

TODD PACIFIC SHIPYARDS CORPORATION

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ISO 9001 Certificate Number 33332

March 27, 2008

Mr. David Moseley
Executive Director
Washington State Ferries
2901 3rd Ave, Suite 500
Seattle, WA 98121

Subject: 50-Auto Ferry Pricing

Dear Mr. Moseley,

Todd Pacific Shipyards has submitted a bid in response to your invitation to construct a 50-car ferry. This bid will reflect the very best efforts by Todd and a number of suppliers to provide the people of the State of Washington with a cost-effective solution to the ferry system's immediate need for more vessels. Many factors affected this pricing and I feel it important that you understand the most influential of those factors.

In the project's original form, the State of Washington's concept was simple: build three ferries identical to the existing Pierce County Class vessel. The simplicity and anticipated value of that idea was evident: the vessel had an existing functional design and, more importantly, an existing detailed/production design which could easily be approved by the Coast Guard for its certificate of inspection. This speed of design, measured in days to the start of production, was an attractive choice to provide relief to the Port Townsend – Keystone Route.

However, though our submitted bid would construct a 50 Auto Ferry that essentially **looks** like the Pierce County Ferry, changes unique to this project and required by your invitation to bid will result in a significantly different and improved, but more costly, ferry.

The differences between the original concept and this solicitation can generally be broken into five categories.

1. Physical changes to the vessel as it was originally built.
2. Changes necessary to bring the vessel up to current standards of safety.
3. Substantial complexities unique to this procurement.
4. Adjustments required by the structure of the contract and its associated management and administrative requirements.
5. Changes in costs since the Pierce County vessel was first constructed.

Since every deviation from the original Pierce County Ferry design incurs a cost measured in time and price, it's important to review some of these changes as they have effects on design creation, engineering, procurement and fabrication.

Physical Changes to the Vessel

While we attempted but were unable to obtain a complete list of changes from the original vessel, here are some of the more significant changes included in the invitation to bid:

- Changing fuel tanks to add a double bottom, moving them away from the hull.
- Adding a Crew Day Room to the auto deck.
- Adding a security room to the passenger deck
- Adding two additional piping systems and tanks to the design
- Changing the passenger stairways to accommodate the Crew Day Room and disabled access requirements.
- Significant additions and changes to the electrical arrangement and distribution system that have added to the power load.
- Changing equipment, furnishings, and outfitting previously used.
- Changing equipment arrangements.
- Changing the main engine horsepower, requiring reassessment of propulsion train loads and torques to ensure associated components are sized appropriately.
- Stringent surface preparation and paint requirements.
- Sufficient design changes now exist so that we must insure the project with Errors and Omissions insurance.

Current Standards of Safety

Other changes were made because they are necessary to meet current standards of safety. For example, the addition of updated Marine Evacuation Slides, fire plans, escape plans and extensive security systems all are significant changes. These changes create a better vessel, but also a more expensive one.

Complexities Unique to this Procurement

There are complexities which we were not able to resolve successfully by the time of bid and it is not clear that they can be resolved in any way other than as proposed. For example:

- While the Specification stated to design the vessel's structure to the 1983 ABS Rules, those rules have been superseded by other standards. Consistent with answers to bidders' questions and the Specification, we are directed to design to a current standard with the foregoing exception and to obtain a Certificate of Inspection (COI) from the Coast Guard. The previously mentioned re-design of the vessel means that drawings must be reviewed and stamped by a Professional Engineer (PE) who is legally and ethically bound to design to current standards. Designing to the current 2008 ABS Rules will result in a sturdier, safer and stronger vessel – though it will be necessarily more expensive as we will have to recalculate the ship's structural support and change the steel purchase order for the vessel.
- In turn, the steel purchase order becomes more complex, as we had reserved a custom steel mill run for WSF's unique requirements of surface preparation and primer.
- For a variety of reasons, including commitments to other work and the short bidding period, attempts to subcontract significant portions of the vessel would result in higher costs of construction. Those higher costs were excluded by Todd in favor of our own estimates. Subsequent agreements with teaming partners, if any, will have to be concluded at our own risk.
- The compressed schedule has made the procurement of key long lead time equipment such as the propeller and shafting very risky.

While each individual change may seem inconsequential, the sum of these changes has resulted in a vessel procurement that is not the Pierce County ferry. The changes create the need to do significant design review, redesign and re-lofting, and the construction of a boat quite different from the original "identical" concept. These changes will have to be resolved to our satisfaction.

Structure of the Contract:

In addition to changes in the vessel, our pricing reflects many additional expenses and/or schedule delay brought about by the structure of the contract with its associated management and administrative requirements. Many of these elements are inconsistent with industry practices and raise costs. These include:

- The elimination of a multiple-vessel construction program, forcing the design and engineering costs onto a single vessel
- Six State inspectors on-site and our expectation of their intended level of inspection
- First time implementation of the state law mandating large increases in the use of apprentices
- Drawing review and approval requirements add time and inefficiency to the schedule
- Certified payroll requirements
- Extensive monthly submittals for progress payments
- Change order provisions that are inappropriate to ship construction and inconsistent with provisions already included in the 144 Auto Ferry contract
- Drawing and other standards which are unique to WSF, requiring time and money to reformat existing drawings.

Inflation of Labor and Material

Our pricing necessarily reflects current pricing for the raw materials necessary to construct the vessel, as well as the increases in labor costs since the original vessel was built. Todd priced the original ferry in 2004 and Pierce County hired Nichols to build the original vessel in 2005. Since that time, the costs of both primary inputs to the construction process – materials and labor – have risen, with the increases of materials costs rising much more rapidly than the increases in labor.

There are, however, opportunities to reduce cost. Should the State be amenable to revised contract terms, I am confident we could quickly agree on ways to more efficiently design and build this important vessel.

We are very pleased to have produced a comprehensive effort in such a compressed timeframe. It represents Todd's and our suppliers' best estimate of the many influences on the project, including the ones mentioned above, and reflects our very strong desire to do this work for you. If you would like to continue this discussion, please contact me at your convenience.

Sincerely,



Stephen G. Welch
Chief Executive Officer
Todd Pacific Shipyards