

MEETING DATE:September 21, 2005

SUBJECT: Procurement Authorization - Supply Of Escalator Refurbishment Kits

RECOMMENDATION

It is recommended that the Commission approve the award of a contract to Kone Inc. from September 23, 2005 to December 31, 2007 in the amount of \$3,876,594.86 for the supply of 20 escalator refurbishment kits and 1,272 escalator steps for the Subway Escalator Overhaul Program.

FUNDING

Sufficient funds for this expenditure have been included in Project 3.2 Equipment, under Work Order #6912 Subway Escalator Overhaul Program, of the 2005-2009 Capital Program, as set out on pages 523 to 529, as approved by City Council on February 23, 2005.

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, 44 OTIS escalators have been successfully overhauled with the last one being completed in 2001. In 2001, the overhaul program for Montgomery (KONE) escalators commenced. By the end of 2005, 41 of 189 Montgomery escalators will be overhauled.

The scope of work for each escalator overhaul involves, in part, the requirement to procure parts from the original equipment manufacturer (OEM). The process for procuring OEM parts involves significant lead times, which can adversely impact management's ongoing objective to streamline the work schedule for escalator overhauls.

In collaboration with the original equipment manufacturer, Kone Inc., a process has been established whereby all required OEM parts would be supplied at the same time 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.

The previous contract was for the supply of 24 kits over a two-year term. The last of these kits were delivered in late 2004 and staff requires a new contract for the supply of kits to continue the refurbishment of the Kone escalators.

DISCUSSION

On July 18, 2005, 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 and the only approved source for the supply of the required parts. Kone's pricing is summarized in Appendix "A".

The contract consists of supplying 20 escalator refurbishment kits and 1,272 escalator steps over a two-year period and includes storage, shipping and engineering support. The submission from Kone contained pricing on all 63 line items per kit (the current order covers the supply of 24 refurbishment kits with 73 line

items per kit) and did not include any exceptions or qualifications. Certain parts (i.e. straight track and the associated hardware) were removed from the new kit as the condition of these parts on the remaining escalators was found to be acceptable and they did not need to be replaced.

Kone quoted a total price of \$3,996,489.55 (unit prices for each year are firm for the duration of contract) based on manufacturing and delivering the requirement in two lots, one lot in February 2006 and the other in February 2007 with payment upon delivery. Kone also offered an option for a 3% discount on the total value of the contract based on receiving payment of 50% of the price for each lot at the time of ordering each lot (October 2005 for the first lot and October 2006 for the second lot) and payment of the balance for each at the time of delivery (February 2006 for the first lot and February 2007 for the second lot).

A present value comparison was conducted by staff on the two pricing options. The 3% discount option of prepaying 50% of price for each lot resulted in a cost avoidance of approximately \$75,000. This is similar to the terms for the existing contract with Kone for refurbishment kits; however, staff has negotiated that the advanced payment bond, which is required based on payment prior to the receipt of refurbishment kits, be included by Kone at no charge to the Commission. Kone agreed to offer the bond at no charge, which results in a cost avoidance of \$20,000.00 approximately.

The submission from Kone is fully compliant to the Commission's Proposal Document and they are recommended for award based on payment of half of the value of each lot at the time of ordering each lot with the payment of balance upon delivery of each lot, subject to the provision of an advance payment bond at Kone's cost.

Direct price comparison between this proposal and the current contract is not possible due to the difference in the number of parts per kit. This proposal consists of 63 parts per kit and the current contract consisted of 73 parts per kit. However, staff was able to compare 63 items including steps with the same items in the previous purchase noting that some items are not identical to the current contract items. The price comparison with the current contract for the 63 line items including shipping, handling and engineering support revealed an approximate 15.25% increase in Year 1 compared to the current contract. The prices for Year 2 were approximately 0.94% higher than the Year 1 prices. The reasons for this initial price increase are as follows:

1. The last prices quoted were more than two years ago, cost have gone up on many items most noticeably parts made from steel (steps, track, bull gears, etc.).
2. All are California drive escalators, each requiring an additional intermediate gear at \$7,417 per kit. Three of the units are California dual drive escalators, requiring two additional intermediate gears at \$14,834 per kit. In addition, heavy duty bearing support for the bull gear and intermediate gear are required which are specially made as they are not stock replacement parts.
3. The cost of steps has increased due to the new testing and laser measurement process required by TTC.
4. Kone was requested to add three additional parts for one of the subcomponents (gearbox rebuild kit) adding approximately \$2,000 to the cost of each kit.

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.

September 6, 2005

6-239

Attachment: Appendix "A"

**SUPPLY OF ESCALATOR REFURBISHMENT KITS
VENDOR: KONE INC.**

PROPOSAL SUMMARY	
OPTION 1 - TOTAL AMOUNT Payment Upon Delivery	\$3,996,489.55
OPTION 2 - TOTAL AMOUNT 50% Payment on Order 50% Payment on Delivery	\$3,876,594.86* (Approximate PV Cost Avoidance \$75,000.00)

* Recommended for acceptance