



## **Non-competitive Agreement with Toromont Industries Ltd. for Proprietary OEM Parts and Equipment Maintenance Services at the Humber Treatment Plant**

**Date:** March 21, 2018

**To:** Public Works and Infrastructure Committee

**From:** General Manager, Toronto Water, and Chief Purchasing Officer, Purchasing and Materials Management

**Wards:** All

### **SUMMARY**

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The purpose of this report is to seek City Council authority for the General Manager, Toronto Water to negotiate and enter into a non-competitive agreement with Toromont Industries Ltd., operating as Toromont CAT, a division of Toromont Industries (Toromont) for the supply and delivery to the City of proprietary OEM (original equipment manufacturing) parts and specialized services for equipment repair and maintenance at the Humber Wastewater Treatment Plant (HTP) required in accordance with the City's operational requirements. The initial term of the agreement will be for a period of up to one year, commencing in 2018 with the option to renew for four (4) additional one (1) year periods at the sole discretion of the City, and subject to budget approvals for the total estimated agreement amount of \$4,330,000 net of HST (\$4,406,208 net of HST recoveries), inclusive of all option renewal years.

City Council approval is required in accordance with Municipal Code Chapter 195- Purchasing, where the current request exceeds the Chief Purchasing Official's authority of the cumulative five year commitment limit for each vendor under Article 7, Section 195-7.3 (D) of the Purchasing By-Law or exceeds the threshold of \$500,000 net of HST allowed under staff authority as per the Toronto Municipal Code, Chapter 71- Financial Control, Section 71-11A.

### **RECOMMENDATIONS**

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The General Manager, Toronto Water and the Chief Purchasing Officer, Purchasing and Materials Management recommend that:

1. City Council authorize the General Manager, Toronto Water to negotiate and enter into a non-competitive agreement with Toromont Industries Ltd. (Toromont) for the supply and delivery to the City of proprietary OEM parts and specialized services for equipment repair and maintenance at the Humber Wastewater Treatment Plant on Non-competitive Agreement with Toromont Industries Ltd. for Proprietary OEM Parts and Maintenance Services

terms and conditions satisfactory to the General Manager, Toronto Water and in a form satisfactory to the City Solicitor;

2. The initial term of the agreement will be for a period of up to one year, with the option to renew for four (4) additional periods of one (1) year each, subject to the exercise of each option year being at the sole discretion of the General Manager, Toronto Water and subject to the amounts payable under the agreement being available under the then current Toronto Water budget approval(s); and

3. The agreement will be on the condition that Toromont continues to be the manufacturer and/or exclusive distributor for the proprietary OEM parts and specialized services. The estimated amount of this non-competitive agreement is \$4,330,000 net of HST (\$4,406,208 net of HST recoveries) for the entire duration of the agreement, inclusive of all option renewal years.

## **FINANCIAL IMPACT**

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The total potential cost to the City, including the option years is \$4,330,000 net of HST (\$4,406,208 net of HST recoveries). Funding in the amount of \$262,948 net of HST recoveries is included in the 2018 Approved Operating Budget for Toronto Water. Should the City choose to exercise the option to renew for an additional four (4) separate one year periods, then appropriate additional funding, if needed, will be included in the 2019-2023 annual Operating Budget submissions for Toronto Water.

Approved 2018 funding and estimated 2019-2023 funding, net of HST recoveries are provided below.

**Table 1: Approved 2018 funding and estimated 2019-2023 funding, net of HST recoveries**

<b>Year</b>	<b>Cost Centre/WBS Element</b>	<b>Cost Element</b>	<b>Net of HST</b>	<b>Total Net of HST Recoveries</b>
2018	TW4085	4411 & 4403	\$258,400	\$262,948
2019	TW4085	4411 & 4403	\$807,500	\$821,712
2020	TW4085	4411 & 4403	\$373,100	\$379,667
2021	TW4085	4411 & 4403	\$872,200	\$887,550

Year	Cost Centre/WBS Element	Cost Element	Net of HST	Total Net of HST Recoveries
2022	TW4085	4411 & 4403	\$1,815,000	\$1,846,944
2023	TW4085	4111 & 4403	\$203,800	\$207,387
Total			\$4,330,000	\$4,406,208

The above table reflects the expected/scheduled maintenance cycle costs as per manufacturer's recommendations. Due to the fact that maintenance cycle includes both minor and major overhauls, these costs vary from one year to another, based on the type of maintenance work/services provided in any given year.

Toronto Water staff will ensure that future annual operating budgets for the Humber Treatment Plant incorporate the annual planned spending related to this agreement, as the subject engines represent significant and costly pieces of equipment requiring high reliability maintenance.

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

## **DECISION HISTORY**

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By adoption of Clause No. 3 of Report No. 4 of The Works and Utilities Committee, City Council, at its meeting of May 13, 1998, awarded Contract No. WPC-11-97 for the construction of a cogeneration facility at the HTP (Cogeneration Facility) the purpose of which was to utilize the digester gas produced at the HTP to produce electrical power and hot water which could be used for plant processes at the HTP. A major component of Contract No. WPC-11-97 included the supply and installation of two 2.35 Megawatt engine-generators, gas compressor, gas scrubbers and ancillary cogeneration equipment by Toromont or its affiliate (Cogeneration Equipment).

## **COMMENTS**

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The HTP is one of four wastewater treatment facilities operated by the City. This facility, which is the second largest wastewater treatment plant in the City is located at 130 The Queensway. Built in 1959, the HTP covers an area of approximately 45 hectares west of the Humber River and serves an estimated connected population of 685,000.

The City operates the Cogeneration Facility at the HTP and utilizes the Cogeneration Equipment in the operation of the Cogeneration Facility. There have since been major upgrades as part of a competitively bid contract, including the replacement of fuel preparation system and major overhaul of the engines. The Cogeneration Facility utilizes digester gas (a by-product of the sewage treatment process) or purchased natural gas to generate electricity and thermal power. Both forms of produced energy are used in full for the HTP needs with the co-gen output covering approximately 50% of plant needs. A significant reduction of purchased hydro and natural gas cost is accomplished when the Cogeneration Facility operates with none or minimal downtime. In light of a recent increase in the HTP heat energy demand, the co-gen heating energy production became meaningful.

In February 2010, a non-competitive Purchase Order #6030834 was issued to Toromont for engine and generator parts and maintenance that is still being used to cover on-going needs.

Toronto Water is requesting authority to issue a new non-competitive contract for parts and specialized maintenance, including occasional City staff training and operational support as the needs of the facility intensified as a result of significantly higher uptime. Toronto Water requires the supply and delivery of proprietary OEM parts and specialized services for the repair and maintenance of the Cogeneration Equipment at the HTP which only Toromont, as the exclusive distributor can supply.

The new non-competitive contract for this vendor will provide the necessary proprietary parts and specialized maintenance service that is needed on short notice to maximize facility operation which provides \$8,400/day in displacement of hydro cost and \$3,100/day in thermal energy recovery. The cost to completely replace the equipment and machinery is significantly higher than the cost of maintaining the equipment in good repair and even brand new machinery will require routine maintenance, but with obvious reduction of reactive maintenance. The cost of complete equipment replacement is in tens of millions of dollars.

Toromont is the sole exclusive distributor of Caterpillar engine-generators and parts, gas compressor, gas scrubbers and ancillary cogeneration equipment and the only entity that can provide specialized maintenance of the Cogeneration Facility. Toromont provides exclusive rights equipment, software and hardware necessary to ensure continuous operations. Changing vendors is not feasible, for both economic and technical reasons without causing substantial duplication of costs for the City or complete replacement of systems and machinery.

## **CONTACT**

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## **SIGNATURE**

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Lou Di Gironimo, General Manager, Toronto Water

Michael Pacholok, JD, Chief Purchasing Officer, Purchasing and Materials Management