

Update on the Request for Tender for PTOM Bus Services



26 May 2016



COMMERCIAL IN CONFIDENCE



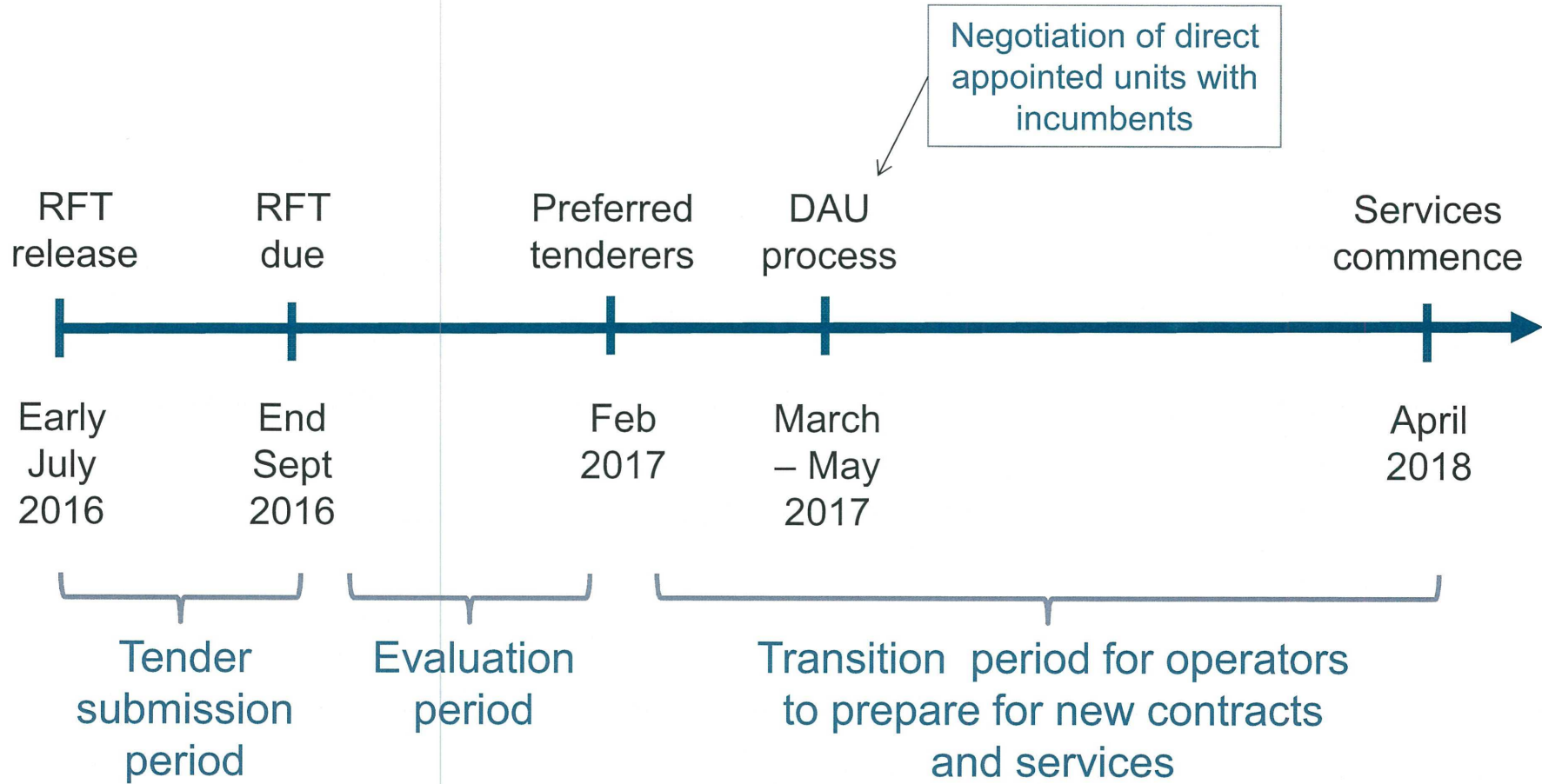
Purpose today

Update Council on the following elements to help understand the upcoming request for approval:

- Timeline
- Recap on objectives
- Report on staff arrangement approach
- Recap on evaluation approach
 - Report on emissions evaluation
- Report of Interim Bus Ticketing Solution
- Next steps



Timeline overview: Big Picture



COMMERCIAL IN CONFIDENCE



Timeline to RFT release

Activity	Dates
External assurances and approvals – Legal, Commercial, Probity – NZTA	Mid June End June
Recommendation to STC to endorse release of RFT	22 June
Recommendation to Council to approve release of RFT – by delegation to CE	29 June
CE approval of RFT release	Early July
Release RFT	Early July

Reminder of contracting objectives

Grow:

- Patronage
- Commerciality
- Confidence of efficient and fair pricing
- Confidence of competitive market

Legislative requirements through Local Government Act and NZTA investment requirements (Land Transport Management Act)

Confirmed principles guiding our tender approach:

- Maximise competition – short and long term
- “Light touch”
- Value for money – short and long term
- Price / quality balance
- Risk / reward balance
- Informed by industry

GWRC’s objective is to test VfM, not to drive down cost



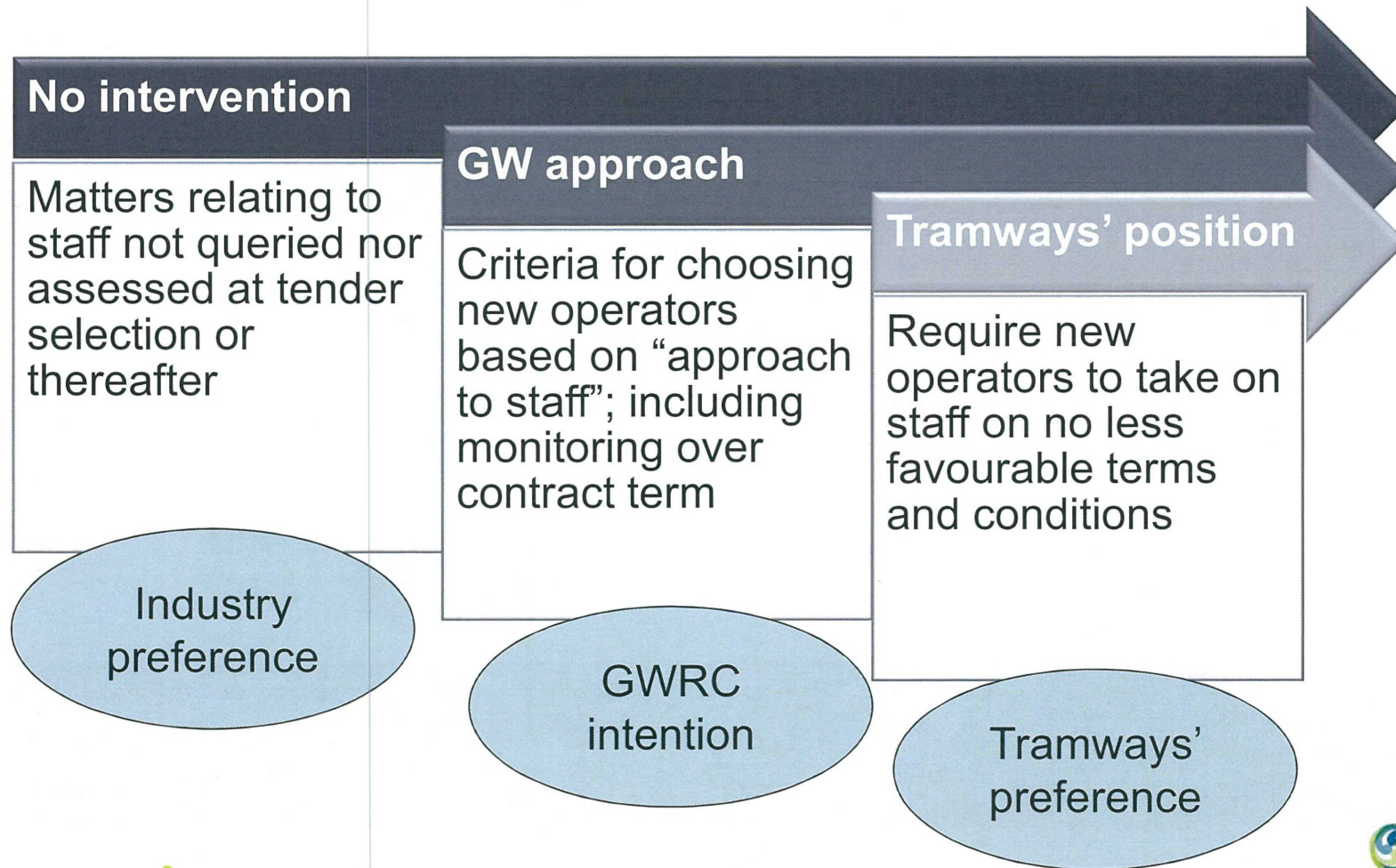
STAFF ARRANGEMENTS







COMMERCIAL IN CONFIDENCE



Continuum of influence



Bus unions in Wellington

Bus company	Tramways Union	Central Amalgamated Workers Union	Hutt Valley Society of Independent Bus Drivers	Manufacturing and Construction Workers Union	RMTU	Omnibus Workers Union	F1RST
Union (national membership)	 (450)	 (3,168)	(40)	Led by Graham Clarke (1,503)	 (4,673)	(45)	 Putting Workers First (25,465)
GoWellington (100% CEC)	✓			✓			
Valley Flyer (100% CEC)		✓	✓		✓		
Runcimans (100% CEC)	✓	✓					
Mana (30% IEC)	✓	✓				✓	
Madge (90% IEC)		✓					✓
Tranzit (100% IEC)							

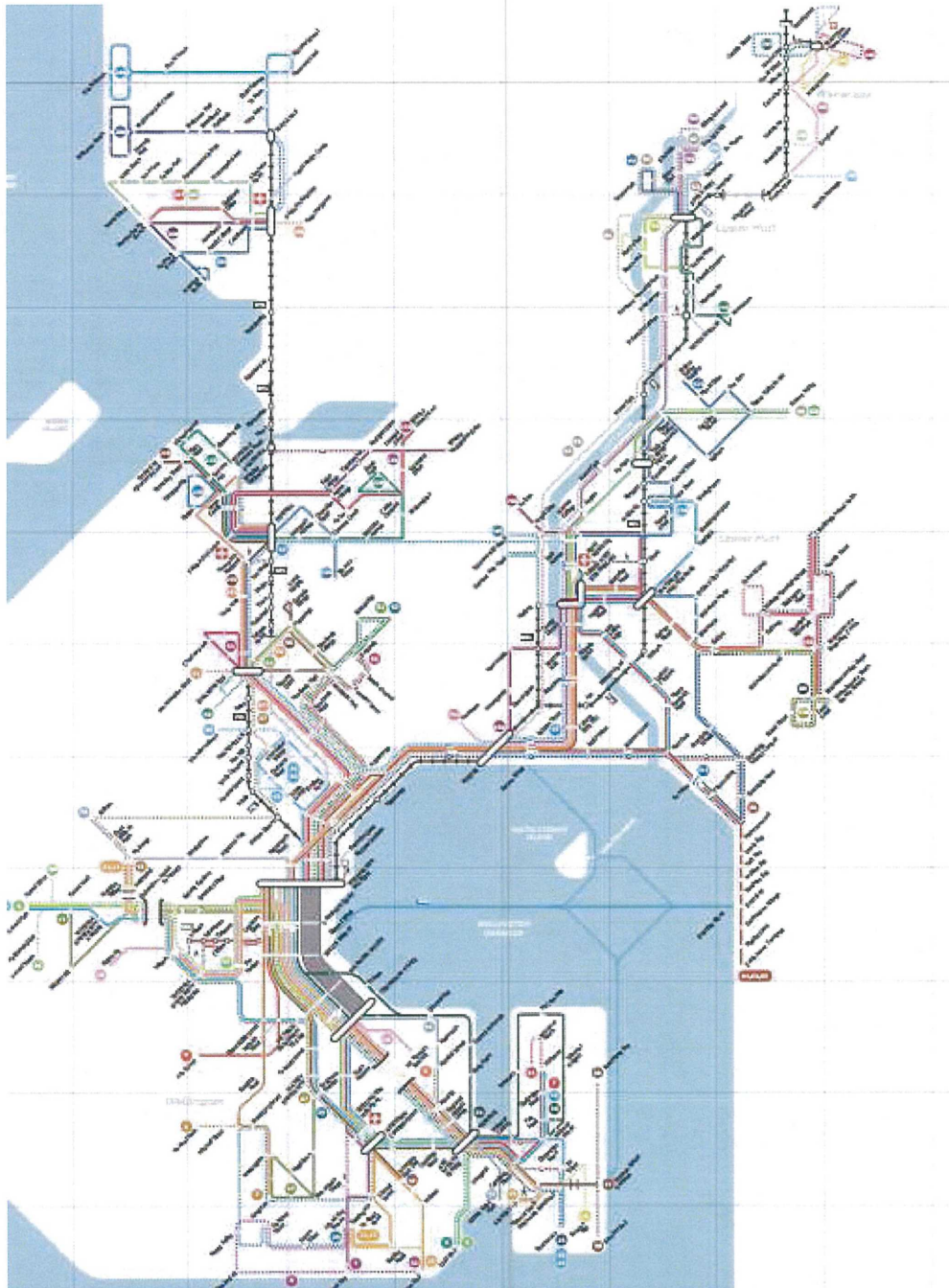
Why bus and rail are different

- 1 unit and 1 contract
- 1 union and 1 collective agreement
- Arduous staff recruitment and training for rail:
 - 1 year training to be a train driver; 7 weeks for train manager
 - Driver training specific to particular type of train
 - 6 month contract transition (c.f. 15 month for bus)
 - Presented a significant transition risk
- Bus drivers have broad employment opportunities (e.g. long-distance, charter, school, urban, freight sector)

s7(2)(g) - legal

External legal advice

- [Redacted]
- [Redacted]
- [Redacted]



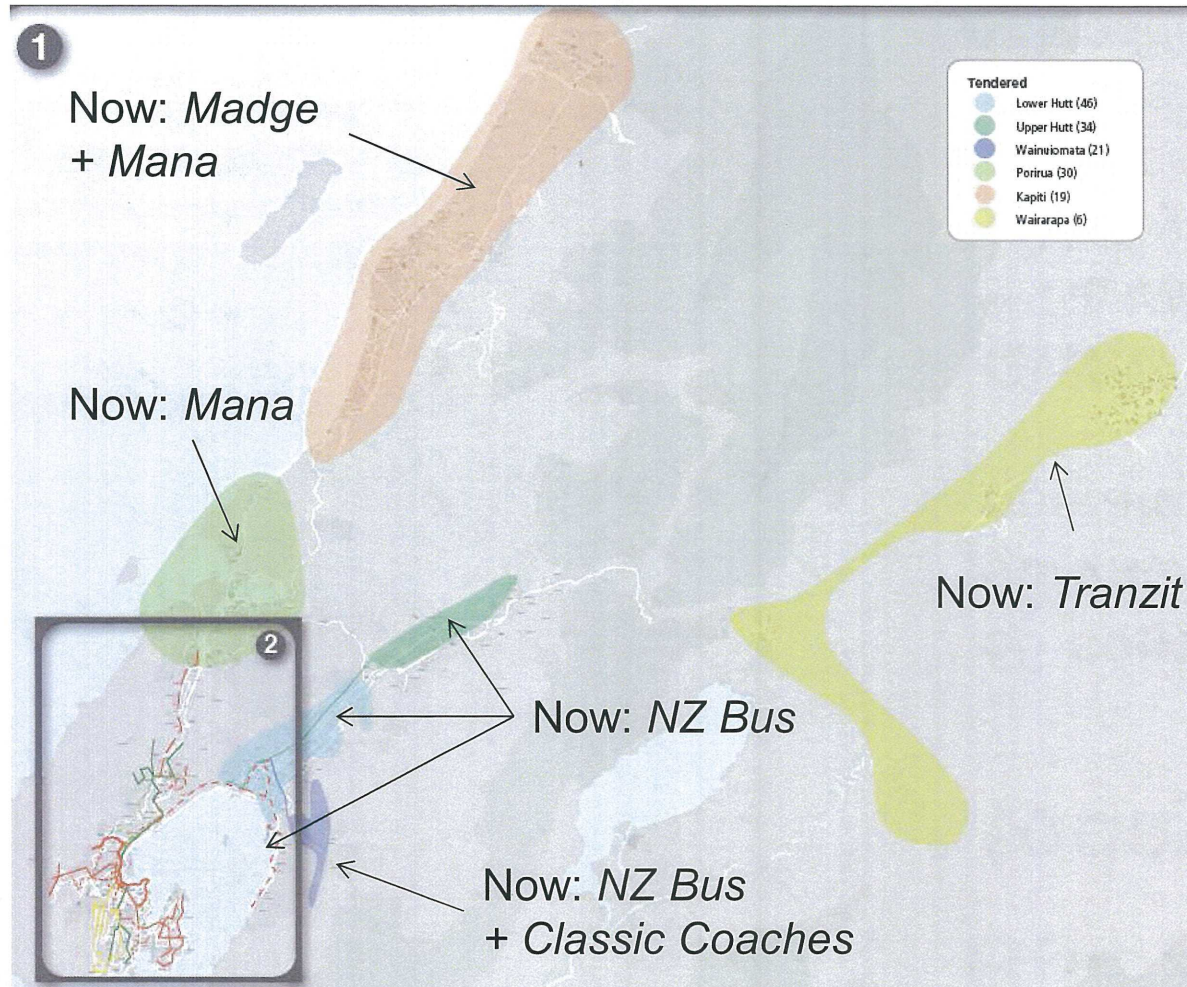
Bus network today

56 contracts for bus services (all private operators)

GWRC contracts with:

- Go Wellington
 - Valley Flyer
 - Runciman
 - Mana Coach Services
 - Madge Coachlines
 - Tranzit Coachlines
 - Classic Coaches
- } NZ Bus

Bus network under PTOM



Outside Wellington City:

6 “area” units currently covered by 4 bus operators – all will be tendered

1 DAU awarded to NZ Bus

Bus network under PTOM

Wellington City:

9 “line units” currently run by:

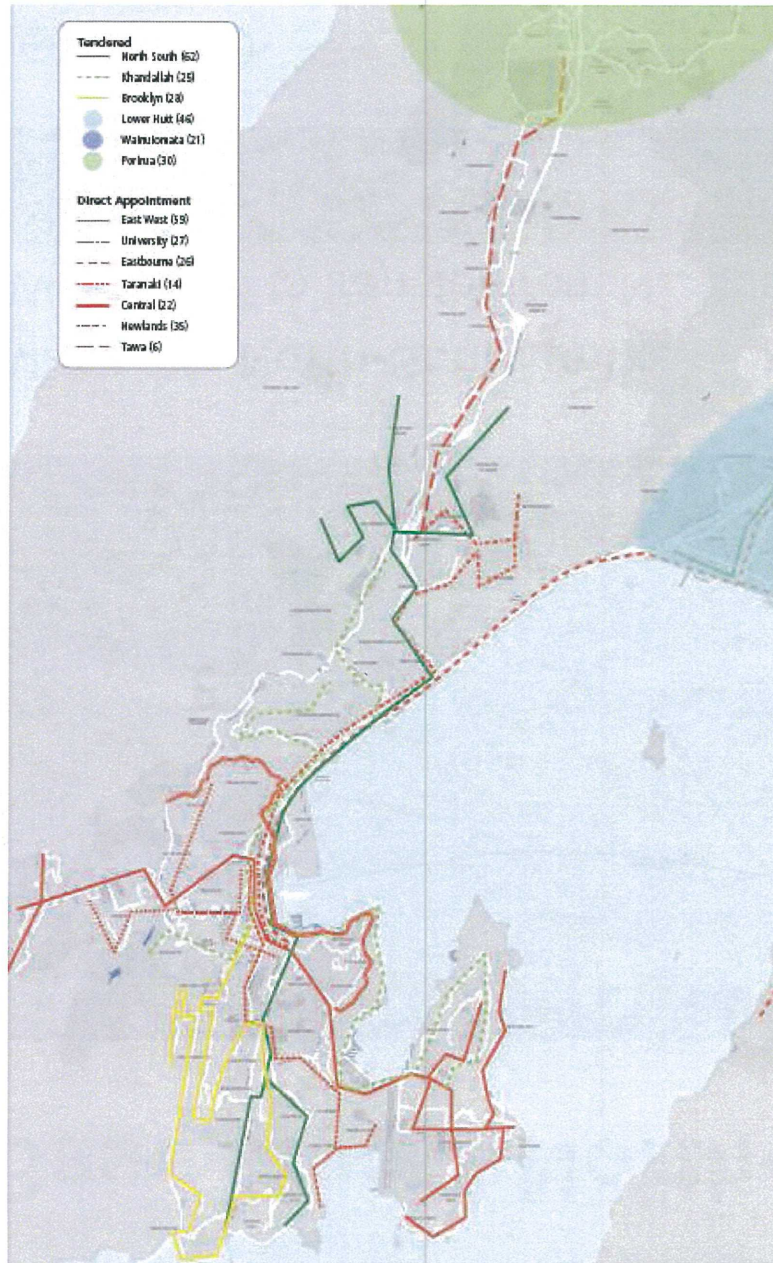
- NZ Bus
- Mana

6 DAU units:

- 4 x NZ Bus
- 2 x Mana

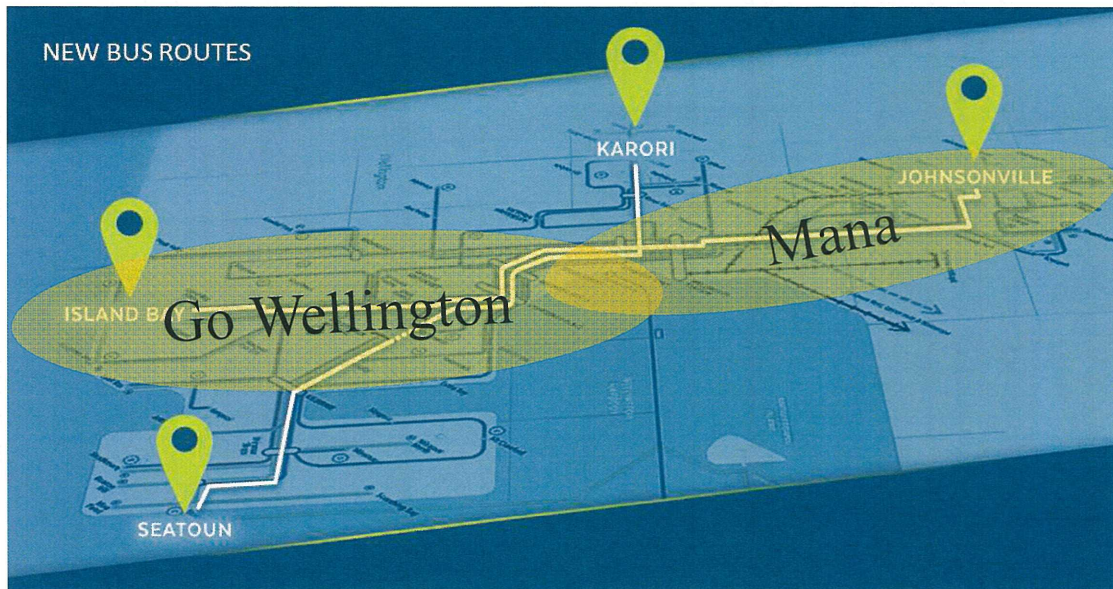
3 tendered units:

- North South
- Khandallah
- Brooklyn



COMMERCIAL IN CONFIDENCE

Case study: North-South unit



Now

- 2 operators
- Many routes + contracts
- Staff not dedicated to specific routes
- Tramways staff in both operators and on different T&Cs
- Coverage overlaps in central city

If Mana win North-South unit:

- Which staff to transfer from NZ Bus to Mana?

- [REDACTED]
- [REDACTED]

s7(2)(g) - legal

What happens elsewhere?

- Auckland + rest of NZ – no transfer requirements and less stringent assessment criteria in RFT than proposed by GW
- Most Australian States require staff transfers
 - All occur within large contract areas with clear demarcations of area contracts, i.e. 1:1 changeovers
 - Designed to address redundancy costs and to mitigate against stronger unions
- Consistent message from industry consultation – avoid intervention by GW

Existing mitigations for staff

- Outgoing operators will wish to minimise redundancy costs by finding suitable redeployment for their staff
- Outgoing operators will wish to retain staff to continue to deliver their existing obligations until PTOM start and to avoid early defections to new operators
- Incoming operators will wish to attract good, experienced staff and avoid substantial labour costs from early employment prior to contract commencement
- Incoming operators will need to compete with NZ Bus and Mana to recruit and retain staff

PTOM Tender: Current proposal

- Price Quality Method (PQM) and 2 envelope approach to non-financial and financial information, mean value rather than least cost is sought
- Tenderers' approach to staff will be assessed through RFT evaluation criteria
- Operator plans relating to staff reviewed by GW and form part of the contract
- No prescription of transfer of staff or minimum rates and conditions
- Rely on commercial incentives for incoming and outgoing operators to cooperate on, and compete for, staff

Quality assessment

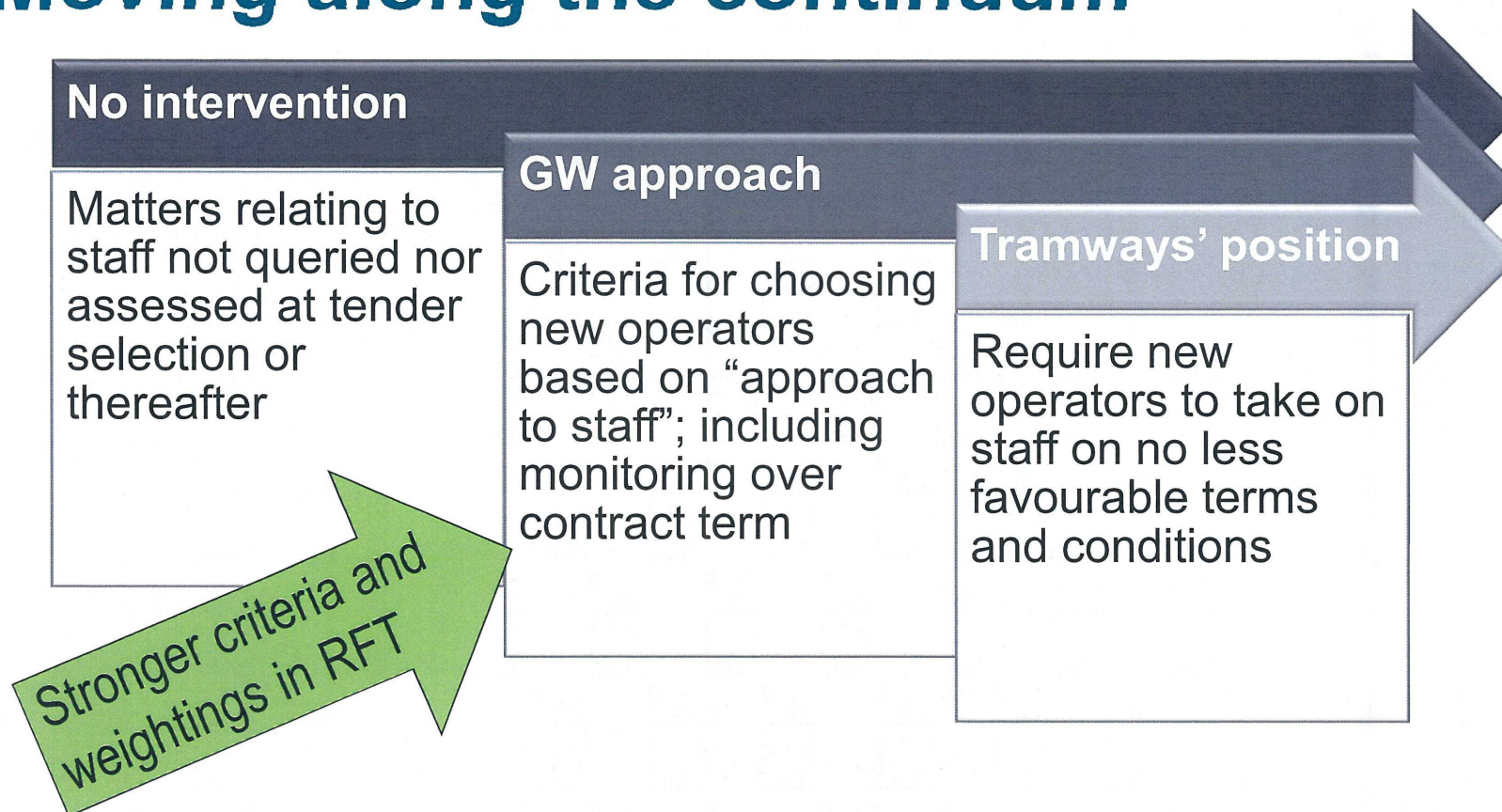
Staffing environment assessed

Attribute	Required to demonstrate in tender
Confidence in service delivery	<ul style="list-style-type: none"> • Relevant experience • Prior performance and track record • Innovation • Transition • Approach to service delivery and planning • Approach to fleet management (emissions evaluated separately)
Relationships and corporate culture	<ul style="list-style-type: none"> • Approach to partnering • Corporate culture, including staff welfare • Metrics including absenteeism, H&S • Recruitment and training • Health & safety practices
Customer service and patronage growth	<ul style="list-style-type: none"> • Customer service • Patronage growth – approach and experience • Managing service disruptions – including communications approach

Practical additions to RFT

Description	Risks	Opportunities	Recommend
No action – same as rest of country	Industrial action likely	Fair to market	x
Add additional hard measures to assessment and contract – balance of price and quality	Industrial action possible	<ul style="list-style-type: none"> • Demonstrates movement from original stance • Fair to market 	✓
Staff transferred (to new entrants only) on existing or minimum prescribed conditions	<ul style="list-style-type: none"> • Favours incumbents • Additional cost • May violate VfM requirements • Very difficult, if not impossible, to achieve 	Industrial action less likely	x

Moving along the continuum



Legislation requires local government to take a value for money approach. Moving to the right is hard to justify in the bus sector on these grounds, and risks being inconsistent with LG Act and LTMA

EVALUATION

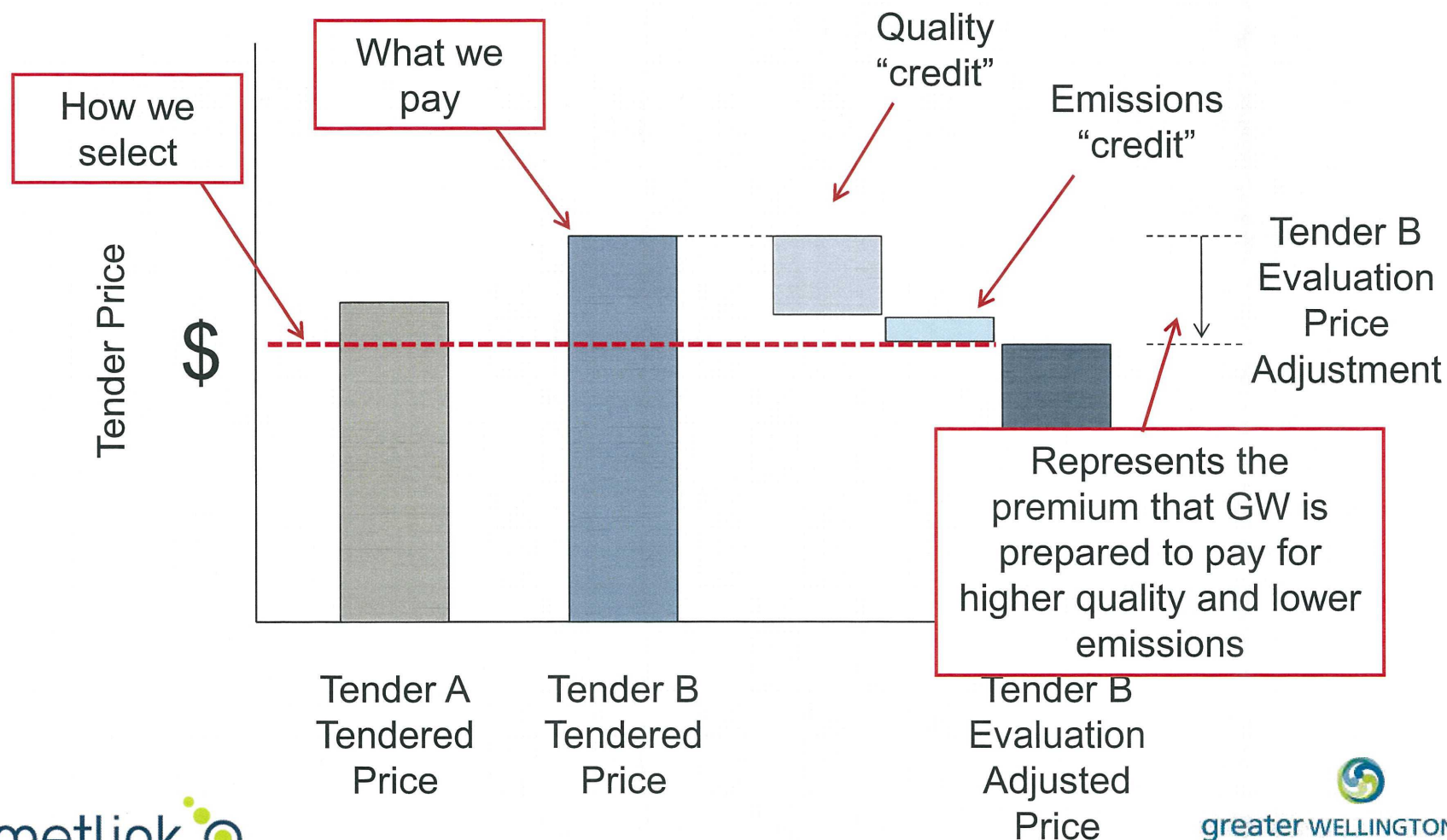


COMMERCIAL IN CONFIDENCE



Credit for high quality and low emissions

Price : Quality approach



Reminder of how we assess Quality

Attribute	Required to demonstrate in tender
Confidence in service delivery	<ul style="list-style-type: none"> • Relevant experience • Prior performance and track record • Innovation • Transition • Approach to service delivery and planning • Approach to fleet management (emissions evaluated separately)
Relationships and corporate culture	<ul style="list-style-type: none"> • Approach to partnering • Corporate culture, including staff welfare • Metrics including absenteeism, H&S • Recruitment and training • Health & safety practices
Customer service and patronage growth	<ul style="list-style-type: none"> • Customer service • Patronage growth – approach and experience • Managing service disruptions – including communications approach

Price Quality Method + Emissions

- Quality weighting 40%
- Price weighting 60%

**Emissions evaluation
is in addition to
Quality**

What does it mean?

North-South unit: price + premium outcome (pa)

s7(2)(i) - negotiation



the extra that GWRC is prepared to pay for higher quality and lower emissions

the price of lowest quality provider and baseline fleet outcomes



COMMERCIAL IN CONFIDENCE



To recap: incentivising lower emissions

- Tenderers who offer lower emissions fleets will be “rewarded” in the tender process
- Economic “cost to society” approach
- Pollutants evaluated:
 - Harmful pollutants: PM₁₀, NO_x, CO, HCO
 - Greenhouse Gases: CO₂
- External advice provided by air quality specialists
 - Emissions Impossible Ltd – Dr Gerda Kuschel
- Endorsed by NZ Transport Agency

Using real world data

- COPERT – “COmputer Programme to calculate Emissions from Road Transport”
- Regarded internationally as the ‘one source of truth’ for **real-world emissions data**
- Emissions factors are based on the results of empirical tests representing real life driving conditions
- Developed by the European Environment Agency

Example production rates

Bus type	Bus size	Emission Factors in g/km @ 20km/hour				
		CO	HC	NOx	PM ₁₀	CO ₂
Euro III	Large (LB)	3.46	0.70	12.56	0.25	1281
Euro IV	Large (LB)	1.61	0.09	7.58	0.06	1175
Euro V	Large (LB)	2.82	0.07	8.96	0.07	1138
Euro VI	Large (LB)	0.33	0.05	0.62	0.01	1163
Euro V hybrid	Large (LB)	2.82	0.07	7.17	0.07	759
Euro VI hybrid	Large (LB)	0.33	0.05	0.62	0.01	776
Electric	Large (LB)	0	0	0	0	0
Natural gas	Large (LB)	1.12	1.13	4.58	0.01	1392

Applying emission costs

- We are signalling to the market that we are prepared to pay more for low emission outcomes
- Emission costs derived from the social costs of each pollutant
- The emission costs used are:

Pollutant	NZD/tonne (2015\$)	Source
CO2	\$67.34	Austrroads
PM10	\$460,370	HAPINZ
NOx	\$16,359	HAPINZ
CO	\$4.24	Austrroads
HC	\$1,345	Austrroads

Electric buses – Alternative Tenders

- Proposals that include electric buses will be required to be submitted as Alternative Tenders
- This will allow wider aspects, than solely emissions benefits, to be considered, e.g.:
 - Charging infrastructure requirements
 - Any impacts on vehicle size and capacity
 - Any impacts on timetable and scheduling
 - End of term transfer of buses
 - reduces residual risk = lower price
 - Other benefits beyond emissions, and GWRC's (and NZTA's) willingness to pay for these benefits



MANAGING EMISSIONS

Contractual terms will lock in emission improvements

s7(2)(i) -
negotiation

- [Redacted]
- [Redacted]
- [Redacted]
- [Redacted]
- [Redacted]
- [Redacted]
- [Redacted]
- [Redacted]