

## How do you like us so far?

BC Ferry Services took over our ferries on April 1, 2003. Everything seems the same to most folks (aside from that boat that burned up). But there are big changes coming. Read on...



### **Powell River: 2008 (or maybe sooner)**

*So you've finally scraped together three hundred bucks and change for the ferry fare to visit Aunt Millie in Comox. Don't worry, you'll be so busy enjoying the "greater benefit" of the new ferry services' beautiful BC coastal cruise experience, you won't even mind that it's down to one sailing per day.*

*Yeah, there's been a slight drop off in traffic due to the fare increase and then there's the need to run full ships to cover all the costs. Don't forget to check out the new gift shop though. You can while away damn near the whole cruise just looking at all the great stuff they have for sale. Maybe have a gourmet meal and a glass of wine in the swell restaurant on board.*

*To get real value from your trip, you'll want to grab some cheap groceries and pick up a new couch while you're on the Island. Prices are a wee bit higher in Powell River for consumer goods now.*

*Oh yeah, and you've arranged to have a CAT scan and a hearing test while you're over there. See when the new ferry service started up in '03, it became the only private transportation company in BC that didn't kick in a nickel for medical travel. That's right, the provincial government was repaying the new ferry services for all social program fares—student, disabled, senior and medical—\$20 million in the first year alone. (Gotta give a new business a little break if you expect them to make a buck.) But then what with having to balance the budget for the '05 election and their priorities being what they were, social program fares became a bit of a stretch for the gang in Victoria. So everyone just schedules their medical trips on their holidays now. Two for one, you know.*

*And the ferry workers? Never mind they are ticketed workers required by Transport Canada to be on the ship for your safety. So what if they're working for less than the average gofer on a construction site. Heck, they get to do the cruise 7 days in a row and get paid for it! Mexico of the North has taking on a whole new meaning!*

## ***Sound like a bit of a stretch?***

After all, the new private ferry company is going to be regulated. There are going to be price caps. They can't just cut our service levels.

### **Determining Fares**

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**Bill 18: Coastal Ferry Act**—Part 4: Regulation, Section 38 (1) sets out the following guidelines for the Commissioner when determining fares.

- (a) priority is to be placed on the financial sustainability of the ferry operators;
- (b) ferry operators are to be encouraged to adopt a commercial approach to ferry service delivery;
- (c) ferry operators are to be encouraged to seek additional or alternative service providers on designated ferry routes through fair and open competition;
- (d) ferry operators are to be encouraged to minimize expenses without adversely affecting their safe compliance with core ferry services;
- (e) cross subsidization from major routes to other designated ferry routes is
  - (i) to be eliminated within the first performance term of the first Coastal Ferry Services Contract to be entered into under this Act, and
  - (ii) before its elimination, to be minimized;
- (f) the designated ferry routes are to move towards a greater reliance on a user pay system so as to reduce, over time, the service fee contributions by the government.

Get the flavour? The routes will have to pay for themselves by the end of the first Performance Term on April 1, 2008. **However, our routes to Comox & Texada have been singled out in the *Service Contract* for the development of a “service & vessel strategy” by April, 2005.** We are likely to see changes on that date rather than the end of the first term.

### **Setting Price Caps**

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**Bill 18: Coastal Ferry Act**—Part 4: Regulation, Section 41(1) then sets out the principles the Commissioner must be guided by in setting price caps:

- (a) the price cap must allow for a return sufficient to enable the ferry operator to recover
  - (i) operating expenses, including all financing charges,
  - (ii) administrative expenses and
  - (iii) the reasonable capital costs that are to be incurred
- (b) the price cap, when combined with all other price caps applicable to all route groups serviced by the ferry operator, must enable the ferry operator to receive a pre-tax return on equity [This means a guaranteed profit margin.]
- (f) the ferry operator is, on an ongoing basis, to actively seek additional or alternative service providers to provide ferry services...in order to reduce the costs of providing those services.

## **Price Cap Increases, Service Reductions & Route Discontinuance**

### **Bill 18: Coastal Ferry Act**—Part 4: Regulation, Section 42–44

A ferry operator may apply to the commissioner for an **extraordinary price cap increase** and the commissioner may authorize the price cap increase. Conditions for such increases would include deploying a new vessel, fuel (or other uncontrollable) price increase, unanticipated change in traffic levels, new regulations that impose a significant cost.

A ferry operator may apply to the commissioner for **reductions of service** (number of runs on a route) and the commissioner may grant service reductions based on reasonable justification.

A ferry operator may apply to the commissioner for **discontinuance of a route** and the commissioner may grant this based on a suitable economic case being established (e.g., low traffic levels).

Price caps are determined by a weighted average and set for the entire rate group. Our rate group price cap is currently set a 4.4% per year.

### **Proposed New Rates Nov 1st, 2003** (On hold for now according to BCFS.)

<i>Car &amp; Driver</i>	<i>Nov 02</i>	<i>Nov 03</i>	<i>% annual increase 02/03</i>
Comox:	\$29	\$31.25	7.2%
Texada:	\$17	\$18.50	8.1%
Earls Cove	\$30.50	\$32.75	6.9%

(Figures from *Service Contract*. Only winter rates shown here.)

## **Some Useful Contacts**

### **BC Ferry Commissioner:**

Martin Crilly, MA, MBA, FCILT  
martin.crilly@bcferrycommission.com

The Commissioner has a 7-year term.  
He cannot be removed by government according to Bill 18, Part 4 Regulation.

### **BC Ferry Commission:**

www.bcferrycommission.com  
e-mail: info@bcferrycommission.com  
mail: BC Ferry Commission  
P.O. Box 1497  
Comox, BC V7N 8A2  
by phone: (250) 339-2714  
by fax: (250) 339-2053

The Commission is not a Complaint Bureau. They are there to inform the public on BCFS filings and plans and receive public feedback on their decisions.

### **BC Ferries Website** www.bcferries.com

Go to *About Us*, then *Corporate Info* for links to documents referenced in this pamphlet—*Coastal Ferry Act, Service Contract & Master Agreement*

### **Ferry Advisory Committee:**

Their job is public consultation with ferry dependent communities.

**Meeting Chair: Capt. Jock Palmer (250) 890-7801**

**Comox Valley: Barbara Price 339-4015**

**Texada Island: Chuck Childress 486-7443**

**Jim Johnson 486-7466**

**Ed Liebich 486-7623**

**Pete Stiles 486-7425**

**Glen Walker 486-7558**

**Powell River: Greg Aivazoff 485-2192**

**Ted Cooper 485-2143**

**Jack Metcalf 485-5414**

**Andrew Pinch 485-4000**

**Rob Stewart 485-0325**

**Meeting held Oct 23/03. Meeting Minutes will be posted on BC Ferries web site.**

## ***How did this happen?***

Actually it's easy...Can be done in only two days!

First, pass a law that says our crown corporation, BC Ferries, will become a private company, independent from government.

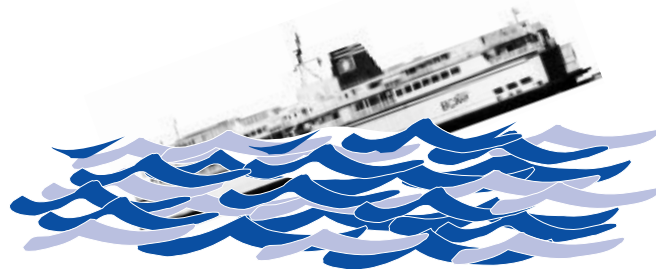
*Then, on Day 1, follow these easy steps:*

- Step 1      Transfer all the crown land, foreshore, water lots, terminals, berths, & parking lots to the BC Transportation Financing Authority (BCTFA). Be sure to have the Minister of Transportation and the Land and Water BC guy there to sign documents.
- Step 2      Have BCTFA give BC Ferries a promissory note for \$330 million for this transfer of assets. Make sure you get the amount right.
- Step 3      Have BCTFA charge \$330 million for a 60-year lease on the berths & terminals. BCTFA retains possession of crown land.
- Step 4      Have BC Ferries give back the \$330 million promissory note to prepay the lease. Voila! the little problem of not being able to give a private company crown land is solved.
- Step 5      At the stroke of midnight change your name. You'll wake up tomorrow as the new private BC Ferry Services Inc with all the assets that just yesterday belonged to the people of the BC!

*Begin Day 2 with a short prayer to the spirit of Ken Lay.*

- Step 6      Reorganize the new company's share structure. Make sure you have handy 80,000 preferred (nonvoting) shares valued at \$1,000 each.
- Step 7      Get a big loan. Issue a debenture in the favour of the Province of BC in the amount of \$427.7 million. Secure this debt with a registered mortgage against all your assets (the ferries and the prepaid lease).
- Step 8      Redeem 100% of your outstanding shares held by the Minister of Finance in exchange for the preferred shares and enough cash (\$427.7 million, actually, imagine that!) to equal your company's equity value of \$503 million.
- Step 9      You have just reduced the company's value from \$503M to \$75.5M .

**Congratulations you have just gutted a Crown Corporation!**



Figures & actions cited above from *Audited Financial Statements in the BC Ferries 2003 Annual Report*, Pages 52–54 and from the *Master Agreement, Schedule C*. Go to [www.bcferrries.com](http://www.bcferrries.com).