

ONTARIO CENTRE FOR MUNICIPAL BEST PRACTICES

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Best Practice Summary Report

February 2004

Urban Transit – Bulk Fuel Purchase

TR – 04 – 04

Practice Identification: Bulk Fuel Purchase

Case Study Municipality: City of Stratford – Stratford Transit

Key Word:

Benefits Which resulted from Adoption of the Practice:

- **Reduced fuel costs**
- **Improved efficiency measures**

Description of the Practice in the Case-study Municipality

Stratford is a community of approximately 30,000 people, located about 60 kilometres northeast of London. The system had 17 active buses in 2001, and operated about 510,000 kilometres of service while consuming approximately 305,000 litres of diesel fuel. Cost of fuel in 2001 was approximately \$101,000.

In 1999 Stratford Transit (then part of the Stratford PUC) joined the London bulk fuel purchase group. In addition to Stratford, the members of the group comprise London Transit, the municipalities of London, St. Thomas and Tillsonburg, the County of Middlesex and the London Board of Education.

Stratford's purchase represents a small portion (less than 5 per cent) of the overall group purchase. For example, the London Transit Commission in 2001 purchased approximately 4.2 million litres of fuel.

While there are clearly several municipal members in this venture, Stratford Transit's involvement as the only small transit system in the group makes it a municipal transit best practice.

Evaluation of the Practice

Efficiency

As part of the bulk purchase group, Stratford Transit pays the wellhead price for diesel fuel. Stratford's monitoring indicates that this saves approximately \$0.03 per litre, or approximately \$9,000 in 2001.

These savings alone equate to approximately 1.5 cents per passenger trip in 2001, or sufficient to fund 170 hours of operation. The savings represent approximately 0.6 percent of total operating costs, or 1.1 per cent of net municipal costs.

This program, coordinated by staff at London Transit, is offered to Stratford without an administrative charge.

Replication of the Practice

Bulk fuel purchases have been featured at information sharing presentations through the Canadian Urban Transit Association and the Ontario Community Transportation Association.

As demonstrated by this practice, opportunities for bulk fuel purchase are not limited to transit systems, but can benefit most municipal sector agencies operating vehicle fleets. Naturally, all fuel vendors are expected to deliver to several sites, at the convenience of the purchaser.

Savings from these programs are directly proportional to the amount of fuel purchased.

No special arrangements are required. Similar programs can be implemented in any area where a sufficiently large purchaser exists, or where the cooperation of several agencies can form a sufficiently large purchase pool.

If a single agency exists, coordination is typically easier, since the cheaper fuel price has typically been negotiated in the past. In this situation, smaller municipalities can merely 'piggy-back' on the pre-existing lower price achieved by the larger partner.

Where agencies must combine purchase to form a sufficiently large purchase pool, new cheaper fuel prices based on the larger purchase volume may need to be negotiated. In this case, there are some costs associated with the staff time in the initial coordination.

Ongoing coordination by one partner is typically required, but the marginal cost of this effort is minimal.

Where smaller agencies are combining with the already large purchasing power of a larger agency, consideration must be given to the potential impact on that agency. Over time, some of the price advantage previously enjoyed by the larger agency can be eroded by the increased costs of distributing fuel to the other members. The more numerous and more dispersed the members are, the more important this factor will be.

The experience of transit operators involved in bulk purchase programs indicates that a price break threshold exists at approximately 2 million litres annually, and another at approximately 4 million litres annually.

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