

## ***S. Your FAC's Position statement on Price Increases.xls***

### **Entering Performance Term 2 (PT2) - Assessment of the Current Situation**

The radical increase (55% including fuel surcharges) of fares well above CPI in the last 5 years have resulted in growing stress on the viability of our community and ferry services. The Ferry Service is being impacted because an increasing number of our residents are reducing their use of the ferry service. The community is being impacted as some residents are beginning to consider leaving, and some businesses come under pressure dealing with rising transportation costs and having to pay to get staff to come to the island.

The ferry is our highway, our access to essential services. The government's social contract includes the responsibility to invest in and sustain transportation infrastructure.

With the government not participating proportionately in covering fuel surcharges the entire burden of fuel increases has been laid on the users. The surcharges make up 21% of a residential passenger's fare today.

Since at the outset of PT2 the Commissioner wants to raise the fare base even higher by including the surcharges in the initial fares, if fuel costs decline the surcharges cannot be removed. Added to this the PT2 annual percentage price increases allowed have increased by 34% over those in PT1. And this does not include any future fuel surcharges. The net result of this is an expectation of at least another 35% increase in fares (3 times higher than CPI) in PT2 ... in total, over a 100% change since PT1 began. And this is without taking into account any PT2 fuel surcharges.

So if the Commissioner's recommendations get accepted by the Government, or if Price Caps and Government funding are not governed by CPI, the Minor Routes can expect significant detrimental effects on the sustainability and economic viability of all ferry dependent communities.

It is interesting to note that no formal studies have been done to determine the elasticity of demand in an environment of rising prices for ferry dependent communities. BC Ferry's increasing ridership forecasts may be seen as optimistic.

Without the counter balance of data concerning economic impact, a continued, focused drive toward total User Pay will jeopardize the viability of both the communities and the ferry service. On Route 20, to reach 100% User Pay either Cost of Capital and Operations must drop 80%, or fares must increase 400%, plus 50% more to cover 2008 Capital Costs. The Minor Routes overall are currently at 41% User Pay, rising to 46% at the end of PT2, our Route 20 is at 17%. The reality is the Minor Routes cannot achieve 100% User Pay.

### **Elements needed for a "workable" Solution**

We, the users, must recognize the value of the service provided to us by being willing to pay fair prices for quality service through fares that are capped by CPI.

In the absence of disciplined studies of negative impacts on our communities by any of the decision makers, now is the time to act. We must be ready to make the effort to communicate the current and projected impact on our families, our businesses and our community ... to put pressure on the decision makers by writing letters and e-mails, getting support of local governments, Chambers of Commerce, Tourist associations, etc.

For their part, the Government needs to demonstrate that protecting the public interest includes not only maintaining viable services but also viable communities.

Since the ferry is our "highway" to essential services, Government's commitment to infrastructure development for economic development needs to include capital investments in ships and terminals as well as roads and transit systems. This commitment has been shown in the support given to the Northern Routes in 2006.

The risk resulting from worldwide uncertainty of fuel prices needs to be shared by the ferry service users, the provider and the Government funder alike. Innovative solutions like the Government covering the fuel surcharge backlogs (as in the North) need to be pursued. This area can be best managed by flowing the fuel surcharge balances through into PT2 as a separate item so that all can share not only in possible future price increases but also in price drops.

PT2 should create 3 focus areas for financial management ...

- a) infrastructure development through new ship acquisitions
- b) operational effectiveness through BC Ferries service quality and productivity targets, CPI based fare increases, and CPI based Government participation
- c) a shared risk approach to manage fuel price volatility.