



Honourable Mary Polak
Minister of Transportation and Infrastructure
P.O. Box 9047, Stn Prov Govt
Victoria, BC
V8W 9E2

Mr. Michael J. Corrigan
President and CEO
British Columbia Ferry Services Inc.
500-1321 Blanshard Street
Victoria, BC
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October 1, 2012

Dear Minister Polak and Mr. Corrigan:

**BC Ferry Commission Service Plan and Budget
Fiscal Year Ending March 31 2014**

I am pleased to submit the enclosed document as required by section 59 of the Coastal Ferry Act.

The document outlines how the Ferry Commission intends to fulfill its mandate in the coming fiscal year, and the associated expenditures.

A handwritten signature in black ink, appearing to read "Gord Macatee". The signature is fluid and cursive.

Yours truly,
Gord Macatee
BC Ferries Commissioner

Service Plan and Budget

for the Fiscal Year Ending March 31, 2014

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1. Executive Summary

The position of **British Columbia Ferries Commissioner** was created in April 2003 by the **Coastal Ferry Act** (the “Act”). The current commissioner was appointed in May 2011 with his term due to expire on April 30, 2017. The current deputy commissioner was appointed in June 2008 and his term is due to expire on June 30, 2014. Their office is known as the BC Ferry Commission (the “Commission”).

*Service Plan and Budget for
2013/14*

This Service Plan and Budget for the next fiscal year ending on March 31, 2014 describes the expected activities of the Commission in order to meet its mandate of regulating ferry fares and service levels, making certain special decisions, and carrying out public outreach and administrative responsibilities. The Service Plan and the Budget includes new responsibilities resulting from amendments to the Act which came into force by Regulation on June 25, 2012. New responsibilities include approving major capital expenditures, conducting performance audits and overseeing efficiency and productivity improvements of the ferry system during the current performance term.

Total expenditures for 2013/14 are budgeted at \$667,013 which is 73% of the maximum permitted for the Commission's expenditure budget under s.59(2) of Coastal Ferry Act¹.

The budget for 2013/14 reflects a year of no activity associated with a price cap review for the next performance term. This is offset by higher levels of activity for two performance reviews and approval of major capital expenditures. Also assumed is ongoing regulation of unfair competitive advantage and monitoring Alternative Service Provider opportunities and BC Ferries' customer complaint process.

¹ Section 59(2) limits the budget to one-fifth of one percent of the previous year's tariff revenue. This figure for 2011/12 was \$457 million.

2. Role of the Commission

**Regulatory Principles
for the BC Ferry Commission**
under s. 38 of the Coastal Ferry Act

- (a) the primary role of the commissioner is to balance, in the manner the commissioner considers appropriate, the interests of ferry users, taxpayers and the financial sustainability of ferry operators;
- (b) ferry operators are to be encouraged to adopt a commercial approach to ferry service delivery;
- (c) ferry operators are to be encouraged to seek additional or alternative service providers on designated ferry routes through fair and open competitive processes;
- (d) ferry operators are to be encouraged to be innovative and to minimize expenses without adversely affecting their safe compliance with core ferry services;

The **BC Ferry Commission** is a quasi-judicial regulatory agency operating under the Coastal Ferry Act of the Province of British Columbia. While discharging its responsibilities, the Commission is required to bear in mind a set of four principles (see box to the left).

BC Ferries was created in April 2003 from the former BC Ferry Corporation, which was a taxpayer-supported Crown corporation. It is now an independent self-financing company with a mandate to provide safe, reliable and efficient marine transportation services to coastal communities.

Under a long-term contract (the “Coastal Ferry Services Contract” or “CFSC”) with the Province of British Columbia, BC Ferries must operate its system to comply with defined minimum “core” service levels on each of the 25 saltwater routes. Under the current CFSC, and effective for the contract year 2013-2014, BC Ferries receives a “ferry transportation fee” per round-trip sailing on 21 designated routes. The four remaining routes, referred to as major routes, are regarded as financially self-sufficient and accordingly ferry transportation fees do not apply.

BC Ferries currently holds a virtual monopoly position in most of the transportation markets it serves. Given the lack of effective competition, a major role of the Commission is to set a ceiling or “price cap” on the weighted average level of fares which BC Ferries can charge. The goal in setting the price cap is to balance the interests of ferry users with the interests of taxpayers while protecting the financial sustainability of the ferry operator.

The routes are currently divided into three geographic groups. Each group has its own price cap but the increases in the price caps are to be the same for all route groups. Price cap increases are set every four years for the next four year performance term.

Other key tasks of the commissioner include monitoring BC Ferries’ adherence to the terms of the CFSC, approval of major capital expenditures, regulating unfair competitive advantage and the approval and monitoring of BC Ferries’ customer complaints process. It is worth noting that the commissioner serves as neither ombudsman nor a complaints bureau. Further, the commissioner is not responsible for regulating safety or environmental aspects of ferry operations.

3. Service Plan and Budget

Table 1: Expenditure Budget for Fiscal Year Ending March 31, 2014	
Fare Regulation and Monitoring	\$82,000
Service Regulation and Monitoring	36,500
Special Decisions	98,500
Inspections and Performance Reviews	179,500
Publication and Outreach	87,000
Administration and Reporting	151,750
Contingency @ 5%	31,763
Total Expenditure	\$667,013

Fare Regulation and Monitoring reflects the ongoing monitoring and enforcement of price cap compliance. This includes validation of the calculation of the weighted average fares in comparison with the price caps.

Service Regulation and Monitoring reflects the Commission's ongoing review of quarterly and annual operational reports of BC Ferries. This category also includes a provision for monitoring BC Ferries' Fuel Deferral Accounts as well as their customer complaint process and compliance thereto.

Special Decisions deals with BC Ferries' plan to deploy capital in vessels and terminals and the commissioner's approval of major capital expenditures during the third performance term. It also includes any activity associated with initiating and monitoring of any Alternative Service Provider process, the regulation of unfair competitive advantage and any applications submitted to the commissioner under the Act.

Inspections and Performance Reviews show the largest increase as it now includes a provision for performance reviews. Two such reviews are anticipated in 2013/14.

Publication and Outreach reflects the estimated volume of correspondence with the public and the effort required to maintain the Commission's website as the main vehicle of publication and notification of all decisions, reports and other relevant information.

Administration and Reporting includes activity associated with the preparation of the Commission's Annual Report as well as the Service Plan and Budget for the next fiscal year. Also included in this category is a budgeted amount for legal services relative to regulation of unfair competitive advantage, special decisions of the commissioner and general opinions as required.