



July 2, 2020

Mr. Jason Barabash
Vice President, General Counsel & Corporate Secretary
British Columbia Ferry Services Inc.
Suite 500, 1321 Blanshard Street
Victoria, BC V8W 0B7

Dear Mr. Barabash:

Re: Coastal Class Vessels Quarter-Life Upgrade – Filing for a Capital Expenditure Under the *Coastal Ferry Act*

This refers to your letter dated June 25, 2020 requesting procedural direction from the Commissioners with respect to the Coastal Class vessels' quarter-life upgrades or refits and the thresholds established by Order 19-03 for submitting an application under Section 55(5) of the *Coastal Ferry Act* for approval of a major capital expenditure.

Order 19-03 states that for purposes of Section 55(5):

- “1. Any capital expenditure for any new vessel or mid-life upgrade to a vessel (“Vessel Expenditure”) is a major capital expenditure if the expenditure exceeds \$50 million inclusive of vessel related component programs and interest during construction;*
- 2. Any capital expenditure for new terminals, terminal upgrades, information technology systems or other non-vessel capital expenditures (“Non-Vessel Expenditure”) is a major capital expenditure if the expenditure exceeds \$25 million, inclusive of non-vessel related component programs and interest during construction;*
- 3. In the case where a single project (“Project”) planned by a ferry operator includes capital expenditures of a type referenced in both paragraphs (1) and (2) above, the entire capital expenditure for the Project will be a major capital expenditure if either the Vessel Expenditure or Non-Vessel Expenditure exceeds the applicable threshold;”*

In your letter you have indicated that BC Ferries intends to take a bundling approach for the procurement of the quarter-life upgrades for the three Coastal Class vessels scheduled for Fiscal 2023, 2024 and 2025 respectively. Further you expect that individually the cost of each quarter-life upgrade will be below the threshold in Order 19-03 for vessels but by bundling the cost for all three may exceed the threshold.

BC Ferries is of the view that the individual refits do not constitute a “Project” within the meaning of paragraph 3 of Order 19-03.

BC Ferries states that each refit can be viewed as separate and distinct projects with separate budgets, all bundled under one procurement strategy.

The Commissioners agree that individual refits do not constitute a “Project” within the meaning of paragraph 3 of Order 19-03. We also understand the advantages of the proposed procurement strategy in terms of potential cost savings and process efficiency. We therefore can confirm that a Section 55(5) application will not be required subject to the following:

1. The budget for any of the individual vessel quarter-life refits will not exceed the threshold for vessels in Order 19-03;
2. BC Ferries satisfies the Commissioners that the scope of the quarter-life refits proposed for the Coastal Class vessels reflects standard refit elements for a typical quarter-life refit for comparable vessels; and
3. BC Ferries will provide reports on the status of the refit program as a standing report item on the agenda of the Commissioners’ quarterly meetings with BC Ferries including actual expenses incurred to date compared to budget.

Sincerely,



Sheldon Stoilen
British Columbia Ferries Commissioner



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June 25, 2020

Mr. Sheldon Stoilen
British Columbia Ferries Commissioner
BC Ferry Commission
PO Box 9279 Stn Prov Gov
Victoria, BC V8W 9J7

Dear Mr. Stoilen:

**Re: Coastal Class Vessels Quarter-Life Upgrade –
Filing for a Capital Expenditure Under the *Coastal Ferry Act***

We are writing to seek the Commissioner's procedural direction with respect to the Coastal class vessels' quarter-life upgrades and the thresholds established by Order 19-03 for bringing an application under section 55 of the *Coastal Ferry Act* for approval of a major capital expenditure. BC Ferries is of the view that an application will not be required, but wishes to confirm that the Commissioner shares this view.

Background

BC Ferries' three Coastal class vessels – *Coastal Inspiration*, *Coastal Renaissance* and *Coastal Celebration* – were built between 2007 and 2008 and will be receiving their quarter-life upgrades in Fiscal 2023, Fiscal 2024 and Fiscal 2025 respectively. Subject to scope and associated pricing confirmation, each quarter-life upgrade is expected to have a capital budget in the range indicated in the confidential attachment to this letter. The refits will be managed within the expenditure limit set by BC Ferries' 12-year capital plan.

A business case is being developed and scope, budget and schedule are still to be finalised. BC Ferries currently plans to develop a single business case that bundles the quarter-life upgrades for all three vessels into one program with a single procurement plan.

BC Ferries anticipates that the business case for the three combined refits potentially could be finalized and submitted to the Board for approval as early as November this year. Two factors driving this anticipated timeline are the need to secure a shipyard, and to order long lead items for the first vessel.

Request for Procedural Direction

Section 55(2) of the *Coastal Ferry Act* indicates that BC Ferries must not incur a major capital expenditure without first obtaining the Commissioner's approval of the expenditure. Order 19-03 stipulates:

For purposes of Section 55(5):

1. *Any capital expenditure for any new vessel or mid-life upgrade to a vessel ("Vessel Expenditure") is a major capital expenditure if the expenditure exceeds \$50 million inclusive of vessel related component programs and interest during construction;*
- ...
3. *In the case where a single project ("Project") planned by a ferry operator includes capital expenditures of a type referenced in both paragraphs (1) and (2) above, the entire capital expenditure for the Project will be a major capital expenditure if either the Vessel Expenditure or Non-Vessel Expenditure exceeds the applicable threshold;*
- ...

BC Ferries is of the view that the individual Coastal class vessel refits would not be considered a "Project" within the meaning of paragraph 3 of Order 19-03. Each of the refits can be viewed as separate and distinct projects with separate refit budgets, all bundled under one program as part of a procurement strategy.

While BC Ferries believes that the thresholds set by 19-03 are not met and therefore an application under section 55 is not required, it recognizes the Commissioner's interest in remaining informed about the status of the Coastal class vessels quarter-life upgrades. BC Ferries would, if the Commissioner wishes, continue to provide reports in a form, and at intervals, specified by the Commissioner.

Conclusion

BC Ferries submits that the proposed approach is reasonable and meets the intent of both the *Coastal Ferry Act* and Order 19-03. BC Ferries looks forward to receiving your direction.

Should you have any questions or require further information please contact us.

Sincerely,



Jason Barabash
Vice President, General Counsel & Corporate Secretary,