



**BC FERRY COMMISSION**

**February 1, 2006**

**Questions for BC Ferries about the March 31, 2005 Report to the Commissioner**

1. What are the reasons for re-classifying some revenues and expenses in the 2004/05 Route Report versus the Annual Audited financial statements? There is an apparent difference in the treatment of Ancillary Revenue, Total Operating Expenses, Amortization and Interest Expense. Please refer to **Attachment 1**.
2. Why were the amounts for Operations, Maintenance and Administration expenses re-stated for the 2003/04 fiscal year in the 2004/05 Annual Audited financial statements? What was the basis for the re-statement? After the re-classification of 2003/04 expenses there was no re-statement of individual route operating expenses in the 2004/05 Report to the Commissioner. Why were the individual route finances not affected by the re-classification of expenses? Is a consistent method of classifying expenses going to be used for financial reporting for the balance of the first term of the Coastal Ferry Services Contract?

BC Ferry Services Inc. Audited Financial Statements Year Ended March 31, 2004	(\$ 000s)		\$	%
	2005 Annual Rpt	2004 Annual Rpt	Increase (Decrease) in 2005 Annual Rpt	Increase (Decrease) in 2005 Annual Rpt
<b>Expenses</b>				
Operations	286,048	261,387	24,661	9.4%
Maintenance	86,136	79,361	6,775	8.5%
Administration	38,862	70,298	(31,436)	-44.7%
Cost of retail goods sold	23,298	23,298	-	0.0%
Amortization	47,355	47,355	-	0.0%
<b>Total Expenses</b>	<b>481,699</b>	<b>481,699</b>	<b>-</b>	<b>0.0%</b>

3. The table on page 17 of the Report to the Commissioner classifies cancellations as to whether or not the cancellations are allowed by Schedule A,2(a) of the Coastal Ferry Services Contract. The shaded section titled “Cancels Not Allowed for in Schedule A,2(a) of the Coastal Ferry Services Contract” totals 60 sailings which have a service fee value of about \$53,000 (see attached **Attachment 2**). The reported service fees in

the Report to the Commissioner are about \$17,000 less than the maximum allowable service fees. How were the reduction in service fees calculated on a route by route basis, and how do the reduced service fees relate to “Cancels Not Allowed for in Schedule A,2(a) of the Coastal Ferry Services Contract”?

4. When individual route finances are compared to the vessel refit schedule, a large swing in expenses year-over-year can usually be explained by the timing or extent of the refits for vessels on a route. Please provide explanations for the large change in costs in 2004/05 for the following routes, which do not appear to be explained by the timing of vessel refits:
  - Route 4 (Fulford – Swartz Bay) had a significant improvement in Net Route Earnings in 2005 (\$836,000), partially due to a 5% increase in revenue. There was also a decrease in operating costs of \$476,000 in 2005 despite the fact the Skeena Queen did not go into refit in 2004 or 2005.
  - Route 20 (Chemainus-Thetis-Kuper) showed an increase in operating costs of \$418,000 in 2005, while the Klitsa had a refit in 2004, not 2005.
  - Route 24 (Quadra – Cortes) showed a decrease in operating costs of \$426,000 in 2005 while there was a similar amount of refit activity on the Tenaka or Tachek in each year.
  
5. The table on page 19 of the Report to the Commissioner indicates that Route 10 (Port Hardy – Prince Rupert) sailed 2 extra round trips. The Service Notices were examined for the 2004/05 fiscal year and no mention was found about extra unscheduled trips on Route 10. When were the 2 extra round trips performed, and how was the public informed of the trips so that they could reserve passage?
  
6. Route 1 (Swartz Bay – Tsawwassen) experienced traffic growth (3.7% for vehicles and 4.9% for passengers) and 7.3% revenue growth in 2004/05 compared to 2003/04, but a 10.5% increase in expenses resulted in reduced net earnings for the route. Please explain why expenses grew more than revenues in 2004/05 compared to 2003/04. Please refer to **Attachment 3**.

BCFC/AE

BC Ferry Services Inc.  
Annual Report versus Route Report  
Year Ended March 31, 2005

(\$ 000s)

**Attachment 1**

NOTE: both statements have been re-arranged to make them comparable

	<b>Annual Report 2005</b>	<b>Route Report Finances</b>			<b>Total</b>	<b>Difference as Impact on Earnings</b>
Revenue		Tariffs				
Tariffs	345,851	345,852			<b>345,852</b>	1
Ferry Service Fees	106,971	Ferry Svc	Soc Prg	Contr Rts	<b>106,970</b>	(1)
Fed-Prov Subsidy	24,343	91,834	13,412	1,724	<b>24,343</b>	-
Retail	67,776	Ancill Rev				
Other Income	19,514	61,224			<b>61,224</b>	508
Cost of retail goods sold	(26,513)					
(Loss) Gain on Foreign Exchange	(61)					
	<u>60,716</u>					
	<u>537,881</u>				<b>538,389</b>	
Expenses		Total Operating Expenses				
Operations	294,035	426,427			<b>426,427</b>	(1,135)
Maintenance	86,746	47,490			<b>47,490</b>	176
Administration	44,511					
	<u>425,292</u>					
Amortization	47,666					
Total Expenses	<u>472,958</u>					
Earnings from Operations	64,923	Financing Expense				
Interest (Expense)	(24,480)	(24,030)			<b>(24,030)</b>	450
(Loss) on disposal and w/o capital assets	(629)	(Loss on disposal)			<b>(628)</b>	1
		628				
<b>Net Earnings</b>	<u><b>39,814</b></u>				<b>39,814</b>	-

**Analysis of BC Ferries Report to the Ferry Commissioner March 31, 2005  
Analysis Cancelled Round Trips And Related Ferry Service Fees**

**Attachment 2**

Route	Terminal 1	Terminal 2	Contracted Core Round Trips	2005 Scheduled Round Trips	2005 Actual Round Trips	2005 Cancellations Summary			Service Fee Value of Cancelled Round Trips		Ferry Service Fee per Core Round Trip	Maximum Calculated Ferry Service Fee	2005 Reported Ferry Service Fee (reported in \$000s, not exact dollars)	Variance
						2005 TOTAL RT'S CXLED	Force Majeure CXLED RT'S & Schd A	All Other CXLED RT'S	Force Majeure CXLED RT'S & Schd A	All Other CXLED RT'S				Reported Service Fee (Greater) or Less than Maximum Service Fee
<b>Minor Route Group</b>														
4	Fulford	Swartz Bay	2,880	2,880	2,881	3	1	2	\$ 1,753	\$ 3,506	\$ 1,753.01	\$ 5,048,669	\$ 5,046,000	\$ 2,669
5	Pender (Otter)	Saturna	3,456	3,441	3,451	6	1	5	\$ 3,163	\$ 15,815	\$ 3,163.09	\$ 10,931,639	\$ 10,930,000	\$ 1,639
6	Crofton	Vesuvius	5,066	5,046	5,104	9	8	1	\$ 2,280	\$ 285	\$ 284.98	\$ 1,443,709	\$ 1,443,000	\$ 709
7	Earls Cove	Saltery Bay	2,880	2,880	2,876	4	2	2	\$ 6,514	\$ 6,514	\$ 3,257.24	\$ 9,380,851	\$ 9,381,000	\$ (149)
8	HSB	Bowen Island (Snur	5,569	5,569	5,570	6	2	4	\$ 1,859	\$ 3,717	\$ 929.35	\$ 5,175,550	\$ 5,173,000	\$ 2,550
9	Tsawwassen	Long Harbour	832	830	831	8	8	-	\$ 66,152	\$ -	\$ 8,268.98	\$ 6,879,791	\$ 6,880,000	\$ (209)
17	Little River	Powell River (West	1,462	1,460	1,450	10	8	2	\$ 34,413	\$ 8,603	\$ 4,301.63	\$ 6,288,983	\$ 6,289,000	\$ (17)
18	Texada (Blubber B)	Powell River (West	3,648	3,650	3,645	15	13	2	\$ 11,566	\$ 1,779	\$ 889.66	\$ 3,245,480	\$ 3,245,000	\$ 480
19	Nanaimo Harbour	Gabriola (	5,732	5,731	5,720	14	14	-	\$ 6,225	\$ -	\$ 444.67	\$ 2,548,848	\$ 2,549,000	\$ (152)
20	Chemainus	Thetis	4,013	4,013	4,006	11	11	-	\$ 6,808	\$ -	\$ 618.87	\$ 2,483,525	\$ 2,484,000	\$ (475)
21	Buckley Bay	Denman West	6,149	6,149	6,482	2	2	-	\$ 876	\$ -	\$ 438.05	\$ 2,693,569	\$ 2,694,000	\$ (431)
22	Denman East	Hornby	4,506	4,484	4,834	18	16	2	\$ 7,331	\$ 916	\$ 458.16	\$ 2,064,469	\$ 2,064,000	\$ 469
23	Campbell River	Quadra (Quathiaski	6,253	6,253	6,262	10	10	-	\$ 4,629	\$ -	\$ 462.88	\$ 2,894,389	\$ 2,894,000	\$ 389
24	Quadra (Heriot Bay	Cortes (Whaletown	2,134	2,138	2,145	10	8	2	\$ 9,923	\$ 2,481	\$ 1,240.36	\$ 2,646,928	\$ 2,643,000	\$ 3,928
25	Port McNeill	Alert Bay	3,961	3,959	3,961	3	3	-	\$ 2,399	\$ -	\$ 799.78	\$ 3,167,929	\$ 3,167,000	\$ 929
26	Skidegate	Aliford Bay	4,378	4,380	4,401	42	39	3	\$ 23,591	\$ 1,815	\$ 604.90	\$ 2,648,252	\$ 2,648,000	\$ 252
<b>IIS TOTAL</b>			<b>62,919</b>	<b>62,863</b>	<b>63,619</b>					<b>\$ 45,433</b>		<b>\$ 69,542,582</b>	<b>\$ 69,530,000</b>	<b>\$ 12,582</b>
<b>Northern Route Group</b>														
10	Port Hardy	Prince Rupert	122	123	122	3	3	-	\$ -	\$ -	\$ 43,496.47	\$ 5,306,569	\$ 5,307,000	\$ (431)
11	Skidegate	Prince Rupert	191	190	188	2.5	3		\$ 130,489	\$ -	\$ 42,669.37	\$ 8,149,850	\$ 8,150,000	\$ (150)
<b>Northern TOTAL</b>			<b>313</b>	<b>313</b>	<b>310</b>					<b>\$ -</b>		<b>\$ 13,456,419</b>	<b>\$ 13,457,000</b>	<b>\$ (581)</b>
<b>Individual Route Groups</b>														
3	Langdale	Horseshoe Bay	2,985	3,006	3,050	5	3	2	\$ 5,030	\$ 3,353	\$ 1,676.65	\$ 5,004,800	\$ 5,000,000	\$ 4,800
12	Mill Bay	Brentwood Bay	3,215	3,215	3,210	6	6	-	\$ 2,660	\$ -	\$ 443.32	\$ 1,425,274	\$ 1,425,000	\$ 274
13	Gambier	Keats	4,142	4,061	4,052	33	-	33	\$ -	\$ 4,216	\$ 127.75	\$ 529,141	\$ 529,000	\$ 141
40	Bella Bella	Bella Coola	39	39	39	-	-	-	\$ -	\$ -	\$ 48,546.64	\$ 1,893,319	\$ 1,893,000	\$ 319
subtotal			<b>10,381</b>	<b>10,321</b>	<b>10,351</b>					<b>\$ 7,569</b>		<b>\$ 8,852,534</b>	<b>\$ 8,847,000</b>	<b>\$ 5,534</b>
<b>Subtotal for Routes With Service Fees</b>			<b>73,613</b>	<b>73,497</b>	<b>74,280</b>	<b>221</b>	<b>161</b>	<b>60</b>	<b>\$ 434,334</b>	<b>\$ 53,002</b>		<b>\$ 91,851,534</b>	<b>\$ 91,834,000</b>	<b>\$ 17,534</b>
<b>Major Route Group</b>														
1	Tsawwassen	Swartz Bay		3,879	4,126	5	5	-						
2	Horseshoe Bay	Departure Bay		3,105	3,160	4	4	-						
30	Duke Point	Tsawwassen		2,828	2,802	30	30	-						
Total Major Routes				<b>9,812</b>	<b>10,088</b>	<b>39</b>	<b>39</b>	<b>-</b>						
<b>CORPORATE TOTAL</b>				<b>83,309</b>	<b>84,368</b>	<b>259.5</b>	<b>199.5</b>	<b>60.0</b>	<b>\$ 434,334</b>	<b>\$ 53,002</b>		<b>\$ 91,851,534</b>	<b>\$ 91,834,000</b>	<b>\$ 17,534</b>
										<b>combined =</b>		<b>\$ 487,336</b>		

**Analysis of Route 1 Performance**  
**For the Fiscal Years Ended March 31**  
**(in 000's)**

**Appendix 5**

		<b>01-Tsawwassen - Swartz Bay</b>		Increase or (Decrease) in 2005
		<b>2005</b>	<b>2004</b>	
Tariff Revenue		132,622	123,546	9,076
	<i>% change</i>	7%		
Ancillary Revenue		28,617	27,091	1,526
Social Program Reimbursements		3,177	2,849	328
Contracted Routes Fee		0	0	
<b>Total Operating Revenue</b>		<b>164,416</b>	<b>153,486</b>	10,930
	<i>% change</i>	7%		
<b>Total Operating Expenses</b>		<b>111,819</b>	<b>101,230</b>	10,589
	<i>% change</i>	10%		
<b>Earnings from Operations</b>		<b>52,597</b>	<b>52,256</b>	341
Amortization		(17,604)	(17,070)	
Financing Expense (See note 1)		(7,971)	(7,927)	
<b>Cost of Capital</b>		<b>(25,575)</b>	<b>(24,997)</b>	(578)
	<i>% change</i>	2%		
<b>(Loss) Gain on Disposal of Capital Assets</b>		(271)	(245)	
<b>Route Earnings (Loss) Before Ferry Service Fees &amp; Federal Contract</b>		<b>26,751</b>	<b>27,014</b>	(263)
Ferry Service Fees		0	0	
Federal Contract		0	0	
<b>Net Route Earnings (Loss)</b>		<b>26,751</b>	<b>27,014</b>	(263)
	<i>% change</i>	-1%		
<b>Fuel Deferral</b>		<b>1,669</b>		
<b>Analysis</b>				
Total Operating Expense		\$ 111,819,000	\$ 101,230,000	\$ 10,589,000
AEQ Capacity Provided		2,876,125	2,820,187	55,938
	<i>% change</i>	2.0%		
Actual Round Trips		4,126	3,886	240
	<i>% change</i>	6.2%		
Average Operating Cost per Round Trip		\$ 27,101	\$ 26,050	\$ 1,051
% Change		4.0%		
AEQ's		2,286,695	2,205,405	81,290
	<i>% change</i>	3.7%		
Passengers		6,263,312	5,968,303	295,009
	<i>% change</i>	4.9%		
Revenue per AEQ		\$ 71.90	\$ 69.60	\$ 2.31
Cost per AEQ		\$ 48.90	\$ 45.90	\$ 3.00
Total Revenue per passenger		\$ 26.25	\$ 25.72	\$ 0.53
Total Cost per passenger		\$ 17.85	\$ 16.96	\$ 0.89
Tariff Revenue per passenger		\$ 21.17	\$ 20.70	\$ 0.47
Ancillary Revenue per passenger		\$ 4.57	\$ 4.54	\$ 0.03