TORONTO

REPORT FOR ACTION

Fleet Services Response to Audit Recommendations of the Green Lane Landfill Operations - Management of Contracts Needs Improvement

Date: November 12, 2021
To: General Government and Licensing Committee
From: General Manager, Fleet Services
Wards: All

SUMMARY

The purpose of this report is to provide an update to the General Government and Licensing Committee (GGLC) (formerly Government Management Committee) on the collaboration between Fleet Services Division (FSD) and Solid Waste Management Services Division (SWMS) to improve haulage call document development and determine if there is an opportunity to realize savings by taking advantage of bulk fuel purchase agreements.

By adopting the audit recommendations in the *Review of the Green Lane Landfill Operations - Management of Contracts Needs Improvement*, City Council on July 23, 24, 25, 26, 27 and 30, 2018, directed the General Manager of Fleet Services to report to GGLC on the possibility of realizing savings by taking advantage of bulk fuel purchase agreements relating to contracted haulage services.

RECOMMENDATIONS

The General Manager, Fleet Services recommends that:

1. The General Government and Licensing committee receive this report for information.

FINANCIAL IMPACT

There is no financial impact resulting from the adoption of the recommendation in this report.

DECISION HISTORY

On July 23, 24, 25, 26, 27, and 30, 2018, in consideration of the Audit General's recommendations in the *Review of the Green Lane Landfill Operations - Management of Contracts Needs Improvement*, City Council requested the General Manager, Fleet Services, to report to GGLC on the possibility of realizing savings by taking advantage of bulk fuel purchase agreements relating to contracted haulage services.

[Agenda Item History - 2018.AU13.13 (toronto.ca)]

On July 16, 17 and 18, 2019, through IE6.3, City Council authorized the General Manager of SWMS to enter into two (2) Contracts with two (2) independent vendors for Waste Transport Services as a result of the Request for Quotation Number 6033-19-0109 for Waste Transport Services from the City's Transfer Stations to the Green Lane Landfill and Alternate Landfills, for a term of ten (10) years, each beginning January 1, 2021, and ending December 31, 2030.

[Agenda Item History - 2019.IE6.3 (toronto.ca)]

On November 26 and 27, 2019, through GL9.17, City Council authorized the General Manager of Fleet Services to negotiate and enter into an agreement with Canada Clean Fuels Inc., who was the top-ranked proponent meeting the requirements of Negotiable Request for Proposal Number 6907-19-0145, for the supply of various fuels and services from January 1, 2020, to December 31, 2024, with the option to renew the contract for two years.

[Agenda Item History - 2019.GL9.17 (toronto.ca)]

COMMENTS

The Landfill Operations of SWMS retained one (1) supplier to perform Waste Transport Services from the City of Toronto's Transfer Stations to Green Lane Landfill from January 1, 2011, to December 31, 2020, with a total approved budget of $148 million. The contract was designed with a Fuel Surcharge Adjustment that, in the opinion of the Auditor-General, could be improved in a manner that is fair yet more beneficial to the City.

Opportunities

As requested by City Council, FSD collaborated with SWMS to evaluate opportunities for cost savings in haulage call document development by comparing the existing SWMS Landfill Operations contract and FSD's bulk fuel contract.

As of January 1, 2021, and as a result of RFQ number 6033-19-0109, SWMS entered into two (2) ten-year (10) contracts with two (2) suppliers for Waste Transport Services ending December 31, 2030. This solicitation applied changes to address the audit recommendations, one of which was redesigning the Fuel Adjustment Surcharge formula. Before these new contracts, the previous RFQ was designed with a fixed rate Fuel Surcharge calculation of six (6) cents per litre downwards on the Ontario Ministry of Energy's Average Weekly Fuel Rate (Adjusted Rate) and paid eighty (80) cents per litre in the General Transport Rate (Included Rate). After reviewing the Landfill Operations in 2018, the Auditor-General requested the next solicitation to have some cost-saving improvements.

In 2019, SWMS developed RFQ 6033-19-0109 with a new formula that has a ten percent (10%) discount on the Ontario Ministry of Energy's Average Weekly Fuel Rate to calculate the Adjusted Rate and the Base Fuel Rate is $1.063/litre. If the Adjusted Rate is higher than ten percent (10%) of the Base Fuel Rate, the City will pay a fuel surcharge. If the Adjusted Rate is less than ten percent (10%) of the Base Fuel Rate, the City will have a fuel credit that will be used towards the Transport Rate. After reviewing the new formula included in the RFQ, Fleet Services determined that SWMS improved the discount from a fixed rate per litre (6 cents/L) to a fixed percentage per litre (10% per litre) in the Adjusted Rate. As a result starting on January 1, 2021, SWMS has implemented changes in the haulage call document development effectively to address the Auditor General's recommendations (AU13.13, Recommendation # 1a and b).

Cost and Benefits

To further evaluate the opportunities to realize savings by taking advantage of bulk fuel purchase agreements, Fleet Services conducted a preliminary analysis on the cost and benefits of fuel supply from the City of Toronto to the vendors.

Since January 1, 2020, Fleet Services, on behalf of City Divisions, has entered into a five (5) year contract with the option to renew for one additional two-year period up to December 31, 2026, as a result of a negotiable Request of Proposal (NRFP) 6907-19-0145, the City is benefiting from a daily higher discount off rack pricing for fuel purchased.

Based on the recent experience from this NRFP, Fleet Services has learned that the weekly pricing has a higher rack price and a lower discount than the daily pricing due to the volatility of fuel prices. Therefore, Fleet's analysis is based on the difference in the City of Toronto's daily pricing and the Ontario Ministry of Energy's Average Weekly Fuel Rate from January 1, 2021, to the present, multiplying by the estimated annual volume of 2.5 million litres, as estimated in SWMS' RFQ 6033-19-0109. Table 1 indicates the potential saving regarding SWMS Green Lane Landfill operations' current contracts and the City of Toronto's Diesel supply agreement.

Table 1: Cost and Benefit Analysis - Fuel Adjustment for Green Lane Landfill Operations

Description	Annual Amount
Operation Benefits (A)	-$310,000
In-house Fuel Supply	-$310,000
Operation Cost (B)	$630,000
Fleet Services Additional Fuel Management	$350,000
Fleet Services Site Maintenance	$30,000
SWMS Additional Service Fee	$250,000
Total Cost (Operations), (A + B)	$320,000

Preliminary Analysis

With the predictable difference in the pricing mechanism between weekly and daily, it is expected that if the City of Toronto provides diesel to vendors for waste transportation services from the City of Toronto's transfer stations to Green Lane Landfill, there is a potential saving of $310,000 per year. To realize this opportunity from the operating budget, the City will require to allocate different budgets for operations, including but not limited to:

• additional resources for fuel management will be required, considering the loading hours at Transfer Stations are from 3:00 am to 7:00 pm; support staff would need to be available in shifts to address all inquiries during this period. Currently, hours of work for Fuel Management support staff are from: 7:00 AM to 3:00 PM, Monday to Friday inclusively.

• additional funds for fuel site maintenance were calculated based on the approved budget for the current usage of 18 million litres per year.

• service fees for waiting times at Transfer Stations would no longer be waived if the City supplies Diesel to their tractors. Delays in loading times will be incurred by contractors having to travel to fuel sites to obtain fuel, vs. current practice of not having to leave Transfer Stations to obtain fuel while being loaded.

The estimated cost of these operational requirements to accommodate vendors fueling at City fuel sites is approximately $630,000 per year. Therefore, it would cost the City approximately an additional $320,000 to allow vendors to fuel at City sites.

A capital fund would need to be considered for preparing and setting up the current fuel sites to accommodate a much larger volume of Class 8 heavy tractors fueling 24/7.

Upon contacting the Technical Standards and Safety (TSSA) to inquire about regulatory requirements and budget, Fleet Services was advised that there is a possibility that the City's fuel sites may become private depots in which the requirements are more stringent than the public depots. This would incur capital costs for physical and electrical upgrades. Another consideration is for liability and insurance costs & requirements to allow vendors to fuel at City public fuel sites safely and in compliance with the City's policies and by-laws in public properties.

Conclusion

Fleet Services confirms that SWMS Transfer Station and Landfill Operations have completed the response for AU13.13 Recommendation # 1b, which required SWMS and Fleet Services to collaborate to develop the haulage call document to address the Auditor General's recommendations for the Fuel Surcharge calculation.

Regarding potential savings by supplying Diesel to vendors (AU13.13 Recommendation #2), Fleet Services has determined that this would not be feasible due to the additional initial and ongoing operating costs and capital costs required to achieve potential savings. Additionally, the extra volume of 2.5 million litres required to supply fuel for the Solid Waste Contractors, would not produce a higher volume discount for the City on fuel purchase from NRFP # 6907-19-0145, which currently supplies 116 million litres for use by City Divisions, Corporation and Agencies.

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