PUBLIC INTEREST FINDING

Fast Vehicle Ferry (FVF) Propulsion System Replacement

Project No. FBD-9500(127) / 73093

Proprietary Specification (23 CFR 635.411)

March 8, 2013

This is a FHWA funded project to purchase two (2) engines for FVF FAIRWEATHER and FVF CHENEGA from the original engine manufacturer, MTU Friedrichshafen GMBH, and its U.S. affiliate, Tognum America, Inc (jointly referred to as "MTU")

By way of background, in February 2002, the State of Alaska, with FHWA participation, contracted for the design and construction of two fast vehicle ferries. In 2004 and 2005, the State took delivery of FVF FAIRWEATHER and FVF CHENEGA respectively. Each vessel is equipped with four MTU 595 series main diesel engines. Shortly following delivery, the vessels began experiencing continuous degradation in the cylinders of all main engines. MTU admitted it had caused the degradation and attempted to resolve it. However, it was unsuccessful. Ultimately, the State brought legal action against MTU and the shipyard, Robert E. Derecktor, Inc. Currently, Derecktor is in bankruptcy.

Recently, the State reached a settlement of legal claims against MTU. The settlement entails several commitments by MTU, including:

- Removal of all original 595 series engines from both vessels and installation of MTU's newer 4000 series engines, all at no cost to the State;
- Provision of a no-cost maintenance and service agreement covering preventive and corrective maintenance of the vessels' new engines for a five year period; and
- Sale of two additional 4000 series engines, or "swing" engines, at reduced cost.

Purchase of the swing engines will benefit vessels' public highway function by ensuring greater reliability of vessel operations and schedules. More specifically, AMHS intends to implement a program whereby it rotates engines on the vessels. That is, if an installed engine suffers a casualty or when an engine comes due for extensive, scheduled maintenance, AMHS will remove that engine from the vessel and install a swing engine. By doing so, AMHS enables the vessel to continue scheduled service with minimal disruption while the removed engine undergoes work at an appropriate shore side location. In the past, the vessels have remained idle for up to 6 months to accommodate shipboard engine work. AMHS believes that purchase of the two swing engines will enhance vessel operations and asset functionality at a modest cost.

Estimated Costs:

The cost for the two additional 4000 series engines is $1,500,000 per unit ($3,000,000 total), inclusive of all delivery costs.

Considerations:

The Settlement Agreement and Release of all claims between the State of Alaska, Alaska Marine Highway System and MTU, **draft** version dated March 6, 2013.

The press release "State Resolves Fast Vehicle Ferry Litigation for Alaskans", dated March 1, 2013 issued by the State of Alaska, Department of Law.

Approval Recommended:

It is not practical to conduct a competitive solicitation (sealed bid or sealed proposal) for this procurement as the purchase of the swing engines is made part of the settlement agreement between the State and MTU.

The public, Alaska Marine Highway System, Alaskan communities and travelers serviced by the FVF's benefit from the selection of this proprietary equipment because of the settlement reached by the State

3-8-13

Narcisco Flores
Manager Marine Engineering
Alaska Marine Highway System

Date

Approved: In accordance with DPDR 10.02.013 and 2 AAC 12.100 this request is approved

3-8-13

Mark O'Brien
Chief Contracts Officer
Office of Commissioner

Date