DISCUSSION PAPER #2

PREAMBLE.
The difficulty in developing the definitions is the fact that BCF is two separate entities. The primary entity being that of the self supporting major routes and the secondary entity be all the other routes grouped into the Northern routes and the Minor routes that are unable to operates without direct subsidy. A definition for one may not be appropriate for the other. This being said I will attempt the definitions with the disclosure that I am long the minor routes.

1) "ferry users"
   A ferry is not part of the highway system it is a link to the highway system. Any person who needs that link is a ferry user. I would clearly favour the broader definition of user. In addition to the users listed I would add visitors to island communities often known as tourists and the exporters of goods made or extracted from island communities.

2) "the interests of ferry users"
   If the ferry is a link its primary quality must be that of reliability. It is there when you need it. This is not a "on demand" need but a "scheduled need". To be reliable it must be both safe and financially sustainable. If there is to be a demand for this link it must be affordable. What is affordable ? In the case of the non subsidized major routes of a regulated monopoly it is the lowest fee that will allow the regulated return on equity to be achieved. If that fee is too high to generate sufficient revenue to meet the objective, then the link must become a subsidized link. Once a subsidy has been triggered close scrutiny of both the use and the need for the subsidy must be put in place. The users are also tax-payers. The interests of the users are met when the link has at lest 40% utilization and has revenue from all sources that allows all the equipment associated with the link to meet regulatory requirements on a permanent basis.

3)"consider"
   Within the context of the Coastal Ferry Act and the expanded role of the Commissioner the word "consider" is inadequate. Considering a situation or a result imply's reaching a conclusion. A conclusion without a order or directive is a sterile exercise and a simple recommendation does not imply action. The Act makes clear the independence of the Commissioner, this is of little value if the Commissioner does not have the authority to act in the interests of the ferry user. I believe that the Commissioner must have the power to issue a order or directive. The use of the word "consider " is appropiate only when the authority of the Commisioner to issue directives has been established.

4) The interests of the ferry user can only be served if the ferry is financially sustainable. If the ferry operator needs support to be financially sustainable the Government of the day must either provide that support or eliminate the link. The ferry operator must prove the need for support by demonstrating the most efficient use of capital. Currently the CFSC in attempting to preserve the interest of ferry users is denying the ferry operator the freedom to make the most efficient use of capital. I believe this to be in conflict with the Act. To achieve the required balance between user, operator and tax payer the terms of the CFSC must be revised .

Respectfully submitted,

Bob Jones.
250-537-5514

DISCUSSION PAPERS # 3 & #4

PREAMBLE.
The following attempts to provide the requested feedback on both the above papers in one document, its seems to this writer that the opening statements and the points for comment are connected and overlapping. I have no training in finance or economics and therefore take much of your opening statements as carefully researched fact. As mentioned previously my major concern is the effectiveness of the minor routes.

Reviewing the concepts of financial sustainability in paper #3 it is clear that the CFA is not breaking new ground, there is a wealth of data on regulated transportation companies, The BCUC providing strong guidance regarding the balancing act required in setting user fees. If we take this as fact we must ask the question "why is the ferry operator now posting a loss and expressing concern at its ability to replace ageing equipment" ?

In paper #3 you make the statement :-

Through the price cap system, the regulatory framework does not provide excessive returns, reward less than efficient operations, or provide bail out.

You then list what should be achieved within these constraints.

For this to happen it needs the ferry operator to "buy into" the concept and make every effort to achieve these aims. With the best will in the world the frailty of human nature make this hard to do. It is not possible to legislate success nor is it possible to regulate failure. There must be a will to succeed even though, in this environment, the fear of failure is absent.

I believe the regulatory framework of the CFA is correct for the task at hand. I am not convinced that the ferry operator had made the best use of the tools provided to operate a regulated service in the best interests of the user and the tax payer.

Why is this ? Ample oversight has been provided by both a Board of Directors and a Commissioner. It has now been recognized that the Commissioners mandate was too narrow and this has been corrected. The Board of Directors represent the single shareholder, the Government, they are responsible for asking the question "is the Government getting the best bang for the buck" ? I do not think the question is being asked and if it is the answer must be, in my opinion, "no".

Paper #4 reviews primary and secondary duties. I am tempted to think that the ferry operator has paid more attention to the secondary duties than the primary duty. This was not always the case, I think the intent of the CFA was embraced in the early years, the rebuilding of fixed assets, the open bidding on design and build contracts for the new vessels, the marked improvement in the travel experience on the major routes all reflected the aims of the CFA.

What happened ? Two events caught the ferry operator off guard. The sharp rise in oil prices and the sinking of the Queen of the North. There was no protocol for either event, The latter in particular consumed a huge amount of executive time and in a top down management environment leadership towards the stated vision became hobbled. With the major routes operating in a manner that reflected the aims of the CFA those of us within the minor routes anticipated a similar aggressive drive towards an efficient operation in the remaining routes. The last five years have been a disappointment.

The ferry operator has, through the eyes of this minor route user, never recovered from the two events mentioned above. In part this is due to a slavish conformity to the Coastal Ferry Service Contract. Rob Clarke has made clear that this contract leaves no room for adjustments. What was in place prior to the Act when fuel was cheap remains to this day when fuel is expensive. The inefficiencies prior to the Act remain and are exacerbated by rising costs. To simply allow this to happen and rely on regulated fare caps to cover costs without any attempt to lower costs via improved delivery methods may well meet the requirements of the CFSC but very clearly this does not meet most of the core principles of the CFA.
The ferry operator discusses this problem at some length in section 3 of its "Opportunities for enhanced Efficiency in Performance Term Three " report to you in October 2010. In particular sections 3.2 , 3.3 and the conclusion 4.0. The tenor of this discussion is disappointing . In 2005 & 2006 David Hann was keen to take the initiative and tackle some of these problems as email exchanges at the time portray. Had these initiatives been pursued at the time, service delivery costs for the Southern Islands could, by now, have been lowered by $8m to $10m per year without loss of service. This is water under the bridge and is mentioned primarily to support my position in the following paragraph.

Returning to the basic question of discussion papers #3 & #4 the regulatory environment as currently constructed by the CFA, together with the current level of subsidy, would I believe allow most if not all the financial sustainability needs to be meet by a lean company dedicated to efficient delivery of services. If BCF is to be believed then revisions to the CFSC are necessary to allow a lean company to operate at its best efficiency. This may not be the case with respect to the Northern Routes. I have no knowledge of these operations or of any cost saving initiatives that could be enacted.

Respectfully submitted,

Bob Jones,
250-537-5514
31st October 2011

DISCUSSION PAPER #6

A review of this paper leads this reader to believe that the real question being asked is “Is cross subsidization between routes a advantage or disadvantage to the overall ferry operation”

This was a hot topic among the FAC chairs in the early days of the CFA. I was in the minority in believing that the elimination of cross subsidization was an advantage. It was my position that a semi private ferry operator should not be the arbitrator of what amounts to “social engineering”when allocating the profits of the major routes to cover the costs of the minor routes. A model that clearly defines the role of government in providing transportation infrastructure and quantifies the cost is more transparent and is, I believe, to be preferred.

With this being said I must support the concept of multiple price caps. I would agree that fares are more reflective of route group costs and would suggest this is a benefit. The Government and/or the Commissioner can identify over or under performance and “consider” (that word again) if the subsidy provided is appropriate. The financial and operating reporting to the Commissioner that is available to the public in the current model is valuable in understanding the efficiency of each route thus allowing the public to make more informed submissions to the Operator or the Commissioner.

You state correctly that fares have risen faster on the minor routes than the major routes. The fuel price surcharge in effect at the end of PT One was rolled into the base rate for PT Two. Some research is required to separate price caps from fuel surcharges if a true comparison between major and minor price cap increases is to be made. The refusal of Government to contribute its fair share of fuel price increases on the minor routes was perhaps made easier to account for under the multiple price cap model but this is not the fault of the model. If a challenge exists it is that of adjusting the Service fee as the fuel surcharges are increased or decreased.

I am unable to think of any advantage of a single price cap over a multiple price cap. In stating this I am probably disclosing my lack of knowledge in accounting principles.

Respectfully submitted,

Bob Jones.
250-537-5514

31st October 2011

DISCUSSION PAPERS #7 AND #8

I have put these two papers together as I propose to discuss the issues by example.

In paper #8 you make reference to the “Enhanced Efficiencies” paper submitted to you by the ferry operator. I am not at all sure of the intent of this paper. Section 2 discusses what has been achieved, which when taken in the context of the scale of BCF operations is not a great deal. Section 3 deals with the difficulties of achieving operational efficiency within the constants of the CFSC. Section 3.2 covers this quite well. In short without a change to the CFSC not much happens.

The recommendations contained within Section 3 are I think simply raising a red flag. The elimination of routes 9 & 12 are a response to needing to replace aged vessels. To some degree this has already been done on route 12. A major accident blocking the Malahat would be very serious without the fall back alternative of route 12. If Highways is to regard route 12 as insurance perhaps they can contribute to the cost of the route.

The proposed restructuring of route 9 is to say the lest, odd. It would require the purchase of an island, a change in the Islands Trust core principles, the building of two bridges and a 2 mile road plus the provision of a second vessel that can cross Georgia Strait year round. All this is to happen in PT3.

In Paper #8 you ask what determinations the commissioner is required to make in setting price caps ?

In my view the first task is to measure performance and then rank that performance against some form of bench mark. Because of the very different nature of the route groups the measurements must be route and route group specific. What criteria should be used for measuring performance? We have nothing to go on as neither the Commission or BCF have not, as far as I know, published any performance valuations. The following are my own criteria.

My review concerns route group 6. I looked at total revenue and total subsidy for all routes within the group for the year ending March 2011. The chart is shown in Appendix 1
(I regret the legend is so small, I was unable to enlarge it. Either the program is dumb or I am dumb and suspect the latter).

Clearly the cash flow is in the Southern area of the group. If we are looking for efficiency this is the place to start.
I have elected to use two measures that can be charted for selected routes over time and are not distorted by a somewhat arbitrary allocation of subsidy. These are:-

1) Total revenue as a percent of total cost
2) AEQ utilized as a percent of AEQ provided.

The charts are shown in Appendix 2. (They may be worthy of the title “Key Performance Indicators”)

I have included route 8, Bowen Island as a bench mark. This route is a high volume commuter route in a urban area serviced by a fairly new medium sized vessel. The results are not distorted by a old written down low cost vessel. It is an ideal route for a ferry operator. I have also included a average for all the routes in Route Group 6. This is the heavy black line. For utilization I have only reviewed AEQ data.
The colour coding is consistent throughout. (The program would not allow me to record the years, they are 2006 to 2011.) The utilization data for route 6 is distorted by the fact that this route supports 4 dangerous cargo sailings a week that restricts utilization. This is not allowed for in BCF's AEQ provided data.

One further input is necessary. This is “on time performance”. The table shown in appendix 3 is lifted directly from BCF's annual report to you for 2011.

At the risk of "talking my own book" I will say that I think these four charts show in very succinct form the state of health of the routes reviewed. This could easily be expanded to cover all routes in the group.

In Paper #8 you ask four questions. I think we must answer question 3 before considering questions 1 & 2.

The following information lifted from the charts will help determine question 3:-

1. route 12, Mill bay is , overall, the best performing route of the routes reviewed.
2. Route 9 equals the bench mark for revenue and exceeds the high volume route 4, ex. Fulford.
3. The overall trend is for lower utilization, this is particularly so on route 9.
4. Route 5 is below the average for revenue & utilization. It also has the lowest on time performance.
5. The best revenue is from "high fare" routes of 9 & 17 that cross Georgia strait.
6. The highest subsidy is given to route 5.
7. Route 7 is the only "high fare" route where the subsidy exceeds the fare box revenue.
8. On routes 9, 17& 20 on time performance has deteriorated consistently for the past 3 years.

I think the above plus the charts can supply the data needed to make the determination asked in question 3. Useful extra data to meet the needs of question 2 is a much fuller breakdown of operating costs, currently one line only in published data. What are crew costs, fuel costs, contribution to terminal charges, overhead, insurance and maintenance costs ? In commercial ship operations these costs less fuel and terminals are rolled into a daily cost from which a charter rate equivalent can be calculated.

I think an efficiency gain can only be achieved by lowering cost. As previously reported raising fares is simply lowering revenue. In my view any increase in subsidy should be very specific and targeted at capital expenditures only.

From the charts the lest efficient routes are 5, Southern Gulf Islands & 7, Earls Cove.

Route 7 has a new vessel, The Island Sky with a high financing cost. With a simple 2 port route lowering costs are probably limited to crew costs, fuel costs, and hours of operation, which will be marginal, if at all. The only option I can think of is lowering finance costs in the early years with a balloon payment at the end. (This employs the fashionable economic concept of "kicking the can down the road !!)

Route 5 has two under utilized vessels with longish distances between ports. Fare box revenue contributes only 25% of cost, by far the lowest in the group yet with a low population in the islands revenue is more likely to decline than rise. The average subsidy for the route group is 55%. With current route 5 revenue at $5.8m a subsidy of $6.1m is consistent with the average. Last year the subsidy was $17.3m

I think this answers question 3.

Looking at question 4, I think the Commissioner should have a free hand to review all operations and not be limited by efficiencies identified by BCF which were clearly driven by the need to replace vessels.

The three questions asked in Discussion Paper #7, Alternative service providers can be answered by using route 5 as an example.

To lower the route 5 subsidy to a point closer to the average the route must become a single vessel route. This is not as draconian as it may appear. If the larger vessel, the Cumberland is restricted to servicing Pender

Island and Mayne Island only, 75% of the population is covered with a service that is slightly better than the current service. This vessel is the same class as the Capilano on route 8. With both vessels working two 8 hr shifts total operating costs will be similar. (As vessels are pushing in while in port fuel costs will be similar even though transits are different.) Route 8 operating costs are about $10.0m On this basis the subsidy to service 75% of the population is $5.0m This leaves Galiano & Saturna to be serviced.

Galiano is 50 mins from Tsawwassen and 70 mins to 90 mins, depending on stops, from Swartz Bay. A one way fare car & driver to Tsawwassen is $75.00 and $30.00 with Experiance Card to Swartz Bay. Needless to say, Galliano residents look to Victoria to shop not Vancouver. For the morning and evening trips this shifts traffic from a under utilized route 9 to a over utilized commuter run on route 5. If the fare from Galiano to Tsawwassen was equalized with the Swartz Bay, fare Galiano residents would shop on the mainland. I have been told this (but from a very small sample.) This would be revenue neutral to BCF if restricted to Monday to Thursday. Service to Swartz bay would require transfer at Mayne Island via route 9. Operationally this is more than a little tricky in summer months with the current vessel. Galiano gets 30% less service at 40 % less cost.

Saturna is a classic candidate for an alternative service provider. Very low volume and very high current costs. Vessel size would depend on the round voyage time. Significant investment in a terminal at Hope bay Pender Island provides the shortest route, 3 miles, while Village Bay Mayne Island is a 7 mile route. This option was investigated at some length by BCF in 1999. I have the report. It was not acted on although even then with low oil prices I felt the option had merit. To complete the service the ASP would have to provide a bus for walk aboards to get to Otter Bay.

Clearly the above is conceptual however I do have the traffic volumes for various times of the year and consider this very much in the realm of possibility. Clearly there would have to be a subsidy to the ASP and if Hope Bay was to be developed this would be owned by the Government or BCF. There are subsidy savings of about $12.0 m annually less capital costs and what a ASP would need. I am of the view that this option needs to be re-opened.

This also provides my response to your question 3 in paper #7.

I believe that all of the above coupled with a route 9 that could have route 5 moving Pender traffic to Mayne Island for transfer to route 9 (this alone will save about $1.0m in fuel & overtime) will go a long way to improving on time performance on both routes and thus reduce overtime costs. On time performance has been a major goal of BCF.

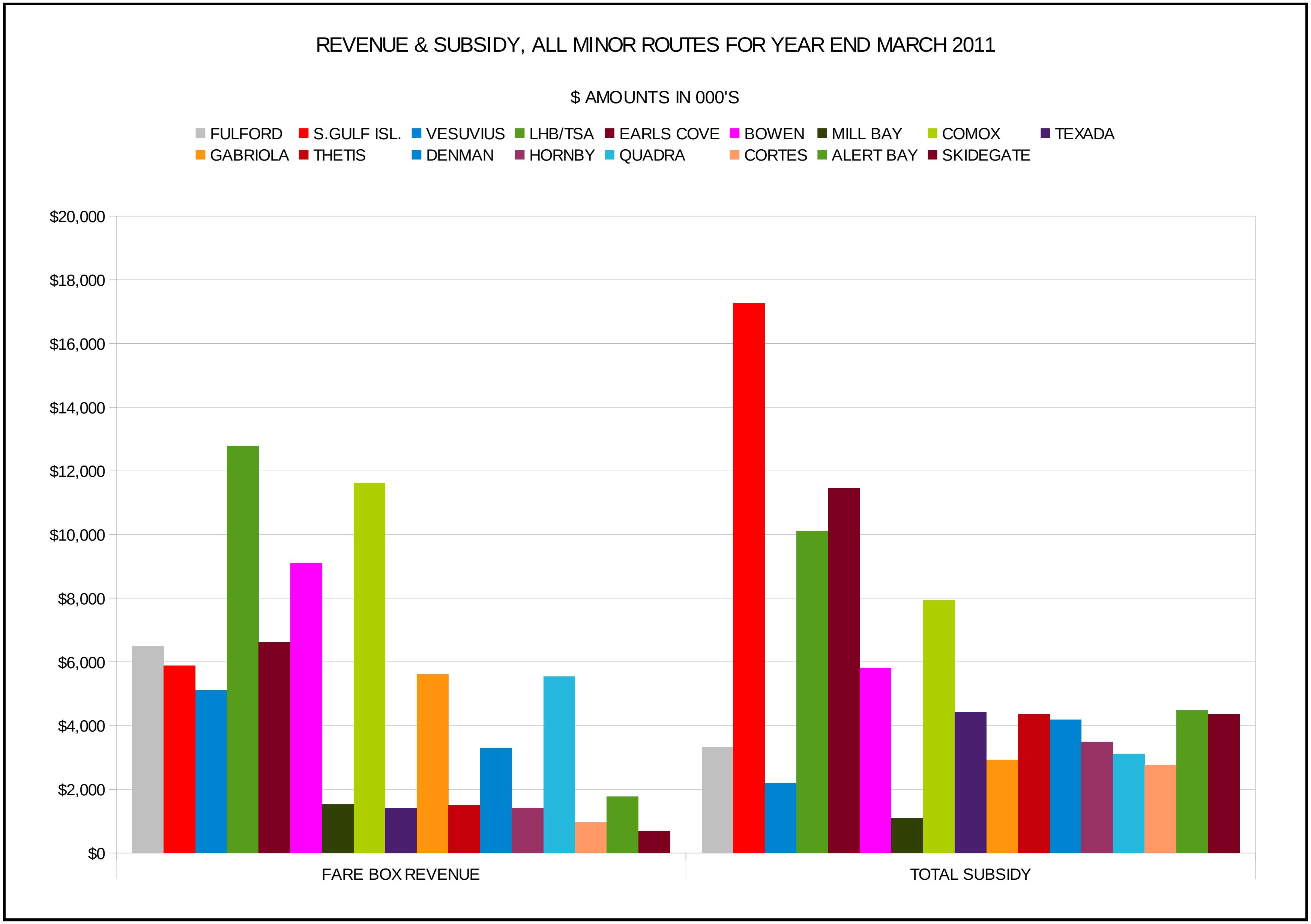
As you can see this is a complex subject with significant savings if it is done right. We have shown that raising price caps will simply lower gross revenue. The only other option is increasing the subsidy. As a tax payer I would have a problem with anything other than capital costs. I understand that BCF have commissioned the transportation faculty at SFU to study routes 4,5 & 9 and make recommendations. I sincerely hope that these transportation experts will seek the views of all operating personnel.

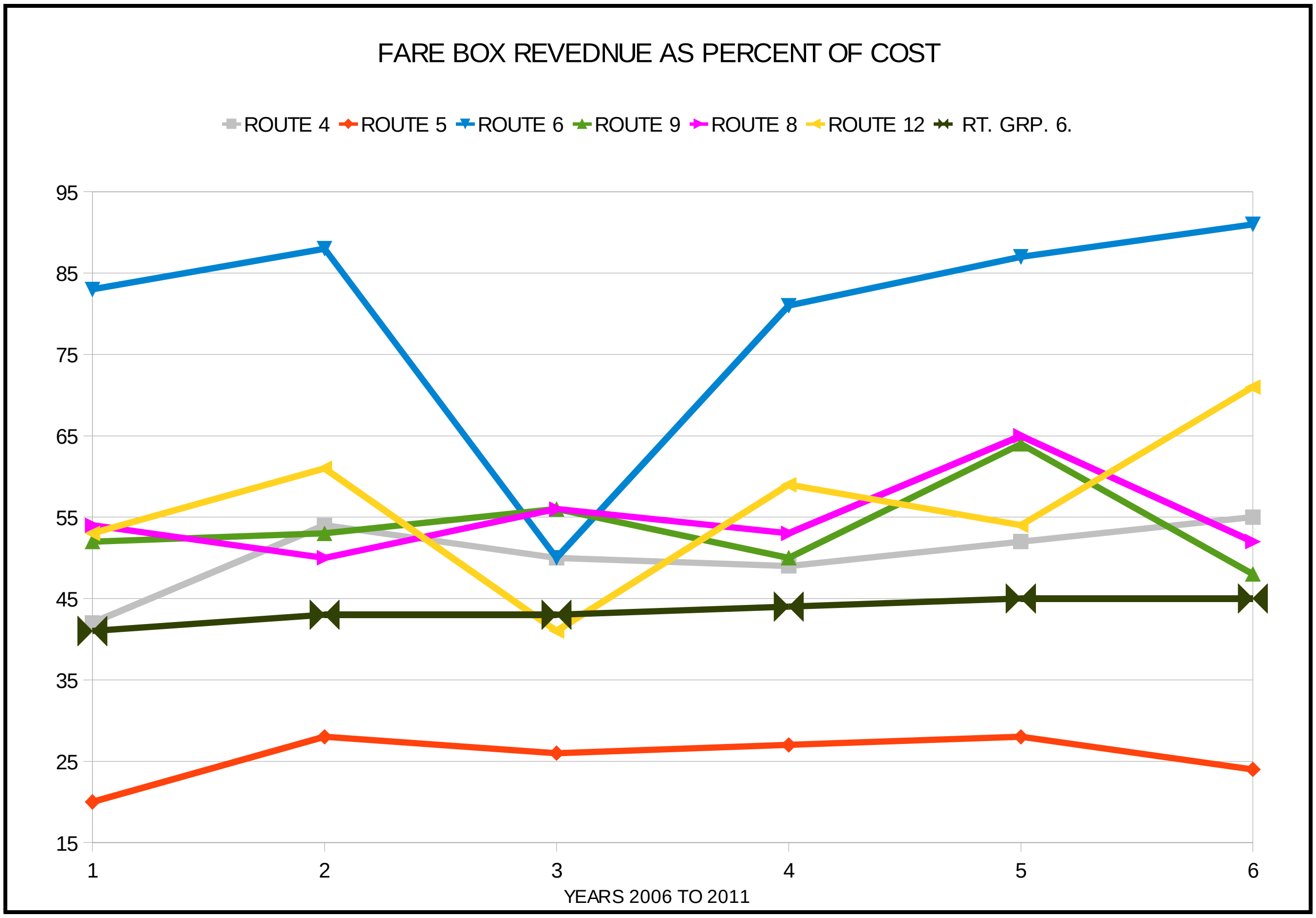
No one knows more about the difficulties of route 5 & 9 than the Masters & crews of the ships that serve the area. Most of the above has been proposed by them, long before the CFA was formed. This is a long standing, hands on, seat of the fire problem. Its not rocket science. A “buy in” from the people who have to get the results is, in my view, essential.

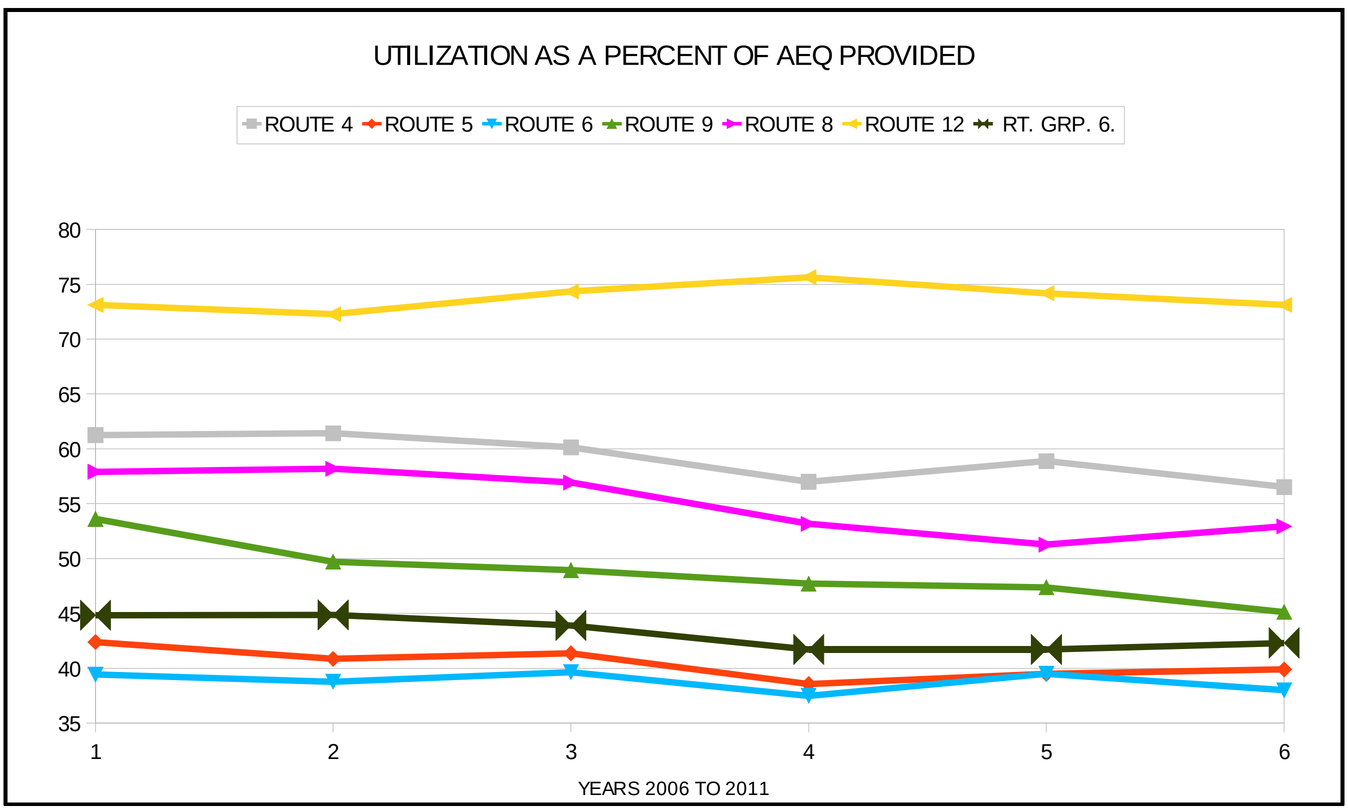
Appendix 1, 2 & 3 form part of this reply to papers #7 & #8

Respectfully submitted,

Bob Jones,
8th November 2011.

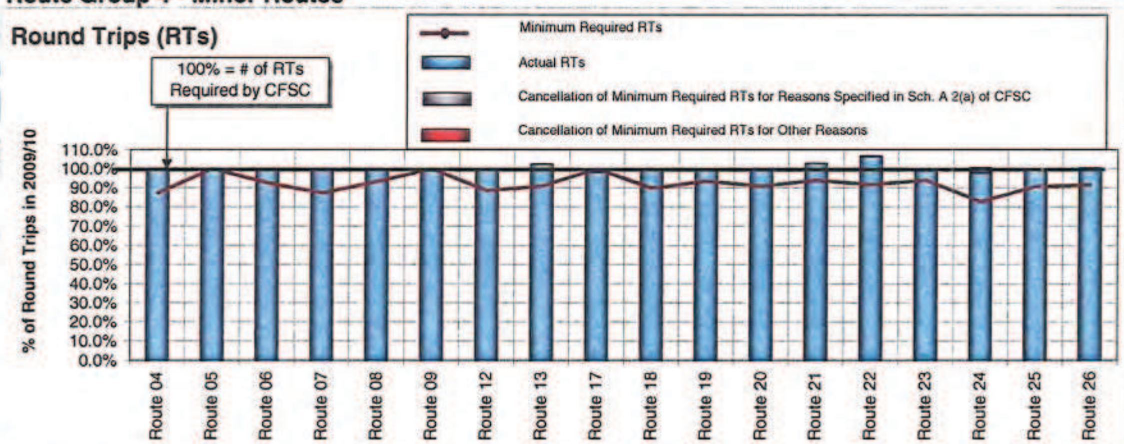

REVENUE & SUBSIDY, ALL MINOR ROUTES FOR YEAR END MARCH 2011
$ AMOUNTS IN 000'S
FULFORD
S.GULF ISL.
VESUVIUS
LHB/TSA
EARLS COVE
BOWEN
MILL BAY
COMOX
TEXADA
GABRIOLA
THETIS
DENMAN
HORNBY
QUADRA
CORTES
ALERT BAY
SKIDEGATE
$20,000
$18,000
$16,000
$14,000
$12,000
$10,000
$8,000
$6,000
$4,000
$2,000
$0
FARE BOX REVENUE
TOTAL SUBSIDY

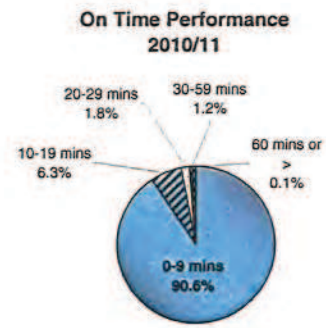

FARE BOX REVEDNUE AS PERCENT OF COST
ROUTE 4
ROUTE 5
ROUTE 6
ROUTE 9
ROUTE 8
ROUTE 12
RT. GRP. 6.
95
85
75
65
55
45
35
25
15
1
2
3
4
5
6
YEARS 2006 TO 2011

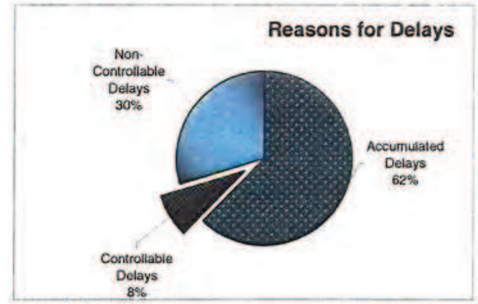

UTILIZATION AS A PERCENT OF AEQ PROVIDED
ROUTE 4
ROUTE 5
ROUTE 6
ROUTE 9
ROUTE 8
ROUTE 12
RT. GRP. 6.
80
75
70
65
60
55
50
45
40
35
1
2
3
4
5
6
YEARS 2006 TO 2011

Round Trip Service Delivery and On Time Performance 2010/11 - Year Ended March 31, 2011

Route Group 4 - Minor Routes







Controllable = Under the control of the company (loading procedure, fuelling, etc.)
Non-Controllable = Out of the control of the company (bad weather, medical, etc.)
Accumulated = Delays accumulated over the course of the day as a result of an earlier delay

Routes	Minor Routes Description	Actual Round Trips	Round Trips Required	Net Extra RT (Short RT)	% Sailings Overloaded
Route 04	Swartz Bay-Fulford Harbour	2,879.0	2,879.0	0.0	6.5%
Route 05	Swartz Bay-Southern Gulf Islands	3,503.0	3,493.0	10.0	4.3%
Route 06	Crofton-Vesuvius Bay	5,029.0	5,046.0	-17.0	4.1%
Route 07	Earls Cove-Saltery Bay	2,876.0	2,876.0	0.0	0.9%
Route 08	Horseshoe Bay-Bowen Island	5,570.0	5,570.5	-0.5	10.7%
Route 09	Tsawwassen-Long Harbour	821.0	830.0	-9.0	3.0%
Route 12	Mill Bay-Brentwood Bay	3,185.0	3,215.0	-30.0	15.8%
Route 13	Langdale - Keats - Gambier Island	4,156.0	4,060.0	96.0	Pass only
Route 17	Little River (Comox)-Powell River	1,431.0	1,458.0	-27.0	1.3%
Route 18	Westview (Powell River)-Blubber Bay (Texada)	3,622.0	3,648.0	-26.0	0.5%
Route 19	Nanaimo Harbour-Descanso Bay (Gabriola)	5,724.0	5,732.0	-8.0	4.0%
Route 20	Chemainus-Thetis-Kuper	3,996.0	4,013.0	-17.0	2.4%
Route 21	Buckley Bay-Denman West	6,326.0	6,149.0	177.0	6.0%
Route 22	Gravelley Bay (Denman East)-Shingle Spit (Hornby)	4,770.0	4,482.0	288.0	10.2%
Route 23	Campbell River-Quathiaski Cove (Quadra)	6,183.0	6,253.0	-70.0	8.0%
Route 24	Heriot Bay (Quadra)-Whaletown (Cortes)	2,088.0	2,136.0	-48.0	12.5%
Route 25	Port McNeill-Sointula-Alert Bay	3,943.0	3,961.0	-18.0	2.3%
Route 26	Skidegate-Alliford Bay	4,339.5	4,378.0	-38.5	0.5%
MINOR Route Group Total		**70,441.5**	**70,179.5**	**262.0**	**5.5%**