



CITY OF VANCOUVER

ADMINISTRATIVE REPORT

Report Date: July 5, 2005
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TO: Vancouver City Council

FROM: General Manager of Engineering Services in consultation with the Manager, Materials Management

SUBJECT: The Supply and Delivery of Bulk Diesel, Gasoline, Furnace Oil and Biodiesel Products

RECOMMENDATION

- A. *THAT subject to the conditions set out in Recommendations C, D, and E Council authorize the General Manager of Engineering Services and the Manager of Materials Management to enter into a contract with Chevron Texaco for the supply of all bulk gasoline, diesel, and furnace oil to the City for a period of two (2) years, at an estimated cost of \$12,163,265 plus GST with subsequent renewal options for (3) three additional one (1) year extensions.*
- B. *THAT subject to the conditions set out in Recommendations C, D, and E Council authorize the General Manager of Engineering Services and the Manager of Materials Management to enter into a contract with Mini-Tankers/Topia Energy for the supply and delivery of biodiesel in mixture to the City of Vancouver fuelling locations for a period of two (2) years, at an estimated cost of \$668,166.00 plus GST with subsequent renewal options for (3) three additional one (1) year extensions.*
- C. *THAT the Director of Legal Services be authorized to execute and deliver on behalf of the City all legal documents required to implement Recommendation A and Recommendation B.*

- D. THAT all such legal documents be on terms and conditions satisfactory to the General Manager of Engineering Services, Manager of Materials Management and the Director of Legal Services.*
- E. THAT no legal rights or obligations will be created by Council's adoption of Recommendations A, B, C, and D above unless and until such legal documents are executed and delivered by the Director of Legal Services.*
- F. THAT funding for the purchase of fuel products net of GST rebates received in the current year will be provided from the existing Capital and Operating Budgets throughout the City. Funding for future years will be subject to the regular budget review process.*

GENERAL MANAGER'S COMMENTS

The General Manager of Engineering Services recommend approval of Recommendations A through F.

CITY MANAGER'S COMMENTS

The City Manager recommends approval of Recommendations A through F.

COUNCIL POLICY

On March 4, 1980, City Council authorized co-operative purchasing "when benefits to the City are indicated."

The policy of Council is to secure contracts for the purchase of equipment, supplies, and services that will give the best value based on quality, service and price.

Contracts with a value over \$300,000 are referred to Council.

BACKGROUND

The City has been a participant in the BC Petroleum Products Buying Group (BCPPBG) since February 18, 1997, when City Council authorized the Manager of Material Management, as a member of the co-operative negotiating team, to negotiate and accept on behalf of the City of Vancouver, a contract for the supply of gasoline and diesel fuels. The City has been under contract with Chevron Canada Limited through the BCPPBG since June 1, 1997. The current contract was set to expire at the end of May 2005. BCPPBG members have subsequently exercised 90 day extension provisions in that contract to the benefit of the members. The 90 day extension provisions under the existing contract expire August 31, 2005.

An RFP for diesel, gasoline, and biodiesel was issued March 16, 2005 by the Corporation of the District of West Vancouver, as the lead agency on behalf of the BCPPBG. This included

requirements for the supply of feed stocks of biological non-fossil fuel origin (biomass) biodiesel mixed with low sulphur diesel fuel in the creation of biodiesel fuel blends. The BCPPBG secured the services of an independent fuel consultant to provide market expertise during the bid evaluation process.

The evaluation criteria of the proposals included assurance of supply, service capability, pricing of fuels, pricing of biomass (biodiesel - B100), delivery (bridging) fees, price change mechanisms, quality of service, third party liability protection, environmental response capability, business experience, financial capacity, corporate security and reliability, and business references.

In January 2004, the City of Vancouver, along with six other municipalities, began the biodiesel pilot program to assess the use of biodiesel blends in our fleet operations under the direction of the Equipment Services branch. The results of the pilot study confirmed that biodiesel was a viable alternative fuel for our fleet. This initiative supports the City's Corporate Climate Change Action Plan (CCAP) to reduce our emission of greenhouse gases from our operations that was approved by Council in December 2003. In order to achieve the CCAP's goals for the use of biodiesel in the City's fleet, the current practice of manually blending biodiesel on site would not be a viable option for fuelling all of the City's fleet vehicles. In conjunction with the other municipalities who were intending to use biodiesel, the City ensured that this BCPPBG fuel purchase proposal included a provision for the delivery of pre-mixed biodiesel blends in order to facilitate further use of biodiesel in the region's fleets. The inclusion of biodiesel in the BCPPBG fuel purchase proposal will ultimately assist in making biodiesel more available to all fleet operators in the Vancouver region.

DISCUSSION

The BCPPBG received a total of seven responses to the RFP. The proponents were Chevron Texaco, Mini-Tankers/Topia Energy, Cascadia Bio Fuels, Eco Fuels Canada, Imperial Oil, Shell Canada, and Prime Seeds International.

1. Chevron Texaco operates one of only two full functioning crude oil refineries in the Province of British Columbia supplied by pipeline out of Edmonton. This supply is augmented with imports from Washington, Oregon, and California. Our long-term experience with Chevron Texaco has proven them to be a reliable and dependable supplier. Chevron Texaco's bid is the lowest bid which accommodates for the delivery of product through Mini-Tankers.

Chevron Texaco did not bid the supply of biodiesel in a premixed format which necessitated the split award. Chevron Texaco was the only integrated petroleum manufacturer that bid in full compliance per submission instructions in the area of delivery fees by itemizing specific delivery prices for each member of the BCPPBG.

Chevron Texaco offered an A Rack (Average Rack) price change mechanism. The reference index is OPIS (Oil Pricing Information System) which is a daily blend of all price postings within the Vancouver market, by grade of product. OPIS represents a blend of supplier price postings and not a single supplier posting. The price change index is a move away from the previous crude follower tracking used in the industry but is consistent with other proponents pricing models. Chevron will continue to offer a monthly-averaged lagged price implementation similar to the current crude follower contract.

2. Mini-Tankers submitted a proposal to deliver biodiesel supplied by their contract supplier Topia Energy. The City has been serviced by Mini-Tankers at off road operations for several years and they have proven to be a reliable supplier. Topia's supply of B100 biodiesel has been identified as Cherry Point, Washington along with five other biodiesel production facilities across the U.S. Topia operates a 20 million litre per year production facility in Sudbury, Ontario with plans to establish more facilities in the near future. Topia, while new to the lower mainland, has been working with the BCPPBG members on Vancouver Island in their biodiesel pilot program. Topia's price change mechanism would utilize an OPIS-based ethanol rack pricing model. This would allow for four price adjustments for B100 biodiesel per year.

3. The Proposal submitted by Cascadia, a business venture formed in March 2005, was dependent completely upon third party suppliers. They provided information on being able to supply biodiesel from only one source. Their proposal invited higher operational risks and was not the most competitive price on B5 and B20 biodiesel blends and failed to offer either pure diesel or gasoline products. Seasonal temperatures could affect their ability to meet the BCPPBG member service requirements.

4. The proposal submitted by Eco Fuels did not provide for the delivery of bulk biodiesel as stated as a requirement in the RFP. Their proposal invited higher operational risks as they have no experience with large fleet requirements and lacked the infrastructure to meet the BCPPBG member services as outlined in the RFP.

5. The proposal submitted by Imperial Oil did not include the supply of biodiesel in a mixed format. Imperial Oil's pricing on bulk diesel and gasoline was less competitive than other proponents. This proposal did not offer issues of a greater value to the City.

6. The proposal submitted by Shell Canada did not include the supply of biodiesel nor the willingness to supply the diesel fuel to a third party for mixing and delivery. Shell's pricing was less competitive than other proponents. This proposal did not offer issues of greater value to the City.

7. Prime Seeds International bid was deemed to be non-compliant.

City staff participated with other representatives of the BCPPBG during the evaluation process and short-listed the proponents for further assessments over meetings held between April and June 2005. At the June 14, 2005 meeting it was unanimously recommended to award the contract to Chevron Texaco for the supply of fuel products and to Mini-Tankers/Topia Energy for the splash-blending and transportation of the biodiesel fuels. The partnership of Chevron Texaco and Mini-Tankers/Topia provides the City with the ability to access all required fuels on an efficient basis with minimal changes to operational requirements.

Initially, it is planned to transition the City's fleets and fuelling facilities to biodiesel in stages. In order to minimize new vehicle engine warranty issues, most of the fleet will initially transition to B5 blends, starting at the major Engineering Department fuelling stations. The City has been specifying many new heavy duty trucks for use with B20 blends, so we will also have B20 initially available at the Manitoba fuelling station. It is expected that Park Board and Fire Department fuelling sites will transition to biodiesel blends

appropriate for their operational requirements in the following months. As warranty, supply and pricing issues are determined, it is expected that the City's fleets will transition to higher blend ratios of biodiesel (e.g. B10 to B50 blends) in the future as operating conditions permit.

FINANCIAL IMPLICATIONS

Fuel prices have been rising dramatically due to increases in the cost of crude oil and due to other market forces. The BCPPBG previously had a pricing mechanism that was providing members beneficial pricing for petroleum fuels, but even with this system we were forecasting that current year fuel costs would increase by about \$424,000 over current budgets due to the record crude oil prices.

The current pricing mechanism for petroleum products, which was requested in the RFP, was not offered by any of the proponents and is generally no longer offered in the petroleum industry. All of the proponents have offered pricing based on rack pricing indices which can be affected by other market forces besides the price of oil and refining costs. This change will result in significant increases to our base diesel costs that are over and above the current cost increases resulting from crude oil and refining cost adjustments in the existing contract.

Based on the pricing analysis done during the proposal evaluation, it is estimated that the City's cost of diesel fuel will immediately increase by 12-14% over the current costs, mainly due to regional supply imbalances in the diesel fuel market. It is expected that gasoline costs will also increase by 2-3% over the current prices.

There will also be an incremental cost for biodiesel blends, in relation to the cost of petroleum diesel, due to the added transportation costs of bringing biodiesel to the Lower Mainland from the current production facilities in the US and Eastern Canada, the additional handling requirements for blending and delivering biodiesel blends to bulk fuel facilities, and the higher cost of pure biodiesel versus petroleum diesel. It is expected that biodiesel blends, both 5% biodiesel (B5) and 20% biodiesel (B20) will cost 3-5% more than the petroleum diesel prices that the City will have under this new contract. It has been indicated from several suppliers that local biodiesel production facilities will be built in the Lower Mainland and it is anticipated that this will ultimately help reduce the costs for biodiesel in the future.

Based on current diesel usage, the estimated annual cost impact to the City due to the new diesel prices, and the incremental cost to move all diesel fuel use to B5 and B20 biodiesel blends are as follows:

Annual Cost Implications of New Contract and Biodiesel

Department	Diesel Fuel Increases	Biodiesel Blends (B5/B20)
Engineering	\$260,000	\$97,500
Parks	\$ 17,500	\$ 3,300
Police	\$ 10,000	\$ 2,800
Fire	\$ 21,000	\$ 3,900
Total	\$308,500	\$107,500

As pricing will not take effect until September, the impact on the 2005 Budget will be roughly 1/3 of the stated costs, or approx \$140,000. If the market price of crude oil continues to increase or if there are other market changes, there would be additional costs over and above these increases due to the new contract.

In mid 2006, the federal government will require that on-road diesel fuels must meet new ultra low sulphur diesel fuel regulations. It is expected that ultra low sulphur diesel will cost 2-3% more than low sulphur diesel and these costs will be in addition to the new contract pricing.

ENVIRONMENTAL IMPLICATIONS

Biodiesel is a renewable fuel made from vegetable oils, animal fats, or recycled grease products. It has been shown to reduce many types of tailpipe emissions, and will reduce overall greenhouse gas emissions (GHG). The use of renewable fuels, like biodiesel, helps to reduce GHG emissions since carbon dioxide is removed from the atmosphere during the growing of feed stocks used to produce the biodiesel. Also, using renewable fuels helps to reduce our use of non-renewable fossil-fuel based products.

Natural Resources Canada recently reviewed the overall GHG impacts of biodiesel produced from different feed stocks. For pure biodiesel, overall GHG emissions are reduced by 63% for soy based fuels, 71% for canola based fuels, and 98% for yellow grease (recycled grease products) based fuels. For the biodiesel blends that will be used in the City, it is estimated that the B5 blends will reduce GHG emissions between 3.2 - 4.7% and it is estimated that the B20 blends will reduce GHG emissions between 12.6 - 19.6% versus the emissions from petroleum diesel.

Using biodiesel will help the City meet our target of a 20% reduction in overall GHG emissions from 1990 levels in the City fleet as stated in the Corporate Climate Change Action Plan approved by Council in 2003.

The transition to ultra low sulphur diesel in mid 2006 will allow technologies to be installed on new diesel vehicles that will enable them to achieve the stringent Tier 2 Heavy Duty and Light Duty vehicle emission regulations. For heavy duty vehicles, regulated emissions (particulates, NOx, and hydrocarbons) will be reduced by up to 90% over current limits.

SUMMARY

The recommendation to authorize a contract with Chevron Texaco and Mini-Tankers/Topia to provide best value for the supply and delivery of bulk diesel, gasoline, furnace oil, and biodiesel products based on the proposals.

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