



**AMENDMENT DATED JUNE 30 2007
OF THE
COASTAL FERRY SERVICES CONTRACT
BETWEEN
BC FERRY SERVICES INC
AND THE PROVINCE OF BRITISH COLUMBIA**

Summary and Comments on the Contract Amendment

July 6, 2007

This summary by the BC Ferry Commission highlights amendments made June 30 2007 by BC Ferries and the Province as parties to the Coastal Ferry Services Contract. The Commission offers its own commentary to help readers understand the significance of the amendments. The full, official 61-page text of the amendments as signed by the two parties can be found under "Downloads and Links" on the Commission's website www.bcferrycommission.com.

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1. Taxpayer Funding

Since our March 30 preliminary fare cap ruling on fare caps for performance term two, there is no apparent change in Provincial taxpayer funding which would change that ruling.

1.1 Service fee increase funds northern ships and terminals

Relative to performance term one, for performance term two the Province has increased the total of service fees paid to BC Ferries to reflect new vessels coming into service and related terminal alterations in the north. These service fee increases, which support capital investments that the Commission approved as reasonably required in 2006, were known before March 30 and were incorporated in our preliminary ruling. For term two, the following service fees apply:

Route Group	Service Fees (\$ million)			
	2008/09	2009/10	2010/11	2011/12
Route Group 1 - Majors	\$0	\$0	\$0	\$0
Route Group 2 - Route 3	\$3.665	\$3.665	\$3.665	\$3.665
Route Group 3 - Northern	\$25.283	\$47.590	\$47.129	\$46.777
Route Group 4 - Minors	\$74.346	\$74.346	\$74.346	\$74.346
TOTAL	\$103.294	\$125.601	\$125.140	\$124.788

For comparison, in performance term one (2003-2008), the total service fees for all BC Ferries' routes were \$91.8 million per year for the first three years, \$91.0 in the fourth and \$103.5 million in the fifth year (the changes in these last two years are northern-related).

1.2 Service fee reallocated among route groups

Provincial service fees for Route Group 2 (Rte 3) are partly re-allocated to Route Group 4 (Minors). These changes are consistent with the Province's desire, stated prior to our March 30 ruling and noted in it, that fare cap increases be similar across the route groups that service fees support. Without the re-allocation, the Commission would be setting quite different rates of increase in fare caps for different route groups.

1.3 Federal import duty rebate

The Federal import duty rebate of \$13 million for the vessel Northern Adventure was announced in mid-June 2007. The Province is in a position to determine how the rebate is applied. If it is applied to reduce fare caps, it will be reflected in our final decision. We estimate that it would reduce the rate of growth of the fare cap on the non-major routes from 6.7% to 6.3% per year in performance term two (assuming CPI increases at 2%).

1.4 Provincial contribution to fuel account

This change is not part of the contract amendment and will likely not affect our final fare cap ruling for performance term two, but it occurred after our preliminary ruling and should be noted. It concerns the backlog of extra fuel cost incurred by BC Ferries, tracked in BC Ferries' fuel cost deferral accounts: the Province has increased the one-time pay-down of this backlog to \$7 million (from the figure of \$5.5 million used in our preliminary ruling). The \$7 million has been applied to reduce the deferral account balances at the end of FY 2006/7 of (a) the northern route group 3 [routes 10 and 11] (b) the Discovery Coast route group 4 [i.e. route 40] and (c) the minor route group, in that order. However, since fuel prices have recently been higher than those we assumed in our preliminary ruling, we expect this higher Provincial funding to be largely if not wholly offset by higher fuel costs for which BC Ferries should be compensated.

2. Core Service Levels

In terms of the annual numbers of sailings to be provided on the routes, the definition of core service levels will not change from performance term one. However, on a daily basis, BC Ferries will have some new freedom to concentrate core service on periods of higher traffic demand. This could mean productivity gains which would be reflected in lower-than-otherwise fares and/or service fees in future.

Major Routes. The minimum number of round trips required to be delivered each day is one trip less than in term one, on each of the three major routes (with associated reduced hours of operation). At the same time BC Ferries is committed to deliver the same annual number of round trips as in term one, but only as an aggregate total of all three routes.

Non-Major Routes. The minimum number of round trips required to be delivered each day is one less than in performance term one (with associated reduced hours of operation), with a commitment that, on each route, the annual number of round trips remains the same as in term one.

The exceptions are Routes 5/5a, 9/9a, 17 and the Northern Routes (routes 10, 11 & 40) where the round trips to be delivered remains the same as in term one due to the limited number of round trips.

Prior to its final fare cap ruling due September 30, the Commission will assess what productivity gains BC Ferries might achieve from this change, e.g. through lower costs or more traffic carried. For instance, on some routes where BC Ferries already chooses to provide more than the core service sailings on an annual basis, it may be able to cut some low-utilization sailings for a net reduction in operating costs. Or, even with the same number of sailings, a new schedule might give better utilization. We will incorporate such gains as we think appropriate in our final fare cap ruling.

3. Route Groups Amalgamated

Today BC Ferries' 25 regulated routes are clustered into seven route groups, each with its own average fare capped by the Commission. In future, the groups are amalgamated to four, so BC Ferries will have somewhat more flexibility in tariff setting within the caps.

Three single routes (numbers 12, 13 and 40), each of which is currently an individual “group”, will become part of larger groups. The new groups are:

Route Group 1 – Majors (Routes 1, 2 & 30) – no change

Route Group 2 – Route 3 – no change

Route Group 3 – North (Routes 10, 11 & 40) – route 40 joins the northern route group

Route Group 4 – all others (Routes 4, 5, 6, 7, 8, 9, 12, 13, 17, 18, 19, 20, 21, 22, 23, 25 & 26) – routes 12 and 13 join the minor route group

4. Shorter Advance Publication of Schedules

BC Ferries will no longer be required to publish schedules 2 years in advance. However, BC Ferries has committed to publish schedules one year in advance and update them on a rolling 6 month basis.

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