

CAPACITY ISSUES AT B C FERRIES
A CONCEPT FOR CONSIDERATION
PROPOSED BY THE THIRD CROSSING SOCIETY

THE FERRY DILEMMAS

- Cost of fares
- Risk of ferry being over full
- Wait times

UNDERLYING FACTS

- ferry traffic in 2015 is at 1990s levels
- population is expected to rise significantly
- pricing is perceived as unjustifiably high
- public relations are horrid
- perceived as wasteful and mismanaged – simply not believable.

MATCHING SUPPLY AND DEMAND

The vessels operate between two extremes:

In low season they're underutilized, sail with large amounts of unfilled space.
In high season and on several holiday weekends, demand exceeds supply and customers are left waiting at the terminals.

There are two solutions:

- Move the demand from peak times
- Expand the supply on peak days and seasons

The easiest solution is to drag customers from the peak demand sailings by price discounting the underutilized times to a level that avoids leaving customers behind plugging up the terminals. This will resolve most of the issues.

The more complex issue is expanding the supply. This entails holding ships in reserve to be put into service at peak demand seasons and times. Evaluating the feasibility of this concept requires consideration of:

- re-evaluation of useful life determinations
- capital costs and depreciation policy
- sourcing extra vessels
- maintenance of inactive vessels
- personnel issues

RE-EVALUATION OF USEFUL LIFE DETERMINATIONS

Current practice is to estimate the useful life of vessels entering the fleet, estimate the scrap value at the end of their useful life, and write off the difference over the appropriate number of years. The cost of refits during the useful life may also be

considered in some manner. The useful life determination is guided by anticipations of increasing repair and maintenance costs as vessels age and the reliability of maintaining service during unanticipated breakdowns.

Since the extended use of vessels is to provide extra capacity during busiest times, the reliability issue is less critical. (That is, a temporary reduction from two ferries on a route, to one ferry still maintains service, albeit at a reduced level).

Thus instead of using a vessel for 40 years and then selling it for a modest price, it could be kept for reduced use for another 20 or 30 years.

CAPITAL COSTS AND DEPRECIATION POLICY

Since B C Ferries holds its capital costs confidential, we will use hypothetical numbers to demonstrate. Assume that:

Cost of new vessel (Useful life 40 years?)	100,000,000
Value at the end of 40 years	<u>5,000,000</u>
Amount to depreciate	95,000,000
Annual charge	2,375,000

In economic terms, the depreciation charge during the vessel's extended life would be determined as:

Value at beginning of extended life	5,000,000
Value at end (25 years?)	<u>500,000</u>
Amount to depreciate	4,500,000
Annual charge	180,000

SOURCING EXTRA VESSELS

Current recommendations being considered by the Binnie study could provide the first two extra vessels. The Queen of Surrey could be re-deployed elsewhere in the system. Perhaps as an extra sailing to Departure or Swartz Bay at the busiest times.

Similarly, the Island Sky could be re-deployed for a smaller vessel.

Reference to BC Ferries future capital expenditure plans (see our reference library) indicates an abundant source of extra vessels.

Over a reasonably short number of years this program could be implemented giving the corporation increased flexibility in optimizing vessel utilization.

MAINTENANCE OF INACTIVE VESSELS

To be sure, there is a maintenance cost for vessels even when they are not in service. Additionally, using older vessels, even for part-time use, will have increased maintenance costs. However, having extra vessels will increase the ease of taking

vessels out of service during refit procedures. Also, the much reduced depreciation costs provide more than adequate budgetary flexibility.

PERSONNEL ISSUES

B C Ferries currently operates with three categories of staff: full time, part time and casual. Extending that structure could be easily achieved and likely even welcomed. Adjustments to retirement policy could also be welcomed.

-- Third Crossing Society, April, 2016