



December 9, 2002

Dear Sir or Madam:

Today, the government has announced a new direction for BC Ferries and its role in our province's growing economy.

After more than a year of extensive review and deliberations, we have charted a new and steady course for our coastal ferries, one that offers improved service and customer choice, guaranteed service levels and fair rates, an independent regulator to protect the public interest, economic development and job creation, continued ownership of ferry terminals, no new public debt and new mechanisms to ensure ongoing accountability.

The new model will ensure services and new capital projects are delivered on time and on budget. Beginning April 1, 2003, BC Ferries will be transformed into a modern transportation system focusing on customers and with a mandate to increase the choice and quality of services. The new structure will provide the means to invest up to \$2 billion over the next 15 years to replace vessels and upgrade terminals, without increasing the debt burden of B.C. taxpayers.

Political interference in everything from setting fares to the construction of vessels has seriously hindered BC Ferries' ability to operate in a way that is based on good business practices. We have been saddled with a lack of vision and no plan to address the urgent need for capital investment in our ferry system. Poor planning and poor decisions have meant a waste of more than \$1 billion of taxpayers' money in the last decade alone, including \$454 million for fast ferries. The days of government interference are over.

The provincial government and the BC Ferries Board of Directors examined a variety of potential solutions for our coastal ferry system. The option we have selected is an optimal solution, which meets the objective of creating a modern, safe and reliable ferry system that provides superior service to British Columbians while ensuring no financial risk to taxpayers.

We are moving to a new structure that will see the ferry system managed by the British Columbia Ferry Authority, an overseeing body modelled along the lines of the successful and award-winning Vancouver International Airport Authority. Its operating arm will be BC Ferry Services, a company incorporated under the BC Company Act so it has the ability to compete for funds in capital markets the same way any other company has.

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Services will be delivered as spelled out by the provincial government in a multi-year contract called the Coastal Ferry Services Agreement. Under that agreement, the government will decide the frequency of service and the service fees the government will provide for the smaller and northern routes that cannot be operated on a break-even basis.

To protect consumer and public interests, new legislation will establish an independent Provincial Regulator with a legal mandate to enforce the provisions of the new Coastal Ferry Service Agreement, as well as keep the fare structure within the bounds of affordability for British Columbians while ensuring a healthy, financially sustainable ferry system.

The new system will lead to the commissioning of new ferry vessels and terminal upgrades, leading to more reliable, on-time service. Joint ventures with the private sector will provide customers with a greater choice of restaurants and retail shops. Service levels will be guaranteed and fares will rise less than historic averages.

The new ferry service will drive the economic growth of B.C.'s coastal communities by being able to access the capital investment for necessary upgrades. That means direct job-creation benefits through investment in construction and expanded service provision.

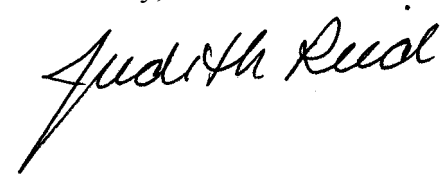
The new structure will benefit coastal communities, local industry, customers and taxpayers; it has been designed to protect consumers over the long term by addressing the problems that have led to bad business decisions in the past and creating a framework to ensure the viability of the system in the future. It will also ensure proper management, with a clear separation of roles between business decision making in the corporation and policy making in government.

We look forward to working with communities during this time of restructuring in order for us to establish a strong mandate of excellence in customer service and improved business operations.

For more information, please visit the Ministry website at www.gov.bc.ca/tran or a BC Ferries representative can be reached at 1-888-978-1461

Thank you.

Yours truly,

A handwritten signature in black ink, reading "Judith Reid". The signature is fluid and cursive, with the first name "Judith" and last name "Reid" clearly distinguishable.

Judith Reid
Minister