

Note: In this copy of the original order, cost figures have been replaced with \$XX and an attached Review has been omitted, pending conclusion of negotiations with ship builders expected by the fall of 2005. After this, the cost data and Review will be released.



BRITISH COLUMBIA
FERRY COMMISSION

ORDER
NUMBER: 05-03

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**IN THE MATTER OF
Statutes of British Columbia Bill 18 - 2003
The Coastal Ferry Act Section 55**

And

A Capital Expenditure for an Intermediate Sized Vessel
Proposed by British Columbia Ferry Services Inc ("BC Ferries")

BEFORE: Alan Eastwood, Deputy Commissioner

D E C L A R A T I O N

WHEREAS:

- A. under section 55 of the Act BC Ferries may apply to the commissioner for a declaration as to whether the capital assets proposed to be deployed on, or the capital expenditures proposed to be incurred in connection with a designated ferry route, are reasonably required;
- B. on June 20, 2005, BC Ferries applied for such a declaration respecting \$XX million in capital expenditures for an intermediate sized vessel for the minor route group;
- C. BC Ferries has asked to have these expenditures included in the regular price cap review preceding the performance term starting April 1, 2008;
- D. BC Ferries has stated that the vessel to be acquired would replace the Queen of Tsawwassen which is at or near the end of its economic life;
- E. the commissioner has reviewed the supporting statements and materials supplied by BC Ferries as summarized in the attached Review, and has obtained independent analyses and opinions from qualified persons;
- F. the commissioner is satisfied that:
 - the Queen of Tsawwassen does not meet Transport Canada's revised regulatory requirements, due to come into effect in 2006;
 - while extending the life of this over 40-year old vessel is technically possible, the cost of such an undertaking is not economically justifiable compared to the cost of acquiring a new vessel;
 - it is prudent and timely to acquire a replacement vessel; and
 - BC Ferries has undertaken a competitive bid process, verified by independent technical experts, to determine capital cost estimates for the vessel;
- G. the commissioner is further satisfied that BC Ferries has:
 - weighed and carefully considered a number of factors in developing a vessel replacement strategy for routes 7 and 8 within the minor route group, including a re-deployment of vessels at a future date to meet traffic growth;
 - applied several best practices in the governance of the capital project;
 - committed to negotiate safeguards against late delivery of the new vessels; and
 - structured the procurement process to be credible and create competition among domestic and international bidders;

NOW THEREFORE the commissioner declares as follows:

- the acquisition of the proposed intermediate sized vessel for deployment on the minor route group is reasonably required;
- of the total estimated capital expenditures of up to \$XX million for both core and ancillary services, that portion needed to provide the core contracted levels of marine transportation service is reasonably required;
- in particular, the commissioner has not ruled on an allocation of the total capital expenditures between core service and ancillary service; accordingly this declaration is not to be construed to mean that the entire \$XX million will be included in the cost base for core services in the price cap review;
- capital amounts may have to be reviewed if extraordinary changes in costs beyond BC Ferries' control occur before construction contracts are signed, such as exchange rates and world steel prices;
- if federal duty is charged in the event that a foreign shipyard is selected, or if a subsidy of any kind is obtained, not previously included in the budget price, the limit on the capital cost is changed accordingly.

DATED in North Saanich, in the Province of British Columbia, this twentieth day of July 2005.

BY ORDER

A handwritten signature in black ink that reads "Alan Eastwood". The signature is written in a cursive style and is positioned above a horizontal line that serves as a separator.

Alan Eastwood
Deputy Commissioner
BC Ferry Commission