



January 22, 2016

Mr. Dennis Dodo
Chief Financial Officer
British Columbia Ferry Services Inc.
Suite 500, 1321 Blanshard Street
Victoria BC V8W 0B7

Dear Mr. Dodo,

Re: Compliance with conditions set out in Order 14-01

Thank you for your letter of January 14, 2016. Your letter sets out BC Ferry Services Inc., responses to conditions contained in Order 14-01, concerning the newly constructed cable ferry, named the Baynes Sound Connector (BSC). Our determination on the company's compliance with those conditions is set out and explained in the following discussion.

Condition (a): The maximum amount of the major capital expenditure for the cable ferry and associated infrastructure is set at the amount stated in the Application which was confirmed by a separate confidential order to BC Ferries.

The current status of this condition is based on your expectation that it will be met, subject to some further expenditures which will flow through the end of May, 2016. Please provide a report on the full costs when they have been finalized. Any amount in excess of the approved maximum amount may not be taken into account in the calculation of price caps for the next performance term.

Condition (b): BC Ferries must advise the commissioner of the actual crewing levels as finally determined, and confirm that the projected life cycle cost savings will be achieved. If the projected life cycle cost savings are less than the projected savings in the Application the commissioner may not allow the increase in operating costs in future price cap determinations.

It was understood at the time of your filing that crewing levels would be subject to a decision by Transport Canada, which could not be predicted with certainty at the time of filing. The fact that the final number is higher than anticipated in the business case is noted, ie 4 versus 3. You have indicated that the business case remains strong, despite the additional cost of one extra crew member. We will look for confirmation of the projected life cycle cost savings of the project after the end of May, 2016. We will also want to hear the company's thoughts on how any cost increase will be absorbed without putting pressure on price caps for the next performance term.

Condition (c): BC Ferries must satisfy the commissioner that standard operating procedures will be developed and refined as operational experience is gained, to include:

(i) a rigorous inspection, testing and replacement protocol of the cable is put in place with an inspection frequency commensurate with loads experienced at site.

The Ferries Commissioner is responsible for overseeing compliance with the Coastal Ferry Services Contract (CFSC), which contains certain requirements pertaining to service reliability. Condition (c)(i) is intended to ensure a robust inspection and maintenance program is in place to minimize the likelihood of service disruptions due to cable failure. The condition includes an expectation that standard operating procedures will be refined as operational experience is gained. The Commissioners are satisfied that the proposed inspection, testing and replacement protocol is reasonable as a starting point, and will expect a report after 12 to 18 months in service to assess the on-going suitability of the operating procedures.

(ii) operating limits and protocols based on wave conditions that avoid resonant roll by actual measurements of wind speed, wave period and height.

It is noted that the cable ferry will have the same service levels of operational availability as the Quinitsa. After 12 – 18 months of service, we will want to see a report on any refinements to the limiting parameters in the operational matrix, based on data gathered over that period.

Condition (d): Prior to deployment of the cable ferry, BC Ferries must satisfy the commissioner that operational reliability will be assured by:

(i) enabling a secondary means of recovering vessel from a propulsion system breakdown within a reasonable period of time.

This condition is intended to address operational reliability of the vessel. The Ferries Commissioner is not a safety regulator, and makes no judgment on matters of safety. That responsibility rests with Transport Canada.

On the matter of operational reliability, the condition is intended to ensure that public concerns about a secondary means of recovery from a breakdown have been reasonably addressed. All vessels in the ferry fleet face the possibility of mechanical or propulsion failure, such as an engine breakdown or loss of a propeller. The primary means of recovering any vessel in such circumstances is to call in a tug, and if necessary, to deploy an anchor. The cable ferry is fitted with an anchor and an attachment point for a tug. We understand the vessel is capable of carrying on service to the public with a tug attached, if there are any delays in repairing the propulsion systems.

The cable ferry will be the only vessel in the fleet with an additional means for recovery. The company has installed synthetic ropes at both ends of the route which can be deployed to winch the vessel to shore. There are some members of the public who have conveyed concern with this plan. However, it is noted that this capability is not the primary solution, and is an additional option which is not available to any other vessel in the fleet. Accordingly, the Commissioners are satisfied that operational reliability requirements of the CFSC can be reasonably assured.

(ii) maintaining inventory, in the province, of non-redundant parts.

The Commissioners have visited the inventory storage location and are satisfied that maintaining a supply of non-redundant parts at that location will be sufficient to ensure operational reliability of the vessel in compliance with the CFSC. A copy of the itemized inventory list needs to be provided to the Commissioner, to facilitate an audit in future, at the Commissioner's discretion.

Condition (e): At least one vessel on the minor routes will be retired so that the cable ferry does not result in a net increase in the overall size of the fleet.

It is noted that the decision on a vessel retirement will not be made until the cable ferry has been successfully introduced into service. We will expect confirmation of this decision in due course. This decision will be factored into future price cap determinations.

Conclusion

Noting certain requirements set out above, the Commissioner is satisfied that the conditions set out in Order 14-01 have been sufficiently addressed.

Yours truly,

A handwritten signature in black ink, appearing to read "Gord Macatee". The signature is fluid and cursive, with a large initial "G" and "M".

Gord Macatee
BC Ferries Commissioner

January 14, 2016

Mr. Gordon Macatee
British Columbia Ferries Commissioner
BC Ferry Commission
RPO Hillside P.O. Box 35119
Victoria, BC V8T 5G2

CABLE FERRY PROJECT

Dear Mr. Macatee:

We write in regard to Order 14-01, dated February 20, 2014, by which the British Columbia Ferry Commission (the "Commission") approved the proposed major capital expenditure of British Columbia Ferry Services Inc. ("BC Ferries" or the "Company") for the new cable ferry and associated infrastructure (the "Project"), subject to certain conditions. This correspondence is intended to update the Commissioners on the actions taken and/or planned by the Company to address and satisfy the conditions set out in the Order.

Condition (a): *The maximum amount of the major capital expenditure for the cable ferry and associated infrastructure is set at the amount stated in the Application which was confirmed by a separate confidential order to BC Ferries.*

BC Ferries confirms its expectation that the major capital expenditures for the Project will be within the amount specified in Order 14-01(A). Execution of the Project is expected to continue through to at least the end of fiscal 2016, with full cost reports expected to be available by the end of May 2016.

Condition (b): *BC Ferries must advise the commissioner of the actual crewing levels as finally determined, and confirm that the projected life cycle cost savings will be achieved. If the projected life cycle cost savings are less than the projected savings in the Application the commissioner may not allow the increase in operating costs in future price cap determinations.*

BC Ferries has completed the crew safety and emergency drills overseen by Transport Canada, with the result that Transport Canada has set a minimum safe manning ("MSM") level for the vessel of four crew members. BC Ferries confirms that it will crew the vessel at a level not exceeding the MSM level. The Company expects to be in a position to confirm the projected life cycle cost savings of the Project by the end of May 2016. While the MSM level set by Transport Canada has one crew member more

than was assumed by BC Ferries in its original filing with the Commissioner for the Project, the business case for the Project remains strong. The Company continues to believe that its decision to proceed with the cable ferry service is in the best interests of taxpayers and fare payers given the opportunity to realize significant savings that will help keep fares across the ferry system as low as possible, without compromising the current high standard of safety and reliability of service that the communities currently receive.

Condition (c): *BC Ferries must satisfy the commissioner that standard operating procedures will be developed and refined as operational experience is gained, to include:*

(i) *a rigorous inspection, testing and replacement protocol of the cable is put in place with an inspection frequency commensurate with loads experienced at site.*

A cable maintenance program has been developed to ensure a safe and reliable cable system, which includes installation and change-out procedures, cable load monitoring, cable condition inspections and programmed cable replacements commensurate with cable wear and loading experience.

BC Ferries' Terminal Maintenance personnel have been trained in the handling, installation and tensioning of the cables, and have completed successful cable change outs to verify their abilities and to ensure full functionality and reliability of the system. Spare cables are also stored locally for planned preventative maintenance and also in the event of any unplanned cable change-outs.

BC Ferries has developed a rigorous cable inspection process, consisting of three tiers:

- Physical cable stretch measured on a daily basis via load cell pins to detect any potential abnormalities.
- Visual inspection whereby maintenance personnel visually inspect each cable on a weekly basis to observe any potential abnormalities.
- Physical cable monitoring using an electromagnetic testing device whereby the wire rope cables will be inspected on a quarterly basis to detect any potential abnormalities.

Each cable will have a notional operational service life of three years. Initially, the cables will be rotated annually from the center drive cable position to either of the guide cable locations, where the replaced cable would remain for two years. This procedure is considered to be both prudent and safe and may be modified with operational data and experience.

The combination of the above three monitoring techniques forms a comprehensive cable monitoring and inspection system. The inspection procedures noted above may be revised following operational experience with the cable ferry.

(ii) operating limits and protocols based on wave conditions that avoid resonant roll by actual measurements of wind speed, wave period and height.

In addition to developing standard operating procedural limits, such as weather-induced operating restrictions from the design computer simulations, dynamic motion measuring equipment has been procured and installed on the vessel. The resultant data is being used to refine the limiting parameters in the operational matrix.

Additionally a heavy weather operational limitations matrix, applicable to the vessel and based on the current route, will be followed to ensure that the vessel is operated within the approved conditions. A copy of the relevant matrix is attached for reference. This matrix also indicates that the *Baynes Sound Connector* will have the same levels of operational availability as the *Quinitsa* currently has on the route.

Condition (d): Prior deployment of the cable ferry, BC Ferries must satisfy the commissioner that operational reliability will be assured by:

(i) enabling a secondary means of recovering vessel from a propulsion system breakdown within a reasonable period of time.

In the unlikely event that recovery is required, the cable ferry is capable of recovery by two main methods:

- by winching the vessel in to the shore by means of synthetic rope which is stored onboard the vessel, and
- by towing the vessel to shore by tug secured to the vessel's bollards.

BC Ferries' personnel have conducted successful operational trials to confirm the above described recovery methods.

(ii) maintaining inventory, in the province, of non-redundant parts.

An itemized inventory of non-redundant parts has been procured. For example, a spare cable will be held on site at the Little River warehouse in Comox; the reel winder and pre-tensioning gear will be held on site at Buckley Bay; a complete engine/generator mounted assembly is held on site at Little River.

Condition (e): At least one vessel on the minor routes will be retired so that the cable ferry does not result in a net increase in the overall size of the fleet.

BC Ferries confirms that once the cable ferry has been successfully introduced into service, a designated vessel will be retired from its operations and then sold or disposed of as appropriate.

Mr. Macatee
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We trust the foregoing is satisfactory. Should you have any questions or require further information regarding this matter, please do not hesitate to contact me.

Sincerely,

A handwritten signature in black ink, appearing to read "Dennis M. Dodo". The signature is fluid and cursive, with the first name "Dennis" and last name "Dodo" clearly distinguishable.

Dennis M. Dodo, MBA, CPA
Chief Financial Officer

Attach.

Weather Decision Support Matrix

Vessel: *Baynes Sound Connector*

| Condition Assessment | | Operational Status | | | |
|----------------------|------------------------------------|--------------------|----------------------|----------------------|-----------------|
| | Criteria | Normal Operation | Cautionary Operation | Restricted Operation | Cease Operation |
| Transit | Significant Wave Height | < 0.5 m | 0.50 – 0.60 m | 0.60 – 0.80 m | >0.80 m |
| | Associated Maximum Roll Angle | < 4° | 4 – 5° | 5-8° | >8° |
| | Sustained Wind Speed – Mid Channel | < 18m/s | 18 - 20 m/s | 20 - 28 m/s | 28 m/s |
| Docking | Significant Wave Height | < 0.5 m | > 0.5 m | > 0.60 m | >0.80 m |

| Probability | Normal Operation | Cautionary Operation | Restricted Operation | Cease Operation |
|--|--------------------|----------------------|----------------------|-----------------|
| Average Annual Probability of Occurrence (%) | 99.72 % | 0.24% | 0.04% | ~0 % |
| Expected Number of Sailings per Year (based on 10,896 sailings in fiscal 2015) | 10,865 sailings/yr | 26 sailings/yr | 5 sailings/yr | 0 sailings/yr |

Notes & Definitions:

1. All criteria must be met to trigger a change of operational status.
2. Typically only NNW/SSE directions (i.e., “up or down” Baynes Sound) have potential to generate conditions which may trigger a change to operational status. Other directions are generally sheltered.
3. Significant Wave Height: The significant wave height observed in mid channel, where “significant wave height” is the average of the 1/3 highest waves measured in sample. It is the wave height parameter measured and recorded by wave buoys.
4. Sustained Wind Speed: The sustained wind speed observed mid-channel on the vessel. 1 m/s=1.94 Knots.
5. *Cautionary Operation*: No operational measures however a heightened crew awareness and monitoring of shipboard, environmental and operating conditions. Possible slower crossing and dockings.
6. *Restricted Operation*: Continued operations with some operational measures such as announcements to limit unnecessary movement and advisories to remain in vehicles or the passenger lounge during the transit. Also, heightened crew awareness and monitoring of shipboard, environmental and operating conditions. Possible slower crossing and dockings.
7. *Cease Operation*: Vessel operations suspended until conditions allow resumption of service.