

1.0 Statement of Purpose

The Government of Nunavut (GN), Department of Community and Government Services (GN-CGS), is seeking input from stakeholders regarding the GN's plans to secure contracts for Scheduled Medical Travel, GN employee duty travel and freight rates for the GN. Given the impact of the volume of GN business in the (Nunavut) airline marketplace, the GN anticipates that the outcome will have a positive impact on the levels of airline service and pricing to all Nunavummiut. The GN anticipates that once the contracts are in place, that the contracted airline service providers should have predictable, consistent revenue sources so that they can increase efficiencies and profitability.

The GN recognizes the critically important services offered by the airline industry in Nunavut. The levels of service and the cost of the services have a direct impact on the quality of life for all Nunavummiut. The GN wants to develop an Airline Procurement Strategy with input from all interested stakeholders. Through this **Request for Input (RFI)** the GN invites all stakeholders, with a vested interest in the outcome of this procurement strategy, to offer input and comments on the overall plan. The GN recognizes that its decisions will have a considerable impact on the marketplace, therefore it is important that the GN make informed decisions.

1.1. RFI Process

This is not a bid solicitation. This RFI will not result in the award of any contract; therefore, potential suppliers or stakeholders of any services described in this RFI should not earmark stock, investments or facilities, nor allocate resources, because of this RFI. This RFI will not result in the creation of any source list; therefore, whether or not any potential supplier or stakeholder responds to this RFI will not preclude that entity from participating in any future related procurement. This RFI is not an authorization by the GN to undertake any work that would result in cost to the GN. However, the GN plans to use the responses to this RFI to help inform the potential development of a Nunavut Airline Procurement Strategy. The GN anticipates that the procurement strategy process will result in contracts for services.

1.2. Standard Instructions to Respondents

While this RFI Process is not a formal or binding procurement process, we would ask that respondents follow the rules, guidelines and processes outlined in the sections below. This will help in the administration of the RFI process.

1. RFI Submissions may be received in hard copy, by fax or electronically through the Nunavut Tenders web site (Bid Box) on or before **Friday August 31, 2018 at 16:00 HRS (4:00 PM) Local Time in Iqaluit, NU** at:

<p>Department of Community and Government Services Government of Nunavut Attention: Mark McCulloch, Senior Manager Procurement, Logistics Hand Delivered to: 3rd Floor, W. G. Brown Building, Iqaluit, Nunavut Telephone: (867) 975-5427 Fax: (867) 975-5450</p>
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E-mail: mmcculloch@gov.nu.ca

- a) Please submit one (1) original and four (4) copies, quoting “*RFI 2018-38, Request For Input, Nunavut Airline Procurement Strategy*”, the closing date and the respondent’s name on the outside of the envelope. *An electronic version of the submission may be submitted through the Nunavut Tenders Bid Box functionality.*
 - b) After the closing time, and subject to the Access to Information and GN reporting provisions contained herein, only the names and addresses of the respondents/submissions will be made public.
2. The GN will not accept or be responsible for any submission that:
- a) Does not indicate the RFI title, reference number, closing date, respondent’s name and address on the submission envelope or packaging; or
 - b) Is delivered to any building address or fax number other than that provided above.
3. **NUNAVUT TENDERS BID BOX:** The GN is offering the option of submitting RFI submissions electronically, using the Nunavut Tenders website (<http://www.nunavuttenders.ca>). By using the Bid Box, respondents are agreeing to the Terms of Use, which are linked to the Nunavut Tenders webpage.
4. If submissions are sent by fax:
- a) The submission should be **received in its entirety before the closing date and time** at the fax machine number stated. For greater certainty, “received in its entirety” means that the fax transmission is complete and all pages of the submission are fully printed by the receiving fax machine. To ensure the information is received in its entirety before the closing time, it is recommended that the respondent **commence the fax transmission well in advance of the closing time**, and confirm receipt by a telephone enquiry. The fax machine is used for other government business and may be busy prior to closing;
 - b) The GN does not guarantee that fax transmissions will be received and any respondent who submits information by fax machine does so **at its own risk. The GN accepts no liability** for any claim for damages resulting from a fax transmission which is interrupted, not received in its entirety, received after the stated closing time and date, received by any other fax machine other than the one stated herein, or for any other reasons; and
 - c) While the GN will undertake to handle fax submissions in a secure and confidential manner, it is impossible to guarantee the confidentiality of information contained therein; therefore, by faxing their submission, the respondent waives any legal claim of confidentiality against the GN.
5. As soon as practical after sending information by fax, the respondent should provide confirmation that the submission and required copies have been sent by the most expedient means to:

**Government of Nunavut,
Department of Community and Government Services,
Procurement and Contract Services, Attention: Mark McCulloch
Box 1000, Station 1600
3rd Floor, W. G. Brown Building
Iqaluit, NU, X0A 0H0**

6. Due to limited bandwidth, file size restrictions and connectivity interruptions, submission by e-mail is unreliable. Information submitted by e-mail will not be accepted. Notwithstanding the foregoing, the GN reserves the right to request an unaltered electronic version of the information after the closing date and time.
7. All questions, enquiries or any other communications concerning this RFI should be in writing and submitted to the contact person identified in Section 1.2, bullet 1. Verbal communications are discouraged, cannot be relied upon, and are not binding on either party. Verbal responses to any inquiry or communication made by the contact person identified herein, or any other person, are not binding on either party and cannot be relied upon or construed to be an implied term of this RFI. The GN will accept no liability for any losses, damages or claims by a respondent who has relied on verbal information or communication from any other party, including our client.
8. Responses to any communication made by a GN employee other than the contact person identified in clause 1 should not be relied on and cannot be guaranteed.
9. A response to any enquiry received later than five (5) calendar days prior to the RFI closing deadline cannot be guaranteed.
10. Any amendments made by the GN to this RFI will be issued in writing and available via automatic notification in an addendum format for download to those respondents who have registered and who have received the original documents from the GN Nunavuttenders website. Respondents who do not register will not get the addenda.
11. Respondents may amend their information submitted by fax at any time prior to the closing date and time. **If submitting via the Nunavut Tenders Bid Box is permitted, respondents may upload revised information, or upload submission amendments. Amendments or amended submissions should be clearly identified as such. The latest version will be considered the respondent's official submission.**
12. The GN reserves the right to request clarifications with any respondent who has submitted input. Respondents are encouraged to submit enquiries and seek clarifications to the RFI document prior to the stated closing date and time. A Respondent or entity seeking modifications to the RFI terms should specifically request those changes in writing prior to the closing date and time, and the GN may respond by way of addendum.
13. The GN reserves the right to issue an addendum after the closing date.
14. The *Access to Information and Protection of Privacy Act*, S.N.W.T. 1994, c. 20, as duplicated for Nunavut by s. 29 of the *Nunavut Act*, S.C. 1993, c. 28 ("the *ATIPP Act*")

2.0 Background

The Government of Nunavut (GN) is seeking Input (RFI) from all stakeholders in the Nunavut Airline Industry.

The GN has had a history of awarding contracts for Scheduled Medical Travel & Duty Travel through a competitive procurement process. The GN issued the most recent Request for Proposals (RFP) process in February of 2011. The contract was in place for 6 years. During the contract, the airline marketplace experienced some significant changes. Due to the apparent lack of effective competition in the marketplace, the GN decided to hire an airline industry consultant to advise the GN on the development of an Airline Procurement Strategy. The GN retained Lufthansa Consulting Group through a competitive procurement process. The Lufthansa Consulting team has been working with a GN Interdepartmental Steering Committee to develop a Procurement Strategy.

The GN extended the current contracts with the airlines until August 31, 2019.

3.0 Lufthansa Consulting Findings

The following is a short summary of the overall findings of the research conducted by Lufthansa Consulting from October 2017 to this date. These findings have led to a number of questions or observations for which the GN is seeking answers or clarification. The GN will consider the input it receives from the marketplace before proceeding with the next phase of the Procurement process. Lufthansa Consulting has gathered statistics and operating costing information from the Nunavut airlines and other stakeholders within Nunavut. This information combined with their wide industry knowledge of airline operations has led to a set of recommendations for the next procurement cycle. The Nunavut airlines (First Air, Canadian North and Calm Air) have been helpful in offering data and confirming some costing and volume inputs used as assumptions in the analysis of the data. Lufthansa Consulting based its finds on the information gathered from interviewing many stakeholders in Nunavut and statistical information available within the world airline industry. The GN is open to stakeholder input on any of the observations below:

- The GN currently does not have a central management process nor a tool which all GN departments use when booking travel (Duty Travel and or Scheduled Medical Travel). Use of such a uniform management process with the support of the appropriate electronic booking tool would assist the GN to track travel volumes and expenses.
- Airlines should contribute to increasing the transparency of the services provided to the GN by providing detailed reporting data to the GN on a regular basis. The GN will use this data, combined with proactive discussions with the airline to make improvements to

service quality (customer service during flight cancellations due to weather or mechanical issues). The GN would be receptive of discussions and suggestions with the airlines on how the data would be gathered, secured and used.

- There are opportunities for the GN to promote more efficiency within the Nunavut airline industry by using its market size influence to the benefit of all Nunavummiut.
- The GN could use its market size to allow for improved revenue stability and predictability for the airline industry in Nunavut. To accomplish this, the GN would guarantee a percentage of revenues or volumes in defined geographical groupings of routes. This may also attract new service providers into the marketplace.
- Some routes within Nunavut have industry schedules where the airlines fly tip-to-tip, following each other, with less than full capacity.
- Scheduled Medical Travel booked seats on aircraft are too frequently missed or no-show by passengers. This results in unnecessary expenses or lost revenues to the airlines.
- On some routes, the marketplace in Nunavut is over-served. This results in too many flights flying with too few paying passengers. This is not efficient and increases the overall operating cost to airlines and ticket costs for all using the service.
- Airlines in Nunavut have high operating costs under their current method of operating. Contributing factors include high fuel costs and above average staff and maintenance costs when compared to similar operations in other markets.
- Airlines in Nunavut have higher than industry average flights cancelled due to mechanical failure. This may be due to the age of the aircraft as well as the difficult operating conditions and extreme temperature ranges.
- Nunavut aircraft in service today are older models that burn high volumes of fuel. Fuel consumption represents between 30% and 40% of the airlines operating costs so any measure in introducing more fuel efficient aircrafts have a significant effect on the overall operating costs.
- Freight within Nunavut is expensive to ship compared to other similar jurisdictions in the world. GN freight rates can be 80% higher than other jurisdictions with similar operating environments (smaller isolated markets).

4.0 Objectives of the Airline Procurement Strategy

The Government of Nunavut has as one of its objectives, as is outlined in the document Turaaqtavut Implementation Plan (2018), **to reduce the cost of air travel to better connect Nunavummiut to one another and to the rest of Canada.**

Other objectives of the procurement strategy include the following:

- **Adequate Service to All Nunavut Airports** – Nunavummiut should have an adequate level of reliable air service within Nunavut and to destinations from Nunavut. This service level needs to support the regular flow of passengers and freight (including food

freight). The objective is to define adequate service levels and introduce an incentive / penalty system to make sure the selected service provider adheres to their commitment.

- **Profitable Level of Revenues** – The service providers need to be operating in a marketplace that allows them to receive an acceptable level of operating revenue to allow for the necessary investments in renewal of the fleet and maintenance of service standards.
- **Reasonable Air Fares** – Reasonable air fares for all Nunavummiut. This includes passenger rates and freight rates through the promotion of a competitive marketplace.
- **Scheduled Medical Travel** – To secure competitive pricing and effective levels of service for Scheduled Medical Travel patients from all Nunavut Hamlets.
- **Duty Travel** - To secure competitive pricing and effective levels of service for GN Duty travel needs.
- **Freight Services** – To secure competitive pricing and improved levels of services for the movement of freight for all customers. It is recognized that the GN does not have a large volume of air freight. The GN is open to input from airline stakeholders outlining any concerns or issues that the procurement strategy may have on the Nunavut freight marketplace.
- **Industry Growth** – To promote growth within the Nunavut airline industry and attract healthy competition. The GN will plan to enter into contracts with airlines that will guarantee a certain volume of GN annual business. This will allow the airlines to better plan their activities including asset investment, asset renewal, Inuit and other employee training and operational efficiencies (lower airline operating costs).
- **Industry Stability** – The GN will promote industry stability by guaranteeing an annual volume of business within certain geographical areas. The GN will group the geographical areas such that each contract award to one airline per geographical area, will allow the airline to be more efficient and profitable.
- **Investment** – To encourage investment in the Nunavut airline industry by guaranteeing a stable level of revenue, annually.
- **Downward Pressure on Pricing and Route Cross Subsidizing** – The Strategy will promote airlines to be efficient and allow the routes within the geographical regions to be profitable overall. The routes that are more profitable within a geographical region will help to cross-subsidize the price on less profitable routes. This should have the overall impact of decreasing air travel costs and guarantee a minimum level of service to and between all Nunavut Hamlets and destinations.

5.0 Overall Procurement Strategy Process

The Airline Procurement Strategy will have three main components:

1. *Request for Input (RFI)*
2. *Request for Qualifications (RFQ)*
3. *Request for Proposals (RFP)*

1. ***Request For Input (RFI)*** – Lufthansa Consulting has completed significant analysis on the Nunavut Market Place. This has included information gathered on the volumes of customers flying on the airlines, freight volumes, operational costs, profitability of routes and other industry factors. From their analysis, it suggests dividing the Nunavut marketplace into three (3) geographical regions that should be able to be operated efficiently and profitably. Recognising that there are significant volumes of Duty and business travel between the regions, and that an efficient interconnection will still be required, the GN could award each of the areas (through a competitive procurement process) to one airline. The three geographical areas being considered are:

Region 1: Qikiqtaaluk Region (including the Iqaluit – Ottawa Route)

Region 2: Kivalliq Region

Region 3: Kitikmeot Region

The GN would like to receive input from the industry stakeholders on the three geographical areas above and how the interconnection could best be facilitated. The GN would also be receptive to other observations or recommendations for different geographical areas to be considered. The GN would be receptive to observations from the industry stakeholders with respect to the profitability of the three geographic regions outlined above or any other regions suggested.

The purpose of this RFI stage is to put forward the GN's plan to initiate a competitive process to award the airline business as three separate Regions to the marketplace. The GN will award all of the Scheduled Medical, Duty Travel and freight business to one supplier per region, with one of the contracts to include a requirement for adequate interregional service. This RFI explains the three-stage procurement process. The RFI further explains that the GN intends to use its market share to gain preferred pricing for all Nunavummiut. By awarding to the airlines a guaranteed volume of business, based on the previous year's volume (percentage to be determined) the airlines can better plan for the use of their assets, make investments in infrastructure, improve efficiencies and lower operating costs. Through the RFI process, all of the industry players, airlines, businesses and the public, are able to offer their input into the overall plan. The feedback from industry players will assist with the content of the second step of the process, the Request for Qualifications.

2. ***Request for Qualifications (RFQ)*** – The GN will use the information gathered from the RFI process to outline the requirements of the second phase. The RFQ document will be a public procurement document. The document will include the evaluation criteria to allow an evaluation team to eliminate proponents that are unable to satisfy minimum qualification requirements and minimum service delivery levels to all

Nunavummiut. During the RFQ phase, we will encourage new entrants to consider partnering with other airlines (possibly feeder airlines) to improve their overall operational efficiencies and quality of their levels of service.

The RFQ phase will include mandatory requirements or evaluation criteria such as:

- The Proponent must hold an airline operating certificate or be a licensed re-seller of airline services operating in partnership with an airline holding an airline operating certificate;
- Minimum years of experience as a commercial airline or licensed re-seller;
- Ownership of aircraft;
- Ability to obtain operating liability insurance;
- Ability to obtain a performance bond or other forms of performance security; and
- Other

These mandatory requirements will be a Pass / Fail criteria. Only bidders that are successful in the RFQ process will be asked to continue with the final RFP process to follow.

3. ***Request for Proposals*** – This final stage of the process will be a Best and Final Offer, Request For Proposals process (BAFO RFP). The GN will request proposals from the list of qualified proponents from step 2. The RFP process will include a bidder's conference meeting to answer questions and clarify the process and requirements. The GN will invite qualified Proponents to submit complete proposals outlining their levels of service for each of the specified geographical service areas. Proponents may also bid on a combination of multiple service areas. Proponents must fully describe how they will meet the minimum service standards, minimum flight volumes, and pricing.

Evaluation criteria will be set out in the RFP document. These criteria will be used to determine the successful proponents. The evaluation criteria will include the application of the NNI Regulations. The evaluation criteria may include the following categories:

- Inuit Employment – The greater the dollar value for Inuit Employment, the higher the score will be.
- Inuit Training – Focused on industry recognized training.
- Price – Pricing categories will include GN Medical Travel, GN Duty Travel, freight rates, and potential price caps for all Nunavummiut that may be based on the GN Medical and or Duty travel rates. (For example, pricing for all Nunavummiut shall not exceed a percentage the GN Duty Travel rates however prices may be less for lower levels of service options). Any price caps must not violate the Canadian Competition Act.
- Methodology - How the airline will deliver the services. This will include the proposed flight schedule to be offered, fleet plan to promote an efficient fleet strategy to optimise operating costs (fuel, maintenance),

services to be provided, approach to contract management and other related topics.

- Freight Handling Capacity – Volume capabilities, levels of service, security of freight, tracking parcels, ability to ship frozen country food, freight services for medical samples, etc.

Negotiations – For each service area, we will invite the top (two if they exist) proponent(s) to enter into final negotiations with the GN. These Proponents will submit their Best and Final offer (BAFO). Subjects of negotiations may include the following: frequency of flights, flight times, luggage allowances, customer service, Inuit training, volume rebates for the GN based on volumes exceeding the committed levels, after hours support and other relevant factors.

Contract Term – The contract term will be for five (5) years with the options to renew the contract for two additional terms of two years each. The total potential term of the contracts will be for 9 years. The longer term of the contract will allow the airlines to invest in new infrastructure and more efficient assets.

6.0 Proposed and Draft Timeline

Request for Input (RFI)	June – August 2018
Request for Qualifications (RFQ)	September 2018 (Issue and close)
Request for Proposals (RFP)	November 2018 to January 31, 2019
Evaluate Proposals	February 2019
Negotiations	March 2019
Award	April 2019
Airlines Prepare for new contract	May 2019 to January 3, 2020
New Contract Start Date	January 1, 2020 to December 31, 2024
First Contract Extension	January 1, 2025 to December 31, 2026
Second Contract Extension	January 1, 2027 to December 31, 2029

Extension of Existing Contract – The timeline for the three-step procurement process needs to allow both new and existing companies to establish physical facilities, relocate assets or make changes to operations. One sealift season needs to be part of the timeline so that if construction of infrastructure is required, the sealift season will support this goal. The current contracts expire on August 31, 2019. These contracts may need to be extended for a further 4 months to allow for 6 to 7 months transition as well as one sealift season.

7.0 Request for Input

The Government of Nunavut wishes to obtain input respecting the overall strategy as it has been outlined in this document and the procedure to achieve a stable airline service delivering lower cost travel to Nunavummiut. The input may include but not be limited to:

- Procedural steps to be used in the Procurement Strategy
- Potential impact on the existing marketplace (positive and or negative)
- The extent to which the Strategy will encourage stability in the marketplace and improve service
- The impact on pricing to the GN and to all Nunavummiut
- The Impact on the levels of service including freight services
- Impact on profitability and efficiency for the airlines
- The extent to which the strategy encourages new entrants into the marketplace
- The extent to which the strategy will encourage larger airlines to partner with smaller feeder airlines
- Impact on overall employment and Inuit Employment
- Impact on Inuit careers in the airline industry as pilots, ground crews, stewards on the airlines, airline support industry
- Impact on infrastructure investment encouraged by a stable revenue source
- Length of potential contract
- Proposed geographical groupings
- Any other relevant information

8.0 Input Format Recommendation

The GN will consider and appreciate all input from this RFI process. The GN will consider the overall objectives of the Nunavut Airline Procurement Strategy and consider how the input offered impacts the achievement of the overall objectives. If you are providing commercially sensitive or confidential information as part of your response, please clearly indicate this information by marking it CONFIDENTIAL. For ease of analysis please use the following format example.

A. Topic of Input: (Example - Process Timeline)

B. Issue and Analysis: (Example - The proposed timeline is too lengthy and complex)

C. Suggested Change or Recommendation: (Example – Too many steps, suggest eliminate RFQ)

D. Attachments: Attach any supporting documents that further explain or support the suggested change.

E. Source:

Name of Individual _____

Contact Information _____

Email address _____

Telephone number _____

REFERENCES

1. Emmerson Report
2. First Air Response to Emmerson Report
3. 2017 Office of the Auditor General of Canada Report
4. Audit Results of Food Mail Program