



February 1, 2016

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

Dear Mr. Dodo;

Thank you for your letter of January 29, 2016, regarding the Spirit Class Mid-life upgrades project. We are also in receipt of a copy of correspondence between yourself and the BC Truckers Association on this matter.

Based on our Confidential Order 14-03B and the information provided with respect to addressing the concerns of commercial ferry users, we consider conditions 1(b)(i), 1(b)(ii) and 1(b)(iii) of Order 14-03 have been satisfied.

Yours truly,

A handwritten signature in black ink, appearing to read "Gord Macatee".

Gord Macatee
BC Ferries Commissioner

cc: Cynthia Lukaitis

January 29, 2016

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

SPIRIT CLASS MID-LIFE UPGRADES PROJECT

Dear Mr. Macatee:

We write in regard to Order 14-03, dated November 24, 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 Spirit Class Mid-Life Upgrades Project (the "Project"), subject to the following conditions.

- 1 a) *The maximum amount of the major capital expenditure for the Mid-Life Upgrades to the Spirit Class vessels is set at the total amount for all work packages combined as stated in the Application which will be confirmed by a separate confidential order to BC Ferries. The maximum amount will remain confidential until completion of the procurement process;*
- b) *Prior to signing a final contract with a shipyard for Mid-Life Upgrades, BC Ferries must:*
 - (i) *satisfy the commissioners that the scope of Mid-Life Upgrades is as generally described in the Application and the total cost of all the work packages combined does not exceed the maximum amount approved by the confidential order referred to in paragraph 1(a) above;*
 - (ii) *confirm that there has been no substantial change to the scope of any of the work packages and that the business rationale justifying each work package has not substantially changed in terms of net present value and payback periods;*
 - (iii) *satisfy the commissioners that the company has a contingency plan which addresses the concerns of commercial ferry users in the event of a potential delay in the re-entry of service of the vessels.*

On January 15, 2016, BC Ferries submitted a supplemental application for the Project to the Commissioner, in which the Company stated its intent was to address and meet the conditions set out in provisions 1(b)(i), 1(b)(ii) and 1(b)(iii) of Order 14-03.

In its supplemental application, BC Ferries explained that the pricing received through the Request for Proposals for the Project was higher than forecast in the original application and requested an adjustment to the cost cap for the Project set by Order 14-03A. BC Ferries also confirmed in the supplemental application that:

- *the scope of the MLUs is as generally described in the Application;*
- *there has been no substantial change to the scope of any of the work packages and the business rationale justifying each work package has not substantially changed; and*
- *BC Ferries has a contingency plan which addresses the concerns of commercial ferry users during the out of service period and in the event of a potential delay in the re-entry of service of the vessels.*

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By Confidential Order 14-03B, dated January 29, 2016, the Commissioners confirmed their determination that the scope of Spirit Class mid-life upgrades is as generally described in the original application, and set a new cost cap for the Project. It is our understanding that in so ruling, the Commissioners have confirmed that conditions 1(b)(i) and 1(b)(ii) of Order 14-03 have been satisfied.

To address condition 1(b)(iii) of Order 14-03, BC Ferries set out at part 4.2 of the supplemental application, its contingency plan for the out of service periods and in the event of a potential delay in the re-entry of service of the vessels. As there described, the contingency plan has the following key elements:

- During the scheduled periods of the Spirit Class mid-life upgrades, there is expected to be little to no material differences in terms of main-deck capacity between the Coastal Class vessels (which will serve Route 1 during the out-of-service periods) and the Spirit Class vessels. BC Ferries is committed to adding additional sailings if necessary to ensure that traffic demand is met.
- In the unlikely event of a schedule delay during the shoulder season (middle of May to the end of June), the primary mitigation would be planned additional sailings during the regular scheduled day with discretionary sailings during early morning or late night to meet the demand. This would be tailored to ensure both the needs of the general public and the commercial traffic are met.
- In the highly unlikely event the vessel is delayed into the summer season (July and beyond), the above measures would continue to be enacted and, as well, the Company would look to potentially moving ships and changing schedules on the other major routes to distribute the demand as best as possible.

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The contingency plan addresses the service requirements of BC Ferries' customer base in general, including its commercial customers. With respect to the latter, BC Ferries has engaged in discussions on this plan with the British Columbia Trucking Association and has received confirmation that the plan has addressed their recommendations made to the Commission in October 2014 in regard to this matter.

In closing, we request confirmation that conditions 1(b)(i), 1(b)(ii) and 1(b)(iii) of Order 14-03 have been satisfied.

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" being more prominent and the last name "Dodo" following in a similar style.

Dennis M. Dodo, MBA, CPA
Chief Financial Officer