

From: Kevin Hobbs <Kevin.Hobbs@cmassets.co.uk>

Sent: 08 February 2017 10:49

To: [REDACTED]

Cc: [REDACTED] Nicholls J (John) (TRANS)

[REDACTED]

[REDACTED] FMEL Progress Note

Importance: High

[REDACTED]

Please see below which I hope assists in regard to briefing Ministers

Purpose

In continuation of our discussion at the Board Meeting on 31st January 2017 at Victoria Quay it was agreed that I would write a note in regard to progress at FMEL in regard to the 2x Dual Fuel Ferries currently under construction at the facility in Port Glasgow

Background

In November 2015 orders were placed at FMEL for the construction of 2x Dual Fuel Ferries (LNG and Marine Gas Oil), currently referred to as vessels 801 and 802

The delivery dates of the vessels at contract signing were

- 801 - 25/5/2018
- 802 – 26/7/2018

The value of the core contract was £97m for the pair of £48.5m per vessel. Note that in addition to this there are other associated costs relating to the supervision team and the secondment of Vessel based personnel from CFL.

It should be noted that the quality of the workmanship that we have witnessed to date is very good which is seen as a positive for the longevity of the vessels.

Payments

Within the context of the Contract there are a various milestone payments that are required to be made at certain stages of the construction.

To date the milestone reached and promptly paid has been up to and including milestone 8 (50% of the Hull fabrication). There were also some early payments made in regard to long lead time items such as major component parts such as Main and Aux Engines, Bow Thrusters and Stabilisers but to name a few.

The total payments made up to and including the 50% fabrication milestone is £58m; therefore by deduction a further £39m to pay.

Leading up to the 100% fabrication stage there will be an additional £7.55m due for payment.

At launching there are further payments in regard to painting and join up amounting to a further £7.2m; so in combination of the above there are payments due amounting to £14.75m. Launch milestone for 801 is 24/8/17 and 802 is 12/1/18

The Issue

There have been a number of challenges that are recognised throughout our experience with FMEL and these can be distilled as below

- The ship yard has a new owner as it was effectively in administration prior to Clyde Blowers Capital (CBC) stepping in
- Whilst CBC are well versed in the manufacturing environment the ship building business is not known to them previously
- The ship yard has a new management team and Board of Directors
- There has been significant investment in the yard in terms of new build facilities, machinery, processes and IT and we understand this is circa £25m
- There have been delays in vessel construction as various areas of the yard have been in refit and therefore unable to be fully utilised for ship building.
- The vessels are technically complex and planning has proved a difficulty for the yard.

The net result of the above is that the original schedule envisaged has “slipped”

As an example of this is that the 50% milestone for 50% fabrication of **801 is 2 months later** than scheduled and the same milestone for **802 is 3 months later** than scheduled.

The issue which we all have to face is that it is unlikely if not impossible for the delays to be rectified. This is compounded by the fact that the Hull Construction is a relatively easy task compared to the “outfitting” which is yet to come.

Allowable Days

There are a total of 80 allowable days within the contract for delays.

The point here is that these will certainly be used and in all likelihood exceeded so the best case that we can foresee is the delivery of **801 will be in August 2018** and **802 will be in October 2018**.

Delivery prospects

There is an extremely high probability that the vessels will be delivered later than that indicated above in “allowable days”

It is potentially possible to deliver 801 within August 2018 but with the current rate of progress this is most likely going to be missed.

The vessel 802 is a different matter as we cannot foresee a gap of 2 months between vessel 801 and vessel 802. In our judgement there will be at **least** 6 month gap so 802 potentially a delay until Feb 2019.

Future

We have some forthcoming meetings to look closely at the planning issues and address any issues that are currently “hot topics”. We will continue to work closely with FMEL in all respects. The situation is evolving but we are concerned at this juncture and hence the briefing note.

If you require any further immediate information please do not hesitate to ask. In any event we will keep you updated in Board Meetings and our monthly CMAL Liaison Meetings

Best Regards

Kevin Hobbs

This email has been received from an external party and
has been swept for the presence of computer viruses.
