

**PORT METRO VANCOUVER
GATEWAY INFRASTRUCTURE FEE CONSULTATION**

**Gateway Infrastructure Program Advisory Committee – Meeting 1
January 22, 2010**

Notes from a meeting of the Gateway Infrastructure Program Advisory Committee, January 22, 2010, 9:00-11:00am, at Port Metro Vancouver, 100 The Pointe, 999 Canada Place, Vancouver, BC.

GIPAC: Stephen Brown, Chamber of Shipping of British Columbia
Brad Eshleman, BC Wharf Operators Association
Dave Kushnier (for Phil Hulina), Vancouver Terminal Elevator Association
Roger Larson, Canadian Fertilizer Institute (by phone – listening only)
Tom Maville, Canadian Fertilizer Institute
Bernie Magnan, Greater Vancouver Gateway Council
Ian May, Western Canadian Shippers' Coalition
Ken Peacock (for Jock Finlayson), Business Council of British Columbia
Don Sorochan, Canadian Association of Importers and Exporters
Les Suzuki, Canadian Association of Importers and Exporters
Craig Williams, Canadian Manufacturers and Exporters
Allen Wright, Coal Association of Canada

Port Metro Vancouver: Judy Kirk, Kirk & Co. Consulting Ltd., Facilitator
Robin Silvester, President and CEO
Allan Baydala, Chief Financial Officer
Chris Badger, Chief Operating Officer
Scott Galloway, Director, Trade Development
Kirk Zhou, Supervisor, Business Analysis & Decision Support
Naomi Horsford, Community Engagement Specialist
Chris Chok, Kirk & Co. Consulting Ltd., Meeting Recorder

The record notes that the meeting commenced at 9:00 a.m.

KEY THEMES:

- The Gateway Infrastructure Program Advisory Committee (GIPAC) endorsed the draft Terms of Reference.
 - GIPAC members were interested in whether the implementation of the GIF would affect the competitiveness of Port Metro Vancouver and the gateway supply chain compared to other ports. The GIPAC requested that Port Metro Vancouver provide further analysis on competitiveness for discussion at the next meeting.
 - Participants wanted to know the order of magnitude cost of the GIF in relation to the current cost of moving cargo through the Port.
 - Some participants were interested in whether the GIF could be incorporated into harbour dues, while some noted that transparency of the GIF was important.
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1. Robin Silvester, CEO – Welcome and Introductions

C: *Robin Silvester:* Thank you all for being here, for taking the time, and I know that some have come from quite far away. We have a very significant set of infrastructure investments that will be of benefit to all users of the gateway, and will underwrite the future of the gateway over many years. There is always more we're going to want to do, but this is a fantastic start. And I think you know, we've managed through a lot of work by the Port and many others involved to get significant government commitment to that infrastructure investment, to the ratio of them putting in \$3 million for every \$1 million that we put in collectively. And just looking at the press clippings this morning, Stephen Harper is saying that not only is the Federal Government going to be tightening the coffers, but that he's expecting every Province to do the same. So I think our timing has been really good to get this level of government commitment before the treasury coffers slam shut again for probably another generation.

So this is a really material change. It's 17 projects we are talking about in this process today. And they are projects that are outside of traditional port investment areas, but are material to development of fluidity of the gateway, to improving port reliability, to underwriting and improving capacity going forward. And those projects in total are about a \$680 million investment.

This advisory committee is, as Judy has already outlined, a key part of the process is part of the consultation that we as the Port are very committed to, to work out how to implement a Gateway Infrastructure Fee. The purpose of that fee is to recover the \$170 million Port stakeholder commitment to that overall \$680 million Gateway Infrastructure Program. The consultation is targeted to run through until June. The process from there is that we will take a recommendation from the consultation forward to the Port Metro Vancouver board, who will have the final say on the fee structure for the port, and we will be implementing the fee in January 2011. The process has been thought out in terms of budget cycles, to give those who have a calendar year based budget the opportunity to plan appropriately, and to give you proper warning so that you can have appropriate discussions with those in the supply chain who will be affected.

There are a number of areas we are seeking feedback, debate, input on. Specifically, to pick out four – the structure of the fee – we are looking for a lot of input on, to get your collective input on the most appropriate way to structure the fee. The second element is the repayment term – we have some preliminary thoughts, but we would be looking for your feedback, both individually and collectively on how to recover this \$170 million. The third area is the collection mechanism – there are various fees and charges already established by different components of the gateway supply chain. We all have experience of various fee collection mechanisms and it's a very key component

of this process, for us, to get feedback from stakeholders on what is the most appropriate way to collect this fee. The fourth element, assuming that we are talking about a fairly long term fee structure, is what annual mechanism process needs to take place to review, adjust, recalculate the fee that is charged, and again linking back to the fee structure and things that could vary within the fee structure. So four key elements – structure, repayment term, collection mechanism and annual evaluation process.

As Judy has touched on, we have come up with an acronym already, the GIPAC, the input that comes out of the GIPAC is going to be incorporated into refining the draft discussion paper that you will be looking through today and that you received this week. That paper is intended to be the basis of the broader stakeholder consultation, reaching out to the groups that you are representing today, and perhaps beyond. The final area where we would very much appreciate feedback is when we get closer to that process, is your guidance on the most appropriate way to conduct that next phase of communications and consultation. Making sure that we are running the process to get the right input from the right people.

We thank you for coming, we really do appreciate you making this significant time commitment. This is a really important process for the gateway and it's great to have such a strong group around the table. Thank you.

2. Review of Terms of Reference – Judy Kirk

The draft GIPAC Terms of Reference was reviewed and endorsed by the GIPAC. The final GIPAC Terms of Reference is attached to these notes for reference.

Q: *Brad Eshleman:* On the communication process back to membership. Are you ok with us sending these documents out to our membership so they can see the Terms of Reference? So we can send the whole package out?

Q: *Craig Williams:* Do we have this electronically? The latest versions?

A: *Judy Kirk:* With respect to the discussion paper, I would ask you not to circulate that broadly until we have landed on what the revisions might be. The materials that you should feel free to circulate are the TOR and the brief on the consultation process. I would ask that you do not send out the discussion paper until we get to the broader consultation. The other thing is, I am assuming, and hoping, is that you will provide a report to your memberships from your perspectives on these discussions. That's what the dialogue is really about. It's just that the feedback from the pre-consultation is, look, let's make sure that members are at least aware of what is going on.

Q: *Don Sorochnan:* Will there be minutes circulated? And if so, will they attribute comments to individuals and organizations?

A: *Judy Kirk:* Yes to both.

Q: *Don Sorochnan:* And is it expected that those be kept confidential, or can they be circulated, or encapsulated?

- A: *Judy Kirk*: Let me tell you what the end use will be of these notes. There is a desire for transparency in the process, for sure. The notes will form part of the consultation summary report. There will be a consultation summary report of all of your feedback that is summarized. People won't have to wade through binders of materials. These notes will be appended to the consultation summary report. So at the end of the process, people will be able to see the summary report, the meeting notes, and if they wanted to, and we have to make sure that we protect proprietary information in there, which is why I'm putting a caveat on it, written submissions. But the point is that you would be able to see the input, and know that the summary was reflective of that. So, interim circulation of the notes – the intention would be to circulate to this group, and not broadly circulate them until the end of the process. But if you were to provide a précis of that, with your take on the meeting, in terms of what is in your and your members' interest, that would be the best thing to do.
- Q: *Ian May*: In terms of circulating the discussion paper, oops.
- A: *Judy Kirk*: No problem. Don't worry.
- Q: *Ian May*: I don't see it as a problem. I don't use the port personally, other than to get exercise. I think it's important for them to see the iterative process. I don't see it as a problem at all.
- A: *Judy Kirk*: I don't either. But I just want to make sure that people know it's an early draft.
- Q: *Ian May*: And they will see progress, and maybe see the results of their input, and that can only be good.
- C: *Judy Kirk*: How does everyone else feel about that?
- Q: *Craig Williams*: The only thing that I'm concerned about is if it gets out into the public realm and then the media, and then this becomes a process involving the whole world.
- A: *Judy Kirk*: I think we'll be ok on that. I think it's a valid concern, but I think the media doesn't generally cover fees. Are there any other questions on the terms of reference? Can I assume then that you accept those, and what I would ask is, speak up if you don't.

The record notes that the GIPAC TOR was endorsed by members.

3. Consultation Overview – Judy Kirk

The Consultation Plan Overview was reviewed.

- C: *Judy Kirk*: If by the end of the meeting, if you could tell us your initial thoughts about the broader stakeholder consultation – 6 stakeholder meetings, written submissions, feedback forms. It will be the feedback form in this discussion paper, or something different. The feedback form will always have the content of what we are consulting on. Let me explain why we are receiving input through all these methods. Many of you know that when you have this kind of group together, you have group discussion, and the meeting notes capture the dialogue. Written submissions are usually, thought not always, the comments of

a specific stakeholder. The feedback form is meant as a more convenient, direct way to collect specific feedback on quantitative and qualitative feedback on the GIF. The other reason for providing the different forms of consultation is so that those who cannot attend a meeting are still able to be meaningfully consulted. I'd like to come back to it at the end after you've had a chance to reflect on it.

4. GIF Discussion Paper and GIF Models – Allan Baydala

Allan Baydala reviewed the discussion paper, highlighting key elements of each page.

Introduction and Page 1:

- High level overview of Port Metro Vancouver, economic impacts, why the things PMV does are good for the economy and stakeholders
- Gateway Infrastructure Program includes 17 projects in three program areas – North Shore Trade Area, South Shore Trade Area and Roberts Bank Rail Corridor
- \$680 million total cost of those projects, \$167 million PMV pre-funding on behalf of industry

Page 3:

- Commitment to development and review of the GIF models through three lenses: fairness, effectiveness and efficiency.
 - **Fairness:** The gateway infrastructure improvements will benefit the users of the gateway, and therefore the users of the gateway should be subject to the fee. Transparency is important to PMV. PMV has existing fees, harbour dues for example. Having a discrete fee, with an amount that we will recover, was seen as a real advantage to bring to the group and industry. Did not want a fee that would compromise competitiveness of the port or sectors within the port. We only want to raise enough money to recover the cost of the contribution and the debt service cost.
 - **Effectiveness:** Fee has to be able to raise the funds that PMV has put forward
 - **Efficiency:** Fee should be simple, not a burden on the Port and those collecting the fee
- Here to talk about the GIF structure, collection mechanism, the GIF term, and annual evaluation – will talk about in context of the models

Page 4:

- GIP is 17 projects worth \$680 million
- Key is that for \$170 million of industry contribution and investment, getting another \$500 million of government funding. Leverage of the projects is really driving this whole program and ultimately the fee.

Pages 6 to 11:

- Description of individual project areas
- The Roberts Bank Rail Corridor is \$307 million, industry is putting in \$50 million

- In addition to throughput benefits for terminals, there are also community benefits
- We as operators have to be aware that we need to continue to do things to keep the support of the communities that we operate in
- North Shore Trade Area is \$59 million contribution for a \$244 million total project cost, similar benefits
- South Shore Trade Area is \$58 million contribution for a \$125 million total project cost, again, similar benefits

Page 12:

- Talks about models – will be covered in PowerPoint presentation

Page 17:

- Matrix that talks about fairness, effectiveness and efficiency – will be covered in PowerPoint presentation

Discussion:

Q: *Craig Williams:* I haven't read this in detail yet, but one thing that always concerns me – I struggle with this simple terms, in my strata corporation – it's always a cost plus build up. There is never any consideration of what's the market. Is there anything in there about what benchmark in terms of what other ports do?

A: *Allan Baydala:* We look at that all the time with our various fees. We just brought out a new fee document for 2010. We look at the competitiveness compared to other ports. Canada doesn't really have any good examples, we have to go down to LA. We do that on a regular basis, our analysts look at what our fees are compared to the other Ports. You'll see when we get into the models that the amount of money per ton or TEU that we're needing here are very low compared to what you are seeing in LA and the other ports. Some similar ideas – there have been a number of initiatives for fees in other ports. They have different models where they can tax the communities directly, we can't, so there are some difference along that. But we have looked at the competitiveness.

Q: *Craig Williams:* This is important when you get out to stakeholders, being able to say, if I'm a manufacturer or exporter, whether it's here or southern British Columbia or in Washington state or Oregon, how do I get it to Japan, through here, Seattle or LA, to see that it's reasonable. That will calm the waters if there is a reasonableness.

C: *Judy Kirk:* Are you asking for some sort of summary to be brought here? We'd like to see what that competitive analysis looks like?

C: *Craig Williams:* Yes, I'm quite new to this, and I had a board meeting yesterday, and there were a lot of opinions there. I can see how there is going to be a need to show reasonableness. I think all this transparency and fairness is good. I now see what I can say as my speech and here's how it compares to other places in the world. This whole issue that we're out there to flog across the country about B.C. is competitiveness and economic boasting and all those kind of good things.

We're promising a lot of things on taxation, corporate and personal, and HST is terrific for manufacturing. And I want to make sure that this all fits as part of that package.

- C: *Brad Eshleman*: I would concur with that and to add another layer to that, and this is something I was going to bring up later, but how other ports and governments are treating their ports and infrastructure. And the concern about ports and cargo being brought further inland to pay for projects that have typically been government projects. Looking at other ports and how those governments treat their infrastructure expenditure.
- C: *Ken Peacock*: Just on the funding, you have a lot of other contributors. Would you characterize that as firm? Do you have a high level number of what the fed commitment and provincial commitment?
- A: *Allan Baydala*: Yes, it's in the first slide. We have signed agreements in principle, they haven't written the cheques yet.
- C: *Judy Kirk*: I'm going to add something to Brad and Craig's comment because I think it makes sense at this point. There was a comment in the pre-consultation interviews that if the fee were to apply, and clearly the port is not consulting about whether it's going to apply, they are consulting on the implementation features. But the comment was this, the gentleman said, I'm not sure that it's a great idea to have the fee as transparent as what the port is thinking about. To your point about competitiveness, that it might be better to have it hidden. And the word hidden isn't meant to be secretive. But that it's not separately noted, was what he was saying. And he actually referenced the airport, and said you know, that fee took a huge amount of heat for the years that it was gathered separately and noted separately, but you don't hear about it anymore, at least not to the level that you used to. I just think that's a comment about how should it look that has already come into the process.

GIP contributions:

- Table on page 5 of Discussion Paper: Shows contributions from various partners. \$680 million total project cost, \$170 million from industry to leverage additional \$500 million.
- **Roberts Bank** – getting 40% contribution from senior levels of governments
- A lot of community benefits, which is why TransLink gets involved
- The railways are in here contributing \$66 million to the trade areas and Roberts Bank Rail Corridor. They are investing additional funds in their own infrastructure in addition to the \$66 million. So their contribution overall is much greater.
- **North Shore Trade Area** – 60% from senior government
- **South Shore Trade Area** – Province is not in there, have specific rules about when they contribute
- **Total** – Almost 50% is senior government, PMV and industry is 25% – getting the leverage of all the other parties

GIP Project Expenditures

- PMV needs to recover \$167 million.
- The idea of the GIF is that the Port will fund that up front between now and 2014. The Port will fund that \$170 million, and will finance it, there will be interest costs. The port will start recovering that in 2011. The number grows until the completion of the projects in 2014 and carries on until the funds are repaid.
- In this model, we have assumed that we would have the recovery over the lives of the projects, approximately 30 years. We could argue that there would be different lives across the 17 projects.
- We put a finance rate in here to calculate the financing costs of a 30 year financing, about 5.5%. That's how interest was calculated.
- This slide shows what PMV needs to recover each year. You'll see the two numbers from 2011 (\$4 million) and 2014 (\$11.5 million) in the upcoming slides.

Model 1 – Value

- In 2011, collects \$4 million dollars and in 2014, collects \$11.5 million.
- The Port does not pay taxes or a dividend to the government, but pays a stipend of approximately 2% to the federal government. That's a whole lot better than paying income tax or dividends, but models will show a gross amount that is needed because of the stipend owed to the government.

Q: *Brad Eshleman:* How do we get around that? Because it doesn't make sense.

A: *Allan Baydala:* Well, I don't know if it makes sense. If it's fee revenue, it's revenue. As I say, there are some real advantages to that. There are two ways – it runs off GAAP¹, and you're an accountant, so you know what GAAP is, so if we can prove that it's not revenue, and if our auditors agree with us, if it's just capital recovery, then we would avoid the cost. But we're looking at that, and the linkage isn't great, we are able to do that in some cases, and we can net in some cases, but it undergoes intense scrutiny. Failing that, you are going to treasury board, not just Transport Canada, and asking for an exemption.

Q: *Brad Eshleman:* Is that possible?

A: *Allan Baydala:* We would do that if we're not successful with our auditors.

C: *Judy Kirk:* I think the point there, because it came up in pre-consultation, is what Port Metro Vancouver is saying, is for the purposes of the models, they put them in. But they are going to look at it, but you shouldn't run away from the room thinking that there is a great chance of success. But I think what Allan is saying is that they are going to try.

A: *Robin Silvester:* There is a degree of meddle with it at your peril from our perspective as well, if you have to go to Treasury Board for an exception. It's something that we are already looking at – I had the exact same question on this issue. We'll progress further, but as Judy says, we put it in there because it's the safe assumption. We might be able to improve it, but that's the safe assumption.

¹ Generally Accepted Accounting Principles

- A: *Allan Baydala*: It's certainly better than if you were funding this yourself, and for \$167 million, you would have to find \$300 million of gross revenue.
- Q: *Brad Eshleman*: My comment is to work with you to not have to pay that.
- A: *Robin Silvester*: We appreciate that.

Model 1 – Value (page 13 of discussion paper)

- All models are based on volume
- Model 1 uses the relative values of commodities that stakeholders ship through the gateway
- Column one values were taken from Intervistas study in 2008, don't get hung up on the individual numbers, but rather look at the model
- Model is based on the relative values of the commodities. It's a computer calculation that uses a factor through all rates that when multiplied by volume, gives us the recovery of the \$4 million in 2011 and \$11.5 million in 2014
- It's quite simple to apply, you would take your value, divide by 100, multiply by factor of 0.09, multiply by volume, and get the amount of GIF to be recovered by that commodity
- That gives gross revenue, less 2% stipend, net revenue of \$4 million in 2011 and \$11.5 million in 2014
- Fundamentally, this really looks at the profit potential of the commodity moving through the gateway. We talked about the Gateway Infrastructure Program allowing you to ship more, and if you do that, you ship more, the higher the value of the good, the higher the profit potential.

Model 2 – Tonnage (page 14 of discussion paper)

- This model is very simple, and works off straight tonnage
- Uses cargo (bulk, breakbulk) and container (TEU) tonnage
- Converts TEU to tons with a factor of 9.5
- In 2011, divide \$4 million by total tonnage to get the rate per ton, and then to get rate per TEU, multiply that rate by factor of 9.5
- In 2014, divide \$11.5 million by total tonnage to get rate per ton, and convert to calculate rate per TEU

Model 3 – Mode and Tonnage (page 15 of discussion paper)

- 3 and 4 are very similar, refinements of Model 2
- Rather than just using tonnage, look at rail and truck moving product through the gateway. There are projects that improve rail and others that improve truck. For these 17, we came up with a 65% rail benefit and 35% truck benefit.
- That's fundamental – we want to allocate the cost of what we collect annually on that 65%/35% basis.
- In 2011, we know that we need to collect \$2.663 million from rail and \$1.456 million from truck.
- Now calculate how this is split between cargo and container – take the breakdown of total tonnage by rail and truck, and containers by rail and truck, convert TEU to tonnage by multiplying by 9.5.

- Cargo by rail is 84% and TEUs by rail is 16%, so we use that to divide the dollars – same calculation done by truck.
- In 2011, the rate would be 4.2 cents for rail for cargo, and 12.2 cents for truck for cargo. And for TEUs, it would be 39.5 cents for rail per TEU, and \$1.163 for truck per TEU.

Model 4 – Rail Footage and Truck Units (page 16 of discussion paper)

- This is very similar to Model 3, uses the 65%/35% rail truck split, but instead of tonnage being moved, look at units – rail footage and truck units
- There are new percentage splits here from Model 3 because it's used on units, not tonnage.
- This model is a refinement on the impact of the infrastructure

Fairness, Effectiveness and Efficiency (page 17 of discussion paper)

- **Fairness:** Model 1 is based on profit potential. The amount of additional profit you would be generating from this infrastructure. Models 2, 3, 4 look at the wear and tear on the infrastructure.
- **Effectiveness:** All models collect the amount required for the GIF on an annual basis.
- **Efficiency:** Model 1 requires a system for determining the value of commodities, has some challenges to billing. Models 2, 3, 4 are all doable, but have different requirements for collecting information, and how that gets to the onward billing entity.

5. Discussion and Questions

Q: *Craig Williams:* How did you forecast throughput for the port out 30 years?

A: *Allan Baydala:* We did not forecast. We would use historical information. We would be setting the 2011 fee say, June or July 2010, we would use, probably, 2009 actual throughput.

C: *Craig Williams:* So that's the annual review?

A: *Allan Baydala:* Yes, that's right. Obviously, we're not going to be exact for the next year, so there would be an adjustment for each subsequent year.

Q: *Craig Williams:* Oh, I see. I was concerned that you were going to take the risk of 30 years or something like that.

A: *Allan Baydala:* No, it would change every year.

A: *Robin Silvester:* This model is just flat 2008 volumes, we haven't tried to change volumes, it's just purely for illustrative purposes.

Q: *Tom Maville:* With respect to the table in Model 1 – do you have any analysis that could be provided to back that up?

A: *Allan Baydala:* We ran various scenarios, but I'm not sure exactly what you're thinking of.

Q: *Tom Maville:* What I'm getting at is, are the values per ton actually reflective of the products? A ton of potash is a lot less than a ton of containers.

- A: *Allan Baydala:* That's fundamental to this model. Now, we all know that potash isn't \$180 a ton anymore, but in 2007 it was. If you find two that have a similar value, they would have the same GIF rate, and if you saw something that 5 times higher value, the GIF rate would be 5 times higher. So that relationship is maintained.
- Q: *Bernie Magnan:* You model it on the basis of the previous year, put in the information, here's the rate for this year. At the end of the year, you'll hopefully be balanced, but will likely either have a shortfall or an overage. What is the process of reconciliation? Will there be a rebate, an extra charge? Factored into the next year's?
- A: *Allan Baydala:* It would be factored into the next year's and we can talk about the options, whether you recover that in the next year, or recalculate all future years on that basis. Those are two options.
- C: *Judy Kirk:* I think it's worth pausing here to reflect on how we're taking these notes. We're going to take down the question, the answer and the comment. In thinking about the future, in terms of providing a written submission, a feedback form, please think about what you might want to say on that item. Don't think that exchange is the end of it. I'm also not suggesting that you would have a written submission for everything that comes up, but if it's important to you, Bernie, on that, for example, that you might provide a view for that in a written submission or a verbal comment here.
- Q: *Bernie Magnan:* The other question that goes to this is short sea shipping – that may play a role down the road. It's marine transportation. What is the interrelationship – you talk about rail and truck – if we have short sea shipping, then there is a marine component as well. Is that a factor in this play?
- A: *Allan Baydala:* This is not. There are no short sea shipping projects in the GIF projects, and so we're not trying to recover short sea shipping costs, and so we're not charging short sea shipping. If someone moves a barge of logs up the river or hog fuel up the river, it doesn't get factored into this. If we have a real true short sea shipping where some containers come off one of the terminals and then get on a barge, they would be charged because they have come through the deep sea terminal.
- Q: *Brad Eshleman:* My original question was answered, but I have another one. New cargos and new terminals – how do they factor in?
- A: *Allan Baydala:* We would look at the annual volume, and that would add another billing source. It would become part of the tonnage.
- Q: *Brad Eshleman:* Whatever method gets finally determined here, that volume would go into that calculation at that time.
- A: *Allan Baydala:* Yes.
- Q: *Ian May:* Our association is really diverse – runs the gamut of wood pellet shippers to huge coal shippers and so forth. We have tried doing this in terms of structuring our fees. It's really tough to do and get it right. It's fair, it has the appearance of looking fair, but good luck. You've already answered in part my question that Bernie asked. It occurs to me, what do you do with a trend that you can't see? That's another area of commodity downturn for example, that is more than an annual. I can see where you can handle it if you're doing this with

commodity prices, we're all commodities. If you get a downturn, then you've really got a difficulty. I'm thinking for panel board or forest products.

- A: *Robin Silvester*: I would be interested to knowing what specific issues you had with trying to collect.
- C: *Ian May*: Yes. But I won't take up your time right now. I'll put pen to paper on that so that I can be a little more succinct and articulate.
- A: *Allan Baydala*: On your second question, trends are factored in that you have the annual adjustment. We can model long term trends, but if everything went down, then nothing changes. That industry, or that entity, or that commodity, and their volumes remain the same, and all other things being equal, would see a decrease in their fee.
- Q: *Ken Peacock*: It occurs to me that between fluctuations of commodity price and potential shortfalls, you could have significant year to year changes in fees. The relative price swings in the B.C. economy are massive. Somewhat related, although I'm not familiar with how the Port operates, but what is the size of these fees relative to the overall fees that a shipper would pay. Is it 1% or a fraction of 1%? Is this going to be able to tip activity to say, a Prince Rupert, in some instances?
- A: *Allan Baydala*: We don't believe so. If you look at the various models, the biggest dollar ones are TEUs, we're looking at \$1 – look at the 2014 – you're looking at \$1.50 by rail in 2014, and \$3.30 by truck. Wharfage is \$35/TEU, terminal handling fees are in the \$200-300 range, so it's pretty small, not insignificant, but we don't believe it would tip the scales of competitiveness.
- C: *Ken Peacock*: Ok, I'm just trying to get a sense of the relative size.
- C: *Brad Eshleman*: A comment on the commodity spike and fluctuations. I'm on the finance committee of the BCMEA, and what we do is a 3 year rolling average to set our cargo assessments. It's not perfect, but it's better.
- A: *Judy Kirk*: That's an interesting point because in other fee structures, utilities for example, there are rolling averages. There are also bands that can be applied.
- C: *Brad Eshleman*: Yes, nothing is perfect.
- A: *Allan Baydala*: Back on the competitiveness point. Remember that all of these projects are being built to improve the competitiveness of the gateway. It's very difficult to come down to a dollar per ton, or a benefit per ton or TEU. But we believe that the benefits to the gateway far outweigh the charges to the individual.
- Q: *Craig Williams*: I'm not an accountant, I'm an engineer. And in my past lives, whenever I see a big process like this, there are dollar gates the whole way. And to me, the logic of Model 1 doesn't make any sense. It's how you wear down the infrastructure. It's an activity based cost. It's logical to go with one of the other ones, not this one I think.
- Q: *Tom Maville*: With respect to the railways that partially are funding, which railways are we talking about? Is it the two class ones? Or Southern Railway of BC and BNSF?
- A: *Allan Baydala*: I think it's the two class ones – CN and CP.
- Q: *Tom Maville*: This is just a personal opinion, but the railways will also benefit, so in addition to them being a contributor, they're also going to be a beneficiary. Is

there any thought to considering some level of fee to address that, or some sort of adjustment to reflect that?

- A: *Allan Baydala:* I don't believe we have a mechanism for that now. We have talked about other future infrastructure projects that might have that component but not these. It's a good question.
- A: *Robin Silvester:* We also sort of philosophically gotten to the point where they have already been had their arms twisted behind their back and pushed hard by the Federal government to get them to the table in the first place. The fact that they are putting 10% in is reflective of the fact that they are expecting to get a return. Bear in mind that that 10% is only the non-rail component. They have to do other work, investment anyway to make these projects function. I think, at this stage, we have philosophically shied away from going after them again because they have come to the table.
- Q: *Tom Maville:* That table, the list of users, are all commodity shippers or product shippers. Is there any consideration given to others who benefit, I'm thinking of the cruise lines, the pleasure boat operators, the City of Vancouver will benefit. What about a fee for those people?
- A: *Allan Baydala:* Vancouver is in here in the municipalities. We did consider cruise, but didn't see that there was any benefit, significant or otherwise, for cruise, so we did look at both of those.
- Q: *Stephen Brown:* In terms of option 1, wearing a ship owner's hat, thinking about it as a commodity shipper, I think predictability is an issue. When you're tailoring this to commodity prices, I do see a problem in terms of predictability, everyone is looking for predictability of what you're going to pay. You're going far out in committing yourself contractually. That question mark in the back of my mind is a problem. When we are looking at what is going to grow over the course of the 30 years, I think we all have a sense of where the growth will come. Is it fair to say that the container side of the industry, if it grows the way we think it will, that will over the period of time, will finance more of this. And if the bulk side, if they remain relatively stable, there is actually going to be a transferring of this fee to the container side. So if you were to adopt this model, certainly to try and rejig it every year, is going to be very unpredictable. There is a balance of weight transfer in terms of those commodities that will actually grow, and in this case I think it will be containers. We have to bear that in mind in terms of competitiveness.
- Q: *Dave Kushnier:* The comment about the cruise ships not getting benefits so they're not part of this. How did you then determine other specific locations of industries that were going to benefit? Why did the cruise industry get a break, and not others?
- A: *Allan Baydala:* We looked at, project by project, what the projects are doing. The bulk of it is rail – we don't see obviously a benefit there. There is no cruise terminal infrastructure as part of this. As part of transportation, they're using the Canada Line, they're paying for that indirectly to move from the airport to downtown. We just looked on a project by project basis, and who is benefitting, and the cruise passengers just don't fall into that pot.

- Q: *Bernie Magan:* I like the idea of a rolling 3 year average. And you may also want to allow for a 5% swing either way to help smooth it out, so if it's less than 5% you don't change it. The second one is more a strategic planning question – are there any other projects in these areas that would add a further levy on top of this in the next 30 years, and if there are, can you let the potential payers know there is that potential down the road? It's a question of stability and knowing where you're going to go. If they're thinking they're paying 54 cents a ton right now and will be paying 70 cents a ton because another project has come into place 20 years down the road, then we go back with that to your clients.
- C: *Judy Kirk:* Just before I come to you to answer that question, Robin, I just want to point out that page 5 of the discussion paper, under future considerations, goes right to that point.
- A: *Robin Silvester:* It's a very good question and one that we've thought about long and hard about. On one hand, we say, are there other infrastructure projects that we want to get this sort of provincial and federal commitment to that would have similar benefits to the gateway as a whole? The answer is yes. Do we have certainty around them at this stage? No. And what we've taken forward as the approach here, is that this process today is about the specific known projects. Through the process, it would be useful to have a sidebar about how we could approach other projects. What we would be doing through this process is establish some principles we can use about how we consult on projects that may arise. There are some projects that may arise, but we don't have that level of certainty at this stage. At a high level, from the perspective of a concerned stakeholder, is this the first step of 10 of these, I don't foresee us getting 10 times this number of projects getting funded in the next generation or two. Yes, there might be some further projects, they will be separate. This is a process about these projects. If we have other projects, we would have a similar separate process to address them, and try and learn from the principles that we established from this process the best way to go into that. But this is bound very tightly around these defined projects.
- C: *Judy Kirk:* The thing I would add around process is that the Port has said it would consult with stakeholders about those projects before proceeding. And there would be a process around the projects, not just a fee.
- A: *Robin Silvester:* Absolutely, and one other thing, we are not looking to find a funding mechanism for projects that can be funded elsewhere. This is very much about recognizing that this is a unique opportunity at this point in time. It's somewhat imperfect because we still have \$170 million to find, and we'd rather have nothing to find. But we certainly don't want this to be the thin end of a wedge that starts a new approach to funding. So that's another reason for binding this very tightly around these three trade areas, and being very clear that there will be consultation before any future commitments are made.
- Q: *Ian May:* Couple of things – one, just a reminder to Tom, I'm shocked at his suggestion that we would charge railways more. I don't know if the railways have ever been charged a fee that they have been unsuccessful in passing on to shippers. And I'm not kidding. This goes to Model 3 and the rail and truck stuff.

You really can bet that whatever, and I don't know, I don't have a full enough understanding of the models, where one is pitting use of trucks or rail, we will end up wearing this. Bulk commodity shippers will end up wearing it. Until we come up with a decent model. The other thing is – that was a good question about how much this is going to be, 1% or 0.5% or so forth – horse gone, barn door closed, but, let's not make too big a deal out of this thing if it's not too big of a deal. The final word of how we ended up doing our fees was almost by feel. We did a combination of volume, number of cars, how big is the company. It almost became an intuitive process. It had some basis, but we couldn't come up with a formula that worked.

- C: *Brad Eshleman*: That was perfect...
- C: *Ian May*: Nothing is perfect, and don't expect to get close to being perfect. The more that I look at this, I'm tending to agree with the gentleman or lady that said just get it out of sight. Arrive at it fairly, and get it out of sight. You've got an argument that says you got great leverage on the money, you're putting it to good use. Bear that in mind with this.
- C: *Judy Kirk*: I appreciate that – don't make such a big deal out of it, or a big deal out of it. And consider whether it needs to be noted separately.

Model 2

- Q: *Craig Williams*: Which of these most accurately reflects the wear and tear of the gateway?
- A: *Allan Baydala*: 3 and 4 does reflect the difference in infrastructure between rail and road, and does reflect that those volumes move by those different modes will have wear and tear. So from an engineer's point of view, 3 and 4 make the most sense. Maybe not the most sense...
- Q: *Craig Williams*: And which between 3 and 4?
- A: *Allan Baydala*: Between 3 or 4? I think we would have to have further discussion on that. 4 is a little more complicated in that you're bringing in other factors like the differences in rail cars and trucks, and the differences in how many TEUs trucks are pulling, the length and tonnage carried. So 4 is more complicated than 3 than 2. Ultimately, we will factor in all of those variables.
- A: *Robin Silvester*: I think it's also probably fair to say that these two models in particular would require more rigor testing around the details and assumptions around tons per foot of rail, per truck. A, it's really hard to answer your question conceptually, and B, it's not yet at a stage of rigor where you could say you could be guided by the output and look back and say whether it's fair, because things could move a bit, particularly comparing 3 and 4 right now, and then really hardening all the assumptions up. They could swing around. These are conceptual models with a few assumptions in them that we need to firm up before we get past the concept stage.
- C: *Judy Kirk*: I think in fairness to PMV, I was pretty aggressive on the notion of, we're not interested in doing a consultation for them that was an announce-defend. What you see before you are some models that are open for discussion.

That's why you don't see a "preferred option". What you see are some models that are open for discussion that look at different things.

C: *Ken Peacock:* Back to the notion of whether we should make less of an issue of it, how much of the fees increased over say the past 5 years, does the Port review its fees every year and increase at say a CPI rate?

A: *Allan Baydala:* We do have an annual fee document that goes out for January 1st, that shows harbour dues, wharfage, berthage. We have a 60 day consultation period so it has to come out 60 days in advance of that. Harbour, dues for example, is a cost recovery, general Port security and recovery and other general recoveries. Harbour dues have not increased since at least 2007, and we did not increase even given the additional security expenditures, so we're very mindful of keeping those costs down. The other fees, wharfage, for example, is a contractual arrangement and is typically a function of how much investment we have in a particular terminal. Harbour dues would be the closest to this and hasn't increased over the past few years.

Q: *Ken Peacock:* So there is some scope there for increasing fees there, it would sound like.

A: *Allan Baydala:* One of the first things we did when we looked at the GIP was how are we going to recover this, and we looked at the existing fees. Harbour dues was the most logical choice. But it was difficult to pass our transparency test. We don't publish a breakdown of harbour dues, and there was a concern that it would go on forever. Here we would show you a breakdown of what was left to collect each year. That was the downside of harbour dues. But it is possible, and we did consider it.

C: *Ian May:* You may want to reconsider it.

A: *Allan Baydala:* Ok.

C: *Ian May:* I would suggest you reconsider it, actually. The other problem with rail versus truck is that rail pays for their own infrastructure and trucks don't. We pay for the truck infrastructure through our taxes and so forth. That is a potential can of worms, and again, I don't pretend to have my mind wrapped around Models 3 and 4 yet.

C: *Judy Kirk:* Just on this, and for the purposes of a thorough dialogue on the issue of harbour dues versus a separate fee, and Allan, your issue of transparency. Is there a way that the feedback you're hearing, and the discussion of does it really need to be shown here in a spotlight, is there a way you could bring some transparency to it, and still have it be part of harbour dues?

C: *Chris Badger:* I'd be interested in hearing Stephen's comments on harbour dues.

C: *Stephen Brown:* Of course, harbour dues are paid by the carrier. We're talking, so far, in these models about paying the GIF based on commodity, shall we say. So there are two different collections here. One is what is paid to the carrier, of course that's based on whatever chartering arrangement the ship comes under. Ultimately what will be paid by the commodity. In the first place, the harbour dues is paid by the ship, which is not the case with these models. One of the thoughts we have had is that we do need a transparent process because taking into account what Robin was saying, inevitably, there are going to be other projects moving forward. The chances are, other projects are going to come

along, and therefore the case for transparency is quite strong. Keeping it simple, my personal opinion, is Model 2 – keep it simple, tonnage based, very transparent, room for adjustments if other projects come to the Port. But transparency is very important. I agree with Ian’s comment, we shouldn’t make a big deal of it, it should be simple. Model 2 is the simplest. The basis of the assessments, BCMEA, is tonnage based?

- C: *Brad Eshleman*: Actually, it’s more labour based. Combined with tonnage.
- Q: *Stephen Brown*: But you’ve also got x amount per ton.
- C: *Ian May*: The problem with tonnage based is that when you ignore the value of the product, you get in trouble. We can’t afford this, a container of feathers...
- C: *Chris Badger*: The issue would be if you had a container load of ping pong balls or something.
- C: *Ian May*: You’re right about the next project, that’s where you consult about here’s what the project is. How to pay for it shouldn’t be a big deal. We’re going to hurt ourselves real bad. It’s hard to get it perfect, so don’t try to be too perfect. We’re going to end up picking each other to death. I don’t know how to get that into your process, Judy.
- C: *Judy Kirk*: I appreciate that comment, it’s very valuable. In all the processes I’ve been involved with around rates and fees, it’s very important. We didn’t put simplicity in here, but it’s embedded in the efficiency.
- C: *Brad Eshleman*: Just to follow up, I quasi answered one of Stephen’s comments about the BCMEA assessment rate. The BCMEA assessments are commodity based, but it’s an elaborate formula that goes into trying to make it equitable – it goes into allocating labour to all the terminals, and all of this 3 year rolling average massinations to come up with the charge. And then that charge can go up and down by 10 or 15% every year, so you get all these fluctuations. At the end of the day, it’s kind of a method to do it. Is it perfect? No. But it is somewhat complicated too.

6. Conclusions and Next Steps

- C: *Judy Kirk*: The outcome of the day was to provide you with a common base of information and you have a common understanding of what PMV is talking about here, and that is there is a plan to implement in 2011, a GIF or some recovery mechanism, to recover PMV’s investment in the 17 GIF projects. And to have given Allan a chance, on behalf of PMV, to present, at least initially, the key features of these models.

So, what do we want to do going forward? Between now and the next meeting, think carefully about what feedback you want to provide to PMV about the structure of the model, the collection mechanism, the term and the annual evaluation. There is information in the discussion paper that allows you to think about that. You’ve had an opportunity to ask some questions and I think got some good answers. And there is also an opportunity to send us, that is, Kirk & Co., some questions. Please don’t send 25 questions, but if you have 3 or 4, we will endeavor to get you the answers so that at our next meeting, you are able

to give some pretty substantive feedback on these items. So today was the introduction. Next meeting we are looking for more feedback and more discussion.

Q: *Ian May:* Are we locked into the 4 models?

A: *Allan Baydala:* No.

C: *Judy Kirk:* Robin, correct me if I'm wrong, but what you're locked into is cost recovery.

A: *Robin Silvester:* Yes, cost recovery starting in January 2011.

Q: *Les Suzuki:* Is there some sort of electronic form that we can send to our membership for them to complete online? It would save them a lot of time.

A: *Judy Kirk:* Thank you for that question. It is not yet time for that. The feedback form will be online, but it won't be online yet. To Ian's point, it may be that this discussion guide is revised to reflect the models that you feel are reasonable. That feedback form will be online for people to go to directly.

So, I'm wondering whether you would like to give us any feedback on the broader consultation process now, or wait until the next meeting. And I'm very comfortable with either one. If you need more time to reflect on whether the 6 stakeholder meetings and the online feedback form and written submissions will be robust enough to get feedback from people, or if you would like to wait to give me some feedback at the next meeting.

C: *Bernie Magnan:* I think that with the information that you have given us today, it would be good for us to think about it and ponder it through, and then come back next meeting. And also you can do précis and talk to some colleagues to provide proper feedback.

C: *Judy Kirk:* I think that's very wise, and I was just wondering whether you have any initial thoughts we should be thinking about – I call it an eye poker test. But I agree with you, and I think that makes sense.

Q: *Ian May:* The first thing that I'm going to be asked is how much, and I get that I can figure it out from these tables...

A: *Allan Baydala:* In each of the models, there is a cost... go to 2014, people are very sensitive to fees in this environment, so you can go to 2011 and see how it is much lower, but there is a cost per ton or TEU for each of them.

Q: *Dave Kushnier:* Just to follow up on what Ian said, what is the cost and what do I get for it. It sounds to me that you have taken a look at the benefits of the different players and tenants. I'm wondering whether I can talk to somebody who could share... I, like others have to take this to another group, a higher level. Like Ian said, it really isn't a big huge hit to each individual, but every time you spend a dollar, you have to explain it. Is there someone in your sector that could help us with some of that?

A: *Judy Kirk:* What you have in the discussion paper is an articulation of the benefits by trade area. That's number one. If that's what you're asking. Is what you are asking, can the Port provide you with the individual benefits to the operator? Is that what you're asking?

Q: *Dave Kushnier:* Yes.

- A: *Judy Kirk*: Ok, Allan?
- A: *Allan Baydala*: No.
- Q: *Dave Kushnier*: To no level? If I have to say to somebody, we're going to spend this amount of money. Why? Because I'm told it's good for us.
- A: *Robin Silvester*: It really comes down to robustness. Obviously, to get all this money on the table, everyone has had to look at if there are returns. It's a good question, and we have thought about it as well, and we've tried to think, can we get through it. The benefits are wide, they are intuitive, and I don't think that anyone doubts that they are worthwhile. But to partition the benefit down to the individual... I'm going to provide an example of a terminal that isn't here, I'm not going to mention it, but you might be able to guess, it's right in the middle of one of the trade areas, and it says all the upstream stuff I see I get some benefit from, downstream stuff I have no interest in whatsoever, and the fact that my workers can get in and out of the terminal a little more easily really isn't that relevant. And everyone has that sort of perspective, and those views are good, valid, local, but fundamentally, that person running that terminal still says, yes, this is a good thing to do, I get it, there is a benefit for the gateway. We tried it, and we got lost in complexity so quickly, we felt we were going down a rabbit hole, we weren't getting anywhere.
- Q: *Brad Eshleman*: So this has been allocated on a global basis, the \$167 million, to all port commodities. I'm not sure whether I should introduce this, but have you thought about allocating it by trade area. This is \$50 million to Roberts Bank, \$50 million to North Shore, \$50 million to South Shore. That goes more to the area, and I'm not sure if you looked at it.
- A: *Robin Silvester*: It's a good question, we have looked at it, but have not landed absolutely definitively on it. The way we have presented it has the simplicity, the whole port, other than the river bits that don't get impacted. It has the simplicity and overall competitiveness attraction. We haven't locked on absolutely, but in our view, there is some logic about doing this way. But structure is something that we're interested in getting feedback on.
- C: *Brad Eshleman*: It's something I'll probably get asked.
- C: *Judy Kirk*: It's a very good question.
- Q: *Craig Williams*: If you looked at this Model 1 carefully, and there is going to be some increase for the GIF. Is there a ballpark percentage estimate? Is this a half percent? I wasn't following what it would cost to put something through the Port now. Is it going to be a half percent increase?
- A: *Judy Kirk*: It's the same question that Ken was asking earlier, asked a different way. About what percentage?
- A: *Robin Silvester*: The one sector that we have comparable data for is the container sector, and for that, it's ballpark 1%, in terms of the cost of getting a box off a terminal to a ship or vice versa. Another benchmark, we take harbour dues, and my recollection is that we have less than \$10 million from harbour dues, so if we were to put this solely on harbour dues, we would be multiplying them by a factor of 2, 3 or 4.

- Q: *Craig Williams:* If you put a black box around Port Metro Vancouver, and some guy has a container of stuff, and it costs him \$100 to get it through that black box on the boat to go to Japan, it's going to cost him \$101?
- A: *Robin Silvester:* As long as you're ignoring railway costs of getting the box to the Port, correct.
- Q: *Craig Williams:* Through your Port Metro Vancouver box.
- A: *Robin Silvester:* I'm being pedantic, but if the box is the container terminal and PMV's fees, then yes. What we charge the container to go through, as PMV, the authority, and what the terminal charges the box to handle it from land to ship, 1%.
- C: *Judy Kirk:* Craig, what you're trying to get a handle on is order of magnitude, and that's important.
- Q: *Ken Peacock:* Was there a commitment to get a sense of competitiveness?
- A: *Allan Baydala:* Yes.
- A: *Robin Silvester:* Coming to terms with managing expectations – we will be very open with you, what we know about competitiveness we will share with you. Competitiveness is very difficult in this context because you're talking about not only the cost to get a box on a ship, the tax regime, the corporate tax regime, there are many dimensions to it. We will provide you the perspective that we have, and we have some useful perspective. I would not want you to go out and create an impression that we will be able to give your stakeholders definitive answers on competitiveness.
- C: *Judy Kirk:* This is not a cumulative effects analysis. You're saying that you will show what you know about your analysis on competitiveness.

GIPAC members were reminded that the next meeting is February 11, 2010, 1pm-3pm. The venue of the meeting will be sent out through email.

7. Final Remarks – Robin Silvester

- C: *Robin Silvester:* This already has been very useful. We've put a lot of thought into this, but you have already started to stretch and test our thinking in a very useful way. This is about getting a fair effective way of recovering costs that are going to provide a great benefit to the gateway. It is not a fait accompli. Thank you.

The meeting ended at 11:00am.