, the contract also provides for right of first refusal to ECL on haulage to Green Lane above 38,500 tonnes at an escalated price.

ECL has provided written notification to Regional staff that it will waive its right of first refusal for Green Lane tonnages above 38,500 tonnes annually during the 5 year contract extension. This will give the Region freedom to obtain more competitive pricing if additional haulage to Green Lane is required.

4. ANALYSIS AND OPTIONS

ECL provides high level of service to York Region

Founded in 1984, ECL is a well established waste haulage company with a good reputation in the industry. ECL hauls waste and recyclables for York Region and Peel Region and also for major private-sector waste contractors such as Waste Management, Walker Industries, Orgaworld, and others. Throughout the initial three year term of its contract with York Region, ECL has been a flexible contractor, adjusting readily to changes in delivery schedule, fluctuations in tonnage and redistribution of waste between the York Region’s various contracted waste disposal sites.

Current ECL pricing considered highly competitive in current haulage market

As shown on Table 1, ECL’s current pricing compares very favourably to more recent pricing from other haulers on contracts of comparable haulage distance and payload. It is unlikely that ECL Carriers LP’s current prices will be matched if this contract is retendered.

Table 1
Haulage Price Comparison

Hauler	Origin	Destination	Haulage Distance (One-Way)	2012 Average Price[1] ($/tonne)	$/km
ECL	Earl Turcott	Green Lane Landfill	214 km	$22.58	$0.10
Walker Brothers	Earl Turcott	Walker Brothers Landfill	142 km	$20.95	$0.15
Waste Management	Earl Turcott	Twin Creeks Landfill	260 km	$31.76	$0.12

1. Average 2012 prices as of July 31 including fuel surcharges.

Staff also note that the possibility of a five-year extension was included in the original Request for Tender, and that all bidders submitted their prices with this understanding. Accordingly, staff recommend that the Region exercise its option to renew the contract for an additional five-year term. Key terms of the proposed contract extension are summarized in Table 2, below.

Table 2
Summary of Contract Terms During Five Year Extension

Destination	Maximum Annual Tonnage[1]	Transfer Station	Material Type	2012 Base Price[2] ($/tonne)
Dongara	100,000	Earl Turcott YRWMC	Residual Waste Residual Waste	$10.21 $10.21
Green Lane	38,500	Earl Turcott YRWMC Georgina	Residual Waste Residual Waste Residual Waste	$20.02 $22.64 $24.10
York Region Waste Management Centre (YRMC)	75,000	Earl Turcott	Blue Box	$19.79

1. Total tonnage from all transfer stations.
2. Current 2012 base price remains fixed until the second year of the 5-year extension. Thereafer, the base price is subject to annual adjustment based on the Consumer Price Index. The Region also pays a fuel surcharge for diesel prices above $.80/litre.

ECL contract contains separate fuel surcharge to manage price risk

Over the initial three year contract term, a compound annual price increase of approximately four per cent per year occurred due to fuel surcharges. In accordance with renewal terms of the contract, ECL's base price will be subject to annual adjustments based on the Consumer Price Index beginning in the second year of the five-year extension. This adds an additional two per cent per year, bringing the total estimated annual price increase to approximately six per cent per year in years 2-5 of the extension.

The value of the contract over the initial three year term was $9,423,100 or an average of $3,130,000 per year. During the five year extension, the estimated maximum contract value is $19,800,000, or an average of $3,960,000 per year. The cost increase during the contract extension is attributable to the following factors:

- Increases in Blue Box tonnage over the eight year aggregate term of the contract
- Fuel surcharges
- Adjustments to the base price based on the Consumer Price Index

Fuel surcharges and Consumer Price Index adjustments are standard features of haulage contracts and would apply equally to any haulage vendor. If haulage contractors are required to submit firm, long term pricing without fuel surcharges, they will typically build conservative fuel cost increases into their base price. When fuel costs are built into the base price, the Region does not benefit if actual fuel price increases are lower than expected. For these reasons, ECL's current pricing is expected to remain below its competitors even if fuel surcharges continue to increase.

Link to Key Council-approved Plans

Managing the Region's finances prudently is a key priority area identified in the Region's Strategic Plan. Environmentally responsible and affordable haulage is a key component of the Region's solid waste management system. The Region's commitment to reducing air emissions and costs by selecting local processing and disposal solutions is evident in the short haulage distances in this contract.

5. FINANCIAL IMPLICATIONS

Contract extension with ECL Carriers LP continues a successful and cost effective partnership

Extending the ECL Carriers LP contract is a continuation of the Region's current practice and will result in no change to the current solid waste operating budget. Based on estimated tonnages over the five year contract and allowing for an estimated six percent annual price increase for inflation and fuel surcharges as provided for in the current contract, the estimated maximum contract value is $19,800,000, or an average of $3,960,000 per year. Revised annual estimates based on future tonnage growth and fuel price increases will be included in the solid waste operating budget each year.

6. LOCAL MUNICIPAL IMPACT

Renewing the ECL Carrier LP contract will provide continuity of service and ensure cost effective and reliable transportation of solid waste and recyclable materials, ensuring continued provision of efficient waste management service delivery in partnership with local municipalities.

7. CONCLUSION

The ECL Carriers LP contract provides reliable, flexible, cost effective transportation to the Region’s blue box processing and waste disposal sites. Exercising the Region’s option to extend the contract secures competitively priced capacity for an additional five years and is consistent with the intention of the original procurement process.

For more information on this report, please contact Laura McDowell, Director of Environmental Promotion and Protection at 905-830-4444 Ext. 5077.

The Senior Management Group has reviewed this report.