



March 23, 2018

Cynthia Lukaitis
Vice President & Corporate Secretary
British Columbia Ferry Services Inc.
500, 1321 Blanshard Street
Victoria, BC V8W 0B7

Dear Ms. Lukaitis:

This refers to your letter dated March 19, 2018, regarding BC Ferries' intent to reset the fuel deferral account balance for the non-northern routes to zero on March 31, 2018. The commissioner has noted that BC Ferries is not requesting any changes to the mechanism for managing the non-northern fuel deferral account as set out in the Order 15-03A. You have also confirmed that BC Ferries will continue to manage the fuel deferral account in compliance with the fuel rebate triggers specified in Order 15-03A going forward.

For the reasons and representations set out in your letter of March 19, 2018, the commissioner acknowledges that BC Ferries' intent to reset the fuel deferral account balance for the non-northern routes to zero on March 31, 2018, is not inconsistent with Order 15-03A.

Sincerely,

A handwritten signature in blue ink that reads "S. T. Stoilen".

Sheldon Stoilen
BC Ferries Commissioner

March 19, 2018

Mr. Sheldon Stoilen
British Columbia Ferries Commissioner
BC Ferry Commission
PO Box 9279 Stn Prov Gov
Victoria BC V8W 9J7

Dear Mr. Stoilen:

Re: Management of Fuel Deferral Account Balance for Non-Northern Routes

We write to advise you of the intent of British Columbia Ferry Services Inc. ("BC Ferries" or the "Company") to reduce the balance as at March 31, 2018 in the fuel deferral account for the non-northern routes to zero.

In accordance with Order 15-03A *Establishment of Fuel Deferral Accounts Pursuant to Section 41.1 of the Coastal Ferry Act*, dated September 28, 2015, BC Ferries is able to defer the difference between the actual fuel costs (including fuel hedge gains and losses) and the approved fuel costs for future settlement. Fuel surcharges are collected or fuel rebates provided from time to time which are applied against the fuel deferral account balances. At February 28, 2018, the fuel deferral account balance for the non-northern routes was a receivable of \$14.5 million. Generally, receivables would be recovered through future tariffs, fuel surcharges and/or a reduction in fuel rebates.

During fiscal 2018, BC Ferries experienced record levels of traffic which translated into record revenues. Future traffic levels are unknown, however the expectation is that passenger and vehicle traffic will remain strong in the near term, sustaining the improved discretionary traffic levels that have been experienced. Although BC Ferries has incurred additional expenses to accommodate the higher traffic levels, costs continue to be managed prudently without compromising safe operations. The net result is stronger financial results than anticipated when the price cap decisions for performance term four were made.

As the net earnings of BC Ferries for fiscal 2018 are now expected to be significantly higher than forecast for performance term four, the Company's intent is to share some of these positive earnings with its customers by covering the balance in the non-northern routes' fuel deferral account as at March 31, 2018, thereby eliminating the need to recoup these costs from future customers. We believe this proposed action is consistent with Order 15-03A, and make no request for any changes to the mechanism for managing the non-northern fuel deferral account as set out in the Order. We also confirm that BC Ferries' intent is to continue to manage the fuel deferral account in compliance with the fuel rebate triggers specified in Order 15-03A going forward.

In summary, we seek your concurrence that BC Ferries' intent to reduce the balance as at March 31, 2018 in the fuel deferral account for the non-northern routes to zero is not inconsistent with Order 15-03A.

Should you have any questions or require further information please contact us.

Sincerely,

A handwritten signature in black ink, appearing to read "Cynthia M. Lukaitis". The signature is written in a cursive, flowing style.

Cynthia M. Lukaitis
Vice President & Corporate Secretary