



SEMINAR FOR CHAIRS OF FERRY ADVISORY COMMITTEES

on

Price Caps And Measurement Of Average Fares: Questions and Answers

November 14, 2007

In the fall of 2007 the British Columbia Ferry Commission received a number of queries from Ferry Advisory Committee (FAC) members. They sought more detail on how the Commission calculates average fare levels and price caps for BC Ferries' regulated routes. Accordingly the Commission organized a seminar for FAC chairs which was held in Nanaimo, B.C. on November 14, 2007. This paper records the written questions submitted by FAC members before the session and provides the Commission's responses.

CONTENTS

1: Some November 1 2007 increases in excess of 4.4%?	2
2: Detailed tariffs to be approved by Commission?	2
3: Fare mix constant?	3
4: Catch-up increases allowed?	3
5: Actual average increase generated November 1 2007?	4
6: Rolling four-quarter average or not?	4
7: Review warranted in performance term two (PT2)?	5
8: Data for individual routes within groups?	5
9: Unweighted increases of individual fares?	5
10: Distribution of federal subsidy?	6

Abbreviations used below

BCFS	British Columbia Ferry Services Inc. (BC Ferries)
FAC	Ferry Advisory Committee
HSB	Horseshoe Bay
Prepays	Prepaid tickets sold at a discount to the regular fare (in booklets of 5 or 10)
PT1 (2)	Performance Term One (Two)
RG	Route Group

1: Some November 1 2007 increases in excess of 4.4%?

Some of the November 1 increases are in excess of the advertised 4.4 %, which I presume is in order, as long as the average fare index (paid by the ferry customers) does not exceed the price cap index. I was surprised to see that per end March 2007 our (HSB-Langdale) fares paid have almost caught up to the price cap index! There is normally an approx. 1.5 point difference between the two indices, which are explained by the prepaid ticket discounts. Is there any particular reason for this sudden development per end March 07, and if yes, what is the reason?

Commission response: It appears that BC Ferries have, legitimately, been increasing fares up to the maximum they are allowed, and not leaving any "money on the table".

2: Detailed tariffs to be approved by Commission?

Is BCF required to have your approval on any tariff they wish to implement?

Commission response: No

If yes, presumably you've approved the Nov/07 tariff?

Commission response:[We have not approved the November 07 tariff]

Do you have the authority to intercede in the Nov/07 tariff in light of the discovery that there has not been a significant gap between average fares and the fare cap?

Commission response: We do not agree with the premise that the fare cap has been exceeded as of November 1. Our first quarterly measurement to capture the new tariff will be at December 31, 2007. We will have that measure 2 months later, March 1 2008.

If so, are you going to?

Commission response: Our Order 05-01 allows one quarterly measurement (of the four-quarter trailing average) to be over cap. We may act if the following quarterly measurement (at March 31 2008) is over cap. We will know that on June 1, 2008.

3: Fare mix constant?

Is the mix of fares used to set the price cap index in Apr/03 presumed to remain constant through all of PT1? Or is it adjusted on a quarterly or annual basis to reflect changes in the fare mix?

Commission response: In all cases the traffic mix (as measured by revenue share) is moving, not fixed at the 2003 mix (Paasche Index).

We need these quarterly revenue shares by traffic type to compute two things: (1) the average fare index (they weight the growth in the average fare of the different traffic types) and (2) the price cap (to govern how it is phased in over the year in unequal quarterly amounts to reflect seasonality)]

Can you tell us what the actual numbers on the prepaid and cash fares have been over the past four years for the minor route group? Or some index of growth or shrinkage of each? There is a sense that the shift has been strongly away from cash fares as traffic dwindles, and only modestly up on prepaids.

Commission response: You may be right. BCFS will have the data and we can request it.

4: Catch-up increases allowed?

Does BCF have the legislated ability to increase fares beyond the fare cap in the current period to recover money they believe was left on the table in prior years, due to changes in the fare mix or their having consciously raised fares less than the allowed limit?

Commission response: BCFS can raise fares by a percentage greater than the legislated increase in an attempt to narrow the gap between the actual index and the price cap but, of course, if such an action causes the actual index at the next (or subsequent) quarter end to be over the price cap index they must take action to bring the actual index to a level at or below the price cap. This would not result in any recovery of "money left on the table" in a prior year.

Sort of as above, but does BCF essentially have a five year window to achieve their 4.4% fare increase, or more appropriately, revenue increase?

Commission response: No. It's an (weighted) average fare increase, not a revenue increase, that is capped. BCFS can increase their revenue by increasing traffic volumes carried.

If so, do they have the legislated approval to back-end load it as they are now doing, raising fares well above the 4.4% cap?

Commission response: See response above.

5: Actual average increase generated November 1 2007?

Can you advise us what the actual average fare increase is that will be generated by the Nov/07 tariff? It's certainly well over 4.4%.

Commission response: We measure quarterly, and we will have the (4-Q trailing total) weighted average fare at December 31, available 2 months later for publication.

The Act says the average fare index must exceed the fare cap index for four quarters before any remedial action is taken. Notwithstanding this, do you have the authority to apprehend a fare increase that will clearly generate average fares well over the price cap without waiting for four quarters? The concern is that the fares prescribed for the next 5 months will be well over the price cap, and BCFS could say, Gee, Sorry, we'll settle back to the agreed price caps in Apr/08, but they will be based on the overloaded fares presently being implemented.

Commission response: The average actual fare index (a four-quarter moving average) is compared to the price cap index every quarter. We can take action if BCFS exceed the price cap for one quarter and fail to bring the actual fare index under the price cap within the following quarter. We cannot agree with the premise of being over cap, yet. If it is, BCFS may face (deliberately unspecified) penalties for non-compliance with our Order 05-01.

6: Rolling four-quarter average or not?

Is it the average fares for the quarters, or the rolling four quarter average fares, that are used to indicate whether they exceed the fare cap for four consecutive quarters? The concern is if it's the rolling averages that must show up as too high for four consecutive quarters, it is unlikely there will ever be seen to be a problem, and if there is, it will be over two years old before it is dealt with. That is a problem at end of term time such as where we are now.

Commission response: The rolling averages can be over on only one occasion, not two consecutive quarters, to remain compliant -- which should relieve your concern.

If BCF had been properly unbundling the through fares to Rtes 4 and 5 from Apr/03, would the gap as presently shown not have existed? May we have a reconstructed 'average fares index against fare cap index' graph throughout PT1? Important as we have been advised that it was the gap between the two that was the driver for the sharply increased fares we are now seeing.

Commission response: We believe it wouldn't have made any difference as to whether or not BC Ferries was compliant in the past on the minor routes. Not sure it's easily re-plotted --we will discuss with BCFS and advise you.

7: Review warranted in performance term two (PT2)?

If BCFS raises their fares as presently set out, it will mean the fare increases of PT2 will generate a lot more revenue than would have happened if the Nov/07 increase had been limited to 4.4% as we all anticipated. Would that then warrant a review of the fare caps for PT2? If not, why not?

Commission response: Do not agree with the premise. If the Nov/07 fare increases cause the actual average fare index to be over the price cap at Dec./07, BCFS are required to take corrective action to comply with the price cap index at the end of March 08. BCFS cannot gain by starting PT2 from a higher index level by increasing fares above 4.4% on Nov.1/07. Remember that in future BCFS can offer fare discounts from the fares announced November 1, in order to remain under the cap.

8: Data for individual routes within groups?

Could you bring data that would allow each of us as FACs to do the price cap vs average fares comparison for our own routes.

Commission response:

We believe this is technically possible though laborious. It would show how far BCFS is adjusting fares on one route relative to another. We question what would it accomplish.

I still believe there is value in more collaboration between BCFS and FACs on subjects like fare setting (e.g. cash vs prepaids, and commercial vs others, that would allow us to "protect" our communities long term viability.

I have heard that it has been said that you have removed \$75 million from BCF with the challenge that they continue to pursue productivity initiatives. This was apparently said in the context of a fare increase discussion. Makes me concerned that your challenge will get passed to users not to the process managers within BCFS. All the more reason to enable us to be more involved in some of the fare setting process. Someone has to be accountable for impact on economic viability of communities ... and so far FAC's are the only party missioned to do that. Otherwise the FACs simply become sounding boards and legitimacy providers for the juggernaut that threatens to overwhelm us.

Commission response: We understand that BCFS wish to encourage more discussion with FACs on this issue.

9: Unweighted increases of individual fares?

Suggestion:— ferry users were advised that: for the first time, they would have some certainty in fares: a fare cap that would limit fare increases for the performance term. There was latitude to balance the increases within each route group, BUT there would be a percentage beyond which fares would not be allowed to go. (4.4% for the non-majors). The tracking graph indicates average fares, not average fare increases related to the 4.4% promise (and legislation). A more useful and appropriate graph would show the average increase, as a percentage across each route group.

That would still weight the average by where the increases occurred but would take out of the equation the mix factor, or the absolute dollar value if you will. Such a graph would be more meaningful in terms of informing people how well the promise was being adhered to.

..(a).. table (has been developed) showing fares from 2003 by category by minor routes, indicating annual and cumulative fare increases by year. No attempt has been made to weight them within or between routes but the numbers seem to suggest that the average fare increase, as a percentage, was well over 4.4% annually by 2007 prior to the November increase. Fuel surcharges have been stripped out of the fares, so they are not an influencing factor.

Commission response: The annual or cumulative percentage increases by category, without the weights, in our view, do not inform the reader whether or not BCFS has stayed within the price cap.

10: Distribution of federal subsidy?

In your PT2 decision, or the contract amendments, nothing is mentioned about the distribution of the Federal subsidy of some \$26 million. Would you clarify this issue for us

Commission response: the Commission continues to recognize the signed statement of intent of province and BCFS to contract in such a way as to equalize rate of growth of price cap for all RGs through PT2 by redistribution of service fees (and, by implication, federal subsidy) among RGs i.e. growth starting from base of price cap plus fuel surcharges that shall be in effect at the end of PT1 on each RG. The service fee redistribution announced June 30 was in close proportion to total federal plus provincial funding supplied to the Commission (as required by both BCFS and the province before June 30 when service fee redistribution was announced). Accordingly the (new) distribution of federal subsidy is in close proportion to the (new) provincial service fee distribution.

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