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<b>TO:</b>	<b>CHAIR AND MEMBERS CIVIC WORKS COMMITTEE MEETING ON MONDAY, DECEMBER 3, 2012</b>
<b>FROM:</b>	<b>JOHN BRAAM, MANAGING DIRECTOR, ENVIRONMENTAL &amp; ENGINEERING SERVICES &amp; CITY ENGINEER</b>
<b>SUBJECT:</b>	<b>SINGLE SOURCE PROCUREMENT OF POSITIVE DISPLACEMENT COLD WATER METERS WITH ENCODER-RECEIVER-TRANSMITTER ATTACHED</b>

<b>RECOMMENDATION</b>
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That, on the recommendation of the Managing Director, Environmental & Engineering Services & City Engineer, the following actions **BE TAKEN** with respect to the Single Source Procurement of Positive Displacement Cold Water Meters With Encoder-Receiver-Transmitter attached:

1. The quoted price from EMCO Corporation Waterworks, 944 Leathorne Street, London, ON, N5Z 3M5, for the supply, delivery and storage of 10,000 positive displacement cold water meters with attached ERT, for the price of \$1,250,000, HST extra, **BE ACCEPTED** on a single source basis as per section 14.4 (k) of the Procurement of Goods and Services Policy;
2. The funding for this purchase **BE APPROVED** as set out in the Source of Finance Report attached hereto as Appendix 'A';
2. That Civic Administration **BE AUTHORIZED** to undertake all the administrative acts that are necessary in connection with this contract; and
3. The approval hereby given **BE CONDITIONAL** upon the Corporation entering into a formal contract or having a purchase order, or contract record relating to the subject matter of this approval.

<b>PREVIOUS REPORTS PERTINENT TO THIS MATTER</b>
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"Tender 11-34 Supply & Delivery of Positive Displacement Cold Water Meters", presented to the Built and Natural Environment Committee (BNEC) on June 13, 2011, Agenda Item #12.

<b>BACKGROUND</b>
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**Background**

The City of London currently has two separate contracts for providing water meters and the associated ERT (Encoder-Receiver-Transmitter). One contract is for the supply and delivery of water meters with the ERT attached (currently with Elster Canadian Meter Company Inc., 101-1100 Walker's Line, Burlington, ON L7N 2G3). The other contract is for the supply and delivery of water meters and ERT not attached (currently with EMCO Corporation Waterworks, 944 Leathorne Street, London, ON, N5Z 3M5). As indicated in the June 13, 2011 BNEC Report, splitting the contract between these two bidders was the most economical method of meeting the City's needs, as some meter installations require the meter to be installed first, with the ERT being attached afterward. It also allows for the procurement of a large volume of water meters from more than one vendor.

During the purchasing process in 2011 for positive displacement cold water meters for a two (2)

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year term, three (3) bids were received as a result of the tender call. Only two of the bids provided pricing for water meters with the ERT attached (Elster and EMCO). Elster submitted the lowest price and EMCO was second lowest. For water meters without the ERT attached, EMCO submitted the lowest bid.

Since the signing of these contracts in 2011, Elster experienced some unfortunate circumstances that has left them unable to meet their contractual obligations with the City of London.

**Discussion**

On March 11, 2011, Japan's Pacific Coast was struck by a powerful tsunami. This event destroyed the Elster factory that assembled the small optical sensor that captures the meter reading and converts it to digital format that is sent to the ERT device. Elster had a storage warehouse full of these components, which temporarily buffered the effect to Elster's customers for nearly a year. Elster has recently opened a new factory in the Philippines to build these components, however the sensors are not meeting quality control specifications. Due to the large volume of rejected optical sensors, Elster's global customer demand for water meters has quickly outpaced production.

Since early-2012, Elster recognized that it could not meet their contractual obligations and started notifying their customers of back orders and delivery delays. The City currently has a contract with Elster for the supply of water meters with the ERT attached; however, Elster cannot meet these contractual obligations. To meet meter replacement program schedules, the City's Water Service Area has had to alternatively source more than 5,550 water meters with the ERT attached from EMCO, who also has a contract with the City to provide the necessary components, albeit in unassembled form. Receiving these assembled from EMCO has been on a unit cost basis as per their 2011 tender bid, but at a higher cost than the pre-assembled Elster product.

EMCO has recently made a special offer to the city of London for 10,000 water meters with ERT attached. The price being offered would represent a savings of \$167,000 compared to EMCO's 2011 tender bid (that being second lowest) and a savings of \$54,500 compared to Elster's 2011 lowest tender bid. At this time, Elster cannot fulfil their contractual obligations with water meter supply and delivery. In addition to the cost savings that EMCO is offering, they are further offering to store the 10,000 water meters/ERTs at no cost in their London warehouse, for as long as is required by the City of London. This number of meters will provide a 10 month supply for the meter replacement program.

Itron is the manufacturer of the ERT used by London. They have given notification to their customers that the price for their ERT will be increasing in 2013, due to cost increases they have seen for the raw materials that go into the manufacturing of the ERT. Compounding this with the increasing commodity costs of copper and brass (from which water meters are made), it is estimated that overall cost savings offered by EMCO at this time would total more than \$200,000 compared to re-tendering the contract for water meters with attached ERT. In addition, there is no guarantee that re-tendering this contract would result in a competitive bid process, as previously only two companies were able to provide bids that provided water meters with ERT attached. One of those companies is currently unable to meet London's needs, and it is unknown when its quality control issues will be rectified.

During the period between the beginning of May and end of August, the Water Operations Division replaces upwards of 7,000 water meters and ERT's. For this reason, the Water Operations Division will be issuing a new tender around May 2013, at which time the market supply chain is hoped to be stabilizing, for the supply and delivery of positive displacement cold water meters with ERT's attached. Issuing a tender during this timeframe will ensure that the water meter and ERT stock on hand does not get critically low prior to sourcing a new, longer term supply. However, the Water Operations Division firmly believes that accepting the offer put forth by EMCO at this time will result in a significant cost savings as it is expected that the costs that will be seen through the 2013 tender process will be higher than EMCO's special offer.

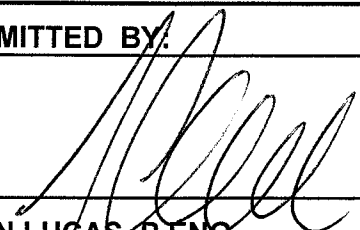
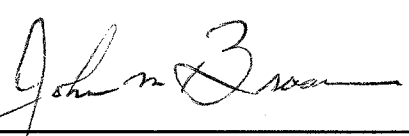
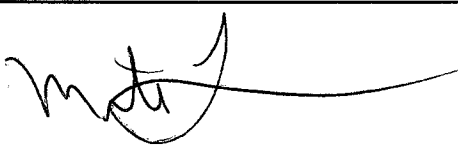
**Financial Impact**

The Water Service Area has adequate funding remaining in EW1627-11, 2011 Meter Replacement Program, for this recommendation, as detailed in Appendix 'A' (attached) Source of Financing.

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**Acknowledgements**

This report was prepared by Scott Koshowski, Environmental Service Engineer, with input from Stephen Irwin, Water Meter Operations Supervisor, Tim Romard, Manager, Water Operations and John Freeman, Manager Purchasing and Supply.

<b>SUBMITTED BY:</b>	<b>RECOMMENDED BY:</b>
	
<b>JOHN LUCAS, P.ENG. DIRECTOR, WATER AND WASTEWATER</b>	<b>JOHN BRAAM, P.ENG. MANAGING DIRECTOR, ENVIRONMENTAL &amp; ENGINEERING SERVICES &amp; CITY ENGINEER</b>
<b>REVIEWED &amp; CONCURRED BY:</b>	
	
<b>MIKE TURNER DEPUTY CITY TREASURER</b>	

**Attach:**      Appendix 'A' – Source of Financing  
                     Quotation / Letter from EMCO Corporation Waterworks, November 1, 2012

cc:      John Simon, Division Manager, Water Operations  
             Scott Koshowski, Water Operations Engineer  
             John Freeman, Manager, Purchasing & Supply  
             EMCO Corporation Waterworks, c/o G. Hudacek

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**WATERWORKS**

QUOTATION

944 Leathorne Street  
London, Ontario

Phone (800)303-0307    FAX (877)382-0240

E-MAIL: [jcsmenter@emcoltd.com](mailto:jcsmenter@emcoltd.com)  
[ghudacek@emcoltd.com](mailto:ghudacek@emcoltd.com)

November 1<sup>st</sup>, 2012

To:    Scott Koshowski  
         City of London

EMCO Corporation would like to offer the Corporation of the City of London a special pricing for a one time bulk purchase of 10,000 Badger water meters with the Itron 100 WR ERT attached. This offer is extended to the meter sizes listed below in any mixed quantity combination:

5/8" x 1/2" Badger water meter w/ Itron 100 WR ERT attached

5/8" x 3/4" Badger water meter w/ Itron 100 WR ERT attached

Subtotal price of the 10,000 (total units) Badger water meter with the Itron 100 WR ERT is \$1,250,000.00 (HST not included). EMCO Corporation's London Warehouse is offering to stock the bulk purchase order for NO CHARGE .

Quote is valid until December 31<sup>st</sup>, 2012.

Regards,  
Glenn Hudacek

Chair and Members  
Civic Works Committee

November 23, 2012  
(Award Contract)

**RE: Single Source Procurement of Positive Displacement Cold Water Meters with Encoder-Receiver-Transmitter Attached  
Capital Project EW1627-11 - 2011 Meter Replacement Program  
EMCO Corporation Waterworks - \$1,250,000 (excluding H.S.T.)**

**FINANCE DEPARTMENT REPORT ON THE SOURCES OF FINANCING:**

Finance Department confirms that the cost of this project can be accommodated within the financing available for it in the Capital Works Budget and that, subject to the adoption of the recommendations of the Managing Director, Environmental & Engineering Services and City Engineer, the detailed source of financing for this project is:

<u>ESTIMATED EXPENDITURES</u>	<u>Approved Budget</u>	<u>Committed to Date</u>	<u>This Submission</u>	<u>Balance for Future Work</u>
City Related Expenses	\$296,868	\$216,139		\$80,729
Vehicles & Equipment	2,891,835	977,224	1,272,000	642,611
<b>NET ESTIMATED EXPENDITURES</b>	<b><u>\$3,188,703</u></b>	<b><u>\$1,193,363</u></b>	<b><u>\$1,272,000</u></b> 1)	<b><u>\$723,340</u></b>
<b><u>SOURCE OF FINANCING:</u></b>				
Drawdown from Capital Water Reserve Fund	\$3,188,703	\$1,193,363	\$1,272,000	\$723,340
<b>TOTAL FINANCING</b>	<b><u>\$3,188,703</u></b>	<b><u>\$1,193,363</u></b>	<b><u>\$1,272,000</u></b>	<b><u>\$723,340</u></b>

**Financial Note:**

1) Contract Price	\$1,250,000
Add: HST @13%	162,500
Total Contract Price Including Taxes	<u>1,412,500</u>
Less: HST Rebate	140,500
Net Contract Price	<u>\$1,272,000</u>

JG



Alan Dunbar  
Manager of Financial Planning & Policy