

Cost Estimate of Election Campaign Proposal

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Short title: Procuring a Second Interim Supply Ship for Canada's Navy

Description: This measure calls for the procurement of a second interim supply ship, the Obelix, from Chantier Davie Canada Inc.

In accordance with the plan for the current interim supply ship, the Asterix, we assume that the Obelix will require a two-year acquisition and refit period and will then be in service for a maximum of 5 years.

Operating line(s): Operating and capital expenses

Data sources:	<u>Variable</u>	<u>Source</u>
	Container Vessel Purchase and Conversion Costs	Canadian media reports; publicly-available information; official reports from the Department of National Defence; Public Services and Procurement Canada; and Chantier Davie Canada Inc.
	Operations and Maintenance (O&M) Costs	Historical Protecteur-Class (O&M) costs PBO defence cost database Canadian media reports; publicly-available information; official reports from the Department of National Defence; Public Services and Procurement Canada; and Chantier Davie Canada Inc.
	Consumer Price Index (CPI)	PBO EPC Baseline

Estimation and projection method: This cost estimate was partially based on publicly available cost information on the Obelix's sister ship, the MV Asterix, which has already attained full operational capability.

For the purposes of this estimate, it was assumed that a contracting arrangement for the operations and maintenance of the vessel would mirror that which is currently in place between the Government of Canada and Federal Fleet Services, Inc. for the support of the MV Asterix.

The publicly-available cost information was supplemented with PBO data on historical costs for the legacy Protecteur-class Auxiliary Oiler Replenishment (AOR) ships. Projected operations and maintenance costs for the next-generation Joint Support Ship (JSS) were also factored into the cost estimate.

Reported conversion costs for the MV Asterix were adjusted using a learning curve approach to estimate these costs for the Obelix. The learning rate was based on historical findings of learning rates in Canadian shipyards for naval vessels.

The purchase and conversion period was assumed to begin in the 2020-2021 fiscal year and complete by the end of the 2021-2022 fiscal year. The operations and maintenance phase was assumed to last 5 years, ending in 2026-2027.

Relevant costs were escalated over time according to PBO projections of the Consumer Price Index. Defence inflation considerations were assumed not to have a significant impact on cost due to the short period of time between production runs.

Finally, the costs given in this estimate were assigned to the year in which the cash flow was likely to occur; it was assumed that the accounting practice of amortization over the useful life of the equipment did not apply due to the short length of the proposed lease.

Uncertainty
assessment:

The estimate has high uncertainty. As directed by the requestor, PBO appealed to in-house and publicly-available cost information and did not request further detail from the Department of National Defence or other stakeholders. We do not consider any risk of delays in production which could result in higher costs. This estimate does not take into account savings due to changes in military doctrine or economies of scale as a result of adding a second supply ship to the RCN fleet. The cost is also sensitive to the economic outlook as labour rates and material costs may vary.

Cost of proposed measure

\$ millions	2019-2020	2020-2021	2021-2022	2022-2023	2023-2024	2024-2025	2025-2026	2026-2027	2027-2028	2028-2029
Total cost	-	148	129	63	65	66	67	69	-	-

Notes:

Estimates are presented on an accruals basis as would appear in the budget and public accounts.

Positive numbers subtract from the budgetary balance, negative numbers contribute to the budget balance.

"-" = PBO does not expect a financial cost