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Ms. Deb Cowper
Quadra Island Resident
Protest Organizing Committee
by e-mail: debs@pinsharp.net

March 6, 2006

Dear Ms Cowper:

PETITION FROM 229 BC ISLANDERS

Thank you for copying me with the first installment of the e-petition from 229 BC Ferries customers using Gulf Island routes, especially from Quadra and Cortes. I found it most interesting and have read and taken note of every entry. While the petition was not addressed directly to the commission, may I take the opportunity to offer comments from the perspective of the independent regulator.

**Coast Card; On-Time Departure Policy; and
Shelter on MV Powell River Queen**

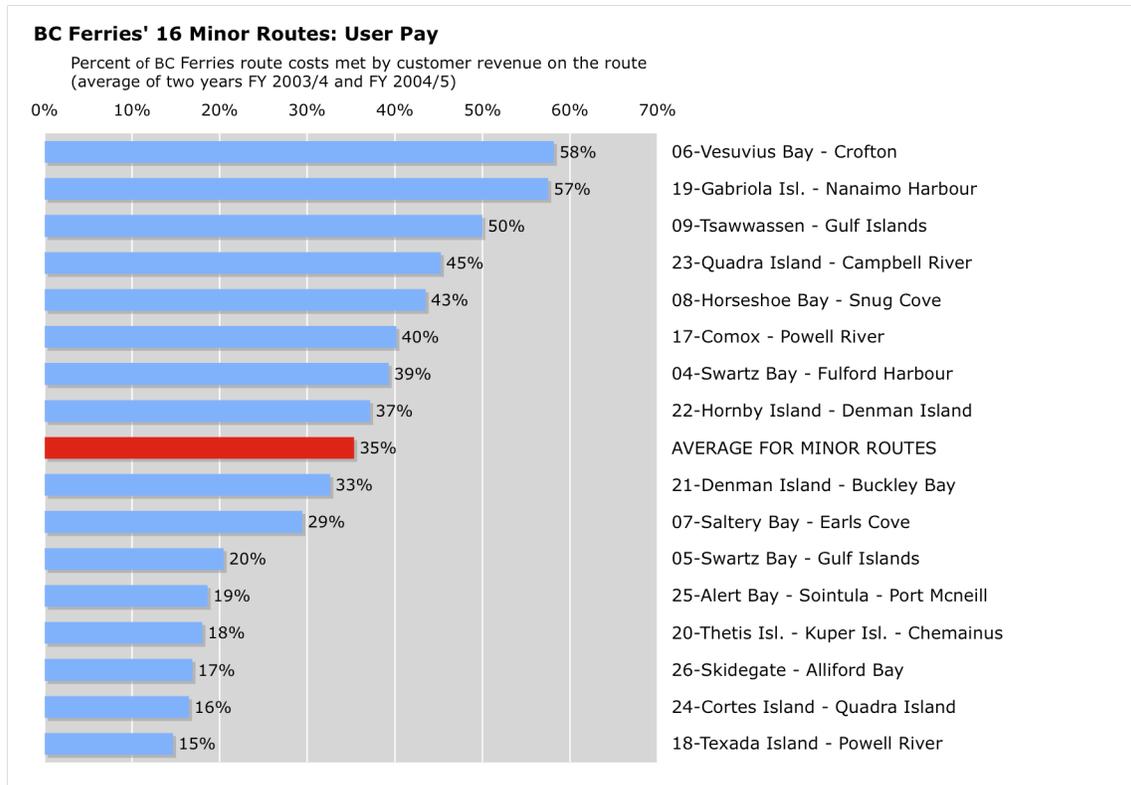
I understand that many petitioners are dissatisfied with the usefulness and expiry terms of BC Ferries' stored-value Coast Card. Another concern is the stringency of BC Ferries' on-time departure policies. I also recognize the local issue of the removal of the shelter on the Powell River Queen on the Quadra route. I know that BC Ferries is aware of these concerns and expect that the company will address them as it formulates its approach on these matters.

Government Policy and User Pay

Many petitioners write about government policy, which is outside the commission's responsibility. Perhaps the most important policy issue is the amount of taxpayer funding for ferry services. The Province's funding support is in the form of both (a) service fees on individual ferry routes or (b) social policy payments to reduce ferry fares for students, the disabled, seniors and medical travel. The province chose not to increase service fees when we authorized the two fuel surcharges last July and February, but did increase the subsidies to keep the social policy travel free of the surcharge.

On all routes except the major ones, because of contributions from the provincial and federal governments, and because BC Ferries' makes a loss on some routes even when these are taken into account, ferry users pay much less than the actual cost of providing service. What is the "right" amount and the appropriate channeling of taxpayer support is a political question on which the commission cannot comment, but perhaps we can help illuminate it with some facts on user-pay in the ferry system which may not be well-known.

Chart 1



Many of the petitioners use the Quadra and Cortes routes. In the last two financial years, customers paid 45% and 16% of the cost of providing the service, respectively. The average for BC Ferries' 16 "minor routes" mainly in Georgia Strait is 35% user pay, as shown in **Chart 1** above. The major group of three routes is 100% user pay. The data for the current financial year ending March 31 isn't available yet of course, but I think the percent of user pay may decline on some routes, as fuel surcharges have lagged behind the increase in fuel costs.

Rising Ferry Fares

I also see that rising ferry fares are a big concern.

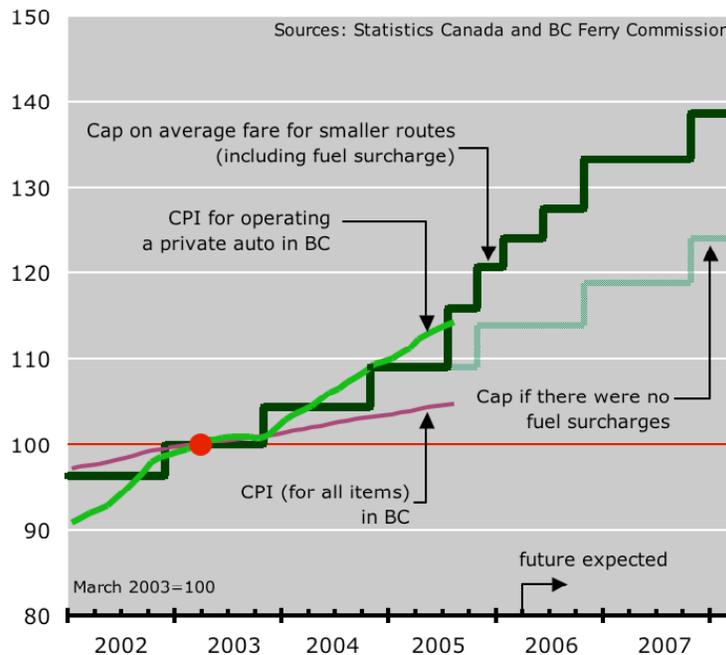
The commission regulates the cap, that is, the increase in the average fare for BC Ferries smaller routes (meaning all but the three major Vancouver Island-Mainland routes), which has grown as follows:

1-Nov-2003	4.4%	(statutory annual increase)
1-Nov-2004	4.4%	(statutory)
24-Jul-2005	6.0%	(fuel surcharge)
1-Nov-2005	4.4%	(statutory)
1-Feb-2006	3.0%	(fuel)

So, as everyone knows, fares have risen much faster than the rate of general inflation, which is about 2% per year. It is accurate to say that the average fare level since February 1st this year is now 13.8% higher than it was between 7 and 16 months ago, and it's 24% higher than 3 years ago (other incorrect figures are circulating).

Chart 2

BC Ferries' 22 smaller routes: fare cap escalation
compared to inflation measures

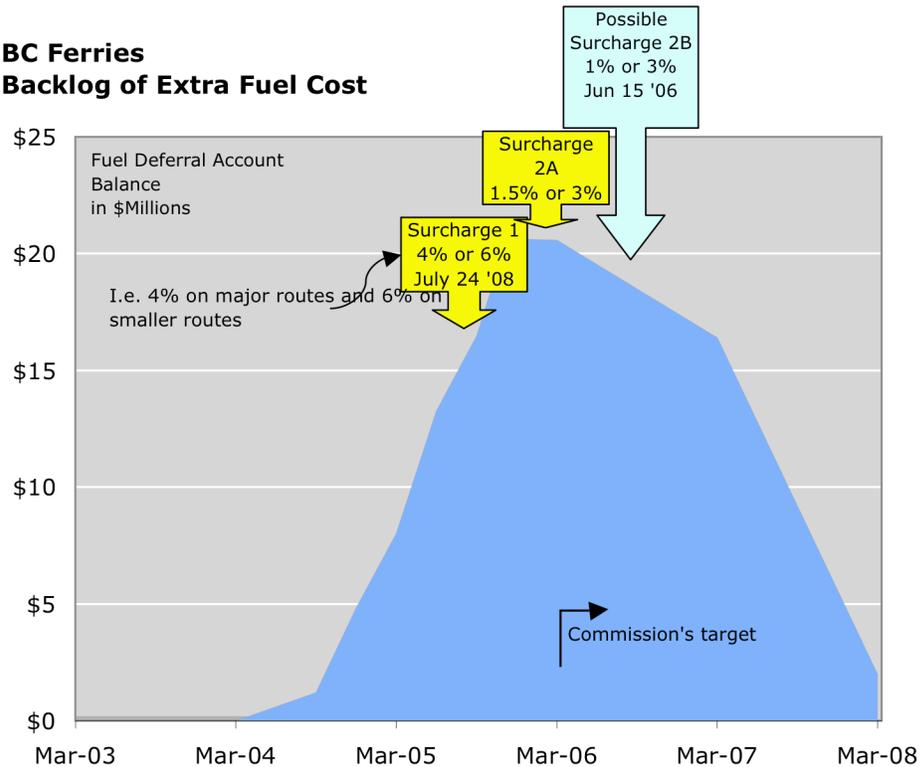


Coincidentally, so far the increase in fare caps has paralleled the inflation rate for operating a private automobile in BC, as measured by Statistics Canada and shown on **Chart 2**, though this may not continue into the future. We have required BC Ferries to accumulate a backlog of extra fuel costs, that is the fuel costs not yet recovered through fuel surcharge revenue. This backlog, called the deferral account, now stands at over \$20 million.

We have targetted it to be largely recovered from ferry customers by March 2008, as shown in **Chart 3** overleaf.

Chart 3

**BC Ferries
Backlog of Extra Fuel Cost**



Ferry customers are not bearing the burden alone:

- we have required BC Ferries to absorb part of the increase in fuel prices, without compensation, as a normal part of doing business;
- we have also required BC Ferries to increase fuel efficiency to a target, with the extra cost any fuel used in excess of the target volume being uncompensated; and
- in setting fuel surcharges, we have taken no account of the fact that fewer people will travel because of higher fares, which will cut into the company's revenues from its base fare.

If fuel prices through 2008 behave as forecast last fall, the accumulated fare cap increase (statutory plus fuel surcharges) for the 5 years ending March 2008 will be 38.5%, equivalent to 6.73% per year compounding over five years. Percentage increases for the three major routes are different—actually lower mainly because percentages are figured on a higher, unsubsidized fare.

Discounts and Increased Costs of Prepaid Tickets

Note these statements apply to average fares: understand that BC Ferries has freedom to make adjustments in its tariff, of one fare relative to another, as long

as the average stays within the cap which the commission enforces. Because of this, and the seasonal variations overlaying fares and revenues, one can pick individual items—like the prepaid tickets used by most island residents—which BC Ferries has increased faster. Where this is the case, there are other fares in the tariff which BC Ferries has increased more slowly, to keep the average within the cap.

Table 1

Illustrative Data on Prepaid Tickets						
Low Season						
Car + driver return fares, including fuel surcharge						
	March 2003	March 2006	\$ Increase	% Increase		
Campbell River - Quadra						
in a one-time purchase	\$15.75	\$19.70	\$3.95	25.1%		
in a prepaid book of ten	\$8.38	\$11.30	\$2.92	34.8%		
prepaid discount	47%	43%				
Quadra - Cortes						
in a one-time purchase	\$19.00	\$23.10	\$4.10	21.6%		
in a prepaid book of ten	\$12.07	\$15.50	\$3.44	28.5%		
prepaid discount	37%	33%				
Peak Season						
Car + driver return fares, including fuel surcharge						
	March 2003	March 2006	\$ Increase	% Increase		
Campbell River - Quadra						
in a one-time purchase	\$17.50	\$21.50	\$4.00	22.9%		
in a prepaid book of ten	\$8.38	\$11.30	\$2.92	34.8%		
prepaid discount	52%	47%				
Quadra - Cortes						
in a one-time purchase	\$21.00	\$25.70	\$4.70	22.4%		
in a prepaid book of ten	\$12.07	\$15.50	\$3.44	28.5%		
prepaid discount	43%	40%				

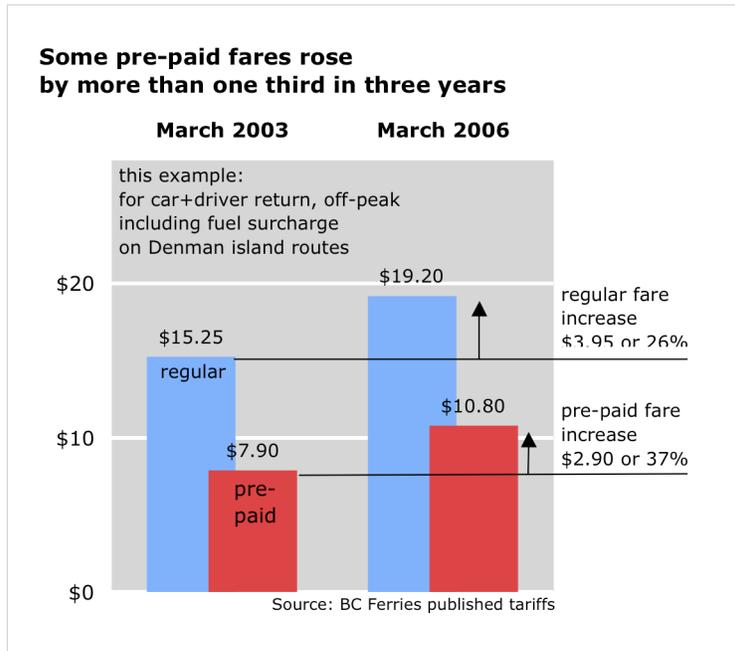
In the past three years (March 2003 to March 2006), a prepaid ticket for car + driver has increased 28.5% and 34.8% for Quadra and Cortes routes respectively, including fuel surcharge, as shown in **Table 1** above. It's worth remembering two things when considering this increase:

- the dollar increase on single-purchase tickets was greater than the dollar increase in prepaids.
- prepaid tickets sell at a significant discount from a regular one-time purchase: they're currently 42% and 33% respectively below low season regular fares (though that discount was higher at 47% and 37% respectively three years ago). Because pre-paid tickets are all-season, the discount at peak season is greater, currently being 47% and 40% respectively.

An illustration of the relationship between single-purchase and bulk prepaid tickets, and their respective increases over the past three years, is shown in Chart

4 overleaf (note: the example is for Hornby-Denman, and I suspect the figure of 38% increase widely circulated is the one applying to this route).

Chart 4



In Closing

I believe that transportation in general is bound to become more expensive in real terms, in the long term, as petroleum-based fuels become harder to reach and to extract from the earth. Alternative technologies may emerge, but that will take time and they may be costlier than today's. Transportation firms like BC Ferries strive to moderate the cost of travel by being as productive as possible, but they cannot overcome the effect of major increases in fuel costs, and of distance itself, altogether. That may not be much comfort to those of us who choose to live more remotely than others, thereby living transportation-intensive lives, but I do think it's realistic.

I trust this is informative, but do ask if you would like anything more. We plan to post this on our website shortly.

Yours sincerely,

Martin Crilly
BC Ferry Commissioner

c.c. Mr. David Hahn, President and CEO, BC Ferries
Hon. Kevin Falcon, Minister of Transportation