Rebuilding a Marine Transportation System

British Columbia Ferry Services Inc.

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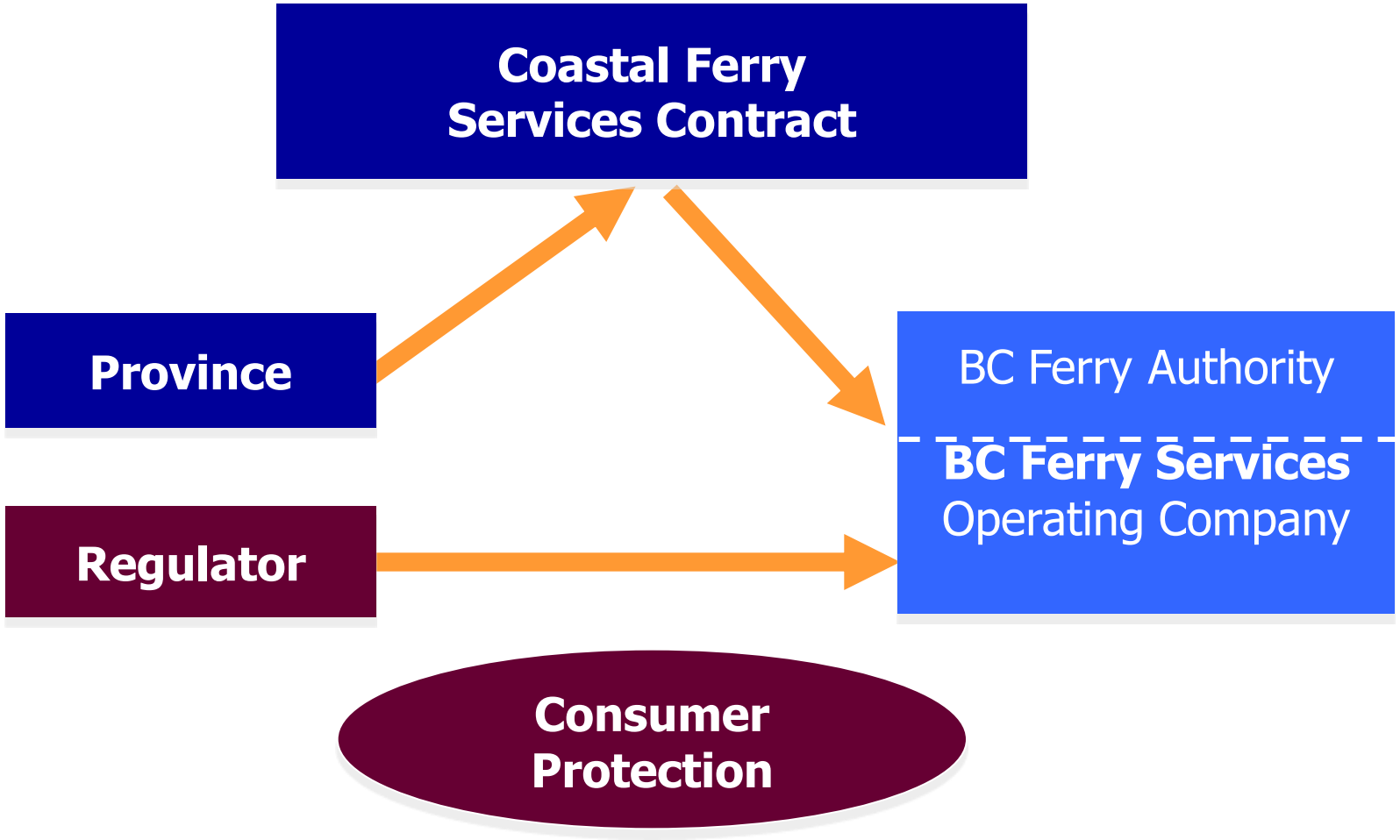
BCFerries

Introduction

- First anniversary of British Columbia Ferry Services Inc. on April 1
- A new business model
  - A private, regulated company.
  - Independent from government
  - Commercial "best practise" policy
  - Limiting risks to those normally accepted by business
- Many customer-service improvements underway

Safe, reliable and efficient marine transportation on a commercially sustainable foundation.

The New Model



Achievements in the First Year

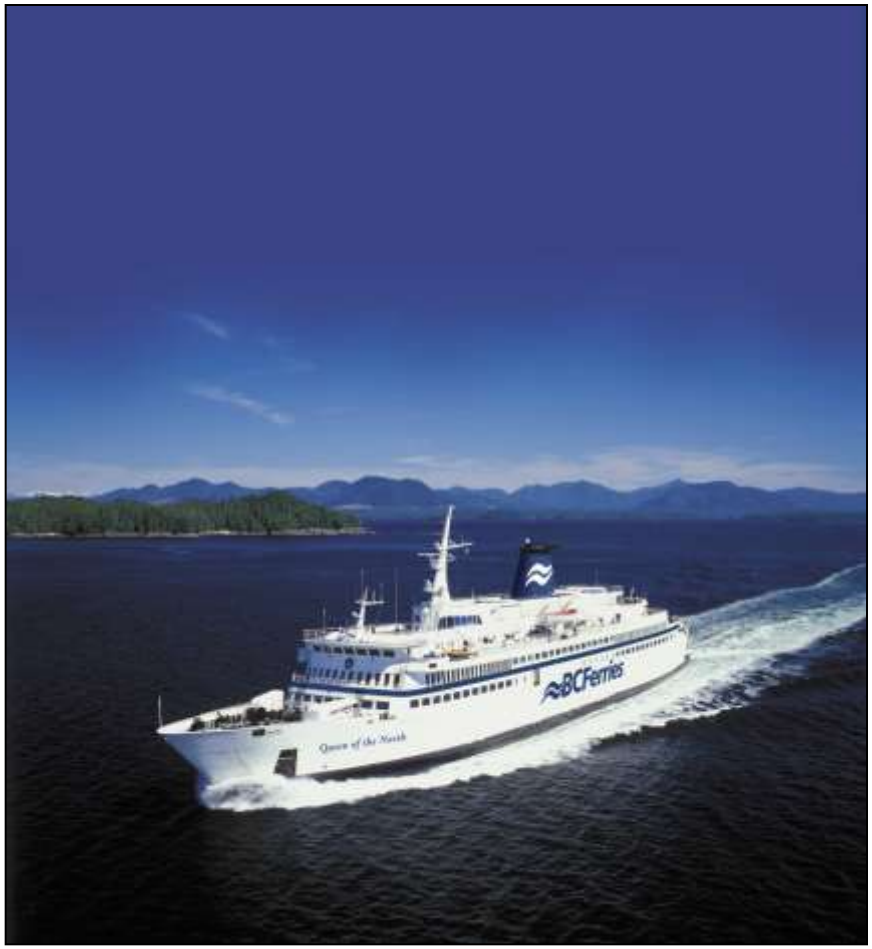
- Protection for Coastal Communities
  - Long-term service commitment; Predictable fares
  - Regulated service levels
  - Safety remains top priority
- Private sector financing for vessels and terminals
  - No taxpayer money
- Improved focus on customer service
  - Renovating vessels and terminals to improve customer experience and develop revenues
  - Implementing program to build new vessels
  - New food & beverage partners
  - Pricing initiatives

Achievements in the First Year

- Improved governance structure
  - New, business-oriented Board of Directors
  - Independent regulator
  - No political involvement

- Rigorous capital management process
  - Fundamental to the corporate strategic plan
  - Level II Surveys
  - Project Risk Classification
  - Detailed Project Management Framework
  - Transparency at highest levels, including Board and Commissioner

Rebuilding the System

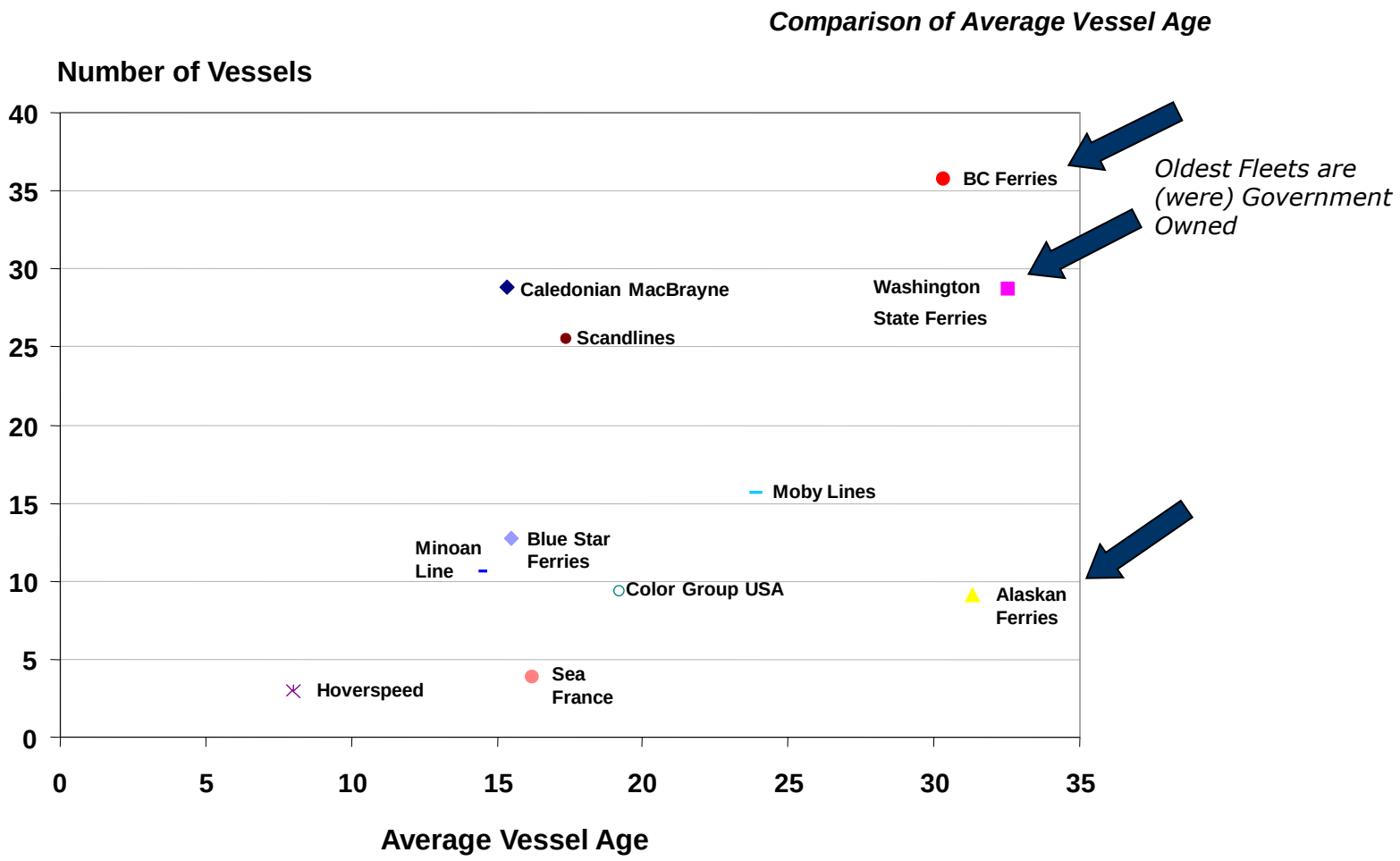


BC Ferries today has:

- One of the largest and oldest fleets in the world
  - 22m pax; 6 m vehicles
  - 35 vessels, 47 terminals
  - Average vsl age ~ 30 years
- Limited fleet backup capacity
- Significant age-related fleet regulatory issues
- The majority of productive assets (fleet & terminals) in 2nd half of economic life

Major system rebuilding is imperative.

Comparison of World Ferry Operators



System Revitalisation

Revitalisation will focus on three major areas:

- Maintenance and Refit of existing asset base (terminals and fleet)
- Capital renewal of terminals
- Capital renewal of fleet

Maintenance & Refit

- Elevated maintenance and refit activity to ensure asset reaches expected economic life
  - Example: Queen of Nanaimo 3 year, $7m extraordinary maintenance program

- Detailed Level I & II surveys on both terminals and vessels
  - Surveys also monitor effectiveness of maintenance processes
- Approx. $1b over 15 years

Capital Renewal - Terminals

- Master Planning started for all terminals
  - Long term development & quick wins
  - Improve operational layouts for faster vessel turnaround & pax movement
  - Consistent with new vessel procurement
  - Significant focus in improve customer experience
- BCF, SNC Lavalin Partnership:
  The Terminal Asset Management Group
  - Lavalin: project management & engineering expertise
  - BCF: marine terminal construction & maint. Expertise
  - More rapid delivery of high quality terminal works
- Annual terminal capital construction program > $35m

Terminal Capital Upgrades

Terminal Capital Upgrades

Terminal Concepts

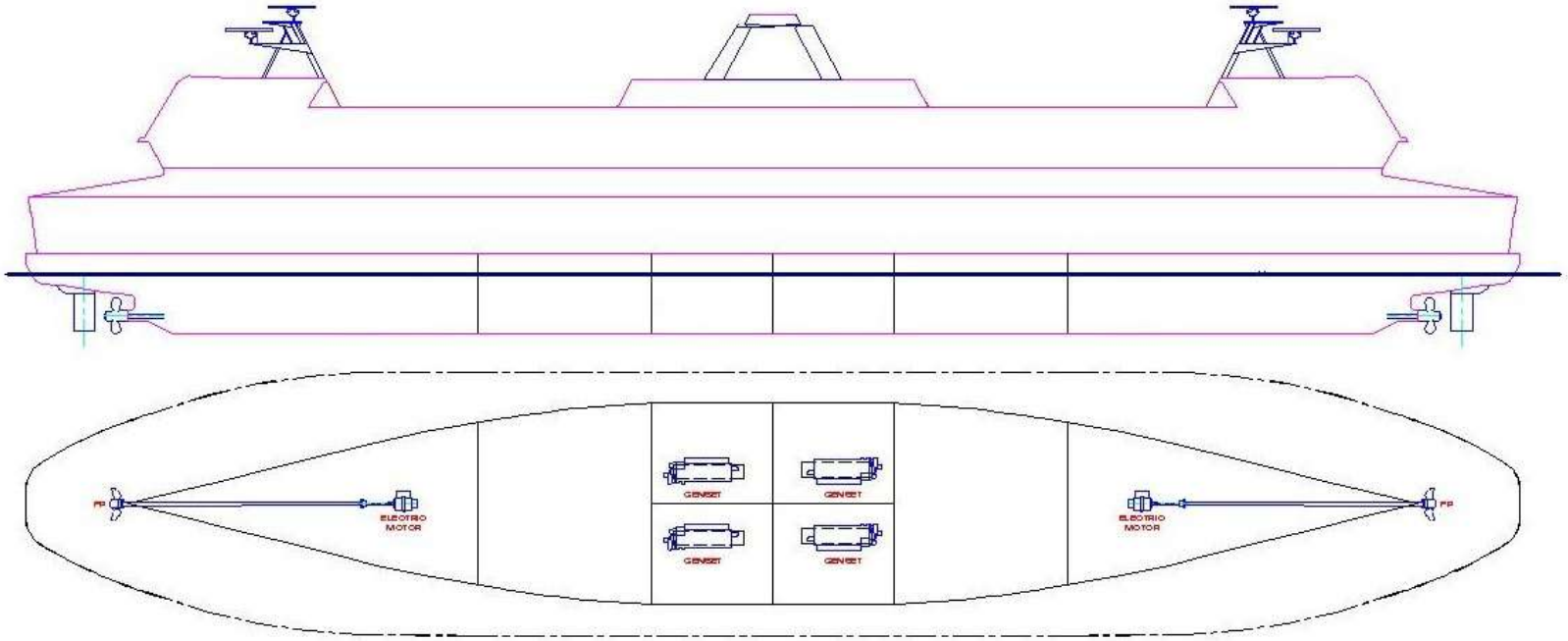
Capital Renewal - Fleet

Identified Need:

- 22 replacement vsls over 15 yrs
  - 4 to 7 major vessels
  - 6 to10 intermediate vessels
  - Remainder minor vessels
- 17 vsls for MLU or LE over 15 yrs

Decisions:

- Life extend? Or,
- Purchase Used? Or,
- Build new?



Life Extensions

LE may be sound investment if:

- Future maintenance can be kept reasonable
- Reliability close to that of new vessel
- Route function and technical requirements are met
- Operating and crew costs not prohibitively greater in future
- Main propulsion replacement, if required, is cost effective
- Structural and fatigue issues are not prohibitive
- Safety, regulatory and environmental issues are resolvable
- Financial criteria are met

Life Extension Program

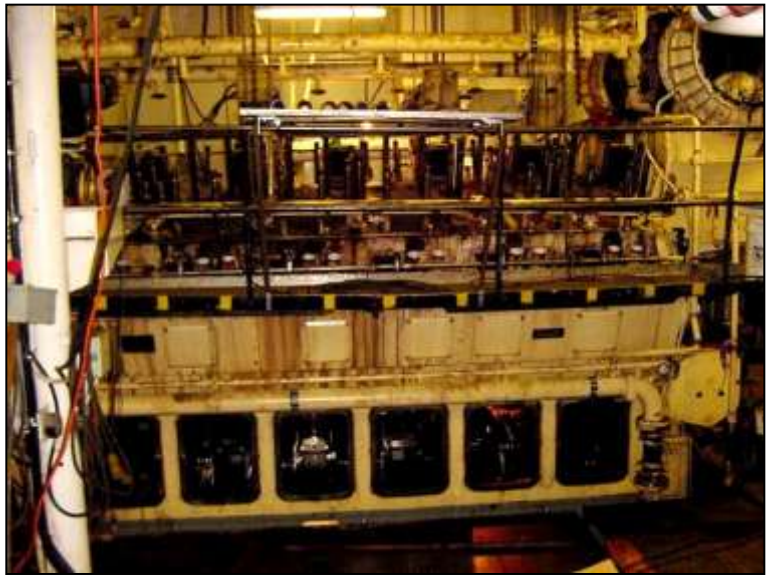
- BCF has identified 17 vessels as LE candidates
  - Program well underway
- *North Island Princess, Kaloke, Howe Sound Queen* repowered 2003/04
- *Kwuna* major machinery replacement in 2005

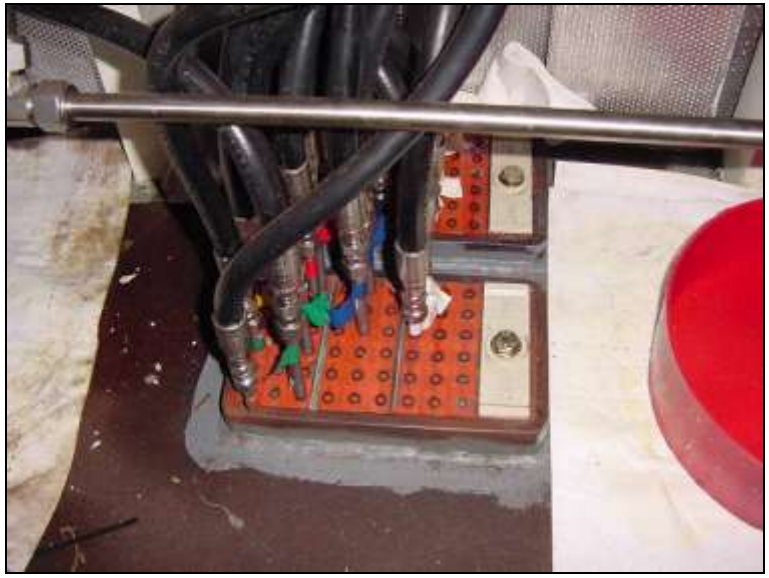
- $ 80 m C-class MLU program underway
  - *Queens of Coquitlam* and *Cowichan* complete
  - *Queens of Oak Bay, Surrey* and *Alberni* one/year through 2007

C Class MLU Pax Upgrade

C Class MLU – Pax Upgrade

C Class MLU Systems Upgrade





Used Vessels

Used Vessel considerations:

- Commercial compatibility:
  - Client and traffic requirement, route economics, fit with Company capital plan, remaining useful life of vessel
- Physical compatibility:
  - Appropriate physical dimensions, deadweight, fit with existing berths, appropriate speed and capacity, other operating issues.
  - Interoperable with other routes and crews
- Regulatory compliance
  - Conversion and upgrade costs
  - Future regulatory compliance
- Technical compatibility:
  - Design and machinery appropriate for BCF, in-line with standardisation goals, supportability in BC

Used Vessels

- BCF assesses 3-5 vessels/yr.
- Few vessels make the cut

LE & used vsls will not meet fleet renewal needs

New vessels will be required.

New Vessel Fundamentals

- Interoperable across select routes with minimum crew and operating constraints
- Employ commercial, off-the-shelf technology in proven configurations
- Use existing fleet experience as baseline for new design
  - Ex. Double end configuration for routes 2 & 3
  - Go with what works
- Procure under shipyard design-build strategy
  - Limit risk to that normally accepted by commercial shipping companies
  - International tender for best value solution
- Engage leading, independent experts to advise and critique
  - Naval architecture & engineering
  - Procurement and yard selection
  - Financial, risk mitigation, value analysis and regulatory

New Vessels

- BCF has identified the first 3 phases of fleet building program:
  - Phase I: 2-3 major vessels for Mainland Service South
    - In service est. starting 2007
  - Phase II: 1 intermediate vessel for Inter-Island Services
    - In service est. 2006
  - Phase III: 1 – 4 vessels for Northern Service
    - In service est. starting 2009
- Next phases will include intermediate and minor vessels for inter-island services
- Total capital renewal of terminals and fleet will exceed $1.7b over 15 years

BCF & Suppliers

To execute its renewal program, BCF seeks:

- Engineering services
  - civil, mechanical, electrical, marine and naval architecture
- Civil and marine construction (terminals)
- Shipbuilding and ship repair services
- Information systems services
- Equipment supply
- Fleet & terminal maintenance optimisation services

BCF Procurement

- BCF is not bound by public sector purchasing rules

- BCF may procure via:
  - Domestic or international bids (or both)
  - Open or invited process
  - Sole source
  - Standing offer or frame agreements
  - Preferred vendor arrangement
  - Other arrangements

New Procurement Arrangements

BCF encourages suppliers to propose:

- Risk-reward sharing arrangements
- Joint ventures and alternative service delivery
- Standing offers and frame agreements
- Long term service and/or management agreements
- Optimisation programs
- *Other concepts?*

Supplier Evaluation

BCF evaluates:

- Solution on offer
- Supplier reliability
- Price & commercial terms
- Quality and technology
- Embedding “best practise” in BCF
- Partnership outlook
- BCF experience with supplier support
- BCF standardisation goals
- Supplier market strategic support

Conclusion

BCF is:

- Is undergoing rapid change
- Has an aggressive rebuilding plan
- Is working with committed suppliers and partners
- Is committed to safe, efficient and sustainable marine transportation for British Columbia


BCFerries
Queen of the North