BRITISH COLUMBIA FERRY SERVICES INC.

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# Fuel Strategies

For the fiscal year ending March 31, 2013

October 29, 2012

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# INTRODUCTION

This document is submitted by British Columbia Ferry Services Inc. ("BC Ferries" or the "Company") to the British Columbia Ferry Commission ("BCFC") in accordance with the requirements of BCFC Order 12-03.

On June 21, 2012, BC Ferries submitted an application to the British Columbia Ferries Commissioner pursuant to Section 41.1 of the *Coastal Ferry Act* to establish a fuel price deferral mechanism for the third performance term ("PT3"). On September 30, 2012, BCFC issued Order 12-03 in response to the application. The Order requires BC Ferries to report annually on its strategies to optimize fuel cost savings.

This document is structured in three parts, each responding to a specific reporting requirement of Order 12-03. Part 1 provides BC Ferries' plan and targets for fuel consumption reduction in the fiscal year ending March 31, 2013 ("2012/13"). Part 2 provides an update on BC Ferries' plan to transition to alternate fuels, and Part 3 contains an overview of BC Ferries' strategies for cost effective fuel procurement. This report will be updated and submitted annually to BCFC during PT3, as required by Order 12-03.

# PART 1: FUEL CONSUMPTION REDUCTION PLAN

## 1-A Introduction

In this part of the report, BC Ferries sets out its plan and target for fuel consumption reduction in 2012/13, including specific initiatives it intends to implement to realize its target.

## 1-B Historical Fuel Consumption

Fuel costs currently represent BC Ferries' second largest expenditure, and were approximately $121.1 million in 2011/12. BC Ferries' fuel costs are a function of the volume consumed as well as the market price of marine diesel.[1]

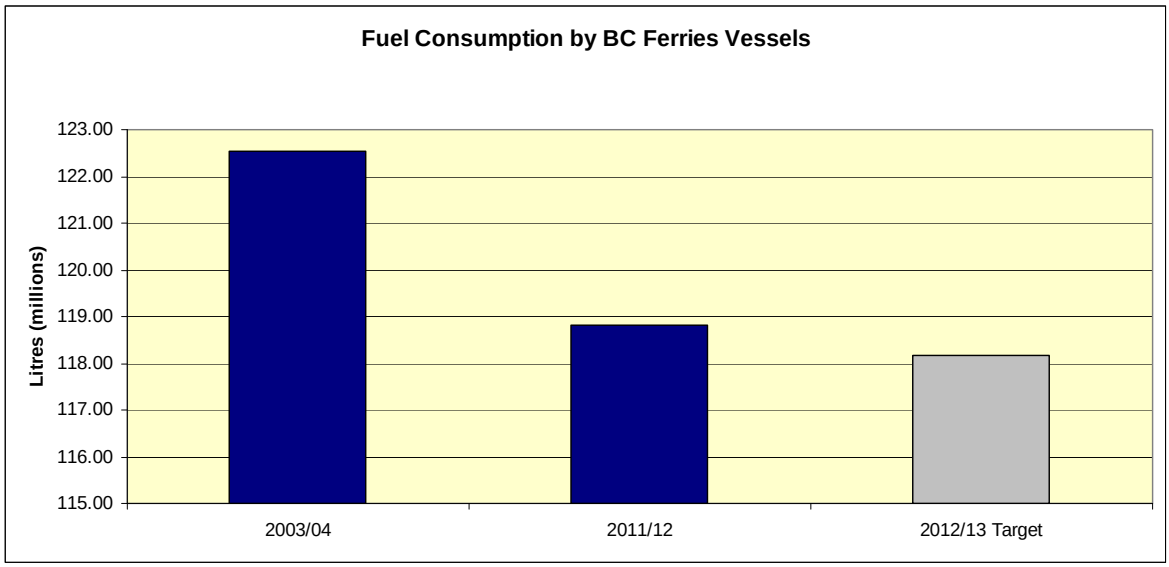
The price of the marine diesel that BC Ferries uses to fuel its fleet is market-driven. While BC Ferries has been successful in ensuring that it receives the best market pricing for the fuel and delivery of fuel to the Company's ships through running a competitive procurement process for the supply of fuel (see Part 3 of this report), as well as through hedging where appropriate[2], it cannot control the market price of fuel.

BC Ferries does, however, have a degree of influence, within limits, over the volumes of fuel it consumes. To that end, BC Ferries consistently and actively manages its fuel consumption with a view to finding opportunities to enhance the operational efficiency of its fleet without compromising safety and operational readiness. Though the Coastal Ferry Services Contract restricts the Company's ability to realize fuel savings through reductions in sailings in response to low or non-existent demand, the Company has been able to realize significant savings through a range of innovative operational and deployment initiatives. Through its focus in these areas, BC Ferries has reduced its fuel consumption from 122.6 million litres in 2003/04 to 118.8 million litres in 2011/12, a reduction of 3 percent (see Figure I), which represents a savings of 3.8 million litres (and a savings of over 6.3 million litres from 2002/03).

[1] BC Ferries' fleet runs on marine diesel fuel, and in this document "fuel" or "fuel oil" is a reference to marine diesel fuel.

[2] See BC Ferries' *Fuel Price Hedging Strategy for the Third Performance Term* dated April 30, 2012, previously submitted to BCFC.

**Figure I: Fuel Consumption**




The fuel consumption savings achieved to date have been realized through aggressive efforts by the Company to identify and pursue all viable fuel savings initiatives. The Company's focus in this area reflects its general commitment to progressive and responsible energy management which is intended to ensure the highest practicable energy efficiencies in the Company's overall operations and the sustainable growth of its business. This commitment is enshrined in the Company's energy management policy, which has as its objectives:

- Delivering an energy awareness program, through the existing internal energy management team, to all employees;
- Providing continual education of employees on how to conserve energy and how to recognize and minimize unnecessary consumption in their work area;
- Setting targets to reduce energy consumption and at a minimum not exceeding baseline levels;
- Establishing regular reporting of energy use to key operating area personnel;
- Reducing expenditures on energy by understanding rate structures and managing consumption accordingly;
- Identifying savings opportunities by conducting energy studies or audits at appropriate facilities;
- Implementing cost-effective facility and equipment upgrades that will achieve energy savings;
- Participating in incentive programs for energy conservation and/or greenhouse gas deferral projects;
- Establishing energy-efficiency targets as design specifications in major retrofits of facilities or vessels, and in purchasing guidelines; and
- Providing guidance for best practices in energy management, including equipment selection, operation and maintenance, as well as monitoring, targeting, and reporting energy usage.

While the Company has made significant strides and continues to focus its efforts in all areas of energy management, the ability to extract future savings from fuel consumption reduction initiatives at levels comparable to those achieved historically is challenged by the practicality and cost effectiveness of the technologies available, and the service level constraints within which BC Ferries operates.

## 1-C Fuel Consumption Reduction Target – 2012/13

BC Ferries prepares a detailed fuel budget for its operations annually. The Company develops an annual service plan that reflects the vessels that will operate on each route and the number of round trips that will be completed each day. Fuel consumption budgeted for each vessel is set in litres consumed per round trip ("L/RT"). The number of scheduled round trips and budgeted L/RT are multiplied together to determine the total fuel budget for each vessel, on each route.

A vessel's operating budget for fuel will vary from month to month. The set L/RT is determined based on numerous factors that are anticipated to occur, including:

- Historical performance;
- Time of year (weather, heavy traffic);
- Vessel status: primary vessel or secondary vessel (standby). Secondary or standby vessels will have less round trips at certain times of the year; more standby time may require engines to run with less round trips to complete, driving up its L/RT average;
- Last dry dock (hull cleanliness affects hydrodynamic performance);
- Technological or propulsion equipment changes;
- Requirement to switch from one berth to another at designated times;
- Any berth congestions that are expected to occur due to various reasons (e.g. additional sailings during summer months, berth closures or disruptions due to terminal construction projects); and
- Other factors known at the time of budget preparation.

The budgets are built based on the notion that the vessels will operate as efficiently as practicable taking into account all known influencing factors.

For 2012/13, the Company's operating budget, as reported in its published business plan, reflects a fuel consumption target of 118.2 million litres, which represents a reduction of 0.55 percent from the 118.8 million litres of fuel consumed in 2011/12.[3]

## 1-D Fuel Savings Initiatives

There are three primary means by which BC Ferries realizes fuel consumption savings:

- Sailing reductions;
- Fleet deployment optimization; and
- Realization of operational efficiencies.

Continued focus on initiatives in these areas forms the basis of the fuel consumption reduction plan.

Sailing Reductions

A reduction in the number of sailings delivered has the greatest impact of any fuel reduction initiative. The number of sailings that BC Ferries must deliver on its routes is specified in the Coastal Ferry Services Contract. While sailings may be cancelled for extraordinary reasons such as safety, poor weather, or operational issues, including maintenance to vessels or docks, BC Ferries is restricted in its ability to reduce sailings below the levels specified in the contract in situations where demand is low or non-existent. In 2012/13, however, the Company will realize fuel consumption savings from core service level reductions for the major routes (98 round trips) agreed to by the Province in the PT3 Coastal Ferry Services Contract. Fuel consumption savings associated with this reduction in core service levels are forecast to be 659,742 litres.

[3] The Company expects to realize savings in excess of this target due to reductions in core service level requirements for the major routes negotiated as part of the PT3 Coastal Ferry Services Contract, which was executed after the target was set.

Fleet Deployment Optimization

When the opportunity exists, BC Ferries may choose to substitute a vessel with a smaller, more fuel efficient one to tailor its service to the demand. However, BC Ferries has few back-up vessels – none in the summer time – so these opportunities may be pursued only during off-peak periods.

Efficiencies

BC Ferries has and continues to exert significant effort to efficiently manage its operations and reduce the consumption of energy in all of its forms. Fuel consumption is optimized by continual attention to efficiency opportunities. Numerous initiatives have been successful in reducing fuel consumption and will continue to be employed over the performance term. They include, but are not limited to:

i. Tactics to minimize fuel burn by enabling constant minimum transit speed during each voyage:

- Maintain on-time performance to avoid excess fuel burn for catch up;
- Optimize transit speed to minimize any patterns of acceleration/deceleration during the voyage;
- Determine and share route-specific best operating practices (voyage optimization);
- Implement "operational scripts" to improve operational efficiencies, such as maximize loading/unloading efficiencies (ship/shore interface) and optimize ferry schedules at terminals serving multiple routes to minimize conflict. This reduces fuel consumption due to a reduction in in-dock fuel consumption and the avoidance of the need for higher transit speed to make up any delays;
- Utilize fuel monitoring systems (e.g., ESP1000 on eight older vessels), where appropriate;
- Utilize the Electronic Chart Display Information System (ECDIS) on numerous vessels to obtain real time information on position, speed and estimated time of arrival, supporting decision making relative to arrival times, in-port times and completing passenger/vehicle transfers;
- Calibrate the schedule for the Southern Gulf Islands system, the most complex and challenging service area due to multi-port loads and transfers between vessels;
- Review monthly fuel reports to seek out best practices or learning for improvement; and
- Provide training and education using bridge simulators and development programs.

ii. Engineering practices to minimize fuel burn through ensuring optimum performance of main engines and ancillary equipment:

- Maintain engines to prevent efficiency losses;
- Renew engines to take advantage of design improvements;
- Ensure fuel and lubricant quality standards to minimize equipment energy losses;
- Perform heating boiler maintenance and boiler renewal; and
- Utilize waste heat recovery systems.

iii. Other tactics to minimize inefficient or unnecessary fuel burn:

- Minimize propulsion idling in the berth prior to the first loading and departure on daily route service;
- Use tensioning winches while loading/unloading and during tie-ups, where feasible;
- Connect to electrical service from shore to minimize generator run time, where cost effective;
- Use ballast/trim tanks on Coastal Class vessels and the *Northern Expedition* to keep the propeller optimally submerged when underway;

- Operate the *Northern Adventure* and *Northern Expedition* on a single engine and single propeller shaft during pre-approved, low risk legs of the voyage (summer time operations only). Similarly, utilize shaft generators instead of diesel generators during low risk legs of the voyage and when weather permits[4];
- Operate the *Queen of Chilliwack* on three right angle drives versus four when schedule permits.[4];
- Maintain hull coating standards to minimize hull friction losses;
- Perform in-water repair techniques to minimize energy losses as a result of strike damage to propeller blades, rudders and underwater appendages; and
- Perform hull and propeller cleaning.

## 1-E Future Fuel Consumption Reduction Initiatives

In addition to the foregoing, BC Ferries will also continue to pursue fuel consumption reduction initiatives that may generate savings in future years.

Cable Ferry

BC Ferries plans to introduce a cable ferry on route 21 (Buckley Bay (Vancouver Island) to Denman Island) in 2014. Due to the higher efficiency of a cable drive system (versus propellers), the propulsion power is expected to be reduced by over 50 percent as compared to the existing ferry (*Quinitsa*). The cable ferry is also a candidate for the eventual adoption of natural gas propulsion and/or hybrid electrical propulsion.

Additional Efficiency Opportunities

Investment in management system improvements are considered key to further advancements in fuel reduction.

Although the Company's current business process for recording total vessel fuel consumption is accurate at the aggregate (fleet-wide) level, various factors influence the accuracy in evaluating the operational efficiency of a specific vessel. This includes weather, traffic loading and unloading, on-time performance, marine traffic and response to emergencies to name a few. A compounding effect is the degree of imprecision that exists in calculating fuel consumed by vessels[5]. Because of these factors, the overall accuracy of the reported results by vessel will vary, typically within a 4 to 5 percent margin. This can make it particularly difficult in assessing the impact of specific fuel reduction initiatives. Real-time measurement may enable operators to isolate specific factors through a methodical approach and focus on the best results.

However, any new initiatives to realize the benefits of a conservation opportunity must be both practicable and cost effective. Additional efficiency opportunities are more difficult to draw in without a preceding investment in management systems. The management system improvements could include:

- Installation of direct fuel consumption measurement (e.g., in-line flow meters) for real time metrics and trend analysis with sufficient precision to individually monitor multiple, small percentage improvements of (i.e., less than 2 percent);
- Access to resources for periodic energy audits requiring the use of specialized tools to identify energy losses;
- Access to resources for "energy management coaching"; and
- Installation of shore power measurement on vessels (currently underway).

[4] BC Ferries' Senior Masters have set specifics guidelines as to where and when these tactics can be applied safely.

[5] Corporate fuel consumption data is based on monthly reporting of daily consumption calculations. Daily consumption on all vessels is calculated from the change in fuel storage tank total volume over a 24 hour period and thus has a degree of imprecision.

With investment, shipboard energy efficiency management plans would flow from the Company's energy management policy and could focus on the largest sources of consumption to pursue opportunities such as:

- Voyage optimization using real time fuel consumption data;
- Trim management—the effect of car deck load distribution on hull efficiency;
- Engine performance optimization;
- Advanced hull coating and hull cleaning technologies to reduce hull friction;
- Electric motor innovations (e.g., variable frequency drives) and power factor correction to reduce diesel generator power draw;
- Improved technology for major consuming systems (i.e. galley, lighting, HVAC); and
- Advisory systems to alert for energy losses.

Management system improvements and subsequent fuel reduction initiatives will be justified through business cases and scheduled into the vessel refit and upgrade programs. The cumulative effect of existing and proposed initiatives will achieve further fuel consumption savings over the performance term, if cost effective and practical to implement.

# PART 2: PLAN TO TRANSITION TO ALTERNATIVE FUELS

## 2-A Introduction

BC Ferries actively monitors and pursues innovation and emerging technologies respecting the use of alternatives to conventional fuels. In this part of the report, BC Ferries sets out current key initiatives of the Company in this area.

## 2-B Alternatives to Conventional Fuels

Biodiesel

Since September 2009, BC Ferries fleet has used 5 percent, or B5, biodiesel to fuel its vessels, making the Company one of the largest consumers of biodiesel in British Columbia. A B5 fuel blend is used in all service areas where the product is available.

B5 fuel blend is a mix of 5 percent canola-based biodiesel with 95 percent low sulphur petroleum diesel. Biodiesel burns cleaner with significantly less unburned hydrocarbons, carbon monoxide and particulate matter in emissions.

Liquified Natural Gas

Liquefied natural gas ("LNG") is abundant and should be readily available in most of areas in which BC Ferries operates. It is presently viewed as a viable option for future new vessels to the fleet, the earliest potential delivery to be in calendar year 2015. Where economically and technically feasible, it may also be possible to convert existing vessels from diesel to gas.

LNG is presently over 50 percent less expensive than the diesel fuel currently used by BC Ferries. Thus while adopting LNG will not directly reduce fuel consumption, it will reduce fuel costs. Using LNG as fuel for propulsion and auxiliary engines reduces air borne emissions of CO2, nitric oxides (NOx), sulphur oxides (SOx) and particulates to levels below that required by current and proposed domestic and international emissions regulations.

LNG is presently used in more than 15 passenger vessels in Europe, with another approximately 30 projects either announced or underway. BC Ferries is currently conducting a preliminary assessment of its existing fleet for conversion opportunities. The assessment criteria are:

- The conversion is technically practicable with known (proven) technology;
- LNG can be supplied economically to the vessel route location;
- The vessel can be removed from service for the required project period;
- There is cost-efficient vessel relief available for the project duration;
- There will be sufficient lead time to prepare and procure for the project; and
- The project is determined to be affordable in preliminary cost review.

The earliest potential conversions (three vessels under consideration) are tentatively scheduled for calendar years 2015 and 2016. Immediate activity is focused on the development of technology policies for engine types, propulsion drive arrangements and re-fuelling methods. A full safety case will also be prepared.

It is BC Ferries' policy that, for all new vessel acquisitions, all requests for proposals ("RFP") will require potential proponents to include option pricing for LNG fuelled engines in order to enable the Company to conduct appropriate business analysis as to the cost effectiveness of the option. For certain vessel replacements, this may include dual fuel options.

Hybrid Plant Design

Innovation and emerging technologies for electric power grid management have the potential to make use of energy sources that are alternatives to diesel fuel. These would include:

- Battery storage of power from the shore side electric power grid
- Hydrogen fuel cells; and
- Solar and wind energy sources.

In addition, advanced power grid management can achieve efficiencies in generator loading to optimize fuel consumption. The practicality and cost of this technology is not yet determined. BC Ferries will continue to monitor advancements in this technology.

# PART 3: STRATEGIES FOR COST EFFECTIVE FUEL PROCUREMENT

## 3-A Introduction

BC Ferries has been able to achieve significant savings in fuel costs through implementation of innovative fuel procurement strategies. This section of the report provides an overview of the Company's fuel procurement activities and cost savings realized.

## 3-B Historical Overview

As noted previously in this report, the annual volume of marine diesel purchased and delivered to vessels at BC Ferries terminal locations is currently approximately 118 million litres. Historically, fuel and marine lubricant supply contracts were split between multiple suppliers (Chevron, Shell, Esso, Petro Canada) typically on a geographical basis, and pricing with each supplier was based on cost to deliver (bridging), pricing formulas employed and volume purchased.

Supplier fuel pricing formulas have evolved over time with basic commodity (rack) pricing becoming a reality in British Columbia in 1994, starting with Esso. Other suppliers followed suit and migrated to similar rack based pricing formulas with Chevron being the last major supplier to move away from a crude follower based pricing formula to rack pricing for all their customers in 2006. As a result, variation in supplier pricing mechanisms was no longer a point of differentiation or competitive advantage in the marketplace for customers.

As rack based pricing became the standard, overall volume supplied was one of the major factors in price determination. As a result of splitting the purchase volume between multiple suppliers, volume was not sufficient for any of the suppliers to provide anything but rack pricing with marginal volume discounts off rack prices on a per litre basis.

In 2006, coupled with increasing bridging costs, global supply issues and increasing fuel prices, all existing suppliers were asked by BC Ferries through a formal competitive process, if they could supply more volume at a lower price. One supplier indicated it was unable to supply additional volume citing capacity limitations. Due to bridging limitations, two other suppliers were only able to provide marginal volume increases with little or no discount improvement. One supplier was able to increase volume significantly and offered the best overall value to BC Ferries, inclusive of discounts (off rack), marine lubricant product pricing reductions, optimized bridging fees and pre-payment incentives. At the end of the competitive process, BC Ferries consolidated the number of suppliers from five to three, with a comparative volume split of approximately 96 percent, 3 percent and <1 percent.

## 3-C Current Procurement Approach

BC Ferries conducts a formal competitive procurement process for the supply of fuel and marine lubricants in order to achieve best overall value for the Company. This practice is consistent with other large companies that procure large volumes of fuel for their operating requirements. Typically, BC Ferries' fuel and marine lubricant contracts are set over a fixed initial term with options to extend. The current agreement with BC Ferries' primary supplier is five years, comprised of an initial fixed term of two years expiring March 31, 2013 with three additional one-year extension options. As at September 30, 2012, BC Ferries had exercised the first option to extend for one year until March 31, 2014.

There are several defined phases in the fuel procurement process. Approximately six to nine months before the contract renewal date approaches, BC Ferries prepares a comprehensive RFP which defines the business opportunity to supply fuel and marine lubricants. As part of the RFP preparation and periodically between contracts, BC Ferries reviews market intelligence, publications, bulletins and other data sources to assess trends and outlook in the North American

oil, natural gas and petroleum product markets in Canada and the United States. Changes in BC Ferries' fuel and marine lubricant specifications and delivery requirements are also reviewed and incorporated into the RFP. The goal is to prepare an RFP that is in line with market conditions that also solicits potential cost saving opportunities, alternative supply options and/or challenges in meeting BC Ferries' requirements.

In addition to BC Ferries' detailed requirements, the RFP states the objectives to:

- acquire fuel and marine lubricants at the lowest cost;
- obtain the lowest cost for delivery of fuel and marine lubricants;
- ensure fuel and marine lubricant cost are competitive at all times with markets that have appropriate liquidity;
- consider pricing programs that diminish price volatility;
- ensure guaranteed supply and delivery continuity in order to operate the fleet without interruption;
- receive assurances that suppliers are aware of and are in strict compliance with all marine, marine environmental and accident prevention requirements and that they are appropriately insured;
- work closely with the selected proponent(s) in the implementation and improvement of these objectives and;
- select the proponent(s) that have the capability and experience to successfully implement and maintain and an effective program that is financially acceptable to BC Ferries, and which is capable of meeting the Company's demands as they change over time.

After internal stakeholder review, the RFP is finalized and posted on the BC Ferries Business Opportunities website and remains open for a period of 60 days. All existing subscribers receive an automated e-mail notification when the RFP is posted. Additionally, BC Ferries invites potential proponents that have not previously registered to respond to the RFP in order to reach any new or emerging suppliers.

The most recent fuel and marine lubricant RFP was issued and posted on the BC Ferries Business Opportunities website on November 23, 2010. Given supplier capabilities, multiple supply options and the potential for cost reductions, proposals were to be submitted based on *either* all fuel and marine lubricant requirements *or* for only the supply of fuel *or* marine lubricants *or* for the supply of fuel to only some of the listed locations *and/or* the supply of marine lubricants (but any proposal that included the supply of marine lubricants only was required to be for all listed locations other than Haida Gwaii).

BC Ferries issued the RFP to 17 companies (both major and minor oil companies). At closing, BC Ferries received seven responses, including one response for both fuel and marine lubricants and six responses for marine lubricants only. Some proponents were unable to meet the required volume and specified fuel flashpoint at all times at all locations and other proponents withdrew from the competition altogether. At the end of the process, BC Ferries selected a primary supplier that could meet all the requirements and successfully negotiated a fuel and marine lubricant contract that represented approximately 96 percent of the total fuel volume and 100 percent of the marine lubricant volume supplied to BC Ferries on an annual basis. Two other incumbent suppliers were selected for fuel supply to Prince Rupert and Haida Gwaii, representing the remainder of the total volume. The resulting contract was formally reviewed and approved internally by BC Ferries' Supply Chain Management, Legal Counsel, Executive Vice President & Chief Financial Officer as well as the President & Chief Executive Officer.

As market conditions have evolved out over the past five years, the consolidation of fuel and marine lubricant volume with fewer suppliers has generated a number of positive outcomes for BC Ferries. Where previously BC Ferries had been paying full or marginally discounted rack pricing, combining all possible volume with a single major supplier generated sufficient volumes to trigger greater volume discounts. The result has been annual savings approaching $3.0 million per year.

In addition, by accepting a commitment to one major supplier, a previously unavailable pre-payment discount formula was offered that has resulted in additional savings approaching $0.5 million per year. Complex delivery schedules and associated bridging fees have been managed efficiently and effectively through the supplier distribution networks, and are charged to BC Ferries at cost. Finally, further savings have been achieved by consolidating all marine lubricant purchases with a single supplier and combining them in a single contract with fuel. The combined volume resulted in cost of goods savings of approximately $0.15 million per year. Bundling of the marine lubricant purchases with the fuel purchases has provided increased efficiencies and other benefits resulting in savings approaching $60,000 per year (these savings made up a portion of the volume based discount off of the stated rack rate).

While competitive fuel procurement processes help to ensure that BC Ferries acquires its fuel at competitive prices, no amount of competitive procurement can insulate BC Ferries from market volatility. In theory, BC Ferries could mitigate the impact of fuel price volatility by entering into fixed-price contracts with its fuel suppliers for the length of each performance term. A fixed cost per litre for the entire performance term could then be used in the calculation of price caps, eliminating any need for fuel surcharges or rebates. There are two issues with this approach in practice. Firstly, cost-effective fixed-price contracts have not been available to BC Ferries. Historically, and for the foreseeable future, fuel suppliers are unwilling to lock into pricing for the necessary volumes for any significant period of time. (This is a reflection of the difficulty of forecasting forward prices of fuel oil, which is the same difficulty encountered by BC Ferries.) Secondly, in cases where a supplier will offer pricing over longer periods, the pricing has been cost prohibitive. The supplier must include a significant risk premium in its pricing to account for the inherent volatility in the market price of fuel oil.

In closing, based on the indicators, experts don't expect the market and marine diesel supply landscape to change dramatically over the next year. Global supply and demand will continue to drive the crude prices and, in turn, the rack prices in the market. Local supply and demand conditions will also continue to influence rack pricing in the Vancouver market. As BC Ferries moves towards evaluating and potentially implementing LNG fuel supply, additional research will be performed to assess competitive market conditions, options for security of supply and of applicable pricing. If LNG fuel supply becomes a reality at BC Ferries, the volume erosion impact on existing diesel fuel supply agreements will have to be carefully assessed going forward. There is an expectation that cannibalization or marine diesel volume loss due to LNG conversions would reduce the existing discounts applied to BC Ferries volume, notwithstanding the potential LNG alternative cost benefits.

## CONCLUSION

Through focussed effort, BC Ferries has achieved significant fuel consumption savings. The Company remains committed to pursuing cost effective initiatives to enhance the fuel efficiency of its operations further without compromising safety and operational readiness. For 2012/13, the Company's fuel consumption target is 118.2 million, or 0.55 percent less than the level of fuel consumed in 2011/12. The Company expects to realize savings in excess of this target due to reductions in core service level requirements for the major routes negotiated as part of the PT3 Coastal Ferry Services Contract, which was executed after the target was set. The use of alternate fuels or alternate propulsion technology forms part of BC Ferries' strategies to minimize fuel cost in future years, and initiatives to further explore opportunities in this area will continue. Finally, fuel procurement strategies are actively employed to capitalize on any cost savings opportunities and will continue to be reviewed to ensure optimization of results.