



STAFF REPORT INFORMATION ONLY

Report on Over Expenditure for the supply and delivery of various blends of Unleaded Gasoline and Diesel Fuel to Fleet Services - Contracts 47011249 47012078, and 47013072

Date:	June 3, 2009
To:	Government Management Committee
From:	Director, Fleet Services Director, Purchasing and Materials Management
Wards:	All
Reference Number:	P:/2009/Internal Services/pmmd/gm09018pmmd (AFS #10221)

SUMMARY

The purpose of this report is to advise on the over expenditures of contracts, for the supply and delivery of various blends of unleaded gasoline and diesel fuel, for Fleet Services against Contracts 47011249 (January 01, 2006 to December 31, 2006), Contract 47012078 (January 01, 2007 to December 31, 2007), and Contract 47013072 (January 1, 2008 to December 31, 2008).

Financial Impact

The increased amount in the purchase order amendment for the supply and delivery of various blends of unleaded gasoline and diesel fuel covered under Contract No. 47011249 for the period of January 1, 2006 to December 31, 2006 is \$978,079.61 as follows:

Contract 47011249	
(a) Original Contract Amount	\$7,826,762.61
(b) Over Expenditure of Funds	\$ 978,079.61
(c) Revised Value of Contract	\$8,804,842.22

The increased amount of the purchase order amendment for the supply and delivery of various blends of unleaded gasoline and diesel fuel covered under Contract No. 47012078 for the period of January 1, 2007 to December 31, 2007 is \$2,057,798.41 is as follows:

Contract 47012078	
(a) Original Contract Amount	\$ 9,100,144.30
(b) Over Expenditure of Funds	\$ 2,057,798.41
(c) Revised Value of Contract	\$11,157,942.71

The increased amount of the purchase order amendment for the supply and delivery of various blends of unleaded gasoline and diesel fuel covered under Contract No. 47013072 for the period of January 1, 2008 to December 31, 2008 is \$3,765,399.13 is as follows:

Contract 47013072	
(a) Original Contract Amount	\$ 10,406,140.07
(b) Over Expenditure of Funds	\$ 3,765,399.13
(c) Revised Value of Contract	\$14,171,539.20

The total contract value increase to Contracts 47011249, 47012078, and 47013072 is \$6,801,277.15 net of GST (\$7,202,058.56 including all applicable taxes).

The over expenditures were covered by Fleet Services' 2006, 2007, and 2008 approved operating budgets which included funding for the acquisition of various blends of unleaded gasoline and diesel fuels that were charged back to the user programs based on their consumption levels. The additional costs of \$987,079.61 in 2006, \$2,057,798.41 in 2007 and \$3,765,399.13 in 2008 for the acquisitions were charged to cost centre group FL200-300 "Fuel Sites" and cost elements 2260 and 2280 in all three (3) years.

The Deputy City Manager and Chief Financial Officer has reviewed this report and agrees with the financial impact information.

DECISION HISTORY

Contract No. 47011249 – Suncor Energy

The report at

<http://www.toronto.ca/legdocs/2005/agendas/committees/adm/adm051107/it021.pdf>

provided the approval for the issuance of a contract under Request for Quotation 6902-05-3261 to Suncor Energy for the supply and delivery various blends of unleaded gasoline and diesel fuel to Fleet Services from the period of January 1, 2006 to December 31, 2006.

Contract No. 47012078 - Suncor Energy

The report at

<http://www.toronto.ca/legdocs/mmis/2007/gg/bgrd/backgroundfile-872.pdf>

provided the approval for the issuance of a contract under Request for Quotation 6902-06-3226 to Suncor Energy for the supply and delivery of various blends of unleaded gasoline and diesel fuel to Fleet Services from the period of January 01, 2007 to December 31, 2007.

Contract No. 47013072- Suncor Energy

The report at

<http://www.toronto.ca/legdocs/2007/agendas/committees/bd/bd071212/bddd.pdf>

provided the approval for the issuance of a contract under Request for Quotation 6902-07-3168 to Suncor Energy for the supply and delivery of various blends of unleaded gasoline and diesel fuel to Fleet Services from the period of January 01, 2008 to December 31, 2008.

ISSUE BACKGROUND

The Request for Quotations (RFQ's) for the supply and delivery of various fuels are based on estimated fuel usage from the previous year, for the various fuel types, as provided by all participating Divisions.

The RFQ's allows Adjustable Pricing which occurs on the 5th of each month based on previous month's average. The price adjustments shall be subject to escalation or de-escalation based on the Bloomberg's Oil Buyer's Guide (Canadian Unbranded Rack Prices for Regular/MID/Premium Unleaded Gasoline/High Sulphur Diesel/Low Sulphur Diesel/ultra Low Sulphur Diesel – Toronto Industry Average).

The actual usage of unleaded gasoline and diesel fuel exceeded the original estimates provided by the various Divisions which contributed to the over-expenditure of the various contracts, combined with the fluctuation of the Fuel prices throughout the term of the various contract periods resulted in the Contracts 47011249, 47012078, and 47013072 being overspent.

Staff report for information on Over Expenditure on Contracts 47011249, 47012078, 47013072

Contract No. 47011249 – Suncor Energy

This contract is based on the estimated fuel usage for city vehicles for the year. The estimates are based on previous year's usage. The actual usage of unleaded gasoline and diesel fuel exceeded the original estimates as follows.

Product	Estimated Litres	Actual Usage Litres	Difference in Litres
Unleaded Gasoline	2,542,000	3,525,718	+983,718
Diesel	6,954,489	7,149,925	+195,436
Total	9,496,489	10,675,643	+1,179,154

The over expenditure of this contract was primarily impacted by an inaccurate estimate used for the calculation of the contract value. Figures from the previous year (2005) were not recorded properly in SAP, therefore, the estimated amount of unleaded gasoline was too low, along with price fluctuations resulted in the over expenditure of this contract.

Contract No. 47012078 – Suncor Energy

This contract was based on the estimated fuel usage for city vehicles for the year. The estimates are based on previous year's usage. The actual usage of unleaded gasoline and diesel fuel exceeded the original estimates as follows.

Product	Estimated Litres	Actual Usage Litres	Difference in Litres
Unleaded Gasoline	3,659,000	3,571,579	- 87,421
Diesel	7,041,000	8,328,066	+1,287,066
Total	10,700,000	11,899,645	+1,199,645

The increased usage of fuel was primarily in the amount of diesel fuel used. This was a result of the addition of Emergency Medical Services (EMS) vehicles use of Fleet fuelling locations. Previously, EMS had used their own retail stations for their fuel requirements. EMS used an additional 1.5 million litres of diesel fuel that were not accounted for in the original estimates, along with price fluctuations resulted in the over expenditure of this contract.

Contract No. 47013072- Suncor Energy

This contract was based on the estimated fuel usage for city vehicles for the year. The estimates are based on previous year's usage. The actual usage of unleaded gasoline and diesel fuel exceeded the original estimates as follows.

Product	Estimated Litres	Actual Usage Litres	Difference in Litres
Unleaded Gasoline	3,949,000	3,665,690	-283,411
Diesel	8,431,757	9,885,406	+1,453,649
Total	12,380,757	13,561,232	+1,170,238

The increased usage of fuel was primarily in the amount of diesel fuel used. This was a result of additional fuel used by the Solid Waste Management Division to double shift their Garbage trucks in order to provide service to some areas previously covered by external contracts. This additional usage was not accounted for in the original estimates. The majority of the overspent contract value was as a result of the significant increase in fuel prices during the term of the contract.

COMMENTS

The impact of the underestimated volumes combined with the price fluctuations resulted in the fuel contracts being overspent. The contracts were:

Contract 47011249

Increase the value of Contract 47011249 for the supply and delivery of various blends of unleaded gasoline and diesel fuel to Fleet Services for the period January 01, 2006 to December 31, 2006 by a total amount of \$978,079.61 net of GST from \$7,826,762.61 to \$8,804,842.22.

Contract 47012078

Increase the value of Contract 47012078 for the supply and delivery of various blends of unleaded gasoline and diesel fuel to Fleet Services for the period of January 01, 2007 to December 31, 2007 by a total amount of \$2,057,798.41 net of GST from \$9,100,144.30 to \$11,157,942.71.

Contract 47013072

Increase the value of Contract 47013072 for the supply and delivery of various blends of unleaded gasoline and diesel fuel to Fleet for the period of January 01, 2008 to December 31, 2008 by a total amount of \$3,765,399.13 net of GST from \$10,406,140.07 to \$14,171,539.20.

The amendments are required to document and reconcile the actual spending for the various expired contracts. All additional expenditures were based upon the current terms, conditions and unit prices of the respective contracts noted in this report.

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