

Section 55 Review:

BC Ferries Application for a new
Mid-Coast Vessel

Route 28 and Route 10s

Prepared for BC Ferry Commission

March 31, 2017

MNP
LLP

Contents

Executive Summary 3

Background 4

 Role of the Independent Review 4

 Scope 5

 Limitations 5

Approach 6

Analysis of Options 7

 Need for New Vessel 7

 Condition of Vessels 7

 Design and Capacity 7

 Capacity 8

 Long-term Planning 8

 Contract Compliance 8

 Risk Mitigation 8

 Section 55 Guideline Questions 9

Conclusions 10

 Reasonable 10

 Prudent 10

 Consistent 10

Appendix A – Section 55 Questions 11

Executive Summary

On March 8th, 2017, BC Ferries Services Incorporated (“BC Ferries”, or “BCFS”) submitted an application to the BC Ferry Commissioner (“BCFC” or “Commission”) for Mid-Coast Ferry Service, pursuant to Section 55(1) of the Coastal Ferry Act. The application proposed the procurement of a used vessel to serve both the existing route (Route 10s) and a new seasonal summer service (Route 28). The application was produced in response to the BC Ministry of Transportation’s commitment to expand mid-coast service (Route 10s and Route 28).

MNP LLP was engaged by the BC Ferry Commissioner to conduct an independent review of the Section 55(1) application for Mid-Coast Ferry Service, as submitted by BC Ferries. The following aspects of the submission were noted:

REVIEW QUESTIONS	SUMMARY RESPONSES
1. Is the procurement of a new or used vessel reasonably required for the proposed new Route 28?	Yes
2. Is the decision to procure a certain used vessel reasonable and prudent based on the condition of the vessel and the options analysis?	Yes
3. Are the design specifications and capacity of the proposed used vessel suitable for Route 28?	Yes
4. Are the methodologies and underlying assumptions used in determining future traffic volumes and capacity requirements for Route 28 reasonable?	Yes
5. Does the proposed used vessel fit with the long-term capital plan which has been approved by the BC Ferries’ board of directors?	Yes
6. Will the proposed used vessel allow BC Ferries to comply with the terms of the Coastal Ferry Services Contract?	Yes
7. Have risks been identified to a reasonable standard, and are mitigation plans sufficient?	Yes
8. Have all the pertinent questions in the Commission’s guidelines for Section 55 applications been adequately addressed?	Yes
9. Are the assumptions used in the analysis of options reasonable?	Yes
10. Is the discount rate used to calculate life cycle costing appropriate and reasonable?	Yes

Upon completion of the review, it was found that:

- The procurement of the candidate vessel, along with the mid-life refit and necessary terminal upgrades to service Route 28 and Route 10s is reasonable, prudent and consistent with the Coastal Ferry Services Contract.
- The underlying assumptions, predicted volume, procurement and risk mitigation plans are reasonable, sufficient and appropriate.
- The preferred option to procure the candidate vessel as well as undertake a mid-life refit and provision for necessary terminal upgrades, fits with BC Ferries’ current plans and enables BC Ferries to meet route service obligations as established by the Province.
- The preferred option to procure the candidate vessel provides the best net present value.

Background

The Office of the BC Ferries Commissioner is a regulatory agency that has been established under the *Coastal Ferry Act* of 2003. The Commission's regulatory mandate is specific to core ferry services and tariffs including those of British Columbia Ferry Services Incorporated, operating as BC Ferries. As it pertains to the tariffs charged for core ferry services, the Commission has the authority to establish a "price cap" that balances the interests of ferry users and tax payers while allowing for the financial sustainability of BC Ferries. The Commission also fulfills other key tasks within its directive, including the monitoring of BC Ferries' adherence to the terms of the Coastal Ferry Services Contract, addressing any circumstances of unfair competitive advantage, examining BC Ferries customer complaints process, and approving major capital projects.

BC Ferries is an independent commercial organization under the *Business Corporations Act*. It is the largest passenger ferry line in North America and one of the most sizeable in the world offering passenger and vehicle service with a fleet of 34 vessels along with 47 terminals covering 24 routes around coastal British Columbia. The Coastal Ferry Services Contract between the Government of British Columbia and BC Ferries defines the service levels required, which as stated above are then monitored by the BC Ferries Commissioner.

Under the *Coastal Ferry Act* (2003), the BC Ferries Commissioner, as noted above, has specific duties to consider capital deployment and expenditures under Section 55.

Role of the Independent Review

MNP_{LLP} was engaged by the BC Ferry Commissioner in March, 2017 to carry out a third-party review of the Section 55(1) Application ("Application") from BC Ferries for the procurement of a used vessel to establish a new service in the mid-coast region for 2018.

The Application was prepared in response to the BC Ministry of Transportation's intention to establish a link between Port Hardy and Bella Coola as well as facilitate economic opportunities for the mid-coast. The current route (Route 10s) is serviced by the Nimpkish, serving the mid-coast communities of Shearwater, Ocean Falls, and Bella Coola, with a transfer at Bella Bella. The proposed Route 28 will connect Port Hardy and Bella Coola from mid-June to mid-September, offering 2.5 route trips per week in addition to servicing Route 10s.

The acquisition of the new vessel will enable the retirement of the 45-year-old Nimpkish. Purchasing the new vessel will require a mid-life refitting as well as modifications to existing terminals to ensure compatibility with the new vessel.

The design and size of the candidate vessel are suitable for the coastal and open water route requirements. The purchase and subsequent refit will enable BC Ferries to respond to the BC Ministry of Transportation's request to service Route 28 and 10s by summer of 2018. The Ministry has amended the Coastal Ferry Services Contract to include this new Route and signed a letter of agreement with BC Ferries outlining the terms of the expanded mid-coast service.

Scope

The scope of the independent review included the following.

- A review of documentation related to the Section 55 Application from March, 2017.
- A review of additional background documents and supporting materials.
- Meetings with the BCFS project team to clarify details of the Section 55 Application.
- Regular status updates and meetings with the Commission.
- Preparation and review of a findings report with the Commission.
- Preparation of final reports (an internal version and a public version with commercially sensitive information redacted).

Limitations

This report has been prepared by MNP for the exclusive use of the Commission to support the assessment of the Section 55 Application by BCFS for the procurement of a used vessel to establish a new service in the mid-coast region for 2018.

MNP's work was planned and conducted to assess the reasonableness of the application. MNP did not examine, compile or apply procedures over the financial information used in this report under the requirements of the Chartered Professional Accountants of Canada. As a result, MNP is unable to express assurances on such information except where expressly stated in the report to form part of the scope of our work. Further, this report does not constitute a legal opinion on any matters including the interpretation of the *Coastal Ferry Act (2003)*.

The results of our work do not in any way constitute advice or recommendations (and we accept no liability in relation to any such interpretation) regarding any commercial decisions. In addition, our work was not designed to identify and cannot necessarily be expected to disclose defalcations, fraud and other irregularities. As a result, this report does not necessarily include all those matters, which a more extensive or special examination might develop.

The work to provide this report was carried out based on the assumption that information provided to MNP by management and employees of BCFS was reliable, accurate and complete. We did not subject the information contained in the report to checking or verification procedures except to the extent expressly stated. In no circumstances shall MNP be responsible for any loss or damage, of whatsoever nature, arising from information material to our work being withheld or concealed from us or misrepresented to us by management and employees of BCFS or any other person of whom we may make enquiries.

Approach

MNP undertook an independent review of the Section 55(1) Application submitted by BC Ferries to determine whether the capital expenditure associated with BC Ferries' potential purchase of a used vessel for the new Route 28 is reasonable, prudent, and in accordance with the *Coastal Ferry Act* and the Coastal Ferry Service Contract.

MNP drew on staff and subcontractors with the professional expertise necessary to conduct this review based on:

- **Reviewing the Application and background documents** – Completing a detailed review of BC Ferries' Section 55(1) Application, including confidential supplemental information;
- **Consulting with BC Ferries** – Consultation with BC Ferries through in-person meetings and submitting questions to BC Ferries to confirm interpretations and assumptions as well as address any gaps in understanding;
- **Analysis** – Completing our internal analysis to address each of the areas indicated in the Statement of Work (as noted in the numbered list above); and
- **Reporting** - Drafting of MNP's analysis report, for review by the Commission. Subject to any revisions, MNP will prepare the final report in two formats, one being confidential for the Commissioners and the other suitable for public release.

Analysis of Options

The following analysis provides additional detail around the responses to questions from the table contained in the Executive Summary section of this document.

Need for New Vessel

Is the procurement of a new or used vessel reasonably required for the proposed new Route 28?

The Application and the vessel condition reports make a reasonable case to service the combined Route 28/10s with the candidate used vessel. The option of utilising both the Queen of Nanaimo and the Nimpkish is a short-term solution that would require costly upgrades to both vessels. Further, while the Queen of Nanaimo is suitable for the open ocean crossing required for Route 28, it is too large for the Route 10s ports. Therefore, selecting and obtaining a single vessel capable of servicing both routes is a reasonable option.

Condition of Vessels

Is the decision to procure a certain used vessel reasonable and prudent based on the condition of the vessel and the options analysis?

The vessel characteristics for the proposed candidate as outlined in the Application are reasonable and prudent. Regarding the used vessel option, it was noted in discussion with BCFS that the used market is both very limited and highly fluid for vessels of the type and configuration required. A seaworthy single-ended vessel is required due to the exposed open crossing, but vessels of this configuration in the size required are not numerous on the used market, being more common in larger sizes. Additionally, the BC Ferries 2-compartment damaged stability standard and the commercial vehicle deck-head height requirements place further limitations on suitability of available used vessels. Given the limited selection possible, and the requirements of the in-service date, the used vessel selected is a reasonable configuration for the requirement.

The condition and modifications required of the proposed used candidate vessel was suitably addressed by BC Ferries staff. Although vessel condition information provided in the Application is limited, with the benefit of the additional information provided in MNP's meeting with the BC Ferries, it is clear that the full scope of obvious and possible work has been carefully considered and costed using BCFS' experience with vessel mid-life refits to both itemize and estimate work and material elements. It should be noted that this mid-life refit replacement of equipment and systems also provides the opportunity to address fleet operational and support commonality objectives. Based on the condition assessment of the candidate vessel, the planned modification estimates, and a contingency on the initial modifications, the estimate of conversion required and cost consequences seems prudent.

Design and Capacity

Are the design specifications and capacity of the proposed used vessel suitable for Route 28?

The design configuration and characteristics have been assessed based on the information provided in the Application along with five technical drawings included in the Application package (general arrangement, bilge, ballast, firemain/firecontrol, and insulation plans) and information provided by BC Ferries staff. In general, the configuration, capacity, speed, and seaworthiness characteristics appear suitable for the intended route. Based on historic volumes, BC Ferries notes that the proposed vessel capacity and frequency of sailings meet the service level requirements set out in

the December 2016 letter agreement between the Province and BC Ferries, and that tariff revenue on the route does not currently support increased service levels above this.

Capacity

Are the methodologies and underlying assumptions used in determining future traffic volumes and capacity requirements for Route 28 reasonable?

The methodologies and underlying assumptions used in determining future traffic volumes and capacity requirements for Route 28 and 10s are reasonable based on historic data and direction from the Province. The level of service and frequency required for the newly established Route 28 are based on BC Ferries' response to a specific service request from the Province. As a result, BC Ferries has not undertaken dedicated research into the traffic potential, tourism opportunities, ancillary service potential or economic rationale. BC Ferries examined internal historical data to forecast traffic demand to assist with creating tentative schedules for the new service. BC Ferries also undertook an internal study to examine operational feasibility based on a variety of factors such as safety, operational profile, route conditions, vessel attributes, vessel capacity, schedule, terminal condition and compatibility, and capital and operating costs.

Long-term Planning

Does the proposed used vessel fit with the long-term capital plan which has been approved by the BC Ferries' board of directors?

BC Ferries has provided for the capital expenditures in a board approved capital plan. A portion of the formerly envisioned project to replace the Nimpkish with a like vessel was included in BC Ferries' 12-year capital plan for fiscal years 2015 through to 2026. The shift in direction to purchase a used vessel for the new Route 28 / 10s requires a higher level of capital than was originally envisioned. The capital costs include the purchase and modifications to the candidate used vessel as well as the modification of existing terminal berth structures to accommodate it. The Province has acknowledged the increase in Ferry Transportation Fees payable and subsequent compensation required for the capital investments.

Contract Compliance

Will the proposed used vessel allow BC Ferries to comply with the terms of the Coastal Ferry Services Contract?

In March 2017, BC Ferries and the Ministry of Transportation and infrastructure executed an amendment to the Coastal Ferry Services Contract to include Route 28 as a designated ferry route. Based on the proposed used vessel specifications and amendment, the used vessel will allow BC Ferries to meet the level of service contemplated in the December 2016 letter agreement.

Risk Mitigation

Have risks been identified to a reasonable standard, and are mitigation plans sufficient?

For the preferred option, risks have been identified to a reasonable standard along with mitigation options. Risk factors taken into consideration include financing, vessel acquisition, transfer, modifications and upgrades, delivery, terminal modifications and contractor availability. Although mitigation options are sufficient for each of these components, given the target in-service date of June 2018, unforeseen risks may impact the in-service date. Currently the only alternative option provided to meet the required in-service date is to revert to option 2 outlined within the Application.

This would bring increased risks of potential in-service delays associated with the continued operation of the Nimpkish as well as the Queen of Nanaimo.

Section 55 Guideline Questions

Have all the pertinent questions in the Commission's guidelines for Section 55 applications been adequately addressed?

Based on the information provided in the Application and supplemental information from BC Ferries, all the questions have been adequately addressed.

Section 55 Guideline Questions

Are the assumptions used in the analysis of options reasonable?

The assumptions used in the analysis of options are considered reasonable. Options and assumptions were analysed by external subject matter experts as well as experienced BC Ferries staff from the Fleet Project Management Office, the BC Ferries Fleet Maintenance Unit and the Terminal Engineering and Terminal Construction Departments.

Section 55 Guideline Questions

Is the discount rate used to calculate life cycle costing appropriate and reasonable?

The discount rate used appears to be appropriate and reasonably based. It is based on BC Ferries' previous experience.

Conclusions

MNP was engaged to assist the BC Ferries Commissioner on the review of BC Ferries' Section 55, Subsection 1 Application for a new Mid-Coast Vessel for Routes 28 and 10s. MNP confirms that BC Ferries has adequately responded to all pertinent Section 55 Application Guideline Questions. Based on the information provided in the Application and in subsequent meetings with BC Ferries, Option 1 to purchase the candidate used vessel to meet the demands and sea conditions of both routes by summer 2018 meets the standard of reasonable and prudent, and consistency with long term plans.

Reasonable

The Nimpkish and Queen of Nanaimo would require extensive refitting and upgrades to provide a short-term solution to service Routes 28 and 10s. Based on the route requirements and direction from the Province to have service in place for summer 2018, the option to purchase the candidate vessel and undertake modifications to both the vessel and terminal berths is reasonable. This option will enable BC Ferries to meet the level of service contemplated in the December 2016 letter agreement.

Prudent

The preferred option to procure a used vessel and undergo terminal and vessel upgrades is prudent.

Two options were identified in the BC Ferry Services application; extend the life of the existing vessels or procure a used vessel capable of handling the combined route requirements of Route 28 and 10s. It is clear, given the options, that the amount of possible work required has been carefully considered and costed, using BC Ferries' past experience with vessel mid-life refits to both itemize and estimate work and material elements. There are no price cap impacts for the current performance term noted as a result of undertaking the preferred option.

The 20-year NPV difference between the two options is 14% in favour of the preferred option. This is significant but not a large margin. Therefore, the decision should also acknowledge and consider any other potentially relevant strategic factors. One such aspect of the preferred option is that the inauguration of this service with a refitted used vessel with a projected 20-year service-life allows the mid-coast needs and the growth of demand to be carefully assessed before committing to a configuration for a long-term (45-year) solution as would be the case for a new-build. With the benefit of an initial period of service using the candidate vessel, the long-term solution may then be configured to more effectively serve the growing needs of the mid-coast communities, as well as possibly serving as a more suitable relief vessel on the northern routes.

Consistent

The proposed capital expenditure is in alignment with BC Ferries' current capital plan and the Province's request to provide ferry service to support tourism and the mid-coast economy. Service capacity, frequency and amenities have been determined by BC Ferries in discussion with the Province.

Appendix A – Section 55 Questions

Project Description

Assessment	Questions	Observations and Reported Information Provided by BC Ferries																											
<p>Adequately Responded</p> <p><input checked="" type="checkbox"/></p>	<p><i>Describe the proposal for the capital expenditure, and provide a comparison to the capital currently in use, in terms, for example, of size, capacity and staff and/or crew requirements.</i></p>	<p>The Application submitted by BC Ferries proposes to procure a used vessel and modify it for expanded mid-coast service (i.e., Route 10s and Route 28). This proposal addresses the Ministry of Transportation and Infrastructure’s request, and amendment to the Coastal Ferry Services Contract, expanding mid-coast service by adding Route 28, which will connect Port Hardy with Bella Coola.</p> <p>The proposed vessel will enable the retirement of the Nimpkish, which currently serves the mid-coast communities of Bella Bella, Shearwater, Ocean Falls, and Bella Coola via Route 10s. In addition to this route, the new vessel would also serve the new Route 28.</p> <p>The table below outlines the operating characteristics of the vessel currently in use (the Nimpkish) with the characteristics of the proposed replacement vessel.</p> <p>Summary of Operating Characteristics – Route 10s and Route 28 (Current vs. Replacement Vessels)</p> <table border="1" data-bbox="869 837 1934 1308"> <thead> <tr> <th data-bbox="869 837 1192 930">Specification</th> <th data-bbox="1192 837 1551 930">Nimpkish (Route 10s)</th> <th data-bbox="1551 837 1934 930">Candidate Used Vessel (Proposed – Routes 10s & 28)</th> </tr> </thead> <tbody> <tr> <td data-bbox="869 930 1192 963">Maximum Length</td> <td data-bbox="1192 930 1551 963">33.5 metres</td> <td data-bbox="1551 930 1934 963">75.4 metres</td> </tr> <tr> <td data-bbox="869 963 1192 995">Draught</td> <td data-bbox="1192 963 1551 995">2.2 metres</td> <td data-bbox="1551 963 1934 995">3.2 metres</td> </tr> <tr> <td data-bbox="869 995 1192 1027">Service Speed</td> <td data-bbox="1192 995 1551 1027">10 knots</td> <td data-bbox="1551 995 1934 1027">14 knots</td> </tr> <tr> <td data-bbox="869 1027 1192 1092">Propulsion</td> <td data-bbox="1192 1027 1551 1092">2x Geared Diesel Fixed Pitch Propeller</td> <td data-bbox="1551 1027 1934 1092">2x Geared Diesel Controllable Pitch Propeller</td> </tr> <tr> <td data-bbox="869 1092 1192 1157">Fuel Consumption (Transit Service Speed)</td> <td data-bbox="1192 1092 1551 1157">13 litres per nautical mile</td> <td data-bbox="1551 1092 1934 1157">TBD</td> </tr> <tr> <td data-bbox="869 1157 1192 1190">Vehicle Capacity</td> <td data-bbox="1192 1157 1551 1190">12 AEQ</td> <td data-bbox="1551 1157 1934 1190">35 AEQ (approximately)</td> </tr> <tr> <td data-bbox="869 1190 1192 1247">Commercial Vehicle Height (maximum)</td> <td data-bbox="1192 1190 1551 1247">4.26 metres</td> <td data-bbox="1551 1190 1934 1247">4.4 metres</td> </tr> <tr> <td data-bbox="869 1247 1192 1308">Passengers and Crew Licenses</td> <td data-bbox="1192 1247 1551 1308">Crew/Passengers A: 6/94 = 100</td> <td data-bbox="1551 1247 1934 1308">Crew/Passengers A: 15/135 = 150</td> </tr> </tbody> </table>	Specification	Nimpkish (Route 10s)	Candidate Used Vessel (Proposed – Routes 10s & 28)	Maximum Length	33.5 metres	75.4 metres	Draught	2.2 metres	3.2 metres	Service Speed	10 knots	14 knots	Propulsion	2x Geared Diesel Fixed Pitch Propeller	2x Geared Diesel Controllable Pitch Propeller	Fuel Consumption (Transit Service Speed)	13 litres per nautical mile	TBD	Vehicle Capacity	12 AEQ	35 AEQ (approximately)	Commercial Vehicle Height (maximum)	4.26 metres	4.4 metres	Passengers and Crew Licenses	Crew/Passengers A: 6/94 = 100	Crew/Passengers A: 15/135 = 150
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Assessment	Questions	Observations and Reported Information Provided by BC Ferries
<p>Adequately Responded</p> <p><input checked="" type="checkbox"/></p>	<p><i>In the case of a new vessel, has an independent marine surveyor provided a condition assessment of the current vessel and is that assessment factored into the business case supporting the requested capital expenditure?</i></p>	<p>N/A</p> <p>BC Ferries noted in its application that Lloyds Marine Register Canada was contracted by 2015 to provide independent verification of the Nimpkish, reporting on the vessel's condition. This was substantiated, as BC Ferries provided a copy of the Lloyd's report as a supplementary document along with its application.</p> <p>The Lloyds assessment indicated that the Nimpkish will require extensive work on the hull, machinery, electrical systems, outfitting and fire protection systems to comply with recent safety standards and environmental requirements. This report was factored into the business case, which recommends that the Nimpkish be replaced by an alternate used vessel.</p>
<p>Adequately Responded</p> <p><input checked="" type="checkbox"/></p>	<p><i>Is there a regulatory driver for the proposed capital expenditure?</i></p>	<p>No.</p> <p>BC Ferries' application suggests that given the age and condition of the Nimpkish, regulatory and operational upgrades will be required to keep the vessel in-service beyond the current planned retirement date (2019).</p> <p>The vessel currently operates safely and in compliance with regulatory requirements; however, BC Ferries is of the opinion that the vessel is nearing the end of her useful life. In its application, BC Ferries notes that this view is supported by condition assessments conducted by Lloyd's Marine Register Canada.</p> <p>In addition, the Nimpkish would require these upgrades to ensure BC Ferries' continued ability to adhere to contractual core service levels and minimize disruption of services</p>
<p>Adequately Responded</p> <p><input checked="" type="checkbox"/></p>	<p><i>Provide information on the operating costs of the vessel, terminal, information technology or other capital asset to be replaced and/or to be upgraded, covering the most recent three year period, including the current year.</i></p>	<p>BC Ferries provided information on operating expenses in confidential supplemental documents, which formed part of the application to the Commissioner.</p>
<p>Adequately Responded</p> <p><input checked="" type="checkbox"/></p>	<p><i>Compare the annual maintenance costs of the existing capital asset with those expected for the replacement and explain any significant variances.</i></p>	<p>In its application, BC Ferries estimated annual maintenance costs of the existing asset (the Nimpkish) relative to the proposed replacement vessel.</p> <p>Despite the difficulty in comparing the annual maintenance costs due to the differing fleet set ups proposed, it won't change the financial analysis completed by BC Ferries, which outlines the total project cost as well as the NPV of each option.</p>

Assessment	Questions	Observations and Reported Information Provided by BC Ferries																																																																																								
<p>Adequately Responded</p> <p><input checked="" type="checkbox"/></p>	<p><i>Have there been service disruptions due to inadequacy of the existing capital asset?</i></p>	<p>BC Ferries noted in its application that there have been service disruptions due to the mechanical incidents with the Nimpkish on Route 10s. In the application, BC Ferries detailed the mechanical incidents, as per the table below.</p> <table border="1" data-bbox="873 358 1915 854"> <thead> <tr> <th colspan="8" data-bbox="873 358 1915 410">Nimpkish: History of Recorded Mechanical Incidents</th> </tr> <tr> <th data-bbox="873 410 989 553"></th> <th data-bbox="989 410 1115 553"># of All Mechanical Incidents</th> <th data-bbox="1115 410 1251 553"># of Mechanical Incidents that Impacted Service</th> <th data-bbox="1251 410 1356 553"># of Sailings</th> <th data-bbox="1356 410 1478 553"># of Delays</th> <th data-bbox="1478 410 1604 553">% Delays (per sailing leg)</th> <th data-bbox="1604 410 1751 553"># of Cancellations</th> <th data-bbox="1751 410 1915 553">% Cancellations (per sailing leg)</th> </tr> </thead> <tbody> <tr> <td data-bbox="873 553 989 586">F2009</td> <td data-bbox="989 553 1115 586">-</td> <td data-bbox="1115 553 1251 586">-</td> <td data-bbox="1251 553 1356 586">42</td> <td data-bbox="1356 553 1478 586">-</td> <td data-bbox="1478 553 1604 586">-</td> <td data-bbox="1604 553 1751 586">-</td> <td data-bbox="1751 553 1915 586">-</td> </tr> <tr> <td data-bbox="873 586 989 618">F2010</td> <td data-bbox="989 586 1115 618">2</td> <td data-bbox="1115 586 1251 618">-</td> <td data-bbox="1251 586 1356 618">152</td> <td data-bbox="1356 586 1478 618">-</td> <td data-bbox="1478 586 1604 618">-</td> <td data-bbox="1604 586 1751 618">-</td> <td data-bbox="1751 586 1915 618">-</td> </tr> <tr> <td data-bbox="873 618 989 651">F2011</td> <td data-bbox="989 618 1115 651">-</td> <td data-bbox="1115 618 1251 651">-</td> <td data-bbox="1251 618 1356 651">175</td> <td data-bbox="1356 618 1478 651">-</td> <td data-bbox="1478 618 1604 651">-</td> <td data-bbox="1604 618 1751 651">-</td> <td data-bbox="1751 618 1915 651">-</td> </tr> <tr> <td data-bbox="873 651 989 683">F2012</td> <td data-bbox="989 651 1115 683">-</td> <td data-bbox="1115 651 1251 683">-</td> <td data-bbox="1251 651 1356 683">234</td> <td data-bbox="1356 651 1478 683">-</td> <td data-bbox="1478 651 1604 683">-</td> <td data-bbox="1604 651 1751 683">-</td> <td data-bbox="1751 651 1915 683">-</td> </tr> <tr> <td data-bbox="873 683 989 716">F2013</td> <td data-bbox="989 683 1115 716">1</td> <td data-bbox="1115 683 1251 716">-</td> <td data-bbox="1251 683 1356 716">223</td> <td data-bbox="1356 683 1478 716">-</td> <td data-bbox="1478 683 1604 716">-</td> <td data-bbox="1604 683 1751 716">-</td> <td data-bbox="1751 683 1915 716">-</td> </tr> <tr> <td data-bbox="873 716 989 748">F2014</td> <td data-bbox="989 716 1115 748">7</td> <td data-bbox="1115 716 1251 748">1</td> <td data-bbox="1251 716 1356 748">231</td> <td data-bbox="1356 716 1478 748">2</td> <td data-bbox="1478 716 1604 748">0.87%</td> <td data-bbox="1604 716 1751 748">-</td> <td data-bbox="1751 716 1915 748">-</td> </tr> <tr> <td data-bbox="873 748 989 781">F2015</td> <td data-bbox="989 748 1115 781">4</td> <td data-bbox="1115 748 1251 781">-</td> <td data-bbox="1251 748 1356 781">527</td> <td data-bbox="1356 748 1478 781">-</td> <td data-bbox="1478 748 1604 781">-</td> <td data-bbox="1604 748 1751 781">-</td> <td data-bbox="1751 748 1915 781">-</td> </tr> <tr> <td data-bbox="873 781 989 813">F2016</td> <td data-bbox="989 781 1115 813">3</td> <td data-bbox="1115 781 1251 813">3</td> <td data-bbox="1251 781 1356 813">496</td> <td data-bbox="1356 781 1478 813">7</td> <td data-bbox="1478 781 1604 813">1.41%</td> <td data-bbox="1604 781 1751 813">-</td> <td data-bbox="1751 781 1915 813">-</td> </tr> <tr> <td data-bbox="873 813 989 846">Average</td> <td data-bbox="989 813 1115 846">3</td> <td data-bbox="1115 813 1251 846">2</td> <td data-bbox="1251 813 1356 846">260</td> <td data-bbox="1356 813 1478 846">5</td> <td data-bbox="1478 813 1604 846">1.73%</td> <td data-bbox="1604 813 1751 846">-</td> <td data-bbox="1751 813 1915 846">-</td> </tr> </tbody> </table>	Nimpkish: History of Recorded Mechanical Incidents									# of All Mechanical Incidents	# of Mechanical Incidents that Impacted Service	# of Sailings	# of Delays	% Delays (per sailing leg)	# of Cancellations	% Cancellations (per sailing leg)	F2009	-	-	42	-	-	-	-	F2010	2	-	152	-	-	-	-	F2011	-	-	175	-	-	-	-	F2012	-	-	234	-	-	-	-	F2013	1	-	223	-	-	-	-	F2014	7	1	231	2	0.87%	-	-	F2015	4	-	527	-	-	-	-	F2016	3	3	496	7	1.41%	-	-	Average	3	2	260	5	1.73%	-	-
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<p>Adequately Responded</p> <p><input checked="" type="checkbox"/></p>	<p><i>If age of the existing capital asset is a factor, what is the estimate of future costs of continuing its use?</i></p>	<p>BC Ferries has suggested the age of the existing capital asset, the Nimpkish, is a factor. The company estimates that to continue use of the existing assets for another two years, it will cost \$2.3 million to upgrade the Nimpkish and \$8.5 million to upgrade the Queen of Nanaimo. BC Ferries noted in its application that there is some risk that these costs are at the low end, and suggested that there is a high degree of uncertainty due to asbestos, lead paint, and condition of steel on the vessels.</p>																																																																																								

Adequately
Responded



Have there been complaints from the public, or other stakeholders about the existing capital asset?

BC Ferries has received comments and complaints from the public regarding the existing asset, the Nimpkish. In its application, BC Ferries supplied information outlining the number and nature of complaints received on Route 10s and the Nimpkish. These complaints are summarized in the tables below.

Overview of Customer Feedback:

Fiscal	Total Comments	Category: North Coast	Route/Vessel Specific: Discovery Coast & Nimpkish
2010	6,014	405	22
2011	9,260	225	29
2012	8,351	182	36
2013	7,653	141	22
2014	8,273	192	23
2015	7,319	184	28
2016	7,371	193	22

Nature of Public Comments:

Assessment	Questions	Observations and Reported Information Provided by BC Ferries												
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	<p><i>Provide an estimate of the total capital costs associated with the proposed investment.</i></p>	<p>BC Ferries has estimated total capital costs associated with the proposed investment.:</p>												
<p>Adequately Responded</p> <p><input checked="" type="checkbox"/></p>	<p><i>How was the cost estimate derived? Entirely with BC Ferries' staff or was there an external review?</i></p>	<p>The cost estimate for the vessel upgrade and terminal modifications was derived by BC Ferries staff. There was no external review.</p>												
<p>Adequately Responded</p> <p><input checked="" type="checkbox"/></p>	<p><i>In the case of a new vessel was the international ship broking industry contacted to determine if there are existing vessels available for purchase that may, with adaptation, be appropriate?</i></p>	<p>BC Ferries noted in its Application that it followed the Company's standard procurement process to acquire a used vessel. This included engaging two international, European-based brokerages to monitor global markets and identify vessels that met BC Ferries' requirements. BC Ferries has made an initial purchase offer and has a broker and local legal counsel assisting in the negotiation of a final offer.</p> <p>The vessel BC Ferries has selected will need to be modified for use on Route 28 and Route 10s.</p>												

Assessment	Questions	Observations and Reported Information Provided by BC Ferries
Adequately Responded <input checked="" type="checkbox"/>	<i>Provide an estimate of the incremental capital costs to provide "ancillary services", including catering and retail concessions, and provide estimates of the incremental operating costs to provide the ancillary services and the incremental revenue expected to be generated from those services.</i>	With both options, comparable ancillary services will be delivered. There would not be any incremental costs, because the vessels (aside from the Nimpkish) have the space and staff already on board to deliver ancillary services. The revenue resulting from ancillary service delivery would be comparable for both options. There would be no incremental capital costs associated with the Nimpkish, as there is no space on board to delivery ancillary services.
Adequately Responded <input checked="" type="checkbox"/>	<i>In the case of a new vessel, demonstrate on a lifecycle cost or present value basis that the decision to build a new vessel versus the cost of acquiring a second hand vessel, if applicable, is a net benefit. Include sensitivity analysis in case of cost overruns.</i>	In its application, BC Ferries has proposed to acquire a used vessel rather than to build a new vessel for this project. In its financial analysis of the two options, BC Ferries compared the total project cost of each project, along with the net present value. Additionally, BC Ferries has built contingency into the project cost to cover potential cost overruns, unknown condition of the assets, and potential scope additions.
Adequately Responded <input checked="" type="checkbox"/>	<i>Does the proposal include significant features that are innovative or untried?</i>	No. BC Ferries has not included any untried features in its plans. It has confirmed that current vessel and terminal standards and regulations will be adhered to for this project.
Adequately Responded <input checked="" type="checkbox"/>	<i>Is there an allowance in the estimate for inflation from the date of acceptance of a proposal to the completion date (escalation clause)?</i>	BC Ferries included its standard annual escalation rate for inflation of 2 percent, which it has applied to all capital and operating costs in the estimates for this project.
Adequately Responded <input checked="" type="checkbox"/>	<i>Are financing costs included in the cost estimate between first payment to the supplier and the in-service date?</i>	Yes. BC Ferries included financing costs in its estimate.
Adequately Responded <input checked="" type="checkbox"/>	<i>Compare the operating costs of the existing capital asset with those expected for the replacement, to</i>	A one-to-one comparison of the operating costs of the existing capital asset and the replacement is difficult for this project, as an additional route is being added to serve the mid-coast region. BC Ferries has done financial analysis and estimated NPV for both

Assessment	Questions	Observations and Reported Information Provided by BC Ferries
	<i>include, in the case of vessels, fuel costs, crew costs and depreciation.</i>	options. This analysis includes the operating costs, which BC Ferries provided in the confidential supplemental information to its application.
Adequately Responded <input checked="" type="checkbox"/>	<i>Does BC Ferries intend to capitalize any of its own internal costs with respect to the capital expenditure?</i>	Yes, it will do this in accordance with BC Ferries' financial policies and International Financial Reporting Standards.
Adequately Responded <input checked="" type="checkbox"/>	<i>Identify any parts of the capital expenditure that are to be provided by BC Ferries or its subsidiaries.</i>	The application indicates that project management responsibilities will rest with BC Ferries.
Adequately Responded <input checked="" type="checkbox"/>	<i>In the case of vessels, if tenders are to be sought from foreign shipbuilders, what is the applicability of custom tariffs on importation of the vessels?</i>	Customs tariffs do not apply to the importation of a used vessel.
Adequately Responded <input checked="" type="checkbox"/>	<i>In the case of vessels, will BC Ferries require the contracting shipyard to bear the design and construction risk?</i>	Option 1: N/A Option 2: Yes.

Timing and In-Service Date

Assessment	Questions	Observations and Reported Information Provided by BC Ferries												
Adequately Responded <input checked="" type="checkbox"/>	<i>For new or replacement vessels what is the expected in-service or deployment date and how was it derived?</i>	<p>BC Ferries' in-service date for the replacement vessel is June 2018. This has been derived as per the timeline for vessel acquisition, modification and deployment below and has ultimately been determined by the Province's requested in-service date and subsequent amendment to the Coastal Ferry Services Contract.</p> <table border="1"> <thead> <tr> <th rowspan="2">Purchase and Delivery</th> <th colspan="2">Modification</th> <th rowspan="2">Training, Integration, Certification</th> <th rowspan="2">In-Service</th> </tr> <tr> <th>Start</th> <th>Finish</th> </tr> </thead> <tbody> <tr> <td>March 2017 - September 2017</td> <td>September 2017</td> <td>March 2018</td> <td>April 2018 - May 2018</td> <td>June 2018</td> </tr> </tbody> </table>	Purchase and Delivery	Modification		Training, Integration, Certification	In-Service	Start	Finish	March 2017 - September 2017	September 2017	March 2018	April 2018 - May 2018	June 2018
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<p>Adequately Responded <input checked="" type="checkbox"/></p>	<p><i>Were potential builders, for example shipyards, contacted to determine if the proposed date is reasonable?</i></p>	<p>Although BC Ferries did not note that they have not yet contacted refit shipyards for estimates, they laid out a rationale and mitigation plans for both the refit of the vessel and the modification of the terminals.</p> <p>Modification of Vessel BC Ferries has:</p> <ul style="list-style-type: none"> • Built extra time into the refit schedule; • Plans to identify and expedite procurement of materials and equipment with longer lead times; • Plans to contract an internationally experienced service provider to deliver the vessel to Canada once the purchase is finalized; • Built extra time into the delivery voyage schedule to minimize the impact of potential delivery delays. <p>Modification of Terminals BC Ferries plans to:</p> <ul style="list-style-type: none"> • Develop a project delivery and contracting strategy to ensure work is completed within the proposed timelines; • Develop its project delivery and contracting strategy with input from local marine contractors to address this risk; and • Use its northern standard designs, where applicable, to reduce design time and expedite construction.
<p>Adequately Responded <input checked="" type="checkbox"/></p>	<p><i>What are the consequences of a delay in the in-service or deployment date?</i></p>	<p>The consequences of a delay of the in-service date for the replacement vessel include:</p> <ul style="list-style-type: none"> • Increased possibility of service disruptions due to the continued operation of the Nimpkish; • BC Ferries being unable to comply with the Route 10s service level commitments outlined in the Coastal Ferry Services Contract; and • BC Ferries being unable to inaugurate Route 28 by summer 2018.

Specific Questions

Does the proposed capital expenditure demonstrate good judgment, based on wisdom, experience and good sense?

Assessment	Questions	Observations and Reported Information Provided by BC Ferries
Adequately Responded <input checked="" type="checkbox"/>	<i>Why is the proposed capital expenditure required now, and what are the consequences of any delay?</i>	<p>In its application, BC Ferries asserts that the proposed capital expenditure is required now because:</p> <ul style="list-style-type: none"> • A delay of the in-service date for the replacement of the Nimpkish may increase the possibility of service disruptions; • The longer the Nimpkish operates, the higher the risk of unforeseen operational issues and serviceability; • The availability of critical spares is limited; • original equipment manufacturer knowledge and supportability are at levels that may compromise service reliability; and • BC Ferries has struck an agreement with the Province with the intent that the new Route 28 will be operational by June 2018. <p>In addition, BC Ferries has scaled back long range maintenance plans for the vessel in preparation for the planned replacement in 2018. BC Ferries notes in its applications that extensions to these plans could result in:</p> <ul style="list-style-type: none"> • Reduced vessel reliability; • Reduced operational availability; and • Need for significant investment to achieve a very short life extension.
Adequately Responded <input checked="" type="checkbox"/>	<i>How has this capital expenditure project been prioritized relative to other capital expenditure projects within the long term capital plan?</i>	<p>The Application submitted by BC Ferries indicates that the proposed capital expenditure project is of a high priority for the organization, considering the:</p> <ul style="list-style-type: none"> • Condition of the asset being replaced; • Need to ensure ongoing continuity of service on Routes 10s; and • Need to meet the service level requirements for the new Route 28.
Adequately Responded <input checked="" type="checkbox"/>	<i>What sources of expertise and experience have been relied upon in deciding to proceed with this capital expenditure?</i>	<p>BC Ferries relied on both internal and external sources of expertise in its decision to proceed with the capital expenditure.</p> <p>BC Ferries' external sources of expertise include:</p> <ul style="list-style-type: none"> • Lloyd's Marine Register Canada (engaged to prepare a condition assessment of the Nimpkish); and • Photographs and technical drawings of the candidate used vessel. <p>BC Ferries internal sources of expertise and experience include:</p> <ul style="list-style-type: none"> • Internal financial resources (developed mid-coast ferry financial service model);

Assessment	Questions	Observations and Reported Information Provided by BC Ferries
		<ul style="list-style-type: none"> • BC Ferries' team that conducted an initial visit during operations (November 2016): <ul style="list-style-type: none"> ○ Director Naval Architecture ○ Engineering Superintendent ○ VRP Implementation Superintendent • BC Ferries' team that conducted a visit / condition inspection (January 2017): <ul style="list-style-type: none"> ○ VP Engineering ○ VP Operations ○ Director Customer Services ○ Director VRP ○ Engineering Superintendent ○ Project Manager
<p>Adequately Responded</p> <p style="text-align: center;"><input checked="" type="checkbox"/></p>	<p><i>Provide detail on completed and/or planned consultations, in particular with the provincial government or other stakeholders.</i></p>	<p>Consultation with Provincial Government</p> <p>With this project, BC Ferries is responding to a specific service request from the Province. The Province has defined the type, frequency, level of service and amenities to be offered, and BC Ferries, as the service provider, has committed to offering the requested services. The results of the consultation with the Province that led to this decision are outlined in the following documents:</p> <ul style="list-style-type: none"> • Letter Agreement (December 2016) – BC Ferries and the Ministry of Transportation and Infrastructure’s agreement outlining the terms of the expanded mid-coast service. • Amendment to Coastal Ferry Services Contract (March 2017) – BC Ferries and the Ministry of Transportation and Infrastructure’s contract amendment including Route 28 as a designated ferry route. <p>Other Stakeholders</p> <p>The BC Ferry Commissioner invited public comments on the BC Ferries Application between March 9th and March 27th, 2017. The Ferry Commissioner received responses from the following stakeholders:</p> <ul style="list-style-type: none"> • The District of Port Hardy – The District was concerned about ferry size, frequency of service, and future growth considerations. It urged BC Ferries to consult with the Mid-Coast Advisory group on scheduling frequency, scheduling service dates and times, and scheduling changes and the impact to communities. • Mid-Coast BC Ferries Working Group – The Working Group was concerned about insufficient duration of operating season, and limiting

Assessment	Questions	Observations and Reported Information Provided by BC Ferries								
		<p>service to a single vessel. It suggested that the schedule be extended from mid-May to mid-October and that the Ferry Commissioner and BC Ferries should explore operating a second vessel for the 10s.</p>								
<p>Adequately Responded <input checked="" type="checkbox"/></p>	<p><i>In the case of new vessels, has BC Ferries considered any alternative to building and owning the new vessels?</i></p>	<p>Yes. The Project involves the proposed acquisition of a used vessel, as it will allow BC Ferries to meet the in-service date agreed upon with the Province.</p>								
<p>Adequately Responded <input checked="" type="checkbox"/></p>	<p><i>Will a new or replacement vessel require any modifications to any terminals? If so, at what additional cost?</i></p>	<p>Terminal modifications will be required at each of the mid-coast ports to ensure compatibility with the candidate used vessel. BC Ferries noted in its application that the proposed terminal modifications reflect its terminal network master plan.</p> <p>BC Ferries also stressed in its application that the terminal modification cost estimates are preliminary and conservative, due to the high degree of uncertainty in terms of scope and costs for the project. The application also suggested that additional budgeting for this work will need to occur.</p>								
<p>Adequately Responded <input checked="" type="checkbox"/></p>	<p><i>What are the procurement cost risks and how will they be mitigated?</i></p>	<p>In its application, BC Ferries has identified procurement cost risks, along with proposed mitigation strategies. These are outlined in the table below.</p> <table border="1" data-bbox="940 841 1894 1399"> <thead> <tr> <th data-bbox="940 841 1224 873">Risks</th> <th data-bbox="1224 841 1894 873">Mitigations</th> </tr> </thead> <tbody> <tr> <td data-bbox="940 873 1224 1154">Vessel acquisition</td> <td data-bbox="1224 873 1894 1154"> <ul style="list-style-type: none"> BC Ferries has engaged a ship broker to assist with negotiating the purchase offer. A standard form of sales agreement is being used to negotiate and document the specifics of the final agreement If BC Ferries and the seller are unable to reach an agreement, there is the option of reverting to 'Option 2' presented in section 4 to meet the mid-coast service requirements </td> </tr> <tr> <td data-bbox="940 1154 1224 1312">Administration in region of transfer</td> <td data-bbox="1224 1154 1894 1312"> <ul style="list-style-type: none"> BC Ferries has engaged local counsel in the seller's region to assist in the procurement and help mitigate the risk of unanticipated administrative requirements in the region of transfer. </td> </tr> <tr> <td data-bbox="940 1312 1224 1399">Vessel modifications and upgrades, including:</td> <td data-bbox="1224 1312 1894 1399"> <ul style="list-style-type: none"> Unknown defects – Mitigated by the detailed surveys and inspections undertaken before the </td> </tr> </tbody> </table>	Risks	Mitigations	Vessel acquisition	<ul style="list-style-type: none"> BC Ferries has engaged a ship broker to assist with negotiating the purchase offer. A standard form of sales agreement is being used to negotiate and document the specifics of the final agreement If BC Ferries and the seller are unable to reach an agreement, there is the option of reverting to 'Option 2' presented in section 4 to meet the mid-coast service requirements 	Administration in region of transfer	<ul style="list-style-type: none"> BC Ferries has engaged local counsel in the seller's region to assist in the procurement and help mitigate the risk of unanticipated administrative requirements in the region of transfer. 	Vessel modifications and upgrades, including:	<ul style="list-style-type: none"> Unknown defects – Mitigated by the detailed surveys and inspections undertaken before the
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Assessment	Questions	Observations and Reported Information Provided by BC Ferries	
		<ul style="list-style-type: none"> Unknown defects Late supply of materials Dry docking schedule 	<p>purchase. Residual risk is mitigated by contingency built into the schedule and budget.</p> <ul style="list-style-type: none"> Late supply of materials and equipment – Mitigated by long lead times and expedited procurement. Dry docking schedule – Mitigated by strong project management by BC Ferries in managing scope creep and schedule risk, and contingency built into dry docking schedule.
		Vessel Delivery	<ul style="list-style-type: none"> BC Ferries plans to contract an internationally experienced service provider to deliver the candidate used vessel Contingency has been built into the schedule to mitigate any delays
Adequately Responded <input checked="" type="checkbox"/>	<i>What are the consequences or the alternatives if the application is rejected?</i>	<p>BC Ferries noted in its application that there are no obvious alternatives to the two options presented in its application.</p> <p>If both of the options are rejected, BC Ferries may not be able to serve Route 10s and the new Route 28, which would make it unable to provide the services as set out in the December 2016 letter agreement with the Province.</p>	

Wise Use of Resources

Assessment	Questions	Observations and Reported Information Provided by BC Ferries
Adequately addressed <input checked="" type="checkbox"/>	<i>Can an existing vessel be reassigned instead?</i>	<p>BC Ferries has indicated that there are no appropriate and available vessels that can be reassigned. In its application, BC Ferries has noted that Option 2 involves the temporary reassignment of a life-extended Queen of Nanaimo to provide the Route 28 service. However, Option 2 is not an indefinite reassignment, but rather an interim measure until another new or used vessel becomes available. It should be noted that the ABS condition report on the Queen of Nanaimo indicates that a considerable scope and expense of work is required to extend this vessel, even as a bridge to acceptance of a new-build vessel.</p>

Assessment	Questions	Observations and Reported Information Provided by BC Ferries
Adequately addressed <input checked="" type="checkbox"/>	<i>For shorter routes were non-vessel options considered, such as a fixed link?</i>	Yes; however, BC Ferries' analysis concluded that there are no obvious non-vessel options and a fixed link option would be cost prohibitive.
Adequately addressed <input checked="" type="checkbox"/>	<i>Were non-vehicle vessels (e.g. passenger only ferries, barges, other) or a mix of vessel types considered?</i>	Yes; however, BC Ferries' projected requirements indicate that roll-on/roll-off passenger ferries will be required for the foreseeable future.
Adequately addressed <input checked="" type="checkbox"/>	<i>Has a used vessel option been considered?</i>	Yes. The Application involves the proposed acquisition of a used vessel for operation on Route 10s and Route 28.
Adequately addressed <input checked="" type="checkbox"/>	<i>How does the vessel align with the concept of standardization of the fleet?</i>	BC Ferries asserts that while the proposed vessel will be a unique asset, it will realise standardization and efficiencies through fleet-standardized components, equipment selection, systems and procedures that will be consistent across much of the BC Ferries fleet. Additionally, the application notes that the candidate used vessel has many elements similar and compatible to the BC Ferries vessels currently serving northern routes, with the ship and shore design allowing the proposed used vessel to operate on the other northern routes (with modification) if needed.
Adequately addressed <input checked="" type="checkbox"/>	<i>Would investments in technology, such as an expanded reservation system, better IT systems or a yield management program allow for a smaller sized vessel?</i>	No. BC Ferries notes that because it plans to use the same vessel during both peak and off-peak periods, the vessel must be sized for peak demand. Although BC Ferries is currently investing in technologies relating to utilization efficiency, in this case, such a technology would not enable BC Ferries to reduce the size of the vessel.

Showing Due Consideration for the Future

Assessment	Questions	Observations and Reported Information Provided by BC Ferries
Adequately addressed <input checked="" type="checkbox"/>	<i>How does the proposed new vessel contribute to overall fleet flexibility?</i>	Although BC Ferries is seeking to standardize its fleet through its fleet renewal program, the candidate used vessel will be a unique asset to the fleet. However, in its application BC Ferries indicates that the vessel will have similar characteristics to the other northern vessels and the designs it plans to use for the ship and terminals will increase fleet flexibility, enabling the candidate used vessel to operate on other northern routes, for emergency relief, if needed.
Adequately addressed <input checked="" type="checkbox"/>	<i>What new technologies or innovations will be incorporated, and why are they considered necessary?</i>	BC Ferries has confirmed that it will adhere to current vessel and terminal standards and regulations for this project and it has not planned to use any new technologies or untried features.
Adequately addressed <input checked="" type="checkbox"/>	<i>Will there be provision for a conversion to an alternative to marine diesel engines, such as LNG?</i>	No. BC Ferries noted in its application that the option to modify the vessel to operate on LNG is not feasible because: <ul style="list-style-type: none"> • The vessel lacks the space needed; • The hull is too shallow to retrofit an LNG tank internally; and • There is insufficient area and stability margin to mount a tank above.
Adequately addressed <input checked="" type="checkbox"/>	<i>Is dual fuel capability planned and if so provide the rationale?</i>	Dual fuel capability is not planned for the replacement vessel. BC Ferries has indicated that the candidate used vessel will operate on ultra-low sulphur diesel. (See above).
Adequately addressed <input checked="" type="checkbox"/>	<i>Will the new or replacement vessel be appropriate if the ratio of vehicle to foot passenger traffic changes in future?</i>	According to the BC Ferries application, the ideal vessel capacity has been determined based on estimates of foot passenger and vehicle traffic demand. The sailing schedule allows for flexible service levels of up to 3.5 round trips per week, enabling BC Ferries, to some extent, to grow capacity through increased frequency of sailings. As such, the vessel should be able to withstand some change to the ratio of vehicle to foot passenger traffic; however, it may have to be supplemented with an additional vessel for mid-coast service if demand continues to grow.
Adequately addressed <input checked="" type="checkbox"/>	<i>Is vessel capacity sufficient to meet current and projected future demand?</i>	In its analysis to estimate demand, BC Ferries used a five-year period of historic traffic demand on the former Route 40 between Port Hardy and Bella Coola, as well as current demand for Route 10s. Based on these estimates, BC Ferries believes the proposed used vessel will be able to meet current demand. The

Assessment	Questions	Observations and Reported Information Provided by BC Ferries
		<p>Application notes that the proposed vessel will be able to handle Route 10s traffic demand with one trip per week</p> <p>However, BC Ferries noted it is challenging to predict future demand for a service not previously provided (i.e., Route 28). It also suggested that for this new route, it may take several years to build up ridership, and as such, actual demand is not yet known.</p>
<p>Adequately addressed</p> <p><input checked="" type="checkbox"/></p>	<p><i>What is the estimated impact of the proposed capital expenditure on future price caps assuming no change in non-passenger related revenues?</i></p>	<p>In its application, BC Ferries noted it does not anticipate the proposed expenditure to impact price caps.</p>

Not excessive

Assessment	Questions	Observations and Reported Information Provided by BC Ferries
<p>Adequately addressed</p> <p><input checked="" type="checkbox"/></p>	<p><i>What passenger amenities will be provided, and why are they considered appropriate for the intended use of this vessel?</i></p>	<p>In its application, BC Ferries suggests that on-board amenities to be provided will be aligned with the tourism experience being marketed as well as the length of the trip, which is much longer than most BC Ferries routes.</p> <p>Suggested amenities included in the BC Ferries application:</p> <ul style="list-style-type: none"> • Food services; • Comfortable seating; • Lounge spaces; • Outdoor viewing; • Elevator; and • Wheelchair accessible.
<p>Adequately addressed</p> <p><input checked="" type="checkbox"/></p>	<p><i>Do any of the proposed passenger amenities require crewing levels to be higher than what is required by Transport Canada regulations?</i></p>	<p>No. BC Ferries does not plan to have crewing levels higher than what is required by Transport Canada regulations.</p>
<p>Adequately addressed</p> <p><input checked="" type="checkbox"/></p>	<p><i>Is the vessel the right size and how has the capacity requirement been determined?</i></p>	<p>BC Ferries estimated the capacity requirement by analyzing current demand on Route 10s, as well as historic traffic demand over a 5-year period for the former Route 40 between Port Hardy and Bella Coola. BC ferries noted that demand for an untested route, such as the new Route 28 is difficult to predict and will likely have to be built up over a few seasons.</p>

Assessment	Questions	Observations and Reported Information Provided by BC Ferries																																													
		<p>In its application, BC Ferries included the following two tables, estimating annual capacity utilization for both routes based on one round trip per week using a 35 AEQ vessel (Table 3-B) and for 2.5 round trips per week using a 35 AEQ vessel (Table 3-C) below.</p> <p>Table 3-B: Modelled Annual Capacity Utilization of Historical Volumes for Route 10s Ports with one Round Trip Per Week Using a 35 AEQ Vessel</p> <table border="1" data-bbox="1035 440 1677 761"> <thead> <tr> <th>Fiscal Year</th> <th>Peak to/from Ocean Falls and Shearwater</th> <th>Off Peak to/from Bella Coola, Ocean Falls and Shearwater</th> </tr> </thead> <tbody> <tr> <td>F2010</td> <td>34.1%</td> <td>8.5%</td> </tr> <tr> <td>F2011</td> <td>32.5%</td> <td>10.3%</td> </tr> <tr> <td>F2012</td> <td>33.7%</td> <td>11.4%</td> </tr> <tr> <td>F2013</td> <td>27.9%</td> <td>13.3%</td> </tr> <tr> <td>F2014</td> <td>30.9%</td> <td>13.6%</td> </tr> <tr> <td>F2015</td> <td>19.5%</td> <td>17.5%</td> </tr> <tr> <td>F2016</td> <td>32.9%</td> <td>21.7%</td> </tr> </tbody> </table> <p>Table 3-C: Modelled Capacity Utilization of Historical Volumes Between Bella Coola and Port Hardy for Route 28 Service with 2.5 Round Trips Per Week Using a 35 AEQ Vessel</p> <table border="1" data-bbox="1020 904 1673 1219"> <thead> <tr> <th>Fiscal Year</th> <th>Peak to/from Bella Coola and Port Hardy</th> <th>Modelled average AEQ per sailing</th> </tr> </thead> <tbody> <tr> <td>F2010</td> <td>70.0%</td> <td>25</td> </tr> <tr> <td>F2011</td> <td>63.5%</td> <td>22</td> </tr> <tr> <td>F2012</td> <td>54.5%</td> <td>19</td> </tr> <tr> <td>F2013</td> <td>54.2%</td> <td>19</td> </tr> <tr> <td>F2014</td> <td>53.1%</td> <td>19</td> </tr> <tr> <td>5 year average</td> <td>59.1%</td> <td>21</td> </tr> </tbody> </table>	Fiscal Year	Peak to/from Ocean Falls and Shearwater	Off Peak to/from Bella Coola, Ocean Falls and Shearwater	F2010	34.1%	8.5%	F2011	32.5%	10.3%	F2012	33.7%	11.4%	F2013	27.9%	13.3%	F2014	30.9%	13.6%	F2015	19.5%	17.5%	F2016	32.9%	21.7%	Fiscal Year	Peak to/from Bella Coola and Port Hardy	Modelled average AEQ per sailing	F2010	70.0%	25	F2011	63.5%	22	F2012	54.5%	19	F2013	54.2%	19	F2014	53.1%	19	5 year average	59.1%	21
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<p>Adequately addressed</p> <p><input checked="" type="checkbox"/></p>	<p><i>Describe the objectives of BC Ferries' design standards for passenger accommodations for vessels of similar size and scope. Will the passenger accommodations for the replacement vessel deviate from these standards? If</i></p>	<p>BC Ferries noted in its application that Route 28 will be longer than most of its routes, and as such, enhanced facilities and services for passengers are required. BC Ferries also considers live-aboard accommodations for crew as necessary, optimizing crewing and minimizing operating costs.</p>																																													

Assessment	Questions	Observations and Reported Information Provided by BC Ferries
	<i>so, what is the rationale for the deviation and what impact, if any, will it have on the capital and operating costs of the vessel?</i>	<p>In its application, BC Ferries described the design as having:</p> <ul style="list-style-type: none"> • a passenger lounge arrangement accessible from the main vehicle deck; • a passenger lounge that complies with current accessibility requirements; • a passenger elevator; • Foot passenger access to the lounge(s) interfacing with passenger walkways on BC Ferries' standardized berth; and • catering services consistent with similar routes. <p>BC Ferries' planned modifications to the proposed vessel will follow the company's northern vessel interior design standard. According to its application, this design standard aims to provide a reasonable level of passenger comfort to support customer satisfaction and revenue generation on longer voyages.</p>
<p>Adequately addressed <input checked="" type="checkbox"/></p>	<i>Will the application of logos or other BC Ferries' brand images to the vessel be consistent with BC Ferries' current practice for similar vessels. If not, how will it differ and what will be the effect on capital costs?</i>	<p>Yes. The candidate used vessel will have similar branding to BC Ferries' other vessels operating on northern routes. The candidate vessel will be renamed according to BC Ferries' vessel naming standards.</p> <p>BC Ferries did not provide any other information as to how capital costs might be affected.</p>
<p>Adequately addressed <input checked="" type="checkbox"/></p>	<i>What would have to be sacrificed to reduce total costs by 10%, and by 20%?</i>	<p>In its application, BC Ferries outlined a scenario to reduce total costs by 10%; however, it indicated that capital cost savings of 20% would not be feasible.</p> <p>10% Cost Saving Scenario: Based on its analysis, BC Ferries suggested that achieving capital cost savings of 10% would require:</p> <ul style="list-style-type: none"> • substantial scope changes; and • instrumental reductions. <p>BC Ferries noted this scenario would result in a vessel that only meets the minimum regulatory and safety requirements. However, BC Ferries does not see this as a viable option because such a vessel would not be sufficient to meet the Province's expected service level.</p>
<p>Adequately addressed <input checked="" type="checkbox"/></p>	<i>Does vessel design or expected operating speed have any impact on labour costs?</i>	<p>Yes. Vessel design will help to minimize labour costs.</p> <p>BC Ferries has asserted in its application that the planned live-aboard accommodations for the replacement vessel will optimize crewing and minimize operating costs on Route 28.</p>

Assessment	Questions	Observations and Reported Information Provided by BC Ferries
		BC Ferries has noted that it cannot fully calculate the impact on labour costs, as minimum crew levels for the proposed used vessel will not be finalized until it is delivered. As such, the application does not include sufficient information to comment on the level of impact vessel design will have on labour costs.
Adequately addressed <input checked="" type="checkbox"/>	<i>Are engines sized for efficient operations, fuel consumption and ability to recover schedule?</i>	Yes. BC Ferries notes that the conditions on Route 28 require a single ended vessel with good seakeeping ability and a medium service speed. The proposed replacement vessel in Option 1 has a 2x geared diesel controllable pitch propeller that can maintain 14 knots. Whether option 1 or option 2 is selected, both are more efficient and consume less fuel than the Nanaimo. The application also notes that the expected sailing duration will be equal to or less than current service.

Demonstrating good value at a fair, moderate price

Assessment	Questions	Observations and Reported Information Provided by BC Ferries
Adequately addressed <input checked="" type="checkbox"/>	<i>For new vessels what alternatives were considered? Provide the rationale (cost or otherwise) for why the alternatives were not accepted.</i>	N/A BC Ferries has applied to purchase a used vessel to meet an in-service date requested by the Province as outlined in the 2016 letter agreement.
Adequately addressed <input checked="" type="checkbox"/>	<i>Has the business case been built on a full life cycle costing basis?</i>	Yes. This has been built into the business case for both options. Option 1: Purchase the Candidate Used Vessel BC Ferries' NPV analysis is based upon a 20-year period, which the Company believes aligns with the expected lifecycle of the candidate used vessel. Option 2: Life Extend the Nimpkish and the Queen of Nanaimo and Build a New Vessel BC Ferries used a residual value calculation in the final year of NPV analysis to address the 45-year asset life for a new build vessel.
Adequately addressed <input checked="" type="checkbox"/>	<i>How fuel efficient will the new vessels(s) be?</i>	In its application, BC Ferries suggested that fuel efficiency still needs to be determined. However; in both options, the replacement vessels are significantly more fuel efficient than the Nanaimo.

Assessment	Questions	Observations and Reported Information Provided by BC Ferries
<p>Adequately addressed</p> <p><input checked="" type="checkbox"/></p>	<p><i>Will the new or replacement vessel have any impact on efficient use of labour?</i></p>	<p>The application submitted by BC Ferries noted that both options would impact the efficient use of labour.</p> <p>Option 1:</p> <ul style="list-style-type: none"> • The replacement vessel will operate as a live-aboard vessel to optimize crewing considerations and minimize operating costs (consistent with its other northern vessels); • There will be land based cost increases due to increased hours of terminal staff in Port Hardy and traffic staging in Bella Coola; • On board crew will deliver ancillary services while sailing. <p>Option 2:</p> <ul style="list-style-type: none"> • There will be land based cost increases due to increased hours of terminal staff in Port Hardy and traffic staging in Bella Coola; • On board crew will deliver ancillary services while sailing. <p>BC Ferries also indicated that it doesn't have a clear picture of the impact on efficient use of labour because minimum crew levels for the proposed vessel will not be determined by Transport Canada until the vessel has been delivered and the regulatory inspection and drills are completed.</p>
<p>Adequately addressed</p> <p><input checked="" type="checkbox"/></p>	<p><i>Are the operating costs reasonable?</i></p>	<p>Yes. BC Ferries conducted financial analysis to determine operating costs, which are based on past project costs and projected costs for the replacement vessel.</p>
<p>Adequately addressed</p> <p><input checked="" type="checkbox"/></p>	<p><i>Is there any expected impact on revenue?</i></p>	<p>No. For both options the services provided on Route 28 will be comparable, so revenues should be similar. Under option 2, revenue may be lower, because the Nanaimo would only operate on Route 28, but not providing additional sailings to serve Route 10s.</p>
<p>Adequately addressed</p> <p><input checked="" type="checkbox"/></p>	<p><i>Will crew training and certification activities be in excess of that required to meet regulatory requirements? If so, explain the rationale for this approach and whether it will result in incremental operating costs.</i></p>	<p>No. BC Ferries believes that crew training and certifications will be sufficient to meet regulatory requirements, with additional operational training to be provided enabling it to meet its service reliability goals.</p> <p>In the case that option 2 is selected, BC Ferries has suggested that additional training costs would be required. The additional training costs are specific to the Queen of Nanaimo because the employees currently trained and working on the vessel would probably not be the crew that operates the vessel if it were deployed on Route 28.</p>

Terminal (new or upgrades)

Assessment	Questions	Observations and Reported Information Provided by BC Ferries
<p>Adequately addressed</p> <p><input checked="" type="checkbox"/></p>	<p><i>Is the proposed capital expenditure provided for in a board approved capital plan?</i></p>	<p>In its application, BC Ferries indicated that the proposed capital expenditure for the terminal work was included in its current board approved capital plan.</p> <p>The level of terminal expenditures is higher than in the PT4 capital plan, as that plan included terminal work (minor life extension projects) contemplating a like-for-like Nimpkish replacement and status quo service on Route 10s. The proposed expenditure is a significant increase from the PT4 plan to allow a safe and efficient ship-to-shore interface for the candidate used vessel and also to provide expanded mid-coast service via the new Route 28.</p>
<p>Adequately addressed</p> <p><input checked="" type="checkbox"/></p>	<p><i>Is the total cost different in any respect from what was approved in the capital plan?</i></p>	<p>The capital expenditure for the terminals is consistent with the current board approved capital plan as per above.</p>
<p>Adequately addressed</p> <p><input checked="" type="checkbox"/></p>	<p><i>Is the total cost different in any respect from what was indicated in the BC Ferries' last submission to the Commissioner for price cap setting purposes?</i></p>	<p>Yes. In its application, BC Ferries references the difference in cost between what was submitted in the PT4 capital plan and what is now being proposed for the terminal work.</p> <p>The PT4 capital plan included:</p> <ul style="list-style-type: none"> • Terminal work (minor life extension projects); • A like-for-like replacement of the Nimpkish; and • Continued service on Route 10s. <p>The PT4 capital plan did not include expanded mid-coast service (Route 28) and BC Ferries acknowledges that the proposed total capital expenditure is a significant increase from that plan to provide for safe and efficient ship-to-shore interface for the candidate used vessel on Route 10s and the new Route 28.</p>
<p>Adequately addressed</p> <p><input checked="" type="checkbox"/></p>	<p><i>Will the facility accommodate passenger-only ferries, water taxis and/or barge operations?</i></p>	<p>The application submitted by BC Ferries notes that terminal facilities will be modified to accommodate the candidate used vessel, which is a roll on/roll off vessel. It does not specify if there will be compatibility with any other types of vessels or operations.</p>

Assessment	Questions	Observations and Reported Information Provided by BC Ferries									
Adequately addressed <input checked="" type="checkbox"/>	<i>Will the project contribute to flexibility and interoperability within the fleet?</i>	Yes. Although BC Ferries indicates that the proposed vessel will be a unique asset to the fleet, it is compatible with and has many similar elements to BC Ferries' two northern vessels, the Northern Adventure and Northern Expedition. Additionally, BC Ferries believes that the ship and shore design it is planning will enable the proposed vessel to operate on BC Ferries' other northern routes, if needed.									
Adequately addressed <input checked="" type="checkbox"/>	<i>Will there be any improvements to ferry marshalling?</i>	No. BC Ferries stated in its application that improvements to ferry marshalling are not in scope for this project.									
Adequately addressed <input checked="" type="checkbox"/>	<i>Will there be any improvements to loading, unloading and turnarounds?</i>	Yes. BC Ferries outlined potential improvements at the Ocean Falls terminal, with a new ramp to allow greater flexibility when loading and unloading traffic. This improvement will result from improved geometry of the ramp set up.									
Adequately addressed <input checked="" type="checkbox"/>	<i>Will BC Ferries be sub-contracting or entering into partnerships with other entities to provide services at the terminal (e.g. parking, catering, retail)?</i>	BC Ferries indicated in its application that this is still to be determined. Once plans for vessel and terminal modification are in place, this should become more clear.									
Adequately addressed <input checked="" type="checkbox"/>	<i>Will there be any effect on local traffic patterns, and if so, how will they be mitigated?</i>	BC Ferries indicated in its application that this is still to be determined. Once plans for vessel and terminal modification are in place, this should become more clear.									
Adequately addressed <input checked="" type="checkbox"/>	<i>How are the needs of commercial traffic being considered and accommodated?</i>	<p>The Application notes that for each mid-coast berth, the interface between the various types of vehicles, including commercial, and the candidate used vessel is currently under review. However, the proposed vessel's size provides more room for commercial vehicles onboard, as per the measurements in the table below.</p> <table border="1"> <thead> <tr> <th>Commercial Vehicle Accommodation</th> <th>Current Vessel</th> <th>Proposed Vessel</th> </tr> </thead> <tbody> <tr> <td>Length</td> <td>33.5 metres</td> <td>75.4 metres</td> </tr> <tr> <td>Commercial Vehicle Max Height</td> <td>4.26 metres</td> <td>4.4 metres</td> </tr> </tbody> </table>	Commercial Vehicle Accommodation	Current Vessel	Proposed Vessel	Length	33.5 metres	75.4 metres	Commercial Vehicle Max Height	4.26 metres	4.4 metres
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Coastal Ferry Services Contract

Assessment	Questions	Observations and Reported Information Provided by BC Ferries
Adequately addressed <input checked="" type="checkbox"/>	<i>Is the proposed capital expenditure consistent with the current Coastal Ferry Services Contract?</i>	The purchase of the proposed vessel is consistent with the current Coastal Ferry Services Contract, as BC Ferries and the Ministry of Transportation and Infrastructure amended the agreement in March 2017 to add service on a new Route 28. The expanded mid-coast service is intended to be in place June 2018. BC Ferries noted in its application that service levels for Route 28 and Route 10s have yet to be confirmed, but will be included in a subsequent amendment of the Coastal Ferry Services Contract, therefore remaining consistent.

Long Term Vision for Coastal Ferry Services in British Columbia

Assessment	Questions	Observations and Reported Information Provided by BC Ferries
Adequately addressed <input checked="" type="checkbox"/>	<i>How does the proposed expenditure support the government approved long term vision for the future of coastal ferry services?</i>	The application for the proposed expenditure responds directly to a request by the Ministry of Transportation and Infrastructure to provide expanded mid-coast ferry service. This is reflected in the recent amendment of the Coastal Ferry Services Contract.