



PORT METRO
vancouver

Gateway Infrastructure Fee

Annual Report

For the year ended December 31, 2013

CFO's Message

We have prepared this report in line with a commitment that Port Metro Vancouver ("PMV") made to industry during the Gateway Infrastructure Fee ("GIF") consultation process in 2010, when PMV stated that the GIF would only be used as a cost recovery mechanism and that the program would be transparent.

PMV developed the Gateway Infrastructure Program ("GIP") to invest in supply chain improvements beyond traditional port activities and lands. The GIP is comprised of 17 projects that make up a \$717 million dollar capital investment program that brings benefits to industry and local communities surrounding the Port. The projects included in the GIP were developed in consultation with Port stakeholders and supported by independent analysis.

Benefits to industry include enhanced efficiency and safety of rail operations, and increased ability for the Port to accommodate anticipated growth in trade-related traffic. Additionally, through prefunding the industry portion, PMV has secured \$3 million from other agencies for every \$1 million PMV and its industry customers and stakeholders are investing. Local communities also benefit from GIP in a number of ways, including improved local traffic flows, improved traffic safety, better emergency vehicle access, reduced train whistling, and reduced vehicle idling at level crossings. The citizens of Canada benefit as the Port will be able to improve Canada's national trade competitiveness and increase economic growth.

The 17 projects are being led by a variety of funding partners from both industry and government and I'm pleased to note that, as of the end of 2013, four projects have been completed (one in 2011 and three in 2012). These four projects - the Lynn Creek Rail Bridge, Brooksbank Avenue Underpass, 80th Street Rail Overpass, and 41B Street Rail Overpass - were completed on time and on budget. In December 2013, the elevated roadway over Stewart Street, a key component of the South Shore Corridor Project, was also opened to traffic. Port tenants, port workers, trucking and local communities are experiencing the benefits of reduced congestion and improved travel time reliability. The majority of the remaining projects are on budget and on track to be completed in time to remain eligible for the funding provided by the Government of Canada through the Asia Pacific Gateway and Corridor Initiative and the Infrastructure Stimulus Funding programs.

During the development of the GIP, PMV agreed to pre-fund \$167 million of costs on behalf of industry. PMV will contribute 10 per cent towards the overall industry component of the GIP projects and will recover the remaining 90 per cent from industry stakeholders through the GIF. The fee is being collected by all 19 of PMV's terminal partners across three trade areas.

Our previous GIF annual reports have included PMV's projections for 2015 GIF rates as trade area volumes and GIP capital spending have materialized. The 2015 GIF rates shown in this year's report (see page 11) reflect lower project costs and higher cargo volumes than originally forecast. I am happy to report that our currently proposed 2015 rates are much lower than what was thought required when the GIP was first launched.

I am confident this report meets the commitment we made during our GIF initial consultation program.



Allan Baydala
Chief Financial Officer
Port Metro Vancouver

Projects Underway

North Shore Lower Level Road project (2014 Scheduled completion)

Before

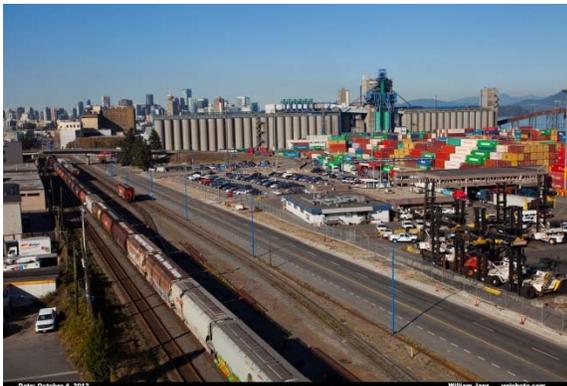


Construction in Progress



South Shore Corridor project (2014 Scheduled completion)

Before



After Opened to Traffic



Roberts Bank 232nd St Overpass project (2014 Scheduled completion)

Before



After Opened to Traffic



PORT METRO VANCOUVER | **GIF Annual Report**
Gateway Infrastructure Fee Update

The GIF is a \$717 million dollar capital investment program that consists of 17 projects designed to bring important benefits to the Port industry and the communities surrounding the Port. Further information on the GIF projects can be found at:

www.portmetrovancover.com/en/projects/Gateway_Infrastructure_Program/GIP.aspx
www.robortsbankrailcorridor.ca

Current Rates

PMV officially announced the implementation of the GIF on October 29, 2010. In that announcement, PMV established rates covering a four year time horizon, from January 1, 2011 to December 31, 2014. The GIF rates announced are shown below and additional information can be found in PMV’s Fee Document at:

www.portmetrovancover.com/en/users/fees.aspx

Containerized Cargo Rates:

| Gateway Infrastructure Fee – Fee Payable per TEU | | | | |
|---|-------------|-------------|-------------|-------------|
| Trade Area | 2011 | 2012 | 2013 | 2014 |
| North Shore Trade Area | \$0.50 | \$0.50 | \$1.00 | \$1.00 |
| South Shore Trade Area | \$0.50 | \$0.50 | \$1.00 | \$1.00 |
| Roberts Bank Rail Corridor | \$0.30 | \$0.30 | \$0.60 | \$0.60 |

Non-Containerized Cargo Rates:

| Gateway Infrastructure Fee | | | | |
|---|-------------|-------------|-------------|-------------|
| Trade Area | 2011 | 2012 | 2013 | 2014 |
| North Shore Trade Area | | | | |
| - Breakbulk lumber rates per MFBM | \$0.07 | \$0.07 | \$0.14 | \$0.14 |
| - Breakbulk log rates per MFBM-Scribner | \$0.19 | \$0.19 | \$0.38 | \$0.38 |
| - Other cargo rates per metric tonne | \$0.05 | \$0.05 | \$0.10 | \$0.10 |
| South Shore Trade Area | | | | |
| - Cargo rates per metric tonne | \$0.05 | \$0.05 | \$0.10 | \$0.10 |
| Roberts Bank Rail Corridor | | | | |
| - Cargo rates per metric tonne | \$0.03 | \$0.03 | \$0.06 | \$0.06 |

PMV’s GIF rates were set to enable it to recover 90% of the costs that it expected to contribute on behalf of industry to the GIF. GIF rates were based on a series of assumptions, including total GIF spending, volumes of goods moving through the trade corridors, interest rates, and others.

2013 Volumes and Revenues

The following tables show how PMV's expectations for trade corridor volumes, fee revenues and program spending in 2013 compare to actual results.

Table A – PMV 2013 Volumes Subject to GIF

| Trade Area | Total Metric Tonnes (in 000s) | | |
|--------------|-------------------------------|-------------------------|---------------|
| | Actual | Forecast ^(A) | Variance |
| North Shore | 29,960 | 20,598 | 9,362 |
| South Shore | 20,222 | 17,558 | 2,664 |
| Roberts Bank | 43,257 | 29,840 | 13,417 |
| Total | 93,438 | 67,996 | 25,442 |

(A) Equal to average actual volumes from 2008-9

Table B – PMV 2013 GIF Revenues (in \$000s)

| Trade Area | Actual | Forecast | Variance |
|--------------|----------------|----------------|----------------|
| North Shore | \$2,955 | \$2,060 | \$895 |
| South Shore | \$2,024 | \$1,800 | \$224 |
| Roberts Bank | \$2,619 | \$1,813 | \$806 |
| Total | \$7,598 | \$5,673 | \$1,925 |

Actual trade corridor volumes were higher than originally estimated in 2010 due to growth in both containerized and non-containerized traffic. As a result of this growth, revenues also exceeded expectations.

2013 Expenditures

In 2013, spending on active projects ramped up to approximately \$60 million, as most projects are scheduled to be completed in 2014.

Table C – PMV 2013 GIP Expenditures (in \$000s)

| Trade Area / Project | Actual | Forecast | Variance |
|--|-----------------|-----------------|------------------|
| North Shore | | | |
| Lynn Creek Rail Bridge | | \$2,341 | (\$2,341) |
| Brooksbank Avenue Underpass ^(A) | \$1,990 | \$1,583 | \$407 |
| Low Level Road Project – combined project | \$16,106 | \$7,089 | \$9,017 |
| Phillip Avenue Grade Separation ^(B) | | | |
| Western Low Level Route Extension to Marine Drive ^(B) | | | |
| Subtotal | \$18,096 | \$11,013 | \$7,083 |
| South Shore | | | |
| South Shore Corridor Project | \$21,617 | \$14,502 | \$7,115 |
| Powell Street Grade Separation ^(C) | \$7,811 | \$7,748 | \$63 |
| Subtotal | \$29,428 | \$22,250 | \$7,178 |
| Roberts Bank | | | |
| 41B Street Rail Overpass | \$1 | \$737 | (\$736) |
| 80 th Street Rail Overpass | \$2 | \$1,475 | (\$1,472) |
| 152 nd Street Rail Overpass | \$495 | \$1,014 | (\$519) |
| Panorama Ridge At-Whistle Cessation | \$771 | \$1,905 | (\$1,134) |
| 192 nd Street/54 th Avenue/196 th Street Overpass ("Combo projects") | \$9,157 | \$7,864 | \$1,293 |
| 64 th Avenue/Mufford Crescent Overpass | \$789 | \$645 | \$144 |
| 232 nd Street Overpass | \$1,003 | \$1,720 | (\$717) |
| Rail Crossing Information System ^(B) | | | |
| Subtotal | \$12,218 | \$15,360 | (\$3,142) |
| Total | \$59,742 | \$48,623 | \$11,119 |

(A) Includes approximately \$22.5K in PMV property insurance premiums.

(B) A GIP project, but PMV is not a funding partner.

(C) Includes approximately \$20K in PMV land contributions.

In 2012, expenditures were below forecast as many of the projects had not entered the construction phase. More time was spent on project design and consultation in order to reduce the risks associated with these large scale, multi-stakeholder projects.

The actual revenue and construction expenditure information (excluding PMV Land contributions and property insurance premiums) in Tables B and C above were taken from Note 21 of the Audited Financial Statements of Vancouver Fraser Port Authority for the year ended December 31, 2013. These financial statements were audited by the independent auditors Ernst & Young LLP. Copies of PMV's audited financial statements can be found on PMV's website at:

www.portmetrovanouver.com

PMV contributed land to the North and South Shore Trade Area projects that has significant value. Therefore, PMV will recover 90 percent of the value of its land contributions to the GIF, as was originally proposed. PMV's land contributions were originally estimated at \$14 million. However, due to changes to project designs and requirements, PMV's land contributions are now expected to be approximately \$10 million.

Gateway Infrastructure Fee Rate Outlook

In mid 2010, PMV established GIF rates for the 2011 to 2014 period. Overall, GIF rates are calculated so that, by trade area, PMV recovers, over a 30 year period, GIF expenditures equal to 90% of the amounts that it pre-funds to the GIF projects. Rates for 2011-2014 were set at levels that were projected to gradually step up to the levels required to recover 90% of the GIF capital investments as well as financing and operating costs over the 30 years. Rates were set conservatively low over this four year time horizon so that, in the event the GIF projects were delivered under budget or volumes moving through the trade areas were greater than projected, PMV would not be overcharging industry. Rates were also set for 4 years to give industry some certainty of initial costs. Rates for 2015 and beyond will take into account prior volumes and GIF revenues and will be set at levels that only allow PMV to recover the remainder of the GIF amounts by 2040.

Program Spending

In order to set the original GIF rates, PMV needed to make a number of assumptions about the future. One was the amount of capital spending required to deliver the 17 GIF projects. The table below compares PMV's original assumptions back in 2010 about total GIF project spending to revised forecasts as at December 31, 2013.

Table D – Gateway Infrastructure Program Total Spending (in \$000s)

| Trade Area / Project | Project Lead | Original GIF Budget | Current Estimate | Variance |
|---|-------------------------------|---------------------|------------------|------------------|
| North Shore Trade Area | | | | |
| Lynn Creek Rail Bridge | Port Metro Vancouver | \$21,000 | \$10,582 | \$10,418 |
| Brooksbank Avenue Underpass | Port Metro Vancouver | \$24,900 | \$16,400 | \$8,500 |
| Low Level Road Project – combined project | Port Metro Vancouver | \$107,500 | \$104,380 | \$3,120 |
| Phillip Avenue Grade Separation ^(A) | District of North Vancouver | \$42,600 | \$37,400 | \$5,200 |
| Western Low Level Route Extension to Marine Drive ^(A) | TBD | \$86,800 | 86,800 | \$0 |
| | Subtotal | \$282,800 | \$255,562 | \$27,238 |
| South Shore Trade Area | | | | |
| South Shore Corridor Project | PMV | \$79,500 | \$81,947 | (\$2,447) |
| Powell Street Grade Separation | City of Vancouver | \$47,500 | \$50,020 | (\$2,520) |
| | Subtotal | \$127,000 | \$131,967 | (\$4,967) |
| Roberts Bank Rail Corridor | | | | |
| 41B Street Rail Overpass | BC Ministry of Transportation | \$24,000 | \$14,945 | \$9,055 |
| 80 th Street Rail Overpass | Corporation of Delta | \$19,000 | \$13,053 | \$5,947 |
| 152 nd Street Rail Overpass | City of Surrey | \$41,000 | \$33,000 | \$8,000 |
| Panorama Ridge At-Whistle Cessation | City of Surrey | \$24,000 | \$17,700 | \$6,300 |
| 192 nd Street/54 th Avenue/196 th Street Overpass (“Combo projects”) | City of Surrey | \$117,000 | \$123,989 | (\$6,989) |
| 64 th Avenue/Mufford Crescent Overpass | BC Ministry of Transportation | \$51,000 | \$51,000 | \$0 |
| 232 nd Street Overpass | Port Metro Vancouver | \$25,000 | \$25,500 | (\$500) |
| Rail Crossing Information System ^(A) | Translink | \$1,000 | \$2,200 | (\$1,200) |
| Program general | Translink | \$5,000 | \$3,500 | \$1,500 |
| | Subtotal | \$307,000 | \$284,887 | \$22,113 |
| | Total | \$716,800 | \$672,416 | \$44,384 |

(A) A GIF project, but PMV is not a funding partner.

Overall, GIP program spending is expected to be approximately \$44 million under budget. These cost savings are expected to flow through to GIP funding partners, including PMV and the stakeholders it is pre-funding. Table E below compares the pre-funding contributions PMV originally expected to make to the GIP projects to its current forecast.

Table E – PMV Pre-Funding Amounts (in \$000s)

| Project | Original Forecast | Current Update | Variance |
|----------------------------|-------------------|------------------|-----------------|
| North Shore Trade Area | \$59,000 | \$46,171 | \$12,829 |
| South Shore Trade Area | \$58,000 | \$62,967 | (\$4,967) |
| Roberts Bank Rail Corridor | \$50,000 | \$47,280 | \$2,720 |
| Total | \$167,000 | \$156,481 | \$10,582 |

PMV's land contributions to the South Shore Trade Area projects are higher than originally estimated. Therefore, GIP program spending is approximately \$5 million over budget for the South Shore Trade Area.

Volumes and Recovery

Another important projection PMV made in 2010 when establishing GIF rates was the amount of cargo that was expected to move through the three GIP trade areas. Table F below compares PMV's original cargo and TEU volume assumptions made in 2010 to its current assumption.

Table F – PMV 2011-2015 Forecast of Volumes Subject to GIF

| | Year | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---------------------------------|---------------|---------------|---------------|---------------|---------------|
| Cargo Tonnage (000's Metric Tonnes) | Prior Estimate ^(A) | 49,735 | 49,735 | 49,735 | 49,735 | 57,218 |
| | Current Estimate ^(B) | 64,310 | 62,877 | 69,535 | 69,535 | 69,535 |
| | Variance | 14,575 | 13,143 | 19,800 | 19,800 | 12,317 |
| Laden Containers (000's TEUs) | Prior Estimate ^(A) | 1,909 | 1,909 | 1,909 | 1,909 | 2,485 |
| | Current Estimate ^(B) | 2,163 | 2,334 | 2,474 | 2,474 | 2,474 |
| | Variance | 254 | 426 | 566 | 566 | (11) |

(A) 2011-2014 prior estimates based on average 2008/2009 actual volumes. 2015 prior estimate based on forecast 2014 volume.

(B) 2011-2013 are actual. Current estimate for 2014-2015 based on 2013 actual volumes.

Higher than originally estimated volumes between 2011 and 2015 will increase GIF recovery over those years (see Table G below). Higher recovery in the initial years of the program will reduce the required recovery and the rates beyond 2015, compared to original estimates.

Table G – GIF Estimated Recovery 2011-2015

| YEAR | 2011 | 2012 | 2013 | 2014 | 2015 |
|--|--------------|--------------|----------------|----------------|------------------|
| Prior Recovery Estimate ^(A) | \$2,837 | \$2,837 | \$5,673 | \$5,673 | \$10,105 |
| Current Recovery Estimate ^(B) | \$3,426 | \$3,574 | \$7,598 | \$7,662 | \$8,672 |
| Variance | \$589 | \$737 | \$1,925 | \$1,988 | (\$1,433) |

(A) Prior estimate based on average 2008/2009 actual volumes.

(B) 2011-2013 are actual. Current estimate for 2014-2015 based on actual 2013 volumes. 2015 estimate based on rates in Table H and I.

Ongoing Financing and Operating Costs

PMV's ongoing financing and operating costs incurred on the GIP projects are to be recovered through the GIF. The financing costs that PMV is recapturing from the GIF are equal to those that would accrue on 90% of the amounts that PMV is contributing to the GIP projects. The interest rate being used to calculate these financing charges is the 4.63% rate that applies to PMV's \$100 million 10 year bond that was issued in April 2010. This 4.63% rate is the one being used for the purposes of calculating GIP financing charges until PMV's bond matures in April 2020. When PMV's current bond expires, the financing cost will be calculated by applying PMV's then current borrowing rate. PMV's assumptions about GIP financing costs have not changed since 2010.

PMV will be responsible for maintaining some of the GIP projects over the course of their 30 year estimated lives. PMV estimated these maintenance costs to be \$50,000 per annum over the final 20 years of the GIP projects. PMV plans to update this estimate when the assets that PMV will have responsibility to maintain are completed. Works constructed under the GIP that will be owned and operated by PMV upon completion will be insured for property losses. The cost of insurance is calculated as a fixed percentage of the replacement value of the works. The fixed percentage is PMV's current property insurance rate of 0.18%. For 2013, insurance premiums of \$22,500 have been incurred to cover the Brooksbank Ave project. Premiums are projected to increase to around \$225,000 by 2015, as the Neptune Overpass, Lynn Creek bridge, and South Shore Corridor Road are completed.

2015 Rates

The following tables show GIF rates in place for 2011-2014, plus 2015 GIF rates expected to be announced officially in the 4thth quarter of 2014. The 2015 GIF rates are based on actual 2013 cargo volumes and up to date projections for project expenditures.

Table H - Gateway Infrastructure Fee Rates per TEU – Containerized Cargo

| Trade Area | 2011 | 2012 | 2013 | 2014 | 2015 (Original Est.) | 2015 (Current Est.) |
|----------------------------|--------|--------|--------|--------|----------------------------|---------------------------|
| North Shore Trade Area | \$0.50 | \$0.50 | \$1.00 | \$1.00 | \$2.19 | \$1.33 |
| South Shore Trade Area | \$0.50 | \$0.50 | \$1.00 | \$1.00 | \$2.19 | \$1.84 |
| Roberts Bank Rail Corridor | \$0.30 | \$0.30 | \$0.60 | \$0.60 | \$0.79 | \$0.55 |

Table I - Gateway Infrastructure Fee Rates per Metric Tonne – Non-Containerized Cargo

| Trade Area | 2011 | 2012 | 2013 | 2014 | 2015 (Original Est.) | 2015 (Current Est.) |
|---------------------------------------|--------|--------|--------|--------|----------------------------|---------------------------|
| North Shore Trade Area | | | | | | |
| Breakbulk lumber rates per MFBM | \$0.07 | \$0.07 | \$0.14 | \$0.14 | \$0.16 | \$0.11 |
| Breakbulk log rates per MFBM-Scribner | \$0.19 | \$0.19 | \$0.38 | \$0.38 | \$0.45 | \$0.31 |
| Other cargo rates per metric tonne | \$0.05 | \$0.05 | \$0.10 | \$0.10 | \$0.12 | \$0.08 |
| South Shore Trade Area | \$0.05 | \$0.05 | \$0.10 | \$0.10 | \$0.22 | \$0.18 |
| Roberts Bank Rail Corridor | \$0.03 | \$0.03 | \$0.06 | \$0.06 | \$0.08 | \$0.06 |

After 2015, GIF rates will be re-set to recover 90% of the outstanding GIF costs over the remaining term to 2040. PMV will again update its GIF calculations in 2015 with 2014 volumes and actual project costs, when all projects will be complete, to calculate GIF rates effective January 1, 2016.

PMV will follow a similar process annually thereafter, raising or lowering the GIF rates as necessary, so that PMV only collects GIF fees, on a net basis, that enable it to recapture 90% of the amounts that it prefunded on behalf of industry for the 17 GIF projects. Based on anticipated growth through the gateway, rates are expected to slowly decrease between 2015 and 2040.

Frequently Asked Questions

1. How will GIF rates be calculated for 2015 and beyond?

The GIF rates for 2015 have now been estimated and are shown on page 13 of this report. PMV will review its calculations later in 2014 and update them in 2015 to calculate GIF rates effective January 1, 2016, and annually thereafter, raising or lowering the GIF rates as necessary, so that PMV only collects GIF fees, on a net basis, that enable it to recapture 90% of the amounts that it prefunded on behalf of industry for the 17 GIP projects.

2. How will over/under recovery in each year be addressed?

If GIF revenues in any one year are over expectations, future years GIF rates will be re-set at lower levels to compensate so that the total amount of net GIF revenues PMV collects, on a present value basis, just equals 90% of the present value it contributed to the GIP projects. On the other hand, if GIF revenues in any one year are under expectations, future years GIF rates will be re-set at higher levels.

3. Would a major unforeseen increase or decrease in tonnage moving through one of the 3 trade areas during a year lead to a recalculation of GIF rates during the year?

No. We expect annual recalculations to be sufficient to ensure that, over the 30 year estimated life of the GIP projects, the present value of net GIF revenues will only equal 90% of the present value PMV contributed to the GIP projects.

4. If there is a material change in commodity mix moving through one of the 3 trade areas, will the GIF rate determination process change?

A material change in the commodity mix moving through any one of the three trade areas means that a customer(s) is moving more commodities than expected when the GIF was implemented. Since the customer moving increased cargo is benefiting more from the GIP projects, it's reasonable that they would pay more GIF and PMV would not change the GIF rate determination process to compensate.

5. How will new terminals be introduced into the mix?

If new terminals are developed over the estimated 30 year life of the GIF and benefit directly from the GIP projects, then PMV will apply the GIF to those volumes moving through the new terminals. Increased volumes from new terminals should reduce the GIF rates for all terminals in that trade area, regardless of the commodities each terminal handles.

6. What if the infrastructure lasts longer than the 30 years that you are estimating, or does not last that long? What will happen to the GIF?

PMV believes that 30 years is a conservative estimate of the life of the GIF assets and its GIF program has been designed to enable it to recapture 90% of its pre-funding amounts over these 30 years. If asset lives prove to be either longer or shorter than 30 years, plans are for the GIF to still remain in place for 30 years.

7. What if the infrastructure lasts longer than the 30 years that you are estimating? How will operating costs be recovered after the 30 year period if the GIF is not in place?

As mentioned, plans are for the GIF to remain in place for 30 years until the end of 2040 despite asset lives potentially extending beyond this period. PMV will cover the operating costs of these assets over the duration of their asset lives, even if their asset lives prove to be longer than 30 years, from its general revenues.

8. What will the annual audit process be?

Actual revenue and expenditures in Tables B and C in this report have been extracted from note 21 of the Consolidated Financial Statements of Vancouver Fraser Port Authority for the Year ended December 31, 2013. These financial statements were audited by the independent auditors Ernst & Young LLP and its Independent Auditors Report is included in these financial statements. A complete copy of PMV's 2013 Financial Statements can be found at www.portmetrovanouver.com. The information in used to calculate future GIF rates, however, is mostly based on volume forecasts and, as such, has not been audited.