STAFF REPORT
ACTION REQUIRED

Procurement Authorization – Supply of Various OBI Bus Parts for Hybrid Bus Fleet

Date:	March 23, 2016
To:	TTC Board
From:	Chief Executive Officer

Summary

The purpose of this report is to obtain authorization for the award of a contract for a three-year term for the supply of various OBI bus parts that are required to support the TTC's Orion Hybrid Next Generation (NG) bus fleet maintenance needs.

Recommendations

It is recommended that the Board authorize:

1) The award of an inventory contract for the supply of various OBI bus parts for the Orion Hybrid bus fleet for the period of approximately March 2016 to March 2019 to New Flyer Industries Canada ULC (New Flyer) in the upset limit amount of $9,969,000 including applicable taxes on the basis of single source.

Financial Summary

Sufficient funds are included in the 2016 TTC Operating Budget and will be included in future operating budgets as appropriate. The inventory parts will be charged to the appropriate department budget at the time of issuance from TTC Stores.

The Chief Financial & Administration Officer has reviewed this report and agrees with the financial impact information.

Issue Background

The TTC purchased a fleet of 544 Orion Hybrid Next Generation (NG) buses with deliveries between 2007 through 2009. Based on current standards, these vehicles have an expected service life of a minimum of eighteen (18) years.

When purchased, the bus manufacturer provides their standard bus design with minor modifications to meet the specific requirements of each transit authority. Generally, the components used to build the buses are common in the heavy truck and bus industries.

The TTC requests detailed cross reference parts information as a contract requirement to ensure, where possible, that we are aware of the original equipment manufacturer (OEM) of the various bolt-on components and available piece parts for repair and rebuild. This decision was made several years ago as a result of the bus manufacturers only including their part numbers which made it impossible to obtain competitive pricing from the supply industry. However, there are still many parts that the manufacturer designs and produces themselves, and therefore some parts will only be available from the bus manufacturer. The requested additional parts information specified allows staff to obtain competitive pricing for many of the more common parts through multiple distributors, when available; however there are still many parts that are only available through single distributors as a result of in-house designs by the bus manufacturer, or exclusivity arrangements made between the bus manufacturers and component sub-suppliers.

Although the TTC could, and does, consider reverse-engineering specific parts, it is done only when absolutely necessary due to the time and effort involved, and the increased risk and liability of not using OEM parts. If the TTC has to reverse-engineer a part, it is a process that can take several years to design, manufacture, and install the parts, and then conducts a comprehensive evaluation to verify the performance and reliability of those parts in revenue operation prior to the part being considered for approval for system wide implementation.

In November 2012, the board approved a contract for the supply of 314 various Orion Hybrid Next Generation (NG) bus parts to Daimler Buses North America Limited (Daimler) for a three-year term in the upset limit amount of $7,400,000 including applicable taxes.

http://www.ttc.ca/About_the_TTC/Commission_reports_and_information/Commission_meetings/2012/November_21/Reports/Procurement_Authoriz2.pdf

In August 2013, New Flyer purchased the assets of Daimler's aftermarket parts division including the proprietary rights for its parts. As a result, New Flyer is the only approved source of supply for OBI parts. In addition, New Flyer agreed to honour all existing contracts with TTC that were originally awarded to Daimler.

In March 2014, a contract amendment was approved by staff to add 30 items to the contract which were not previously identified or available to include in the original requirement. No additional funds were required at that time as sufficient funds remained on the contract.

In September 2014, another contract amendment was approved by staff to add 32 items to the contract which were not previously identified or available to include in the original requirement. No additional funds were required at that time as sufficient funds remained on the contract.

Accessibility/Equity Matters

Not having parts to maintain our vehicles may result in vehicles being removed from service which has a direct impact on our customers.

Comments

A Request for Bids (RFB) was issued to New Flyer on November 10, 2015 for the supply of various OBI bus parts for the hybrid bus fleet for up to a three-year term on the basis of single source.

The RFB requested firm pricing for 256 parts out of which 254 items were quoted. Two (2) of the items were not quoted as New Flyer was not able to provide pricing at this time. New Flyer is working to source these items and once available, these items will be added on to the contract in the future.

New Flyer's initial total bid value was $8,326,281.65. A price comparison revealed an overall increase of approximately 38.86% in the first year of the contract compared to the last buy prices. The prices will be approximately 3.28% higher in year two compared to the year one prices, and approximately 3.28% higher in year three compared to the year two prices.

Staff contacted New Flyer to negotiate price reductions; however, in most cases New Flyer was not able to reduce pricing. New Flyer offered price breaks based on minimum order quantities for some of the items. Staff reviewed these items and agreed to accept the volume pricing offered by New Flyer. This negotiation resulted in a revised total bid of $8,307,182.89. A price comparison based on the negotiated pricing revealed an overall increase of approximately 35.70% in the first year of the contract compared to the last buy prices. The prices will be approximately 3.26% higher in year two compared to the year one prices, and approximately 3.31% higher in year three compared to the year two prices.

New Flyer advised that the contributing factors to the price increase on some of the items are attributed to significant cost increases that New Flyer have incurred during the term of the current contract (established in 2013 for a 3 year term) from their suppliers, however New Flyer did not pass these price increases onto the TTC. New Flyer stated that it currently sells some of these items at prices below their cost. New Flyer also advised that some items have become obsolete and new suppliers and or parts have been developed which has resulted in increased costs. Further, New Flyer stated that many of the items with large price increases were no longer purchased in large production run quantities for production of new buses but rather lower volumes for the aftermarket parts. Therefore, the contributing factors to the price increases in Years 2 & 3 are the anticipated increased costs from New Flyer's suppliers as its suppliers cannot guarantee to hold the prices for the 3 year term.

Staff investigated other reasons for the price increase and determined it was mainly attributed to the Canadian / U.S. dollar exchange rate variation as New Flyer's primary sources of supply are from the US. Pricing under the current contract was submitted to TTC in October 2012 and at the time of bid closing the exchange rate was $1.00 CAD = $0.991 USD, whereas the exchange rate at the time of bid closing under this RFB was $1.00 CAD = $1.3998 USD. Therefore, over this approximate three year period the Canadian dollar has depreciated by approximately 41.25% in comparison to the U.S. dollar.

New Flyer advised it has offered its best prices and could not reduce pricing any further. New Flyer did not state any exceptions or qualifications to the TTC's terms and conditions and was considered commercially and technically compliant.

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.

Contact

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