

Amendment to Blanket Contract 47023306 with Brenntag Canada Inc., for the Supply and Delivery of Liquid Chlorine for Toronto Water

Date: December 13, 2023

To: General Government Committee

From: General Manager, Toronto Water and Chief Procurement Officer

Wards: All

SUMMARY

The purpose of this report is to request authority to amend Blanket Contract Number 47023306 issued to Brenntag Canada Inc., as a result of Request for Quotation Document Number 2519550243, for the supply and delivery of liquid chlorine at the City's four drinking water treatment plants.

This amendment is requested in response to escalating unit costs resulting from reduced production capacity in the United States and increased raw material and transportation costs. revising the current Blanket Contract value from the amount of \$7,035,753 net of all taxes and charges (\$7,159,582 net of HST recoveries) to \$7,585,753 net of all taxes and charges (\$7,719,262 net of HST recoveries).

The General Management Committee approval is required in accordance with Municipal Code Chapter 195, Purchasing, where the current request exceeds the Chief Procurement Officer's authority of the cumulative five-year commitment limit for each vendor under Article 7, Section 195-7.3(D) of the Purchasing By-law or exceeds the threshold of \$500,000 net of Harmonized Sales Tax allowed under staff authority as per the Toronto Municipal Code Chapter 71, Financial Control, Section 71-11.1.

RECOMMENDATIONS

The General Manager, Toronto Water and the Chief Procurement Officer, recommend that:

1. The General Government Committee, in accordance with Section 71-11A of the City of Toronto Municipal Code Chapter 71 Financial Control By-law, grant authority to the General Manager, Toronto Water to amend existing Blanket Contract Number 47023306 issued to Brenntag Canada Inc., for the supply and delivery of Liquid

Chlorine for the City of Toronto’s drinking water treatment plants to increase the overall target value from \$7,035,753 net of all taxes and charges (\$7,159,582 net of HST recoveries) to \$7,585,753 net of all taxes and charges (\$7,719,262 net of HST recoveries).

FINANCIAL IMPACT

The total value of the Blanket Contract Amendment identified in this report is \$550,000 net of all taxes and charges (\$559,680 net of HST Recoveries) will increase the contract value from \$7,035,753 net of HST to \$7,585,753 net of HST (\$7,719,262 net of HST Recoveries).

Funding is included in the Toronto Water 2024 Staff Prepared Operating Budget. Additional details follow in Table 1.

Table 1: Financial Impact Summary (Net of HST Recoveries)

Cost Centre	Total (net of Harmonized Sales Tax recoveries)
Liquid Chlorine (Brenntag Canada Inc.): Cost Centre TW7015, TW7030, TW7045, TW7060 - GL 2415	\$559,680

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

DECISION HISTORY

Bid Award Panel, at its meeting on December 23, 2020, granted authority to award Request For Quotation Doc2519550243 to Brenntag Canada Inc. for the supply of Liquid Chlorine for the drinking water treatment plants, in accordance with the Contract Details set out in the report dated December 16, 2020. A link to the related Bid Award Panel decision is provided.

[Agenda Item History - 2020.BA115.1 \(toronto.ca\)](#)

General Government Committee, at its meeting on January 20, 2023, granted authority to amend various blanket contracts for the supply and delivery of critical chemicals used in the purification of water at the City's four drinking water treatment plants. These amendments were requested in response to escalating unit costs resulting from increased raw material costs, global supply chain challenges and the war in Eastern Europe. As part of this decision, the Liquid Chlorine Contract Number 47023306 was amended to increase its value by \$1,700,000 net of all taxes and charges (\$1,729,920 net of HST Recoveries) to increase the contract value from \$3,881,831 net of HST to

\$5,581,831 net of HST (\$5,680,071 net of HST Recoveries). A link to the related General Government Committee decision is provided.

[Agenda Item History - 2023.GG1.5 \(toronto.ca\)](#)

COMMENTS

Toronto Water uses liquid chlorine in the production of clean and safe drinking water. Liquid chlorine is used to destroy bacteria, algae and viruses and to ensure legislative compliance under the Safe Drinking Water Act.

Toronto Water competitively procures multi-year supply and delivery contracts for bulk chemicals used in drinking water treatment processes, including liquid chlorine. The procurement of liquid chlorine consists of a two (2) year and nine (9) month contract base term at a fixed unit rate and up to two (2) optional years which are subject to an annual price increase based on a blended index equal to:

Industrial Product Price Index (IPPI, All Items (or Chemicals and Chemical Products)) x 80 percent + Transportation, subcomponent of Consumer Price Index (CPI) by province x 20 percent, for the 12-month period from January of the previous year to January of the existing contract year.

Impact of Inflation on Blended Annual Index Values

The award of the current liquid chlorine supply contract in December 2020 assumed a blended annual index value of 3 percent for optional years. In August 2023, the blended index value for Option Year 1, effective October 1, 2023, was calculated at negative 5.64 percent. This did not represent liquid chlorine market conditions which continue to experience price increases beyond what was observed during the pandemic.

Impacts of Market Instability on Chemical Unit Rates

Toronto Water was approached by the liquid chlorine vendor (Brenntag Canada Inc.) throughout 2022 and 2023 requesting temporary price increases because of impacts caused by reduced production capacity in the chloro-alkali market, increased demand for PVC (for which chlorine is the main raw material) in the housing and automotive industries, inflation, and increased supply chain and transportation costs.

The United States Environmental Protection Agency reports that, in 2021, chlorine production in the United States experienced a 10% reduction due to the closure of chlorine manufacturing facilities. Furthermore, production capacity reductions were experienced due to manufacturing facility maintenance shutdowns and unexpected events such as equipment issues and staff shortages. As a result of these factors, temporary liquid chlorine unit rate increased as much as 230 percent. Toronto Water's current liquid chlorine contract unit rates (including those adjusted by the blended annual indices) are no longer reflective of current market conditions.

Toronto Water consulted other Ontario municipalities using the same chemicals and found that they also received similar requests for price increases from their vendors.

Despite the unit rate increase, Toronto Water's unit price remains competitive in comparison to unit rates at other Ontario municipalities and remains lower than the unit rate of the second lowest bid that was received when this contract was competitively procured in 2020. The amendment in this report includes an increase in contract value to cover the temporary unit rate increases applied to the liquid chlorine contract.

It is anticipated that the impacts of market instability will continue in 2024 and beyond. This recommended amendment to the liquid chlorine contract will provide the resources necessary to meet anticipated 2024 expenditures.

Mitigation Steps

Due to the liquid chlorine chemical supplier's ongoing inability to supply product at their originally quoted contract price and the assumed value for optional years, Toronto Water has made the decision to terminate the existing contract effective March 31, 2024. A new liquid chlorine supply contract is currently being procured to obtain competitive pricing and establish a contract that is reflective of current market conditions. This new contract will come into effect on April 1, 2024.

Toronto Water plans to proceed with short term (one year) chemical contracts for the near future to reduce risk and promote competition until market conditions restabilize.

CONTACT

Liza Ballantyne, Manager Process Innovation and Energy, Toronto Water Division,
Telephone: 416-392-2937, [Email: Liza.Ballantyne@toronto.ca](mailto:Liza.Ballantyne@toronto.ca)

William Fernandes, Director Water Treatment & Supply, Toronto Water Division,
Telephone: 416-392-8220, Email: William.Fernandes@toronto.ca

Marie Reid, Manager, Infrastructure and Development Services, Purchasing Client Services, Purchasing and Materials Management Division,
Telephone: 416-397-5187, Email: Marie.Reid@toronto.ca

SIGNATURE

Lou Di Gironimo, General Manager, Toronto Water

Geneviève Sharkey, Chief Procurement Officer