



OFFICE OF THE
BRITISH COLUMBIA
FERRIES COMMISSIONER

CONFIDENTIAL ORDER
NUMBER: 14-03B

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IN THE MATTER OF

Approval of a Major Capital Expenditure for
Mid-Life Upgrades to the Spirit Class Vessels
Proposed by British Columbia Ferry Services Inc.
Pursuant to Section 55(2) of the *Coastal Ferry Act*

BEFORE: Gordon Macatee, BC Ferries Commissioner
Sheldon Stoilen, BC Ferries Deputy Commissioner
(the “commissioners”)

ORDER

WHEREAS

- A. On September 22, 2014 British Columbia Ferry Services Inc. (“BC Ferries”) submitted an application (the “Application”) under section 55(2) of the *Coastal Ferry Act* (the “Act”) seeking the commissioners’ approval of the proposed major capital expenditures for the mid-life upgrade projects (“Mid-Life Upgrades or Project”) for the Spirit Class vessels, the Spirit of British Columbia and the Spirit of Vancouver Island, both operating on Route 1 (Tsawwassen to Swartz Bay);
- B. On November 24, 2014 by Order 14-03 the commissioners approved the proposed major capital expenditure for Mid-Life Upgrades for the Spirit Class vessels as outlined in the Application without disclosing the maximum amount of the proposed major capital expenditure for reasons outlined by the commissioners in their review of

the Application;

- C. Clause 1(b)(i) of Order 14-03 provides that prior to signing a final contract with a shipyard for the Mid-Life Upgrades, BC Ferries must satisfy the commissioners that the scope of the Mid-Life Upgrades is as generally described in the Application and the total cost of all the work packages combined does not exceed the maximum amount approved by the commissioners;
- D. By Confidential Order 14-03A dated November 24 2014 the commissioners ordered as follows:
 - 1. Pursuant to section 55(2) of the Act, the proposed major capital expenditure for the Mid-Life Upgrades to the Spirit Class vessels, as generally described in the Application, is approved for a total expenditure of up to \$173.07 million including interest during construction.
 - 2. This Order and the amounts approved in paragraph 1 shall remain confidential until completion of the procurement process for the Mid-Life Upgrades to the Spirit Class vessels.
 - 3. BC Ferries must promptly advise the commissioners when the procurement process for the Mid-Life Upgrades to the Spirit Class vessels has been completed.
- E. On January 15, 2016 BC Ferries submitted a supplemental application (the “Supplemental Application”) to the commissioners in which BC Ferries states that *“following the issuance of Orders 14-03 and 14-03A, BC Ferries issued a RFP for a prime contractor for the MLUs. The pricing received through the RFP process is higher than forecast, and as such, an adjustment to the Cost Cap will be required in order for BC Ferries to proceed with the Project”*;
- F. The commissioners have reviewed and considered the Supplemental Application, together with the report prepared for the commissioners by PricewaterhouseCoopers LLP (“PwC”) who reviewed the updated information and financial analyses contained in the Supplemental Application; and
- G. Based on their review of the Supplemental Application, the report of PwC and BC Ferries’ responses to follow up questions, the commissioners are satisfied that:
 - a) the scope of Mid-Life Upgrades as described in the Supplemental Application is as generally described in the Application with the minor exception of two components of Work Package 3.1– modification of bow and stern configuration to reduce hull

resistance and fuel consumption - which have now been removed from the Project scope of services due to updated cost and technical perspectives;

- b) the major capital expenditure described in the Supplemental Application is still reasonable, prudent and consistent with the current Coastal Ferry Services Contract and the long term capital plan established by BC Ferries; and
- c) despite the increase in the estimated capital costs of the Project an adjustment to the price caps for the next performance term has not been requested.

NOW THEREFORE the commissioners order as follows:

1. Pursuant to section 55(2) of the Act, the proposed major capital expenditure for the Mid-Life Upgrades to the Spirit Class vessels, as generally described in the Supplemental Application, is approved for a total expenditure of up to \$218.89 million including interest during construction and supplemental Project expenditures.
2. This Order and the amounts approved in paragraph 1 shall remain confidential until completion of the procurement process for the Mid-Life Upgrades to the Spirit Class vessels.
3. BC Ferries must promptly advise the commissioners when the procurement process for the Mid-Life Upgrades to the Spirit Class vessels has been completed.

DATED in Victoria, in the Province of British Columbia, this 29th day of January 2016.

BY ORDER



Gord Macatee
BC Ferries Commissioner



Sheldon Stoilen
BC Ferries Deputy Commissioner