



PRESIDENT & CHIEF EXECUTIVE OFFICER

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September 22, 2011

The Honourable Blair Lekstrom, Minister
Transportation and Infrastructure
PO Box 9055, Stn Prov Govt
Victoria BC V8W9E2

Dear Minister Lekstrom:

SUBJECT: PROPOSED SERVICE LEVEL REDUCTIONS COASTAL FERRY SERVICES CONTRACT

As you are aware from our various discussions, BC Ferries has experienced a drop in traffic and indications are that these declines may likely continue in the future. For our major routes the traffic is down approximately 4% from last year. Accordingly, we are seeking greater flexibility in being able to respond to this situation. Under the Coastal Ferry Services Contract (CFSC) there are a minimum number of 9,709 round trips for the three major routes between Vancouver/Nanaimo and Vancouver/Victoria. We are requesting that the Province agree to an amendment to the CFSC to allow for the reduction of up to 400 round trips per year (approximately 4%). We are seeking this annual reduction below contract minimum round trips on the major routes for the next 18 months.

Our request for a reduction of 400 round trips within the CFSC is to be able to address uncertain traffic demand. We have planned a measured approach and identified that a reduction of 94 round trips in a fiscal year would realize much needed cost savings and still provide service levels that would not result in customers being left behind at the end of the sailing day. If ridership worsens, we would then pursue further reductions. Conversely, if ridership improves we would ensure sailings continue to match the capacity to carry traffic.

Please find attached a more detailed outline of our proposed service level reductions. This outline was shared with your staff earlier this week.

Regards,

A handwritten signature in black ink that reads "David L. Hahn". The signature is written in a cursive, flowing style.

David L. Hahn
President & CEO

Attachment



Proposed Service Level Reductions

BC Ferries is experiencing traffic declines with 11 and 20 year lows in vehicle and passenger traffic respectively. Major Route Vehicle traffic is down 4.2 % from 2010. In order to be able to respond to this situation, BC Ferries is proposing to amend the Coastal Ferry Services Contract (CFSC) to provide the flexibility to reduce Major Route service by up to 400 round trips per annum. This represents a 4.1% reduction from the current 9,709 minimum round trips required. BC Ferries is seeking this flexibility on the CFSC minimum round trips for the next 18 months (through to March 31, 2013) to address the volatility with ridership and vehicle traffic we have been experiencing. Our intent will be to use the reduced minimum round trip levels to respond to market demand and remain in balance with any decline in ridership as appropriate.

BC Ferries is intending to take a measured approach to the implementation of service reductions following the principle of minimizing impacts to customers through implementing reductions which would not result in customers being left behind at the end of the day. BC Ferries proposes to immediately implement reductions of 94 round trips over the next 9 months (of which 74 round trips will occur in the current fiscal year). This approach to reductions is intended to avoid any sudden change in course to our service delivery and minimize any risk to the ability to mobilize resources (crew and ships) during the high demand periods of holidays and summer. If ridership has stabilized, we intend to implement a similar plan in FY2013 (i.e. 94 round trips during that fiscal year).

Appendix 1 describes the planned service changes. However, if the ridership and demand continue to worsen, BC Ferries needs the flexibility to pursue further reductions and that is why we propose setting the CFSC minimum levels to allow for reductions of up to 400 round trips. An example of how an approximate 400 round trip reduction could be implemented can be found in Appendix 2. The proposed language changes to the CFSC are provided in Appendix 3.

The currently planned reductions (94 round trips) will be conducted in a fashion to minimize risk to all market segments and to more closely align service levels in the Nanaimo/Vancouver corridor to that on the Victoria/Vancouver corridor. During the off-season Victoria is currently served by 2 vessels providing 8 round trips during the week (Mon-Thurs) while Nanaimo is served by 4 vessels providing 15 round trips for the same days.

In reviewing reductions we have first considered the current service adjustments that are already in place. These include the removal of a round trip on Route 2 for most Mondays through Thursdays during the October to March (off-peak) period and the removal from Route 30 of the last round trip on Saturday nights and first round trip on Sunday mornings in the off-season. These sailings were significantly under-utilized. Second, BC Ferries remained cognizant of the development and enhancement to the south perimeter highway system which is expected to grow traffic south of the Fraser River and shift some traffic demand from Route 2 (north of Vancouver) to Route 30 (south of Vancouver). Finally, with respect to Route 1, the service is routinely augmented by extra sailings (even hour). This additional service is required to meet the minimum service levels defined in the CFSC. The reductions to be implemented represent a rationalization of this additional service which, because of unplanned falling demand, will be less visible and have less impact to travellers in Victoria/Vancouver corridor.

Savings are from fuel and operating labour. Fuel savings are the significant portion of overall savings and will reflect both financial and environmental benefits. Salaried labour is a fixed cost and savings have been estimated at realistic levels based on continuing requirements for vessel care-taking, reduced overtime and further achievable reductions casual employee working hours during the off season – which are already at reduced levels. Skilled and certificated casual employees are an integral requirement for the ability to increase service levels at peak periods (Christmas, Easter, and Thanksgiving - plus the summer season), therefore the approach service reductions includes minimizing the risk of casual employees leaving the company.

Appendix 1 – Proposed Sailing Reductions for October 2011 to June 2012

The reductions would come from various extra sailings on Routes 1 and 2, and selected Saturday sailings on Route 30 that are scheduled in the off-season and, based on declining traffic, will be under-utilized. The reductions amount to 94 round trips which would be spread across all three routes and evenly distributed between the Victoria/Vancouver corridor and the Nanaimo/Vancouver corridor.

Sailing Reductions – 94 Round Trips

Estimated savings - \$717K

Route 1: Victoria - Vancouver (October 1, 2011 to June 26, 2012 = 47 Round Trips)

- Maintain odd hour sailings; maintain extra service on Fridays, Sundays and busy holiday travel days.
- Reduce select extra sailings (even hour) primarily on Thursdays and Saturdays, still allowing for relatively seamless re-introduction of service if demand increases.

Route 2: Nanaimo - Vancouver (October 8, 2011 to March 23, 2012 = 11 Round Trips)

This route has significantly fewer extra sailings than Route 1 and therefore less flexibility.

- Provide 18 of 27 extra round trips currently planned at Thanksgiving, Christmas holidays and Spring Break.
- Remove the last round trip of the Departure Bay based vessel two days earlier than planned in October 2011.

Route 30: Nanaimo - Vancouver (October 15, 2011 to March 15, 2012 = 36 Round Trips)

- Reduction of a round trip on Saturdays, removing an early morning and mid-day sailing.
- Route 2 sailings and remaining Route 30 sailings will carry all Saturday traffic on the Nanaimo/Vancouver corridor.

Appendix 2 – Example of Implementing ~ 400 Round Trip Reduction**Sailing Reductions – 387 Round Trips****Estimated savings - \$2.7M**

An example of implementing sailing reductions in the 400 round trip range:

Route 1: Victoria - Vancouver (October 1, 2011 to August 31, 2012 = **71 Round Trips**)

- Maintain odd hour sailings; maintain extra service on Fridays, Sundays and busy holiday travel days.
- Reduce select extra sailings (even hour) in the off-season, primarily on Thursdays and Saturdays, still allowing for relatively seamless re-introduction of service if demand increases.
- Summer season reductions during weekdays of one round trip in the morning - removal of a summer AM round trip will result in minor overloads but all traffic will be carried by subsequent hourly sailings.

Route 2: Nanaimo - Vancouver (October 12, 2011 to June 26, 2012 = **88 Round Trips**)

- Provide 18 of 27 extra round trips currently planned at Thanksgiving, Christmas holidays and Spring Break.
- Reductions to Monday to Thursday regular service by removing a round trip daily in the evening.
- Removed sailings to come from either the first sailings in the day, a combination of morning and evening sailings or all evening sailings, i.e. removal of all sailings after the 5:00 PM departure with travel opportunities moved to Route 30.
- Overall lift-off to be reduced from 7 to 6 round trips daily during the week in the off-season.

Route 30: Nanaimo - Vancouver (October 15, 2011 to June 26, 2012 = **228 Round Trips**)

- Reduction of a round trip on Saturdays, removing an early morning and mid-day sailing.
- Reductions to Monday to Friday service by removing two round trips daily.
- Removed sailings to come from first and last round trip one side only (e.g. no 5:15 AM sailing from Tsawwassen or 10:45 PM sailing from Duke Point); or first sailing and evening sailing both sides, (e.g. no 5:15 AM sailings or 8:15 PM sailings); or other combinations.
- Reduction of a round trip on Sundays, with service to commence mid-day and end early evening.
- Overall lift-off to be reduced from 8 to 6 round trips daily during the week and from 6 to 4 round trips daily on weekends

Appendix 3

Contract Revisions Required

ROUTE 1:

Existing:

CORE SERVICE LEVELS

Total Number of Round Trips to be Delivered per Contract year on

the Major Routes (aggregate of Round Trips on Routes 1, 2, and 30) 9,709

Minimum Number of Round Trips to be Delivered per Contract Year 3,512

Minimum Number of Round Trips per Day Peak 13-15 (varies by day)

Off Peak 7 (7-9 Friday & Sunday)

Minimum Hours of Operation

Peak 12

Off Peak 10

Revised:

CORE SERVICE LEVELS

Total Number of Round Trips to be Delivered per Contract year on

the Major Routes (aggregate of Round Trips on Routes 1, 2, and 30) 9,309Minimum Number of Round Trips to be Delivered per Contract Year 3,439

Minimum Number of Round Trips per Day Peak 13-15 (varies by day)

Off Peak 7 (7-9 Friday & Sunday)

Minimum Hours of Operation

Peak 12

Off Peak 10

ROUTE 2:

Existing: CORE SERVICE LEVELS

Total Number of Round Trips to be Delivered per Contract year on

the Major Routes (aggregate of Round Trips on Routes 1, 2, and 30) 9,709

Minimum Number of Round Trips to be Delivered per Contract Year 2,723

Minimum Number of Round Trips per Day Peak 10, (9 on Sat), (7-9 Tues & Wed)

Off Peak 7

Minimum Hours of Operation

Peak 11

Off Peak 10

Revised:

CORE SERVICE LEVELS

Total Number of Round Trips to be Delivered per Contract year on

the Major Routes (aggregate of Round Trips on Routes 1, 2, and 30) 9,309Minimum Number of Round Trips to be Delivered per Contract Year 2,633

Minimum Number of Round Trips per Day Peak 10, (9 on Sat), (7-9 Tues & Wed)

Off Peak 6

Minimum Hours of Operation

Peak 11

Off Peak 10

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ROUTE 30:**Existing:****CORE SERVICE LEVELS**

Total Number of Round Trips to be Delivered per Contract year on

the Major Routes (aggregate of Round Trips on Routes 1, 2, and 30) 9,709

Minimum Number of Round Trips to be Delivered per Contract Year 2,379

Minimum Number of Round Trips per

Day Peak 7

Off Peak 7 (5 on Saturday & Sunday)

Minimum Hours of Operation

Peak 12

Off Peak 12 (10 Saturday & Sunday)

Revised:**CORE SERVICE LEVELS**

Total Number of Round Trips to be Delivered per Contract year on

the Major Routes (aggregate of Round Trips on Routes 1, 2, and 30) 9,309Minimum Number of Round Trips to be Delivered per Contract Year 2,142

Minimum Number of Round Trips per Day

Peak 7

Off Peak 6 (4 on Saturday & Sunday)

Minimum Hours of Operation

Peak 12

Off Peak 12 (7 Saturday & Sunday)