

**BC Ferry Commission
MEMORANDUM 24**

To: Mr. Bill Cottick
Executive Vice President and
General Counsel
BC Ferries

Ms. Kathie Miller
Assistant Deputy Minister
Transportation Planning and Policy
Government of British Columbia

From: Martin Crilly
Commissioner

Date: March 30, 2007

Re: BC Ferries: Fuel Price Adjustment for Performance Term Two

We expect that fuel prices will continue to be volatile through the second performance term (PT2). This will cause wide variation in BC Ferries' costs. The purpose of this memorandum is to describe a method of establishing and adjusting fuel surcharges/rebates for BC Ferries' customers through PT2 in response to changes in fuel prices, as part of our preliminary decision on PT2 price caps.

Status at end of PT1

Owing to a major increase in fuel prices since 2003, fuel costs charged to operations are at a below-market "set price" that rises annually by the increase in the CPI. The set price is estimated to be 44.76 cents/litre for fiscal 07/08. The difference of approximately 22 cents/litre between the set price and the actual price will be transferred to deferral accounts.

The costs accumulated in the deferral accounts are intended to be offset by the revenue from the fuel surcharges and are maintained separately for each route group. Annual revenue from the fuel surcharges currently exceeds the annual transfer to the deferral accounts, except for the route group 3 (northern routes 10 and 11), with the result that the backlog of deferred costs, estimated to be \$25.6 million by March 31 2007,¹ is being reduced.

Any remaining backlog of costs in the deferral accounts at March 31, 2008 will be included in an adjustment to price caps over the four-year period of PT2 to permit recovery of these deferred costs by the end of PT2.

¹ Before any pay-down by the Province of the northern route groups' fuel deferral account balances: the Province's intention to pay down a substantial portion of the northern route groups' fuel deferral balances was indicated to the Commission by the B.C. Ministry of Transportation and BC Ferries, by letter dated March 17, 2007.

Fuel Set Price and Fuel Surcharge/Rebate Mechanism for PT2

We propose the following mechanism for PT2:

- Continued use of a “set price” for fuel to determine the amount of fuel costs charged to operations will be included in the price cap (regular fare) with a “band width” for fluctuations of up to 5 cents/litre to be shared between BC Ferries and fare payers. The fare payers’ share will be charged/credited to the fuel deferral accounts.
- The set price will be determined by the Commission by September 30, 2007 as the best estimate of the expected price at the start of PT2 and will increase by the annual change in the Vancouver CPI. Variations in the set price among route groups shall reflect only the cost of delivering fuel.
- Separate deferral accounts will be maintained for each route group and interest will be charged/credited on the balances.
- The cost of price fluctuations beyond the range of 5 cents/litre above or below the set price, calculated on a monthly basis, will be transferred to deferral accounts by route group.
- When the month-end balance in the deferral accounts for a route group exceeds 2% of the annual pre-surcharge tariff revenue for the route group, BCFS will adjust the fuel surcharge/rebate to eliminate the expected deferral account balance, including the expected growth in the balance, over the following 12 months or the remaining period of PT2, if that is shorter.
- Changes to the fuel surcharge (or rebate) may not be made more frequently than quarterly and BCFS must give 15 days public notice of the change. An application under section 42 of the Coastal Ferry Act for an extraordinary increase in price caps will not be required in respect of such changes in the fuel surcharge, because the Commission is providing for this adjustment as a part of the price cap-setting process for performance term two.

This method of adjustment may result in changes to the fuel surcharges/rebates by route group occurring at different dates.



Martin Crilly
BC Ferry Commissioner