

Thoughts on BCFerries PT4 Efficiency Plan

The following are some preliminary thoughts from the Southern Gulf Islands Ferry Advisory Committee on the PT4 Efficiency Plan. Given that one of the document's four pillars is a Southern Gulf Islands (SGI) Strategy, we have some specific comments. We also have some thoughts on the other three pillars.

As an overarching observation, we are pleased to see BCF focusing on just four identifiable strategies, each of which may serve the system and the community well over the coming decades. That said, we have a few reservations.

First, the SGI Strategy . . .

"The southern Gulf Islands network of routes is the most complex within the BC Ferries system . . .". True statement.

"Due to its complexity, the southern Gulf Islands network of routes offers the greatest opportunity for improved efficiencies in the Minor Route system." Amazing statement.

Many would say the opposite is true. Given the network complexity, it's extremely difficult to make a material change in one element without generating negative effects elsewhere in the route(s). People and businesses develop travel practices based on existing schedules. Disruptions to those schedules can and do cause substantial community distress. Today's schedule has evolved over decades, and even still has insufficient capacity to handle existing traffic at some stress points. 'Overload' in the SGI means a three to four hour wait for the next sailing. As often as not, it means a cancelled trip as the wait destroys the purpose of the trip. Moving underutilized capacity to satisfy insufficient capacity points is much easier to say than to do. We've tried repeatedly.

Saying 'the complexity of the system provides the greatest opportunity for improved efficiencies' does not make it fact.

BCF staff introduced the intermediate class ferries to the island communities, and did a good, no-frills job of it. While they listened to what people had to say, the tour was essentially a presentation of where they were in the program, including a broad-brush picture of the two vessels. There would be two intermediate size vessels replacing the one larger vessel (the *Nanaimo*) and the supplementary service provided by the *Bowen Queen* in the summer. That meant, for the first time, there would be much-needed additional capacity through the shoulder season. Everyone applauded. It was explained that the second vessel would be used in the off-season (mid-Oct to Easter) as the refit replacement for the Rte 17 vessel and the other Rte 9 vessel. It might also be used as the replacement for the *Cumberland*, the *Capilano* and the *Skeena*, all of which are now less than adequately covered by the *Bowen Queen*. It will also be out of service during its own refits. This all made sense.

The new vessels would load, unload and travel faster than the *Nanaimo*. This was claimed to translate into more trips, increased service. No specifics were available. It's hoped they will be soon, as part of the community consultation.

Although Routes 5 and 9 interlock, Rte 9 connects the SGI and Salt Spring to the mainland while Rte 5 connects the four Southern Gulf Islands to Swartz Bay and to each other. Their roles are totally different. Rte 9 is heavily used on weekends, particularly in the summer. Rte 5, the working life-line for the SGI, is heavily used during the week, all year.

Given the stated refit replacement duties for the second vessel, we are at a loss to see how it might factor into relief for Rte 5. If it were to be totally dedicated to Rte 9 and the SGI, conceivably it could provide weekday service to Swartz Bay in addition to its weekend links to the mainland. Maybe. But it would need to be available year round, eliminating its capacity to provide refit back-up.

As to reducing the number of Bowen Class vessels, conceivably the second vessel could permanently replace the *Bowen Queen*, the current back-up vessel for several smaller and mid-size ferries. Unlikely though, if it's working Rte 9 from Easter until Thanksgiving. Too much work, too little time.

We are pleased to see BCF acknowledging that development of this strategy will require substantial public consultation. To this point there has been no public consultation other than the initial presentation of the vessel characteristics. We have seen no results of the SFU studies. We have been advised that work is presently well underway within BCF on possible scenarios. We'd like to think that meaningful public consultation would occur at key points throughout the development process. Not as notification of the conclusions at the end of it.

Until informed otherwise it appears to us that there is a lot more expected of these two ICF vessels than can possibly be delivered. We look forward to learning more about what BCF has in mind, underpinning the blue sky hope list. Cold reality is just two years away.

The Saturna short link to Mayne Island has lain dormant on the table for over two years. It's good to see it may finally get the analysis it deserves. As presented, it appears such an addition could reduce or even eliminate costly travel up and down Navy Channel, freeing up the *Mayne Queen* and the *Cumberland* to provide more effective and cost-efficient service, while reducing the present scheduled and unscheduled overtime bill. If it comes to pass that the second Rte 9 ferry may be integrated into Rte 5 service, the short link could complement such a change. As a side issue, it would seem to be a logical application for a cable ferry, eliminating remote fueling concerns. Given provision of this link would involve a) locating staff on either Mayne or Saturna, b) acquisition of a suitable vessel, and c) right of way access, thorough review will be needed. While significant costs might be involved, equally significant savings may be able to be realized.

Another issue expected to be included in any SGI Strategy would be homeporting one or both vessels in the islands, eliminating costly and inefficient deadheading to and from Swartz Bay in the morning and evening.

As to terminals on Salt Spring, not really an SGI issue. That said, any consolidation would be geography-driven, and likely involve creation of a new terminal to replace two existing ones (probably Long Harbour and Fulford Harbour). This would be a major decision needing a bullet-proof business case.

Liquefied Natural Gas (LNG) Efficiencies . . .

It all sounds good on paper. We note that much is made of the fuel savings, which are based on recent prices for both diesel and natural gas. Those savings may vary with fluctuations in prices for both fuels, introducing an element of risk to realization of the anticipated savings.

Our concern is that while the fuel savings are headline items, virtually nothing is being said about the conversion costs for the two Spirits. While the fuel savings will reduce the overall costs, the interest and amortization costs will *increase* the costs, both affecting future fares. The section 55 submission blanks out the cost data, presumably for commercial reasons.

However, in the interests of transparency, or credible representation, it would be well-received by the ferry-using community if we could see the capital costs along with the fuel savings. Both are real, and both will affect fares. Receiving half the story suggests something untoward is being hidden.

While there is a premium to be paid for LNG application with new vessels, it's likely much less proportionately than with the conversions.

Business Transformation Strategies . . .

It sounds wonderful – being able to set fares by time of day, week and season depending on utilization. Bargain prices in off-peak times. More traffic. The concept isn't new. Airlines, cruise lines and hotels have been doing it forever.

The big difference here is that BCFerries is a monopoly providing essential life-line transportation services to a great many coastal communities, from Saturna Island in the SGI to Graham Island in Haida Gwaii. This, as well as providing mainline, high volume service between the lower mainland and Vancouver Island.

Fares are regulated under a fare cap process. However, fares can be adjusted as BCF sees fit, provided the average fare across the system is at or under the fare cap most of the time. This flexibility allows for such wobbles as that presently in

place where the passenger fare increases for all routes, except the two northern ones, sit at 5% against the fare cap of 4%. Our calculations indicate this overcharge will generate substantially more revenue than that needed to meet the fare cap. This allows BCF to invest in fare reduction promotions such as the one in place this summer on Routes 30 and 1. Effectively, the minor routes are subsidizing the major ones in this instance. This is within the rules as long as the overall average fare, one way or another, falls within the fare cap at the end of the day.

The point of the above is that with considerably more pricing flexibility, it may become next to impossible to know when customers on some routes are overly subsidizing customers on other routes. It has been regularly pointed out that the major routes are the money-makers in the system, warranting preferred treatment, compared to those routes requiring government contribution. The recent round of service cuts amply demonstrates the balance between providing essential transportation to coastal communities vs maximizing profit.

The increased flexibility will be good if it can generate new traffic without doing it at the expense of the ferry-dependent communities. The last decade has seen minor route fares increase at and beyond twice the rate of those of the major routes. The coastal communities have been pushed beyond the tipping point. Any new capacity to manipulate fares needs to have assured protection for the minor routes. Simply requiring the overall average fare to be at or lower than the fare cap will no longer suffice. The problem is here already.

The efficiency document, p 7, reads *“Increases in transportation service fees and other revenue of approximately \$24 million offset, in part, what would otherwise be a revenue shortfall of \$33 million due to traffic levels.”* That’s a \$33 million shortfall due to *lost* traffic. It is our fervent hope that BCF and the Ministry will eventually realize that the barrier level fares are the primary cause of the ongoing traffic losses at a time when there should be traffic gains. In the absence of a major recalibration of fares, all the contemplated efficiency initiatives, best case, won’t bring back the traffic or the economic hopes for coastal communities.

The Major Routes Strategy . . .

One is reminded of a deer in the headlights. Easy to see the problem; hard to know what to do about it. And time is a critical factor.

The BCF submission details the problems but only hints at possible solutions. There are no easy ones. The very limited summer fare promotion on Rte 30 and the greatly improved south Fraser access to Tsawwassen probably contributed to migration of a couple thousand vehicles from Rte 2 to Rte 30. A blip in the big picture.

Rte 30 continues – FY2014 results – to hemorrhage money resulting from less than 50% utilization. It's obvious there's a need to either reduce service or increase traffic on the route. We've suggested reducing the service and implementing a Rte 9 type reservation program. This would assure drivers that they'd be on the sailing they wanted and virtually eliminate overloads that might otherwise arise from service reductions.

One thing that seems certain is cessation of vehicle service on Rte 2 would be met with a monster backlash. Reduction might be tolerated and could move some borderline traffic to Rte 30. But it's still a long drive from West Vancouver to Tsawwassen. There's always going to be vehicle traffic to not only Nanaimo, but to the north island, the Alberni valley and south as far as Duncan.

While it does nothing for the Rte 30, Rte 2 dilemma, it would seem the easier adjustment to make would be expanding Duke Point, re-establishing the transit service and closing Departure Bay. People adapted to Tsawwassen and Swartz Bay when no longer provided with harbour-to-harbour service. Not inconceivable the same could happen in Nanaimo, if a sufficient business case supports it.

Overall impression: The Efficiency Report is largely blue sky as far as hoped for savings on the major routes, the southern gulf island routes and the enhanced business strategies to be enabled by the ACE software. Lots of potential. Not a lot of specifics. Room for guarded optimism, but much more detail needed. The LNG strategy appears to be well underway, but would benefit from more complete presentation of the facts of importance to customers.

Respectfully,

Brian Hollingshead, Chair
Southern Gulf Islands Ferry Advisory Committee

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