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June 29, 2015

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

Dear Mr. Macatee:

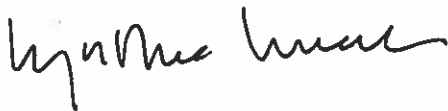
**RE: Fuel Strategies – Update Report**

Pursuant to sections 4 and 5 of Order 12-03, as amended by Order 12-03A, please find attached British Columbia Ferry Services Inc.'s Fuel Strategies – Update Report dated June 29, 2015.

Please do not hesitate to contact me if you require additional information.

Sincerely,

BRITISH COLUMBIA FERRY SERVICES INC.



Cynthia M. Lukaitis  
Vice President & Corporate Secretary

Enclosure

Copy: Sheldon Stoilen, Deputy Commissioner  
Dennis Dodo, Vice President and Chief Financial Officer



BRITISH COLUMBIA FERRY SERVICES INC.

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Fuel Strategies - Update Report

June 29, 2015

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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 (the “BCFC” or the “Commission”) in accordance with the requirements of BCFC Order 12-03A.

On June 21, 2012, BC Ferries submitted an application to the British Columbia Ferries Commissioner (“the 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, the BCFC issued Order 12-03 in response to the application. Order 12-03 requires BC Ferries to update the BCFC annually for the duration of PT3 on its strategies to optimize fuel cost savings, and set out a timeline for the submission by BC Ferries of the required information. By Order 12-03A, issued February 28, 2013, the BCFC amended the timeline set out in Order 12-03 so that BC Ferries must provide its annual update on the Company’s fuel strategies within 90 days of its fiscal year end.

BC Ferries filed its Fuel Strategies Report with the BCFC on October 29, 2012 (the “Fuel Strategies Report”). This is the third annual update to the Fuel Strategies Report. As with the previous updates submitted June 28, 2013 and June 27, 2014, this report highlights BC Ferries’ results regarding fuel consumption reduction measures in the preceding fiscal year (ending March 31, 2015) (“2014/15”), and sets out the Company’s target for fuel consumption in the current fiscal year (ending March 31, 2016) (“2015/16”). Updates on BC Ferries’ plan to transition to alternate fuels and its strategies for cost effective fuel procurement are also provided.

## INDEPENDENT REVIEW OF FUEL MANAGEMENT

BC Ferries' fleet is currently fuelled by ultra-low sulphur diesel. Fuel costs represent BC Ferries' second largest operating expenditures and, in "2014/15", these costs were \$118.6 million.

BC Ferries seeks to minimize fuel costs and fuel price volatility through strategies that include:

- Initiatives and capital projects directed at reducing consumption;
- Transitioning to more efficient and lower cost alternative fuels, principally liquefied natural gas ("LNG");
- Running competitive procurement processes; and
- Using the fuel deferral account mechanism and financial derivative hedging programs.

In 2014/15, the Company's performance in each of the above areas was independently reviewed by PricewaterhouseCoopers LLP ("PwC"), as part of the review conducted by the BCFC of BC Ferries' fuel management policies and practices.

In its report, *Performance Review of BC Ferries' Fuel Management*, released by the BCFC on March 18, 2015, PwC concluded that:

- BC Ferries' efforts to manage and minimize consumption of fuel have been effective;
- BC Ferries has defined procedures in place to manage consumption and costs and are compliant with these policies and procedures; and
- The current deferral account mechanism in place that acts as a hedge against fuel price volatility is considered appropriate.

BC Ferries' fuel management strategies and results are discussed in the following sections of this report.

## PART 1: FUEL CONSUMPTION REDUCTION PLAN

### A. Fuel Consumption Results – 2014/15

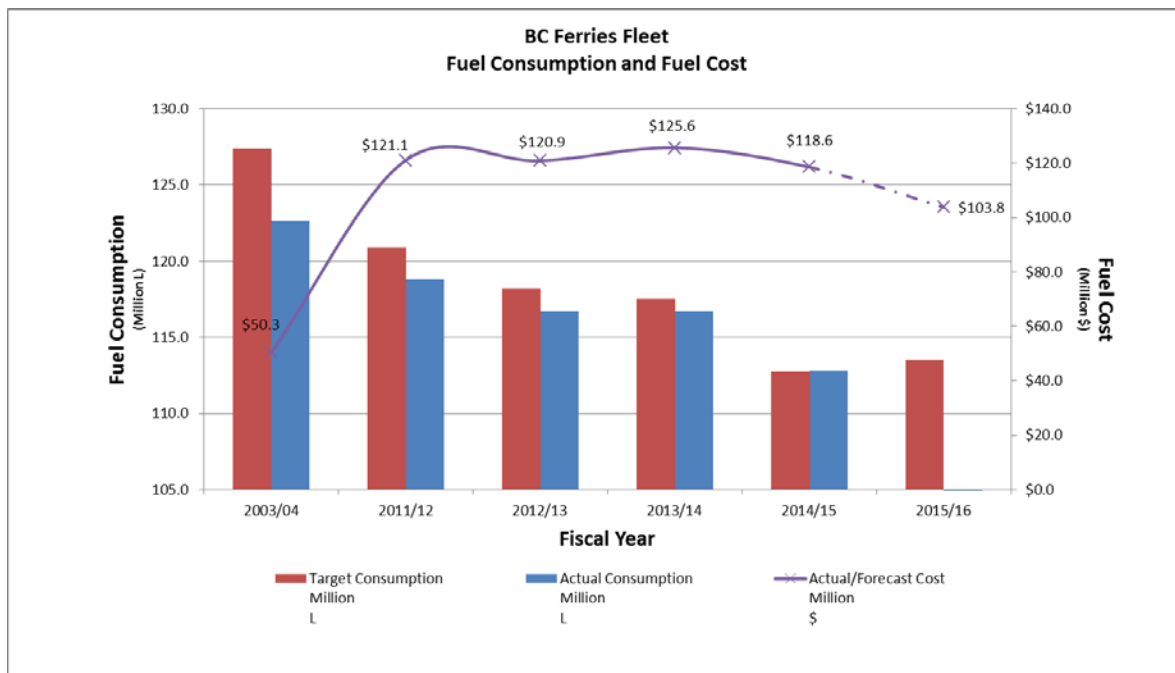
BC Ferries has achieved significant fuel consumption savings over the past years. As shown below in Figure 1 and Table 1, BC Ferries has reduced its fuel consumption in total by over 9.8 million litres or 8.0 percent in the period 2003/04 to 2014/15. These savings have been realized primarily through initiatives aimed at optimizing fleet deployment and achieving operational efficiencies.

In 2014/15, the Company realized a year over year reduction in fuel consumption of 3.9 million litres, thereby achieving its fuel consumption target of 112.8 million litres. This reduction in fuel consumption came primarily from fewer sailings as a result of the service level adjustments determined by the Province on select routes. The fuel consumption target set for the year reflected the anticipated savings from these service level adjustments.

Fuel costs at \$118.6 million in 2014/15 were \$7.0 million or 5.5 percent less than target, due to lower than forecast market prices for fuel (the target assumed an average price of \$1.11 per litre compared to the actual average price paid by the Company of \$1.05 per litre).

For 2015/16, the Company is forecasting a modest increase in year over year fuel consumption to 113.5 million litres and an average price of \$0.91 per litre for a total annual forecast cost of \$103.8 million. (See Section B: Fuel Consumption Reduction Target – 2015/16, below.)

Figure 1: Fuel Consumption and Fuel Costs<sup>1</sup>



<sup>1</sup> Fuel cost for 2003/04 and 2011/12 is restated from the *Fuel Strategies – Update Report, June 27, 2014*.

**Table 1: Fuel Consumption Savings**

	Fiscal Year	TARGET Fuel Consumption (million litres)	ACTUAL (million litres)			
			Actual Fuel Consumption	Variance Actual / Target	Year-over-year Savings	Savings from Base Year
<b>Base Year Fuel Consumption</b>	<b>2003/04</b>	<b>127.4</b>	<b>122.6</b>			
	<b>2011/12</b>	120.9	118.8	2.1	0.7 0.6%	3.8 3.1%
	<b>2012/13</b>	118.2	116.7	1.5	2.10 1.8%	5.9 4.8%
	<b>2013/14</b>	117.5	116.7	0.8	0.00 0.0%	5.9 4.8%
	<b>2014/15</b>	112.8	112.8	0.0	3.90 3.3%	9.8 8.0%
	<b>2015/16</b>	113.5	TBD	TBD	TBD	TBD
						TBD

The following contributed to the 2014/15 fuel consumption savings results:

#### Sailing Reductions

The fuel consumption savings of 3.9 million litres realized in 2014/15 as compared to the prior fiscal year resulted primarily from a reduction in sailings delivered during the year as a result of the implementation of the service level adjustments determined by the Province on select routes. There were 4,906 (6.3 percent) fewer round trips delivered in 2014/15 than in the previous fiscal year. Actual fuel consumption was on target at 112.8 million litres.

#### Efficiencies

During 2014/15, the Company continued to focus on enhancing the efficiency of its operations, an important element of which is managing its consumption of energy in all forms. The tactics to realize fuel consumption savings through operational efficiencies set out in the Fuel Strategies Report continued to be pursued in 2014/15, including continued focus on minimizing fuel burn through various operational procedures and practices such as:

- Enhanced crew knowledge regarding such things as vessel economic speed, optimal operating procedures, wind, tides, weather forecast and traffic patterns;
- Extending training on various tools, including navigation equipment, radar, and electronic speed pilot;
- Introducing fuel consumption monitoring tools;
- Enhancing crew skills for optimal ship handling, car deck loading, and communication;
- Empowering Masters to make decisions regarding conflicting key performance indicators such as on time performance and fuel consumption; and
- Introducing recognition programs at the vessel level for fuel / energy conservation, and instilling a sense of pride and accountability for optimal operational standards.

Other initiatives that received continued focus during the fiscal year included the following:

- *Power Consumption Tracking for Ship Service Loads*  
Ship service or non-propulsive power consumption can account for more than 20 percent of a vessel's total energy consumption. Daily power consumption tracking enables a ship's crew to monitor and understand better the electrical power consumption for ship service loads during route operations and while the vessel is tied up. A co-operative effort in progress with Transport Canada Marine Research group involves the installation of meters and the testing of prototype energy consumption monitoring software on two of the Company's vessels, the *Queen of Oak Bay* and the *Spirit of British Columbia*. This is expected to enable better management of electrical load in operating and tied up modes leading to savings in power consumption from shore and from fuel burning ship generators.
- *Shipboard Energy Efficiency Management Plans ("SEEMP")*  
On January 1, 2013, the requirement to maintain a SEEMP came into force for all vessels governed by International Maritime Organization ("IMO") standards. The *Canada Shipping Act, 2001* has adopted this IMO standard for vessels of over 400 gross tonnage. A SEEMP is now developed for each of the Company's 32 affected vessels. The SEEMP focuses on the largest onboard energy consumption sources and serves to confirm energy consumption reduction efforts.

For each of the 32 vessels, an energy efficiency operational index ("EEOI") has been developed and is being tracked on an annual basis as part of the SEEMP requirements. The expected outcomes of successfully managing the vessels' energy efficiency through the EEOI monitoring are reduced fuel consumption and reduced greenhouse gas emissions. Furthermore, the Company has developed a SEEMP target tool to assist in estimating the fuel savings for specific (targeted) energy reduction efforts in areas such as:

- Engine efficiency (upgrade or renewal);
- Energy management, including initiatives addressing employee and customer energy consumption awareness, operating procedures, energy/fuel consumption monitoring, waste heat recovery, and efficiency upgrades;
- Hull maintenance/low resistance coatings;
- Operational tactics, including on time performance, fleet traffic coordination, terminal operations optimization, propulsion set-up while in berth, propulsion set-up while on route, weather dependent routing, and vessel trim optimization; and
- Propeller optimization, including RPM - pitch setting, and design/modification.

This tool enhances the Company's ability to implement, evaluate and share local initiatives for improving vessel operating efficiency and optimizes fuel consumption across the fleet.

While the Company has made significant strides in reducing fuel consumption from its continued focus on pursuing operational efficiencies, it is believed that further reductions of a significant magnitude can be realized only by implementing strategies involving major capital expenditures aimed at replacing vessel propulsion systems with more efficient ones and/or replacing aged vessels altogether. During 2014/15, the Company continued or completed work on several capital projects that offer the potential to generate fuel consumption savings in future years. These included the following:

#### Shore Power Upgrades

During the past fiscal year, BC Ferries has continued to focus on expanding its shore power program, which involves the connection of a vessel to shore power when in dock overnight as opposed to the vessel running its auxiliary ship service generators using fuel. In March 2015, the Company completed upgrades or installations to complement the existing shore power infrastructure at the Langdale, Buckley Bay and Denman West terminals. Projects at Deas Dock and the Whaletown terminal are expected to be completed by December 2015. Work at the terminals in Tsawwassen (Berth 1) and Little River will be phased in in due course. The Company anticipates receiving funding from the federal government for up to half of the cost of eligible projects.



### Cable Ferry

The new cable ferry integrated system connecting Buckley Bay on Vancouver Island and Denman Island comprises new terminals, a cable tensioning system and a new vessel. It is expected to be in service in the late summer of 2015.

Compared to the current conventional ferry service, it is projected that, over 40 years, the cable ferry service will provide over \$80 million in cost savings as well as significant environmental benefits, including: reduced fuel consumption; lower air emissions; reduced wake; no propeller turbulence; low anti-fouling discharge; low propeller scour; and zero discharge to the marine environment.

Compared to the current service, the cable ferry is projected to consume about 50 percent less fuel than the current conventional ferry (*Quinitsa*). The power for the cable ferry propulsion system will be generated using marine diesel. With the advent of new marine propulsion technologies BC Ferries will continue in the future to examine potential energy alternatives for this ferry, such as the adoption of natural gas propulsion and/or hybrid electrical propulsion, if additional savings can be achieved.

### Intermediate Class Vessels

In July 2014, BC Ferries entered into contracts with Remontowa Shipbuilding S.A. in Gdansk, Poland to build three new intermediate class vessels to replace two of the Company's vessels, the *Queen of Burnaby* and the *Queen of Nanaimo*. Each vessel will be designed to operate as dual-fuel capable, so they can run predominantly on LNG with ultra-low sulphur diesel fuel as a backup. The first vessel is expected to enter service in 2016, followed by the other two new vessels in 2017. These vessels will set a new standard of efficiency with standardized bridges, engine rooms and lifesaving equipment moving us to a higher safety standard and improving interoperability. They will be smaller in size than the vessels they replace and will have new modern engine technology. Both factors are expected to contribute positively to optimizing fuel consumption, with the intermediate class vessels expected to be in the order of 15 percent more fuel efficient than the vessels they replace. (See Part 2: *Plan to Transition to Alternative Fuels*.)

## **B. Fuel Consumption Reduction Target – 2015/16**

For 2015/16, the Company has set a fuel consumption target of 113.5 million litres<sup>2</sup> which represents an increase of 0.7 million litres or 0.6 percent from the volume consumed in 2014/15. Although largely offset by the initiatives noted above, the factors contributing to this modest increase include two Easter weekends this fiscal year (April 2015 and March 2016); forecast increased traffic on the major routes<sup>3</sup> leading to additional round trips and more use of the larger Spirit class vessels; and the return of the larger BC Ferries' vessel (*Queen of Capilano*) on the route connecting Horseshoe Bay and Bowen Island following its mid-life upgrade, in place of the smaller temporary replacement vessel.

The increase in forecast fuel consumption for 2015/16 reflects the fact that, having successfully maximized fuel efficiency over the past few years, the Company has now reached a plateau in terms of its ability to reduce fuel consumption further without additional investments in new technologies (which are already on the horizon - see *Part 2: Plan to Transition to Alternative Fuels*).

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<sup>2</sup> The fuel consumption target is set on the basis that all budgeted round trips are delivered and there are no incidental/weather related sailing cancellations. Also assumed are a number of supplemental sailings ('manager's discretion sailings') on the Major Routes (consisting of the three routes connecting Metro Vancouver with mid and southern Vancouver Island, and one route connecting Horseshoe Bay and Langdale), which will be delivered only if required to meet demand.

<sup>3</sup> The major routes consist of three routes connecting Metro Vancouver with mid and southern Vancouver Island, and one route connecting Horseshoe Bay and Langdale.

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## PART 2: PLAN TO TRANSITION TO ALTERNATIVE FUELS

BC Ferries actively monitors and pursues innovation and emerging technologies respecting the use of alternatives to conventional fuels. The Fuel Strategies Report set out the Company's three key areas of focus respecting the transition to alternative fuels. The following provides an update on activities undertaken in each of these areas.

### Biodiesel

Since September 2009, BC Ferries' fleet has been using 5 percent, or B5, biodiesel, making the Company one of the largest consumers of biodiesel in British Columbia. 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. BC Ferries continues to monitor the availability of the product for opportunities to use this fuel for other vessels in the fleet in a safe and efficient manner.

To further minimize its environmental footprint, BC Ferries will be launching its new *SeaForward* program this summer. This program combines existing environmental conservation projects and community investment activities with new and innovative endeavours. In support of this program, BC Ferries has adopted a new corporate environment policy designed to ensure the Company continues to deliver a clean, sustainable marine transportation service. This year, BC Ferries has also introduced the Green Marine Eco Program. This program is a voluntary, transparent and inclusive initiative that addresses key environmental issues as part of a wider community of ship owners, ports, terminals, seaway corporations and shipyards. Through this program, the Company will be further implementing concrete and measurable actions to reduce our environmental footprint within three main pillars: sustainable operations, conservation and community well-being.

### Liquefied Natural Gas

BC Ferries continues to move forward towards using LNG and believes that a move to this fuel source will reduce costs and emissions. At this time, even with the drop in the cost of marine diesel driven by lower worldwide oil prices, LNG is still significantly less expensive than the ultra-low sulphur diesel the Company currently uses.

Both LNG and ultra-low sulphur diesel meet all current domestic and international emissions regulations in terms of sulphur oxide ("SOx"). However, marine diesel engines installed after January 1, 2016 will have to comply with new, more stringent, nitrogen oxide ("NOx") emission standards adopted by the IMO. Engines running on LNG will meet both SOx and NOx emission standards.

The Company believes that LNG is a viable option for future new vessels and has established a policy that, for all new vessel acquisitions and all Requests for Proposals, will require potential proponents to include pricing for LNG-fuelled engines as one of the options. This will enable the Company to conduct appropriate business case analysis as to the cost effectiveness of the option.

As previously discussed, the Company's three new intermediate class vessels, now under construction in Poland, are designed to operate as dual-fuel capable, so they can run predominantly on LNG. While these vessels will be more fuel efficient than the two vessels they will replace (the *Queen of Burnaby* and the *Queen of Nanaimo*), the main benefit in moving to dual-fuel engines comes not from reduced fuel consumption, but rather from the lower cost of LNG as compared to the ultra-low sulphur diesel the Company currently uses, and from lower emissions. The Company actively pursues potential LNG conversion grants made available by the industry and/or governmental agencies. FortisBC has approved up to \$6 million in incentive funding for BC Ferries for the three new vessels to help offset incremental capital costs associated with the use of LNG.

BC Ferries has also analyzed LNG as an option for existing vessels undergoing major retrofits and intends to pursue the option where it is economically and technically feasible. On November 24, 2014, the BCFC issued Order 14-03, conditionally approving BC Ferries' application to proceed with mid-life upgrades, including possible conversion to dual-fuel, of its two largest vessels, the *Spirit of Vancouver Island* and the *Spirit of British Columbia*. These vessels are the largest consumers of fuel in the BC Ferries fleet and, if the LNG conversions proceed, it is expected that their cost of fuel would be reduced by approximately half.

The Company will continue to analyse the economic and technical feasibility of converting more of its existing vessels to technology involving LNG when they are scheduled to undergo major retrofits.

#### Hybrid Plant Design

As described in the Fuel Strategies Report, innovation and emerging technologies for electric power grid management have the potential to make use of energy sources that are alternatives to diesel fuel. Given that the practicality and cost of hybrid power plant technology is yet to be proven, the Company is providing support to the research being done in this knowledge area. As such, a research partnership involving the federal government and the University of Victoria will use field data collected from one of the Company's vessels, the *Klitsa*, to develop a detailed cost/benefit model for evaluating stored energy solutions (e.g. batteries or capacitors) for short duration routes. In addition, BC Ferries continues to include hybrid power generation concepts for future vessel acquisition programs, such as the propulsion system installed last year on another of its vessels, the *Tachek*, which has two ship service generators that operate from the main propulsion shafts instead of using diesel engines and a battery-operated bow thruster. In the near term, this type of technology is seen to have marginal economic benefits due to the capital costs, however the Company expects that as the technology is adopted across various transportation sectors, these economic benefits will improve, particularly for short duration routes (i.e. those with a crossing time of less than 30 minutes).

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## **PART 3: STRATEGIES FOR COST EFFECTIVE FUEL PROCUREMENT**

BC Ferries has been able to achieve significant savings in fuel costs through implementation of innovative fuel procurement strategies.

As described in the Fuel Strategies Report, BC Ferries' approach in the past few years has been to consolidate fuel and marine lubricant volume with fewer suppliers. This 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 significant annual savings.

In addition, by accepting a commitment to one major supplier, the Company achieved pre-payment discounts. 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.

Formal competitive procurement processes for the supply of fuel and marine lubricants are, and will continue to be, conducted by BC Ferries in order to achieve best overall value for the Company. 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 (which expired March 31, 2013), with three additional one-year extension options. BC Ferries has exercised two one-year extensions and is now in the final term of the contract which is set to expire March 31, 2016. In accordance with BC Ferries' policy, a public tender process will be undertaken to select a supplier for the next contract term. This process will take place in the summer and fall of 2015 to ensure the new contract is in place for April 1, 2016.

While its 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. As explained in the Fuel Strategies Report, and as stated in reports for previous years, BC Ferries could, in theory, 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. Unfortunately, long-term fixed-price contracts have not been offered to BC Ferries without a prohibitive risk premium built into the price.

The fuel cost deferral account mechanism is the primary means by which BC Ferries mitigates fuel price risk. It allows for BC Ferries to recover from its customers fuel costs that are higher than the set price established by the BCFC, through the implementation of fuel surcharges (or to give back lower fuel costs through fuel rebates). BCFC Order 12-03 authorizes BC Ferries to proactively manage the fuel deferral accounts provided that account balances are within 2 percent of the pre-surge tariff revenue. BC Ferries closely monitors fuel prices and forecasts deferral account balances, and proactively manages the deferral account balances in accordance with the terms of BCFC Order 12-03 to minimize fare volatility due to frequent surcharge and rebate adjustments.

The use of fuel surcharges and rebates can have an effect on traffic and, thereby, the revenue and net earnings of the Company. Surcharges increase the cost of ferry service to BC Ferries' customers which negatively impacts traffic levels due to price elasticity. Surcharges and rebates also create an environment of price uncertainty that can further negatively impact traffic levels.

Fuel hedging can complement the use of fuel deferral accounts, increasing price certainty and thereby mitigating the potential negative impacts of fuel price volatility on customers, traffic levels and revenue. The Commission's preliminary decision on price caps for performance term

four ("PT4") (Order 15-02 issued March 18, 2015) specified that "as a policy that is in the interests of users, fuel hedging may be used to limit increases in fares to the rate of inflation."

The Company's current hedging strategy is to undertake hedge transactions when those transactions are reasonably expected to reduce the potential for fuel surcharges. Given that the preliminary price caps for PT4 are set below forecast inflation, the approved strategy aligns with Order 15-02. This approved strategy, in conjunction with management of the fuel deferral accounts, mitigates the risk of negative impacts of surcharges on traffic and improves price certainty for our customers.

Hedging the commodity cost using derivatives has challenges. First, with fuel prices based on Vancouver rack and derivatives based in New York Harbor or Cushing, Oklahoma, BC Ferries would retain some basis risk. Second, long-term hedging may expose the Company's earnings to significant mark-to-market swings in valuation. However, when the Company has the opportunity to lock in prices at or below the indicative set price it has done so and, as a result, has been able to reduce or eliminate surcharges or put rebates in place.

In 2014/15, the annual average cost of delivered fuel was \$1.05 per litre (\$1.06 per litre after taking hedges in the quarter ended March 31, 2015 ("Q4") into account), exceeding the year's regulatory set price of \$0.97 per litre by 8 cents. As a result a 3.4 percent fuel surcharge was in place through to mid-December 2014. Changes in market supply fundamentals led to a decline in fuel prices which accelerated in the quarter ended December 31, 2014 and continued into Q4. Procurement prices dropped from a high of \$1.125 per litre in September 2014 to a low of \$0.835 in February 2015. In December 2014, the price of New York Harbour ultra-low sulphur diesel dropped to a level lower than the indicative set price for fuel, a position it retained for the remainder of 2014/15 and all of 2015/16. As a result, BC Ferries layered in a number of ultra-low sulphur diesel hedges representing approximately 70 percent of the Company's forecast diesel consumption for the 15 month period from January 2015 through to the end of March 2016 (the end of PT3). With 70 percent of consumption hedged at below the regulatory set price, BC Ferries removed the fuel surcharge in December of 2014. Subsequently, the Company implemented a one percent fuel rebate, which started on April 1, 2015.

BC Ferries continues to monitor the fuel market and supply landscape. Generally, experts expect fuel prices to recover slightly and remain within the current range of highs and lows in the next few years. Global supply and demand is expected to continue to drive 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. A sustained adverse movement in the Vancouver rack price would result in an increase in delivered price of fuel to BC Ferries.

In March 2015, BCFC announced a preliminary PT4 set price as part of the preliminary PT4 price cap decision. The Company continues to monitor the futures market for ultra-low sulphur diesel and West Texas Intermediate (light sweet crude) and to assess whether hedging is appropriate.

As BC Ferries moves forward with using LNG, additional research will be performed to assess competitive market conditions, options for security of supply, bunkering methodology and all economic considerations in respect of this fuel.

An important first step in this process involved the issuance of a Request for Expression of Interest to gauge the level of interest among and to identify potential suppliers of LNG. This took place in August and September of 2013 and positive responses were received from several proponents. Since that time, other potential suppliers have come forward. Based on the expressions of interest received, a gas supplier was selected for the first group of LNG powered vessels (the intermediate class vessels) scheduled to come into service in 2016 and 2017. Should the supply infrastructure grow as anticipated on the west coast of British Columbia, and as the Company's fleet of LNG powered vessels continues to grow, more supply options and therefore more competition for the supply of LNG is expected to occur in the marketplace to the benefit of BC Ferries. Going forward Requests for Proposals will be issued to pre-qualified suppliers as need arises. The end result of any Request for Proposals process will be selecting and contracting the supplier(s) best able to

meet BC Ferries' operational and commercial requirements for the supply and delivery of LNG. As LNG fuel usage becomes a reality at BC Ferries, the impact of volume erosion on the economics of diesel fuel supply agreements will have to be carefully assessed.

## 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.

The use of alternate fuels or alternate propulsion technology (particularly those enabling the use of LNG), 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.