

BC Ferries seeks 20% fuel surcharge Island Tides – June 26/08

BC Ferries CEO David Hahn shocked ferry users from Tsawwassen to Prince Rupert on June 17 when he suggested that fare increases up to 9% on major routes, and 20% on minor routes, would be necessary to cover recent increases in the price of marine diesel fuel. Then he went further, to indicate that these increases should be put into effect as early as August, rather than waiting until the normal increase date of November 1.

Fuel Surcharges on Autopilot

This is because Hahn no longer has to ask the BC Ferry Commissioner, Martin Crilly, for permission to charge fuel surcharges on top of authorized fares. Under the new rules for Performance Term 2 (Commission Memo 24), BCFS is permitted to unilaterally adjust fuel surcharges for each route group whenever the balance in the fuel deferral account exceeds 2% of the annual tariff revenue. The new surcharge rate is supposed to be calculated to eliminate the balance in the fuel deferral account within 12 months. This was probably the basis for Hahn's recent statements.

BCFS does have to give 15 days public notice of any change, but an application to the Ferry Commissioner is no longer required since the new rules were approved.

Steep Price Increases in Fuel Costs

When BC Ferries Services Inc took over the ferry system in 2003, diesel fuel oil cost the company about Canadian \$40 per barrel. The ferry corporation uses about 1.3 million barrels per year, so the fuel bill was about \$52 million. Since that time, the cost of fuel has risen steadily and steeply. In 2005, BC Ferries found itself no longer able to buy most of its fuel at an 'Edmonton par' price which tracked the price of crude oil, but had to fall back on a 'Vancouver rack' contract which added about \$20 per barrel to fuel costs, raising them to about \$90. Since that time, fuel oil prices have risen further; they are currently about \$1.16 per litre, and BCFS' fuel bill for 118 million litres is now close to \$137 million per year. The increase in fuel prices would account for much of the

increase in costs charged to operations since the company was 'privatized.'

Fuel Cost Deferral Accounts

Not all of the increased fuel costs have, however, been charged to operations. Over the past three fiscal years, about \$95 million of the additional fuel cost has been charged to 'fuel cost deferral accounts', and much of it recovered through fuel surcharges.

In principal, deferral accounts (there is one for each route group) work like this: a standard cost for each litre of fuel used is charged to the route. Currently, that standard cost is 78¢/litre. The difference between that cost and the actual cost of fuel delivered to BCFS (currently, \$1.16–0.78¢ or 38¢/litre) is charged to the deferral account for that route group.

When fuel surcharges are collected from ferry users, the money is used to offset the accumulated charges in the deferral account, and is not counted as revenue. The rate of the surcharge is set so as to reduce the deferral account to zero in a specified time, thus protecting the ferry rider, and BCFS, from sudden fluctuations in both fuel costs and fares. Initially, when fuel costs first started to rise, the deferral account recovery target date was set far ahead, so as to make any changes as gradual as possible. The rules, however, provide for recovery within twelve months, with possible quarterly adjustments. With rapid fuel price increases, this could lead to sudden fuel surcharge changes.

Provincial Government Contribution

In the past, when each fuel surcharge change required a separate 'Order' from the Ferry Commissioner, he was required to allow a month after BCFS' application for increase to allow for public comment, and also to formally ask the provincial government whether it would like to take the opportunity to make an additional contribution to the cost of operating the ferries.

However, the Commissioner's responsibility is first and foremost to ensure the financial viability of BCFC (and any other operators, were there any), and so public comment, almost invariably negative, had little effect.

The sinking of the *Queen of the North* left the company with a substantial deferred fuel account balance with no way to recover it, so the provincial government made a grant of \$5 million as a form of one-time assistance. But aside from that, the provincial government has never indicated any willingness to enhance its contribution.