

[Redacted]

From: [Redacted]
Sent: 25 April 2018 16:54
To: [Redacted]

Subject: CHJFS2- Vessel Obsolescence Discussion Paper - Meeting 26 April
Attachments: Obsolescence Tri-party Meeting agenda - 26 April 2018.pdf; Protocol_draft_V7.pdf; Vessel Obsolescence Discussion paper Jan 2018 v2.0.pdf

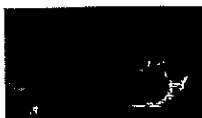
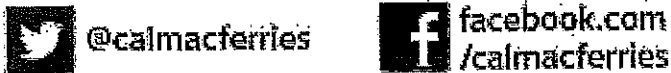
Dear All,
Please find attached some background documents and proposed Agenda in preparation for the meeting tomorrow.

- Attachment 1: Agenda
- Attachment 2: Vessel Obsolescence Discussion paper Jan 2018 v2.0
- Attachment 3: CMAL Protocol v7.0 - Draft

[Redacted]



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Tri-party Meeting

Vessel Obsolescence Discussion Paper

Attendees

Transport Scotland

CalMac Ferries Ltd

CMAL

Thursday 26th April 2018



Caledonian MacBrayne

Hebridean & Clyde Ferries

CALMAC
FERRIES

Operators of Caledonian MacBrayne

Obsolescence – Meeting Agenda

- Confirm understanding: tri-party agreement on the topic; CHFS2 contract, CFL bid record of assumptions, Bareboat Charter Party
- CMAL/CFL Protocol – develop & agree protocol for obsolescence
- Agree process to advise and act on obsolescence issues
- Funding for work & obsolescence related activity in CHFS2 CY1/partial CY2
- Next steps; Agree actions & Timeline

Calmac and CMAL CHFS2 Way of Working

Document Ownership

Programme Sponsor	[Redacted]
Document Author	[Redacted]
Document Status & Version	Draft Version 7
Revision Date	17/8/17

Document Location

The source of the document will be found at this location – TBC – Sharepoint site

Revision History

Ver. No	Rev. Date	Status	Summary of Changes	Amended by
DV1	29/1/17	Draft	First draft	[Redacted]
DV2	27/2/17	Draft	Initial comment internal Calmac	[Redacted]
DV3	20/4/17	Draft	Further updates, internal Calmac & CMAL	[Redacted]
DV4	24/4/17	Draft	Amendments following CMAL review	[Redacted]
DV5	3/7/17	Draft	Amendments following comments by John Salton. Updated to include Summer Inspections, dry docking report, reportable issues and lifetime extension	[Redacted]
DV6	5/7/17	Draft	Amendments per comments on email of 5/7/17	[Redacted]
DV7	17/8/17	Draft	Following meeting and emails with JS	[Redacted]

Business Approvals

Name	Title	Date	Approved (Y/N)
[Redacted]			
[Redacted]			

[Redacted]

Purpose

This document outlines the operational implementation of the CHFS2 contract division of responsibilities between Calmac Ferries Ltd and CMAL to ensure both parties can operate effectively and efficiently. It is a management tool but not a document with legal effect. It is to be read in conjunction with the formal Fleet Bareboat Charterparty ¹in place. The aim is to ensure there are clear processes adopted by both parties in carrying out their duties in respect of the CHFS2 contract and operation of the vessels.

This will ensure:

- Clear communications, transparency of information and efficient transactions between Calmac and CMAL;
- Calmac can continue to operate with the scope of the contract to maximise availability of the vessels for delivery of services;
- CMAL have appropriate visibility and decision making in areas where costs incurred are to be recharged to them; and
- There is a mechanism for effective dialogue and a continued relationship between CMAL and Calmac built on shared values and objectives, trust and transparency.

Division of Responsibilities

The CHFS2 contract summarises the division of operational and financial responsibilities between the parties under the following headings:

CMAL	Calmac
[Redacted] Obsolescence	[Redacted]

Further definitions of these terms are contained in Annex A.

[Redacted]

¹ Whilst a separate Charterparty exists for the Loch Seaforth, this protocol outlines maintenance and repair operations to be employed for all vessels

A way of working to manage these is required and is set out in this document.

Review

A monthly management review will provide the senior forum to ensure the relationship is working for both organisations interests. Any proposed amendments to this protocol will be discussed and agreed through that forum.

Relationship Management

Monthly meetings will provide a formal forum to review operations and future plans and attended by Calmac's Asset Management Director and CMAL's Director of Vessels.

Agreements and Actions Arising from the meeting will be produced and circulated within one week of the meeting taking place. It is not intended that decisions required in the day to day running of the fleet should be delayed and made at this forum.

A standing agenda will be developed by both parties but likely to include some or all of:

- a. **[Redacted]**
- b. **[Redacted]**
- c.
- d. Obsolescence
- e. **[Redacted]**
- f.
- g. **[Redacted]**
- h. **[Redacted]**
- i. **[Redacted]**
- j. **[Redacted]**
- k. **[Redacted]**

CMAL and Calmac will review the way of working outlined in this protocol and agree any changes required.

[Redacted]

² Noting this escalation process is not intended to replace timely decision making where operationally critical

Upgrade through Obsolescence

Assets may become obsolete because they are no longer required, manufactured, supported, spares are difficult to obtain and the equipment requires replacement on vessels. These will be treated by CMAL as an upgrade where budget and priorities allow, and the process outlined in "Projects" shall be adopted.

Where obsolescence occurs, Calmac will use the opportunity to select replacement equipment in line with other vessels in the fleet to work towards standard specifications that will deliver efficiencies in management of these assets overall or where economies of scale will deliver improved terms with suppliers. Lowest total cost against agreed functionality will therefore be the primary driver.

The incidences of obsolescence across the fleet and the overall strategy to manage these effectively will be a standing agenda item at the monthly review meeting

[Redacted]

[Redacted]

[Redacted]

Obsolescence

If equipment or systems cannot be maintained or supported by the original supplier or another alternative supplier then a necessary replacement would be deemed an owner's upgrade though cognisance should be made of FBA Part II Clause 9.8 that requires the charterer to replace items of equipment at their expense.

All vessels should be considered to have a useful life until the expiry date of the CHFS2 contract. If the charterer considers that a vessel is not "useful" then they can apply to redeliver the vessel.

[Redacted]

[Redacted]

Current state summary position

1. CalMac has reviewed the existing fleet to quantify the current financial, operational and reputational risk related to equipment that is or may become obsolete over the life of CHFS2. Our assessment of the current state is provided in Appendix A.
2. In excess of [Redacted] and labour only, is currently obsolete on vessels [Redacted] is deemed "critical", ie. a failure in these obsolete pieces of equipment will result in vessels going out of service.
3. Additional costs associated with fuel, docking, any additional manning, fines and time off the run are not included in this assessment.
4. The total cost, were all critical items to fail, has been calculated at over £10m; and [Redacted] for red categorised equipment.
5. Two worked examples are provided at Appendix B, showing the additional costs have the effect of multiplying costs from 1.5 to 5 times.
6. CalMac's cost in replacing obsolete equipment since Contract commencement is currently being assessed and will be presented to TS for reimbursement.
7. "Failing company" is an unknown factor that cannot be assessed with certainty.

Complication

1. CMAL have indicated they are restricted to [Redacted] to fund all upgrades to vessels. This funding has a number of demands on it for example CMAL's own plans for vessels.
2. Working within this restriction exposes all parties to on-going and significant reputational damage arising from disruption to this lifeline service.
3. Replacement of only "Critical" parts would fully utilise multiple years of the upgrade budget and assumes this equipment will remain operational until they can be replaced at annual overhaul.
4. CalMac cannot be held accountable for the service or penalties due to obsolescence failure. A worked example related to breakers on the Argyle, Bute and Coruisk is provided at Appendix A, demonstrating the total financial impact of failure on these vessels running to 5 times the cost of the parts themselves.
5. A prioritised plan to replace obsolete items across the fleet is now in development. This plan will bring all vessels back to Amber or Green, or a mutually acceptable level of risk.
6. CalMac is developing a methodology to ensure continued monitoring and reporting on the status of equipment and suppliers.

Proposed Next Steps

1. An agreed methodology for continued monitoring of "failing company and obsolescence" and reporting to TS and/or CMAL should be established.

[Redacted]

Appendix A – Current State Summary

Category	Description	Value
Critical	Critical items are those that are no longer manufactured or supported by either OEM or non - OEM spare parts. A failure in these obsolete pieces of equipment will result in vessels going out of service.	[Redacted]
Red	Items that are only no longer manufactured or supported by either OEM or non - OEM spare parts. A failure in these obsolete pieces of equipment will not result in vessels going out of service.	[Redacted]
Amber	Items no longer manufactured but currently supported by either OEM or non - OEM spare parts. CalMac has no guarantee that these will continue to be supported through the life of CHFS2.	[Redacted]
Green	Items currently manufactured and supported by OEM and non – OEM. It is not known how long these items will continue to be manufactured and supported.	

Current State Breakdown:

Category	Critical			Red		
	Total	Major Vessels	Small Vessels	Total	Major Vessels	Small Vessels
Parts & Labour costs	[Redacted]					
Additional costs ³	[Redacted]					
Total	[Redacted]					

³ Additional Costs are fines, dry docking and fuel, assuming any loss in service would be returned in one day and that the nearest dry dock to vessels' home port is used at existing tariff rates. Fuel costs taken from burn rates from 2017 for each vessel and return distance to nearest dry dock

[Redacted]

Appendix B – Total Financial Risk worked examples

Breakers - MV Argyle, MV Bute and MV Coruisk

The breakers on all three vessels are obsolete. No spares are available or held by CalMac.

Note	Cost	Argyle	Bute	Coruisk	Total
	Equipment	[Redacted]			
1	Financial penalties	[Redacted]			
2	Additional costs (not quantified):	[Redacted]			
	Berthing				
	Tugs				
	Disposal & replenishment of perishable goods				
	Crew accommodation				
	Sub Total	[Redacted]			

Notes:

1. Financial Penalties

We assume that there will be no replacement vessel provided and a one vessel service will operate Wemyss Bay – Rothesay for the duration accumulating [Redacted] in financial penalties for cancelled sailings [Redacted]

2. Additional costs (not quantified)

Berthing: Replacement may be possible alongside incurring no costs for deviation/dry docking. The work will take approximately 4 days to replace and get the vessels back in service.

Tugs: There is no guarantee that the vessel will be able to move under its own power if these items fail and as such tugs would be required to move the vessel to repair location (approx. [Redacted])

Disposal & replenishment of perishable goods: Due to refrigeration units being out of power an additional cost would be incurred by the disposal and replenishing of perishable items. It is expected these costs will run into £000's.

Crew accommodation: Due to main hotel services being unavailable for the duration of the repairs accommodation would have to be provided for crew/contractors at an additional cost.

Main Engine Propulsion Controls - MV Caledonian Isles

The main engine propulsion controls on this vessel are obsolete. No spares are available or held by CalMac.

Note	Item	Cost
1	Equipment	[Redacted]
2	Dry docking	[Redacted]
3	Deviation to dry dock	[Redacted]
4	Financial penalties	[Redacted]
	Additional costs (not quantified):	
	Tugs	
	Crew accommodation	
	Sub Total	[Redacted]

Notes:

- Equipment: For replacement of this system there is a [Redacted]
- Berthing: There is a 4 month lead time on the replacement equipment meaning if this item was to fail there would be a period of 4 months (120 days) for MV Caledonian Isles to be laid up. This could possibly be facilitated alongside however there is not the facility to do this at Ardrossan or Brodick and as such this would most likely be done at a repair yard, either dry docked or wet berthed. Due to this assumption the cost to dry dock the vessel for the period of lead time and repairs has been used: [Redacted]
[Redacted]
- Deviation: Deviation to and from dry dock [Redacted] (Garvel Clyde as is closest to Ardrossan)
- Financial Penalties: MV Caledonian Isles completes 10 sailings per day in the summer periods and for each of these cancelled we would incur a fine of [Redacted]. Due to the reputational risk potential of this route we assume that a replacement would be deployed to cover sailings however this could take a few days we assume 3.

TRI-PARTITE MEETING – VESSEL OBSOLESCENCE

26 APRIL 2018

TS, Buchanan House, Glasgow

TS	CMAL	CFL
Attendees		
[Redacted]	Kevin Hobbs (KH) [Redacted]	Robbie Drummond (RD) [Redacted]

[Redacted] circulated the undernoted papers on 25 April 2018 to parties in advance of the meeting arranged for 26 April 2018.



Vessel Obsolescence
Discussion paper Jan



Protocol_draft_V7.p
df



Obsolescence
Tri-party Meeting paper

Obsolescence – Meeting Agenda

1. [Redacted]
2. CMAL/CFL Protocol – develop and agree protocol for obsolescence
3. Agree process to advise and act on obsolescence issues
4. [Redacted]
5. Next steps; Agree actions and Timeline

[Redacted]

TRI-PARTITE MEETING – VESSEL OBSOLESCENCE
26 APRIL 2018
TS, Buchanan House, Glasgow

[Redacted] advised that CFL had identified safety related upgrades and cited propulsion units as an example.

[Redacted]

[Redacted] cited a hierarchy of vessel interventions that could be used to map out a programme of fleet improvements:

- Maintenance
- Obsolescence
- Statutory/Safety
- Life extensions
- Second hand tonnage
- New builds – 801 / 802 frees up vessels and offers more resilience...

[Redacted]

[Redacted] advised that a paper (5/6 Point Action Plan – highlighting the risks, assess in terms of probability and impact) from CFL was required that could be forwarded to Ministers.

[Redacted] advised that there was a telephone conference at 5pm between Transport Scotland officials and **[Redacted]** to discuss ferries replacement plan/vessel asset condition/forward requirements for improving resilience. Obsolescence would be raised during discussions. [This telephone conference was subsequently cancelled but is being re-arranged for a future date.]

[Redacted]

TRI-PARTITE MEETING – VESSEL OBSOLESCENCE
26 APRIL 2018
TS, Buchanan House, Glasgow

[Redacted] advised that life extension of 3 or 4 vessels was being considered and this could potentially address some of the obsolescence issues but not until the delivery of the MV Glen Sannox.

CMAL / Transport Scotland / CalMac have no available budget for obsolescence, **[Redacted]** advised that collectively there is an appetite to address this situation and we should identify what should be done, by whom and when.

[Redacted]

[Redacted] cited his experience with the oil rigs in that they carried lots of spare parts due to the criticality of maintaining operations but at the end of their useful life these spares were disposed of which could be considered a waste of money.

Carrying and storing a large volume of spare parts for the CalMac fleet would not be practicable.

[Redacted]

TRI-PARTITE MEETING – VESSEL OBSOLESCENCE
26 APRIL 2018
TS, Buchanan House, Glasgow

[Redacted] suggested that the obsolescence work should be agreed in advance which should also include management / delivery and programme costs.

[Redacted]

[Redacted]

[Redacted]

From: [Redacted]
Sent: 01 May 2018 10:34
To: [Redacted]
Cc: [Redacted]

Subject: CHFS2 - Vessel Obsolescence - Upgrade Budget and Obsolescence - CMAL note 1

[Redacted]

I refer to various conversations concerning the is [Redacted] Obsolescence

[Redacted]

Obsolescence

It is clear that a lot of work has been carried out looking at the risk hierarchy regarding obsolescence. Whilst we have not seen the definitive list we know that almost at the point of delivery and thereafter certain component parts and manufacturers.

GMAL have no budget cover for this although there was a positive airing of the issues at the meeting on 26th April 2018 – TS to take away and look at the potential for additional funding to mitigate the risks associated with Obsolescence.

If additional funds are not forthcoming then there is an option to utilise the Upgrade Budget to assist. This would not be new money but a reallocation of the existing £3m budget.

[Redacted]

Best Regards,
Leis gach deagh dhùrachd,

[Redacted]

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Municipal Buildings
Fore St
Port Glasgow
PA14 5EQ

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[Redacted]

From:
Sent: 10 May 2018 14:18
To:
Cc: **[Redacted]**
Subject: **[Redacted]** and Obsolescence

[Redacted]

I went on leave almost immediately after our meeting so am slowly catching up on this issue. I was encouraged by the constructive approach taken by all parties and the willingness of everyone round the table to tackle the issue and note that this is reflected in the subsequent exchanges.

[Redacted] circulated draft minutes and I would encourage everyone to help make sure we have an accurate and agreed record of our discussions and in particular the actions.

As we noted, it does boil down to money having to be invested and at present no-one has that spare. Raising funds can include reprioritisation of existing funds but is likely to need some additional funds to be allocated specifically for this purpose to the Ferries budget and that is the key task that I would see for me personally.

It will be difficult to secure the f **[Redacted]** the critical items in FY18-19 given budgets are already allocated. However I am going to aim to secure roughly 50% of this in one way or another, with the remainder fed into budget submissions for 19-20.

We discussed at the meeting that within the critical list there were some items that could be prioritised over others in terms of risk likelihood and impact. We know that the major vessel fleet is where breakdowns impact most and so I suggest for FY18-19 we focus on those ("phase 1").

What I would welcome is confirmation that parts could actually be ordered and fitted in time for this year's drydock and, if so, what would be the rough deadline for securing funding in order for CFL to undertake "phase 1" this winter?

However these are just my thoughts and if you disagree I am happy to hear alternatives.

I can't recall if we planned a follow up discussion though we can (should) have this on the agenda for the next NS PSG in a fortnight (and perhaps as a standing item).

Regards

[Redacted]

Sent from my BlackBerry 10 smartphone.

[Redacted]

From: 11 May 2018 14:05
Sent: [Redacted]
To: [Redacted]
Cc:
Subject: CHFS2- Vessel - Vessel Obsolescence [Redacted] | Obsolescence - CMAI -
TS 11 05 18

[Redacted]

Just to be clear there are likely to be 2 broad strands regarding obsolescence as follows

- Critical parts and systems that cannot be supported and are likely to cause major disruption – these may in a pre-emptive manner be changed prior to potential failure
- Critical parts and systems that are no longer manufactured or supported that could be kept “on the shelf” to de-risk service delivery failure events. This is particularly focussed on systems or items that are present on multiple vessels. In other words have remedies in hand prior to failure with appropriate kit ready to be deployed.

Best Regards,
Leis gach deagh dhùrachd,

[Redacted]

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Port Glasgow
PA14 5EQ

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**Network Strategy Programme Steering Group
New Vessel Programme Steering Group**

24 May 2018
Room 8N03, Transport Scotland offices, Buchanan House, Glasgow

TS

CMAL

CFL

Attendees

[Redacted]	[Redacted]	[Redacted]
	[Redacted]	

Apologies

[Redacted]	[Redacted]	[Redacted]

Agenda and any papers referred to can be found in CMAL SharePoint folder '2018 05 24 Meeting Papers'. For TS – objective reference **A21110455**

[Redacted]

[Redacted]

4 Vessel Obsolescence

[Redacted] was working in prioritising the **[Redacted]** obsolescence work that had been identified by CFL.

[Redacted]

[Redacted] advised that he was approaching TS Finance to see if funding was available in 2018/19 and then seek Ministerial approval thereafter.

[Redacted] advised that between CFL and CMAL the **[Redacted]** budget for 2018/19 for upgrades had been allocated.

[Redacted]

Transport Scotland
June 2018

[Redacted]

**Network Strategy Programme Steering Group
New Vessel Programme Steering Group**

[Redacted]

Network Strategy Programme Steering Group
New Vessel Programme Steering Group

21 June 2018
Room 9W02, TS, Buchanan House, Glasgow

TS

CMAL

CFL

Attendees

[Redacted]	[Redacted]	[Redacted]	(PB)
	[Redacted]		(IS)

Apologies

[Redacted]	[Redacted]
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Agenda and any papers referred to can be found in CMAL SharePoint folder '2018 06 21 Meeting Papers'.

[Redacted]

Vessel Obsolescence

[Redacted] noted that he is currently looking at what funding may be available.
Will follow-up with [Redacted]

[Redacted]

Transport Scotland
July 2018

[Redacted]

**Network Strategy Programme Steering Group
New Vessel Programme Steering Group**

23 August 2018
Room 9W02, TS, Buchanan House, Glasgow

TS

CMAL

CFL

Attendees

[Redacted]

[Redacted]

[Redacted]

[Redacted]

Apologies

[Redacted]

[Redacted]

[Redacted]

Agenda and any papers referred to can be found in CMAL SharePoint folder '2018 08 23 Meeting Papers'. For TS – objective reference A21977691.

[Redacted]

Vessel Obsolescence

A sub-group meeting is being arranged for October.

[Redacted] confirmed CMAL now has an internal group set up and is working on this criteria as a priority List – which will form a targeted overhaul.

[Redacted]

Transport Scotland
September 2018

[Redacted]