

TORONTO TRANSIT COMMISSION REPORT NO.

MEETING DATE: SEPTEMBER 30, 2010

SUBJECT: PROCUREMENT AUTHORIZATION - SUPPLY OF KONE PARTS

ACTION ITEM

RECOMMENDATION

It is recommended that the Commission authorize the award of a three-year inventory supply contract for the supply of Kone parts for the period of October 2010 to October 2013 to Kone Incorporated for an upset limit of \$5,647,000 including applicable taxes.

FUNDING

Sufficient funds have been included in the 2010 TTC Operating Budget and will be included in future Operating Budgets as appropriate. These inventory materials will be charged to the appropriate budget at the time of issuance from Stores.

BACKGROUND

The subject parts are used to maintain the Commission's Kone escalators.

As part of the Commission's new IFS materials management system implementation currently planned for October 2010, staff has undertaken a process of issuing advance renewals of these types of inventory supply contracts that are scheduled to expire within the six month window of October 2010 to March 2011, inclusive. The intent behind this process was to ensure a smooth transition to the new system while attempting to ensure an uninterrupted supply of inventory parts. This particular contract is scheduled to expire on March 27, 2011.

DISCUSSION

Kone Incorporated was invited to submit a proposal on June 18, 2010 - with the intent to renew the existing contract earlier than scheduled - on the basis of single source as they are the only approved supplier of the subject parts.

The proposal called for 46 pre-approved part types of which all 46 part types are being recommended for award. Their initial total proposed value was \$4,741,242.88 for the 46 part types. Staff negotiated with Kone Incorporated and were successful in achieving savings by reducing their proposal value to \$4,705,743.95.

The original pricing received for this new three-year inventory supply contract was approximately 4% higher in the first year of the contract based on current pricing. The pricing would be approximately 3% higher in year two based on year one prices and approximately 3% higher in year three based on year two prices. As discussed earlier, staff contacted Kone Incorporated to negotiate price reductions and were successful in attaining pricing for this new three-year inventory supply contract that is now approximately 2% higher in the first year based on current pricing. The pricing will be approximately 3% higher in year two based on year one prices and 3% in year three based on year two prices.

Although there is a price increase of approximately 2% in the first year of the new contract, staff have estimated this cost to be approximately \$16,000 over the six month period (i.e. October 2010 to March 2011). Staff have been reviewing inventory levels to forecast sufficient stock availability during the transition to the new system and have appropriately addressed on shelf quantities so that buys that may be required during the first year of the new contract will be kept to a minimum in order to avoid the cost increases proposed in the new pricing for the first year.

This contract includes approximately 20% contingency for variances between forecasted and actual usage and new parts yet to be identified which may be added to the contract during the contract term.

JUSTIFICATION

These Kone escalator parts are required in order to support the Commission's Kone escalator maintenance needs.

September 14, 2010
9-118-55