



**ADDITIONAL OR ALTERNATIVE  
SERVICE PROVIDERS PLAN**

***First Performance Term***

## PREFACE

Consistent with section 69 requirements of the *Coastal Ferry Act*, BC Ferries submits its First Performance Term Additional or Alternative Service Providers Plan. The Plan has been designed to provide a flexible and dynamic approach to achieving the desired outcomes of the *Act* which include:

- Meet or exceed safety standards;
- Enhance customer service;
- Maximize efficiency;
- Create new revenue streams;
- Generate long-term sustainability;
- Explore opportunities for alternative service delivery to foster competition and to reduce costs; and
- Contribute to the coastal economy.

The Plan sets out the *manner or process* that BC Ferries will use to both explore and implement alternative service delivery options. The process has been designed to be comprehensive to ensure that all alternative service delivery options and suppliers are properly assessed and, where supported, properly implemented.

This assessment process includes: a review of the market (i.e., does one exist and is there more than one provider), is the market viable, can it maintain and/or improve the level of safety, reliability, customer service and deliver the service more cost effectively than the status quo.

BC Ferries will use a business case as the key decision tool throughout the assessment process. In those situations where the alternative service delivery is supported by a business case, the implementation process is critical. As part of the implementation process, BC Ferries will work closely with the suppliers to ensure a smooth and seamless transition.

BC Ferries has designed this approach based on best practices from other jurisdictions and from the experience it has attained in exploring and implementing alternative service delivery options over the past year. It is understood that to be successful and to attract alternative service delivery suppliers, the assessment and implementation processes must be legitimate and perceived as such by the market. Therefore, the initial or first performance term will dictate the long term success of the new model.

Accordingly, for the First Performance Term of the Additional or Alternative Service Providers Plan, BC Ferries has taken an incremental and forward looking approach. Based on this approach, the Plan includes the minimum of what the Company will explore in the first term. However, it has been structured to be dynamic and flexible such that it can be adjusted as innovative and creative opportunities are identified internally or by the market.

This Plan builds on the recent implementation of several alternative service delivery opportunities. The Plan is consistent with the vision for the new company “as the integrator of services, charged with planning and coordinating the delivery of services and activities in the coastal ferry system.”

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# Additional or Alternative Service Providers Plan – First Performance Term

**Introduction** The *Coastal Ferry Act* (the *Act*) transformed British Columbia Ferries from a Crown Corporation into a regulated, independent commercial company and created the office of the British Columbia Ferries Commissioner to regulate core ferry services that are planned and coordinated by BC Ferries. There are sections of the Act, such as section 69, which place specific requirements on BC Ferries.

Section 69 of the *Act* is as follows:

69 (1) In each performance term of the Coastal Ferry Services Contract, the ferry operator must, in accordance with the plan prepared by it under subsection (2) in relation to that performance term, seek additional or alternative service providers to provide, under contract, franchise agreement or otherwise, ferry services on the designated ferry routes serviced by the ferry operator in an effort to reduce the costs of providing those services on those designated ferry routes.

(2) A ferry operator must, for each performance term, prepare a plan in which the ferry operator sets out the manner in which it intends to seek additional or alternative service providers to provide ferry services on the designated ferry routes serviced by the ferry operator and must provide that plan to the commissioner,

(a) in the case of a plan prepared in relation to the first performance term, within 12 months after the effective date of the Coastal Ferry Services Contract, and

(b) for each subsequent performance term, on or before the beginning of that performance term.

(3) If the commissioner considers that a ferry operator has failed to comply with this section, the commissioner may, in addition to any power the commissioner may exercise under section 48, do any or all of the following:

(a) adjust any productivity factor the commissioner is to establish under section 41 (6) to reflect that failure;

(b) order the ferry operator to prepare and provide to the commissioner, a plan, in form and content satisfactory to the commissioner, setting out the manner in which the ferry operator intends, over the period specified by the commissioner, to seek additional or alternative service providers to provide ferry services on the designated ferry routes serviced by the ferry operator;

(c) order the ferry operator to comply with the plan provided under paragraph (b).

British Columbia Ferry Services Inc. (BC Ferries) submits this Plan to meet the requirements of the *Coastal Ferry Act* (the *Act*). Although the Plan includes the minimum of what the Company will explore in the first performance term, it has been structured to be dynamic and flexible such that it can be adjusted as innovative and creative opportunities are identified internally or by the market. Accordingly, BC Ferries will develop a climate both internally and within the market that will encourage the development of additional innovative and creative opportunities.

In addition, adjustments may be necessary as a result of outcomes from the Plan itself as it progresses or in response to a multitude of external factors ranging from local market and labour conditions to the market availability of world-wide alternative service delivery providers. As BC Ferries' business model matures the Plan will need to be adjusted.

## The Coastal Ferry Act

While this Plan is directed under section 69, it is useful to understand how the *Act* itself drives the new business model.

The *Act* articulates a new business model and the vision for BC Ferries. Key to the new model was the conversion of BC Ferries from a Crown Corporation to a regulated, independent commercial company. The *Act* establishes a new model for ferry services that can be illustrated as shown in Figure 1. In introducing the legislation, the Minister of Transportation articulated the new model as follows:

“The *Act* underpins the vision for the new company as the integrator of services, charged with planning and coordinating the delivery of services and activities in the coastal ferry system.”

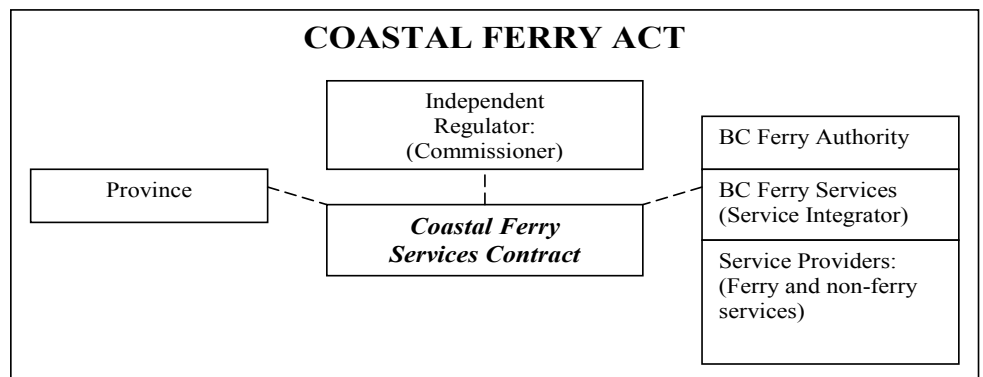


Figure 1: Framework – Coastal Ferry Act

The following identifies the key objectives and sections of the *Act*.

## Commercial Focus

The *Act* requires BC Ferries to take a competitive, commercial and cost-effective approach to the delivery of ferry services.

The new model establishes British Columbia Ferry Services Inc. as the operating company of BC Ferries, with the following commercial arrangements provided for under the *Act*:

- Independence from government (Sections 2 and 19 of the *Act*).
- Emphasis on financial sustainability (Section 38 (1) of the *Act*).
- Beneficial ownership of all terminals (Section 31 of the *Act*).
- Return on equity (Section 41 of the *Act*).
- Fee for service contract with the government (Section 27 of the *Act*).
- Regulation of core services and tariffs based on price cap methodology (Sections 39, 40 and 41 of the *Act*).

In moving to a competitive, commercial and independent entity, the *Act* requires BC Ferries to do the following:

- Be governed by a not-for-profit, no-share capital corporation, the BC Ferry Authority (Section 2 of the *Act*).
- Adopt a commercial approach (Section 38 (1) (b) of the *Act*).
- Test for alternative service delivery to reduce costs (Section 38 (1) (c) and (d), Section 41 (2) (d) and Section 69 of the *Act*).
- Eliminate cross-subsidies (Section 38 (1) (e) of the *Act*).
- Be productive and efficient (Section 41 (2) (c) and (d) of the *Act*).
- Move to greater user pay (Section 38(1) (f) of the *Act*).
- Deploy capital wisely (Section 41 (3) (c) and Section 55 of the *Act*).
- Charge reasonable tariffs (Section 40 of the *Act*).

One of the primary objectives of the *Act* and the corresponding new business model is to ensure that BC Ferries operates in an independent manner that is competitive, safe, commercial and financially viable.

Beyond the stipulated dividend to the Province, the profits BC Ferries generates will be reinvested in the ferry system—including renewal of vessels and terminals—unlike the old system when profits were returned to government as part of the Consolidated Revenue Fund. These investments will support the growth in the ferry system that is vital to the economy of coastal British Columbia.

## Independent Regulator

The *Act* establishes an independent regulator, the British Columbia Ferries Commissioner (Commissioner) to ensure that BC Ferries achieves objectives of becoming competitive, commercial and cost effective. The Commissioner has a legal mandate to keep tariffs within the bounds of affordability for British Columbians while, at the same time, ensuring a healthy, financially sustainable and cost-effective ferry system.

In addition to ensuring that core services are being provided within the regulated price cap, the Commissioner is also mandated by legislation to ensure that BC Ferries complies with the requirement under the *Act* to test the market for additional or alternative service providers in an effort to promote competition and reduce costs.

## Coastal Ferry Services Contract

Fundamental to the new model is the *Act's* provision for the provincial government to enter into fee-for-service contracts with operators of regulated ferry routes. At present, only one such contract exists and that is with BC Ferries. The contract establishes the obligations of BC Ferries to meet specified levels of service and provides a set fee from government for delivery of those services. It also includes customer service performance expectations.

The contract establishes a 60-year relationship between BC Ferries and the Province, with service levels and fees to be renegotiated every four years (after the initial five-year performance term). A specific objective, as specified in the Section 38(1) f of the *Act*, is to reduce the service fee paid by government over time.

Unlike when it operated as a Crown Corporation, BC Ferries' relationship with government is governed contractually with funding prescribed on the basis of services delivered. The contract provides no avenues for BC Ferries to obtain a higher service fee from the province to address fiscal or capital pressures the company may incur. As a regulated company, even its ability to access additional revenue potential from core services is limited, due to established price caps on tariffs.

## Service Integrator

A significant change reflected in the new model for ferry services is the transformation of BC Ferries from that of the sole provider of services to that of service integrator. The new vision is reflected in BC Ferries' Strategic Plan.

The regulatory framework established by the *Act* is explicit in terms of referring to "ferry operators", which is not limited to BC Ferries. The explicit introduction of competition in the delivery of coastal ferry services in British

Columbia is a change in public policy to which BC Ferries must respond. Status quo is not permissible in the new framework of the *Act*.

Section 38 (1) (c) of the *Act* states that “ferry operators are to be encouraged to seek additional or alternative service providers on designated ferry routes through fair and open competitive processes.” As a service integrator, BC Ferries is obligated to test the market in an effort to reduce the costs of providing those services. This is enshrined in section 69, which articulates the need for a plan.

BC Ferries’ future success lies in its ability to provide safe and reliable service that is commercially focused and competitive. Costs relative to third-party service providers will be a key consideration in assessing alternative service delivery options.

## Alternative Service Delivery

Since exploring and assessing the viability of alternative service delivery options is critical to the *Act* and the corresponding new business model, it is fundamental that there is a conceptual and mutual understanding of the term “alternative service delivery”. Many use the phrase “alternative service delivery” and “contracting out” interchangeably. BC Ferries defines alternative service delivery as any method other than the traditional service delivery method.

Alternative service delivery encompasses a wide range of business relationships and/or service opportunities including business units, subsidiaries, joint ventures, strategic partnerships, contracts to third parties and other innovative service delivery opportunities.

Alternative service delivery is not an ideological construct; the decision to pursue an alternative service delivery opportunity is a business decision based on a sound business case. The ultimate objective is that the consumer receives the service delivery model that provides a quality, safe and reliable service at the most attractive financial terms. Therefore, the decision on how to and/or who should provide the service must be based on value rather than price alone, with the principle emphasis on safety and reliability. Only when those criteria are met can BC Ferries focus on the cost of providing the service.

Over the next few years, BC Ferries’ will evolve. The major benefit of this new flexible approach is that BC Ferries is able to select the service delivery option which provides the best level and quality service at the most attractive financial terms. In assessing each potential alternative service delivery option, a business case will be undertaken. The business case will examine safety, reliability and the overall lifecycle opportunities and opportunities for the mitigation and appropriate sharing of risk.

In services where both labour and capital are utilized, the lifecycle of a service includes five major areas: finance, design, build, operation and maintenance.

## **New Business Model for BC Ferries – Service Integrator**

- “Finance” - includes how the services and/or asset(s) are to be funded;
- “Design” - includes the functional specifications which drive “the form” in order to meet the service delivery outcomes;
- “Build” - includes the construction, fabrication or acquisition of asset(s) required to support the service or functional requirements;
- “Operations” - includes the labour and operational components of service delivery; and,
- “Maintenance” - includes the required ongoing or regular upkeep to ensure the asset(s) continue to provide the required service throughout the economic life of the asset(s).

The business case approach will assess whether qualified alternative service suppliers are able to provide cost-effective service throughout any of the lifecycle areas.

The new Service Integrator business model is consistent with Act and has the following attributes:

- Coordination of the delivery of a high-quality, safe and reliable passenger and vehicle ferry transportation system;
- Oversight of funding, planning, construction, fleet management, contract administration, marketing, and operations of the coastal ferry service;
- Focus on enhancing value onboard vessels and at terminals; and
- Testing of the market for alternative service delivery mechanisms that facilitate increased efficiencies and commercial revenue opportunities.

In employing this new model, BC Ferries has pursued a strategy where similar business functions and employees of like or common skills are structured into separate core business entities. Each business entity will be tasked with two primary objectives:

- To deliver a high-quality, safe and reliable service that is cost-effective and results in improved productivity; and
- To pursue non-BC Ferries markets to increase commercial revenues.

In those areas where BC Ferries does not have the necessary core skills or where the business entity cannot deliver cost-effective service relative to a qualified third party, BC Ferries will purchase services from other qualified suppliers who can deliver the high-quality service in a safe, reliable and cost-effective manner.

The following charts illustrate BC Ferries today and what BC Ferries could look like in the future.

## BC Ferries Today

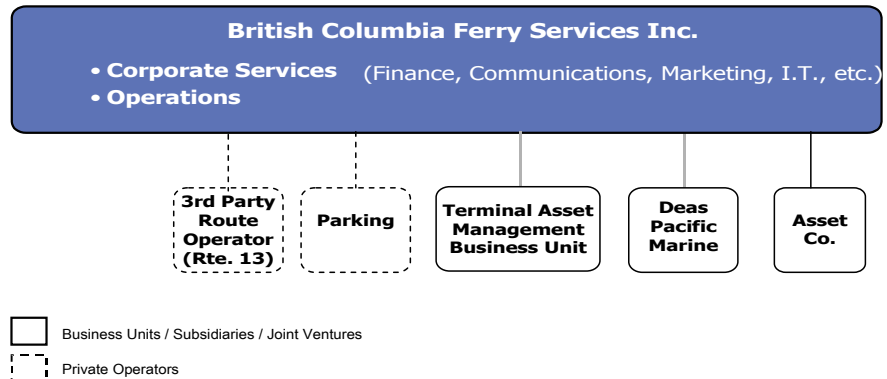
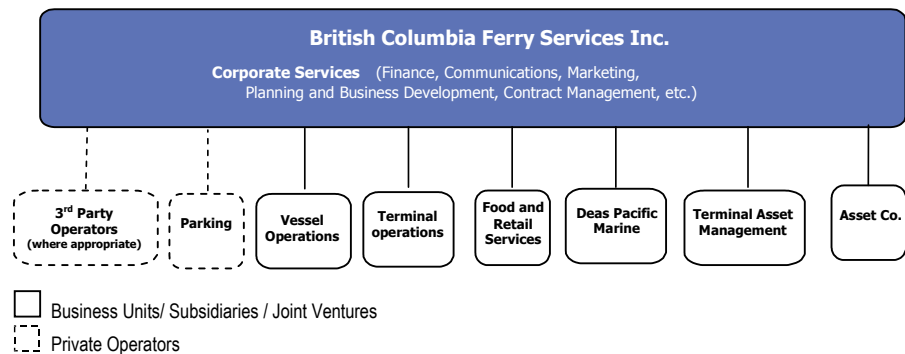


Figure 2: BC Ferries Today

## A Vision of BC Ferries in the Future



\*Some Corporate Services may also be delivered by qualified third party suppliers.

Figure 3: BC Ferries in the Future

The service integrator is a combination of BC Ferries' business units, and/or wholly owned subsidiaries or joint ventures, and qualified third-party service providers. The new model will reduce pressure on both the service fee paid by government and tariffs while providing for growth by expanding into new markets where revenue opportunities were previously inaccessible as a Crown Corporation.

BC Ferries' model is consistent with the objectives under the *Act*: the consumer receives the service delivery model that provides a quality, safe and reliable service at the most attractive financial terms.

Testing for alternative service delivery is central to the new service integrator model and the *Act* itself. Even though section 69 within the *Act* directly refers to core services, the interdependency of the financial aspects of the model, particularly setting of tariffs, require that ancillary services also be examined for alternative service delivery. The new model demands that over time all aspects of the business be tested for alternative service delivery and

then implemented only if the qualified alternative service delivery is supported by the business case.

The pursuit and implementation of alternative service delivery may not be possible in every situation. Past practices indicate that the implementation of alternative service delivery is more likely to be a successful option when:

- opportunities exist for third party innovation in design, construction, service delivery and/or asset use;
- the service objectives are clearly defined;
- a market for qualified and experienced owners and/or operators can be identified or can be reasonably expected to develop;
- there is potential to transfer financial risk to the qualified third party owner and/or operator;
- the qualified third party owner and/or operator can provide greater flexibility, or when it can deliver economies of scale;
- there is an opportunity for the qualified third party owner and/or operator to generate other revenue streams during underutilized periods, etc.; and
- the delivery of services vis-a-vis the proposed alternative delivery model has been successfully implemented previously.

For some ferry services there may be no viable alternative and where there is an alternative it must be more cost-effective with no compromise to safety standards, reliability and customer service than the existing service. Each potential opportunity must be carefully reviewed and analyzed.

## **Challenges**

The assessment of an alternative service delivery proposal must address the following challenges:

### **Obligations under the Coastal Ferry Services Contract**

Under the Coastal Ferry Services Contract between BC Ferries and the Province of British Columbia, BC Ferries is required to deliver safe, reliable ferry services on the designated routes. Delivery is provided directly or through contracts with third parties. In all cases BC Ferries carries the ultimate delivery responsibility under the Contract. There are clear penalties including financial if BC Ferries does not meet the provisions or obligations of the Contract.

### **Labour Relations Issues**

On October 31, 2003 the collective agreement between BC Ferries and the BC Ferry and Marine Workers' Union (the "Union") expired. In response to a labour dispute, both parties have agreed to a binding arbitration process.

One of the major issues in the binding arbitration process is existing provisions for workforce adjustment. BC Ferries is seeking amendments that will allow the Company to comply with requirements under the *Act*.

While the existing language of Article 14 allows BC Ferries to contract out, its practical application is severely limited by the fact that BC Ferries cannot lay off employees as a result of contracting out. Even in cases where successorship under the Labour Relations Code applies, employees are not required to transfer to the new employer.

In either circumstance, BC Ferries continues to have obligations without an effective process for managing these obligations. Although the alternative service delivery opportunity may present the best option for delivering safe and reliable service at the lowest cost, BC Ferries may not be able to respond to the opportunity due to collective agreement obligations. Accordingly, without the necessary changes to the collective agreement, BC Ferries will be severely restricted in its ability to pursue and implement alternative service delivery models.

The outcome of the arbitration process is not expected until May 2004. Once the final decisions regarding the collective agreement have been provided, BC Ferries will forward the implications on this Plan to the Commissioner.

## Capital

The long-term Coastal Ferry Services Contract that BC Ferries has with the Province for the provision of ferry services allows BC Ferries to secure the necessary financing from the financial markets to replace its ageing capital assets. Also, from an accounting perspective, the long-term agreement allows BC Ferries to amortize the value of a major asset over a period equivalent to its economic life (e.g., hulls have a 40 year economic life). Similarly, the long-term nature of the land lease allows BC Ferries' investments in terminals to be amortized over the asset's economic life of up to 50 years (e.g. major buildings).

To the extent that asset financing is included in the scope of the alternative service delivery opportunity, then the alternative service provider's lenders will require protection for their outstanding capital investment in the event of termination of the contract with BC Ferries for any reason if the asset(s) is a dedicated and somewhat unique asset(s). This is similar to the protection provided to BC Ferries in the Coastal Ferry Services Contract regarding its fleet. Under the Coastal Ferry Services Contract, if a route is terminated for any reason (including for convenience of government, for force majeure, or for default of BC Ferries), then BC Ferries has an option to either:

- Sell the vessel and associated assets in the open market;
- 'Put' the vessel and associated assets back to the Province at Net Book Value.

The benefit of the above termination provisions would need to be similar between BC Ferries and the contractor in the event that a termination event

occurs in order for the contractor to protect any outstanding capital investment.

Regardless of the term of the contact in this type of alternative service delivery, BC Ferries would require the option to maintain control of critical asset(s) to meet its contractual requirements and maintain the general financeability of the Company. In addition, BC Ferries may require input into the design and maintenance of the asset.

A Service Integrator needs control of critical assets. That control is normally secured through a contractual arrangement leaving it to the Service Integrator to determine what is the best business arrangement for designing, building, financing and owning the assets.

## **Vessel Regulations and Refit Relief**

The assessment of an alternative service delivery proposal must include issues related to vessel regulations and refit relief.

Typically, BC Ferries removes its vessels from operation to perform maintenance that cannot be performed while the vessel is on the run (this is referred to as refit). If an alternative service provider performs a similar maintenance regime, it would require a supplementary backup vessel in order to meet the contractual service level requirements of the Coastal Ferry Services Contract. In addition, there are specific Transport Canada requirements for dry-docking of vessels on a routine basis in order to meet certification.

Furthermore, if an operator were to provide an offshore used vessel as part of the alternative service delivery proposal, the vessel would have to meet Transport Canada regulations. Although not a regulatory issue, the used vessel would also have to be compatible, or augmented to be compatible, to meet the existing marine structures at the terminals.

## **Available Market**

For more than 40 years BC Ferries has served the coastal communities of British Columbia as the primary operator of for the provision of ferry services. However, BC Ferries has experience contracting for minor ferry services in the local market and therefore understands the market of available local alternative service providers. As part of BC Ferries' responsibilities under the Coastal Ferry Services Contract, BC Ferries manages nine Unregulated Routes where ferry services are provided by alternative service providers under contract with BC Ferries. The local market is limited to smaller passenger-only, and tug and barge services.

In addition, as a Crown Corporation, BC Ferries was not able to pursue the best price option for new vessels as it was directed by Government to build its vessels in British Columbia. Accordingly, international shipyards will

need to be convinced of a change in policy whereby all qualified shipyards will be encouraged to bid on new vessel contracts with BC Ferries.

While there may be some potential opportunities with other qualified shipping companies in British Columbia, these opportunities are limited. In order to attract interest from qualified world-wide ferry operators and foreign shipyards, BC Ferries must promote and educate world-wide ferry operators and shipyards on the new model. To assist in this exercise, BC Ferries is scheduled to be a keynote speaker at the INTERFERRY conference in the Fall of 2004. This conference is attended by the major ferry operators in the world.

Given the need to educate and promote the new model, expanding into the world-market for alternative service providers must be undertaken in an incremental and forward-looking approach.

## **Opportunities**

While there are challenges to alternative service delivery mechanisms, there are many opportunities that BC Ferries will assess.

### **Investments in Assets and Services**

Over the next 15 years BC Ferries will have to make significant investment in replacing its major vessels and terminals. As part of the business case, BC Ferries will assess all aspects of the lifecycle of the service.

BC Ferries has developed a vessel replacement/upgrade schedule. Over the next 15 years, 22 of the fleet's 37 vessels will require replacement with an associated capital cost of approximately \$900 million to \$1.2 billion, depending on the build strategy. Seventeen other vessels will require mid-life upgrades or life-extensions at a cost of \$250 million.

BC Ferries is currently in the process of developing Master Plans for each of its terminals. These Master Plans will identify the critical terminal investments over the next 15 to 20 years.

### **Cost-effective Service**

Beyond assessing alternative service delivery as part of a major investment strategy, BC Ferries will also review all other services (including ancillary services) to ensure that quality, safe and reliable ferry services are delivered in a cost-effective manner. As a service integrator, BC Ferries must continually test the market for alternative service delivery opportunities as a means of both reducing the costs of providing safe, reliable and high-quality services, and fostering competition.

## **Alternative Service Delivery Initiatives for the First Performance Term**

### **2003 - A Transition Year**

BC Ferries has begun its transformation. As with any major change, a transition period is common. The transition period is important for both the employees and the customers in order to understand the new model. The transformation process must overcome a number of hurdles, including the cultural barriers that have developed over the past forty years. Nevertheless, over the past year, BC Ferries has successfully implemented a number of varied alternative service delivery opportunities, some of which have involved third-party service providers, some of which have not.

Each of these opportunities was implemented after a thorough business case analysis had been completed.

#### **Third-party Operators: Route 13**

Route 13 is a passenger-only service from Langdale on the Sunshine Coast to Gambier and Keats Islands. The service on this route is BC Ferries' only passenger-only service (i.e., no vehicles carried). Consequently, the vessel that served the route was also unique within the fleet.

Faced with a need to replace its aging vessel, BC Ferries assessed the route against alternative means of providing the service by issuing a Request for Proposals (RFP) in December 2002. The results of the RFP evaluation demonstrated that a third-party operator could deliver the service 5 to 10 percent more efficiently than BC Ferries. The third-party operator was able to offer a better price, in large part due to better labour and scheduling flexibility, but, also due to the fact that it had an available vessel. After one year of operation, customer service feedback has been exceptionally positive.

There were four regular employees who were affected by BC Ferries' decision to contract out the operation of Route 13. The Union made an application to the Labour Relations Board under section 35 (successorship) of the *Labour Relations Code*. The Labour Relations Board hearing regarding the Union's application began in December 2003 and concluded in mid-February 2004. The parties are awaiting the decision of the Labour Relations Board.

#### **Subsidiary: Deas Pacific Marine Inc.**

An integral part of the transformation of BC Ferries from a Crown Corporation to an independent commercial company was the separation of the Deas Dock maintenance facility into a subsidiary of BC Ferries. By separating the service of ferry operations from the supporting service of vessel maintenance, Deas Pacific Marine Inc. (DPM) can now operate on a competitive commercial basis, competing for work from BC Ferries and pursuing opportunities outside of the organization.

This alternative service delivery option represents a substantial opportunity for DPM to expand its market beyond that of BC Ferries vessels. The long-

term viability of DPM will depend on whether it can adapt its operations based on industry best practices.

### **Automation/Management Contract: Parking**

In early 2003, BC Ferries undertook an assessment of parking facilities at its major terminals. An outside consultant concluded that parking services were antiquated. It was recommended that BC Ferries should assess alternative service schemes to maximize the overall profitability. Based on this recommendation, an RFP was issued to the market.

In November 2003, BC Ferries introduced a new pre-paid automated parking system and entered into a management contract with two professional parking management companies. The estimated bottom-line improvement resulting from this initiative is an approximate 17 percent increase in profit from parking services. These profits will be reinvested in the ferry system, including new vessels and terminals.

### **Business Unit: Terminal Asset Management**

In January 2004, BC Ferries entered into a strategic partnership with SNC-Lavalin, one of the world's leading engineering companies, to implement the Terminal Asset Management business unit. The new business unit will be responsible for the overall management of maintenance and new construction for all terminal facilities. The objectives of this new Business Unit are to improve overall efficiency and productivity and pursue non-BC Ferries markets to increase commercial revenues. These markets could include the maintenance for local marinas and local port authorities.

The Terminal Asset Management business unit will include representatives from both BC Ferries and SNC-Lavalin. What BC Ferries doesn't have, and SNC-Lavalin will provide, is broad project management expertise, especially in the area of new construction. This contribution will address concerns raised in the Morfitt and Wright reports. In addition, SNC-Lavalin will provide the management expertise to oversee the new unit. Put simply, BC Ferries has "contracted in" with SNC-Lavalin to provide necessary management personnel to jointly oversee employees within BC Ferries' business unit.

### **Automation: Automated Ticketing**

For the 2004 summer season, BC Ferries will be installing self-ticketing machines (kiosks) for foot passenger use at two of its major terminals. This alternative service delivery option is expected to improve customer service by offering alternative points of sale and reduced line-ups, and reduce operational expenditures. This change will also allow BC Ferries to use personnel who were ticket agents as customer service agents, which further contributes to enhanced customer service goals.

## 2004 Through 2008

### The Process

For the remainder of the First Performance Term, BC Ferries will continue to assess its opportunities (i.e. investment in assets and services; and cost-effective service) using the following process:

- 1) Prepare a BC Ferries' base case – this will provide the benchmark for comparing all other options;
- 2) Assess the viability and possibility for alternative service delivery options;
- 3) Where a third party is being considered, a market sounding exercise will be undertaken to assess whether a market of qualified third party operators exists and whether there is an appetite to provide services to BC Ferries;
- 4) If there is a positive market sounding exercise, issue a Request for Expression of Interest (RFEOI) or Request for Qualifications (RFQ) in order to short-list qualified proponents and assess their qualifications, including their project team, financial resources and track record for controlling, managing and delivering specific projects and/or services. The RFEOIs can also be used to solicit ideas for further development at the Request for Proposals (RFP) stage;
- 5) Issue RFP for specified outcome(s);
- 6) Evaluate proposals based on criteria contained in the RFP and the BC Ferries' base case. Develop final business case for approval;
- 7) If final business case is approved, then proceed to negotiation with proponent(s);
- 8) Contract Award if successful negotiation;
- 9) Contract Administration.

BC Ferries will use a business case as its key decision tool throughout the process. The business case will assess alternative service delivery models, ranging from how the service is provided to who should provide the service.

### Alternative Service Delivery Assessment

For the first performance term Plan BC Ferries will assess alternative service delivery for the following three categories:

1. General Capital;
2. Major Capital (section 55 application);
3. Designated Ferry Service Areas.

Under the BC Ferries' Project Management Framework and Guidelines, BC Ferries prepares a business case for all capital investments. As part of each business case, BC Ferries assesses alternative service delivery opportunities.

In addition, BC Ferries intends to take advantage of provisions of section 55 of the *Act* to pre-test major capital expenditures for vessel and terminals with the Commissioner. Consistent with the business case, this will include an assessment of alternative service delivery opportunities. The ability for BC Ferries to pre-test major investments as a section 55 application to the Commissioner will assist BC Ferries in obtaining the necessary financing in the capital markets.

Beyond analysing the alternative service delivery opportunities for all business cases and section 55 applications, BC Ferries has identified three specific areas where it will assess alternative service delivery.

The three opportunities are:

1. The Northern Routes
  - Route Group 3
    - Route 10 – Port Hardy To Prince Rupert
    - Route 11 – Queen Charlotte Islands To Prince Rupert
  - Route Group 4
    - Route 40 – Discovery Coast Passage (Port Hardy To Mid-Coast)
2. Route Group 6
  - Route 17 – Comox (Little River) to Powell River (Westview)
  - Route 18 – Powell River (Westview) to Texada Island (Blubber Bay)
3. Route Group 5
  - Route 12 - Mill Bay To Brentwood Bay

### *The Northern Routes*

The three existing vessels used on the Northern Routes are nearing the end of their useful lives, and by 2010 will not comply with proposed Transport Canada regulations. The three vessels are the Queen of Prince Rupert, Queen of the North and the Queen of Chilliwack.

The Coastal Ferry Services Contract requires BC Ferries to provide a number of deliverables, including the requirement to develop a long term strategy that will improve customer service and enhance operational efficiencies on the above three designated northern routes. (These routes currently employ approximately 100 regular bargaining unit and 135 casual bargaining unit employees).

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

Route 17 connects the Powell River area with the Comox/Courtenay area on Vancouver Island. The Route is serviced by the Queen of Burnaby (1964).

Route 18 connects Texada Island with Powell River. Route 18 is used by Texada residents to access employment and services in Powell River, including students who commute to high school. The Route is serviced by the North Island Princess (1958).

The Coastal Ferry Services Contract requires BC Ferries to develop a vessel and service strategy with respect to these two Designated Routes by April 2005. As part of that review, alternative service delivery opportunities will be explored.

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

Route 12 connects Brentwood Bay on the Saanich Peninsula with Mill Bay on Vancouver Island. Route 12 is used by local commuters and tourists who use the route as an alternative to the Malahat section of the Island Highway.

The existing vessel capacity of the M.V. Mill Bay (built in 1956) is 16 vehicles and 134 passengers based on a crew size of four. The existing service provides for an annual break in service, which allows for vessel maintenance/refit. The replacement of the M.V. Mill Bay has been identified for 2007/08.

Given that Route 12 is unique in comparison with the balance of the system, and that a replacement vessel will be required, it is a candidate for alternative service delivery, and various alternatives will be explored.

## **Conclusion**

Consistent with section 69 requirements of the *Act*, BC Ferries submits its First Performance Term Additional or Alternative Service Providers Plan. Although the Plan includes the minimum of what the Company will explore in the first performance term, it has been structured to be dynamic and flexible such that it can be adjusted as innovative and creative opportunities are identified internally or by the market. Accordingly, BC Ferries will develop a climate both internally and within the market that will encourage the development of additional innovative and creative opportunities.

The Plan has been designed to achieve the desired outcomes of the *Act* which include:

- Meet or exceed safety standards;
- Enhance customer service;
- Maximize efficiency;
- Create new revenue streams;
- Generate long-term sustainability;
- Explore opportunities for alternative service delivery to foster competition and to reduce costs; and
- Contribute to the coastal economy.