To: Mayor Eisenberger and Members of Council
From: Gerry Davis
Acting General Manager
Public Works Department
Telephone: 905.546.2313
Facsimile: 905.546.4481
E-mail: Gerry.Davis@hamilton.ca
Date: January 26, 2009
Re: Costs/Bulk Purchase of Fuel
January 16, Public Works Committee Budget Task List, Items A, G.

This purpose of this Information Report is to respond to questions raised about fuel pricing and procurement at the last Public Works budget deliberation held on January 16, 2009.

The current budget recommendation by staff for fuel pricing for diesel is $1.05/L and $0.97/L for unleaded. The values in the table below are from two recent Canada wide surveys conducted by the Canadian Association of Municipal Fleet Managers. The purpose of this table is to provide Council with a comparison of how the City’s current budgetary recommendations compare with what other municipalities are doing.

<table>
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<th>Survey Date</th>
<th>Low</th>
<th>Average</th>
<th>High</th>
<th>Hamilton</th>
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<td>January 16, 2009</td>
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<td>$1.10</td>
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<table>
<thead>
<tr>
<th>Survey Date</th>
<th>Low</th>
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From this January 16th survey, the City of Hamilton is below the average budget projections for the municipalities surveyed for both diesel and unleaded fuel.

Given that 1.0 cent/L in fuel cost has an approximate budgetary impact of $110,000 (based on typical fuel consumption patterns) a number of committee members asked staff if the current pricing recommendation could be reduced, given recent market pricing.
In an effort to mitigate future price exposure to market volatility, Council recently approved the City’s “New” Energy Commodity Policy in December 2008. This policy will allow the City to negotiate new Master Supply contracts with key suppliers that will enable the City to fix pricing for specific terms and quantities on a forward basis. Currently we are purchasing fuel based on the daily rack price. In this scenario we have no way to mitigate of risk exposure to market volatility. The graph above illustrates the recent unprecedented volatility in the fuel market. In order to control, or at least moderate, Commodity price risk, the City is in the process of negotiating new Master Supply agreements with its two current suppliers Shell and Suncor. Under these new agreements the City will have the option of procuring or locking in pricing for fuel to reduce the City’s risk exposure to market volatility and provide better predictability for budgeting purposes.

It should be noted that buying fuel on the forward market is still relatively new. This means standards in contracting are still very new and evolving. It should also be noted that hedging will come at a premium. Hedging for fuel is not necessarily about securing the best price. There is no way to predict pricing, given the speculative nature of the market. Hedging is about limiting the City’s exposure to potential market volatility. Even with hedging there will be some fuel supply that will remain on the daily rack rate.

Staff has been in active negotiations with suppliers on the new supply contracts. One supplier has recently provided the City with a new contract for our review and we are waiting on a response from the other. Staff is pushing forward to try and secure these new contracts in a timely manner, which may take up to two months to finalize. In the meantime the City continues to receive supply based on the daily rack price.
The Budget Steering Committee also requested information regarding pooling with other municipalities. The Manager of Energy Initiatives, Geoff Lupton is a member of the AMO/LAS Energy Committee and has raised this for discussion with the Committee. While still under consideration at this time LAS has not determined whether they intend to establish a fuel buying group. Given the City's buying power as a larger municipality, we would likely end up subsidizing the smaller members of a buying pool. Buying groups also offer less control on pricing and less security in contracting.

In summary, at this point in time staff does not recommend a reduction in budget pricing for fuel or pursuance of a pooling arrangement. Staff will continue to pursue hedging contracts with our fuel suppliers and will report back to council prior to the end of the budget cycle with recommendations for regarding budget pricing.

Gerry Davis, CMA
Acting General Manager
Public Works Department

Copy to:

Chris Murray, City Manager
Kevin Christenson, City Clerk
Rose Caterini, Deputy Clerk
Bryan Shynal, Director, Operations & Maintenance
Bill Weaver, Acting Manager, Road Operations & Maintenance
Phil Homerski, Public Affairs Coordinator, Public Works
Kelly Anderson, Public Affairs Coordinator, Public Works
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Anna Apkarian, Acting Manager, Finance & Administration