




P.O. Box 1749
Halifax, Nova Scotia
B3J 3A5 Canada


Item No. 11.1.1
Halifax Regional Council
December 2, 2014

TO: Mayor Savage and Members of Halifax Regional Council

Original signed by 

SUBMITTED BY:

Richard Butts, Chief Administrative Officer

Original Signed by 

Mike Labrecque, Deputy Chief Administrative Officer

DATE: November 03, 2014

SUBJECT: **Halifax Transit Sole Source Award – Voith Schneider Propellers - Voith Canada Inc.**

ORIGIN

The approved Project Budget for construction of a New Passenger Ferry.

LEGISLATIVE AUTHORITY

Administrative Order #35, the Procurement Policy, requires Council to approve the award of contracts for sole sources exceeding \$50,000 or \$500,000 for tenders and RFP's. Under the HRM Charter, Section 79, Halifax Regional Council may expend money for municipal purposes. The following report conforms to the above Policy and Charter.

RECOMMENDATION

It is recommended that Halifax Regional Council:

1. In accordance with the Sole Source Policy (Administrative Order 35, Section 8(11A) sub-section (a) To ensure compatibility with existing products, to recognize exclusive rights, such as exclusive licences, copyright and patent rights, or to maintain specialized products that must be maintained by the manufacturer or its representative; and (b) Where there is an absence of competition for technical reasons and the goods or services can be supplied only by a particular supplier and no alternative or substitute exists) award the Sole Source purchase of two Voith Schneider propeller units for a new Halifax Transit ferry, for a estimated cost of 850,970 Euros plus applicable taxes for an estimated Canadian Dollar cost of \$1,348,912 including net HST to Voith Canada Inc., with funding from Project No. CM000001 – Ferry Replacement, as outlined in the Financial Implications section of this report; and
2. Authorize the CAO to execute an agreement with Voith Canada Inc. for the purchase of two Voith Schneider propellers.

BACKGROUND

Halifax Transit's existing ferries were constructed in 1978 (Dartmouth III and Halifax III) and 1986 (Woodside I). As such, these ferries are approaching the end of their economic lifespan. Recapitalization of the aging ferry fleet is recommended in the Council-Approved *Metro Transit Five-Year Strategic Operations Plan* and further in the *Strategic Ferry Operations Plan*.

Halifax Transit is currently engaged in a Council approved project to recapitalize the ferry fleet, with one vessel currently under construction to replace the Dartmouth III. The Halifax III is the next vessel to be replaced under the recapitalization program.

DISCUSSION

Ferries produced under the planned recapitalization effort will incorporate the design of the vessels of the existing ferry fleet, as updated for the construction of the Christopher Stannix. Ferries of this type have proven to be efficient and reliable, and they were designed to integrate with the unique terminal infrastructure that is featured at Halifax Transit ferry terminals.

Vessels of the current fleet each feature two Voith Schneider propellers as components of the main propulsion system. The unique characteristics of these units contribute to the efficiency and manoeuvrability of the ferries (which permits them to operate safely in relatively high winds), and they have proven to be extremely reliable in operation. Maintenance of commonality in propulsion systems across the ferry fleet will simplify training, maintenance and sparing, as operators will have to maintain proficiency with a single propulsion arrangement only.

A letter from EYE Marine, consultants to HRM for the design of the new ferries is attached as Appendix A; this letter supports the case for sole sourcing and verifies that the model of propeller under quote (12R4 EC/75-1) is the correct model for the intended design.

As per Appendix "A", (attached) the subject sole source purchase from Voith is in accordance with HRM's Procurement Policy (Administrative Order 35), Sole Source/Single Source Purchases - Section 8(11A) sub-sections (a) and (b) as follows:

- (a) To ensure compatibility with existing products, to recognize exclusive rights, such as exclusive licences, copyright and patent rights, or to maintain specialized products that must be maintained by the manufacturer or its representative.
- (b) Where there is an absence of competition for technical reasons and the goods or services can be supplied only by a particular supplier and no alternative or substitute exists.

Lead time to produce Voith Schneider propellers is in the order of 11 months. A tender competition for construction of two replacement ferries was awarded to AF Theriault and Son Ltd in the summer 2013; construction will commence on the second ferry of the recapitalization project in 2015. In order to ensure the propellers are available for timely integration with the hull and propulsion systems during the build program, it is necessary to procure these units now. Following Council's approval of this award, HRM will issue a letter of "Intent to Purchase" to Voith Canada Inc., for a total cost 850,970 plus applicable taxes and related matters will be reviewed by Procurement and Legal Services to finalize the terms and conditions of sale and purchase, including warranty and payment terms, before a purchase order is issued.

	Quotation	Quoted Price
VoithTurbo Canada Inc.*	Quotation No. SQ003272	850,970€

Recommended*

FINANCIAL IMPLICATIONS

The requirement by the vendor to make payment in Euros exposes this procurement to currency risk in the relationship between the Canadian Dollar and the Euro. This currency risk will be over a protracted period as it is anticipated that a number of progress payments will be made during 2015. There are two primary options available to staff to manage this currency risk. The first is to purchase all of the Euro currency required as soon as Council provides authority for this procurement, The second option is to accumulate the Euro currency required over time. While the first option provides better actual Canadian Dollar cost certainty this comes at the risk that the Canadian Dollar to Euro relationship will improve over the next year or so such that the Euros required could have been purchased for fewer Canadian Dollars. The second option exposes the Canadian Dollar cost of this procurement to the risk that the Euro will become more expensive in Canadian Dollar terms.

The outlook for the relationship between the Canadian Dollar and the Euro over the next year or so is both complex and uncertain. It will be impacted by a number of factors including the monetary policies of the respective areas, anticipated economic growth differentials as well as oil prices as the Canadian Dollar is often seen as a “petro currency”. Market forecasts are generally calling for the Canadian Dollar to strengthen somewhat against the Euro in this time frame. A protracted decline in oil prices, however, could certainly put these forecasts at risk.

Subject to further unfolding of various market conditions, it would currently be staff's intention to purchase between one half and one third of the Euros required once Council approval is given for this procurement and then accumulate the balance over time. The Canadian Dollar cost estimate below allows for a somewhat more expensive exchange rate than currently available at time of writing of this report to ensure sufficient funds are available to conclude this procurement. However staff will endeavor to keep the actual Canadian Dollar cost as low as possible in managing the currency risk.

Based on a quoted price of 850,970 Euros, the estimated Canadian Dollar cost is \$1,293,474 plus net HST of \$55,438 for a net estimated cost of \$1,348,912. Funding is available in the approved Project Budget from Project No. CM000001 – Ferry Replacement. The budget availability has been confirmed by Finance.

Budget Summary: **Project No. CM000001 Ferry Replacement**

Cumulative Unspent Budget	\$1,513,055.66
Less: Voith Canada Inc.	<u>\$1,348,912.00</u>
Balance	\$ 164,143.66

The balance of funds in CM000001 will be used for the construction of the second ferry of the recapitalization project.

ENVIRONMENTAL IMPLICATIONS

Staff has not identified any environmental implications associated with recapitalization of the ferry fleet or this proposed procurement.

ALTERNATIVES

Council could choose to not proceed with the procurement of Voith Schneider propellers for the New Passenger Ferry or defer the purchase. However this would preclude Halifax Transit from recapitalizing the aging ferry fleet.

ATTACHMENTS

Appendix A - Voith Propellers – Letter from EYE Marine
Appendix B – HRM Administrative Order #35

A copy of this report can be obtained online at <http://www.halifax.ca/council/agendasc/cagenda.php> then choose the appropriate meeting date, or by contacting the Office of the Municipal Clerk at 902.490.4210, or Fax 902.490.4208.

Report Prepared by: Glen Bannon, Manager, Transit Operations, Halifax Transit, 902.490.1505

Procurement Review: _____
Anne Feist, Manager, Procurement, 902.490.4200

Report Approved by: _____
Eddie Robar, Director, Halifax Transit, 902.490.6720

Project #11075

Date: June 20, 2012

Attention: Peter Hackett

Re: New HRM City ferry: Propeller Selection

As we have discussed, it is our intention to complete a ferry design of similar type to the existing ferries HRM and Metro Transit currently operate. In order to make the new vessel as maneuverable and efficient as the existing ferries we can only use a similar propeller to the ones currently installed.

The current vessels have Voith-Schneider propellers. These propellers are unique in that they are vertical axis propellers rather than the typical screw type. These propellers provide extremely good maneuvering characteristics along with the ability to provide high levels of thrust in any direction. These propellers have been very successful in the current fleet of ferries and we feel they are the only reasonable choice for the new ferry to ensure the same high level of maneuverability and efficiency.

Voith-Schneider propellers are offered through Voith-Turbo in Germany. They are the patent holders and the only available supplier of such propellers. These units are long lead time items and thus it is our recommendation that you order these propeller units prior to awarding the build contract to ensure the units are available and on-site early in the build process.

The Voith-Schneider propeller required is model# 12R4 EC/75-1 and we will require two of them for this design. If you have any questions regarding this please call me.

Regards,

original signed



Christian Jensen, P.Eng.
Senior Naval Architect

Cc/
TT

Appendix B
Administrative Order 35
Procurement Policy Section 8 (11) (A)
Sole Source/Single Source Purchases

(11) **Alternative Procurement Practices** may be used as follows:

A. Sole Source/Single Source Purchases. These occur:

(a) To ensure compatibility with existing products, to recognize exclusive rights, such as exclusive licences, copyright and patent rights, or to maintain specialized products that must be maintained by the manufacturer or its representative.

(b) Where there is an absence of competition for technical reasons and the goods or services can be supplied only by a particular supplier and no alternative or substitute exists.

(c) For the procurement of goods or services the supply of which is controlled by a supplier that is a statutory monopoly.

(d) For the purchase of goods on a commodity market.

(e) For work to be performed on or about a leased building or portions thereof that may be performed only by the lessor.

(f) For work to be performed on property by a contractor according to provisions of a warranty or guarantee held in respect of the property or the original work.

(g) For the procurement of a prototype of a first good or service to be developed in the course of and for a particular contract for research, experiment, study or original development, but not for any subsequent purchases.

(h) For the purchase of goods under exceptionally advantageous circumstances such as bankruptcy or receivership

(i) For the procurement of original works of art.

(j) For the procurement of goods intended for resale to the public.

(k) For the procurement from a public body or a not-for-profit corporation.

(l) For the procurement of goods or services for the purpose of evaluating or piloting new or innovative technology with demonstrated environmental, economic or social benefits when compared to conventional technology, but not for any subsequent purchases.

The terms and conditions of a sole source/single source purchase shall be negotiated. Sole source/single source purchases over \$25,000 and not exceeding \$50,000 shall be approved by the CAO.