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BC Ferries pursues 'Alternative Providers'

When BC Ferries was 'privatized' into a provincially-owned private corporation, one of the provisions in the *Coastal Ferries Act* was that BC Ferries would aim to become a 'service integrator' and would seek other ferry companies to actually operate the ferries. BC Ferries has, through the BC Ferry Authority, a contract with the provincial government to provide a ferry service. The contract sets out how services will be provided and what subsidies will be paid. The BC Ferry Commission is charged with ensuring due process for changes in fares and services.

As reported in the previous issue of *Island Tides*, the ferry company is currently seeking 'Expressions of Interest' in providing the Mill Bay ferry service. This is the third route group where 'Alternative Service Providers' have been sought; the first two are the Northern Routes (Port Hardy, Mid-Coast, Prince Rupert, and Queen Charlotte Islands) and Route Group 6 (Comox, Powell River, and Texada Island). These routes are geographically grouped so that a potential operator can achieve economies of scale and swap vessels around at refit time.

Northern Routes

BC Ferries has submitted to the provincial government a strategic plan for the future of the northern routes. Following a response from the government, BC Ferries will be negotiating a financial arrangement with the government to maintain service at 'current levels.' According to published schedules, a Request for Qualifications (RFQ) will be issued this month; responses will be due by mid-February, 2006. A Request for Proposal (RFP) will be issued in May, 2006, for return in September, 2006. The intention is to entertain bids for the delivery of all services on the routes, including the provision of vessels (including replacement vessels during refit and breakdowns). Either the term of the contract will be long enough to allow the contractor to finance the necessary vessels, or the contract will include clauses allowing BC Ferries to purchase or lease the vessel(s) from the operator at the end of the term.

According to material published by BC Ferries, the contractor will be responsible for virtually all risks associated with the service, with the exception of: weather, 'Demand Volume Risk' (up or down?), *Force Majeure* (earthquakes and the like), policy risk not resulting from government action, and capital expenditures on ports, which would be shared with BC Ferries. The successful bidder would be required to shoulder fuel price risk, something that BC Ferries currently attempts to pass on to users in the form of a surcharge.

BC Ferries itself will bid on each contract. This will not only provide a check on contractor charges, but will also enable evaluation of BC Ferries' costing. In order to prevent any suspicion that BC Ferries would have access to competitive bid information in preparing its own tender, a 'Chinese Wall' will be established within BC Ferries' organization. This means that the bid Review Committee will be physically sequestered from BCF's internal bid preparation procedures, and will be forbidden to discuss any aspect of the bid process with any other BC Ferries employees. A Fairness Auditor will oversee all competitive processes.

Powell River Routes

The original plan for these two routes required BC Ferries to develop a long-term strategic plan by April 2005, but this deadline was extended to allow for further consultation. The proposed vessel and service strategy was submitted to the provincial government at the end of September, 2005. When the government responds (expected late this year or early in 2006), BC Ferries will then examine whether it is in fact practical to use an Alternative Service Provider on these routes.

Gambier and Keats Islands

The contract for the only route now run by an Alternative Service Provider, the passenger ferry from Langdale to Gambier and Keats Islands, runs out in 2008, and it must be either retendered or renewed in 2007. This route was relatively easy to contract out because the contractor already had a suitable vessel, a water taxi with a capacity of some 40 passengers.

Overseas Situations

BC Ferries has carried out a great deal of research to identify government-subsidized ferry services around the world which have contracted out the operation of ferries. The Scottish northern isles services has experienced problems with competition 'skimming' the most profitable freight business, and the government having to assume the fuel price risk. It appears that the Scottish government would not have attempted privatization had they not been forced to by the European Union. Passenger and freight volumes are miniscule compared to BC Ferries.

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In Norway, where there are 130 subsidized ferry routes, regarded as part of the highway system, with a very high frequency of service, there is no tolerance for overloads. The government takes the fuel price risk, and owns the terminals. All routes will be put out to tender by 2009 in the interest of reducing operating costs, but the vessels will stay on their existing routes even if the operators change.

In Denmark, there is a competitive procurement system but the state-owned firms have retained all the routes to date. The contract term is only five years, and no provision has been made for buyback of vessels, which may account for the fact that no private firms have bid! ✐

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