



Corporate *NO: R048*

Report *COUNCIL DATE: March 12, 2001_*

REGULAR

TO:	Mayor & Council	DATE:	March 05, 2001
FROM:	Acting General Manager, Finance, Technology & HR	FILE:	0640 – 003
SUBJECT:	Supply of Diesel and Gasoline Fuels		

RECOMMENDATION

That Council accept the offer made by Chevron Canada Limited, to all members of the BCPPBG (British Columbia Petroleum Products Buying Group), for the supply of diesel and gasoline fuels for two years, with two optional one-year extensions starting on June 01, 2001. The estimated annual cost to the City is \$906,000, including all applicable taxes.

BACKGROUND

The City of Surrey is a participating member of the BCPPBG purchasing consortium consisting of 43 participating members from British Columbian municipalities, hospitals, school districts, universities, regional districts and BCBC. Their consolidated volumes include 28 million litres and \$15 million dollars annually. The City of Surrey's annual portion is approximately 1.44 million litres.

The existing contract with Chevron has been in place since June 1, 1997 and has been very favourable for the City. While there have been drastic increases in fuel prices for consumers, the City has avoided approximately \$51,000 in 2000 alone, because our contract has protected us against wide fluctuations in fuel prices.

The BCPPBG uses a consultant who has extensive knowledge in fuel/petroleum products, costing and market condition information for both public and private sector organizations throughout Western Canada. In anticipation of the termination of the current contract on May 31, 2001 with Chevron, the consultant has provided the group members with a detailed report on current market conditions and fuel pricing.

DISCUSSION

After in-depth review of current market conditions and analysis of current pricing the negotiation team, headed by the consultant, is recommending that the group accept the new offer from Chevron Canada Ltd. for a two-year period with two optional one-year extensions. The terms of the agreement are contingent on renewal of at least 90% of the membership contracts.

The proposed pricing includes an increase of \$0.007 per litre or an annual increase of \$10,000. All other terms and conditions are similar to the current contract including price adjustments being based on the monthly change in the price of crude oil. When compared with a discounted rack-price change mechanism, the BCPPBG price based on crude oil is projected to result in a savings for the City of Surrey of approximately \$71,000 (8.4%) per year or a total savings of \$284,000 over the four-year period.

CONCLUSION

It is recommended that we continue to participate in the consortium and accept the Chevron Canada Ltd offer for a two-year period with two optional one-year extensions notwithstanding the City's policy to tender all contracts over \$200,000. This recommendation is based on the following:

- The consultant's analysis of current contract prices being offered by the major oil companies to other customers;
- BCPPBG's preferential price change mechanism (crude vs rack pricing);
- Forecasted potential net savings for the City of \$245,000 over four years;
- Past performance of Chevron in meeting the City's requirements; and
- The consultant's indication that it is highly unlikely that the BCPPBG will obtain better pricing if the group went out to bid.

Members have been requested to seek their entities approval and respond before March 15, 2001.

Vivienne Wilke, CGA
Acting General Manager,
Finance, Technology & HR

Cc: City Clerk