

To: City Executive Board

Date: 30th June 2010

Item No: 13

Report of: Head of City Works

Title of Report: Award of Contract for the Supply of Motor Fuel

Summary and Recommendations

Purpose of report: To request approval to put in place certain contractual arrangements in regard to the purchase of motor fuel for use by Oxford City Council.

Key decision: No

Executive Lead Member: Cllr John Tanner

Is this report to be taken in public? Yes

Report Approved by:

Finance: Paul Jemetta

Legal: Lindsay Cane

Policy Framework:

- Transform Oxford City Council by improving value for money and service performance.
- Tackle climate change and promote sustainable environmental resource management.

Recommendation(s):

That the Board agrees:

1. To award a contract for the supply of motor fuel to Harvest Energy, such contract to be on the terms set out in this report and procured through the framework arrangement operated by the Central Buying Consortium. The contract will run from a date in 2010 to be reported orally to the Board until 30th September 2011.
2. To delegate authority to the Executive Director, City Services to place a contract for the supply of diesel with a blend of more than 5% bio content through use of the framework arrangement operated by the Eastern Shires Purchasing Organisation (ESPO).

1 Background

- 1.1 The background or starting point for this report is the passing of resolution 147 at the Executive Board Meeting on 7th October 2007, namely that 'Major Project Approval be granted to seek new arrangements for the purchase of bio fuels and additives', via an open tender process in accordance with the EU Procurement regime. This was a joint procurement exercise alongside Cherwell District Council.
- 1.2 The successful tenderer, Silver Group Fuels Ltd, went into liquidation in October 2008. In order to maintain continuity of supply, a mini tender through the Central Buying Consortium (CBC) was instigated by Cherwell D.C., that awarded the contract for the supply of 5% Biodiesel, 30% Biodiesel and Ultra Low Sulphur Gasoil to Harvest Energy Ltd.
- 1.3 The Council currently purchases an average of 600,000 litres of 5% biodiesel, 90,000 litres of 30% biodiesel, and 25,000 litres of ultra low sulphur gas oil per annum.
- 1.4 The Executive Board approved the move from LPG to Euro 4 and 5 diesel powered vehicles under 3.5 tonnes G.V.W. in October 2006. The majority of LPG/petrol vehicles have now been returned to the leasing company and replaced with diesel or sub 110g/km petrol vehicles, therefore the tender should seek agreements for the supply of diesel products only, as purchase of petrol and LPG products are part of existing supply agreements with Pace Petroleum Ltd and Flogas UK Ltd respectively.
- 1.5 As a consequence of the confirmation that the 20 pence per litre duty derogation currently in place for biodiesel and bioethanol was to be removed with effect from 1st April 2010, Harvest Energy ceased to supply 30% biodiesel from 1st March 2010. The removal of the duty derogation on biodiesel will have an effect on the cost per litre dependent on the blend required. For instance, a blend of 30% biodiesel will cost approximately 2 pence per litre more than a blend of 20% biodiesel.
- 1.6 Provision has been made by the Council to purchase vehicles where the manufacturer's warranty allows a blend of biodiesel up to 30%. As a result of this, it was decided that the tender should include the supply of a biodiesel blend greater than 5% in the hope of sourcing a new supplier. In addition, the Council's main Refuse Collection Vehicle (RCV) supplier, Dennis Eagle, approved the use of biodiesel blends up to 30% in all Volvo engine RCV's in June 2010.

2 Tender Process and Evaluation

- 2.1 A mini tender was undertaken on behalf of the Council by Coventry City Council – the lead authority on behalf of the CBC, that in turn is part of the larger PRO4 Framework Agreement. The Framework Agreement consists of 4 petroleum suppliers – Harvest Energy Ltd, Carlton Oils, Pace Petroleum and UKay – and all 4 companies were invited to tender for the supply of Bio-Diesel and Bio-Gas Oil to both Cherwell DC and the City.
- 2.2 Evaluation methodology of the tender was based on lowest price, as all participants on the Framework have already been judged to meet the requirements as determined by technical capability and Conditions of Contract.
- 2.3 Pace Petroleum, Carlton Oils and UKay all declined to submit a bid and in spite of being chased for feedback via Coventry City Council, none has been received.
- 2.4 The only bid received was from the current providers, Harvest Energy, whose reluctance to provide 30% biodiesel was reflected in the bid. The supply of 5% biodiesel and 5% Bio-Gas Oil via Harvest Energy's bid includes a supplier margin added to a floating price mechanism based on the weekly lagged Platts index (international pricing standard).
- 2.5 Compared to the supplier margin levied in the previous contract with Harvest Energy, the newly proposed margin far exceeds expectations with a 42% cost reduction¹, and based on current prices, could result in a potential saving in excess of £9,600 per annum.
- 2.6 As previously advised, Harvest Energy are unable to supply 30% Biodiesel, therefore alternative suppliers are being sought. If a suitable supplier is found, the Council would like to continue the use of a biodiesel blend higher than 5% owing to the positive environmental impacts of the fuel and the recent approval for biodiesel use in RCV's. Subsequent research for biodiesel suppliers has highlighted that Rix Petroleum Ltd are able to supply biodiesel blends that conform to EN 14214 standards, in bulk loads of 36,000 litres. Rix Petroleum is also registered with the ESPO framework agreement.
- 2.7 Owing to the fact that only one tender was received, and Harvest Energy's bid includes substantial potential savings, it is recommended that the Board takes the following action:
 1. To award a contract for the supply of motor fuel to Harvest Energy, such contract to be on the terms set out in this report and procured

¹ NB: The saving is against the margin only as the fuel prices may fluctuate.

through the framework arrangement operated by the Central Buying Consortium. The contract will run from a date in 2010 to be reported orally to the Board until 30th September 2011².

2. To delegate authority to the Executive Director, City Services to place a contract for the supply of diesel with a blend of more than 5% bio content through use of the framework arrangement operated by the Eastern Shires Purchasing Organisation (ESPO).

2.8 The key benefits of the contract with Harvest Energy are:

- National supplier operating from a depot in Thurrock, Essex, with the ability to deliver fuel in quantities of 36,000 litres at a time.
- 42% reduction in price margin.
- Diverse commercial client base, supplying national supermarket chains, major oil companies, haulage firms, utilities providers and local authorities.
- Fuel supplies meet stringent quality controls and diesel supplies meet EN 590 standards as well as being sulphur free³.
- Members of the RTFO (Renewable Transport Fuels Obligation) and currently meet 2 of the 3 targets set by the RTFO with regards to environmental impact.

2.9 Please note that the bulk supply of fuel is a high volume / low margin business with the difference in margins being between 2 and 4 pence per litre, meaning that the savings to be gained even on the supply of 500,000 litres per annum of diesel amount to relatively small sums – e.g. if we are charged 79 pence per litre of 5% biodiesel, around 27 pence is the cost of producing the fuel, 48.35 pence is paid on duty and the supplier is left with 3.65 pence per litre to cover delivery, staffing, etc while still making a profit. So even if we squeeze another half a pence out of the margin that will only amount to a saving of £2,500 per annum.

3 Other Options

3.1 The Constitution and Procurement Strategy advises that the Executive Board considers what other options are available before giving major project approval and awarding a contract over £100K. These are detailed below.

3.2 Use a contract set up by another organisation

- Previous research showed that other local authorities of a similar size who had benchmarked prices on offer from organisations such as OGC did not produce savings on the prices achieved via their own tenders, particularly due to the low margin nature of the business.

² Cherwell D.C. have already approved the use of this contract accordingly

³ having less than 10 parts per million of sulphur content

4 Financial Implications

- 4.1 Savings based on the current contract price are estimated to be approximately 1.2 pence per litre. At the Council's current level of usage, this equates to over £9,600 per annum.
- 4.2 Vehicles using greater than the 5% blend of biodiesel do incur minor additional maintenance costs due to a 25% increase in the frequency of fuel filter changes. If the whole refuse fleet were to change to a blend of more than 5% the extra costs would not exceed £1500 per annum.

5 Legal Implications

- 5.1 There are no legal implications as this contract has been tendered in accordance with the EU procurement regime.

6 Staffing Implications

- 6.1 There are no staffing implications.

7 Recommendation

- 7.1 That the Board agrees:
 - 1. To award a contract for the supply of motor fuel to Harvest Energy, such contract to be on the terms set out in this report and procured through the framework arrangement operated by the Central Buying Consortium. The contract will run from a date in 2010 to be reported orally to the Board until 30th September 2011.
 - 2. To delegate authority to the Executive Director, City Services to place a contract for the supply of diesel with a blend of more than 5% bio content through use of the framework arrangement operated by the Eastern Shires Purchasing Organisation (ESPO).

Contact details of author:

Lee Wood
Tel: 01865 252970
Email: lwood@oxford.gov.uk

Background pages:

Not applicable.