

BC Ferry Commission
MEMORANDUM 27

To: Mr. Rob Clarke
Executive Vice President and
Chief Financial Officer, BCFS

From: Martin Crilly
BC Ferry Commissioner

Date: January 17, 2008

**Re: Two Quarter “Grace Period”
Allowed at March 31 2008 Measurement Point of Weighted Average Fare**

On January 15 2007 you informed us that on one or more route groups the average fare is above the price cap for the past quarter, and that it is likely to be above the cap for the current quarter, i.e. second consecutive, quarter, as well, unless the company urgently makes significant fare reductions.

You referred to our discussions last year on the operation of the enforcement mechanism which under Commission Order 0501 currently permits an over-cap condition for a single consecutive quarter (i.e. “one-quarter grace period”).

You earlier requested a two-quarter grace period, i.e. that we use the discretion for enforcement action, permitted under the Act, by allowing the average fare to be over cap for two consecutive quarters without penalty. You have stated that the current one-quarter grace period is not working well because:

- if the company finds it is going over cap, the one-quarter grace period does not give enough time to get under cap in an orderly and effective way;
- in particular the time available between (a) the data collection and analysis showing that the fare index is going over cap and (b) the need to announce and implement fare reductions to bring the index down for the next quarter, is too short; and
- the result is a “revenue dump” to get under cap, with little notice to the customers; BCFS would like rather to be able to change customers’ travel behaviour through the fare reduction; to design the fare offerings and publicize them properly needs more time.

We are sympathetic to these points. We are also satisfied that applying a two-quarter grace period:

- (1) allows the company to return over-cap revenue in the next-but-one quarter rather than the next quarter, i.e. a quarter later than a one-quarter grace period, but

(2) does not afford the company a practical opportunity to keep permanently any above-cap revenue.

We recognize that (1) above means that a different group of customers (those travelling a quarter later) will benefit from lower-than-otherwise average fares. We do not see this as a matter of concern.

There are other effects of applying a two-quarter grace period in other circumstances (e.g. if revenue has been consistently under cap for several quarters, and the company seeks to recover some of the missed revenue in future quarters) which we are still examining.

Accordingly, for the March 31 2008 measurement point, we can assure the company that:

- we will not apply a penalty for average fares over-cap for a second consecutive quarter on this date; and
- we will confirm our position on this matter for measurement points after March 31 2008 when we have properly examined other effects of the two-quarter grace period in other circumstances.