

TORONTO TRANSIT COMMISSION REPORT NO.

MEETING DATE: APRIL 6, 2011

SUBJECT: PROCUREMENT AUTHORIZATION - SUPPLY OF
MONTGOMERY ESCALATOR REBUILD KITS

ACTION ITEM

RECOMMENDATION

It is recommended that the Commission approve the issuance of a purchase order for the supply of Montgomery Escalator Rebuild Kits to KONE Inc. in the upset limit amount of \$6,073,548.50 for the term commencing April 7, 2011 to December 31, 2014.

FUNDING

Sufficient funds for this expenditure have been included in Project 3.2 - Equipment, under Work Order #6912 - Subway Escalator Overhaul Program of the 2011-2015 Capital Budget.

BACKGROUND

The Subway Escalator Overhaul Program was first established in 1997. The purpose of the program was to refurbish TTC 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 completed in 2001. In 2001, the overhaul program for Montgomery (KONE) escalators commenced. By the end of 2010, 63 of 189 KONE escalators were 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 in August 2009 was for the supply of 8 kits. The last of these kits will be used by early 2011, and staff requires a new contract for the supply of kits to

continue the refurbishment of the KONE escalators.

DISCUSSION

KONE Inc. was requested to submit a proposal on the basis of a single source, as they are the original equipment manufacturer (OEM) of the escalator and the only approved source for the supply of the required parts.

The contract consists of supplying 22 escalator rebuild kits, including storage, shipping and engineering support, over an approximate three year period. The Request for Proposal (RFP) requested firm pricing for each specific kit, and although many components in the kits are the same the actual kits for each escalator may vary as the 22 escalators vary in size and configuration.

KONE’s proposal was based on advance payment of the total contract amount in three equal instalments over the first two years of the contract.

Staff compared the current pricing with 70 of the 85 parts in the kit that were the same as the order in 2009, which revealed there was no increase in pricing. Despite the increased number of kits required in the current order, KONE could not offer lower pricing as these parts are customized and made to order and there has been an overall decreased demand for these older parts. Further, the patterns and moulds required to make many of these parts are older and have higher maintenance costs. Lastly KONE is facing higher transportation and energy costs. As a result, KONE was unable to offer lower pricing.

As KONE has requested upfront payments, contract security in the form of an Irrevocable Letter of Credit is required. KONE agreed to provide the requested contract security; however the TTC would be responsible for the cost of the contract security (approximately \$20,000) which is included in the recommended upset limit amount.

KONE’s proposal is considered commercially and technically acceptable and is recommended for award.

JUSTIFICATION

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

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