

Edward Mountain
Convenor
Net Zero, Energy & Transport Committee
Scottish Parliament
EH99 1SP

28 September, 2022

Dear Mr Mountain,

Update on Hulls 801 & 802

During the three-month period prior to my letter to the Committee at the end of June, we had started to identify issues with the programme and work scope required to complete Glen Sannox 801 and 802. Since then, we have worked diligently to re-plan the work packages necessary to complete 801, renegotiated with the principal contractors and re-validated the procurement packages needed to complete the vessel in accordance with the specification. This includes, for example, pricing the small tools and spares kits that are in the specification and contract, but had previously either been missed or given rough estimates.

We completed a productive dry-docking of 801 in late July and swapped out bow thrusters (previously installed on 802, but now serviced with new warranty by the OEM), and cleaned and painted the hull, amongst many other important issues. We plan an inclining test late November/December this year to verify the weight and stability aspects of 801 and a second dry-docking in February '23 before trials commence in late Feb/March.

Overall, this has been a thorough effort to confirm the delivery target of 801 before May '23 and the associated budget required. The complexity of the on-board ship management systems and the 'first of class' aspect of commissioning the LNG system – which will have to be done at Troon using specialist suppliers and facilities, means that there could be 1-2 mths worst case slippage in final handover. The target remains for completion in April '23, with LNG commissioning in May '23 and I believe that costs of any slippage can be contained within the contingency noted below.

Subject to agreement with CMAL/Calmac, there may be an option to defer the commissioning of the LNG system to winter '23 and for Glen Sannox to run on single fuel for the '23 season if there are significant commissioning issues with the LNG system. This decision can be made in April/May '23.

For Hull 802, we have approached the delivery and budget review differently.

Recognising the deficiencies in work planning we have experienced with 801, the gaps in OEM information, inadequate rigour in stock control and material handling, gaps in design data vs. the 'as-built' progress with 801 over the past few years and the considerable amount of re-work that became necessary through errors made as the business recovered from administration and mobilised through the pandemic, we have planned a different programme management for 802.

Since May '22, we have run a series of workshops with CMAL and our design contractors ICE and as reported to the Committee at the end of June, these are focused on consolidating a range of design improvements and lessons learned from 801, and on a data-cleansing process to ensure we start the outfitting of 802 with accurate design information – something that we did not have with 801.

Recognising the impacts of multiple sources of, often conflicting, work pack information on 801, we have made the decision with ICE for them to produce the work-packs and run document control for all of 802 as a single source of clean data. This is phased across the different zones of the ship in line with the sequences planned for outfitting, which will start in November this year.

The increase in work scope on 801 identified over the past three-months has diverted resources from 802 which has put pressure on the delivery date for 801 as noted above and has led to structural completion of 802 previously planned for September, now moved to late November '22. As a result, the combination of a determined plan not to start outfitting until we have the outputs of the design cleansing efforts with ICE and a critical level of structural work completed, means we now forecast practical completion of 802 by the end of December '23. This in turn, moves the final dry-docking of 802 into early '24 and associated trials and handover are now planned for Q1 '24.

Whilst this move of the handover date for 802 from Q4 '23 into Q1 '24, is disappointing, we believe that our up-front efforts on much more robust planning of 802 and learning from 801, can present this change of dates as a positive more professional approach, for a realistic and deliverable handover in time for the summer season '24.

Following ratification through our board meeting 22nd Sept., we submitted updated budgets, revised timings, and a business case to Ministers 23rd Sept., and are working with them on a due-diligence process to confirm their agreement. The submission summarises the three main challenges that the yard has faced since contract award, namely Design – of the ships themselves, and design of the build programme - Skills mix and having the right contractors, and Productivity.

The Glen Sannox programme and costs have suffered with all three aspects, particularly in relation to the design, build & launch sequencing and programme set out by FMEL years ago, whilst the revised plans for 802 are predicated on soon having a robust design package updated from learning on Glen Sannox, planning the right skills available, and hence the focus will be on productivity.

The costs to complete Glen Sannox are now forecast at a total not to exceed, of £101m, which includes a contingency of £2.7m and a provision for warranty costs of £3.5m.

The costs to complete 802 are now forecast at a total not to exceed, of £108.6m, which includes inflationary impacts, a contingency of £3.5m and a provision for warranty of £3.5m.

However, I highlight that we have set an internal stretch target of £7m to achieve as we complete the design cleansing and then use this clearer definition of work-scopes to confirm the contractor pricing, and the necessary build manhours, over the next 2-3 months.

If we achieve the stretch target, and do not need the contingency, the best outcome for 802 is a cost to complete of £98.1m (including the provision of £3.5m for warranty).

The FMPG board also approved our acceptance of a letter of intent from BAe for FMPG to re-engage with them as a supply-chain partner for their T-26 programme. This type of 3rd party work will develop during the next 3-6 months, and we have assumed will contribute ~£6-7m to the costs of running the shipyard through to handover of 802 (thus reducing the costs charged to Glen Sannox and 801 in 2023/24 by this amount) and creating work for staff not required on the ferries as commissioning of Glen Sannox progresses through to handover.

Overall, the revised best estimates of costs to complete include assumptions on efficiency improvements, contributions from 3rd party work, allowances for inflationary pressures and other economic factors such as cost of living, energy costs, and importantly, sensible estimates of contingencies that may be required.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'David Tydeman', written in a cursive style.

David Tydeman
Chief Executive Officer