

# **ADDITIONAL OR ALTERNATIVE SERVICE PROVIDERS PLAN**

## **UPDATE & SUPPLEMENT**

**February 2006**

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## Additional or Alternative Service Providers Plan

In July, 2005, British Columbia Ferry Services Inc. (BC Ferries) submitted the Supplement to the Additional or Alternative Service Providers Plan (ASP Plan) to the BC Ferry Commissioner. The ASP Plan identified the specific route groups where alternative service delivery options would be assessed during the first performance term of the Coastal Ferry Services Contract and set out a proposed procurement model to support this process. This report supplements and provides an update on the implementation of the ASP Plan.

## Activities to Date

BC Ferries has been active in its implementation of the ASP Plan. As at December 31, 2005, the specific activities taken by BC Ferries, together with immediate next steps, are as follows:

### ***Route Group 5 Mill Bay to Brentwood Bay (Route 12)***

A Request for Expressions of Interest (RFEOI) was issued October 21, 2005 to identify alternative service providers who are interested in delivering ferry services on the route, including ticketing, vessel provision, on-board services, terminal operations and maintenance. The RFEOI closed November 18, 2005 and resulted in two existing ferry operators coming forward with expressions of interest. The next phase of the procurement, a combined Request for Qualifications (RFQ)/ Request for Proposals (RFP), is scheduled to be issued in spring, 2006.

### ***Route Group 6 Powell River to Comox (Route 17) and Powell River to Texada Island (Route 18)***

As required by the Coastal Ferry Services Contract, BC Ferries has developed a vessel and service strategy with respect to these two Designated Routes. This strategy was developed after extensive consultation with the community and was submitted to the Ministry of Transportation in September, 2005. BC Ferries will review the viability of pursuing ASP arrangements for this route group once a response is received from the provincial government to the strategy.

### ***Northern Routes***

***Route 10 – Port Hardy to Prince Rupert***

***Route 11 – Queen Charlotte Islands to Prince Rupert***

***Route 40 – Discovery Coast Passage (Port Hardy to Mid Coast)***

***Route 26 – Skidegate to Alliford Bay***

A Request for Expressions of Interest (RFEOI) was issued August 2, 2005 to identify alternative service providers who are interested in delivering ferry services on the Northern Routes, including ticketing, vessel provision, on-board services, terminal operations and maintenance. The RFEOI closed September 30, 2005 and resulted in two existing ferry operators and one financial institution coming forward with expressions of interest. The financial institution has subsequently withdrawn from the process. The next phase of the procurement is a combined RFQ/RFP scheduled to be issued in spring, 2006. In advance of the RFQ/RFP being issued, BC Ferries will provide proponents with more detailed information on the service standards and requirements BC Ferries considers are necessary for an alternative service provider to meet with respect to this service offering.

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## Procurement Model Update

As BC Ferries has proceeded through the initial stages of implementation of the ASP Plan, it has become apparent that the procurement process, as originally proposed, does not translate effectively to the situation facing BC Ferries, where the decision being considered is essentially that of out-sourcing existing service obligations.

The ASP Plan envisaged BC Ferries as a formal Proponent for the service offerings. This contrasts to a more traditional approach to considering outsourcing options used by most public and private sector organizations, including BC Ferries, whereby external Proposals are solicited and assessed against the cost and risk profile of BC Ferries itself continuing to provide the services on these routes.

It is arguable that if a formal proposal process is used, wherein BC Ferries is itself one of the Proponents, BC Ferries' dual status as a formal Proponent and decision maker in the procurement process requires that there be burdensome internal processes established to functionally and physically separate the activities of BC Ferries as they relate to the preparation of the Company's Proposal and its evaluation of all Proposals. The need for this "Chinese Wall" between the Proposal and evaluation teams was alluded to in the ASP Plan and arises because of BC Ferries' involvement as a formal Proponent. The characteristics of this wall have now been further defined and, if implemented, would, among other things, be inefficient and cause serious operational issues for the company, including its ability to meet its public reporting obligations. Because BC Ferries does not have sufficient internal resources to appropriately staff both a Proposal and an evaluation team, BC Ferries would need to rely extensively on the use of external resources in the evaluation of Proposals, none of which may fully understand the strategic direction and operational requirements of BC Ferries. Under this scenario, a risk would exist that recommendations are brought forward that are not consistent with the long term, safe and cost-effective provision of coastal ferry transportation services within the province.

While BC Ferries remains committed to a fair, open and competitive process for assessing the interest by, and viability of delivering service through external service providers, changes to the procurement process are required to achieve the objectives of Section 69 of the *Coastal Ferry Act* within a framework that is more efficient and cost effective, and which reduces risk.

### ***Procurement Process Modifications***

The procurement process will be modified to reflect an approach to assessing opportunities for outsourcing more traditionally found in the public and private sectors. BC Ferries will not prepare or submit a formal Proposal in response to the RFQ/RFP. Rather, BC Ferries will determine the cost and risk profile of continuing to provide the required services on the routes itself. This will serve as a benchmark against which BC Ferries will evaluate external Proposals. This is the same approach that was used by BC Ferries in 2003 when Route 13 (Langdale – Gambier Island – Keats Island) was outsourced.

In order to provide transparency in the process, and assurance to Proponents and the BC Ferry Commissioner, the benchmark will be completed in advance of the closing date for the RFQ/RFP. The evaluation of Proposals against the benchmark will be undertaken by BC Ferries staff, together with external resources as required. BC Ferries may also engage external resources to assist with the evaluation of Proposals.

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### ***Chinese Wall***

With the removal of BC Ferries as a formal Proponent in the process, it is intended that the requirement for physical or functional separation of BC Ferries' Proposal and evaluation staff during the procurement process will be eliminated. As a result, the "Chinese Wall" referred to in the initial ASP Plan will not be put into place. This will also permit BC Ferries to assign its Senior Management, technical and expert resources to the process, as appropriate, and will allow for a rigorous and cost effective assessment of alternative service delivery options for the route groups included in the ASP Plan.

BC Ferries' modified approach to exploring alternative service delivery options responds to the specific requirements of the *Coastal Ferry Act* and reflects the company's continued commitment to a fair, open and competitive procurement process. The modifications serve to streamline all elements of the process, without compromising BC Ferries' overall objective of determining the best option for service delivery on the specified routes.

### ***Fairness Auditor***

In redesigning its approach, BC Ferries has reassessed the appropriateness and need for Fairness Auditors as part of its procurement process. The use of Fairness Auditors in public and private sector outsourcing transactions is extremely rare. Their role is particularly valuable in situations where procurement procedures are not well established and, as a result, there exists a very real potential for bias or unfair treatment of proponents. This is not the case for BC Ferries. Its procurement is conducted in an open and transparent manner with practices and procedures that are well established, tested and based on commercial best practices. External oversight by a Fairness Auditor of what is recognized as a credible, professional and effective procurement process is now viewed as redundant and unnecessary.

### ***External Reviews***

Like any other private sector company, BC Ferries has an interest in determining the best and most cost effective approach to delivering the services it provides. Unlike most other companies, however, BC Ferries is mandated by statute to conduct such assessments, and the decisions it makes must meet higher tests of public accountability. The BC Ferry Commissioner will continue to play an important role in this regard. Implementation of BC Ferries' ASP Plan has and will continue to be subject to oversight by the Commissioner. BC Ferries will also seek independent, external review of its decisions at key points in the process, including its final decisions with respect to an alternative service delivery proposal.

BC Ferries will engage external naval architects, lawyers, financial consultants and other expert resources to provide independent assessments of the service standards and requirements BC Ferries considers are necessary for an alternative service provider to meet. These reviews will require technical and subject matter expertise and will be conducted with a view to determining whether the specifications BC Ferries establishes are fair, reasonable and appropriate.

BC Ferries' final decision on an alternative service delivery proposal will be made on the basis of a business case analysis. This analysis will compare the alternative service delivery proposals to the benchmark cost and risk profile of BC Ferries itself continuing to provide the service. Included in the business case will be consideration of such things as cost, financing, service delivery, safety, human resources, regulatory compliance and risk mitigation. As the principal decision document in BC Ferries' alternative service delivery process, the business case will be subject to independent external review.

Much like the approach that has been adopted by the BC Ferry Commissioner in reviewing applications under Section 55 of the *Coastal Ferry Act*, BC Ferries will engage a management consultant, or other external resource, to provide an independent assessment of the fairness and reasonableness of the recommendations presented in the business case. The final report of this external review will be provided to the BC Ferries' Board of Directors and the BC Ferry Commissioner.

### ***RFQ/RFP***

Where appropriate, BC Ferries may combine the RFQ and RFP stages of the procurement process. This will be done when there are benefits (e.g. efficiency and/or cost reduction) to doing so. Details of the RFQ and RFP phases and whether they will include a single or multiple envelope system will be provided in the procurement documents for specific transactions. Prior to the release of the RFP, BC Ferries will consult with the BC Ferry and Marine Workers' Union in accordance with the requirements under the Collective Agreement.

### ***Community Involvement***

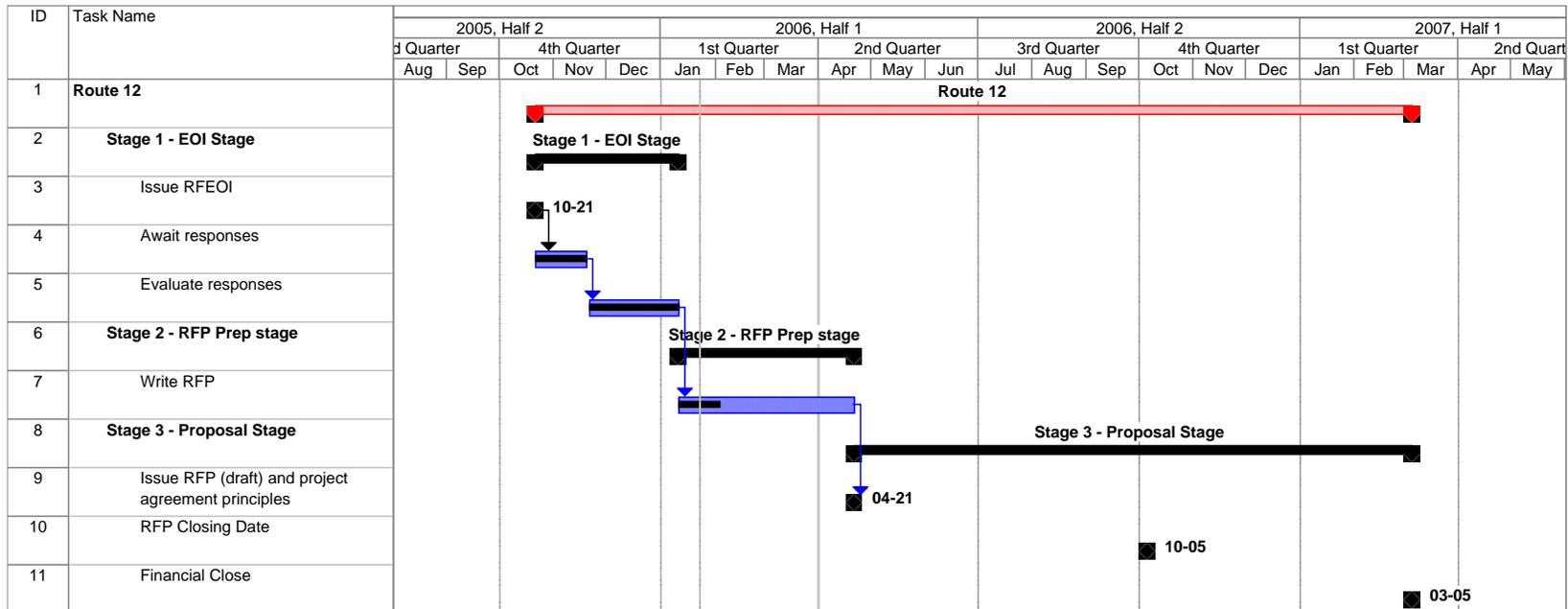
BC Ferries recognizes that the public would like to know as many details about the ASP process as possible and confirms its commitment to keep communities informed. The primary channel for communications will be the local Ferry Advisory Committee (FAC).

The alternative service provider process is not a tool to reduce or eliminate service on any route, but rather is a search to determine how the Core Service Levels can be met most efficiently. Regardless of who provides the ferry service on a designated ferry route, BC Ferries has a continuing responsibility for ensuring that core ferry services continue to be delivered in accordance with the requirements of the Coastal Ferry Services Contract.

### ***Timelines***

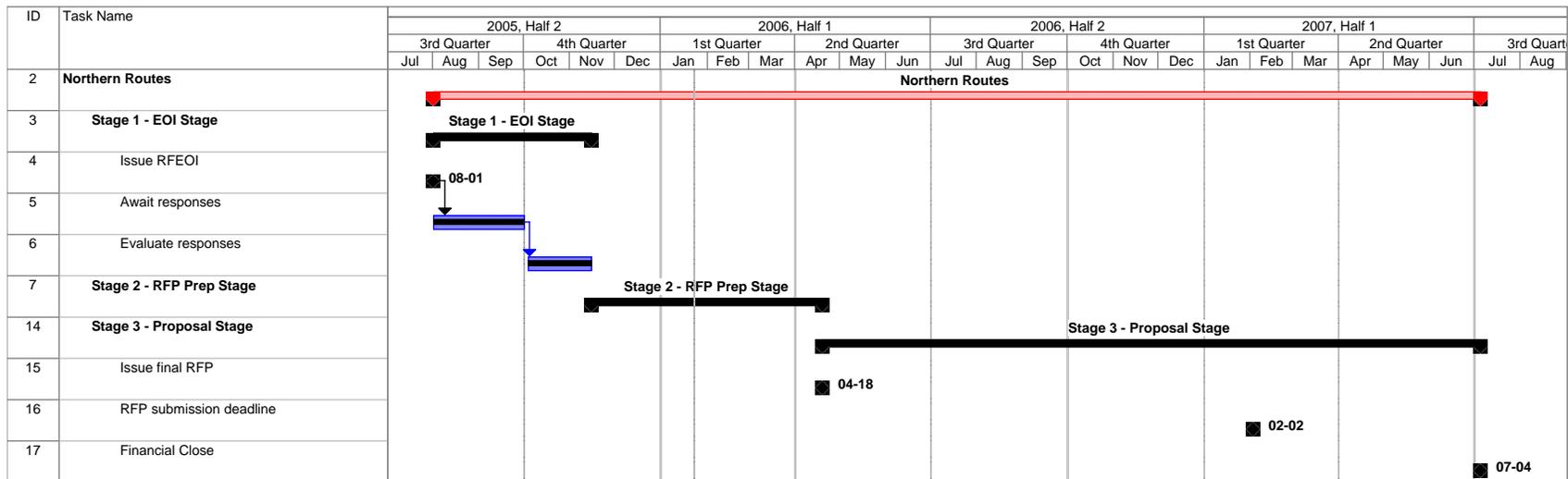
Updated summary timelines for the Northern Routes and Route Group 5, the two procurement processes currently underway, are provided below:

Figure 1 Procurement phases and key milestones associated with Route 12



Preliminary and subject to change

Figure 2 Procurement phases and key milestones associated with Northern Routes



*Preliminary and subject to change*