Agenda - Executive Policy Committee - September 24, 2002

REPORTS

1. From the Chief Financial Officer
Report 2002/08/20

Supply and Delivery of Diesel Fuel, Furnace Fuel and Gasoline
File GL-9 (Vol. 18)

Recommending:

1. That the bid from Husky Oil Marketing Company, a Division of Husky Oil Limited be deemed non-responsive in accordance with clause B14.2 of the Tender Package.

2) That the bid from Federated Cooperatives Limited be deemed non-responsive in accordance with clause B14.2 of the Tender Package.

3) That the contract for the supply and delivery of diesel fuel, furnace fuel and gasoline for the period of January 1, 2003 to December 31, 2005 be awarded to Shell Canada Products Limited, the bidder who submitted the lowest evaluated responsive bid, and that the Manager of Materials be authorized to issue a Purchase Order to Shell Canada Products Limited.

Note: On September 18, 2002, the Executive Policy Committee laid over consideration of this matter.

Re: SUPPLY AND DELIVERY OF DIESEL FUEL, FURNACE FUEL AND GASOLINE
TENDER NO. 394-2002

For submission to: **Executive Policy Committee**

Submitted by: **Chief Financial Officer**

Report date: **August 20, 2002**

In Camera Item: **no**

Recommendation(s):

1) **That the bid from Husky Oil Marketing Company, a Division of Husky Oil Limited be deemed non-responsive in accordance with clause B14.2 of the Tender Package.**

2) **That the bid from Federated Cooperatives Limited be deemed non-responsive in accordance with clause B14.2 of the Tender Package.**

3) **That the contract for the supply and delivery of diesel fuel, furnace fuel and gasoline for the period of January 1, 2003 to December 31, 2005 be awarded to Shell Canada Products Limited, the bidder who submitted the lowest evaluated responsive bid, and that the Manager of Materials be authorized to issue a Purchase Order to Shell Canada Products Limited.**

Report Summary

Key Issues:

That the recommendations be implemented.

Implications of the Recommendation(s):

General Implications

ð None

X For the organization overall and/or for other departments

X For the community and/or organizations external to the City of Winnipeg

X Involves a multi-year contract

Comment:

The Invitation to Tender includes a provision for the University of Manitoba, St. Boniface School Division No. 4, River East School Division No. 9, Seven Oaks School Division No. 10 and Transcona-Springfield School Division No. 12 to contract with the bidder to whom the City awards its contract.

Policy implications

X No

ð Yes

Comment:

Financial Implications

X Within approved current and/or capital budget

ð Current and/or capital budget adjustment required

Comment:

Funding for this contract is through the budgets of the various user departments.

The work of the contract is performed on an “as-required” basis and the contract does not commit the City to purchase any fixed quantity.

Report

Recommendation(s):

1) That the bid from Husky Oil Marketing Company, a Division of Husky Oil Limited be deemed non-responsive in accordance with clause B14.2 of the Tender Package.

2) That the bid from Federated Cooperatives Limited be deemed non-responsive in accordance with clause B14.2 of the Tender Package.

3) That the contract for the supply and delivery of diesel fuel, furnace fuel and gasoline for the period of January 1, 2003 to December 31, 2005 be awarded to Shell Canada Products Limited, the bidder who submitted the lowest evaluated responsive bid, and that the Manager of Materials be authorized to issue a Purchase Order to Shell Canada Products Limited.

Reason for the report:

As the total conditional amount to be paid by the City pursuant to the contract is estimated to be approximately $33,989,896.28 (GST extra) which exceeds $5 Million, Council must award the contract pursuant to Section 8(b)(vi) of The City of Winnipeg Policy on Purchasing Procedures and the Disposal of Surplus Supplies.

History:

An Invitation to Tender is issued triennially by the Materials Management Division of the Corporate Finance Department for the supply and delivery of diesel fuel, furnace fuel and gasoline for various City departments and cooperative purchase participants on an “as-required” basis.

Final receipt of bids took place on August 7, 2002 with bids being received from five bidders. A summary of these bids is contained in Appendix A.

Discussion:

The Tender Package specified that contract prices were to be adjusted
(a) monthly during the three-year term of the contract in direct proportion to a reference crude oil price index or to reference fuel price indices (commonly known as “rack prices”) specified by the Bidder on Form N of the Tender Package; or

(b) in accordance with an index and formula specified by the Bidder provided that the index and formula met specified criteria, and that the bid contained sufficient information to reasonably enable the City to judge their merits.

Shell Canada Products Limited

The bid submitted by Shell Canada Products Limited stated on Form N that prices were indexed to "average Shell at Winnipeg as reported by Bloomberg Oil Buyer (sic) Guide weighted average for the month of July".

The proposed price index could not be precisely as stated because *Bloomberg Oil Buyer's Guide* (OBG) does not report a monthly average. Instead, each Friday it reports the spot reference prices in effect the day prior.

Shell has clarified their bid by stating that Shell calculates the average of the 4 or 5 weekly spot prices reported by OBG for each month and provided supporting evidence that the values submitted on Form N were consistent with their clarification.

Despite the need for the clarification, the bid is responsive because there is no effect on the requisite calculation and the clarification cannot reasonably prejudice another bidder.

Imperial Oil Limited

The bid submitted by Imperial Oil Ltd. was in accordance with the requirements of the Tender Package.

Although the bid submitted by Imperial Oil included a letter of clarification, none of the clarifications is contrary to any express term of the Tender Package.

Petro-Canada Limited

The bid submitted by Petro-Canada Ltd. was in accordance with the requirements of the Tender Package.

The Tender Package specified that the contract could be awarded as a whole or by sections, and Petro-Canada bid only on Section B.

Husky Oil Marketing Co., a Division of Husky Oil Limited

The bid submitted by Husky Oil Marketing Co., a Division of Husky Oil Limited included additional terms and conditions of which two are noteworthy:

1. Husky Oil reserved the right to "change prices to allow for any changes in taxes or freight rates in effect at the time of delivery." While the Tender Package stipulates that prices are subject to adjustment for tax changes and in accordance with one of the specified price adjustment mechanisms, no other adjustments are permitted. This condition makes the total value of the contract indeterminate and is prejudicial to the other bidders who have, in their bids, allowed for changes in freight rates during the term of the contract.

2. Husky Oil exempted itself from liability for non-performance resulting from "failure of Husky's usual supplier … to supply the product" or "shortage of the product … for any reason". This exemption is substantially more extensive than allowed by the General Conditions of the Tender Package and is too broad to be acceptable.

In addition, Husky Oil failed to provide the reference prices used to calculate the bid prices. Instead of entering the required values on Form N of the Tender Package, Husky Oil stated "See Form B". Since the bid prices on Form B were to be calculated from the values which should have been entered on Form N, the circular reference is inexplicable. There was, however, a sufficient description of the proposed reference price index that the missing information might, if deemed necessary, be obtained from information published by other parties.

Clause B14.2 of the Tender Package stated "the Award Authority may reject a Bid as being non-responsive if the Tender Submission is incomplete, obscure or conditional, or contains additions, deletions, alterations or other irregularities".

The bid should be determined to be non-responsive as it is both incomplete and contains unacceptable conditions.

Federated Cooperatives Limited

Although the Tender Package specified that the contract could be awarded as a whole or by sections, Federated Cooperatives bid on only part of Section B.

Clause B14.2 of the Tender Package stated "the Award Authority may reject a Bid as being non-responsive if the Tender Submission is incomplete, obscure or conditional, or contains additions, deletions, alterations or other irregularities".

The bid should be determined to be non-responsive as it is incomplete.

The Tender Package specified that:

(a) the evaluated Bid Price would be the sum of the approximate annual quantities multiplied by the City's estimate of unit prices during the term of the Contract; and

(b) the City's estimate of unit prices during the term of the Contract would be based on the unit prices bid and the price adjustment mechanism(s) proposed by the Bidder; and

(c) price adjustment mechanisms would be evaluated by comparison of the data and/or resultant extrapolation for the proposed indices with the data and resultant extrapolation for a reference crude oil price index selected by the City.

Responsive bids were evaluated in accordance with the specified criteria and the estimated total three-year contract amount for each responsive bid is shown in Appendix B.

Bid prices were normalized for two major factors:

1. Rack prices for diesel fuel are escalating at a rate of approximately $0.0327 per litre per year while rack prices for gasoline are escalating at a rate of approximately $0.0370 per litre per year.

2. Rack prices exhibit seasonal variations that differ by product. Typically, diesel fuel peaks in the late fall while gasoline peaks in the summer. In addition, gasoline exhibits significantly more seasonal variation than diesel fuel.

The estimated total contract amount for each bid was calculated considering both effects.

The lowest evaluated responsive bid is the bid submitted by Shell Canada Products Ltd. for Alternative 1 – Award as a Whole.

The requirements for Bid and Performance Securities, and the execution of a formal contract were waived for this purchase in accordance with the authority delegated to the Director of Purchasing on April 9, 1992 and February 9, 1995.

The recommended bidder has demonstrated to the satisfaction of the Contract Administrator that they have the necessary qualifications and resources to perform the work of this contract.

Tenders are valid for acceptance until November 5, 2002.

Financial Impact Statement:

Project Name: 394-2002 Supply and Delivery of Diesel Fuel, Furnace Fuel and Gasoline
Date: August 20, 2002 First Year of Program 2003

	2003	2004	2005	2006	2007
Capital					
Capital Expenditures Required					
Less: Existing Budgeted Costs					
Additional Capital Budget Required	$ -	$ -	$ -	$ -	$ -
Funding Sources:					
Debt - Internal					
Debt - External					
Grants					
Reserves, Equity, Surplus					
Other					
Total Funding	$ -	$ -	$ -	$ -	$ -
Total Additional Capital Budget Required	$ -				
Total Additional Debt Required	$ -				
Current Expenditures/Revenues					
Direct Costs					
Less: Incremental Revenue/Recovery					
Net Cost/(Benefit)	$ -	$ -	$ -	$ -	$ -
Less: Existing Budget Amounts					
Net Budget Adjustment Required	$ -	$ -	$ -	$ -	$ -

Additional Comments: In April of 2002, departments were provided with forecasted/unit prices and quantities to prepare their 2003-2005 budgets. Based on this information the total City amount for the 3 year period is $35,392,576.00. The amount indicated in the report of $33,989,896.28 is the best current estimate which is subject to change caused by changes in fuel prices and quantities used by departments.

Pat Bodnar
Senior Financial Accountant

This Report Submitted By: Michael Ruta, Corporate Controller

Department: Corporate Finance Department
Division: Materials Management Division
Prepared by: Glenn F. Nakauchi, C.P.P.
File No. 394-2002

APPENDIX A - SUMMARY OF BIDS

Bidders		**Annual Total**
Alternative 1 – Award as a Whole		
Shell Canada Products Ltd.		$11,836,632.49
Imperial Oil Ltd.		$11,976,633.98
Petro-Canada Inc.		No bid
Husky Energy Inc.		$11,851,192.98
Federated Cooperatives Ltd.		No bid
Alternative 2 – Award by Section		
Shell Canada Products Ltd.	A	$8,357,883.52
	B	$3,495,297.47
Imperial Oil Ltd.		No bid
Petro-Canada Inc.	A	No bid
	B	$3,451,029.48
Husky Energy Inc.	A	$8,379,861.88
	B	$3,484,105.30
Federated Cooperatives Ltd.	A	No bid
	B*	$2,810,687.20

* Incomplete section

APPENDIX B – EVALUATION OF BIDS

SUMMARY OF BIDS		SHELL CANADA PRODUCTS LTD.		IMPERIAL OIL LTD.		PETRO-CANADA INC		HUSKY OIL MARKETING CO DIV. OF HUSKY OIL LTD.		FEDERATED COOPERATIVES LTD.	
Item No. / Description	Approx Annual Quantity (litres)	Unit Price ($/litre)	Approx Annual Amount	Unit Price ($/litre)	Approx Annual Amount	Unit Price ($/litre)	Approx Annual Amount	Unit Price ($/litre)	Approx Annual Amount	Unit Price ($/litre)	Approx Annual Amount
ALTERNATIVE 1 - AWARD AS A WHOLE											
1. Diesel fuel, Type A-LS	17,900,800	0.4689	$8,357,883.52	0.4722	$8,452,757.76			0.4661	$8,379,364.48		
2. Diesel fuel, Type B-LS, Marked	1,402,000	0.3559	498,971.80	0.3502	490,980.40			0.3504	491,268.80		
3. Diesel fuel, Locomotive	189,800	0.4175	79,241.50	0.4064	77,134.72			0.4134	78,463.32		
4. Furnace fuel, Type 2	11,700	0.3466	4,055.22	0.3224	3,772.08			0.3434	4,016.08		
5. Gasoline, Unleaded Regular	4,738,100	0.6065	2,873,657.65	0.6182	2,929,093.42			0.6065	2,873,657.65		
6. Gasoline, Unleaded Regular, Marked	45,500	0.5016	22,822.80	0.5032	22,895.60			0.4915	22,363.25		
7. Additional delivery charge											
(a) Pine Ridge Gravel Pit	87,200	0.0000	0.00	0.0000	0.00			0.0030	261.60		
(b) Ross MB	21,100	0.0000	0.00	0.0000	0.00			0.0080	168.80		
(c) Hedashville MB	32,700	0.0000	0.00	0.0000	0.00			0.0080	261.60		
(d) Glenlea MB	54,900	0.0000	0.00	0.0000	0.00			0.0080	439.20		
(e) Oakbank MB	315,400	0.0000	0.00	0.0000	0.00			0.0030	946.20		
TOTAL			**$11,836,632.49**		$11,976,633.98		NO BID		$11,851,192.98		NO BID
ALTERNATIVE 2 - AWARD BY SECTION											
Section A											
1. Diesel fuel, Type A-LS	17,900,800	0.4689	$8,357,883.52					0.4661	$8,379,364.48		
7. Additional delivery charge											
(a) Oakbank MB	165,800	0.0000	0.00					0.0030	497.40		
SUBTOTAL			$8,357,883.52		NO BID		NO BID		$8,379,861.88		NO BID
Section B											
2. Diesel fuel, Type B-LS, Marked	1,402,000	0.3659	512,991.80			0.3514	492,662.80	0.3524	494,064.80		NO BID
3. Diesel fuel, Locomotive	189,800	0.4275	81,139.50			0.4144	78,653.12	0.4134	78,842.92		NO BID
4. Furnace fuel, Type 2	11,700	0.3616	4,230.72			0.3234	3,783.78	0.3444	4,029.48		NO BID
5. Gasoline, Unleaded Regular	4,738,100	0.6065	2,873,657.65			0.6033	2,853,757.53	0.6085	2,883,133.85	0.5879	2,781,264.70
6. Gasoline, Unleaded Regular, Marked	45,500	0.5116	23,277.80			0.4873	22,172.15	0.4935	22,454.25	0.4730	21,476.00
7. Additional delivery charge											
(a) Pine Ridge Gravel Pit	87,200	0.0000	0.00			0.0000	0.00	0.0030	261.60	0.0230	2,005.60
(b) Ross MB	21,100	0.0000	0.00			0.0000	0.00	0.0080	168.80	0.0230	485.30
(c) Hedashville MB	32,700	0.0000	0.00			0.0000	0.00	0.0080	261.60	0.0230	752.10
(d) Glenlea MB	54,900	0.0000	0.00			0.0000	0.00	0.0080	439.20	0.0230	1,262.70
(e) Oakbank MB	149,600	0.0000	0.00			0.0000	0.00	0.0030	448.80	0.0230	3,440.80
SUBTOTAL			$3,495,297.47		NO BID		$3,451,029.48		$3,494,105.30		$2,810,687.20 INCOMPLETE BID
PRICE ADJUSTMENT MECHANISM											
Index / reference		Shell average rack prices at Winnipeg		Industry average rack prices at Edmonton		Petro-Canada average rack prices at Winnipeg		Industry average rack prices at Winnipeg		Average light sweet crude at Edmonton	
Base index / reference price		0.3180	Items No. 1 & 2	0.3037	Items No. 1 & 2	0.3001	Items No. 2 & 3	Values not provided	Items No. 1 & 4	262.94	Items No. 5 & 6
		0.3110	Items No. 3 & 4	0.2989	Items No. 3 & 4	0.2961	Item No. 4		Items No. 2 & 3		
		0.3660	Items No. 5 & 6	0.3837	Items No. 5 & 6	0.3730	Items No. 5 & 6		Items No. 5 & 6		
EVALUATION OF BIDS											
FORECAST CONTRACT AVERAGE INDEX / REFERENCE PRICE		0.3225	Items No. 1 & 2	0.3105	Items No. 1 & 2	0.3205	Items No. 2 & 3		Items No. 1 & 4		
		0.3138	Items No. 3 & 4	0.3017	Items No. 3 & 4	0.3135	Item No. 4		Items No. 2 & 3		
		0.3519	Items No. 5 & 6	0.3381	Items No. 5 & 6	0.3481	Items No. 5 & 6		Items No. 5 & 6		
ESTIMATED TOTAL CONTRACT AMOUNT											
ALTERNATIVE 1 - AWARD AS A WHOLE			**36,089,018.92**		35,670,274.06		NO BID		Incalculable		NO BID
ALTERNATIVE 2 - AWARD BY SECTION											
Section A			25,313,521.26		NO BID		NO BID		Incalculable		NO BID
Section B			9,026,043.14		NO BID		10,079,295.87		Incalculable		INCOMPLETE BID
ESTIMATED TOTAL CITY AMOUNT											
ALTERNATIVE 1 - AWARD AS A WHOLE			33,999,096.26								