
2009 BUDGET BRIEFING NOTE

Fleet Services' 2009 Recommended Fuel Budget

Issue / Background:

This briefing note outlines the prices assumed for the fuel costs that are included in the 2009 Recommended Operating Budgets for Fleet Services, other City Divisions, Toronto Public Library and Exhibition Place. It also outlines the Fleet Services' 2008 experience and the plan for 2009 and beyond for fuel purchase in order to better manage fuel costs and to minimize associated risks.

Key Points:

2009 Fuel Prices

- The 2009 operating budget submission was developed based on the corporate guideline of \$1.35 per litre for gasoline and \$1.45 per litre for diesel, including the Fleet administrative charges of 3 cents per litre to the clients. These rates were established in July 2008.
- The 2008 fuel prices have been gradually decreasing in the last five months, more significantly in November and December. As a result, the fuel estimates included in the 2009 Recommended Operating Budgets for Fleet Services, other City Divisions, Toronto Public Library and Exhibition Place have now been adjusted to reflect \$1.01 per litre (same as in 2008 Budget) for both gasoline and diesel.
- With the reduction in the fuel prices, Fleet Services' original funding request of \$19.300 million for 2009 fuel purchase has been reduced by \$4.584 million to \$14.716 million. Of the \$4.584 million reduction, \$2.758 million pertains to levy operations and \$1.826 million to rate operations.
- Fleet Services' clients include all City Divisions, Toronto Public Library and Exhibition Place. Fleet Services' fuel costs are charged back to Fleet clients monthly based on fuel consumption and the price set for the month. However, the Toronto Police Services and the Toronto Zoo have their own contracts with the same supplier, and also use the City's contract prices for fuel.
- Fleet Services will continue to monitor the fuel prices and review with Financial Planning Division to recommend appropriate adjustments, if necessary, before Council approval of the 2009 Operating Budget.

2008 Fuel Purchase

- The fuel price included in the 2008 Approved Operating Budget is \$1.01 per litre for both gasoline and diesel, including the Fleet administrative charges of 3 cents per litre to the clients.
- The 2008 contract with Suncor Energy Products Inc. for the supply of delivery of gasoline and diesel expired on December 31, 2008. According to this contract, the fuel prices are adjusted monthly based on Bloomberg's Oil Buyer's Guide (Canadian Unbranded Rack Prices for

Regular/Mid/Premium Unleaded Gasoline/High Sulphur Diesel/Low Sulphur Diesel – Toronto Industry Average). The fuel prices will be adjusted on the 5th day of each month, based on the previous month's average prices. As a result, the City is shielded from fluctuating fuel prices within any given month.

- In 2008, the monthly price per litre for diesel exceeded the budgeted price (\$1.01 per litre) six times, and peaked at \$1.28 per litre in August. The monthly price per litre for gasoline exceeded the budgeted price (\$1.01 per litre) seven times in 2008, and peaked at \$1.23 per litre in July.
- The 2008 average price for gasoline is \$1.01 per litre and diesel, \$1.07 per litre. The increased fuel prices will result in an over expenditure of \$0.700 million in 2008.

Plan for 2009 and beyond

- Through a competitive quotation process, a contract has been awarded to Suncor Energy Products Inc. for the supply, delivery and off-loading of pre-blended ethanol unleaded gasoline and seasonally adjusted pre-blended bio-diesel and low sulphur clear and coloured diesel fuels from January 1, 2009 to June 30, 2009, with the option to renew for another six-month period from July 1, 2009 to December 31, 2009.
- Same as in 2008, the fuel prices will be adjusted monthly based on Bloomberg's Oil Buyer's Guide (Canadian Unbranded Rack Prices for Regular/Mid/Premium Unleaded Gasoline/High Sulphur Diesel/Low Sulphur Diesel – Toronto Industry Average). The fuel prices will be set on the 5th day of each month, based on the previous month's average prices.
- Due to market volatility, Fleet Services have begun to explore various options of fuel purchases with the TTC in order to mitigate budget pressures. Options being considered are:
 - Developing a fuel hedging program, either financial or physical hedging arrangements
 - Establishing a rate stabilization reserve
 - Maintaining the current fuel pricing and purchasing arrangements, i.e. fuel prices are adjusted monthly based on Bloomberg's Oil Buyer's Guide (Canadian Unbranded Rack Prices). Prices are adjusted monthly based on the previous month's average prices.
 - Combination of any of the above options
- Fleet Services are currently working with Purchasing & Materials Management, Facilities & Real Estates, Corporate Finance and Toronto Transit Commission to determine an optimum process to minimize future fuel purchase cost for the City, including TTC.
- A report on the recommended purchasing arrangements will be submitted to Government Management Committee in early 2009.

Prepared by:

Louisa Ting, Manager of Finance & Accounting
Fleet Services
Tel: (416) 338-1169

Further Information:

Gerry Pietschmann, Director, Fleet Services
Fleet Services
Tel: (416) 392-1034

Date: December 9, 2008