



STAFF REPORT ACTION REQUIRED

Supply of Subway Parts – Procurement Authorization

Date:	October 16, 2017
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 Wabtec parts to be used on the TTC’s subway fleet. Wabtec Passenger Transit (Wabtec) 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 Wabtec parts for a period of three years (approximately November 2017 to November 2020) to Wabtec in the total upset limit amount of \$8,942,722.77 CDN (\$7,045,397.28 USD) including applicable taxes on the basis of sole source.

Financial Summary

The total award value of approximately \$8.9 million (CDN) over a three year period reflects the upset limit for the Wabtec award for the supply of various subway fleet parts.

The 2017 approved Operating Budget includes sufficient base budget funding to support the annual expenditures detailed in the table below. Base budget funding required to support this award beyond 2017 will continue to be requested in future years (2018 to 2020) as part of the annual Budget process.

Contract Year	Projected Annual Expenditure CDN*	Projected Annual Expenditure USD
Year 1 (2017 - 2018)	\$2,954,339.18	\$2,327,534.21
Year 2 (2018 - 2019)	\$3,027,032.91	\$2,384,804.94
Year 3 (2019 - 2020)	\$2,961,350.68	\$2,333,058.13
Total (Upset Limit)	\$8,942,722.77	\$7,045,397.28

*Converted to CDN dollars using an exchange rate of 1 USD = 1.2693 CDN.

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

Issue Background

TTC has an on-going requirement for various Wabtec parts (valves, bearings, boards, springs, pistons, manifolds, gaskets, bushing, diaphragms, couplers, etc.) with the majority being used as inventory stock to maintain the brake systems on the T1 subway fleet of 370 vehicles. Wabtec is the sole source supplier of these parts as they are the only source of supply.

The TTC requests detailed cross reference parts information from the subway manufacturer as a contract requirement to ensure, where possible, that TTC is aware of the original equipment manufacturer of the various bolt-on components and available piece parts for repair and rebuild. This decision was made several years ago in response to subway manufacturers only including their part numbers, which made it impossible to obtain competitive pricing from the supply industry. The additional parts information allows staff to obtain competitive pricing for many of the more common parts through multiple distributors, when available. There are still many parts that are only available through single distributors as a result of in-house designs by the subway manufacturer, or exclusivity arrangements made between the subway 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, install the parts, and then conduct 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 TTC's subway fleet may result in these vehicles being held back from service, having a direct impact on our customers.

Comments

A Request for Bid (RFB) was issued to Wabtec on July 5, 2017 for the supply of various Wabtec parts for up to a 3 year term on the basis of sole source.

The RFB requested firm pricing for 222 items out of which 208 items were quoted. Wabtec was unable to quote 14 items as it could not commit to three year pricing. Consequently, these items will not be included on this supplier blanket and will be purchased as required.

A price comparison with the previous purchase prices of the recommended items revealed an overall increase of 1.82% during the first year of the contract, a 1.96% increase during the second year of the contract compared to first year pricing and a 3.15% increase during the third year of the contract compared to second year pricing.

By leveraging TTC’s forecasted spend of approximately \$8.9 million (CDN), TTC is able to avoid significant increases to Wabtec’s pricing versus procuring smaller purchase amounts in a piecemeal fashion. In addition, staff negotiated lower pricing than what Wabtec originally provided as follows:

Contract Year	Annual Cost Escalation Original Bid Pricing USD**	Annual Cost Escalation Negotiated Bid Pricing USD**
Year 1 (2017 - 2018)	1.82%	1.80%
Year 2 (2018 - 2019)	1.96%	1.96%
Year 3 (2019 - 2020)	3.15%	1.98%

**The above figures exclude contingencies for freight and demand variance as set out below.

The negotiated pricing represents a savings of approximately \$22,000 compared to original bid pricing.

The creation of this supplier blanket contract will reduce the buyers’ processing time, as the number of requisitions handled by the buyers is greatly reduced.

This contract includes a contingency of approximately 5% for freight and 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.

Contact

Ted Zlotnik
 Head – Materials & Procurement
 Phone: 416-393-3113
 Email: Ted.Zlotnik@ttc.ca