



STAFF REPORT ACTION REQUIRED

Request for Proposal (RFP) 0713-06-0233: Water Meter Replacement and Automated Meter Reading System

Date:	November 15, 2007
To:	Public Works and Infrastructure Committee
From:	Deputy City Manager, Citizen Focused Service Cluster B Deputy City Manager and Chief Financial Officer Director, Purchasing and Materials Management General Manager, Toronto Water
Wards:	All
Reference Number:	P:\2007\Cluster B\TW\pw07045 (AFS# 4128)

SUMMARY

This report provides an update on the results of RFP 0713-06-0233, for Water Meter Replacement and an Automated Meter Reading (AMR) System, and seeks authority to amend certain requirements of the project.

RECOMMENDATIONS

The General Manager Toronto Water, Deputy City Manager, Citizen Focused Service Cluster B, Deputy City Manager and Chief Financial Officer, and the Director of Purchasing and Materials Management recommend that:

1. Council authorize the General Manager of Toronto Water and the Treasurer to proceed with a new procurement process for the Water Meter Replacement and Automated Meter Reading (AMR) System project incorporating:
 - i. the elimination of the Proof of Capability/Pilot phase;
 - ii. a shortened project implementation/completion timeframe that is satisfactory to the General Manager of Toronto Water and the Deputy City Manager and Chief Financial Officer; and

- iii. the option to secure alternative project financing (which could include vendor financing) as part of the procurement process.
2. Staff report back to Council at the completion of the procurement process but prior to award of the project summarizing the results of the procurement process.

Financial Impact

Toronto Water's 2008-2017 Capital Program includes \$176 million, cashflowed over 10 years to implement the AMR project. It may be necessary to reschedule some projects contained within Toronto Water's 2008-2012 Capital Plan, or seek alternative financing mechanisms through the procurement process for this project to proceed if the issuing of the second Request for Proposal results in higher capital costs.

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

DECISION HISTORY

In October 1999, Council approved a Capital Project (i.e. Universal Metering Program – UMP) in the amount of \$21 million to install water meters in the City's flat rate water accounts (approximately 72,000 accounts) and directed staff to research and report back on financing options for automated meter reading technologies.

Recognizing the significant size of the meter installation required under the UMP, in April 2001 Council approved recommendations allowing the planning of the UMP to be integrated into an overall metering study. Based on the results and outcomes of the metering study, Council at various meetings held between October 2002 and October 2004, adopted a number of recommendations and motions allowing for the replacement of the City's aging water meters and the simultaneous installation of a Fixed Area Network (FAN) automated meter reading system. The approved capital project provides for a Proof of Capability/Pilot phase, whereby the Award of the Contract for full implementation of a FAN will be conditional on the evaluation of the system's performance during the pilot phase, with a report back to Committee with the results of the pilot.

At its meeting of September 25, 26 and 27, 2006, City Council authorized staff to proceed with a Request for Proposal (RFP) process for the procurement of water meters and a Fixed Area Network radio frequency-based automated water meter reading system for the City.

Below are the links to the relevant reports and Council decisions:

<Q:\2002\Standing\Policy\Clauses\200214-013.pfc.doc>

<Q:\2003\Standing\Policy\clauses\200304-008.pfc.doc>

<Q:\2003\Standing\Works\clauses\200307-010.wcc.doc>

ISSUE BACKGROUND

The need for a systematic, city-wide water meter replacement program coupled with the concurrent installation of an automated meter reading technology (i.e. a radio frequency based Fixed Area Network) was supported by comprehensive research and analysis, undertaken over a three year period, that clearly established that the City's:

- a) meters (both high and low volume meters) are old and require immediate overhaul/replacement; and,
- b) current meter reading methods are fragmented (i.e. meters are still being read based on the various methods inherited from the former municipalities), inefficient and costly to maintain.

Based on 2006 total water consumption and 2007 water rates, the City is losing approximately \$28 million per year due to its aging water meter infrastructure. The amount of annual revenue loss will continue to increase, with increases in the water rate, until such time as the meters are replaced.

COMMENTS

To enhance the quality and integrity of the RFP process for this project, KPMG LLP ("KPMG") was retained to monitor, from a fairness perspective, the procurement process with respect to the City's Water Meter Replacement and Automated Meter Reading System project. Additionally, staff from the City's Internal Audit Division were involved in the development of the RFP document and reviewed the evaluation process.

Request for Proposal No. 0713-06-0233 was issued on February 2, 2007 and thirty eight (38) firms on the City's Bidder's List were invited to submit Proposals and this RFP was advertised on the City of Toronto's Internet Website. The RFP closed on April 16, 2007.

Three (3) proposals were received for the Meter Replacement and Automated Meter Reading System:

1. Asplundh Canada ULC dba VSI Meter Services;
2. Neptune Technology Group (Canada) Limited; and
3. Itron, Inc..

Of the three (3) proposals received, two proposals [Neptune Technology Group (Canada) Limited and Itron, Inc.] were non-compliant with the City's terms and conditions.

The proposal received from Asplundh Canada ULC dba VSI Meter Services met the mandatory terms and conditions of Request for Proposal (RFP) No. 0713-06-0233 and

surpassed the minimum technical scoring requirement of the RFP. However, the price proposal exceeded the approved capital budget.

Given that the only compliant proposal exceeded the approved budget for this project, RFP No. 0713-06-0233 has been cancelled and a new RFP will be issued early in 2008. In an effort to understand why two of the proponents did not agree with the City's mandatory terms and conditions, and the factors influencing the pricing of the only compliant proposal, staff met with all three proponents to solicit feedback. Based on feedback received, and in an effort to solicit vendors to competitively bid on a new RFP for the metering project, it is recommended that Council approve the following amendments to the terms and conditions of the project:

1. Eliminate the proof of capability phase for the meter reading portion of the project. The AMR products being procured are all proven technology with substantial deployment with water meters in other cities since project conception in 2002. With the technology being well established in the water market, there is no need to prove the concept.
2. Shorten the implementation period for the project from eight years to an optimal period of possibly 4 to 6 years. A shorter implementation period is practical according to Proponents in debriefing sessions following the RFP cancellation, the shortened duration will reduce management overhead costs and reduce costs associated with risk of inflation and exchange rate. However, a shorter implementation period will also result in a much higher annual cashflow and a review of Toronto Water's 10-year capital plan and rate model indicates that this would require a rescheduling of projects, or an alternative financing option should be explored so as not to impact the rescheduling of priority projects such as state of good repair projects.
3. It is therefore prudent to explore alternative financing options for a project as unique as AMR. An industry review and discussions with Infrastructure Ontario suggests that there are opportunities to explore third-party or vendor financing to implement the project. Approval is therefore requested to include these options within the new RFP so that they can be evaluated against traditional procurement and financing models.

Based on vendor feedback, staff will also be amending insurance and liability requirements to the higher of: i) limits required by law; or ii) to limits based on estimated real costs to the City in the event of Contractor withdrawal or delay. Although the project is very large, it is carried out in small stand-alone increments (meter installations) that make standard construction project terms and conditions inappropriate.

Eliminating the proof of capability phase will also reduce project cost, by reducing the project duration and amending insurance and liability requirements.

Considering the benefits of universal metering, restoration of fair metering for all customers, revenue recovery of approximately \$28 million per year and estimated operating cost reductions of approximately \$5 million per year, this project continues to have a payback period of approximately 6 years and remains a good business decision for the City.

CONTACTS

Giuliana Carbone, Director
Revenue Services
Phone: 416-392-8065
Email: gcarbone@toronto.ca

Alex Marich, Director
Operations Support, Toronto Water
Phone: 416-397-7296
Email: amarich@toronto.ca

Peter Douchanov, Project Manager
Revenue Services
Phone: (416) 395-1098
Email: pdoucha@toronto.ca

Carlo Casale, Project Manager
Operations Support, Toronto Water
Phone: 416-392-8279
Email: ccasale@toronto.ca

John McNamara
Manager, Goods and Services
Purchasing, Materials Management Division
416-392-7316
Email: jmcnama@toronto.ca

SIGNATURE

Lou Di Gironimo
General Manager
Toronto Water

Lou Pagano, Director,
Purchasing & Materials Management

Richard Butts
Deputy City Manager

Joseph P. Pennachetti
Deputy City Manager & Chief Financial
Officer

ATTACHMENTS

Attachment 1: Draft Report from KPMP, Fairness Monitor