

BC Ferry Commission
MEMORANDUM 26

To: Mr. Bill Cottick
Executive Vice President and
General Counsel, BCFS

From: Alan Eastwood
Deputy BC Ferry Commissioner

Date: December 17, 2007

Re: Consumer Price Index Adjustments for PT2 price cap

Our price cap Order 07-01 dated September 18, 2007 states (page 3) that the annual adjustment to the price caps for all route groups would include a factor for the latest annual change in the British Columbia Consumer Price Index, as reported by Statistics Canada, and that the commission would provide further details in a memorandum.

We propose that for each fiscal year after fiscal 08/09, for which the price cap already includes a consumer price index adjustment of two per cent set by the commission, the following formula should apply.

- “The adjustment for changes in the consumer price index shall be calculated as the sum of the twelve annual changes in the British Columbia Consumer Price Index, as reported by Statistics Canada, for each of the twelve months in the preceding calendar year, divided by twelve.”

Under this formula, for example, the annual consumer price index adjustment to be used for the price cap change effective April 1, 2009 would be the sum of the 12 monthly increases/decreases of calendar 2008 over the corresponding month of 2007, divided by 12.

In our view this provides a more accurate measure of the effect of changes in the Consumer Price Index for the previous calendar year than would be the case if the adjustment were to be defined as the increase/decrease in the British Columbia Consumer Price Index for December 2008 compared to December 2007. Reliance on an annual change as reported for one specific month could be unrepresentative of the general trend of price changes experienced by the company.