

**ADDITIONAL OR
ALTERNATIVE SERVICE
PROVIDERS PLAN
SUPPLEMENT**

FIRST PERFORMANCE TERM

SUPPLEMENT TO ALTERNATIVE SERVICE PROVIDERS PLAN

Table of Contents

INTRODUCTION	3
INTERNATIONAL PRECEDENTS	3
ARRANGEMENTS WITH ALTERNATIVE SERVICE PROVIDERS	4
GENERAL	4
SPECIFIC STRATEGIES	4
<i>Route Group 5 Mill Bay to Brentwood Bay</i>	5
<i>Route Group 6 Powell River to Comox and Powell River to Texada Island</i>	5
<i>Northern Routes</i>	5
<i>Route 13 Langdale – Gambier Island – Keats Island</i>	5
TIMING	5
CONSTRAINTS	10
<i>Coastal Ferry Services Contract</i>	10
<i>Collective Agreement with BC Ferry and Marine Workers Union</i>	10
<i>Master Trust Indenture</i>	10
<i>Acknowledgement Agreement</i>	10
RISK REGISTER.....	11
MONITORING AND PAYMENT MECHANISMS	12
PROCUREMENT PROCESS	13
INTRODUCTION	13
REQUEST FOR EXPRESSIONS OF INTEREST	13
<i>Organizational overview</i>	13
<i>Capabilities overview</i>	13
<i>Project understanding</i>	13
QUALIFICATION CRITERIA FOR RFQ.....	14
<i>Qualifications and Experience</i>	14
<i>Financial Characteristics</i>	14
<i>Vessel Characteristics</i>	15
QUALIFICATION CRITERIA FOR RFP	15
THE PROCESS	16
<i>Project Selection and Comprehensive Agreement</i>	16
EVALUATION AND SELECTION PROCESS.....	16
<i>Phase One: RFEOI Evaluation by Initial Review Committee</i>	17
<i>Phase Two: RFQ Evaluation by Review Committee</i>	17
<i>Phase Three: RFP Finalization and Re-examination of BC Ferries’ Service Delivery</i>	18
<i>Phase Four: RFP Evaluation</i>	18
<i>RFP & RFQ Evaluation Criteria</i>	19
EQUALITY.....	19
<i>Confidentiality</i>	19
<i>Transport Canada</i>	20
<i>Bid Evaluation</i>	20
<i>Chinese Wall</i>	20
<i>Independent Review</i>	21
BC FERRY COMMISSION	21
UNSOLICITED PROPOSALS	21
APPENDIX A INTERNATIONAL PRECEDENTS	22

SUPPLEMENT TO ALTERNATIVE SERVICE PROVIDERS PLAN

APPENDIX B UNSOLICITED PROPOSALS 29

SUPPLEMENT TO ALTERNATIVE SERVICE PROVIDERS PLAN

Introduction

BC Ferries filed its inaugural "Additional or Alternative Service Providers Plan" (a.k.a. Section 69 plan) in March 2004. There were several challenges identified in BC Ferries' plan, including labour relations. At the time BC Ferries and the BC Ferry and Marine Workers' Union ("Union") were involved in a binding arbitration process to reach a new collective agreement. Without a collective agreement it was difficult to develop an implementation plan and the arbitrator did not publish his interim award until October 15, 2004. Other challenges remain and this supplement lays out a plan for which routes BC Ferries intends to test the competitiveness of alternative service providers in delivering safe, reliable cost effective ferry services. In particular the safety of our customers is paramount and therefore only the highest level of safety is acceptable. In addition general information surrounding process and timing is included. Specific details will be provided in project procurement documents associated with individual opportunities.

This supplement to the inaugural plan should not be seen as supplanting the original plan, but rather augmenting it. The principles espoused in the first plan remain in effect.

To repeat:

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.

International Precedents

Several other jurisdictions have experience with outsourcing ferries, many of these are passenger only services, which differ significantly from car carrying ferries. At least three foreign jurisdictions have experience with outsourcing car carrying ferries that require a contribution from government to be economic: Scotland, Norway and Denmark. We have been in extensive personal contact with both government officials and private sector operators in Scotland, Norway and Denmark to learn from their experiences. Our proposed transactions and associated process has taken into account what has worked and has not worked in other jurisdictions. (See Appendix A for further details.)

SUPPLEMENT TO ALTERNATIVE SERVICE PROVIDERS PLAN

Arrangements with Alternative Service Providers

General

There are multiple ways in which Alternative Service Providers could become involved in marine operations. In general, consumers will have the opportunity to obtain the most 'value for money' if BC Ferries can contract with an Alternative Service provider for a larger rather than smaller bundle of services, where the Alternative Service Provider accepts significant risks either because it has a higher tolerance for risk and/or can better manage the risks due to core competencies. 'Value for money' in a project involving Alternative Service Providers occurs when the expected risk-adjusted costs of the project are less than the comparable expected risk-adjusted costs of the same project delivered by BC Ferries.

At the heart of any contract with an Alternative Service Provider will be an agreement with BC Ferries to allow the private sector operator to deliver a particular service to a particular standard, without prescribing the exact method by which it will be delivered. This allows the private sector to employ innovation in the delivery of the service to the benefit of all. In all cases however the delivery of the service by an Alternative Service Provider will have to meet the requirements of the Coastal Ferry Services Contract.

Specific Strategies

In the inaugural plan BC Ferries identified three specific groups of routes where BC Ferries would assess alternative service delivery. They were the Northern Routes, Route Group 6 and Route Group 5. The individual routes selected within these groups remains unchanged with the exception that within the Northern Route group, Route 26 Skidegate to Alliford Bay has been added. The three route groups along with individual routes are listed below.

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)
 - Route Group 6
 - Route 26 Skidegate to Alliford Bay.
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

It is important to have a steady stream of projects that keeps the market interested, while at the same time not overwhelming the resources of bidders or BC Ferries' bid evaluation resources. Another consideration is to bundle routes, as in the case of the Northern Routes, particularly if it enables an operator to more easily deal with the refit issue and achieve other economies of scale.

SUPPLEMENT TO ALTERNATIVE SERVICE PROVIDERS PLAN

Our plans are as follows:

Route Group 5 Mill Bay to Brentwood Bay

Run a competitive process for the delivery of all services on the route, including ticketing, vessel provision, on-board services, terminal operations and maintenance. The term of the contract will be long enough to allow operators to finance the capital requirement associated with providing a vessel. Refit coverage is not an issue as the route has historically ceased to operate during periods of refit.

Route Group 6 Powell River to Comox and Powell River to Texada Island

The Coastal Ferry Services Contract required BC Ferries to develop a vessel and service strategy with respect to these two Designated Routes by April 2005. In order to complete our consultation process we requested and received an extension to September 30, 2005 on the vessel and service strategy. We will await the response from government to our strategy, expected in late 2005 or early 2006 before deciding if and how it makes sense for Alternative Service Providers to be involved.

Northern Routes

The Coastal Ferry Services Contract required BC Ferries to provide a number of deliverables, including a requirement to submit a long term strategic plan to the Province that will improve customer service and enhance operational efficiencies on these routes. Government has responded to our submission and has invited BC Ferries to negotiate with the Ministry of Transportation for maintaining service at current levels.

We plan to run a competitive process for the delivery of all services on the route, including ticketing, vessel provision, on-board services, terminal operations and maintenance. In addition replacement vessels during periods of refit and breakdowns are the responsibility of the Alternative Service Provider. The term of the contract will be long enough to allow operators to finance the capital requirement associated with providing a vessel and/or the contract will include clauses for BC Ferries to purchase the vessel from the operator at the end of the term.

Route 13 Langdale – Gambier Island – Keats Island

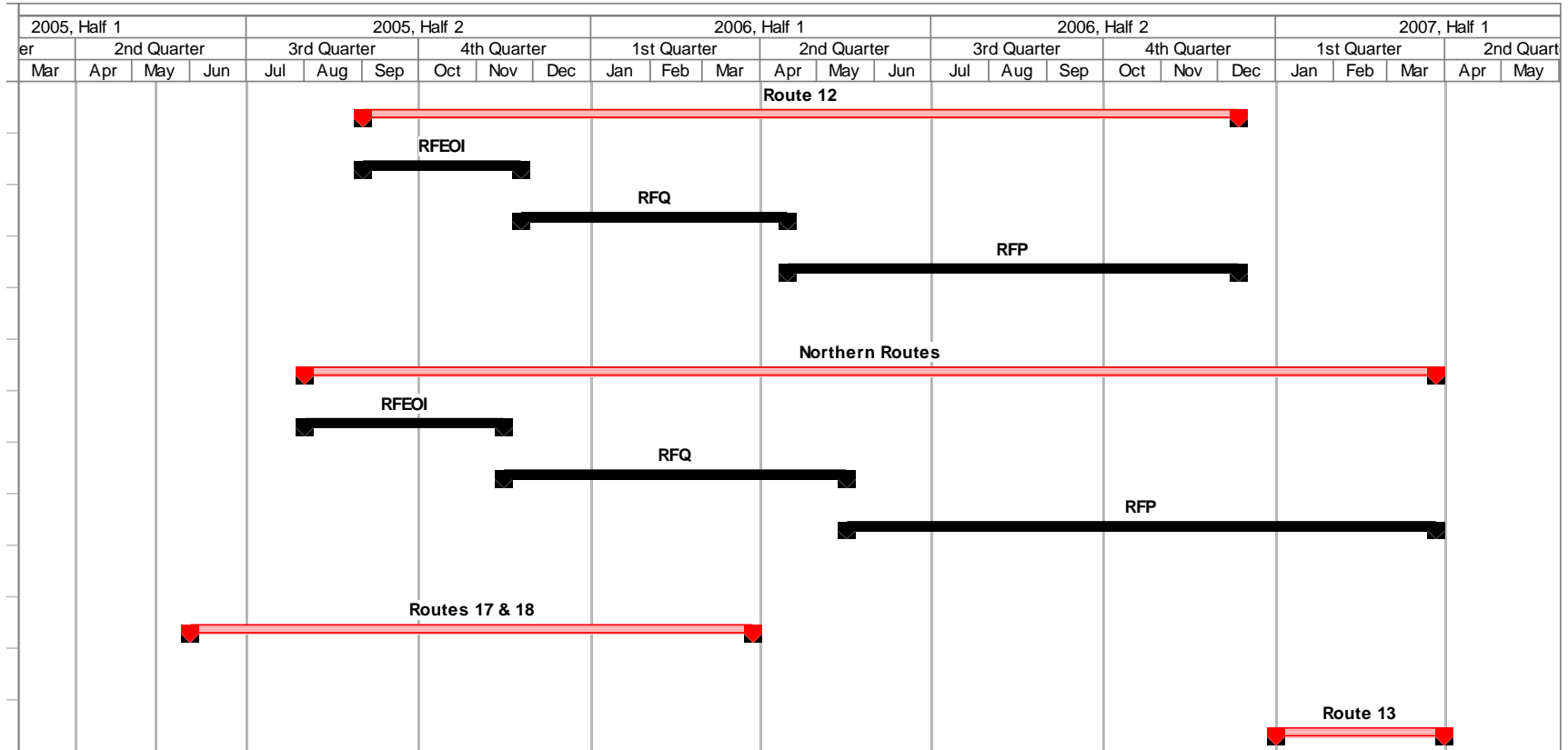
In addition to the above potentially new alternative service provider arrangements, our existing Alternative Service Provider arrangement for Route 13 expires in April 2008. There is an option to extend the contract for a defined period of time. Therefore in 2007 we will assess the arrangement with the ASP and determine if we should extend the contract or re-tender it.

Timing

Figures 1 through 4 indicate the steps and their anticipated timing for all of the transactions described above. The timelines are indicative and subject to change. Some factors that could cause the timing to change are, delays in required government decisions, changes in government policies, consultation with community and labour groups.

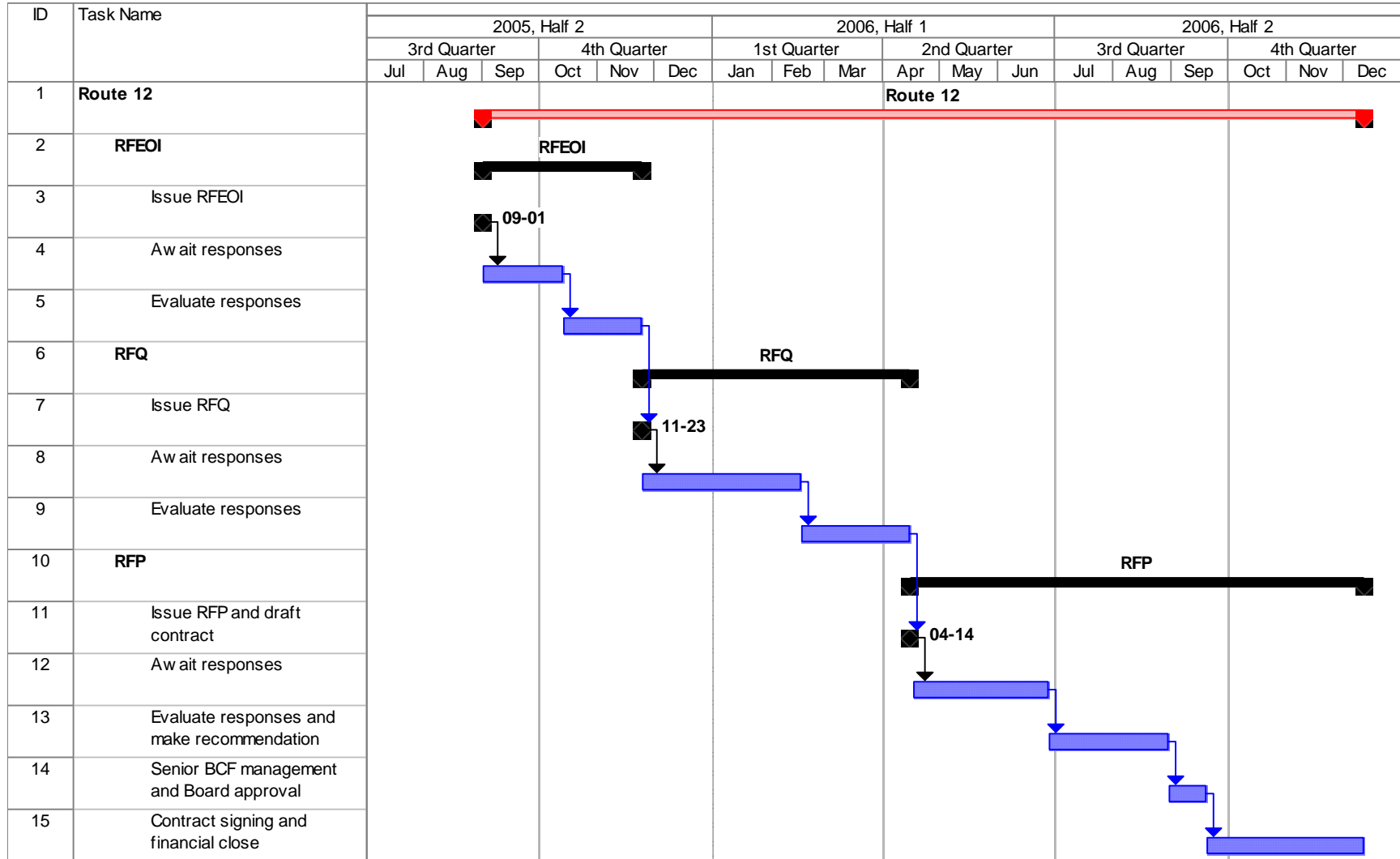
SUPPLEMENT TO ALTERNATIVE SERVICE PROVIDERS PLAN

Figure 1 Summary of Activities in First Performance Term



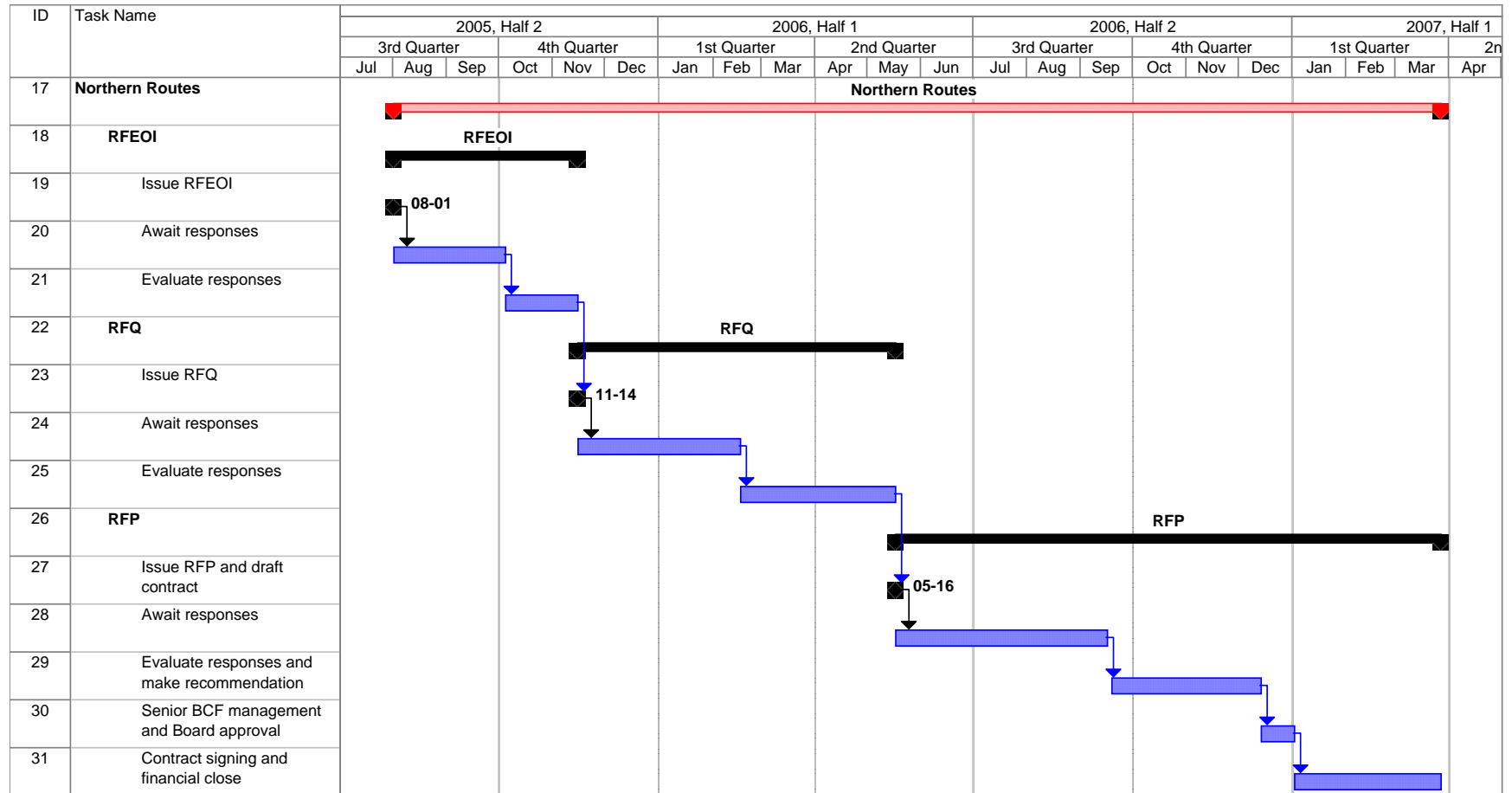
SUPPLEMENT TO ALTERNATIVE SERVICE PROVIDERS PLAN

Figure 2 Detailed steps associated with Route 12



SUPPLEMENT TO ALTERNATIVE SERVICE PROVIDERS PLAN

Figure 3 Detailed steps associated with Northern Routes



SUPPLEMENT TO ALTERNATIVE SERVICE PROVIDERS PLAN

Figure 4 Detailed steps associated with Routes 17 & 18

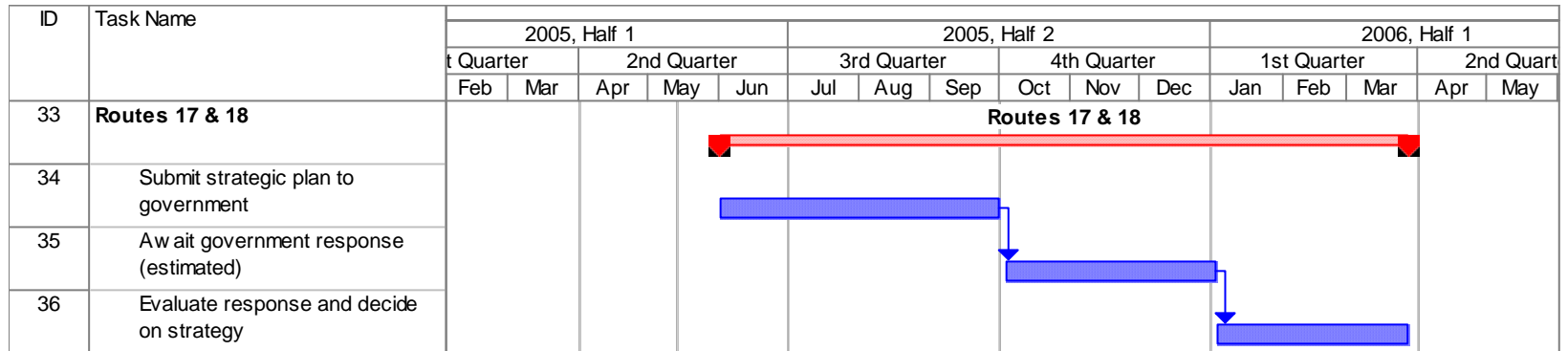
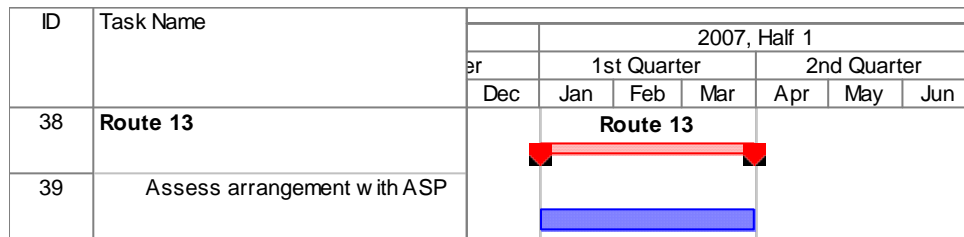


Figure 5 Detailed steps associated with Route 13



SUPPLEMENT TO ALTERNATIVE SERVICE PROVIDERS PLAN

Constraints

There are several constraints that limit the types of transactions that BC Ferries can enter into with Alternative Service Providers. Four of these are introduced below:

- Coastal Ferry Services Contract
- Collective Agreement with BC Ferry and Marine Workers Union
- Master Trust Indenture
- Acknowledgement Agreement

Coastal Ferry Services Contract

The Coastal Ferry Services Contract ("CFSC") between the Province of British Columbia and BC Ferries defines BC Ferries' routes and service levels. The contract is a binding, 60-year agreement. The first service review is scheduled for 2008 and subsequent reviews will occur every four years. Under the CFSC between BC Ferries and the Province, 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 CFSC. There are clear penalties including financial if BC Ferries does not meet the provisions or obligations of the CFSC.

Collective Agreement with BC Ferry and Marine Workers Union

The Ready Award was published in October 2004 and for the first time introduces language that acknowledges that BC Ferries can contract out in certain circumstances and under certain conditions. This document is available on BC Ferries' website.

Master Trust Indenture

This is a document dated May 19, 2004 which provides security for the issuance of bonds. This document is available at www.sedar.com

Acknowledgement Agreement

This is an agreement dated May 19, 2004 between BC Ferries, the Province, BC Transportation Financing Authority and Computershare Trust Company of Canada. The purpose of the agreement is to have the Government parties acknowledge and consent to the assignment of the Coastal Ferry Services Contract and the Master Agreement and the mortgage of the Terminal Leases to the Trustee as well as other items.

This document is available at www.sedar.com

We structured our process with these constraints in mind. Furthermore any agreement concluded with an Alternative Service Provider will contain clauses that BC Ferries requires to meet its covenants under its various contractual obligations. For instance under an arrangement where the Alternative Service Provider brings his own vessel BC Ferries will require an option to lease or purchase the vessel. If this is not obtained BC Ferries could find itself in a position where it might face difficulty meeting its obligations under the CFSC if the operator chose to stop service and remove the vessel from BC during the contract term or at the end of the contract.

SUPPLEMENT TO ALTERNATIVE SERVICE PROVIDERS PLAN

Risk Register

Below is a risk register, which indicates the allocation of risk for an unspecified transaction, where an Alternative Service Provider delivers all of the services on the route, including ticketing, vessel provision, on-board services, terminal operations and maintenance.

Risk	BC Ferries	Successful Bidder	Shared	Comment
Vessel design		X		
Vessel construction risk		X		
Commissioning risk		X		
Vessel Performance and Reliability		X		Includes fleet relief, planned and unplanned maintenance
Weather			X	
Performance Standards		X		
Operational Risk		X		
Fuel price risk		X		
Inflation Risk		X		
Demand Volume Risk			X	
Industrial Action (Contractors employees, crew or staff)		X		Strikes or industrial action unrelated to the Operator are excluded
Changes in provincial policy			X	
Implementation of Maritime Regulations for Safety and Ship Management		X		
Employment/Employee Contracts		X		
Incorrect cost or time estimates for providing services		X		
Force Majeure			X	
Policy Risk			X	Policy risk not involving legislation or the unilateral actions of government (all levels)
Maintenance risk for terminals		X		Primarily for BC Ferries. The successful bidder will be responsible for carrying out all maintenance under a Terminal Management Agreement. The management fee will cover planned and day to day maintenance. BC Ferries will carry the risk for unplanned maintenance although

SUPPLEMENT TO ALTERNATIVE SERVICE PROVIDERS PLAN

				the successful bidder will be expected to carry out the work. The successful bidder will be responsible for the cost and consequences of any damage to shore infrastructure as a result of the operation.
Maintenance risk for vessels		X		
Failure to meet performance standards		X		
Capital expenditure – ports			X	Capital investment in relation to BC Ferries controlled ports, harbour and shore facilities will usually fall to BC Ferries. However, there is scope for the successful tenderer to provide, at his own hand, equivalent facilities or to refurbish or improve BC Ferries facilities.

Monitoring and Payment Mechanisms

One of the key tenets of any arrangement with an Alternative Service Provider will be pay for performance. This requires performance to first be monitored and then the payment to the private sector operator calculated based on a pre-determined formula. The mechanism needs to have a range of penalties, so that there are meaningful penalties without having to resort to termination.

A useful mechanism would be to break-up the payments into three categories:

- Reliability Payments - based on the private sector meeting defined scheduling and terminal availability standards
- Quality Payments - based on the private sector meeting defined quality standards, e.g. cleanliness, customer satisfaction.
- Volume Payments - based on ridership

The weightings of these three categories will vary depending on the characteristics of the route and the willingness of Alternative Service Providers to accept risk. One potential weighting might be:

Reliability Payments – 70%

Quality Payments – 20%

Volume Payments – 10%

SUPPLEMENT TO ALTERNATIVE SERVICE PROVIDERS PLAN

Payments would be made monthly based on reporting that the private sector operator would provide shortly after month-end. BC Ferries would reserve the right to audit any of the reports. If errors are found appropriate adjustments would be made.

Procurement Process

Introduction

Procurement could be effectively carried out in three stages.

- RFEOI (Request for Expressions of Interest) – this stage is analogous to a market sounding. One of the primary objectives is to obtain information from and about the market. This information can be used to structure the RFQ and RFP and if necessary short-list those who will be invited to respond to the RFQ.
- RFQ (Request for Qualifications) – the purpose of this stage is to determine which parties are capable of meeting BC Ferries' standards.
- RFP (Request for Proposals) – the purpose of this stage is to determine which bidder offers the best 'value for money'.

Request for Expressions of Interest

Responses will be limited to a total of 12 pages and should include comment on:

Organizational overview

- a) Brief history
- b) Ownership
- c) Financial position
- d) Contact details

Capabilities overview

- e) Firm or consortium's experience in vessel operations
- f) Firm or consortium's experience in providing on-board vessel services
- g) Firm or consortium's experience in operating and maintaining terminals
- h) Firm or consortium's safety record

Project understanding

- i) Understanding of the opportunity and BC Ferries' needs
- j) Preferred risk allocation including payment mechanism
- k) Responses to specific issues raised in the RFEOI

In addition to the three RFEOI sections above a short questionnaire will accompany the RFEOI. Interested parties will be asked to comment on a variety of issues including risk allocation and information needs in the RFQ and RFP.

The information provided by interested parties will be freely available to senior management within BC Ferries. As a result we are not seeking proprietary information. Much of the information we are seeking is the kind of information that is available on BC Ferries' website. It is our intention to publicize the names of all organizations that respond to the RFEOI. The purpose of this is that all parties, not only BC Ferries, should be aware of the parties that have expressed interest in the process.

All parties who wish to receive a copy of the RFQ must complete the RFEOI stage.

SUPPLEMENT TO ALTERNATIVE SERVICE PROVIDERS PLAN

Qualification Criteria for RFQ

The criteria can be grouped into three areas:

- Qualifications and Experience
- Financial Characteristics
- Vessel Characteristics

Qualifications and Experience

- a) Identify the legal structure of the firm, or consortium of firms making the proposal. Identify the organizational structure for the service delivery, the management approach and how each partner and major subcontractor in the structure fits into the overall team.
- b) Describe the experience of each firm and the key principals involved in the proposed project. Describe the length of time in business, business experience, and other engagements of the firm(s). The lead organization must be identified.
- c) Provide the names, addresses and phone numbers of persons within the firm or consortium who may be contacted for further information.
- d) Include the address, telephone number, and the name of a specific contact person for an entity for which the firm/consortia or primary members of the consortia have completed a similar project.
- e) Provide a summary of the firm/consortia or primary members' safety record for the previous 10 years.
- f) State any significant legal judgements or convictions in the last 10 years against any of the firm or firms within the consortium making the proposal (e.g. bankruptcy, convictions, taxes, misconduct, etc). In the case of companies that are not listed on a public exchange and/or are not widely held provide any significant legal judgement or convictions against any of the individuals with a greater than 10% ownership interest in their respective firm.

Financial Characteristics

- g) Provide the past five years of financial statements of the firm/consortia and each major partner.
- h) Evidence of ability to obtain:
 - i. Insurance by way of membership in a P&I club. For those parties preferring not to insure by way of a P&I club, BC Ferries is willing to consider different arrangements that provide the same level of coverage.
 - ii. Performance bonding according to the following schedule

Estimated annual route revenues ¹	Performance bonding requirement
≤ \$10 million	6 months revenue
\$10 - \$45 million	4 months revenue
> \$45 million	3 months revenue

¹ It is recommend one refer to British Columbia Ferry Services Inc. Annual Report to the BC Ferry Commission www.bcferrycommission.com to determine annual revenue.

SUPPLEMENT TO ALTERNATIVE SERVICE PROVIDERS PLAN

- i) Provide a summary of the firm/consortia's value proposition (not expressed in dollars)

Vessel Characteristics

- j) Capacity of the vessel for passengers, storage, vehicles and freight
- k) Vessel seakeeping
- l) Environmental
- m) Vessel speed, wake and wash
- n) Passenger comfort – passenger cabin heating, lighting, seating, ventilation, noise level rating at speed required to meet schedule
- o) Age of vessel
- p) Summary of major upgrades undertaken, including type and date
- q) Amenities currently available
- r) Improvements contemplated (indicative only)
- s) Modifications likely required
- t) Assessment by Transport Canada
- u) Preliminary plans for refit coverage
- v) Flag state under which vessel built
- w) Class under which vessel built
- x) Record of change of Flag
- y) Record of change of Class
- z) P&I Club – which one currently entered with, and any previous clubs
- aa) Current/previous owners
- bb) Current/previous ship managers

Note: On account of the Coasting Trade Act, BC Ferries and all bidders must propose **Canadian flagged vessels**, with crew that are **Canadian citizens** and have the appropriate **Canadian regulatory certificates**.

Qualification Criteria for RFP

Confirmation of above plus

- cc) Ability to meet service specification
- dd) Innovation
- ee) Provide an Operational Management Plan
 - Names of key personnel with responsibility for:
 - Operational safety
 - Quality
 - Technical Management
 - Crewing proposals, including source of crew
 - Outline emergency response plan
 - Proposed changes to route and schedule
 - Willingness to accommodate special or additional trips
 - Handling of overloaded passengers and/or vehicles
 - Labour Relations Plan
 - Security Plan
 - Compliance with Coastal Ferry Act Requirements
 - Compliance with Canada Shipping Act requirements
 - Compliance with Transport Canada Regulations
 - Compliance with Workers' Compensation Act Requirements
 - Compliance with Foodservice Acts' and Regulations

SUPPLEMENT TO ALTERNATIVE SERVICE PROVIDERS PLAN

- ff) Provide details of the firm/consortia's value proposition
- gg) Provide details of the firm/consortia's monitoring plan
- hh) Provide details of the firm/consortia's maintenance plan
 - including details regarding refit coverage
- ii) Provide details of the firm/consortia's quality plan
- jj) Provide details of the firm/consortia's community plan
- kk) Provide details of the firm/consortia's environmental plan
- ll) Provide details of the firm/consortia's risk assessment
- mm) Provide details of the firm/consortia's implementation plan
- nn) Provide a plan for the financing and delivery of the service
 - Include a list of discussion of assumptions
 - Detailed discussion of revenues and costs, including underlying assumptions
 - Projected financial statements (5 years)

The Process

The process will be initiated with a Request for Expression of Interest to assess the market's willingness to enter into a transaction and their key issues.

The next stage is the Request for Qualification. Private sector firms will be invited to respond to the RFQ.

After reviewing the RFQ and Service Specification with the affected Ferry Advisory Committee² ("FAC"), the FAC will be asked to submit comments and concerns as early as possible and in no case later than 60 days after the RFQ notice is issued. (The objective is to allow bidders 30 days to respond to comments before the RFQ deadline.)

Only bidders who pass the RFQ stage will be invited to respond to the RFP. **The only exception is BC Ferries, who as the incumbent service provider must respond to the RFP and doesn't have to submit a proposal to the RFQ,** although they are encouraged to do so.

Project Selection and Comprehensive Agreement

If the best of the Alternative Service Provider proposals meets BC Ferries' qualifications and is deemed to provide superior 'value for money' over BC Ferries internally delivered service, final authorization to contract with a private sector firm to take over operations from BC Ferries will be contingent on successful negotiation and execution of a comprehensive agreement between the private operator and BC Ferries. BC Ferries' Board of Directors will be required to approve any comprehensive agreement before execution. Furthermore, depending on the nature of the transaction, the approval of the BC Ferry Commission might be required. For instance if a significant capital expenditure is called for BC Ferries would likely make an application on behalf of the private sector operator to the BC Ferry Commission under Section 55 of the Coastal Ferry Act.

Evaluation and Selection Process

Proposals will be evaluated according to a four phase process. Phase one will involve a review of the Expressions of Interest by the Initial Review Committee (IRC).

² FAC is the designated community organization with which BC Ferries conducts public consultation on issues relating to ferry service. There are currently twelve such organizations in BC.

SUPPLEMENT TO ALTERNATIVE SERVICE PROVIDERS PLAN

Phase two will require an evaluation of the bidder's RFQ response by the Review Committee (RC). Phase two will culminate in the approval/rejection of the bidder by the RC.

Phase three of the process will consist of BC Ferries determining the exact requirements of the RFP. Concurrently, BC Ferries will begin to re-examine the internal service delivery strategy.

Phase four consists of an evaluation of the RFP responses by the RC with a recommendation to BC Ferries senior management as to the whether one of the bidders offers superior 'value for money' over BC Ferries' continuing delivery of the service.

Phase One: RFEOI Evaluation by Initial Review Committee

Composition of IRC

The IRC will be chaired by the Executive Vice President, Business Development and will be comprised of BC Ferries management.

Purpose

The IRC will perform the phase one evaluation of each RFEOI submission. The submissions will be used to:

1. determine whether the bidder has, in the sole opinion of the IRC,
 - (i) submitted a complete proposal;
 - (ii) could be capable of successfully delivering the service
2. Influence the nature of the transaction put forward in the RFQ and RFP
3. Limit the firms invited to respond to the RFQ (if necessary)

Outcome

BC Ferries will contact all parties that respond to the RFEOI and notify them either:

- a) They are invited to respond to the RFQ or
- b) They are not invited to respond to the RFQ

A debrief will be undertaken with each unsuccessful bidder to provide information on why they were not invited to respond to the RFQ.

Phase Two: RFQ Evaluation by Review Committee

Composition of RC

The RC will be chaired by the Director, Business Development and comprised of qualified technical personnel. Any employees of BC Ferries involved in the evaluation will be prohibited from having any involvement with the development of BC Ferries' internal bid. One member of the relevant Ferry Advisory Committee(s) will be invited as an observer.

Purpose

The RC will perform the phase two evaluation of each RFQ response to determine whether the bidder has, in the sole opinion of the RC,

1. submitted a complete proposal;
2. assembled a team which is qualified and capable of delivering the proposed service;
3. indicated how value for money will be delivered;
4. demonstrated sufficient financial strength to undertake the venture;

SUPPLEMENT TO ALTERNATIVE SERVICE PROVIDERS PLAN

5. provided evidence of capacity to obtain insurance and bonding.
6. provided a vessel which is suitable

The RC may request oral presentations and/or additional documentation in order to assess project feasibility and bidder's qualifications.

Outcome

BC Ferries will contact all bidders and notify them either:

- a) They have not been qualified
- b) They have been qualified and are invited to submit, within a specified period of time, a response to the RFP.

If no private sector service providers are invited to respond to the RFP, then the process is concluded and BC Ferries will implement its plan to meet the service specification. A debrief will be undertaken with each unsuccessful bidder to provide information on why they were not qualified.

Phase Three: RFP Finalization and Re-examination of BC Ferries' Service Delivery

During the RFQ phase BC Ferries will finalize the exact requirements for the RFP. Upon completion of the RFP documents BC Ferries will commence its internal bid preparations and management and the Union will work together to submit the best possible bid.

Under the Coastal Ferry Services Contract BC Ferries is required to ensure ferry services are delivered on its network of 25 routes. In this regard, BC Ferries is not only the incumbent service provider, but must also step in and deliver service even when contracted operators no longer want to deliver service. As a result of this unique position, BC Ferries does not have to submit a response to the RFQ. If any private sector bidders pass the RFQ stage, BC Ferries is obligated to respond to the RFP. BC Ferries' internal bid must be delivered before the deadline, the same deadline that applies to the private sector operators. BC Ferries will have only one opportunity to submit a bid, which will be evaluated in the same manner as all other bids. It will not be possible for BC Ferries to alter its bid after the deadline, even if management or the Union decide in hindsight that they are willing to make changes to improve their bid.

Phase Four: RFP Evaluation

The RC, comprised of the same members as in the RFQ evaluation, will evaluate all of the proposals, including BC Ferries' proposal. The RC may request bidders to make presentations to the panel. The format of these presentations will include a formal presentation by the bidder, followed by any questions the RC may have pertaining to the project proposal or the presentation. The RC may also ask the bidder to address concerns expressed by the Ferry Advisory Committee observer. These meetings will allow the RC to seek clarification of project elements and complete deliverable requirements, and provide bidders with the opportunity to further explain their proposed projects. If there is an issue to which the bidder is unable to respond during the formal presentation, the RC may, at its discretion, grant the bidder a reasonable period of time in which to submit a written response.

Following the formal presentations, the RC will evaluate all proposals using the categories listed under "Qualification Criteria for the RFP". The objective is to

SUPPLEMENT TO ALTERNATIVE SERVICE PROVIDERS PLAN

determine which proposal, after taking into account adjustments for risks and cost to BC Ferries from completing the transaction (e.g. severance, monitoring costs, lowered administration costs, impact on supplier agreements) provides superior "Value for Money".

Outcome

The RC will make a recommendation to BC Ferries' senior management on what course of action to follow. Then senior management and the Board of Directors will decide whether BC Ferries should negotiate and execute a comprehensive agreement with the successful bidder or continue to deliver the service by BC Ferries management and staff. Approval by the BC Ferry Commission might also be required, in particular under Section 55 if new capital assets are employed.

A debrief will be undertaken with each unsuccessful bidder to provide information on why their bid was not recommended.

RFP & RFQ Evaluation Criteria

Several of the criteria cannot be quantified in financial terms, such as safety and environmental benefits and bidders will have to meet minimum thresholds in order to be warrant ongoing consideration. Other criteria are more subjective and are expected to have a range of outcomes, such as the Operational Management Plan. These criteria will be examined on a scale of 1 to 100.

All evaluation criteria will be weighted so that they combine to 100%.

For those criteria, which are financial in nature, they will be compared on an NPV basis. Adjustment will be made based on:

- Value of risk transferred
- Estimated transition costs (e.g. BC Ferries severance, lowered administrative costs, monitoring costs, impact on BC Ferries existing agreements with suppliers etc.) The value of these costs will be disclosed at the beginning of the RFP stage and factored into the evaluation.
- Proposed changes to the draft concession agreement

Equality

In order to reassure stakeholders that all bidders are treated equally and fairly, BC Ferries is planning to initiate procedures surrounding:

- Confidentiality;
- Transport Canada;
- Bid evaluation;
- Chinese Walls; and
- Independent Review.

Confidentiality

Confidentiality is integral to any procurement process. We are committed to safeguarding the sensitive information provided by bidders. Members of the bid evaluation team will all sign confidentiality agreements. Furthermore the financial statements of bidders will be available only to those of the financial evaluation subcommittee and the Chair of the Review Committee. The report on the financial evaluation will form part of the recommendation to BC Ferries senior management, but will restrict itself to describing the financial characteristics of bidders rather than providing detailed statistics.

SUPPLEMENT TO ALTERNATIVE SERVICE PROVIDERS PLAN

Following the evaluation the financial statements will not be retained by BC Ferries, rather they will be held in safekeeping for a period of 5 years by an independent third party such as a law firm or accounting firm. The purpose of retaining the documents at all is in the event they are needed by BC Ferries to defend ourselves against legal proceedings brought against us by third parties.

Transport Canada

In any of the projects, newbuilds or foreign built vessel not previously certified to operate in Canada might be put forward to meet the service specification. Transport Canada is the key agency in approving either type of vessel for service. BC Ferries will inform Transport Canada of any transactions before the RFQ is issued. The objective is to provide Transport Canada with advance notice, so that they can decide how they want to approach the multiple requests they will likely receive from interested bidders.

NB. BC Ferries cannot accept responsibility for obtaining regulatory approvals on behalf of alternative service providers. Each proponent is fully responsible for obtaining all necessary Transport Canada regulatory approvals.

Bid Evaluation

The RFQ and RFP evaluation team will include subject matter experts who are hired under contract for expressly this purpose. Any BC Ferries' employees who are part of the evaluation process can not have or have had any involvement in the internal bid process. All members of the evaluation team, whether hired under contract or employees of BC Ferries will not have any contact with BC Ferries staff who are preparing the internal bid. All employees of BC Ferries that will be involved in the evaluation of the RFQ and/or RFP will be identified when the RFQ is issued. This will be reinforced by having all evaluation team members execute a Confidentiality Agreement.

Chinese Wall

A Chinese wall is a means used to make sure that different parts of a company are kept separate so that information does not circulate freely and to prevent conflicts of interest.

The term was coined following the stock market crash of 1929, when the US government sought to provide a separation between investment bankers and brokerage firms in order to avoid the conflict of interest between objective analysis and the desire to have a successful stock offering. These regulations became known as the "Chinese Wall" because they were meant to create a barrier as effective as the Great Wall of China between the two operations.

A Chinese Wall will be established at the commencement of the RFQ phase. This will consist of both physical and procedural measures. The activities of the Review Committee will be physically sequestered from BC Ferries' internal bid preparation activities. The bids will be sent to and remain in our Horseshoe Bay office or other secure location under lock and key. Access will be controlled by the Chair of the Review Committee and/or his delegate. Any electronic or physical working papers of

SUPPLEMENT TO ALTERNATIVE SERVICE PROVIDERS PLAN

the Final Review Committee will not be accessible to anyone other than the Final Review Committee members. The information provided by bidders during the RFEOI process will not be subject to this Chinese Wall.

No members of the Review Committee will be allowed to work on BC Ferries' internal bid and will be forbidden from engaging into discussions relating to the evaluation or the preparation of the bid with other BC Ferries' staff. Furthermore Review Committee members will be forbidden from discussing the activities of the Final Review Committee with other BC Ferry employees during the process. Any breaches of the Chinese Wall will be reported to the Fairness Auditor. The Fairness Auditor will be asked to comment on the efficacy of the Chinese wall.

Independent Review

It is BC Ferries' intent to retain the services of a Fairness Auditor for all transactions. The Fairness Auditor will act as an independent observer and will provide arms length advice to the project team and independent assurance to the BC Ferries' Board of Directors, bidders and the BC Ferry Commission as to the fairness and appropriateness of project management activities related to the procurement process. The Fairness Auditor will officially begin his/her duties at the commencement of the RFEOI phase. At the end of the procurement process (including if the process is terminated) s/he will provide an independent opinion as to whether the project team faithfully and fairly carried out this process. The Fairness Auditor reports will be made publicly available.

BC Ferry Commission

The BC Ferry Commission is not a formal part of the process. However they are a key stakeholder in the provision of regulated ferry services in BC and therefore it is our intention to keep the BC Ferry Commission briefed about the process. The BC Ferry Commission will be notified as to the outcome of the RFEOI, RFQ and RFP stages. Furthermore, the BC Ferry Commission will also receive copies of all Fairness Auditor reports.

Unsolicited Proposals

Unsolicited proposals from ASPs to operate on regulated routes are not accepted. BC Ferries has submitted its ASP plan as required under Section 69 of the Coastal Ferry Act. During this Performance Term we intend to initiate procurement for ASP on five routes and possibly two additional routes. Management has limited resources and those available will be required to carry out the activities in the most recent ASP plan. Should scheduled procurements for ASPs not proceed beyond the RFEOI or RFQ stage due to a lack of interest and/or qualified bidders, management resources might unexpectedly become available. In that event BCF will give serious consideration to structuring a process to request proposals from ASPs on any route that is off interest to them. BCF would then review the proposals and decide if any of the proposals warrant further consideration. Details of this process are included in Appendix B

SUPPLEMENT TO ALTERNATIVE SERVICE PROVIDERS PLAN

Appendix A International Precedents³

Scotland

In Scotland, there are two key service areas under consideration for tendering:

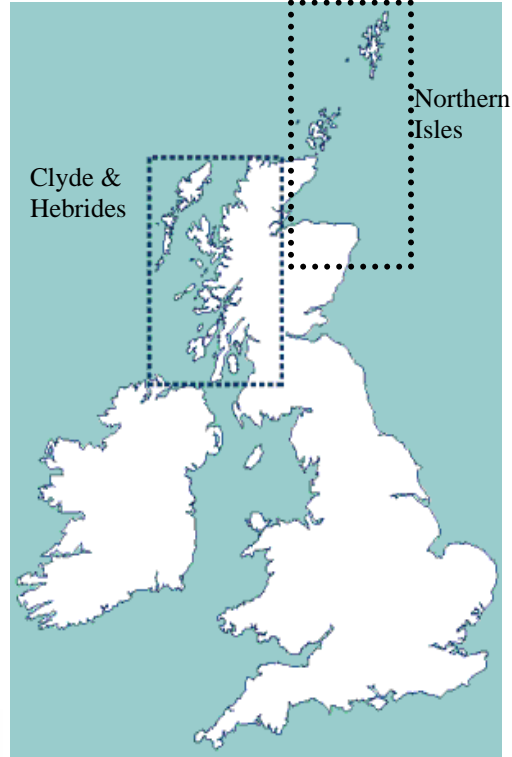
1. Northern Isles, and
2. Clyde and Hebrides.

Northern Isles

Introduction

The current service provider for the Northern Isles is NorthLink (www.NorthLinkferries.co.uk). Their fleet consists of five vessels which began operating on the service in October 2002. Three of them are newbuilds, each of which has the capacity to carry 600 passengers plus cars and freight. In addition to the three above newbuilds, NorthLink operates two freight vessels.

A map of the Northern Isles service is shown below. The trip from Aberdeen to Lerwick takes about 12 hours (at 16



knots), or if via Kirkwall, 14 hours (first 5 hours at 24 knots). A ship leaves Aberdeen and Lerwick each evening. Three sailings southbound and four sailings northbound per week are via Kirkwall.

Stromness to Scrabster takes about 90 minutes (at 20 knots). The Stromness to Scrabster route operates three times each way on weekdays and two or three times each way on Saturday and Sunday, according to season.

The volumes in 2002/03 were as follows:
Passengers: 240,000
Cars: 38,145
Lane meters of freight: 226,980
These totals do not include significant livestock transportation.

³ This is BC Ferries' understanding and interpretation. It is based on the interviews with operators and government officials and has not been approved by either party.

SUPPLEMENT TO ALTERNATIVE SERVICE PROVIDERS PLAN

Historical Perspective

- There has been a regular ferry service to Orkney & Shetland since 1790
- P&O Ferries (P&O) were asked to take it over in 1974 after the then operator ceased to trade. Until then there had been no subsidy
- By 1981 the subsidy was £7 million per year and the subsidy was tendered periodically. The subsidy was on a per passenger or freight unit. This had the benefit of administrative simplicity, but also meant that the more the more traffic P&O carried, the more subsidy the Scottish Executive was required to pay.
- P&O won a tender for a 5 year contract from April 1, 1997. The subsidy of £11 million a year was for passengers and accompanied cars. Freight was unsubsidized. The contract did not include a pay for performance component.
- The next tender exercise required the winning bidder to commence service with three newbuilds as P&O's existing vessels would not have complied with regulatory requirements from October 2002.

Current Contract Period

The Scottish Executive ("SE") contracted with NorthLink (a joint venture between Caledonian MacBrayne and Royal Bank of Scotland) in December 2000 to operate service in the Northern Isles after completing a 27 month competitive tender process. NorthLink starting operating as agreed in October 2002. The contract was schedule to run until September 2007. However, by the time NorthLink started service several factors in the market had changed and as a result the financial assumptions upon NorthLink tendered were no longer valid. SE asked NorthLink to take delivery of the newbuilds and to start the service as planned while potential financial solutions were explored. Ultimately European Union ("EU") considerations prevented all potential financial solutions and in April 2004 it was announced that the route would be retendered early because of financial difficulties at NorthLink. The retendering is currently underway. A Pre-Qualification Questionnaire was issued in the April 2004 and the SE states in May 2005 that it is close to issuing Tender documents. The SE is targeting for a new contract with an operator to be in place next year (2006).

The contract with Northlink has the following characteristics:

- NorthLink gets a subsidy for passengers and cars in a block funding arrangement unrelated to volumes. Commercial traffic was deemed to be self sustaining – change from previous contracts;
- Fuel consumption was NorthLink's risk and fuel price was government's risk;
- NorthLink took 100% revenue risk. There was no minimum payment guarantee to the operator to cover operating and debt costs. There were however provisions for minimum and maximum return on capital;
- No performance bond requirements;
- No provisions to deal with cost increase due to unforeseen changes. (e.g. increase in manning requirements to meet new safety regulations), thought certain material changed were provided for;
- Included transfer of asset clause; and
- 5 + 1 year contract term, the maximum allowed under EU laws.

Revenue

NorthLink ran into financial trouble as a result of lower than projected revenues and higher than expected costs. There were several potential reasons for this:

- Lack of a formal transition plan between P&O and NorthLink to deal with promotion, marketing and transition of the new service;

SUPPLEMENT TO ALTERNATIVE SERVICE PROVIDERS PLAN

- Between signing the contract (December 2000) and the starting of the new service (October 2002) a competitor started in the more profitable route taking away market share and the then operator P&O failed to react;
- A new freight carrier commenced operation in direct competition to NorthLink. They took significant market share away from NorthLink.
- A new pier at Scrabster was 10 months late and as a result NorthLink had one of the newbuilds in lay up for 6 months until a summer season service could be operated from a temporary facility;
- Historical traffic data provided to bidders was in a format that was difficult for bidders to interpret. For instance P&O reported freight carryings in vehicle units, which did not readily convert into lane metres of occupancy;
- A new freight carrier commenced operation in direct competition to NorthLink. They took significant market share away from NorthLink. There were no clauses in the contract to deal with competition.

Lessons Learned

- SE successfully dealt with newbuild issue by having a transfer of asset clause with the operator.
- Transfer of employees between different operators largely dealt with through TUPE (Transfer of Undertakings Protection of Employment) legislation.
- Need a contract that includes clauses relating to:
 - Performance standards
 - Pay for performance
 - Unforeseen circumstances (e.g. regulatory changes)
 - Allowance for "cure period" with government involvement
 - Competition clauses
 - Guaranteed minimum revenue

Clyde and Hebrides

Introduction

The SE is in the planning stages for a tender process for the Clyde & Hebrides Lifeline Ferry Services. The impetus for this transaction is to comply with EU law. Without the requirement from the EU, the SE probably would not be proceeding with the tender. Caledonian MacBrayne Ltd ("CalMac"), a nationalised industry, is wholly owned by the Scottish Ministers. It operates 28 routes throughout the Clyde and Hebrides Islands and receives around £28 million (CDN \$ 65 million) in annual deficit grant subsidy. The routes are serviced by 31 vessels with an average age of approximately 17 years (www.calmac.co.uk/fleet.html).

In preparation for the tender, CalMac is being restructured into two entities:

1. VesCo – a publicly owned vessel owned and leasing company, which will be responsible for ownership of Caledonian MacBrayne's existing vessels, piers and harbours and offices.
2. OpsCo – a publicly owned operating company. OpsCo will be allowed to bid for the tender.

VesCo will lease vessels to the successful tenderer and also be responsible for providing an Operator of Last Resort function.

Bidders wishing to respond to the tender must bid on Caledonian MacBrayne's entire network, except Gourock – Dunoon, which already has direct competition. The SE chose to bundle all of the routes together to achieve economies of scale and for refit

SUPPLEMENT TO ALTERNATIVE SERVICE PROVIDERS PLAN

issues. It could be argued that the opportunities for bidders to add value and differentiate themselves under the current procurement process is limited. All bidders are required to operate the same vessels and employ the same workers under the same terms and conditions. The key difference will be in management (overhead and approach). There are also presumably some opportunities to increase revenues, but given the same asset base this is probably limited.

The contract term will be 6 years, which is dictated by EU regulations. It is anticipated that the SE plan to start the procurement process at the end of 2005.

Norway

Background

Norway has a different approach to ferries than in British Columbia. They are an extension of the highway system and are expected to be available to motorists virtually on demand.

Many of the routes are small to medium by BC Ferries' standards. In Norway ferries are an essential service and have very long operating hours. Some ferries are closed for as few as 2.5 hours each night. Furthermore the frequency of service is very high and the tolerance for overloads very low. The standards are summarized in the table below.

Route Category	Round trips per day	Fixed departure times	Hours of Operation	Night (out of service)	Max. annual overloads
European Route					
>1500 pcu/day*	35	6 am – 8 pm	21.5 hrs	2.5 hrs	2%
<1500 pcu/day	30	7 am – 7 pm	18 hrs	6 hrs	3%
Public Roads					
>1500 pcu/day	30	7 am – 7 pm	18 hrs	6 hrs	3%
500 – 1500 pcu/day	25	7 am – 6 pm	16 hrs	-	3%
100 – 500 pcu/day					
1- 4 km route	20		14 hrs		3%
5 – 9 km route	12		13 hrs		3%
10 – 20 km route	6		12 hrs		3%
> 21 km route	Cont.				2%
< 100 pcu/day		Local needs			

* pcu = personal car units (AEQ)

There are about 130 subsidized ferry routes in Norway, which has a population of 4.5 million. The federal government is involved in 100 ferry routes which are designated "National Road ferry connections" and regional and local governments are involved in about 30 ferry connections which are designated "County Road ferry connections". In total annual volumes are 17 million vehicles and 37 million passengers (2004) within Norway.

There are 20 ferry companies providing service and they vary greatly in size. The largest is Fjord1, which is owned by two regional governments. All of the ferries themselves are owned by the ferry operators.

SUPPLEMENT TO ALTERNATIVE SERVICE PROVIDERS PLAN

Until 2003 each ferry company had a number of long term licenses awarded in a concentrated area/region. This gave operators exclusive rights to certain routes. This was not done on a competitive basis. Each geographic area had their own local ferry operators and ferry operators did not extend beyond their geographic area. Each year operators and government would negotiate the required subsidy. Negotiations were often completed well after the start of the operating year.

In 1998 annual ferry subsidies were CDN \$127 million and by 2004 had risen to CDN \$216 million. The farebox revenue is approximately equal to the subsidy amount. The increase in ferry subsidies was primarily due to regulatory issues (e.g. safety requirements), wages and investment in new ferries. The average age of Norwegian ferries is about 20 years. The large increase in subsidies is what pushed the government to commit to putting out all of the routes to competitive bid by 2009.

All 130 routes will be put out to tender before 2009. On average between 2005 and 2009 Norway will put 18 routes up for tender each year.

Contracts

There are three types of financial arrangements with operators:

1. Gross – operator is compensated for costs only. 100% of fare revenue risk borne by government. Operator keeps ancillary revenue, which on most routes is very small.
2. Net – Operator takes revenue and cost risk.
3. Gross with bonus – similar to gross with some incentives for good performance

The government is still deliberating over whether routes should be bundled in small groups or all done individually. They feel that small bundles of routes may allow operators to achieve economies of scale that may result in a more cost effective and efficient proposal(s), (e.g. one vessel would be available for refit relief on several routes, or during periods where a primary vessel within a group of routes may have a mechanical problem, etc.). Similarly, it may be beneficial to group a potential commercially viable route with a subsidized route.

There does not seem to be a large market for ancillary sales as there is minimal dwell time at the terminal and the crossing times are relatively short. Therefore, the Norwegian operators provide basic transportation services and in some cases offer a snackbar with a modest focus on marketing. Alcohol and gambling are not prohibited on domestic ferries. Ancillary sales are excluded from subsidy review calculations.

The main differences between different operator's bids are vessel operating costs and manning requirements. Labour is expensive in Norway and the hours of operation very long, so the difference in even only one crew member can make a substantial difference to operating costs.

The cultural expectation in Norway is that ferry companies that operate subsidized service should only earn a minimal profit. As a consequence historical results for ferry operators is poor with companies often earning a return of only 2 – 3%.

Existing contracts do not have a regimented penalty system to enforce performance standards, but the government is moving towards such a system. The contracts do however require operators to performance bonds of 25% of 1 year's costs. This must

SUPPLEMENT TO ALTERNATIVE SERVICE PROVIDERS PLAN

be in place at contract signing. Also at contract signing operators must demonstrate that they are in an approved P&I club.

The length of contracts is typically 5 to 8 years.

Labour

Salaries are set nationally through the RLF ("Federation of Norwegian Coastal Shipping"). The salaries are fixed in two year increments.

Norwegian seaman and women are old and there are insufficient young men and women replacing them. Young seamen are drawn to the oil industry which pays better. There is no successorship issues as all officers and crew are part of the same labour organization. However incumbent operators who lose contracts have to lay off staff.

Risk and responsibilities:

Government

- Fuel risk
- Regulatory (e.g. safety)
- Tax changes
- Terminals (they are owned and maintained by the road authorities and there are no fees for operators to use the terminals.)
- Approve schedule (decided on year in advance)
- Approve allocation of ferries (decided on year in advance). Government treats all ferries as a pool and can make companies lease vessels to other operators.
- Approve investment in ferries (e.g. safety equipment)
- Set fares (which are set on a per km basis)

Private sector operators

- Day to day operating risk
- Revenue risk (in some cases)
- Finding and retaining crew
- Advise government on timetable changes
- Advise government on allocation of ferries

Lessons Learned

- Vessels stay with route even though operator may not. Somewhat analogous to VesCo in Scotland. Removes the need for companies to bring their own vessels as part of their proposal;
- Contracts need performance clauses;
- Focus is on efficient management of the operation as there is a fixed hourly labour cost. Labour environment is quite different from BC;
- BC Ferries should consider assuming some risks;
- May be a need to bundle routes to achieve synergies and minimize spare vessels.

Denmark

Denmark has run procurement processes to operate car/passenger ferries on routes where the government is providing a subsidy. To date, the incumbent state controlled firms have retained all of the routes.

SUPPLEMENT TO ALTERNATIVE SERVICE PROVIDERS PLAN

We examined one of the recent transactions in detail, the procurement of ferry services on the Rønne to Køge and Rønne to Ystad routes. The incumbent operator was Bornholmstrafikken, a state owned company. All of these routes carry vehicles and passengers. Before the procurement process Bornholmstrafikken was receiving approximately CDN \$12 million per year from the government to operate the routes. This was in addition to retaining all of the revenues collected, which were in the order of CDN \$65 million.



The prequalification phase of the procurement resulted in 4 firms being pre-qualified in late 2002/early 2003. Unfortunately from a competitive standpoint, only Bornholmstrafikken submitted a bid. Some of the reasons for this are:

- the short time from contract close (June 7, 2004, until the start of operations in May 2005). This was deemed to be short given the requirement to introduce two newbuilds.
- The contract is only for 5 years with no buy-back provision on the newbuilds.

The Danish method to evaluate responses to the RFP is based solely on price and meeting mandatory criteria. The result is that the determination of who wins the tender is based solely on lowest cost and not necessarily the best proposal.

Bornholmstrafikken has substantially increased the amount of the subsidy they require. The newbuilds came into operation in May of this year and the subsidy has increased to approximately CDN \$26.6 million annually.

The payments to Bornholmstrafikken are based on performance system which includes penalties for late sailings, missed sailings, and poor customer service.

With regards to the terminals some are owned by local authorities and Bornholmstrafikken pays a fee to use them. In other cases Bornholmstrafikken has their own facilities.

SUPPLEMENT TO ALTERNATIVE SERVICE PROVIDERS PLAN

Appendix B Unsolicited Proposals

Table of Contents

OVERVIEW	30
QUALIFYING PROJECTS.....	30
PROPOSAL PREPARATION	30
CONCEPTUAL PROPOSAL REQUIREMENTS	30
QUALIFICATIONS AND EXPERIENCE	30
PROJECT CHARACTERISTICS:	31
FINANCIAL FEASIBILITY	31
HOW THE PROCESS WORKS.....	32
EVALUATION AND SELECTION PROCESS	33
INITIAL REVIEW COMMITTEE	33
COMPETITIVE PROCUREMENT PROCESS.....	34
EQUALITY.....	34
BC FERRY COMMISSION	34
APPENDIX A - REGULATED ROUTES.....	36

SUPPLEMENT TO ALTERNATIVE SERVICE PROVIDERS PLAN

Overview

BC Ferries' ("BCF") current policy is that it does not accept unsolicited proposals. However a time may come in the future when it is desirable to seek out Conceptual Proposals from Alternative Service Providers ("ASPs"), in particular if scheduled ASP procurements do not proceed as planned.

If Conceptual Proposals are sought from ASPs it will be under a structured process that allows for competition, while maintaining confidentiality of sensitive private sector information.

Qualifying Projects

This process has been designed for private sector firms or consortiums to propose taking over all aspects of selected regulated routes (i.e. terminal operations, ship operation, provision of on-board services etc.). BC Ferries has 25 regulated routes, see Appendix 1 for a complete listing. It should not be assumed that BCF vessels will be available for other parties to operate. In general a qualifying project will be one that does not involve the use of shared terminals or is already scheduled to undergo a formal solicited proposal process. By shared terminals we mean a route where one or more of the terminals would have to be shared between a private sector operator and BC Ferries. It is possible for operators to bundle routes together in their proposal as long as the issue of shared terminals is dealt with. This process does not apply to other initiatives private sector parties might have in mind such as: new routes, land developments etc.

Proposal Preparation

Proposals must be signed by an authorized representative of the firm or consortium making the proposal. All information requested under "**Conceptual Proposal Requirements**" should be submitted. Bidders failing to submit all information requested for Conceptual Proposals may be given an opportunity to promptly submit missing information or may be given a lowered evaluation of the proposal. Conceptual Proposals which lack required key information may be rejected.

Proposals should be prepared simply and economically, providing a straightforward, concise description of the bidder's capabilities to deliver the proposed service. The primary purpose of the Conceptual Proposal is to determine if the bidder, in the opinion of the BCF, has the experience and financial capacity necessary to deliver the proposed service. In addition a decision is required if BCF is willing to consider an ASP arrangement on the route.

Proposals should be organized in the order requested herein. All pages of the proposal should be numbered. Each copy of the proposal should be bound or otherwise contained in a single volume where practical. All documentation submitted with the proposal should be contained in that single volume. Bidders who submit a proposal may be required to give an oral presentation of their proposal to the Initial Review Committee. Such presentations will provide opportunities to educate BCF or clarify aspects of the proposed project.

Conceptual Proposal Requirements

Qualifications and Experience

- a) Identify the legal structure of the firm, or consortium of firms making the proposal. Identify the organizational structure for the service delivery, the

SUPPLEMENT TO ALTERNATIVE SERVICE PROVIDERS PLAN

management approach and how each partner and major subcontractor in the structure fits into the overall team.

- b) Describe the experience of each firm and the key principals involved in the proposed project. Describe the length of time in business, business experience, and other engagements of the firm(s). The lead organization must be identified. Experience with all aspects of the proposed service delivery should be provided.
- c) Provide the names, addresses and phone numbers of persons within the firm or consortium who may be contacted for further information.
- d) Include the address, telephone number, and the name of a specific contact person for an entity for which the firm/consortia or primary members of the consortia have completed a similar project.
- e) Provide a summary of the firm/consortia or primary members' safety record for the previous 10 years.
- f) Provide a summary of the firm/consortia's relevant operational history for the previous 5 years.
- g) State any significant legal judgements or convictions in the last 10 years against any firm or firms within the consortium making the proposal (e.g. bankruptcy, convictions, taxes, misconduct, environmental, etc). In the case of companies that are not listed on a public exchange and/or are not widely held provide any significant legal judgement or convictions against any of the individuals with a greater than 10% ownership interest in their respective firm.

Project Characteristics:

- a) Provide a description of what service is to be delivered, along with how it will be delivered;
- b) State the proposed contract start date and term;
- c) Identify and fully describe any work to be performed by BCF;
- d) Briefly describe the value proposition (not expressed in dollars).
- e) Is a change to the Coastal Ferry Services Contract required? If so, what kind(s)?
- f) What is the current status of the vessel(s) chosen to deliver the status? (e.g. owned, option to purchase, leased, etc.)
- g) Does the vessel(s) chosen to deliver the service already meet Transport Canada's requirements? If they the vessel(s) do not meet Transport Canada's requirements are the expected modifications minor, medium or major?
- h) What is firm's experience with Transport Canada?
- i) Describe the firm's preliminary plans for refit coverage

Financial Feasibility

- a) Provide five years of financial statement(s) of the firm/consortia and each major partner.
- b) Submit a plan for the financing and delivery of the service. Include evidence of:
 - a. Insurance by way of membership in a P&I club
 - b. Performance bonding according to the following schedule.

SUPPLEMENT TO ALTERNATIVE SERVICE PROVIDERS PLAN

Estimated annual route revenues ⁴	Performance bonding requirement
≤ \$10 million	6 months revenue
\$10 - \$45 million	4 months revenue
> \$45 million	3 months revenue

c) Include a list and discussion of assumptions.

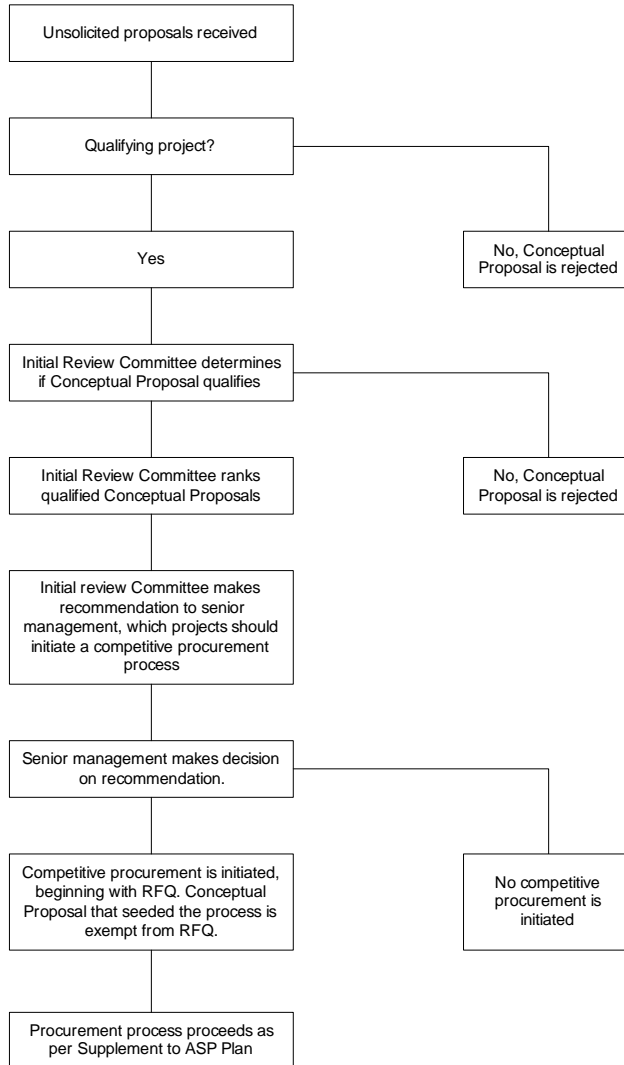
How the process works

BCF will review the Conceptual Proposals and determine first if the project is a "qualifying project". If it is not, the bidder will be notified as soon as possible. If the project is deemed to be a "qualifying project" then the Initial Review Committee will decide as per the Evaluation and Selection Process if the proposal will be used to initiate a competitive procurement process.

⁴ It is recommend one refer to British Columbia Ferry Services Inc. Annual Report to the BC Ferry Commission www.bcferrycommission.com to determine annual revenue.

SUPPLEMENT TO ALTERNATIVE SERVICE PROVIDERS PLAN

Figure 1 Overview of Unsolicited Proposal Process



Evaluation and Selection Process

Proposals will be evaluated by the Initial Review Committee (IRC).

Initial Review Committee

Composition

The IRC will be comprised of BCF staff who will evaluate the Conceptual Proposals. The IRC will be chaired by the Executive Vice President, Business Development and include management representatives from operations and finance.

Purpose

The IRC will perform the qualification review of each Conceptual Proposal to determine whether the bidder has, in the sole opinion of the IRC,

SUPPLEMENT TO ALTERNATIVE SERVICE PROVIDERS PLAN

1. submitted a "qualifying project"
- If the answer to 1. is yes, then
2. determine whether the bidder has, in the sole opinion of the IRC,
 - (i) submitted a complete proposal;
 - (ii) assembled a team which is qualified and capable of delivering the proposed service;
 - (iii) project characteristics are reasonable
 - (iv) source of value for money is reasonable
 - (v) met the financial requirements.
 3. determine how the proposal fits in with BCF's management objectives.

The IRC may consider the advice of external legal counsel and consultants with appropriate technical expertise. The IRC may request oral presentations and/or additional documentation in order to assess the Conceptual Proposal. The IRC will make recommendations to BCF senior management on which if any Conceptual Proposals should be used to initiate a competitive procurement process.

Outcome

BCF will rank all proposals from least attractive to most attractive based on the submitted information, and BCF management's objectives. BCF will then decide how many if any of the proposals will be used to initiate a competitive procurement process for the specified service delivery. The IRC will contact all bidders and notify them either:

- a) Their proposal has been selected to initiate a competitive procurement process
- b) Their proposal has not been selected to initiate a competitive procurement process.

A debrief will be undertaken with each unsuccessful bidder to provide information on why their proposal was not selected to initiate a competitive procurement process.

Competitive Procurement Process

If one or more proposals are selected to initiate a competitive procurement process it will have the following phases:

- RFQ
- RFP

There will be no RFEOI phase. BCF and the proposal(s) selected to initiate the competitive procurement process will not have to respond to the RFQ and will automatically be eligible to respond to the RFP. Aside from these changes, the procurement process should follow the same steps as in the Procurement Process (page 12).

Equality

In order to reassure stakeholders that all bidders are treated equally and fairly, BC Ferries is planning to initiate procedures surrounding:

- Limited information in Conceptual Proposal
- Chinese Wall
- Fairness Auditor

BC Ferry Commission

The BC Ferry Commission is not a formal part of the process. However they are a key stakeholder in the provision of regulated ferry services in BC and therefore it is

SUPPLEMENT TO ALTERNATIVE SERVICE PROVIDERS PLAN

our intention to notify the BC Ferry Commission as to the outcome of the review of the Conceptual Proposals along with a summary of the Initial Review Committee's final findings. Furthermore, the BC Ferry Commission will also receive copies of all Fairness Auditor reports.

SUPPLEMENT TO ALTERNATIVE SERVICE PROVIDERS PLAN

Appendix 1 - Regulated Routes

Route #	Name
1	Tsawwassen – Swartz Bay
2	Horseshoe Bay - Nanaimo
3	Horseshoe Bay – Langdale
4	Swartz Bay – Fulford Harbour
5	Swartz Bay – Gulf Islands
6	Vesuvius Bay – Crofton
7	Saltery Bay – Earls Cove
8	Horseshoe Bay – Snug Cove
9	Tsawwassen – Gulf Islands
10	Bear Cove – Bella Bella – Prince Rupert
11	Prince Rupert – Skidegate
12	Mill Bay – Brentwood
13	Langdale – Gambier Island – Keats Island
17	Comox – Powell River
18	Texada Island – Powell River
19	Gabriola Island – Nanaimo
20	Thetis Island – Kuper Island – Chemainus
21	Denman Island – Buckley Bay
22	Hornby Island – Denman Island
23	Quadra Island – Campbell River
24	Cortes Island – Quadra Island
25	Alert Bay – Sointula – Port McNeill
26	Skidegate – Alliford Bay
30	Nanaimo – Tsawwassen
40	Bear Cove – Mid Coast