



STAFF REPORT ACTION REQUIRED

Procurement Authorization – Supply of Knorr Brake Parts for up to a 3 Year Term

Date:	November 30, 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 3 year term for the supply of various Knorr Brake parts to be used on TTC streetcars. Knorr Brake Limited (Knorr) is the original equipment manufacturer (OEM) and the only source of supply for these parts.

Recommendation

It is recommended that the Board authorize:

1) The award of an inventory supplier blanket contract for various Knorr Brake parts for a period of three (3) years (approximately December 2016 to December 2019) to Knorr in the total upset limit amount of \$6,080,000 CDN including applicable taxes on the basis of sole source.

Financial Summary

Sufficient funds are included in the proposed 2017 Operating and Capital budgets that will be forwarded to City council, and will be included in future budgets as appropriate.

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 brake parts that are used as inventory stock to rebuild and maintain the higher level components of the streetcar brake system such as actuators, compressors, levelling valves, duplex check valves and air dryers. These parts are required for regular scheduled maintenance work, emergency repairs, and as part of

the Life Extension Overhaul (LEO) programs for TTC's fleet of 46 Articulated Light Rail Vehicles (ALRV's) and 177 Canadian Light Rail Vehicles (CLRV's). Vehicles outfitted with completely overhauled brake components will not require service to their air brake systems as frequently and will perform more reliably in service. Knorr is the sole source supplier of these parts (OEM and only source of supply).

The TTC requests detailed cross reference parts information from the streetcar manufacturer 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 streetcar 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 streetcar 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 streetcar manufacturer, or exclusivity arrangements made between the streetcar 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.

Accessibility/Equity Matters

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

Comments

A Request for Bid (RFB) was issued to Knorr on July 18, 2016 for the supply of Knorr brake parts for TTC's streetcars for up to a 3 year term on the basis of sole source.

The RFB requested firm pricing for 125 items out of which 74 items were quoted. Knorr was unable to provide pricing for 51 items as its suppliers could not commit to 3 year pricing and several of these items were quantity sensitive. Consequently, these items will not be included on this supplier blanket at this time and will be purchased as required.

Knorr's Bid was FOB - Destination, Freight included in the price.

Knorr's pricing is subject to adjustment for foreign exchange fluctuation based on one Canadian Dollar equal to €69 Euro if the average exchange rate varies more than a range of one Canadian Dollar equal to a low of €64 Euro or a high of €74 Euro (+/- €05 Euro). The average monthly rates will be based on the rates as posted by the Bank of Canada over the term of the contract and the adjustment will be made at the end of the contract as appropriate.

A price comparison with the previous purchase prices of the recommended items revealed an overall increase of 1.83% during the first year of the contract, a 1.99% increase during the second year of the contract compared to first year pricing and a 3% increase during the third year of the contract compared to second year pricing.

Staff contacted Knorr to negotiate price reductions and Knorr was able to reduce pricing on various items. Staff requested substantiation from Knorr for the price increase for various items. Knorr stated that the price increases were mainly due to the Canadian to Euro exchange rate. The average Bank of Canada exchange rate in July, 2013 was 1 CAD = 0.7349 EUR and on October 24, 2016 the rate was 1 CAD = 0.69 EUR. This represents a depreciation of the Canadian dollar by approximately 6%.

As a result of the negotiations, Knorr reduced pricing in the first year by a further 2.04% to an overall decrease of 0.21% compared to the previous purchase prices and confirmed that it offered its best pricing for year 2 and 3 of the contract.

This contract includes a contingency of approximately 20% for variances between forecasted and actual usage over the contract period and new parts not yet identified which may be added during the contract term.

Contact

Mike Piemontese
(Acting) Head – Materials & Procurement
Phone: 416-393-3113
Email: Mike.Piemontese@TTC.ca