

July 30, 2007

Mr. Martin Crilly
British Columbia Ferry Commissioner
PO Box 1497
Comox, BC V9M 8A2

Dear Mr. Crilly:

SUBJECT: Update to Fuel Savings Plan

In accordance with the British Columbia Ferries Commissioner's Order 05-06, authorizing an extraordinary price cap increase pursuant to section 42 of the Coastal Ferry Act, S.B.C. 2003, c.14, please find attached the fuel savings achieved in 2006/07 and an update to BC Ferries' fuel savings plan for 2007/08.

Yours truly,



William Cottick
Executive Vice President, Corporate Affairs & General Counsel

cc: Rob Clarke, Executive Vice President & Chief Financial Officer
Mike Corrigan, Executive Vice President & Chief Operating Officer
Cynthia Lukaitis, Vice President & Corporate Secretary
Carol Prest, Director, Economic Regulatory Affairs

Attachment

British Columbia Ferry Services Inc.

**Fuel Consumption Reduction Plan
Update Report to March 31, 2007**

Submitted to: British Columbia Ferries Commissioner

July 30, 2007

Update to Fuel Consumption Reduction Plan

Introduction

This document provides an update to the Fuel Consumption Reduction Plan (the "Plan") that was submitted to the British Columbia Ferries Commissioner (the "Commissioner") on June 15, 2006 in response to Order 05-06.

The Commissioner issued Order 05-06 in response to BC Ferries' request for an extraordinary price cap increase. On November 28, 2005, BC Ferries submitted an application under Section 42 of the Coastal Ferry Act for an extraordinary price cap increase due to continued increases of world fuel prices. In his Order 05-06 granting the extraordinary price cap increase, the Commissioner required that BC Ferries provide a plan to the Commission by June 15, 2006 identifying fuel saving measures taken and those proposed over the subsequent two fiscal years (2006/07 and 2007/08) that would result in a reduction of one percent from the 2005/06 base level of fuel consumption in fiscal 2006/07 and a further one percent in fiscal 2007/08.

BC Ferries submitted its Plan to the Commissioner on June 15, 2006. The Plan proposed fuel reduction projects and strategies across BC Ferries operations. These identified initiatives provided the Commissioner with tangible objectives that would be used by BC Ferries to achieve the targets as set out by the Commissioner under Order 05-06.

In providing an update to this Plan, BC Ferries is pleased to present the actual fuel consumption reduction achieved for the fiscal year 2006/07. These savings are compared to the initial targets set out in the June 2006 Plan.

For 2007/08, BC Ferries is also proposing an adjustment to the 2007/08 fiscal year target consumption to recognize the introduction of the *Northern Adventure* and the corresponding changes in deployment on the northern routes. This is proposed in order to consider the effect of an additional vessel in service for the entire 2007/08 fiscal year.

Past Fuel Saving Measures Implemented

Fuel is BC Ferries' second largest operating expense. The price of oil has more than doubled since 2003 and this extraordinary cost is expected to remain high for the remainder of this performance term and for the foreseeable future.

BC Ferries consumed over 118 million litres of diesel in fiscal year 2005/06. As previously identified, BC Ferries has been actively engaged in reducing fuel consumption for a number of years, and has been successful in reducing overall corporate fuel consumption, as illustrated in the table below.

	2002/03	2003/04	2004/05	2005/06
Actual Fuel Consumption	125.1 Million litres	122.6 million litres	122.2 million litres	118.0 million litres ³

Notwithstanding the successes in previous fiscal years, BC Ferries remains committed to undertaking further improvements in fuel efficiency.

Initiatives That Achieved Fuel Savings, 2006/07

Below is the list of fuel saving measures introduced in 2006/07 in order to achieve the 1% savings target. Table 1 below illustrates the actual fuel consumption in 2006/07 compared to the original estimates.

1. Operational

Development of Vessel and Route Specific Best Operating Practices

Over 2006/07, BC Ferries developed route specific practices that optimized route and vessel efficiency. Included in these practices is the goal of achieving on-time performance as this results in decreased fuel usage since vessels are not running at full speed trying to catch up and remain on schedule.

Best operating practices were implemented across the fleet and fuel savings of 0.4% resulted.

Electronic speed control - ESP 1000 fuel monitors

Fuel monitors automatically control engine pitch, speed and position to optimize fuel efficiency. The *Queen of Alberni* underwent a trial system for new fuel monitor technology using the ESP 1000 fuel monitor in 2005/06 which resulted in 7% fuel savings. Based on the success of the trial, BC Ferries installed fuel monitors in

³ Re-adjusted fuel volumes are identified in the original June 15, 2006 Plan

2006/07 on the following vessels: *Queen of New Westminster*, *Queen of Cowichan*, *Queen of Coquitlam* and the *Queen of Surrey*. Fuel savings are ranging between 2% and 7% per vessel.

In the initial Plan, BC Ferries projected that an additional five vessels would be installed with fuel monitors by the end of the fiscal year 2006/07. However, primarily due to production delays by the manufacturer, those vessels will now have the fuel monitors installed in 2007/08. Additional to the Plan, a fuel monitor is being installed on the *Northern Adventure* and the *Queen of Burnaby*.

Engineering/Technical

Engine Betterments

The *Queen of New Westminster* had two main engines upgraded in a refit of November 2005 which resulted in noticeable fuel savings. The two remaining engines were upgraded in November 2006 with capital betterments, including the replacement of turbochargers, camshafts, cylinder liners and pistons. These capital improvements, combined with changes in operating practices, achieved fuel savings of 5.2%.

Hull Re-surfacing

During 2006/07, the *Quinitisa* underwent hull re-surfacing and, in combination with the introduction of the best operating practices program, improved overall fuel efficiency by 9%.

Due to shipyard scheduling issues, the planned re-engining of the *Quinitisa* has been deferred to 2007/08.

Other

BC Ferries also achieved additional fuel savings year-over-year from other factors which were not included in the Plan. The other factors include:

- Changes in caretaking of vessels
- Changes in refits
- Changes in vessel deployments, etc.

The impact of these other factors on fuel consumption will fluctuate from year to year.

**Table 1
2006/07 Fuel Consumption Reduction Initiatives**

Initiative	Est. Fuel Savings (litres)	Actual Fuel Savings (litres)	Variance
Fuel Savings Measures			
Fuel Monitors	603,000	905,038	302,038
Queen of New Westminster Engine upgrade	231,000	579,080	348,080
Quinitsa Hull Re-surfacing	9,200	36,329	27,129
Best Operating Practices All Other Vessels	405,000	405,973	973
<i>Sub-Total</i>	<i>1,248,200</i>	<i>1,926,420</i>	<i>678,220</i>
Other Factors	0	1,494,436	1,494,436
<i>Total 2006/07 Fuel Savings</i>	1,248,200	3,420,856	2,172,656
Commissioner's Targeted Fuel Consumption Savings		1,156,572	

Based on the specific initiatives identified in the Plan, BC Ferries has achieved a 1.7% reduction equivalent to 1.9 million litres less in fuel consumption, surpassing the target set by the Commissioner. With Other Factors included, the total reduction in fuel consumption year over year equates to 3.4 million litres.

Proposed Revised 2007/08 Target

BC Ferries is proposing that the 2007/08 target consumption be revised in order to take into account changes in the northern service. The 2005/06 base was adjusted to remove the total annual fuel consumption of the *Queen of the North*, which equated to a reduction of 4,060,000 litres. For 2007/08, BC Ferries has introduced the *Northern Adventure* into service. For this reason, BC Ferries is proposing the target consumption be adjusted to take into account the resulting additional fuel consumption.

Accounting for these changes will ensure that progress on fuel savings can be fairly and accurately measured. Table 2 below contains the proposed fuel consumption target for the 2007/08 fiscal year.

**Table 2
Proposed Target for 2007/08**

	Litres of Fuel
Normalized Fuel Consumption for 2005/06*	115,657,242
Fuel Consumption Target (2%)	(2,313,145)
Target Fuel Consumption June 2006 Plan	113,344,097
<i>REMOVE:</i>	
Entire North Region (already removed QoN)	(6,553,836)
<i>ADD:</i>	
Change in Northern Routes Deployment^	14,932,860
TARGET FUEL CONSUMPTION for 2007/08	121,723,121

*Note: As identified in the June 2006 Plan

^Note: Northern routes vessel deployment introduced the *Northern Adventure* into service

BC Ferries is proposing that the target consumption for 2007/08 take into account the additional fuel consumption of providing the northern service. The 2% savings target for the second year remains at 2.3 million litres for the fiscal year with a revised target for total fuel consumption of 121.7 million litres for 2007/08.

Conclusion

Full implementation of the second phase of the fuel consumption reduction plan will result in a total reduction of 2.3 million litres for fiscal year 2007/08 over fiscal year 2005/06 on a normalized basis, and an estimated total fuel consumption of 121.7 million litres.