



STAFF REPORT ACTION REQUIRED

Procurement Authorization – Supply of Various Detroit Diesel and Allison Transmission Bus Parts

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 genuine Original Equipment Manufacturer (OEM) Detroit Diesel and Allison Transmission bus parts that are required to support the TTC's bus engine and transmission maintenance needs.

Recommendations

It is recommended that the Board authorize:

- 1) The award of an inventory contract for the supply of genuine OEM Detroit Diesel and Allison Transmission bus parts for the period of approximately April 2016 to April 2019 to Wajax Power Systems in the upset limit amount of \$34,329,000 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

TTC has an ongoing requirement for various OEM Detroit Diesel and Allison Transmission bus parts (fuel injectors, sensors, pumps, gaskets, etc.) that are used as inventory stock to support and maintain the TTC's bus fleet. TTC currently has

approximately 482 buses in its fleet (out of approximately 1,900 total fleet) powered by a Detroit Diesel Series 50 engine. There are approximately 1,206 buses equipped with an Allison transmission (Model B400 and B500). Wajax Power Systems (Wajax) holds the proprietary rights and is the sole distributor for Detroit Diesel and Allison Transmission parts in Ontario.

In March 2013, a contract for the supply of 567 various Detroit Diesel and Allison Transmission parts was awarded to Wajax for a three-year term in the upset limit amount of \$24,900,000 including applicable taxes.

http://www.ttc.ca/About_the_TTC/Commission_reports_and_information/Commission_meetings/2013/March_27/Reports/Procurement_Authoriz1.pdf

In December 2015, during review of the current contract with Wajax, staff estimated the remaining funds were insufficient to reach the contract expiry of April 2, 2016. Staff examined why the consumption on this particular contract has been higher than was originally forecasted in December 2012 and determined that there were bus rebuild projects for the Orion 7 bus fleets which were not originally identified. Future project requirements will be obtained independently at the time a project is identified rather than from any existing supplier blanket contract that did not include any forecast quantities for projects.

As a result, a contract amendment to add \$1,500,000 was approved in order to ensure the supply of parts required for maintenance needs. The total upset limit increased from \$24,900,000 to \$26,400,000.

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 on January 4, 2016 for the supply of Detroit Diesel and Allison Transmission parts for up to a three-year term, to Wajax on the basis of single source.

The RFB requested firm pricing for 375 parts out of which 375 items were quoted. 25 of the items being recommended for award are considered remanufactured (or reconditioned / exchange) parts. When purchasing a remanufactured item, a damaged or worn unit (a core) is required by the applicable company. The company will then supply a remanufactured unit by either repairing that particular core, or supplying an existing unit that has previously been repaired. Where TTC does not have a core to supply the company when purchasing a remanufactured part, an additional core charge will be applied. The RFB contained a Core Price Schedule, for Wajax to quote core prices for the applicable items.

Wajax's initial total bid value was \$30,668,566.30. A price comparison revealed an overall increase of approximately 41.02% in the first year of the contract compared to the last buy prices. The prices will be approximately 5.66% higher in year two compared to the year one prices, and approximately 4.95% higher in year three compared to the year two prices.

Staff contacted Wajax to negotiate price reductions and successfully negotiated reduced pricing for 162 items. This negotiation resulted in a revised total bid of \$28,606,696.94 or a cost avoidance of approximately \$2,061,869.36. A price comparison based on the negotiated pricing revealed an overall increase of approximately 33.55% in the first year of the contract compared to the last buy prices. The prices will be approximately 3.50% higher in year two compared to the year one prices, and approximately 3.50% higher in year three compared to the year two prices.

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

Staff investigated the reason for the price increases and determined it was attributed to increased costs in labour, materials, energy and transportation. Another contributing factor is the lower market demand for Detroit Diesel parts (the manufacturer of the majority of these parts), due to older series 50 engines. As a result, their current pricing for these parts are based on lower quantities where the set-up of equipment (for manufacturing) is amortized over a smaller production run when compared to 2013 when the current contract was awarded. This engine is found on 482 buses that have been in service for approximately 10 to 11 years and will remain in service for several more years.

In addition, as these parts are manufactured in the U.S.A., another main reason for the price increase is attributed to the Canadian / U.S. dollar exchange rate variation as all of these parts are manufactured in the U.S. Pricing under the current contract was submitted to TTC in January 2013 and at the time of bid closing the exchange rate was \$1.00 CAD = \$0.9935 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 40.90% in comparison to the U.S. dollar.

Wajax's offer included a qualification on 7 parts noting revised part numbers, with no change in fit, form or function. As these are merely administrative changes, staff deems them as acceptable.

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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