

EXECUTIVE SUMMARY

INTERMEDIATE CLASS FERRY SECTION 55 SUBMISSION

To continue to provide safe, efficient and reliable ferry service that meets the requirements of the Coastal Ferry Services Contract, BC Ferries must begin to replace its aging fleet immediately. This application outlines the next phase of the vessel replacement program – a new Intermediate Class Ferry to replace the Queen of Tsawwassen, which must be retired by December 31, 2007. This vessel currently operates on Route 7 (across Jarvis Inlet – Sunshine Coast).

REQUEST

BC Ferries is requesting a declaration by the British Columbia Ferries Commissioner that the proposed capital investment for the new Intermediate Class Ferry is reasonably required and will be included in the price cap established for the next performance term.

The vessel will be capable of operating on a number of smaller routes and have the following characteristics:

- 125 Automobile Equivalent (AEQ) on main vehicle deck
- Expandable to 175 AEQ (e.g. gallery decks at a later date)
- 600 passengers and crew
- Service speed of 14.5 knots @ 85% of Maximum Continuous Rating (MCR)
- Double-ended
- Overhead passenger lounge
- Snack Bar / Convenience Store

BC Ferries proposes to sign a contract for the procurement of a new Intermediate Class Ferry by August 31, 2005. The new vessel will enter service by the fall of 2007.

RATIONALE

BC Ferries' Queen of Tsawwassen will not meet the revised Transport Canada regulatory requirements beyond 2009. Similar to the V-Class vessels on the major routes, the option to life extend the Queen of Tsawwassen to comply with the new regulations is cost prohibitive and would provide only a relatively short-term solution given the vessel is 45 years old. Furthermore, structural changes necessitated by the new regulations may reduce the vehicle carrying capacity of the vessel.

Recently, Transport Canada indicated significant upgrades are required to address changes in regulations since the vessel was built. The cost of these upgrades would delay BC Ferries' ability to replace the Queen of Tsawwassen. BC Ferries and Transport Canada have agreed that the Queen of Tsawwassen will be retired by end of year 2007. This retirement date allows sufficient time for a replacement vessel to be procured.

OPTIONS

To address this issue, two options were considered:

1. Replacement with a used vessel.
2. Replacement with a new vessel.

Given the regulatory commitment to Transport Canada regarding the Queen of Tsawwassen, life extension is not an option.

With regard to a used vessel, BC Ferries actively monitors the world market for used vessels. Several international ship brokers routinely advise BC Ferries of used vessels available for purchase; however, a lengthy search for a suitable used vessel has been unsuccessful.

In order to meet the December 2007 deadline for retiring the Queen of Tsawwassen, the new vessel option has the lowest risk, and in the end, is the best option for the replacement of the Queen of Tsawwassen.

BACKGROUND

(a) Procurement Process

BC Ferries has followed a rigorous world-wide competitive procurement process for the new vessel, similar to that which was established for the Super C program. It has focused on ensuring BC Ferries receives high quality vessels within the required timeframe, minimizes risks and obtains competitive prices.

Phase 1: Request for Pre-Qualification (RFPO)

A total of 14 shipyards were invited to participate in a prequalification process. Nine yards requested RFPO packages. Five yards actually submitted proposals, including three Canadian yards and two foreign yards.

All five proposals submitted were deemed compliant and underwent thorough evaluations by both internal and external teams. Naviform Inc., an internationally experienced, BC-based naval architectural firm, conducted the external evaluation. In both evaluations, the same three shipyards were short-listed – two Canadian and one foreign.

Phase 2: Request for Proposals (RFP)

The three short-listed shipyards were issued the RFP on October 14, 2004. The three proponents submitted proposal packages by January 31, 2005 for evaluation.

After a technical review, each yard was deemed to have a compliant proposal suitable for the basis of negotiating a contract for a new Intermediate Class Ferry.

Subsequent to the proposal evaluation, and endorsement of the preliminary business case by BC Ferries' Board of Directors, negotiations were initiated with each of the three proponents. These technical/commercial discussions are ongoing, with the aim of further refining the proposals and selecting a shipyard.

Phase 3: Contract Negotiation and Award

Final selection and contract signing with the successful shipyard is expected to be no later than August 31, 2005 (subject to successful contract negotiations and final BC Ferries' Board of Directors' approval).

(b) Risk Management Strategy

A comprehensive risk management and mitigation strategy has been modeled after the Super C Program and is in place to address all key areas of project risk. All the recommendations of the Gordon, Morfitt and Wright reports on the Pacificat build

program have been addressed, including those related to governance and project management. Consistent with the recommendations of these reports, BC Ferries has ensured that the shipbuilder will assume full design, engineering and construction risk for the new vessels.

Technology risks have been minimized. The Intermediate Class Ferry hull design and propulsion will be similar to preferred designs of other ferries in operation. All technology employed in the Intermediate Class Ferry will be proven and readily available.

(c) Prices

In addition to ensuring high-quality vessels will be received within the required time frame, BC Ferries' procurement process has ensured receipt of competitive proposals with costs reflective of the current international market. Opportunities to reduce the cost of the vessel through contract negotiations and project management will continue to be pursued. The risk of cost escalation during construction is mitigated by the shipyard assuming design, engineering and construction risks, including responsibility for regulatory compliance.

(d) Delivery Schedule

The vessel will be delivered in the fall of 2007.