

# TORONTO TRANSIT COMMISSION REPORT NO.

**MEETING DATE:** SEPTEMBER 25, 2013

**SUBJECT:** Notice of Approval – Procurement Authorization Amendment  
– Supply of Cummins Engine Parts

## **INFORMATION ITEM**

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### **RECOMMENDATION**

It is recommended that the Board receive the notice of approval of Chair Stintz, Commissioner Parker and the Chief Executive Officer authorizing an increase in the amount of \$400,000 to Cummins Eastern Canada LP for the additional supply of Cummins engine parts for the period ending October 11, 2013, until the new contracts commence, resulting in a revised upset limit of \$6,478,000.00.

### **FUNDING**

Sufficient funds are available in the 2013 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**

At its meeting of October 24, 2012, the Board approved the revisions and updates to the Authorization for Expenditures and Other Commitments Policy, effective November 1, 2012, which states that *'The Board delegates authority to the Chair, Vice-Chair and the Chief Executive Officer to authorize items that would normally be authorized by the Board when the approval is required before the next Board meeting. If the Chair and/or Vice-Chair are not available, authority would be deemed to be delegated to any two (2) Commissioners and the Chief Executive Officer.'* These authorizations are to be followed up by a notice of approval Board report that is to be submitted to the next scheduled Board meeting for information.

The subject parts are used to maintain the TTC's Orion 7 Hybrid and Clean Diesel bus fleet's.

We currently have approximately 691 Hybrid buses that will be entirely off warranty by the end of 2014 and approximately 300 Clean Diesel that will be totally off warranty in 2015.

In June 2010, TTC staff initiated a tender for 417 part types for a three-year inventory supply contract of Cummins engine parts. Four contracts were awarded in October 2010 as follows:

**NOTICE OF APPROVAL - PROCUREMENT  
AUTHORIZATION - SUPPLY OF CUMMINS ENGINE  
PARTS**

- Cummins Eastern Canada - \$3,835,000
- Ashcon International Inc. – \$1,265,000
- Mississauga Bus, Coach & Truck Repairs - \$752,000
- Baker Transit Parts Inc. - \$104,000

The supplier blanket orders for the above contracts are for specific new parts and re-built parts.

As the contracts commenced and historical information on usage trends became known the inventory levels were adjusted accordingly resulting in requests for additional authorization.

In July 2012, TTC staff amended this contract by an additional \$1,757,000 due to actual usage of parts exceeding the June 2010 forecast, and as such the contract's upset limit was increased from \$3,835,000.00 to \$5,592,000.00. The increase use of these parts has been attributed to unanticipated demand for maintaining these buses as they come out of their warranty period.

In March 2013, TTC staff further amended this contract by an additional \$486,000 due to actual usage still exceeding anticipated consumption from the earlier amendment. As such, the contract's upset limit was increased from \$5,592,000.00 to \$6,078,000.00.

Our current fleet of buses is expected to have a life expectancy of approximately nine years. Unfortunately we are experiencing significant premature failures after 6-7 years. There was no historical usage patterns established at the time of this contract, however as an example 7 inventory parts over the last three years have increased in usage by an average of approximately 230%. TTC staff is meeting with the engine manufacturer to determine potential causes and long term impacts to the TTC.

Contract Details are as follows:

Original Upset Limit Contract Price:	\$ 3,835,000
Previous Amendments:	\$ 2,243,000
Amendment #1	\$1,757,000
Amendment #2	\$486,000
This Amendment:	\$ 400,000
Revised Upset Limit Contract Price:	\$ 6,478,000

**DISCUSSION**

TTC staff continues to work diligently in maintaining the bus fleet to ensure revenue service, noting higher than anticipated engine failures. As a result of this, inventory demands on parts to fulfil these maintenance needs surged to levels not forecasted, and well beyond expectations, by all TTC staff, and remain at excessive levels.

In order to continue with the supply of parts for inventory to maintain the problematic 5.9 litre and 6.7 litre engines, TTC staff will require authorization of the recommended upset limit increase. In addition, regular inventory levels are being increased to minimize any vehicle down time to ensure service levels are met. Authorization for new orders for these requirements will be significantly higher to compensate for the increased demand for parts.

**JUSTIFICATION**

This amendment to this inventory supply contract will result in having sufficient inventory for bus engine maintenance needs to the end of the current contract in October 2013.

August 20, 2013  
9-118-29

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