



CITY OF VANCOUVER

ADMINISTRATIVE REPORT

Report Date: June 2, 2005
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TO: Vancouver City Council
FROM: Manager - Systems and Infrastructure
SUBJECT: Award of Contract for Centrex Telephone Services

RECOMMENDATION

- A. THAT, subject to Recommendations B and C, Council authorizes a 5-year contract for Centrex and long distance telephone services to Telus Communications Inc., at an annual cost of \$693,000 with provision to migrate to a Voice over Internet Protocol (VoIP) phone service during the term of the contract.
- B. THAT, the Director of Legal Services be authorized to execute and deliver on behalf of the City all legal documents required to implement Recommendation A.
- C. THAT, all such legal documents be on terms and conditions satisfactory to the Director of Information Technology, Manager of Materials Management, and Director of Legal Services.
- D. THAT no legal rights or obligations will be created by Council's adoption of Recommendations A, B and C unless and until such legal documents are executed and delivered by the Director of Legal Services.
- E. THAT funding for the contract described in Recommendation A be provided from 2005 Operating Budget.

GENERAL MANAGER'S COMMENTS

Effective and reliable telephone service is a critical tool for the City to provide services both internally and to the public. As noted in this report, new technology offers the opportunity for the City to make a significant change in the way telephone service is provided. Staff anticipates that this change will be made during the early years of this Centrex contract

resulting in cost savings well into the future. Based on a straight financial comparison of the bids from Telus and Bell, the latter would provide less expensive service over the life of the contract. However, a change in provider will result in risks to service, added disruption to the public and staff and conflicting workloads for communications staff at a time when the City will be making a more fundamental change in the way telephone service is provided. When these impacts are considered, the differential between the bids is not significant. As a result, the General Manager of Corporate Services supports the recommendations of this report.

CITY MANAGER'S COMMENTS

The City Manager RECOMMENDS approval of the foregoing.

COUNCIL POLICY

The Policy of Council is to enter into contacts for the purchase of equipment, supplies and services that will give the best value based on quality, service and price.

Contracts with a value over \$300,000 are referred to Council for approval

SUMMARY

The contract with Telus to provide Centrex and long distance telephone services to approximately 1,300 staff at remote sites in most city departments expires June 29 2005. After evaluating responses to a Request for Proposals, PS050307, this report recommends that Council award a new contract for Centrex services to Telus.

This recommendation is based on responses to a public process through Request for Proposal PS050307.

BACKGROUND

The City has approximately 6,000 phone lines to service the public and for internal communications. Of these, approximately 3,300 are serviced through internal telephone switches (PBXs), while the remaining 2,700 are provided through a service known as Centrex. These services are leased on a per-line per-month basis.

Following deregulation by the CRTC of local phone services, in 2003 the Vancouver Police Board awarded a 5-year contract for approximately 1,400 lines of Centrex services to Bell Canada.

The City's contract with Telus services the remaining 1,300 lines and provides voice telephone services to all Park Board and Fire Department facilities, all branch libraries, and all other facilities outside of the City Hall campus, Library Square, and the Engineering works yards. The total annual cost for these services presently is approximately \$610,000. This contract expires on June 29 2005.

In April 2005 the City issued RFP PS05037 "Supply of Centrex and Associated Long Distance Services to City of Vancouver Sites throughout the Greater Vancouver Area" to Bell Canada (Bell) and Telus Communications Inc (Telus), as the Centrex providers who had pre-qualified by responding to a Request for Information (RFI) PS04113 "Enterprise IP Telephony Planning", issued in December 2004. The RFP closed May 6 2005.

RFP PS05037 anticipated that over the next three years the City will be migrating its internal phone services to a technology known as Voice over Internet Protocol (VoIP). Under VoIP, telephone communications will be transmitted over the internal data network rather than over separate phone networks. This has the potential to offer both cost savings and improved customer service, but it is a complex undertaking that demands upgrades to the City's data network infrastructure, detailed analysis of requirements, options, suppliers, and a business case to demonstrate the value of this technology. A Request for Information (RFI) to suppliers of VoIP services has been issued, the responses are under review and a business case for VoIP services is expected to be completed in 2005.

The RFP for Centrex services asked for proposals based on two scenarios of phones in service over the expected VoIP migration period. The scenarios differ in timing of number of phones migrated to VoIP during the anticipated migration period.

The Centrex RFP is primarily a contract to continue telephone service through the migration to a VoIP system. There are no efficiency gains, no increase in functionality, or other service improvements expected in this RFP request.

DISCUSSION

Responses were received from both Bell and Telus and were evaluated by an evaluation team under the guidance of the City's Materials Management representative. Both responses met the City's service requirements.

Telephone systems and communications are an important component of the delivery of services to City of Vancouver stakeholders, customers and staff. The current services by Telus are operating reliably and are incorporated into many City of Vancouver work processes and service delivery applications. The team felt that any changes to the existing telephone systems would require extensive change management, training and support to implement and are sensitive to any risk of service delivery interruptions or changes in the existing telephone communication system. The team members were concerned about the impact of introducing two telephone system changes on stakeholders, customers and staff. Two changes would occur if Bell was the successful bidder, one to Bell Centrex initially and one to VoIP shortly thereafter.

City of Vancouver staff members were also concerned about the impact of changing current billing and administrative systems for telephone services. The billing systems involve staff in many areas of the city in the processing, recording and payment authorisation systems. Changes to these systems are complex to implement both from a process and administrative perspective. The team members felt that there was a high likelihood of user departments having to manage and administer two system changes simultaneously. In these circumstances the team members believe there is high risk of loss of management control of the billing and

payment of phone services and a high risk of staff frustration and dissatisfaction in implementing the two billing and authorization changes in a short time frame.

The key decision criteria requirements for the team were; the continuation of a reliable telephone service to meet business needs; the continuation of established communication processes and systems with stakeholders and customers; minimization of service disruptions; maintaining management financial responsibilities; managing and minimization of organizational change impacts; and financial considerations.

The Evaluation Criteria examined the proposals in five categories:

- Services Offered and Delivered,
- Total Cost for the 5-year term of the contract,
- Internal Costs associated with a migration of services,
- Organizational Impact associated with provider proposal, and
- Vendor capabilities.

A summary of the categories and analysis of the proposals follows;

Category: Services Offered and Delivered

The services offered and delivered analysis examined the types of services, their functionality and application and the suppliers' history of service delivery. The services were compared against the existing services. Many of Bell's services are similar in function to the current services. The team evaluation determined:

- Bell does not provide its own Centrex services throughout the city. In some areas, affecting about 13% of the total number of phones, Bell resells Telus Centrex services. As a result, true 4-digit dialling between these offices and the other 87% is not possible and a workaround is necessary;
- Recent experience with VPD converting to Bell Centrex services suggests that 2 - 3 phones a week are reported as failing. This is not the staff experience with phone reliability in other parts of the city. Reliability of telephone service is important to adequately service the public.

Category: Total Cost

Components of total cost include the basic line charges, the cost of additional features like voicemail, and long distance costs based on projected usage.

The Bell cost estimates for Scenario 1 and Scenario 2 assume the migration to VoIP is delayed by six months. This six month delay represents the City of Vancouver estimated time to completely convert the current system and supporting applications to the Bell system. Some of the City of Vancouver staff involved in the Bell conversion are key members of the VoIP project. If they are involved in the Bell conversion the VoIP project would be delayed.

5-Year Total Cost Comparison

	Migration scenario 1	Migration scenario 2	No Migration
Bell	\$1,099,981*	\$1,385,109*	\$2,579,557
Telus	\$1,117,556	\$1,510,736	\$3,265,284
Telus-Bell	\$17,575*	\$125,627*	\$685,727

* Does not include estimated City of Vancouver cost of conversion \$143,000

The scenarios are based on:

Scenario 1: Aggressive VoIP implementation completes the migration in 24 months.

Scenario 2: Moderate VoIP Implementation completes the migration in 30 months

Scenario 3: VoIP migration does not occur in five year contract term

These costs illustrate the benefits of an early migration to VoIP. The City of Vancouver Telecom group is targeting a VoIP implementation as outlined in scenario 2.

The Total Cost figures do not include any provision for risks of converting to Bell's service. Two main risks were identified by the evaluation team. The first is a risk of additional costs to City of Vancouver if the conversion cannot be completed in the two months proposed in the RFP response from Bell. Bell has proposed to credit the City of Vancouver the difference between the uncontracted regulated Telus rate and the contracted Bell rate for this two month period. The Telus uncontracted rate is approximately double the contracted rate. The evaluation team believes that a two month conversion is not realistic and a more likely conversion period is four to six months. The second risk is the impact of an ongoing labour dispute at Telus. If there is a work stoppage at Telus, the conversion to Bell could be delayed causing financial harm and service issues for the City of Vancouver.

VoIP migration risk. The City of Vancouver Telecom group has completed research, issued an RFI for VoIP services, implemented a program to install a fibre optic communications system to support VoIP delivery and is in the process of initiating the planning phase of a VoIP implementation. Several other organizations have successfully implemented VoIP systems. The VoIP technologies although relatively new, appear stable, reliable and are well supported by the established vendors and suppliers such as Bell, Telus, Nortel and Cisco. A business case is expected in 2005. The risk of not proceeding with a VoIP implementation at this time is very low.

Category: Internal Costs

While the total costs described above indicate a financial advantage to the Bell proposal, this advantage would be realized only at the cost of significant internal allocation of staff resources to work on the conversion.

Also, it is the evaluation team's opinion that there is a potential risk of service disruption that is unacceptable to some City of Vancouver departments. The Park Board operation in particular generates \$38M in annual revenues through some 85 locations. For these locations, phone services are critical and it is essential that any transition to a new provider be seamless.

Some of the tasks that need to be undertaken to ensure such a seamless conversion include:

- Project planning, information gathering, and communication to staff;
- Coordination of audits, to be conducted by Bell, but requiring the presence of City staff, of existing telephone installations at over 130 sites, so that features can be identified and configured on the Bell system;
- Scheduling of cutovers on a site-by-site basis and ensuring that appropriate staff will be available;
- Awareness sessions for staff to ensure that at cutover they record existing voicemails and configure new voicemail responses;
- Actual cutovers on a phone-by-phone basis, requiring the out-of-hours presence of City staff to provide building access and perform quality assurance;
- Testing of features to ensure that services are not interrupted;
- Post-cutover problem resolution to address the inevitable mistakes and unanticipated differences in features in a migration of this scale;
- Changes in ordering systems, invoicing and cost allocation systems, billing systems and procedures, and billing reconciliations.

Bell estimates that this conversion can be completed in 2 months. However, based on both the experience at VPD (who went through such a migration only 12 - 18 months ago) and on constraints around the availability of City staff, the evaluation team felt that 4 months is more realistic.

Based on this analysis, internal costs of the migration are estimated at \$143,000, to which there are both "hard" and "soft" components:

- "Hard" components include, City of Vancouver staff costs for project management, planning, coordinating and implementing the communication system changes, billing system changes and administration systems changes.
- "Soft" components include an estimate of the cost for the time each of the affected staff will have to spend learning and implementing any new procedures and processes.

Category: Organizational Impact

Organizational impact assessed the effect on telephone system users. While not generally quantifiable, the migration to Bell would either impact the organization or introduce a risk of impact:

- Bell's solution to provide four digit dialling involves the use of a speed key, effectively changing four digit dialling to five digit dialling. This feature would impact all users as some locations would be four digit dialling and some would be five.
- With the likelihood of a major change in phone services as the City migrates to VoIP within the next two years, City of Vancouver staff are concerned about the impact of 2 changes in such a short time, each with attendant coordination, retraining, testing and service impacts. The VoIP change will affect all users once the migration starts. This means, that if Bell were the successful candidate, City of Vancouver phone users would experience a change in late 2005 and then early in 2006 as the VoIP migration starts.
- A change to Bell and then to the VoIP would result in two changes in the billing processing, administrative and authorization systems. There is also a strong likelihood that some user groups could have to manage these changes with in a short time frame. These changes are complex to implement and manage individually and if combined would have a high risk of loss of ability to manage phone service charges and a high risk of staff frustration and dissatisfaction.

Category: Vendor Capabilities

Vendor capabilities assessed the vendors in terms of performance delivery, references, knowledge of local conditions, and reference assessments. Both proposals were similar in service delivery commitments, documented technical support and staff qualifications and provided references. Bell is a well established Canadian supplier of telecom services but has only recently entered the BC telephone services market. Telus is well established in the BC telephone services marketplace and has many years experience with local issues and conditions in respect to telephone service delivery and City of Vancouver facilities.

Summary of Evaluation

Prior to receipt of the RFP responses, the evaluation team assigned weights to these criteria. During the evaluation, the evaluation team reviewed each supplier's response to the RFP and then assigned scores for each category. The scores were then weighted and a total score for each supplier was calculated.

Using this evaluation process, the Telus proposal scored higher than the Bell proposal.

The evaluation team conclusion: the City is best served by maintaining the stability of its telephone platform for the period leading up to the anticipated migration to VoIP, and applying the internal resources to accelerating that migration.

Consequently, the recommendation of this report is that the contract for Centrex services be awarded to Telus.

ALTERNATIVES/OPTIONS

The current contract expires on June 29, 2005. The City of Vancouver has three options at the expiration of the contract:

- A. Not enter into a fixed term contract with a supplier and pay the uncontracted regulated rate to the current supplier. This rate is twice the current rate and this alternative is not acceptable.
- B. Enter into a fixed term contract with the current supplier to provide services with provision to migrate to VoIP service. The RFP invited the current supplier, Telus to submit a proposal for service.
- C. Enter into a fixed term contract with a new supplier to provide services with provision to migrate to VoIP service. The RFP invited a major service provider to submit a proposal for service.

The evaluation of the proposals received and City of Vancouver requirements support option B as representing the best value to the city.

FINANCIAL IMPLICATIONS

Overall, based on the migration scenario 2, the total annual costs to the City of Vancouver over the five year period will go from approximately \$693,000 in year 1 to \$65,200 in year 5. The estimated total cost for Centrex services over the five year contract period is \$1,510,736.

Initially, for 2005, the cost of the new contract Centrex telephone services from Telus will increase for the last six months of 2005 from the amount paid under the current contract for the first six months of 2005 by \$37,000. These costs can be absorbed in the current 2005 operating budgets. As the migration to VoIP begins the costs of Centrex services to City of Vancouver departments will begin to decrease as their telephone systems are converted. The VoIP conversion process business case will include a model for sharing those cost savings between departments. This business case and its financial implications will be presented to Council, probably in the first half of 2006.

IMPLEMENTATION PLAN

There are no operational changes associated with this award of contract.

CONCLUSION

We recommend that Council award the contract for Centrex services to Telus Communications Inc.

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