



Non-competitive Contracts with F.L. Smidth Inc. for Proprietary Parts and Services for Toronto Water, Humber Treatment Plant (HTP)

Date: September 13, 2016
To: Public Works and Infrastructure Committee
From: General Manager, Toronto Water;
Director, Purchasing and Materials Management Division
Wards: All
Reference: P:\2016\Cluster B\TW\PWI16016

SUMMARY

The purpose of this report is to request Council authority to enter into a new non-competitive contract with F.L. Smidth Inc. to maintain recently installed original equipment that will no longer be covered by warranty. This vendor is the exclusive distributor and manufacturer of proprietary parts and services for the equipment. The total value of the contract will be \$161,975 USD net of HST (\$164,825 USD net of HST recoveries) or \$212,300 CDN net of HST (\$216,036 CDN net of HST recoveries). The initial term of the contract will be from the date the agreement is signed to December 31, 2017, with the option to renew for four (4) additional one (1) year periods.

City Council approval is required in accordance with Municipal Code Chapter 195-1 Purchasing, where the current request exceeds the Chief Purchasing Official's authority of the cumulative five year commitment limit under Section 1 of the Purchasing By-Law allowed under staff authority as per the Toronto Municipal Code, Chapter 71- Financial Control, Section 71-11A.

RECOMMENDATIONS

The General Manager, Toronto Water and the Director, Purchasing and Materials Management recommends that:

1. City Council authorize the General Manager, Toronto Water to negotiate and enter into a non-competitive agreement with the vendor, F.L. Smidth Inc., on terms and conditions satisfactory to the General Manager, Toronto Water and in a form satisfactory to the City Solicitor. The contract will be for a period from the date the

agreement is signed to December 31, 2017, with the option to renew for additional four (4) separate one (1) year periods at the sole discretion of the City and subject to budget approval(s). The contract will also be on the condition that the vendor continues to be the manufacturer and exclusive distributor for the goods. The estimated amount of this non-competitive contract is \$161,975 USD net of HST (\$164,825 USD net of HST recoveries) or \$212,300 CDN net of HST (\$216,036 CDN net of HST recoveries).

FINANCIAL IMPACT

The total potential contract award identified in this report including all option years is \$239,899 CDN including all applicable taxes and charges. The total potential cost to the City including all option years is \$216,036 CDN net of HST recoveries. Funding in the amount of \$40,704 net of HST recoveries will be included in the 2017 Operating Budget submission for Toronto Water, under Cost Centre TW4070 Humber Treatment Plant Work Area 1, and Cost Element 2120, Parts, Machinery, Equipment and Services.

Should the City choose to exercise its option to renew for an additional four (4) separate one year periods, then appropriate additional funding, if needed, will be included in the 2018- 2021 annual Operating Budget submissions for Toronto Water.

Funding details net of HST recoveries are provided in the table below.

Table 1: Funding Details Net of HST Recoveries

Year	Cost Centre	Cost Element	Net of HST Recoveries (US Dollars)	Net of HST Recoveries (CDN Dollars)
2017	TW4070	2120	\$31,055	\$40,704
2018	TW4070	2120	\$31,987	\$41,925
2019	TW4070	2120	\$32,918	\$43,146
2020	TW4070	2120	\$33,928	\$44,469
2021	TW4070	2120	\$34,937	\$45,792
Grand Total			\$164,825	\$216,036

1\$US = 1.3107 \$CAD – Bank of Canada Noon Rate as of September 1, 2016

The above cost calculations assume an estimated 3% annual increase commencing in 2018.

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

DECISION HISTORY

There are twelve (12) gas compressors installed in the gas compressor building, which was initially constructed at the Humber Treatment Plant (HTP) in the late 1980's. There have since been some upgrades as part of competitively bid contracts, including replacement of six (6) of those compressors in 2006. The gas compressors are a critical component of the digester mixing system, which must be maintained in accordance with the Plant's Environmental Compliance Approval.

In 2010, a non-competitive Blanket Contract No. 47015233, was issued for parts for the twelve (12) compressors in the building. In 2012, the contract was reissued as the Orillia, Ontario based office was no longer handling the requisite parts line, and business was being conducted out of Bethlehem, PA, USA (Blanket Contract No. 47016721). The contract was changed to accommodate a change in currency. That contract has now expired, and Toronto Water is requesting authority to issue a new non-competitive contract for compressor parts.

The new non-competitive contract for this vendor will provide the necessary proprietary parts. The cost to completely replace the equipment and machinery is significantly higher than the cost of maintaining the equipment in good repair. Piping and other mechanical/electrical installations would need to be modified to accommodate any change in equipment.

All the equipment identified is necessary to ensure continuous operation of the HTP in accordance with the Environmental Compliance Approval (sewage and air) as mandated by Ministry of Environment and Climate Change.

Equipment and systems must be maintained at all times in order to keep the processes operational on a continuous basis. In order to do so, proprietary parts and specialized services are required for the equipment.

COMMENTS

F.L. Smidth Inc. is the only vendor who can provide the knowledge and specialized parts for the proprietary gas compressor systems. In accordance with Municipal Code, Chapter 195-1 Purchasing, maximum term of commitment limit and Chapter 71.11A of the Financial Control by-law, Toronto Water is requesting City Council authority to issue a new non-competitive contract to the vendor noted in this report in the amount of \$161,975 USD or \$212,300 CDN.

The anticipated lifespan of this equipment is approximately twenty (20) years. By properly maintaining the compressors, we are able to increase the lifespan of the equipment, therefore delaying the need for replacement, ultimately reducing costs.

The vendor has provided firm 2016 pricing for equipment and have confirmed that they will provide the City of Toronto with the best pricing possible in subsequent years. Staff have reviewed the pricing for the equipment and services and have determined the pricing is fair and reasonable and that the City is receiving the best possible value.

It is recommended that the City enter into a new non-competitive contract with F.L. Smidth Inc. for the period commencing on the date the agreement is signed to December 31, 2017 in the amount identified, and that staff be authorized to execute the four (4) renewal option years and amend this non-competitive contract for each successive year.

In the event that other suitably qualified vendors (approved by the manufacturers/distributors) are identified, staff will follow all appropriate Purchasing By-Laws and procedures to ensure that a competitive process is initiated.

CONTACT

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SIGNATURE

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