Reprint

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Inter-island ferry fares will double between 2003 and 2012 ~ Patrick Brown

The BC Ferry Commissioner, Martin Crilly, has issued his preliminary decision on fare caps for the second Performance Term, starting April 1, 2008. It forecasts that fares for BC Ferries' 2011/2012 Fiscal Year will be increased between 18 and 22% over today's fares (including fuel surcharges) for the major routes, and between 31 and 37% for the 'other' routes.

This forecast assumes that the provincial government contribution to the costs of the 'other' routes will remain at the same level it has for the first Performance Term, five years ending March 31, 2008.

Since the implementation of the *Coastal Ferry Act* by the provincial government in April, 2003, this means that by 2012, fares on the major routes will have risen by approximately 50%, while fares will have nearly doubled on 'other' routes—in nine years.

The major routes include the profitable Tsawwassen-Swartz Bay and Horseshoe Bay-Nanaimo routes, and the money-losing Tsawwassen-Duke Point run. The allowable profit level is set by the Commissioner at 14% of total corporate equity.

The 'other' routes include the Sunshine Coast routes, all the smaller inter-Island routes, the Mill Bay ferry, and the Northern Routes to Prince Rupert and Haida Gwaii. These have also been described as the 'taxpayer-supported' routes; the provincial government pays an annual subsidy, or 'service fee', for a given number of trips on each route.

Over the past four years, despite rising costs and three 'extraordinary' fare increases granted by the Commissioner in recognition of rapidly rising fuel prices, the provincial 'service fee' has not increased. The result is that farepaying ferry users have had to bear the entire increase in costs, including the increases in fuel costs. On major routes, which are essentially unsubsidized, this has resulted in an increase of some 21% in fares; on the 'other' routes, because there has been no increase in the provincial subsidy, the increase has been nearly 50%.

This is consistent with two of the announced objectives of the *Coastal Ferry Act*: to eliminate the subsidization of the smaller routes by the main routes, and to move all routes to a completely 'user-pay' system.

A third objective, to keep BC Ferries 'honest' by encouraging competitors to bid on some of the routes, has not so far yielded any proposals.

Commissioner's Role

Crilly has emphasized that he does not in any way represent the public interest, nor is he empowered to seek or accept any representations from the public. He is also specifically prohibited from considering the social or economic effects of ferry fares on individuals, the public, or communities.

His role is strictly to conduct the fare-setting process and ensure the financial viability of ferry operators, whether they be BCFS or others. (BC Ferries Services Inc is the provincial government-owned company set up to contract with the provincial government to serve as the initial 'privatized' operator of the ferries for the provincial government, and succeed the previous BC Ferry Corporation, which was a Crown Corporation and part of the provincial government.)

Setting Fare Caps

The process of determining the fares for the second Performance Term started last fall with a submission by BC Ferries Services Inc (BCFS) to the Commission.

The Ferry Commissioner is playing his part in the determination of fares by carrying out the calculations mandated by the *Act*. He has developed these new fare cap estimates based on the figures supplied by BCFS.

(Fare caps represent the average fares to be paid by ferry users within the various route groups that make up the ferry operation. BCFS is not allowed to charge fares that would take the average above the caps; if this does happen, they must lower fares for a period to return to the acceptable level. But specific fare increases may exceed the increases in the caps, as many Powell River residents have noted.)

The Commission process requires that, by March 31 of the year prior to the renewal on the contract, he make an estimate of the fare caps that would result from estimated costs of operation of the ferries for the next four-year Performance Term. In doing this, he is required to assume that there would be no future increase in the 'Service Fee' to be paid by the provincial government under the contract, currently nearly $100 million/year.

There are two exceptions to this. First, the provincial government has agreed to contribute a one-time additional $5 million to the accumulated deferred fuel costs (currently, this is a sum of about $26 million representing fuel costs over and above those recovered from the fare increases).

Secondly, the provincial government counts into the 'Service Fee' reimbursements to BCFS for the weekday free passenger fares for BC Seniors, for medical trip costs, and contributions to student and disabled fare discounts. These amounts, naturally, rise every year with fare increases.

The federal government also contributes a subsidy towards the provision of ferry services on the west coast of Canada, some $24 million; this subsidy rises every year by the increase in the cost of living (the provincial government Service Fee does not).

Calculating The Numbers

The Commissioner has set the 'preliminary' fare increases for the second Performance Term at 5.4% for major routes and 3.6% for other routes, to take effect on April 1, 2008. (It should be noted that these percentages are applied to the fare caps following the coming November, 2007 increases of 2.8% on major routes, and 4.4% on other routes. The current levels of fuel surcharges are also to be added into the fare caps prior to calculation of the April 1, 2008 increases.)

Following this, the increases that would occur on April 1, 2009, 2010, and 2011 would be based on the increases in the Consumer Price Index. The formulas announced by the Commission are:

• for major routes, 2.0% + .5 x CPI (for a CPI of 2%, the total would be 3.0%; for a CPI of 4%, the total would be 4.0%)

• for other routes, 5.2% + .73 x CPI (for a CPI of 2%, the total would be 6.66%; for a CPI of 4%, the total would be 8.12%)

The method by which these formulae have been calculated has not yet been made available by the Commissioner, despite promises made on his website. It should also be noted that the CPI used includes the price of fuel, so part of any anticipated fuel price increase is in effect 'built in' to these fare increases.

According to the Commissioner, the distribution between routes of the service fee and the federal subsidy will also be recalculated in order to ensure that future fare increase percentages are consistent throughout the 'other' routes. Until the Commissioner publishes his calculations, it is a mystery how this will be done.

Setting the Service Fee

Following the publication of the 'preliminary' fare caps, the provincial government has three months to decide whether it wishes to increase the 'Service Fee'. Over the last four years, the government has been asked, on the occasion of each 'extraordinary' fuel surcharge increase, whether it wishes to increase its service fee, and on each occasion it has declined. It now has a three month period, until June 30, 2007, to make a decision on whether to increase its fee (or change the level of service it will pay for) for the four years of the next Performance Term.

During this time, it is expected that the Minister of Transportation may meet with Ferry Advisory Committees; however, there is no provision for formal representation from the communities, businesses, or individuals affected by higher ferry fares; no provision for public hearings; no mechanism for public feedback.

Ferry Riders Satisfied With Fares?

The Commissioner has recently remarked on the low level of public comment on the fare increases, and fuel surcharges, that have taken place over the past few years. The Commissioner has also noted that there seems to be no substantial reduction in the number of ferry travellers; there has not been any significant increase either. This appears to have been taken as an indication that ferry riders are satisfied with the current and projected fare levels.

Of course, any increase in the Service Fee would have the effect of reducing future fare levels. When the provincial government has announced its decision, the Commissioner has three months to calculate the resultant fare caps, to be announced at the end of September, 2007. If the government does not increase its service fee, the increases will not change significantly from the preliminary levels that have recently been announced. ✐

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