

**MEETING DATE:** February 20, 2002

**SUBJECT:** Procurement Authorization - Supply Of Kone Escalator Refurbishment Kits

### **RECOMMENDATION**

It is recommended that the Commission approve the award of a purchase order to Kone Inc. (formerly Montgomery Kone Inc.) in the amount of \$1,606,364.72 for the supply of escalator refurbishment kits and escalator steps.

### **FUNDING**

Sufficient funds for this expenditure have been included in Project 3.2 Equipment, under Subway Escalator Overhaul Program, of the 2002-2006 Capital Program, as set out on pages 433 – 439, as approved by the Commission on November 28, 2001.

### **BACKGROUND**

The Subway Escalator Overhaul Program was first established in 1997. The purpose of the program is to refurbish escalators that have reached the end of their 25-year operating life expectancy. Since the inception of the program, all 44 OTIS type escalators have been overhauled with the last one being completed in 2001. Last year also saw the start of an overhaul program for Montgomery type escalators with a total of seven escalators being completed. It is expected that through continuous process improvement initiatives the goal of overhauling 12 Kone escalators annually will be achieved by 2003.

The scope of work for each escalator overhaul involves, in part, the requirement to procure parts from the original equipment manufacturer (OEM). The process for procuring OEM parts involves significant lead times, which can adversely impact management's ongoing objective to streamline the work schedule for escalator overhauls.

In collaboration with the Montgomery original equipment manufacturer, Kone Inc., a process has been established whereby all required OEM parts would be supplied at the same time via escalator refurbishment kits. This approach has several advantages, including: less time required to gather all appropriate parts for each escalator, less assembly time, one-time packaging and receipt of all parts unique to each escalator, more efficient shipping and receiving documentation, and improved quality assurance.

**DISCUSSION**

Kone Inc. was invited to submit a proposal on a single source basis since they are the original manufacturer of the escalators. Kone's pricing is summarized in Appendix "A".

The contract consists of the supply of a total eight escalator refurbishment kits and 535 escalator steps in two shipments (June and November 2002) and includes storage, shipping and engineering support.

Kone provided pricing of \$2,058,935.85 based on manufacturing and delivering the requirement in two lots and receiving payments after each scheduled delivery as specified. They also provided alternate pricing of \$1,600,364.73, based on manufacturing the requirement in one lot and receiving prepayment of 50% of the contract price upon award, and the balance upon receipt of the first delivery of escalator kits, with Kone storing the second shipment until the scheduled delivery in November 2002.

Kone's proposal included one commercial exception related to the warranty and several technical qualifications, which have been reviewed by staff and are considered acceptable.

Kone's alternate represents a saving of \$458,321.13 or 24% over the base bid and is being recommended for acceptance. In order to secure the Commission's investment, Kone will provide an advanced payment bond to secure the prepayment at contract award. In addition, Kone will sign an offsite inventory agreement to pass title to the Commission for any material stored at Kone's facility and will provide insurance for this material. The recommended contract award contains a \$6,000 allowance for the cost of an advanced payment bond.

A direct price comparison with the last purchase is not possible since most of the parts in the kits, in this purchase, are not the same as the last purchase. However, besides the escalator steps, staff identified 14 parts in the kits that were the same, and based on a price comparison, the prices for this purchase are approximately 10% lower than the last purchase price.

**JUSTIFICATION**

The escalator refurbishment kits and steps are required to permit staff to conduct the scheduled overhaul of the Kone escalators installed throughout the system.

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February 6, 2002

Attachment: Appendix "A"

**Appendix "A"**

**REQUEST FOR PROPOSAL  
SUPPLY OF ESCALATOR REFURBISHMENT KITS  
SUBMITTED BY KONE INC.**

Base Pricing (1)	\$2,058,935.85
Alternate Pricing (2)	\$1,606,364.73*

**\* Recommended for Award**

1. Manufacture and deliver in two lots as scheduled with payment after delivery.
2. Manufacture in one lot with 50% payment upon award and balance paid after first delivery with Kone storing second shipment until scheduled delivery.

Plant Maintenance Department

February 6, 2002