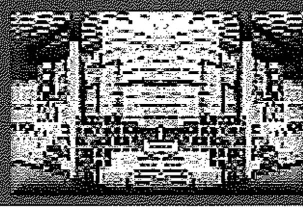
Alternative Distribution Options

Liquor Reform Project



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Executive Summary

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Current Distribution System

- Costs of primary distribution system are approximately $26.4 million, before freight recoveries.
- Costs of secondary distribution to deliver product to LRSs, RASs and licensees via GLSs are estimated to be approximately $12 million per year.

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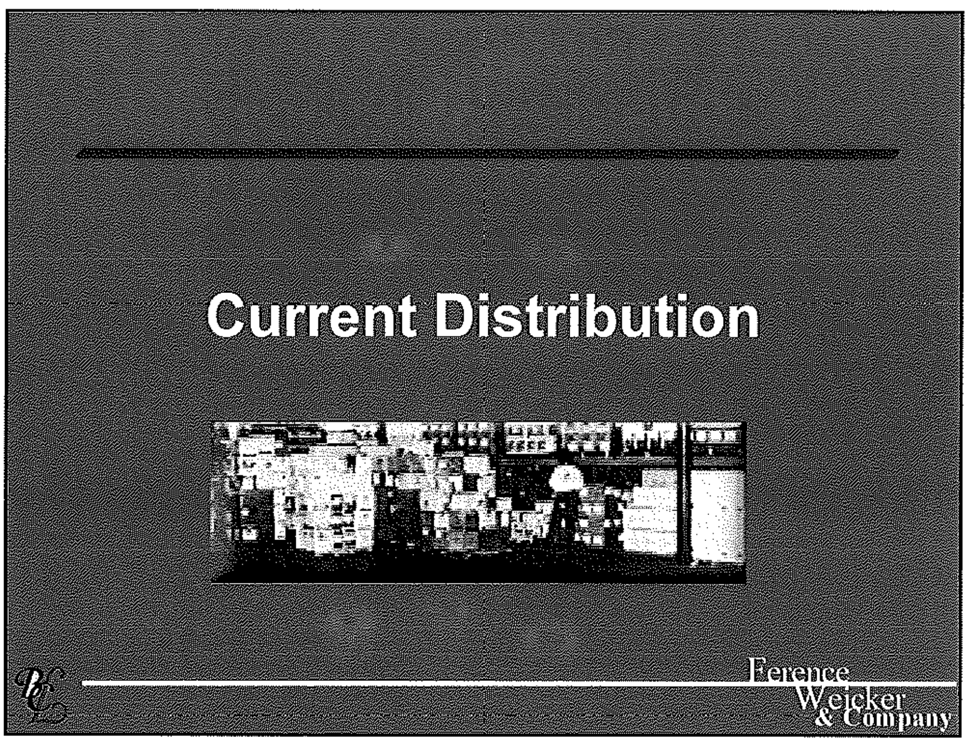

Primary Distribution

- Costs of primary distribution system are approximately $26.4 million, before freight recoveries.
  - VDC - $23 million
  - KDC - $3.4 million

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LDB Distribution Costs

Cost Item	Millions
Employment	$15.9
Building	3.2
Administration	1.4
Freight and Fleet	4.4
Equipment and Warehouse	1.5
Total Operating Expense before Recoveries	$26.4
Less: Freight Recoveries	(5.5)
TOTAL NET EXPENSES	$20.9

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Cost Of VDC Operations ($000's)

	Volume Driven Expenses	Non-Volume Related Expenses	Freight	Total Operating Expense
Employment	$11,613	$1,582	$1,106	**$14,301**
Building	-	2,961	-	**2,961**
Administration	8	1,361	9	**1,378**
Freight	-	-	2,705	**2,705**
Fleet	-	1	300	**301**
Equipment	169	176	258	**603**
Breakage	354	-	13	**367**
Depreciation	-	202	228	**430**
Total	**$12,144**	**$6,283**	**$4,619**	**$23,046**

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Cost Of KDC Operations ($ 000's)

	Volume Driven Expenses	Non-Volume Related Expenses	Freight	Total Operating Expense
Employment	$1,218	$341	-	**$1,559**
Building	-	222	-	**222**
Administration	-	56	-	**56**
Freight	-	-	1,429	**1,429**
Fleet	-	-	-	**-**
Equipment	37	-	9	**46**
Breakage	11	-	-	**11**
Depreciation	42	-	-	**42**
Total	**$1,308**	**$619**	**$1,438**	**$3,365**

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Secondary Distribution

- Costs for GLSs to assemble orders for pick up by LRSs, RASs and licensees are estimated to be approximately $12 million per year.

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Cost of Secondary Distribution

Type of Customer	Hours	Labour Cost (millions)	Total Cost (millions)	Cases Handled
Licensees	151,000			2,080,934
LRSs	74,000		S17	1,059,180
RASs	30,000	S17		516,283
Total	255,000		$12.0	3,656,397

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Distribution Channels

43.9% of the total volume of products sold are delivered direct by suppliers to GLSs and wholesale customers.

Source of Product	Volume (million litres)	% of Total
Delivered Direct to Wholesale Customers and GLSs	147.9	43.9%
Delivered from VDC/KDC to GLSs	188.7	56.1%
Total	336.6	100.0%

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Warehouse Productivity

- Cases handled per hour by LDB warehouse employees is low when compared to other jurisdictions
  - 18.6 cases per hour versus average of 24.8 in other provinces
  - BC is one of few jurisdictions that does single bottle picking at DC

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Warehouse Employee Productivity

Province	Cases Handled Per Warehouse Employee Hour	
	1999/2000	2001/2002
BC	19.5	18.6
Other provinces		
New Brunswick	[redacted]	[redacted]
Ontario	[redacted]	[redacted]
Nova Scotia	[redacted]	[redacted]
Saskatchewan	[redacted]	[redacted]
Manitoba	[redacted]	[redacted]
Quebec	[redacted]	[redacted]
Newfoundland	[redacted]	[redacted]
PEI	[redacted]	[redacted]
Avg. - Other provinces	22.6	24.8
Washington State	N/A	39.5

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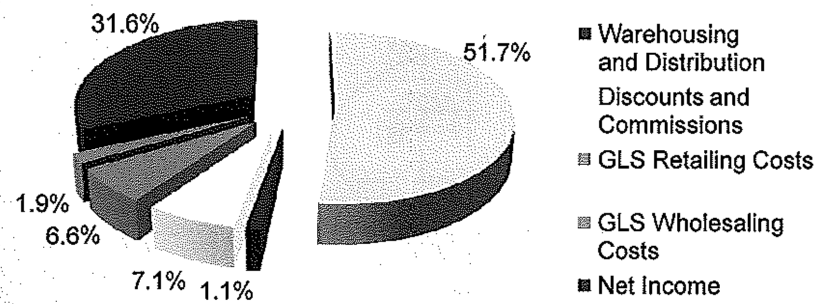
Components of LDB Price



Total revenue = $2.8B
Net income = $890M (31.6%)
*2010/11

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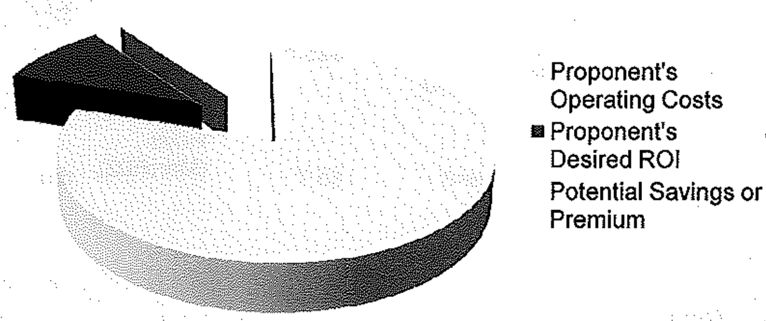
Components of LDB's Warehousing and Distribution Cost (illustrative)



Warehousing and Distribution = $32m (1.1% of LDB Price)

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BRITISH COLUMBIA
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Current Direction

- Issue NRFP for the warehousing and distribution operation, contract signed by March 2013
- Concurrent work on pricing model
- Sell the Vancouver and Kamloops distribution centre properties as part of the asset sale project to achieve highest value, to be completed by 14/15

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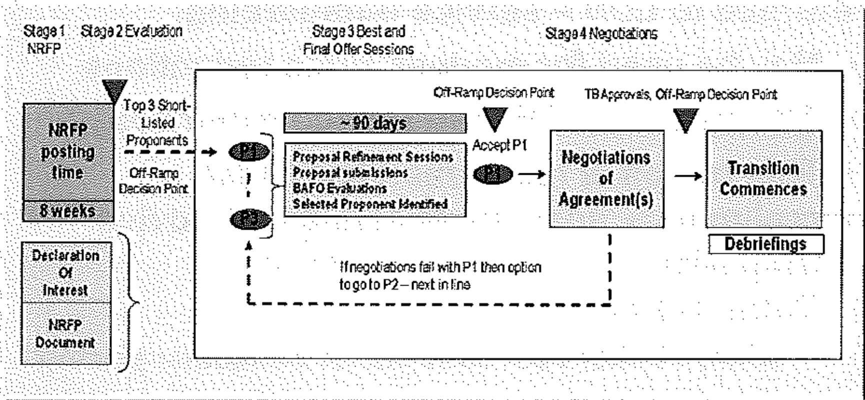
NRFP Process



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BRITISH COLUMBIA

NRFP Key Dates

- NRFP released by April 30, 2012
- Proponents initial bids due by July 1
- Shortlist proponents by July 15 – can be announced
- Proponents submit best and final offer by October 1
- Negotiate agreement October – February
- Approvals received and Agreement signed by early March, 2013

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Fairness Monitor

- Review the procurement documentation so as to understand the Negotiated Request For Proposal process.
- Monitor the procurement process for adherence to the terms of the NRFP, oversight during evaluation of submissions and subsequent best and final offer processes as well as final selection of the Selected Proponent.
- Prepare a fairness summary based on observations made during delivery of the procurement process.
- In addition, an independent financial review of the final agreement may be conducted.

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Labour Relations

- BCGEU has provided a draft proposal to the province
- RFP language related to Labour Relations will be negotiated between province (PSA/RFP Team) and BCGEU through the bargaining table
- FTE impact 450 – 500 range overall

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Not Responsive

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Distribution of Liquor Project

March 5, 2012

Ministry of Labour, Citizens' Services and Open Government

Status

- LCTZ established RFP development team
- Second draft of RFP by March 9th
- Communications plan drafted
- Labour relations issues managed; ~450 fte's impacted; input to RFP received from union
- Real estate appraisal underway
- Information and data requirements for RFP and data room identified
- Fairness monitor process underway

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Working assumptions

- Scope includes disposition of the two LDB warehouses, and distribution services including the two wholesale centres in Vancouver and Victoria
- Wholesale sales made by licensees from GLSs across the province are out of scope
- Inventory is not for sale, will be returned to suppliers
- NRFP will be released by mid-March with 60 days for proposal submission
- Term of agreement 10 years
- Concurrent projects for NRFP for warehousing and distribution, and pricing model review

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DLP Objectives

- Maximize revenue from sale of warehouses and distribution business by 2015 S13
  - One time savings on disposition of real estate
  - Ongoing savings to LDB from reduced cost of distribution service
- No negative impact on ongoing revenues to the province

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Real estate overview

	BCAA	BV	MV
Vancouver warehouse and distribution centre, including wholesale centre	$28.5	$3.263M combined value (March02)	tbd
Kamloops warehouse and distribution centre	$5.7		tbd

Note: Victoria wholesale centre is located in a leased building

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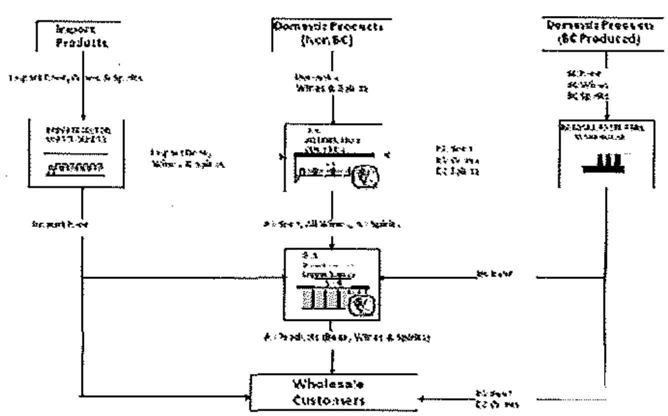
Current Distribution Channels



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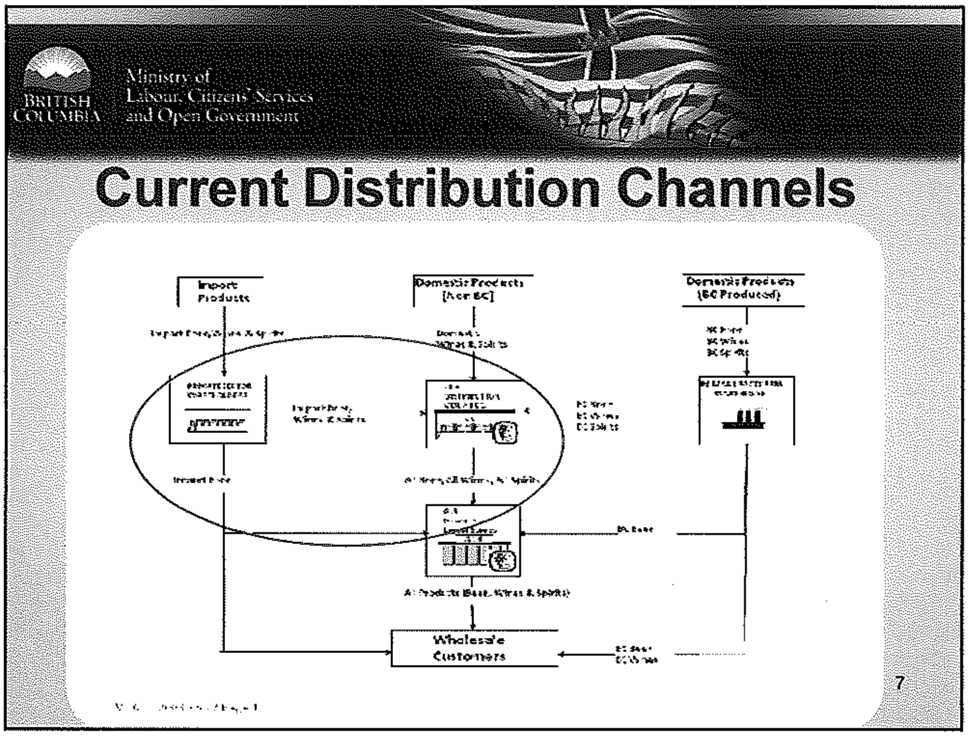
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Current Distribution Channels
Import Products
Wholesale Customers
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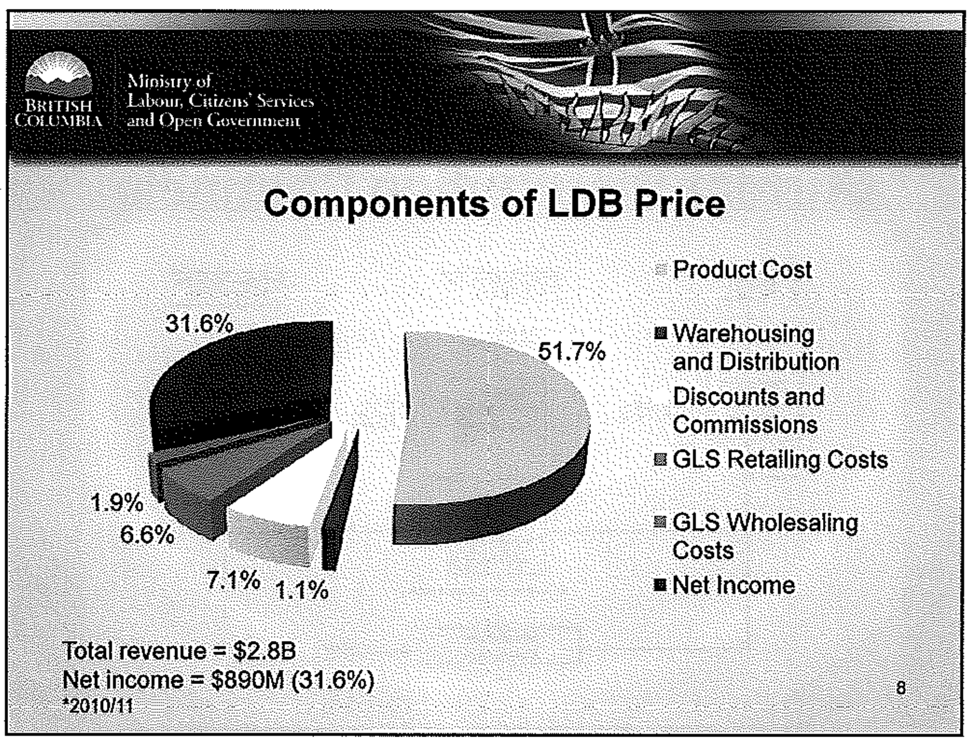
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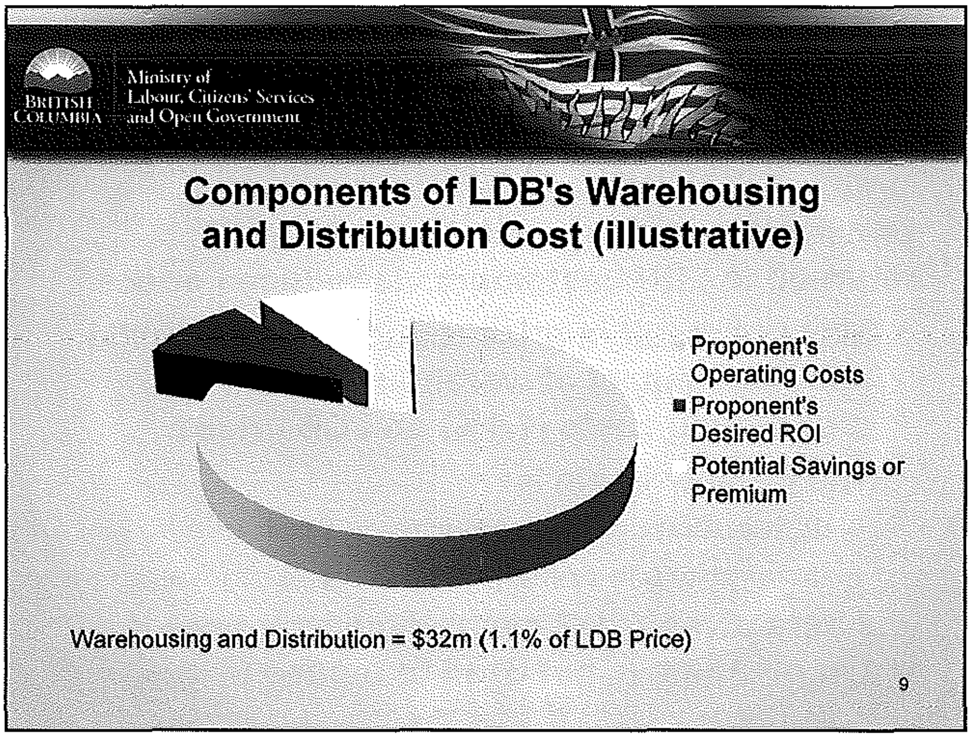
BRITISH COLUMBIA
Components of LDB Price
Product Cost
Warehousing and Distribution
Discounts and Commissions
GLS Retailing Costs
GLS Wholesaling Costs
Net Income
31.6%
51.7%
1.9%
6.6%
7.1%
1.1%
Total revenue = $2.8B
Net income = $890M (31.6%)
*2010/11
8


BRITISH COLUMBIA
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Components of LDB's Warehousing and Distribution Cost (illustrative)
Proponent's Operating Costs
Proponent's Desired ROI
Potential Savings or Premium
Warehousing and Distribution = $32m (1.1% of LDB Price)
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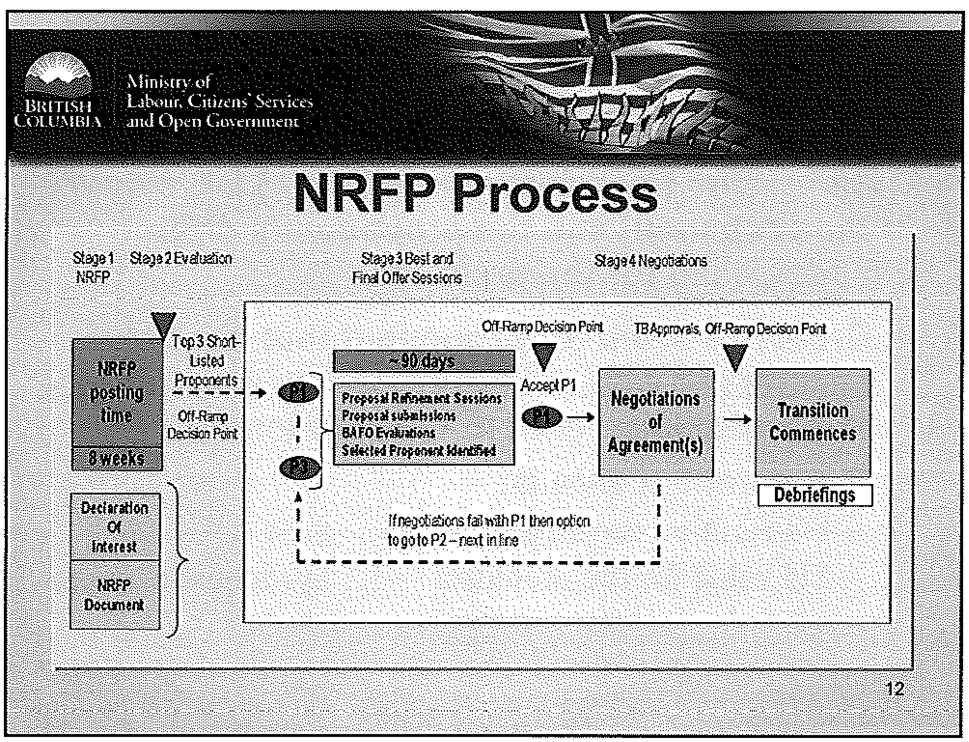
S13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and Open Government
NRFP Process
Stage 1 NRFP
Stage 2 Evaluation
Stage 3 Best and Final Offer Sessions
Stage 4 Negotiations
NRFP posting time
8 weeks
Top 3 Short-Listed Proponents
Off-Ramp Decision Point
P1
P3
~90 days
Proposal Refinement Sessions
Proposal submissions
BAFO Evaluations
Selected Proponent Identified
Off-Ramp Decision Point
Accept P1
P1
Negotiations of Agreement(s)
TB Approvals, Off-Ramp Decision Point
Transition Commences
Debriefings
Declaration Of Interest
NRFP Document
If negotiations fail with P1 then option to go to P2 – next in line
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BRITISH COLUMBIA

NRFP Key Dates

- NRFP released by March 31, 2012
- Proponents initial bids due by June 1
- Shortlist proponents by June 15 – can be announced
- Proponents submit best and final offer by September 1
- Negotiate agreement September – February
- Approvals received in March
- Agreement signed April 1, 2013

13

Ministry of Labour, Citizens' Services and Open Government

BRITISH COLUMBIA

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- FTE impact 400 – 450 range overall

15

Not Responsive

Summary Outlook					
	ACTUAL	FORECAST		TARGETS	
In millions $	Fiscal 2010/11	Fiscal 2011/12	Fiscal 2012/13	Fiscal 2013/14	Fiscal 2014/15
Total Sales	2,820.5	2,878.4	2,911.5	2,875.2	2,916.2
Commissions & Discounts	201.5	184.2	184.8	182.5	185.1
Cost of Sales	1,458.4	1,507.4	1,528.1	1,551.5	1,576.1
Operating Expenses - Employment	159.8	160.8	164.5	164.5	164.5
Operating Expenses - Rent	35.9	37.1	37.8	38.5	39.3
Operating Expenses - Administration	85.8	97.1	97.4	101.8	107.5
Other Income	11.3	7.3	7.2	7.5	7.5
Net Income	890.4	899.1	906.1	843.9	851.2
Capital	18.5	24.7	26.7	27.9	35.6
Debt	0.4	0.2	0.1	0	0
Retained Earnings	0	0	0	0	0

KEY FORECAST ASSUMPTIONS

Forecast assumptions, based on market trends by product categories and the elimination of the HST, include a sales increase of 1.2 per cent in fiscal 2012-13, a sales decrease of 1.2 per cent in fiscal 2013/14 and a sales increase of 1.4 per cent in 2014/15. The sales decrease in fiscal 2013/14 is based on the assumption that the HST will be replaced by PST and GST beginning April 2013 and that the LDB will reduce its product mark-up rates at that time to the same rates in effect prior to HST implementation.

Capital requirements reflect expenditures for updating and improving stores, technology-related projects and ongoing equipment replacements.

For fiscal 2010/11, net income was prepared based on current Canadian Generally Accepted Accounting Principles (GAAP). Net income targets for fiscal years 2011/12 to 2014/15 were prepared based on current International Financial Reporting Standards (IFRS).

Segmented Outlook

The LDB has two types of operations based on customer type – retail and wholesale. Retail operations includes sales from BC Liquor Stores (GLS) to retail customers. Wholesale operations include sales from the LDB's Wholesale Customer Centre, GLSs, and from authorized BC manufacturers and private distributors. The LDB uses an Activity-Based Costing Analysis to allocate expenses between the two operations and this analysis is updated annually. The segmented information provided below allocates the Summary Financial Outlook from the previous page into the retail and wholesale operations.

WHOLESALE OUTLOOK	**ACTUAL**	**FORECAST**	**TARGETS**		
In millions $	Fiscal 2010/11	Fiscal 2011/12	Fiscal 2012/13	Fiscal 2013/14	Fiscal 2014/15
Total Sales	1,656.0	1,697.4	1,716.9	1,695.5	1,719.7
Commissions & Discounts	201.5	184.2	184.8	182.5	185.1
Cost of Sales	899.3	939.6	953.9	984.4	1,001.0
Operating Expenses	83.7	93.8	95.3	96.9	99.0
Other Income	5.6	3.6	3.6	3.7	3.7
Net Income	477.1	483.4	486.5	435.4	438.3

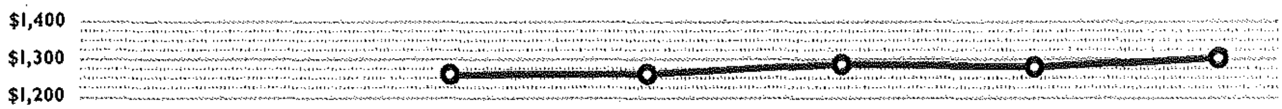
RETAIL OUTLOOK	**ACTUAL**	**FORECAST**	**TARGETS**		
In millions $	Fiscal 2010/11	Fiscal 2011/12	Fiscal 2012/13	Fiscal 2013/14	Fiscal 2014/15
Total Sales	1,164.5	1,181.0	1,194.6	1,179.7	1,196.5
Cost of Sales	559.1	567.8	574.2	567.1	575.1
Operating Expenses	197.8	201.2	204.4	207.9	212.3
Other Income	5.7	3.7	3.6	3.8	3.8
Net Income	413.3	415.7	419.6	408.5	412.9

GOAL 4 BUSINESS EFFECTIVENESS

Maintain operating efficiencies in a climate of constant change.

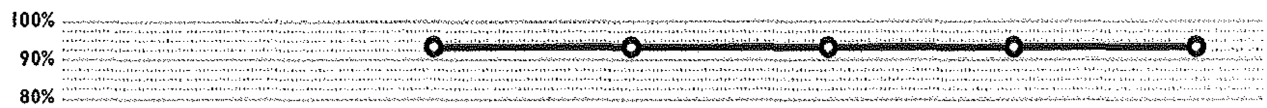
STRATEGIES:
1. Maximize the potential efficiencies available through improved distribution operations.
2. Increase the use of current and cost effective technology

PERFORMANCE MEASURES	ACTUAL FISCAL 2010/11	FORECAST FISCAL 2011/12	TARGETS FISCAL 2012/13	TARGETS FISCAL 2013/14	TARGETS FISCAL 2014/15
4.1 BC Liquor Store sales per square foot	$1,259	$1,261	$1,286	$1,278	$1,303



PERFORMANCE MEASURES	ACTUAL FISCAL 2010/11	FORECAST FISCAL 2011/12	TARGETS FISCAL 2012/13	TARGETS FISCAL 2013/14	TARGETS FISCAL 2014/15
4.2 Distribution Centre labour cost per case shipped	$1.74	$1.74	$1.74	$1.74	$1.74

PERFORMANCE MEASURES	ACTUAL FISCAL 2010/11	FORECAST FISCAL 2011/12	TARGETS FISCAL 2012/13	TARGETS FISCAL 2013/14	TARGETS FISCAL 2014/15
4.3 Distribution Centre line fill rate	93%	93%	93%	93%	93%



Performance Measure Description

4.1 BC Liquor Stores sales per square foot – This measure is based on the annual dollar sales of the store system divided by total store system square footage and is an indicator of how well the LDB converts its store floor space into sales. Wholesale Customer Centre sales are excluded. The targets reflect the LDB's efforts to increase the productive use of its store space.

4.2 Distribution Centre labour cost per case shipped – This productivity measure is calculated by dividing total Distribution Centre labour expenses by total case shipments. The targets reflect the LDB's efforts to maintain productivity by keeping the labour cost per case constant.

4.3 Distribution Centre line fill rate – This is a measure of the completeness of orders filled by LDB Distribution Centres and is calculated by dividing the number of ordered items that are filled completely by the total number of items ordered. The calculation excludes products that are not stocked by LDB Distribution Centres. The LDB believes that the target of 93 per cent is the appropriate balance between the effective management of inventory and the minimization of product stock-outs.

General

The supply and distribution of alcoholic beverages in Canada is regulated by both federal and provincial legislation. Under the *Importation of Intoxicating Liquors Act* (Canada), the federal government restricts the importation of alcoholic beverages into any province except under the provisions established by the provincial agency vested with the right to sell alcoholic beverages in the relevant province (each such agency is referred to as a "liquor board"). Each province has created a liquor board that has a monopoly on the supply and wholesale distribution of alcoholic beverages within provincial borders. In all provinces except Alberta, the majority of alcoholic beverages are sold through government owned and operated liquor stores. To varying degrees, most provinces permit limited sales of alcoholic beverages, primarily beer and wine, through privately owned and operated retail outlets such as on-site (brewery) stores, hotel vendors permitted to sell alcoholic beverages for off-premise consumption, retail beer stores operated by major breweries and, in Québec, licensed grocery and convenience stores.

The Province of Alberta is the only province in Canada, however, that has a fully privatized retail distribution system for alcohol in which all liquor stores are privately owned and operated and are permitted to sell all forms of alcoholic beverages including wine, coolers, spirits and beer. The Province of British Columbia has a partially privatized retail liquor industry, with both government and privately owned and operated retail liquor stores.

The British Columbia Liquor Environment

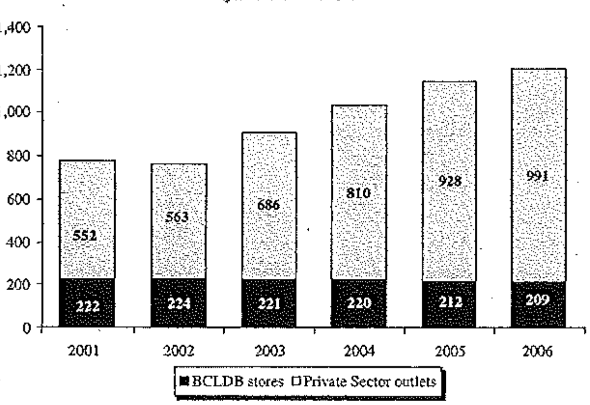
The importation, distribution and retailing of liquor in British Columbia is regulated by the British Columbia Liquor Distribution Branch ("BCLDB"). The retail liquor industry in British Columbia currently includes 209 government-owned and operated BCLDB stores, approximately 580 privately owned and operated licensee retail stores ("LRS") and a number of other liquor retailers, including rural agency stores, manufacturer stores, independent wine stores and duty-free shops.

Until 2002, only existing license holders for certain other "primary" liquor establishments (such as bars, cabarets, pubs or hotels) could hold a license to operate an LRS. An LRS had to be physically connected to the primary establishment, could only sell beer and wine and the holder of the license for the primary establishment was limited to one LRS license per primary establishment. Beginning in 2002, a number of regulatory initiatives were undertaken that included allowing LRSs to sell spirits and to be located anywhere within the same municipality as the primary establishment or up to five kilometres from the primary establishment if located in a different municipality (subject to municipal zoning and bylaw regulations). In addition, the restrictions on LRS licenses were relaxed, allowing any liquor license holder to apply for an LRS license. As a result of these initiatives, the BCLDB received over 500 applications for LRS licenses in 2002 before a moratorium on new licenses was imposed in November of that year.

In May 2004, the British Columbia government announced that it would not be considering any significant policy changes or accepting new LRS applications for a period of four years, in order to allow for a settling down period to implement the changes announced in 2002. As a result, anyone now wishing to enter the liquor retail industry or to open a new store in British Columbia must either enter into a third party operator agreement with a holder of an existing LRS license or purchase a primary liquor establishment and the associated LRS license. In addition, in November 2003, the government increased the wholesale discount for LRSs from 10% to 12% and announced that it would be reviewing wholesale pricing and ordering policies, with the objective of improving services to private retailers while ensuring government revenues are maintained. In April 2005, the wholesale discount for LRSs was increased to 13%.

Since 2001, the total number of liquor stores in the province has grown from 774 to 1,200, with BCLDB stores decreasing from 222 as of March 31, 2001 to 209 in January 2006, and private sector retail outlets increasing from 552 to 991 during the same period. Because it is continuing to process LRS applications received prior to the moratorium, the government has estimated that the number of liquor store outlets in the province could increase to as many as 1,350 once all of these applications are processed.

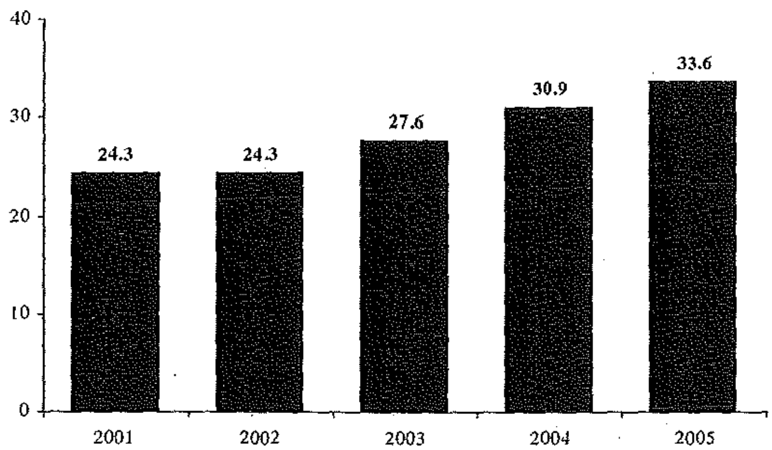
British Columbia Liquor Stores
(year ended March 31)(1)



Source: BCLDB

(1) Except for 2006 (which is current as of January).

British Columbia Liquor Stores per 100,000 Residents (18 years and over)[1]
(year ended March 31)



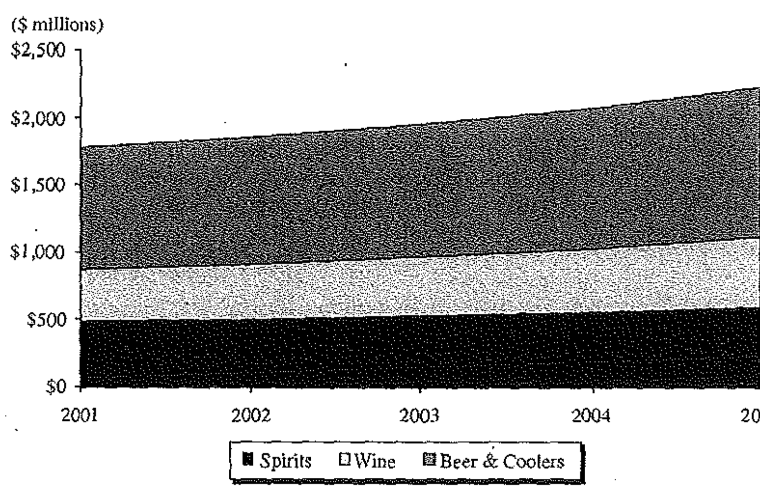
Source: BCLDB

(1) Population statistics from Statistics Canada, as of July 1.

From 2001 to 2005, total wholesale liquor sales in British Columbia by dollar amount have increased by 25.0%, a compound annual growth rate of 5.7%, compared to an increase in the Consumer Price Index in British Columbia over the same period of 8.4%, a compound annual growth rate of 2.0%. As illustrated in the following charts, total wholesale liquor sales by volume (hectolitres) have grown by 7.3% over the same period, a compound annual growth rate of 1.8%.

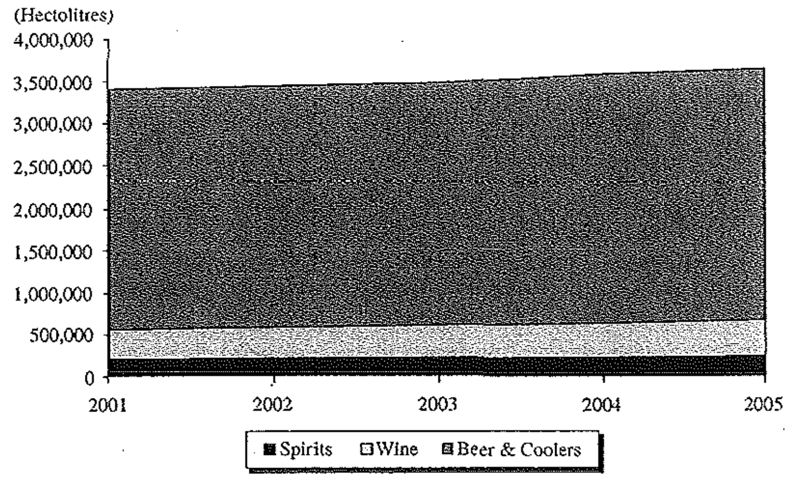
The following charts also show the relative proportion of beer and coolers, wine and spirits wholesale sales in British Columbia by dollar amount and by volume over the last four years, and demonstrate the increasing proportion of sales of higher margin products such as wine. Over the period, wholesale sales by dollar amount of beer and coolers, wine and spirits have increased at the compound annual growth rate of 5.3%, 7.9% and 4.9%, respectively.

Total British Columbia Wholesale Sales
(year ended March 31)



Source: BCLDB

Total British Columbia Wholesale Sales by Volume
(year ended March 31)



Source: BCLDB

Licensing

The British Columbia Liquor Control and Licensing Branch ("BCLCLB") enforces the *Liquor Control and Licensing Act* ("BCLCLA"). Under the BCLCLA, the BCLCLB may issue licenses to:

- establishments that sell liquor by the glass for on-premise consumption (such as restaurants, bars, cabarets and pubs);
- LRSs, for the sale of liquor for off-premise consumption;
- manufacturers of liquor (such as wineries, breweries and distilleries); and
- businesses that provide facilities, equipment and ingredients for customers to make their own beer, wine, cider or coolers (Ubrews and UVins).

Licenses may only be issued to residents of British Columbia who normally reside in the province, which includes a corporation whose agent or manager is a resident of, and normally resides in, the province.

Although there is a moratorium on new applications for LRSs, applications that were submitted prior to November 2002 are still being processed. As a result, the provincial government has estimated the number of liquor sales outlets could increase to as many as 1,350 once all of these applications are processed. Any person wishing to enter the liquor retail industry in British Columbia who did not apply for an LRS prior to the moratorium must enter into a third party operator agreement with a holder of an existing LRS license or purchase a primary liquor establishment and associated LRS license.

Store Operations

The maximum hours of operation for liquor stores are between 9:00 a.m. and 11:00 p.m. seven days a week (or less, if indicated on the face of the license). In addition to beer, wine, cider, coolers and spirits, an LRS may sell liquor-related items such as glasses, bottle openers and corkscrews and, in most cases, other goods such as soft drinks and other drink mixes, tobacco, confectionary goods and British Columbia lottery tickets.

If an LRS is located on the same property as a primary liquor establishment, such as a bar, cabaret, pub or hotel, the two establishments may share a common lobby but must have full-height walls between them and separate entrances. If an LRS is not on the same property as the primary establishment, it may not appear to be part of any other business in close proximity to it. Customers must enter an LRS from a public thoroughfare such as a street or mall entrance and not through any other business.

If the LRS and the primary liquor establishment are in the same municipality, LRS owners may relocate their store anywhere within the municipality. If the LRS and the primary liquor establishment are in different municipalities, the LRS may be anywhere within five kilometres of the "primary" liquor establishment, subject to local zoning bylaws and a minimum distance criteria of 0.5 kilometres between LRSs.

BCLCLB inspectors regularly conduct inspections of liquor stores. Such inspectors must be given full and unrestricted access to the licensed establishment, as well as to any documents and records associated with such establishment.

Advertising and Promotion

Advertising is permitted subject to restrictions imposed by advertising policy guidelines under the BCLCLA. Liquor advertising may include the prices and brands of liquor available (including pricing specials) and licensees may enter into agreements with liquor manufacturers to promote and feature their products. Advertisements that encourage intoxication or target minors are prohibited.

Retail Pricing

LRSs may set their own price, subject to the minimum price for each product established by the BCLDB. All government owned liquor stores, and rural agency stores, charge an identical price for the same product throughout the province.

Supply

The BCLDB, under the authority of the *Liquor Distribution Act* (British Columbia), is the sole importer of liquor products into British Columbia and purchases product from suppliers and manufacturers in British Columbia and in other provinces and countries. Licensed manufacturing sites in British Columbia include 110 wineries, 38 breweries and brew pubs, and six distilleries. Overall, the BCLDB buys product from more than 400 domestic and foreign manufacturers.

LRSs may purchase product from a number of sources. LRSs purchase the majority of their products from the BCLDB's distribution centres located in Vancouver and Kamloops. In addition, an LRS may purchase product directly from government liquor stores. The practice of "single bottle picks", which allows wholesale customers to order products in quantities less than full cases, is also permitted.

In addition to purchasing product from the BCLDB distribution centres and government liquor stores, LRSs may purchase domestic beer and wine directly from the manufacturer, while imported beer and wine can be purchased directly from an agent. In this case, the warehousing facilities and distribution of the product are owned and operated by the respective manufacturer or agent.

Wholesale and Delivery Pricing System

There is currently no requirement that wholesalers must sell product to all public and private retailers at the same price, although this is currently under review by the government. However, the BCLDB sells substantially all of its liquor product to LRSs at a discount of 13% from the wholesale price. From time to time, suppliers decrease the wholesale prices of certain products pursuant to LTOs.

The BCLDB imposes a mark-up that is added to the supplier's price quotation to arrive at a minimum price for each product. Delivery charges are built into the BCLDB mark-up.

Alliance of Beverage Licensees of British Columbia

The Alliance of Beverage Licensees of British Columbia represents 2,300 liquor licensees in British Columbia and acts as the official point of contact with the provincial government. It strives for fairness and advancement on issues relating to liquor distribution in the province. Its mandate includes the equitable control of licensing, a responsible beverage industry, encouraging effective social policy and addressing issues that are important to its members. Its activities include consulting with government, monitoring important industry issues and providing a resource centre for its members. Each of the British Columbia-based Vendors, including the Liquor Barn Group, is a member of the Alliance of Beverage Licensees of British Columbia, and we will be a member following Closing.

Pages 54 through 65 redacted for the following reasons:

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S13, S14
S13, S14, S17
S14

Chipper, Tammy L FIN:EX

From: Epp, Don FIN:EX
Sent: Tuesday, April 10, 2012 11:00 PM
To: Feulgen, Sabine FIN:EX
Subject: Meeting with AGLC

Hi, Sabine.

I understand from Bette-Jo Hughes that a meeting has been arranged between Min Coleman and Min Falcon on the status of the LDB warehouse and distribution initiative for sometime on April 18th. Staff attendees are to be Lori Wanamaker, Karen Ayers, Kim Henderson, and Bette-Jo. I was somewhat dismayed not to hear Peter Milburn's name mentioned and said so to Bette-Jo. She was of the opinion that, seeing as you and Peter attended the last meeting between the two ministers, you both would be included in the meeting on April 18th. However, I don't see this in your calendar; you may want to follow up on this with Shelley.

There are a number of policy issues that need to be decided in the near term, probably before the RFP can go out at the end of April.

1. Does government mandate a single warehouse/distributor of beverage alcohol in the province. The current position is to maintain the brewers' distributor system and let the BC wineries handle their own distribution as well. However, there are a number of agent stocking warehouses that would need to be closed down.
2.

S17, S13

3. Alberta collects all the payments for liquor products from retailers, keeps the mark-up, and pays the warehouse/distributor and suppliers their due. We currently have a mixed model in BC, where BDL (brewers distributor limited) and the BC wineries collect for their products and LDB collects for the products they distribute. Government needs to decide whether it wants to move to the AB model or keep the BC mixed model.
4. AGLC is very involved in regulating the warehouse/distributor from a number of aspects. The AGLC board approves the rates charged by their warehouser/distributor (Connect Logistics), and sets a benchmark return on costs. They manage a rate stabilisation fund for Connect Logistics. This is similar to the functions
5.

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6.

This is a brief outline. We can discuss this further when I get back. Do you think I should provide Peter, or perhaps Sheila, an update on this.

Don Epp
Executive Director
Treasury Board Staff
Phone: (250) 387-9008

Chipper, Tammy L FIN:EX

From: Epp, Don FIN:EX
Sent: Thursday, March 22, 2012 2:10 PM
To: Bissoondatt, Roger LDB:EX
Subject: LDB Activities

Roger,

LDB's operations are very integrated. The warehouse project will unwind some of that integration. I would like to map out the remaining functions of LDB from the perspective of an outsider.

For example, the main activities of LDB's operations seem to be the following:

1. Retailing – through the GLS
2. Regulatory – including audit of the ASP's and licensees
3. Agent – for imported wines and all spirits
4. Order processing – from both GLS's and licensees
5. Warehousing
6. Distribution

I suppose item 3 needs the most explanation. It is my understanding that LDB sometimes deals directly with suppliers. From the LRS perspective, they are dealing with LDB as the agent for those suppliers.

Items 4 through 6 will be part of the RFP. What remains to be seen is if GLS's order directly from the successful W&D proponent; or if LDB operates a sub-order desk where GLS's order from LDB central office and LDB central office orders from the W&D proponent.

S13

Comments?

Don Epp
Executive Director
Treasury Board Staff
Phone: (250) 387-9008

Chipper, Tammy L FIN:EX

From: Epp, Don FIN:EX
Sent: Thursday, March 15, 2012 9:46 AM
To: Hughes, Bette-Jo LCTZ:EX; Ayers, Karen J MEM:EX
Subject: RE: S13, S17

It's not so much what I need, as what we will all need in order to be able to assess whether the prices and mark up the is derived from Frank's model will actually result in a revenue neutral scenario. Perhaps we should have a meeting on cost segmentation with Jill and Roger to sketch out what is needed.

Don

From: Hughes, Bette-Jo LCTZ:EX
Sent: Thursday, March 15, 2012 09:41
To: Epp, Don FIN:EX; Ayers, Karen J SG:EX
Subject: RE: S13, S17

Don – I know that Jill has been pressing Roger to identify more segmented costing. You could check with them to see if they can provide what you need.

From: Epp, Don FIN:EX
Sent: Thursday, March 15, 2012 9:36 AM
To: Hughes, Bette-Jo LCTZ:EX; Ayers, Karen J SG:EX
Subject: RE: S13, S17

OK. Just an idea.

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The components of the GLS price are: 1) wholesale price; and, 2) retail operating costs.

In order to be able to model this, LDB needs to further segment its operating costs.

Don

From: Hughes, Bette-Jo LCTZ:EX
Sent: Thursday, March 15, 2012 09:19
To: Ayers, Karen J SG:EX; Epp, Don FIN:EX
Subject: RE: S13, S17

AGLC has auditors in all of the liquor distributions warehouses.

A visit to AGLC would be helpful to gain a better understanding of their model, KPIs, etc. We can discuss with the team tomorrow re: who needs to go and when.

From: Ayers, Karen J SG:EX
Sent: Thursday, March 15, 2012 9:12 AM
To: Epp, Don FIN:EX; Hughes, Bette-Jo LCTZ:EX
Subject: RE: S13, S17

S13, S17

Karen

From: Epp, Don FIN:EX
Sent: Wednesday, March 14, 2012 1:44 PM
To: Ayers, Karen J SG:EX; Hughes, Bette-Jo LCTZ:EX
Subject: S13, S17

S17

Don Epp
Executive Director
Treasury Board Staff
Phone: (250) 387-9008

Chipper, Tammy L FIN:EX

From: Bissoondatt, Roger LDB:EX
Sent: Tuesday, March 6, 2012 1:45 PM
To: Epp, Don FIN:EX
Subject: FW: Warehouses - S13, S17

Hi Don, this was discussed with S13, S17

S13, S17

Below is some info Elaine pulled up in reference to this issue.

Roger

Roger M. Bissoondatt,
Chief Financial Officer
BC Liquor Distribution Branch
2625 Rupert Street,
Vancouver, British Columbia, V5M 3T5
phone - (604) 252-3151, fax - (604) 252-3175
mailto:Roger.Bissoondatt@bcldb.com
website: www.bcldb.com

From: Low, Elaine LDB:EX
Sent: Thursday, March 01, 2012 8:49 AM
To: Bissoondatt, Roger LDB:EX
Subject: FW: Warehouses

Roger,
Here are the criteria for change in use. Do you want me to attend the conference call?

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Page 72 redacted for the following reason:
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Chipper, Tammy L FIN:EX

From: Hughes, Bette-Jo LCTZ:EX
Sent: Wednesday, February 29, 2012 6:00 PM
To: Colins, Tracey L MCF:EX; Epp, Don FIN:EX; 'fcatala@deetken.com'; Hughes, Bette-Jo LCTZ:EX; S22 ; Kishimoto, Mike J LCTZ:EX; Poutney, Richard G LCTZ:EX; Taylor, Matthew JAG:EX; Agerup, Pelle LCTZ:EX
Subject: FW: question

S13

From: Ayers, Karen J SG:EX
Sent: Wednesday, February 29, 2012 2:46 PM
To: Hughes, Bette-Jo LCTZ:EX
Subject: RE: question

S13, S17

From: Hughes, Bette-Jo LCTZ:EX
Sent: Wednesday, February 29, 2012 2:36 PM
To: Ayers, Karen J SG:EX
Subject: RE: question

That is very helpful, thanks very much Karen.

From: Ayers, Karen J SG:EX
Sent: Wednesday, February 29, 2012 2:28 PM
To: Hughes, Bette-Jo LCTZ:EX
Subject: RE: question

S13

S13

From: Hughes, Bette-Jo LCTZ:EX
Sent: Wednesday, February 29, 2012 1:25 PM
To: Ayers, Karen J SG:EX
Subject: question

Roger B and Don Epp have S13

S13

S13 They also think this is an LCLB policy.

Can you clarify if this does not to be a limitation in the RFP and rationale? Thanks very much.

Bette-Jo Hughes
ADM, Service BC
Ministry of Labour, Citizens' Services and Open Government
access to government services made easy

Chipper, Tammy L FIN:EX

From: Hughes, Bette-Jo LCTZ:EX
Sent: Wednesday, February 29, 2012 4:07 PM
To: Epp. Don FIN:EX: Bissoondatt, Roger LDB:EX
Subject: RE: S13

S13

Let's note this in our comments back on the RFP draft.

From: Epp, Don FIN:EX
Sent: Wednesday, February 29, 2012 3:30 PM
To: Bissoondatt, Roger LDB:EX; Hughes, Bette-Jo LCTZ:EX
Subject: RE: S13

Thanks, Roger.

S13

Don

From: Bissoondatt, Roger LDB:EX
Sent: Wednesday, February 29, 2012 15:21
To: Epp, Don FIN:EX; Hughes, Bette-Jo LCTZ:EX
Subject: RE: S13

S13, S16

ROger

Roger M. Bissoondatt,
Chief Financial Officer
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website: www.bcldb.com

From: Epp, Don FIN:EX
Sent: Wednesday, February 29, 2012 2:29 PM
To: Hughes, Bette-Jo LCTZ:EX; Bissoondatt, Roger LDB:EX
Subject: RE: S13

S13

Having said that, it's not out of scope. We would take a serious look at any proposal that included S13 .

Don Epp
Executive Director
Treasury Board Staff
Phone: (250) 387-9008

From: Hughes, Bette-Jo LCTZ:EX
Sent: Wednesday, February 29, 2012 13:44
To: Epp, Don FIN:EX; Bissoondatt, Roger LDB:EX
Subject: S13

Sorry, I didn't take good notes on this.

Why did we decide that the province may retain the S13 function?

Bette-Jo Hughes
ADM, Service BC
Ministry of Labour, Citizens' Services and Open Government
access to government services made easy

From: Epp, Don FIN:EX
Sent: Monday, April 2, 2012 5:23 PM
To: Hughes, Bette-Jo LCTZ:EX; Ayers, Karen J MEM:EX
Subject: LDB cost Allocation

I've gone through the October 2011 cost allocation to wholesale and retail lines of business performed by MNP consulting. Using their percentages and amounts, I've re-jigged the cost allocation by retail outlet. The distribution differs slightly from my original table in the March 6 presentation, but not materially. The attachment includes my working papers on this.

Couple of items arising from the table:

- LDB's warehousing and distribution operations are supported by $19.6M in central office costs in addition to the direct costs of operating the warehouse and wholesale stores.

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It will be interesting to see what Frank comes up with on the pricing model.

ldb cost allocation.xlsx

Don Epp
Executive Director
Treasury Board Staff
Phone: (250) 387-9008

LDB 2010/11 Net Income	Total	GLS	LRS	Licensee	Other	Price
Net income (Gov't revenue)	890.4	422.5	275.8	181.4	10.7	31.6%
Discounts	201.5	-	152.1	-	49.4	7.1%
Retail stores (net)	232.2	175.5	-	56.7	-	8.2%
Warehousing/distribution (net)	49.4	19.1	16.6	10.8	2.9	1.8%
Cost of goods sold	1,458.3	559.1	506.0	216.5	176.7	51.7%
Other income	(11.3)	(11.3)	-	-	-	-0.4%
LDB sales	2,820.5	1,164.9	950.5	465.4	239.7	100.0%
Allocation as per Annual Report	100.0%	41.3%	33.7%	16.5%	8.5%	
Wholesale cost to eventual retailer		578.2	798.4	465.4	190.3	
Wholesale cost as a percent of revenue		49.6%	84.0%	100.0%	79.4%	
16% of sales	451.3	186.4	152.1	74.5	38.4	
Central admin support of W&D	19.6	6.9	6.1	5.6	1.0	

Note:

30% of Other sales are made by BC wineries that manage their own distribution.

LRS and Other W&D costs proportionately allocated according to remaining sales.