



**Guidelines for British Columbia Ferry Services Inc.
Respecting Applications under Section 55 of the *Coastal Ferry Act*
(Revised)**

A. Legal Context

The purpose of these guidelines is to advise British Columbia Ferry Services Inc. (BC Ferries) of the information required by the BC Ferry Commissioner (the Commissioner) in an application by BC Ferries for a declaration under section 55 of the *Coastal Ferry Act* that a proposed capital expenditure is “reasonably required”.

Section 55 of the *Coastal Ferry Act* states:

“Before deploying capital assets on, or incurring capital expenditures in connection with, a designated ferry route, including the terminal, the ferry operator may apply to the commissioner and the commissioner must, within one month after the application, declare whether the capital assets proposed to be deployed on, or the capital expenditures proposed to be incurred in connection with, the designated ferry route or terminal are reasonably required.”

B. General Instructions

The Section 55 Guidelines have been revised in October 2004, further to the first Section 55 capital submission by BC Ferries to the BC Ferry Commission in the spring of 2004.

The Guideline Questions have been streamlined and are organized in a framework that includes nine categories. The intent is to provide the BC Ferry Commission with a thorough understanding of the key aspects of major capital projects. BC Ferries is encouraged to provide all relevant information consistent with the intent of these guidelines.

In view of the time constraint set out in the Act it is desirable that the initial package of information provided to the Commissioner should be as complete as possible. If the

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Commissioner considers that the information provided does not meet the guidelines, the Commissioner will ask BC Ferries to supplement the initial submission.

The Guideline Questions are intended to provide greater direction to BC Ferries in organizing Section 55 capital submissions in an efficient manner. BC Ferries should try to ensure that all the question/topics listed under each category are addressed. The information should be presented following the order of the categories shown. In cases where Guideline Questions or specific line items in supporting cost schedules are not applicable, these should be stated as such.

The Commissioner may, in any declaration issued under this section, include a limit on the capital costs, based on the information provided by BC Ferries. If the cost estimate for the work or vessel is expected to exceed this cost limit, BC Ferries may apply to the Commissioner for a revision to the original or previous Declaration.

The term “capital deployment” or just “vessel” is used below to mean, generally, the acquisition of a new or used vessel to add or replace vessels currently in the fleet, a mid-life upgrade or major life extension of existing vessel, investments in terminal facilities, or any other capital investment by BC Ferries in relation to a designated ferry route or terminal.

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C. Guideline Questions

1. Project Overview

Provide a brief summary of the project (maximum 500 words).

2. Needs Assessment

The objective of this section is to obtain an understanding of how the project meets external or internal needs.

Explain how the project contributes to BC Ferries' Strategic Plan objectives.

For vessel acquisitions, explain how they will:

- contribute to the Route Group Service Plan during their asset life; and
- meet passenger and vehicle forecasts and other demand characteristics such as reduction of overloads and improved onboard services.

If a vessel is being retired, explain the rationale (e.g., issues related to safety, reliability, cost effectiveness or customer service). If the main reason for retirement is due to safety concerns, explain whether Transport Canada regulations affect the decision, including its timing.

3. Operational Characteristics of Asset(s) to be Acquired

Summarize the operational characteristics of the assets being acquired. If applicable, compare these to any assets being replaced.

The description of the operational characteristics to be described is not intended to be a technical review but should, at a minimum, provide enough detail to communicate the functional aspects of the assets being acquired. For vessels, these should include the following:

- Size
- Passenger and vehicle capacity
- Service speed
- Passenger decks
- Passenger facilities
- Staff/crew requirements
- Loading/unloading times
- Flexibility of use on different routes
- Fuel consumption
- Impact on the environment

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If a vessel acquisition is proposed, explain whether used vessels have been considered and the rationale for buying new or used.

4. Capital Costs

Provide an estimate of the capital costs associated with the proposed acquisitions, according to the categories shown in the table below.

As the capital costs will be important to any subsequent price cap review for the relevant Route Group, it is critical to understand how the cost estimates have been developed. Provide a general explanation of how cost estimates were derived, including addressing the following:

- Have cost estimates been developed by qualified BC Ferries' staff or external consultants?
- Is there an allowance in the estimate for inflation from the date of acceptance of a proposal to the completion date (escalation clause)?
- Does BC Ferries intend to capitalize any of its own internal costs (including those of subsidiaries) with respect to the capital investment?
- What lifecycle costs have been considered? What steps have been taken to minimize the combination of lifecycle and up-front capital costs?

Describe the allocation of the projected costs between the provision of core and ancillary services as defined in the *Coastal Ferry Act* and according to an allocation formula developed jointly between BC Ferries and the BC Ferry Commission.

Where relevant in the case of a new vessel acquisition, demonstrate on a lifecycle cost or present value basis that the decision to acquire a new vessel versus a used vessel is cost effective. Describe sensitivity analysis that factor in events such as cost overruns.

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Cost Categories

Vessel	Terminal
Shipyards Price	Site Costs
	Land Acquisition Costs
Hard Costs	Permit & DCCs
Catering Small Wares and PoS	Other (specify)
Equipment not supplied by Shipyards	Subtotal
Other (specify)	
Subtotal	Development Hard Costs
	Shore-side Works
Soft Costs	General Equipment/Furniture
Pre-implementation	Parking
Project Management	Marine Works
Crew Training	Other (specify)
Classification Society	Subtotal
Transport Canada	
Other Costs (Specify)	Development Soft Costs
Contingency	Architectural/Engineering Fees
Subtotal	Property taxes during construction
	Insurance/Legal/Appraisal
Financial	Transport Canada
Currency Hedge Allowance	Project Management
GST	Contingency
PST	Other (specify)
Import Duty & GST on Import Duty	Subtotal
Interest During Construction	
Subtotal	Financial
	GST
Total	PST
	Financing Fees
	Interest During Construction
	Other (specify)
	Subtotal
	Total

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5. Project Governance and Procurement

Describe the governance structure for the project. Explain at what stage in the approval process the project is at and what final approvals are required.

Explain how the procurement process has been structured to be credible and create competition amongst builders and to ensure BC Ferries receives best value for money. Provide evidence of best practices in procurement.

Describe the structure and qualifications of the BC Ferries' procurement team. If outside technical experts have been consulted, provide a summary of their report and qualifications.

Describe the evaluation criteria used at various stages of the bid process (e.g., at the Request for Qualifications stage and Request for Proposal stage).

Describe how responsibilities are appropriately apportioned and the quality controls in place.

If an independent procurement advisor has been retained, provide a brief statement outlining his/her role and findings to date.

6. Alternatives Service Delivery Options

Explain how the asset acquisition was considered in light of the Alternative Service Delivery Plan for the Route Group in question. Summarize what alternatives were considered and why they were not pursued, and describe any assumptions made about other service providers in the short to medium time horizon.

7. Timing

Describe a delivery schedule for the proposed acquisition and the importance of key milestones.

Describe the expected in-service date and how was it derived, including whether potential builders (e.g., shipyards in the case of vessel acquisitions) were contacted to determine if the proposed date is reasonable.

Describe internal and external approvals required to be obtained before the expected in-service date.

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8. Financing

Financing is likely to be one of the most important costs of the project. Briefly describe the steps taken to minimize the total cost of capital for the project during the construction and operating phases.

9. Risk Identification and Mitigation

Identify the major project risks, their quantification/impact and proposed mitigation strategies. Responses should address, but not be limited to, the following:

- Identification of significant project features that are innovative or untried
- Risk transfer (e.g., design and construction risk)
- Assessment of the consequences of delay in the in-service date
- Involvement of safety regulators at key stages in the procurement process

Describe the monitoring procedures to be put in place during the construction phase.