

Meeting Date: January 24, 2003

Subject: Procurement Authorization - Supply Of Escalator Refurbishment Kits

Recommendation

It is recommended that the Commission approve the award of a contract to Kone Inc. (formerly Montgomery Kone Inc.), in the total upset limit amount of \$3,967,634.36, for the supply of escalator refurbishment kits and escalator steps for the period January 2003 to December 2004 on the basis of single source.

Funding

Sufficient funds for this expenditure have been included in Project 3.2 Equipment, under Work Order #6912 Subway Escalator Overhaul Program, of the 2003-2007 Capital Program, as set out on pages 421-426, as approved by the Commission on November 15, 2002.

Background

The Subway Escalator Overhaul Program was first established in 1997. The purpose of the program is to refurbish escalators that have reached the end of their 25-year operating life expectancy. Since the inception of the program, all 44 OTIS type escalators have been successfully overhauled with the last one being completed in 2001. In 2001, the overhaul program for Montgomery (KONE) type escalators commenced.

The scope of work for each escalator overhaul involves the requirement to procure parts from the original equipment manufacturer (OEM).

Discussion

In collaboration with the original equipment manufacturer, Kone Inc., a process was established whereby all required OEM parts would be supplied via escalator refurbishment kits. This approach has several advantages, including less time required to gather all appropriate parts for each escalator, less assembly time, one-time packaging and receipt of all parts unique to each escalator, more efficient shipping and receiving documentation, and improved quality assurance.

On October 29, 2002, Kone Inc. was requested to submit a proposal on the basis of a single source, as they are the original equipment manufacturer of the escalator. Kone's pricing is summarized in Appendix 'A'.

The contract consists of the supply of a total of 24 escalator refurbishment kits and 1,523 escalator steps in six shipments over the period April 2003 to December 2004, and includes storage, shipping, and engineering support.

Kone provided pricing of \$3,973,334.36 (unit prices are firm for the duration of the contract) based on manufacturing and delivering the requirement in six shipments as requested, but receiving payment of 100% of the contract price at time of award as opposed to receiving payment with each shipment.

The payment issue was addressed during negotiations with Kone and as a result they agreed to a 50% payment of the contract price at contract award and 50% in January 2004. To secure the prepayment at contract award, Kone agreed to provide an advanced payment bond and to sign an off-site inventory agreement to pass title to the Commission for any material stored at Kone's facility and further, Kone, will provide insurance for this material.

A price comparison with the previous purchase was conducted, but it must be understood within the context of the last purchase of similar parts from Kone in 2002 where the Commission incurred a significant price increase of approximately 43% for the kits and 50% for the escalator steps over the previous purchase in 2000. Kone indicated the reasons for the increases were to compensate for some fundamental pricing errors and items that Kone did not charge for in their 2000 tender (e.g. Kone did not charge for track fastening, step flanges or taxes for storage costs worth a total of \$165,000), coupled with a unilateral increase of 20% from their US parent company in the price for all escalator parts. In addition, the quantity discount was higher in their 2000 tender for 12 kits than in the last purchase in 2002 for 8 kits.

The recommended purchase for 2003 is for 24 kits compared to the 8 kits purchased in 2002. The 73 parts in the kits for the 2003 purchase are not all the same as the 70 parts in the kits for the last purchase in 2002. However, 64 parts are the same and staff conducted a price comparison of these parts with the previous purchase in 2002 from Kone and identified an overall 10% reduction in the price of these items including the cost for storage, shipping and Engineering support. The remaining 9 parts in the kits are new and have not been previously purchased; therefore a price comparison is not possible. Kone would not offer the Commission any further discount on this purchase due to the weakness in the Canadian dollar relative to the US dollar and as they have incurred a 5% increase in their costs over the past year.

Justification

The scope of work involved in conducting an escalator overhaul includes the requirement to procure OEM parts. Creating and purchasing Montgomery escalator refurbishment kits will greatly enhance the ability of staff to efficiently obtain all OEM parts required for Montgomery escalator overhauls.

January 10, 2003

6-239

Attachment: Appendix 'A'

SUPPLY OF ESCALATOR REFURBISHMENT KITS

TENDER SUMMARY	
PROPOSAL PRICE (Original)	\$3,973,334.36
NEGOTIATED SAVINGS (Reduced Shipping and Handling Costs)	(\$20,700.00)
TOTAL PROPOSAL PRICE (Revised)	\$3,952,634.36
COST FOR ADVANCED PAYMENT BOND	\$15,000.00
TOTAL UPSET LIMIT AMOUNT	\$3,967,634.36

* Recommended for award for the total amount of \$3,967,634.36

