
REPORT TITLE: Water Meter Hardware and Installation Services for the Water Meter Change Out Program

FROM: Andrew Farr, Interim Commissioner of Public Works

RECOMMENDATION

That staff be authorized to enter into direct negotiations with Neptune Technology Group in order to continue to provide water meter supply services for the residential, commercial, and industrial sector in the Region of Peel;

And further, subject to successful negotiations with Neptune Technology Group in establishing firm pricing and contract terms and subject to available budget, that the Commissioner of Finance be authorized to approve the final contract award, on legal terms satisfactory to the Regional Solicitor;

And further, that the current agreement with Neptune Technology Group be extended for a six-month extension to June 2021.

REPORT HIGHLIGHTS

- Neptune Technology Group (Neptune) has been the Region of Peel's supplier and installer of water meter hardware and meter replacement services since 2005. The contract expires in December 2020.
 - Staff reviewed the current marketplace along with the financial and operating risks of either maintaining the current vendor going forward or pursuing a competitive process.
 - For water meter supply, there is added complexity and cost to transition to a new hardware manufacturer.
 - Neptune is the market leader for water metering hardware in Ontario and continues to supply hardware which meets or exceeds the Region's requirements.
 - The current contract guarantees that the Region is offered the lowest hardware pricing for Neptune meters in Canada.
 - The market for meter replacement services is broader and a competitive procurement process for meter installation would provide opportunity to ensure the Region is receiving competitive pricing
 - Staff recommend direct negotiation with Neptune for hardware supply and a competitive process for water meter installation services.
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DISCUSSION

1. Background

The Region of Peel's water meter infrastructure consists of 335,000 water meters installed at residential, commercial and industrial properties, ranging in size from 16mm to 250mm. In order to maintain this metering infrastructure and ensure accurate water metering for the Region's customers, a meter is scheduled for replacement once it reaches 20 years of active service. Approximately 20,000 meters are replaced annually.

Neptune Technology Group (Neptune) has been the Region's sole supplier for both residential and commercial/industrial water meter hardware since 2005. On average, the Region spends \$5.3 million on metering hardware annually, which includes meters for new customers along with the replacement of aged meters. In addition to providing meter hardware supply, Neptune also completes the meter installations for the aged water meters, at a cost of \$1.2 million annually.

Neptune is a market leader in water metering solutions across both Ontario and Canada. Within Ontario, they hold a 60 per cent market share providing turnkey water metering solutions to most large municipalities, including Toronto, Durham, Hamilton, Halton, Markham, Niagara Falls, and Richmond Hill. Their Canadian headquarters are located locally in Mississauga.

A competitive process for water meter hardware and services was last completed in 2005. The agreement duration was three years along with four, one-year extensions. In 2012 and 2017 Council granted approval to extend this contract further. The current extension is set to expire on December 31, 2020.

The purpose of this report is to review procurement options for the supply and installation of water meter hardware once the current agreement expires.

2. Review of Next Steps

In order to recommend next steps for the procurement of water meter supply and installation, staff reviewed the current marketplace along with the financial and operating risks of either maintaining the current vendor going forward or pursuing a competitive process which may result in a second vendor.

While the current contract includes both the supply and installation of water meters under one contract, the review below assesses both aspects separately.

a) Supply of Water Meter Hardware

While a competitive procurement introduces competition, which may result in lowering the cost of procuring the meters, there are risks should a second vendor be successful in the procurement process.

The introduction of a second hardware manufacturer will result in several inefficiencies, both one-time and ongoing:

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- A one-time investment of \$200,000 for hardware and parts inventory to support the second manufacturer
- An annual investment of \$80,000 for software to transfer water consumption data from the water meter and store/manage data
- Additional investment in staff training related to troubleshoot and installation for two manufacturers. The higher complexity could increase the time to address technical issues, which could elevate customer frustration in the event of a malfunctioning meter.

If a new manufacturer is introduced, these inefficiencies would continue until all existing meters are transitioned to the meter offered by the new provider.

Based on the age of the Region's water meters, 20,000 meters are required to be replaced annually. At that pace, it would take the Region 17 years to transition Neptune meters out of the system. To shorten this transition period to eliminate these inefficiencies, a sizeable additional investment is required to accelerate the migration and would require the Region to replace aging meters before the end of their useful life of 20 years.

Staff also reviewed Neptune's current agreement and performance to ensure risk can be suitably managed with a sole vendor.

1. The current agreement with Neptune guarantees the Region receives the lowest pricing in Canada on an ongoing basis. This does not expressly guarantee the absolute lowest market price for Peel as other municipalities may get the same lowest price. Given Neptune's market share and their success with other municipalities who have procured similar services, it does provide comfort that Peel receives competitive pricing.
2. As all business and residential customers in the Region have a meter, it is crucial to minimize meter malfunctions leading to billing errors. A water meter that fails or generates incorrect water bills is inconvenient to the customer and can impact the Region's reputation as a trustworthy utility should this occur often.

Of the 1.3 million water bills issued annually, only 0.2 percent result in customer inquiries for high bills. Of the 126 water meters tested by a third party over the last five years as a result of customer billing inquiries, only one was found to be operating outside of American Water Works Association (AWWA) specifications.

3. Neptune's meters have consistently met all testing and standards requirements. In addition to the testing of meters as a result of customer inquiries, the Region has a proactive annual meter testing program that is consistent with industry practice. Testing confirms the meters are consistently performing within AWWA specifications and the product quality continues to meet the Region's needs. Staff is currently conducting an audit to re-confirm the Region's process for testing meters to ensure continued alignment with industry best practices.
4. Neptune offers a warranty on hardware consistent with other hardware providers. However, they often exceed the Region's expectations. Neptune has provided the Region with replacement equipment or extended warranties for equipment that fails at or near the end of the warranty period, a level of service not expressly required in the contract.

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b) Water Meter Installation Services

The installation and repair of water meters is currently shared between Region staff and Neptune.

Region staff perform installations of meters for new customers and completes repairs on existing meters that have not reached their 20-year lifespan. Neptune provides installation services for the aged water meter change out program.

Whereas Neptune is a technology leader in hardware, there are multiple experienced service providers operating in the Greater Toronto Area who could complete meter installation services.

As a result, engaging in a competitive process for meter installation services for the water meter change out program could result in cost savings and delivery efficiencies without taking on additional risk. Staff are confident that with suitable vendor management processes in place, any potential cost savings would not be offset with an inferior service quality that would result in a poor customer experience.

3. Proposed Direction

Based on a market scan and a review of the risks and benefits of either sole sourcing or competitive procurement, staff recommend proceeding with a two-pronged approach to managing water meters in Peel.

Due to the one-time and ongoing cost of managing multiple water meter supply vendors and Neptune's performance on previous contracts, staff recommend the Region pursue a sole sourced contract with Neptune to supply water meter hardware.

However, staff recommend pursuing a competitive procurement process for water meter installation services to support the change out program. This will ensure the Region is receiving the most cost-effective meter installation service.

Due to the unexpected impacts of COVID-19, this review and procurement process was paused earlier in 2020. As a result, a six-month extension to the existing agreement to June 30, 2021 is required to avoid any disruptions to current service levels.

RISK CONSIDERATIONS

The recommendation above assumes a successful sole source supply contract with Neptune will include terms and pricing similar to the current agreement. If any changes to the terms or pricing are found to be uncompetitive during the negotiating process, staff will engage in a competitive procurement process for the supply of water meter hardware.

Given that water meter installation for the water meter change-out program is a commodity-like service, a competitive process can potentially lower risk by creating opportunities to find cost and delivery efficiencies. However, there is risk that if a new vendor may be unable to meet service quality currently delivered by Neptune. To mitigate this risk, staff will continue to ensure that appropriate inspection and audit processes are in place to monitor vendor performance.

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FINANCIAL IMPLICATIONS

There are sufficient funds available in the approved budget to carry out the report's direction.

For further information regarding this report, please contact Steven Fantin, Director Operations Support, Ext. 4438, steven.fantin@peelregion.ca.

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Reviewed and/or approved in workflow by:

Department Commissioner, Division Director, Financial Support Unit, Legal Services and Procurement.

Final approval is by the Chief Administrative Officer.



N. Polsinelli, Interim Chief Administrative Officer