

# British Columbia Ferry Commission



## **Annual Report** **for the Fiscal Year Ending** **March 31, 2010**

*Prepared and submitted in accordance with  
Section 53 of the Coastal Ferry Act  
of the Province of British Columbia*

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July 31st 2010



To the Lieutenant Governor in Council

Comox, B.C.  
July 31st 2010

May It Please Your Honour:

**BC Ferry Commission Annual Report  
For the Fiscal Year Ending March 31, 2010**

I am pleased to submit to you the seventh Annual Report of the BC Ferries Commissioner.

As required by section 53 of the *Coastal Ferry Act*, the Report sets out briefly all applications and requests for decisions to the Commissioner under the Act, all orders issued by the Commissioner, the financial statements applicable to the Office of the Commissioner for the above period along with full disclosure of the expenses of, and associated with, the Office of the Commissioner.

Yours truly,

A handwritten signature in black ink, appearing to read "M. Crilly", is written below the text "Yours truly,".

Martin Crilly  
BC Ferries Commissioner

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# 1 Message from the Commissioners

This annual message, the Commission's seventh, is addressed to all stakeholders with an interest in the status and outlook for coastal ferry services in British Columbia.

It begins by commenting on BC Ferries' recent performance. Then, since the current year represents a turning point for the Commission and BC Ferries, it identifies selected challenges for the future.

## BC Ferries' Service Performance

The Commission is satisfied that, *in fiscal 2009/10 BC Ferries conducted itself properly under the disciplines of the Coastal Ferry Act while meeting its contractual obligations to the Province. As required, the company provided at least the "core" required service on each of its 25 regulated routes.*

On the whole, ferry users enjoyed service of a high standard. Ferry service was stable and readily available. Sailings operated reliably and with ample capacity. System-wide **on-time performance** was generally good with 89 per cent of BC Ferries' sailings departing within 10 minutes of schedule. This is virtually the same performance as the previous year, with an improvement on the major routes being offset by a decline on the Horseshoe Bay-Langdale route.

System-wide disruptions due to mechanical breakdowns were rare and were fewer in number than the previous year.

Users gave BC Ferries record-high marks in satisfaction surveys with 91 per cent of passengers in 2009 (up from 86 per cent in 2008) reported to be satisfied overall with their experience. Ratings improved among virtually all passenger segments and on almost all routes, except Route 4, Swartz Bay-Fulford Harbour, which experienced delays in sailings during the June survey period, impacting overall satisfaction levels.

Although ratings for satisfaction with overall **value for money** increased over 2007 and 2008, enhancing the customer experience continues to be an area of opportunity for improvement for BC Ferries as 30 per cent of customers are still not satisfied with overall value for money.

As longstanding and frequent travellers living in ferry-dependent communities, the Commissioners share a view expressed by others, that the

### Key Findings for FY 2010 on BC Ferries' Performance

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- met or exceeded frequency and capacity of sailings required in its provincial contract for each route.
- scored high in on-time departures and reliability, keeping cancellations of sailings within allowed limits.
- delivered 18,667 round trips, i.e. 2 per cent more than obligation.
- of 237 sailings scheduled, but later cancelled, 38 were due to mechanical failure, down from 48 in the previous year. Most other cancellations were due to bad weather and other reasons beyond the company's control.

### Capital Renewal

attention to customer service by frontline staff, as now being experienced, deserves commendation.

As to **BC Ferries' fleet**, during the year a new \$200-million ship, the *Northern Expedition*, entered regular service on the north coast. This was the last of five new-build vessels introduced in the current phase of fleet rejuvenation. BC Ferries' order-book with shipbuilders is now empty. The company refurbished an intermediate ship (the *Quinsam*, serving Gabriola Island) and retired two aged vessels.

For **ferry terminals**, the rate of capital injection, at \$38 million last year, appears sufficient to renew them, preventing terminals from aging overall and to fund some upgrades.

### BC Ferries' Fares and Financial Sustainability

BC Ferries' solid operating performance and the betterment of its fleet and facilities, however, came at a price. Ferry users had to accept **Commission-authorized fare levels** that again, on average, escalated faster than general inflation.

On the major routes, by 2012 fares will be 20 per cent higher in real terms than in 2003, and on other route groups 40 per cent to 50 per cent higher.

Cushioning fare shock were some fuel rebates. Also, users under certain qualifications had options to choose lower fares (see box to the left).

Increased fare levels, plus fuel surcharges during the earlier oil price spike, were crucial to the financial sustainability of the company. Given (a) the number of sailings that BC Ferries must deliver in its contract with the Province, (b) government policy on the size and split of annual subsidy to BC Ferries' routes and (c) the need to renew BC Ferries' assets, the rates of fare escalation on the route groups are fully consistent with the intent of the *Coastal Ferry Act* and the long-term interests of ferry users, as the Commission perceives them.

The last two years saw a **surprisingly sharp economic downturn** in BC Ferries' service area. Travel, tourism and trade activity in British Columbia (with which ferry traffic correlates) cooled far below earlier expectations. Last year, BC Ferries barely broke even. Had traffic volume met the forecasts that were made in 2007, BC Ferries' earnings would have been close to target.<sup>1</sup> The company appears, however, to be riding the economic storm well enough so far, judging by its recently upgraded bond ratings; but traffic levels are still lagging and remain a concern as we approach the planning phase for the third performance term.

#### Lower Fare Options

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- On the major routes, midweek summer sailings were discounted.
- On other routes, by pre-paying for several trips on a stored-value fare card, customers secured substantial discounts from the price for a one-trip purchase.
- Off-peak fares were available year-round to qualified residents of the Mid Coast.
- For seniors travelling Monday to Thursday, students travelling for school events, the permanently disabled and their escorts, the Province stepped in to pay for some or all of their passenger tickets as a matter of social policy.

### Financial Health of BC Ferries

<sup>1</sup> The Commission-established target annual pre-tax return on equity (for the second performance term overall, used for setting fare caps) is 13.18 per cent. BC Ferries' actual pre-tax return on equity for fiscal 2009/10 was 1.1 per cent.

### Commission Activities and Outlook

As to Commission’s own activities, last year was comparatively uneventful. No major decisions were required. The Commission maintained a low profile, monitoring BC Ferries’ compliance and tracking its performance.

The future, however promises to be more demanding and full of activity. One large task lies in the price cap review already underway, for fare levels in performance term three (from 2012 to 2016). A second, touched upon at the end this message, is to apply new regulatory levers provided by the just-amended *Coastal Ferry Act*.

### Core Service, Subsidy, Cross-Subsidy and User-Pay

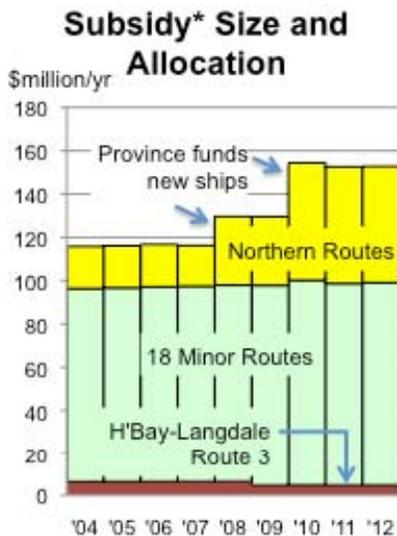
The Commission’s current price cap review takes as given a requirement, recognized in law and government policy, for **core ferry services** along British Columbia’s coast.

Most of BC Ferries’ routes are lifelines to islands and landlocked communities. Their people depend on stability of service to conduct their lives and run their businesses. Government has chosen not to allow the free market to provide coastal ferry services, but instead to supply them though a regulated enterprise with a monopoly service mandate, supported in part by taxpayer funding. In making the comments that follow, the Commission respectfully acknowledges the Province’s role as policy maker: it is neither the Commission’s role nor its intent to critique or advise on subsidy policy, nor on any broader strategic policy objectives: identifying and weighing these is strictly government’s prerogative.

By the end of second performance term in 2012, total annual subsidies will be an estimated \$153 million, which is 32 per cent higher (14 per cent in constant dollars) than in 2003, when the Act was passed.

The government directed all increases in subsidy (in real terms) to the northern routes. This shift enabled the rate of price cap increase in the second performance term to be equalized for the three subsidized route groups, though this was before differences created by factoring in fuel surcharges/rebates, which vary by route group.

The Act calls on the Commission to regulate all ferry routes so as to **move towards user-pay** and less reliance on provincial service fees. In their progress towards user-pay to date, the recent histories of BC Ferries’ four route groups are strikingly different, as are their outlooks.

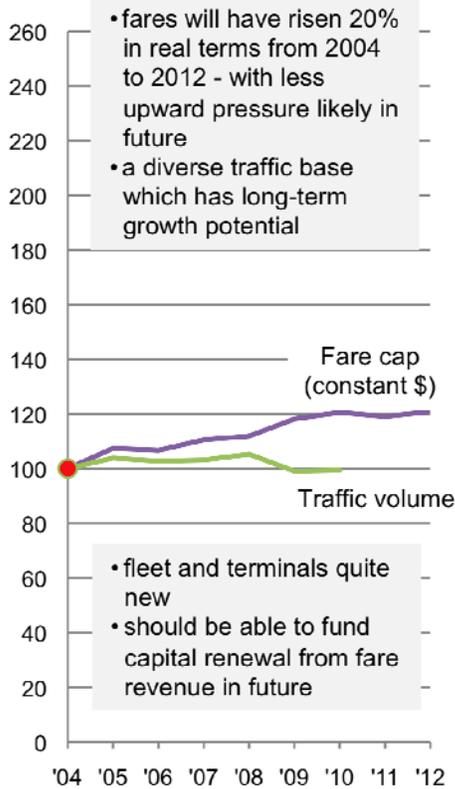


\* provincial service fees plus share of federal contract subsidy

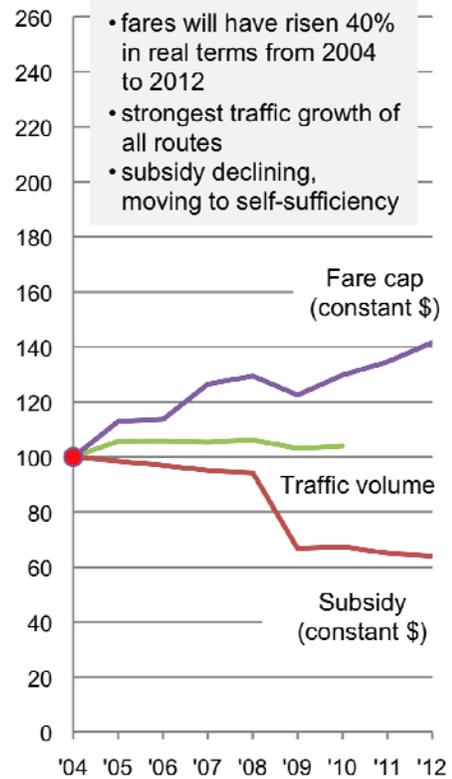
### The Four Route Groups Contrasted

The four charts overleaf reveal the divergent trajectories of the route groups, with regards to subsidization, traffic growth and fare increases.

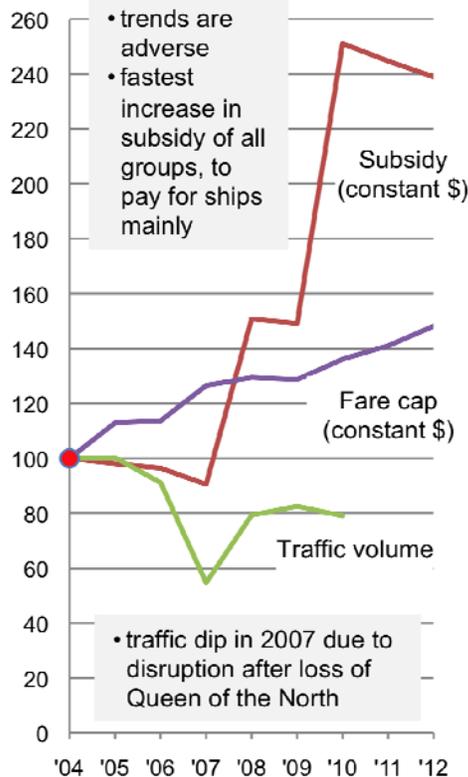
### 1. Major Routes



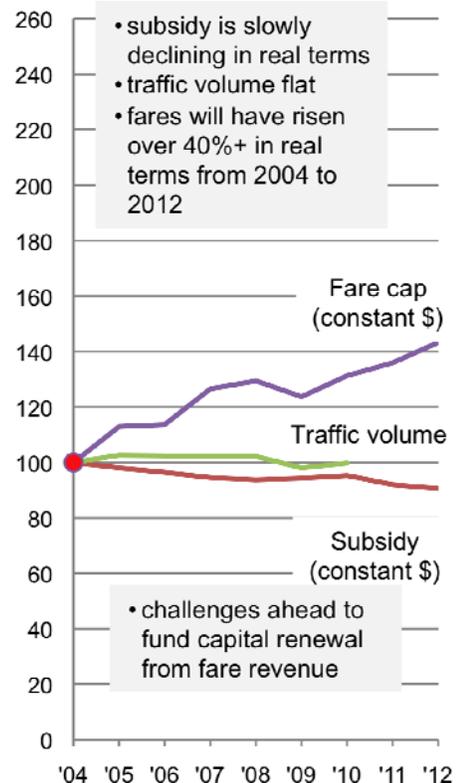
### 2. H'Bay-Langdale

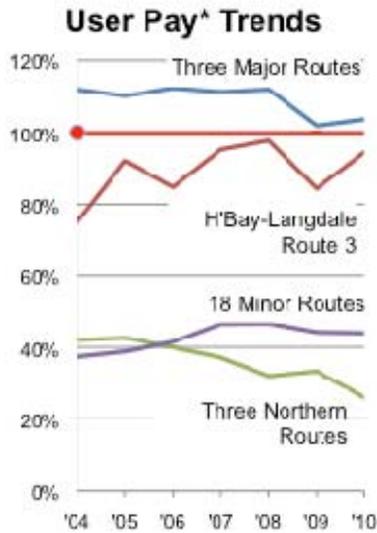


### 3. Northern Routes



### 4. Minor Routes





\* fare revenue plus net fuel surcharges plus ancillary revenues, as per cent of total route group costs including allocated interest, amortization and system overhead.

*Route Group 3: Horseshoe Bay-Langdale*

*Route Group 3: Three Northern Routes*

The **major route group**, accounting for 57 per cent of BC Ferries total costs last year, receives zero annual provincial and federal subsidies; it is thereby insulated from changes in governments' funding priorities.

Though traffic fell several percentage points beneath forecasts made in 2007, the major routes still produced a surplus. In fact in fiscal 2008/09 (and to small extent in 2009/10) part of this surplus effectively cross-subsidized the other three route groups: this happened because those other groups' costs exceeded their fare revenues (unexpectedly down, due to less traffic) by an amount greater than the subsidies they received.

On the major routes there is some overcapacity in the sailings required under the service contract between BC Ferries and the Province. For the sake of efficiency, the Commission respectfully suggests that this deserves the attention of these two parties at the time of negotiating amendments to the Coastal Ferry Contract for the third performance term, if not sooner.

Users on the major route group have consistently paid full costs, plus a return on equity. The route group now enjoys relatively new vessels and terminals. Of all the route groups, it faces the least upward pressure on fares. For the time being there are no critical issues on the horizon.

Somewhat parallel statements apply to the **second route group**, comprising the Horseshoe Bay-Langdale Route 3, responsible for 7 per cent of BC Ferries total costs. Traffic growth is healthier than on the major routes. Its relatively small subsidy was reduced for performance term two and full weaning from taxpayer support appears possible.

In contrast, the **other two route groups** are highly dependent on taxpayer support. In view of persistent low traffic volumes, they face significantly higher revenue requirements through much higher fares or subsidies to cover operating costs and renewal costs for ships and terminals.

The **northern group**, accounting for 11 per cent of BC Ferries' total costs, features three long routes, with highly seasonal, thin traffic. Subsidies have leapt to fund replacement vessels and terminal modifications. Overall, traffic volume is some 20 per cent below the level of seven years ago and fare levels have climbed faster than on any other route group<sup>2</sup>. Not surprisingly, then, the user-pay percentage slid from 40 per cent when the *Coastal Ferry Act* was passed in 2003, down to 25 per cent last year.

These conditions meant that the northern group has generated a net loss for BC Ferries (i.e. after counting the revenue from subsidies paid to the company) in every year since the passage of the Act. To date, only higher

<sup>2</sup> The automatic fuel surcharge/rebate mechanism triggered fuel rebates to users on some routes. The year ended with rebates of 2 per cent of fares on the Horseshoe Bay-Langdale route and 5 per cent on the 18 minor routes. On the three major routes, fuel rebates of 2 per cent began April 1, 2010. There were no rebates for the northern routes as fuel charges were never levied on these routes.

subsidies have prevented BC Ferries' northern losses from becoming overwhelming.<sup>3</sup>

Two of the four ships in the northern fleet are near-new or recently refurbished. BC Ferries reports that one older vessel, the *Queen of Chilliwack*, will soon need either investment to extend its life, or replacement. These investments cannot be funded through the relatively small traffic base in the north.

To arrest the adverse trends in the north will be a difficult task. Last year BC Ferries made two<sup>4</sup> proposals aimed at cutting cost and/or boosting traffic and revenue for the northern fleet. Both proposals meant somewhat reduced, or less convenient, service for some existing northern users in exchange for a more productive, less subsidy-dependent operation.

Both proposals were predicated on the Province's consent to adjust the Coastal Ferry Services Contract accordingly. Consent was not given for either proposal, indicating a policy preference for status-quo ferry service in the north, although it is understood that one of the proposals may be reconsidered in the future.

If route patterns and frequencies of northern ferry service are unchanged for performance term three, then some combination of taxpayers and farepayers will have to shoulder a greater cost. The Act's timetable calls, in effect, for their respective shares to be determined by the Province by mid-2011.

If, for example, the whole burden fell upon northern farepayers, the Commission's current estimate, to be refined by early 2011, is that northern fares would have to jump by about 25 per cent.<sup>5</sup> This will not help to restore traffic to past levels.

*Route Group 4:  
18 Minor Routes*

The **fourth route group of 18 Minor routes** with some two dozen ships, accounts for 25 per cent of BC Ferries' total costs. Its circumstances partly mirror those in the north: the key differences are that its subsidies are slowly falling in real terms, and that traffic is down only slightly over seven years. Traffic is very seasonal, yet the contracted ferry services change little in the off-season: this means particularly low utilization of deck space in the winter. The Commission has previously flagged this over-capacity condition. Fares have risen significantly in real terms over the last seven years.

BC Ferries has indicated that two large ships serving the Minor routes, the *Queen of Burnaby* and *Queen of Nanaimo*, will need replacement and a decision will have to be made early in the third performance term for

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<sup>3</sup> A further subsidy to northern ferry service is underway as the Province funds directly an upgrade of the mid-coast terminal at Klemtu. This cost will not appear on BC Ferries' books.

<sup>4</sup> A third initiative after year end was a major marketing initiative directed at tourists, packaging ferry travel with other products to be sold by tour operators including BC Ferries itself.

<sup>5</sup> Excludes estimates of renewal or replacement costs of the *Queen of Chilliwack*.

delivery of new vessels in the fourth performance term. The company will have to apply under section 55 of the Act, through which it might obtain the Commission's assurance that capital costs of replacement ships will be factored into the baseline in future price caps.

Assuming no change in government policy, the outlook on the Minor routes is for a long-term trend towards greater reliance on user-pay, with possible surges in fares to protect viability as major capital expenditures are made.

### **Possible Alternatives to the Status Quo**

A crucial issue arises in the context of slow-growing, stagnant or even declining traffic, with excess capacity on some routes, yet with continuing need for capital renewal. This is *whether to redesign or reconfigure ferry services*.

Under status quo planning assumptions, there is a potential hazard that ferry services may become increasingly mismatched to travel needs, and drift away from meeting any broader policy objectives as well. Fixed service patterns may become less and less effective.

The Commission fully understands that social equity, geo-political considerations, or other strategic policy objectives of government may, of course, override the narrower concern for pure economic efficiency, justifying increased support for the status quo from the public purse.

However, if increased government support is not forthcoming then alternatives to the status quo in terms of service delivery need to be explored if fare increases on certain routes are to be minimized. This will be a challenging process that will require significant stakeholder consultation.

Here, the Commission respectfully submits that, if cost-effective, innovative service designs, and other solutions meeting strategic policy goals, are to come forward, greater clarity about the role and expectations for BC Ferries, indeed for all parties, would be helpful. This could be accomplished by both parties to the Coastal Ferry Services Contract developing together a long term shared vision for coastal ferry service.

*Amended Coastal Ferry Act  
Introduces New Regulatory  
Levers*

### **New Responsibilities for the Commission**

Bill 20, amending the *Coastal Ferry Act*, received Royal Assent on 3 June 2010. Four of its provisions are of special note:

- **Public feedback and the interests of ferry users now explicit considerations.** Public feedback and the interests of ferry users, which were previously not mentioned in the Act's section on regulatory principles, are now to be considerations in the Commission's regulation of BC Ferries.
- **Reservation fees now regulated.** Until now, the Act prohibited reservation fees from regulation. Yet BC Ferries' had monopoly control of both the amount and price of reserved space on its major routes. The Commission had voiced its concern about potential

abuse. In practice BC Ferries has not exploited its position. Nonetheless, this amendment closes a loophole. Implementation is straightforward.

- **New regulation of competitive advantage.** This completely new provision followed BC Ferries' entry into the existing market for carrying "drop trailers" across Georgia Strait. If the Commission finds BC Ferries is handling "competitive" traffic, it must then ascertain whether it has an unfair competitive advantage. If the Commission so finds, it must order BC Ferries either (1) to provide the service through an Alternate Service Provider, or (2) charge at least a Commission-specified minimum tariff for the service. The Commission understands that all participants in the drop trailer market are now experiencing uncertainty while the Commission considers its approach, and undertakes to make the necessary determinations promptly.
- **Strengthened Alternative Service Provider (ASP) provisions.** The Act changes the interplay between BC Ferries and the Commission under the "section 69" search for ASPs on BC Ferries' routes. The intent is the same: to keep BC Ferries on its toes, to fight any tendency towards complacency on its part, and to replace it where it fails to meet a competitive test. The amendments strengthen the Commission's hand in directing where and how BC Ferries performs its searches.

In the past, despite best efforts, effective use of the regulatory levers in the old "section 69" eluded the Commission for a number of reasons. Not least among them was the scarcity of rival ferry operators willing to step forward to test themselves against BC Ferries.

### Personnel Changes at the Commission

**Martin Crilly** of Comox sees the end of his seven-and-a-half year term as Commissioner on December 31, 2010. He is grateful for the honour of being entrusted, and the privilege of serving, as the first BC Ferries Commissioner under the *Coastal Ferry Act*.

The term of **Sheldon Stoilen**, of Bowen Island, as Deputy Commissioner, expires on June 30, 2014. **Mary Stambulic** of Victoria continues as Communications Manager of the Commission.

Respectfully submitted,



Martin Crilly  
BC Ferries Commissioner



Sheldon Stoilen  
Deputy BC Ferries Commissioner

July 31, 2010

## 2 The Role of the Commission in Fiscal 2009/10

### Policy Principles for the BC Ferry Commission Coastal Ferry Act, s 38

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- (a) priority is to be placed on the financial sustainability of the 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 minimize expenses without adversely affecting their safe compliance with core ferry services;
- (e) cross subsidization from major routes to other designated ferry routes is (i) to be eliminated within the first performance term of the first Coastal Ferry Services Contract to be entered into under this Act, and (ii) before its elimination, to be minimized;
- (f) the designated ferry routes are to move towards a greater reliance on a user pay system so as to reduce, over time, the service fee contributions by the government.

*In June 2010, the Commission's powers were changed and expanded in certain areas, through amendments to the Coastal Ferry Act. Because this Annual Report records activities of the Commission for fiscal 2009/10, i.e. a period before these changes, the following gives a description of the Commission's unexpanded role, as it then was. A description of the changed role, which will be reflected in the 2010/11 Annual Report, can be found on the Commission's website at [www.bcferrycommission.com](http://www.bcferrycommission.com).*

The **BC Ferry Commission** regulates ferry operators under the *Coastal Ferry Act* of 2003. The Province appoints the commissioner and up to two deputy commissioners as statutory officers for six- to eight-year terms. They are independent of both the government and of ferry operators. In August 2003, Martin Crilly of Comox was appointed Commissioner. His term expires on December 31, 2010. In June 2008, Sheldon Stoilen of Bowen Island was appointed Deputy Commissioner for a six-year term expiring on June 30, 2014.

Their decisions cannot be appealed, except on a question of law. They may be terminated only for mental infirmity, conviction for an indictable offence under Canada's criminal code, or a judicial finding of conflict of interest or material breach of duties or obligations.

The Commission is not an ombudsperson acting to resolve any private disputes with ferry operators; nor is it a general complaints or compliments bureau. Further, it is not responsible for regulating safety or environmental impacts of ferry operations.

In exercising its powers as watchdog, the Commission is obliged to follow six policy principles in protecting the public interest (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 a self-financing company with a mandate to widen travel choices for users and improve service quality.

Under a long-term contract with the Province, BC Ferries must operate its system to provide defined **minimum core service levels** on each of the 25 routes. On three of them, called **major routes**, which are financially self-sufficient, BC Ferries receives no subsidy. On the other 22, the

government pays BC Ferries a **ferry transportation or service fee** per-round trip sailing.

One of the Commission's tasks is to **regulate ferry fares**. The Commission sets a ceiling or "price cap" on the average level of fares which BC Ferries can charge. The goal in setting the price cap is to balance consumer protection with financial sustainability of the ferry operator, while encouraging efficiency.

The routes are now divided into four geographic groups. Each group has its own price cap, which is a ceiling on the weighted average level of the individual fares within the group. The level is re-set after every fourth year. Each four-year<sup>6</sup> period is termed a "performance period". In its surveillance of ferry fares, the Commission ensures that the weighted average of ferry fares, for each of seven groups of routes, does not rise above the cap for each group. If it does, the Commission may penalize the operator unless corrective action, e.g. reducing fares, is taken within the next quarter.

*Regulation of Service  
Quantity*

In overseeing the amount or **quantity of service** provided by BC Ferries, the Commission monitors the adherence of BC Ferries to the terms of its service contract with the Province. The Commission checks that the numbers of sailings on each route are at a minimum equal to those required in the service contract, subject to an allowance for missed sailings for certain reasons (e.g. bad weather). If there is a shortfall in the quantity of service the operator sacrifices the service fee and may face other more serious consequences.

*Regulation of Service Quality*

While the broader and less readily measured performance parameter of **service quality** (e.g. punctuality, reliability, comfort and convenience to customers, or other qualitative dimensions of ferry service) are of great import to ferry customers, the Commission does not try to regulate in this area. To do so would be difficult, inconsistent with the legislature's intention that regulation be exercised in a light-handed fashion.

However, the Commission does track BC Ferries' regular reports of its on-time performance, and the number of "overload" sailings which depart leaving customers behind in the waiting area. The Commission also inspects regular customer satisfaction sampling surveys which BC Ferries is contractually bound to carry out using an outside polling firm.

*Pro-competitive Regulation*

Although BC Ferries has weighty service obligations, it also enjoys **privileges as a near-monopoly**. It has exclusive use of terminals, which are facilities of major strategic and competitive importance to an operator. On 22 of its routes (those other than the three major routes), BC Ferries is the sole recipient of taxpayer support. The company is also income-tax exempt. It has the advantages of a large, incumbent operator with flexibility in vessel deployment, able to take advantage of economies of scale and network coverage. These give the company a low risk profile

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<sup>6</sup> Except for the First Performance Term which was five years ending on March 31, 2008.

from the investors' perspective and result in a comparatively low cost of borrowing.

These advantages are intended by the legal and contractual framework, but they largely **protect BC Ferries from meaningful competition**. There are few existing competitors against whom to benchmark BC Ferries. The market and regulatory structure does not foster the emergence of such competitors in future.

In this context, to promote **efficiency**—which helps keep down both ferry fares and the need for taxpayer funding—the Commission's rulings aim to provide incentives to BC Ferries to deliver ferry service in an efficient fashion while maintaining the required priority on its financial sustainability.

The *Coastal Ferry Act* requires BC Ferries, in each performance period, to submit to the Commission a plan to **seek additional or alternative service providers (ASPs)**—and then to execute that plan.<sup>7</sup> ASPs could **serve on BC Ferries routes under subcontract**, if they could reduce the costs of ferry operations. The Commission sees this clause, in part, as guarding against the risk of BC Ferries, in the absence of little other competition, becoming complacent about its own methods and cost-efficiency. The Act empowers the Commission to penalize BC Ferries if it considers that BC Ferries has not submitted a satisfactory plan, and to order it to submit one and to execute it to a deadline.

#### *Commission Probes*

Overall, the Commission is alert for information, either from its own observations or from the public, suggesting how the performance, service quality, efficiency or productivity of ferry operations could be improved. The Commission may decide to launch a probe on any topic of interest to it, in which the ferry operator is legally required to answer the Commission's questions and comply with any resulting orders, with no appeal.

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<sup>7</sup> The Alternative Service Provider provisions described here were in effect during the year to which this report applies, but were significantly altered by the legislative amendments which received Royal Assent in June 2010.

## 3 Activity Summary

### Commission Activities in FY 2009/10

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1. **Regulation of Ferry Fares**
  - confirmed actual fares were within caps during the year
  - refined the fuel surcharge mechanism to respond more quickly to fuel price changes
2. **Regulation of Service Levels**
  - confirmed that BC Ferries delivered contracted round-trips
3. **Special Decisions**
  - monitored BC Ferries' Alternative Service Providers Plan
4. **Enforcement**
  - monitored BC Ferries public reporting
5. **Publication and Outreach**
  - maintained records, published decisions, and communicated with the public and stakeholders
  - attended meetings with stakeholder groups
6. **Administration and Reporting**
  - operated an office, obtained support services and consulting advice

The Commission's activities fall into **six headings** shown on the left. These headings are taken from the Commission's Service Plan and Budget for the year ending March 31 2010, published in September 2008. The core, ongoing activities are in headings 1 and 2: the **regulation of fares** through the price cap mechanism, and the **regulation of service levels**.

**Special decisions** under heading 3 include pre-approval of major capital deployments (e.g. new ships). There was no such application during the year. It also includes overseeing the search for alternate service providers. The Commission found no reason to undertake **enforcement** action (under heading 4).

Two further activity areas were to inform the public about the Commission's role (under heading 5 - **publication and outreach**) and maintaining routines and procedures under **administration and reporting** under heading 6. Readers will find **more detail** in the table on the following pages. It lays out the Commission's **planned versus actual activities** under the same headings, keyed to the relevant section number of the *Coastal Ferry Act*.

## 4 Activity Detail

This section takes the list of the planned Commission activities from its 2009/10 Service Plan and offers a detailed description of actual activities.

Activity number	Coast Ferry Act section	Activity Description	Actual Activity in 2009/10
<b>1.0</b>	<b>Regulation of Ferry Fares</b>		
1.1	39	Monitor how weighted average price is calculated	
		The Commission will monitor the functioning of the Average Fare Model. This was developed in collaboration with BC Ferries in 2003/04 as the key measuring tool for judging whether BC Ferries' weighted average fares are within the price cap established by the Commission. The model requires adjustment and improvement (e.g. for changes in type and quality of source data) and cross-checking from time to time. Where necessary, the operation of the model will be externally validated.	The Commission considered various observations and concerns offered by BC Ferries on the behaviour and usefulness of the Average Fare Model. No adjustments or improvements were deemed necessary.
1.2	38,65	Review BC Ferries quarterly reports on price level	
		The Commission will specify contents required in BC Ferries annual reports respecting fare levels for each route group. The Commission will determine if the weighted average of the tariffs charged for each route group, as measured using the Average Price Model are within the price cap established, and if not make appropriate orders.	The Commission reviewed BC Ferries quarterly reports comparing the actual weighted average fare for each route group with the price cap for that group. The Commission found the company to be in compliance.  On the major and minor route groups the average fare tracked just slightly below the respective price cap. On the northern routes and the Horseshoe Bay–Langdale route the average fares tracked below the price cap by approximately 4 per cent and 2 to 3 per cent respectively throughout the year.

Activity number	Coast Ferry Act section	Activity Description	Actual Activity in 2009/10
<b>1.0</b>	<b>Regulation of Ferry Fares (continued)</b>		
1.3	42	Handle any BCF applications for extraordinary price increases	
		The Commission will review and consider applications by the ferry operator for extraordinary tariff/price cap increases.	BC Ferries did not submit an application for an extraordinary price cap increase during the year.
1.4	45	Adjust price cap for any service cuts/route discontinuances	
		The Commission will review service reductions or discontinuance of routes for impact on price cap and make appropriate adjustments in price cap.	The Commission did not receive applications for service reductions or route discontinuance during the year.
1.5	40, 41	Conduct price cap review for next performance term	
		The Commission will initiate price cap reviews for each performance term.	The Commission began discussions with BC Ferries regarding possible changes to the methodology to be used in setting price caps for the Third Performance Term as well as determining the information requirements to be submitted by BC Ferries by September 30, 2010.
<b>2.0</b>	<b>Regulation of Ferry Service Levels</b>		
2.1	38,65	Review BC Ferries quarterly reports on service level	
		The Commission will specify the format of, and review quarterly reports of BC Ferries as the ferry operator to determine if it is meeting the contract service requirements.	The Commission reviewed BC Ferries' quarterly reports on on-time performance, overloads, and sailings provided relative to their contract with the provincial government. The Commission sought and received satisfactory explanations to various questions raised relative to these reports.
2.2	38,66	Review BCF annual reports on service level	
		The Commission will specify the format of, and review annual reports of BCF as the ferry operator to determine if it is meeting the contract service requirements. It will also review BCF's annual customer satisfaction survey, which BCF must provide to the Commission under the terms of the Coastal Ferry Services Contract.	The Commission reviewed BC Ferries' annual report for the year ended March 31, 2010, as well as the annual customer satisfaction survey. Based the annual report and the survey, the Commission concluded that BC Ferries has met its obligations under their contract with the provincial government.

Activity number	Coast Ferry Act section	Activity Description	Actual Activity in 2009/10
<b>2.0</b>	<b>Regulation of Ferry Service Levels (continued)</b>		
2.3	43	Handle any BCF applications for service reductions	
		Review and consider any applications by the ferry operator for reductions in service (temporary reductions would occur immediately).	No applications for reduction in service were submitted during the year.
2.4	44	Handle any BCF applications for route discontinuance, possibly hold hearing	
		Review and consider any applications by the ferry operator to discontinue a route.	No applications for route discontinuance were submitted during the year.
<b>3.0</b>	<b>Special Decisions</b>		
3.1	55	On ferry operator's request, decide if a proposed capital deployment is reasonable	
		If a ferry operator makes an application, the Commissioner will consider a proposed capital deployment or capital expenditures in connection with a route or terminal to determine if they are reasonably required. Consultants of various specialties will be engaged to undertake a "process audit" of the BCF analysis.	BC Ferries made no applications for a ruling under this section during the year.
3.2	38(4)	Deregulate a ferry route if competition sufficient	
		Make a determination of removing designation for a route upon which sufficient competition exists so that regulation of that route is unnecessary.	There was no activity in this area.
3.3	69	Review BCF's Plan to Seek Alternate Service Providers (ASPs)	
		Monitor the market for ferry services with a view to encouraging competition for BCF; monitor BCF implementation of its Additional and ASPs plans for Performance Term Two.	The Commission continued monitoring BC Ferries activities in implementing its plan for performance term two.
<b>4.0</b>	<b>Enforcement</b>		
4.1	38(2)	Monitor BCF reporting to the public	
		Observe how BCF reports on its own performance on pricing fares under the price cap, and on its contracted versus actual delivery of service levels.	BC Ferries issues tariffs in print and on the world wide web, while the Commission publishes average fare levels compared with price caps for regulatory purposes.

Activity number	Coast Ferry Act section	Activity Description	Actual Activity in 2009/10
<b>4.0</b>	<b>Enforcement (continued)</b>		
4.2	46	Inspect BCF records as required	
		Order inspections of the records of the ferry operator as necessary.	No activity was necessary.
4.3	48	Issue orders to BCF regarding non-compliance with the law as required	
		Issue orders for non-compliance with the legislation as necessary.	No activity was necessary.
<b>5.0</b>	<b>Publication and Outreach</b>		
5.1	52	Maintain Commission records, provide public access	
		<p>Files will be maintained accessible to the public under the <i>Freedom of Information and Protection of Privacy Act</i>. Response to public enquiries will be made via telephone, postal mail, and e-mail. A web site will be maintained and regularly updated as needed, preferably at least monthly.</p>	<p>The Commission maintains electronic and paper records of its activities through the reporting period. There was one request received under the <i>Freedom of Information and Protection of Privacy Act</i>.</p> <p>About 35 members of the general public wrote to or telephoned the Commissioner with comments, questions or information requests during the reporting period. This resulted in 39 pieces of correspondence – the lowest number since the Commission was established in 2003. Every correspondent received a personal, written reply or returned telephone call. Occasionally, matters were directed to BC Ferries for a response when issues fell outside the Commission’s mandate. Some correspondence requested information. An electronic database of all correspondents and their comments was maintained and reviewed regularly.</p> <p>Members of the public contacted the Commission by visiting its website at <a href="http://www.bcferrycommission.com">www.bcferrycommission.com</a>; directly through e-mails; telephone calls or by subscribing to receive e-mails information updates. Members of the public on the Commission’s electronic database that receive updates totalled almost 880 individuals.</p> <p>During the reporting period, as in previous years, almost half of the correspondence received was in regard to the cost of ferry travel and service quality, including service delays, and more recently, on the change to the tariff structure on extra length charges for vehicles beyond 20 feet in length (replaced over-height rates except on Northern Routes). Less than a quarter of the correspondence was general in nature.</p>

Activity number	Coast Ferry Act section	Activity Description	Actual Activity in 2009/10
5.0		<b>Publication and Outreach (continued)</b>	
5.2	52	Publish decisions/determinations/orders/proceedings	
		The Commissioner will publish every decision, determination and order in a manner that the Commissioner believes will bring it to the attention of the public. All such items will be published on the Commission's website, at a minimum.	All decisions, determinations and orders were published on the Commission's web site with explanatory text, and question-and-answer sheets as required.
5.3	N/A	Communicate with public and stakeholders	
		The Commission will actively communicate its role and responsibilities to the public; make appearances in the media; make presentations and speeches to stakeholder groups.	During the year, the Commissioners attended meetings with the public and stakeholders as follows: Chairs of the Ferry Advisory Committees (one meeting); one Annual Public Meeting of BC Ferries in Vancouver; one meeting with BC Ferries Board of Directors with formal remarks; and one meeting with the Deputy Minister of Transportation and Infrastructure. The Commissioners also participated in a conference call to provide input to the Office of the Comptroller General during its review of BC Ferries in the fall of 2009.  The Commissioners were also interviewed on several occasions by print and broadcast media.
6.0		<b>Administration and Reporting</b>	
6.1	36	Operate office and engage external support services	
		Operate the Office of the Commission. Maintain arrangements for telephone, mail and electronic access. Rent office space as required. Maintain office operations (secretarial, phone, courier, post, internet, web site). Office equipment to be dedicated to Commission use. Work with the Office of the Attorney General as provider of payment system on behalf of the Commission. Obtain internal bookkeeping, archiving, and legal services as required.	The Commission operated a virtual office. Accounting and payment system was provided by Office of the Attorney General at no charge to the Commission. Independent legal advice during the year was not required. An independent contractor was engaged to develop the Commission's communication and outreach plans and to assist with public correspondence.

Activity number	Coast Ferry Act section	Activity Description	Actual Activity in 2009/10
6.0	<b>Administration and Reporting (continued)</b>		
6.2	N/A	Research background to ferry operating environment	
		This activity is the Commissioner's ferry system familiarization and background study. Research and investigations to be initiated by Commission.	The Commissioner and Deputy Commissioner intend to travel all ferry routes in person.
6.3	69	Prepare Commission's annual budget	
		Budget will include expenditures reasonably expected to be incurred in the following year, supported by a Service Plan for the year.	The Commission's <a href="#">Annual Service Plan and Budget</a> for 2010/11 was submitted to the Minister of Transportation and Infrastructure and BCF on September 30, 2009 as required.
6.4	53	Report annually to Lieutenant-Governor in Council	
		Within four months after the end of each fiscal year, the Commissioner will make a report to the Lieutenant-Governor in Council for the preceding fiscal year.	The Commission's 2009/10 Annual Report was submitted to the Lieutenant-Governor in Council on July 31, 2010 as required and outlines briefly: <ol style="list-style-type: none"> <li>1. all applications and requests for decisions to the Commissioner under the Act where applicable;</li> <li>2. all orders issued by the Commissioner where applicable;</li> <li>3. the financial statements applicable to the Office of the Commissioner for that year along with full disclosure of the expenses of, and associated with, the Office of the Commissioner; and other information the Lieutenant-Governor in Council directs where applicable.</li> </ol>

## 5 Average Fare Levels

The table below shows the values of a price cap index (=100 at 2003) and compared to an index of actual weighted average fares, for each of four groups of routes in the BC Ferries system (amalgamated from seven groups used in the Performance Term One which ended March 31, 2008).

The values for the indices are computed by methods laid down in Commission Order 05-01 and are based on trailing four-quarter data. They exclude extraordinary increases allowed in performance term one due to high fuel prices, which are separately measured and tracked.

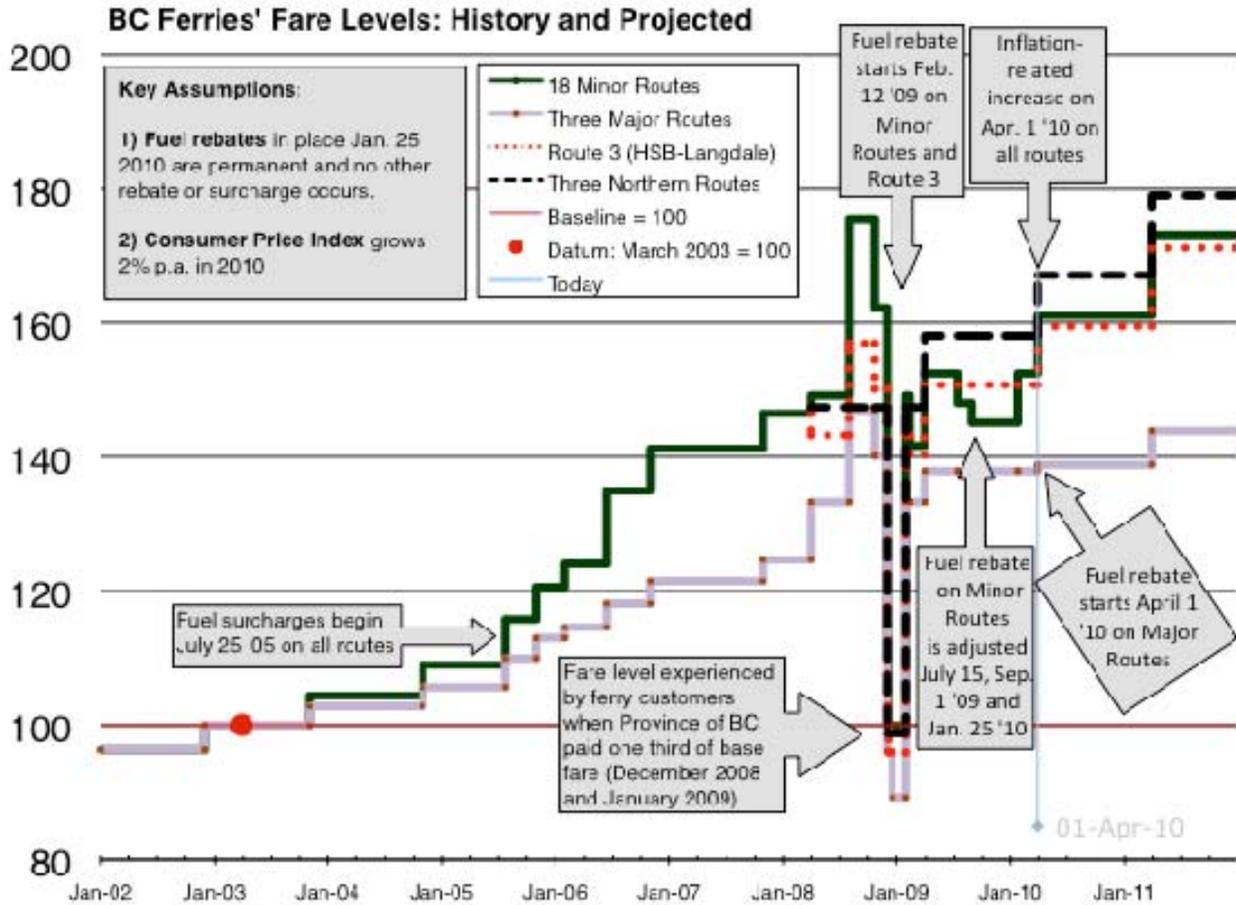
The Commission's policy allows BC Ferries to exceed the cap (highlighted in yellow) for no more than three consecutive quarters. This ensures that the company does not retain revenues earned at above-cap prices.

		<i>Average Fare Index Summary</i>							
Route Group		Jun-2008	Sep-2008	Dec-2008	Mar-2009	Jun-2009	Sep-2009	Dec-2009	Mar-2010
Majors	Cap	124.83	128.85	131.46	133.25	134.44	136.15	137.26	138.24
	Actual	123.64	127.66	131.17	134.41	138.32	135.84	136.70	137.75
Route 3	Cap	136.30	139.72	142.12	143.22	145.77	149.15	151.54	153.60
	Actual	133.46	135.85	138.18	138.77	143.51	146.03	146.81	149.05
Northern	Cap	139.98	145.00	146.99	147.42	149.96	156.25	157.26	158.10
	Actual	136.12	141.52	143.71	145.37	145.68	150.02	150.90	151.97
Minors	Cap	142.26	145.74	148.07	149.15	151.77	155.42	157.77	159.96
	Actual	139.08	141.66	144.40	145.22	151.67	155.64	157.52	159.11

As seen above, there were no periods where the cap was exceeded for three or more quarters: in the quarter ending June 2009 on the major route group, BC Ferries fare levels saw average fares exceed caps for the second of two consecutive quarters. In the quarter ending September 2009, BC Ferries exceeded the cap. Accordingly the company was in compliance with price caps in fiscal 2009/10.

The average fare index above shows only the fare levels before fuel surcharges or rebates. Below is a graph which includes these items, giving a closer appreciation of the total that customers pay, historical and forecast through 2012, for ferry travel.

Note that the chart, which is current up to and including July 25, 2010, makes a critical assumption for the forecast through 2012: that fuel rebates currently in place do not change.



## 6 Financial Statements

### Accounting Services

The Commission is grateful for the assistance of the Ministry of the Attorney General which provides accounting, banking and payment services at no cost to the Commission. These financial statements are based upon the financial information provided by the Ministry.

### Summary Financial Statements

#### BC Ferry Commission Summary Financial Statements (In \$ thousands)

	FY	2009/10 Budget	2008/09 Actual	2008/09 Actual
<b>Statement of Operation</b>				
<i>Revenues</i>		307	49	47
<i>Expenditures</i>				
Operating Costs		307	113	127
<b>Surplus (deficit)</b>		0	(64)	(80)
<b>Change in Net Assets</b>				
Opening balance			149	229
Surplus (Deficit)			(64)	(80)
<b>Net Assets end of year</b>			85	149

### Revenues

Revenues consist of a percentage levy on toll revenues from ferry operators. In fiscal year 2009/10, the total paid to the Commission by BC Ferries, the only ferry operator regulated by the Commission during the year, was \$49,000.

### Expenditures

Expenditures in fiscal 2009/10 were \$113,250. Expenditures were for Commissioners fees and expenses and for the cost of consultants engaged to assist and advise the Commission.

The *Coastal Ferry Act* s.58 allows the Commissioner a budget which does not exceed the total of the following:

- (a) for each quarter, if any, of that fiscal year in which the commissioner is to take any action under section 40, 1/20 of 1 per cent of the previous year's tariff revenue;
- (b) for every other quarter of that fiscal year, 1/40 of 1 per cent of the previous year's tariff revenue.

Section 40 of the Act concerns establishment of price caps for subsequent performance terms. The Commission was active under section 40 during the last two quarters of fiscal 2009/10, so that paragraph (a) above is applicable for two quarters, and paragraph (b) for two quarters, giving a maximum annual budget of 0.15 per cent (2 x 0.05 per cent plus 2 x 0.025 per cent) of the previous year's tariff revenue.

BC Ferries' tariff revenue was \$429.1 million (i.e. excluding retail and other ancillary revenue and service fees) for fiscal 2008/09. The cost of operating the Commission in 2009/10 represented 0.026 per cent of this figure, or less than one fifth of the budget maximum.

*Commissioner Remuneration*

The Commissioner and Deputy Commissioner are paid a per-diem fee for their services. The Commissioner received \$41,662 in fees during the year. In addition he was reimbursed \$6,338 for expenses incurred during the year, including travel, dedicated office equipment, office supplies, telephone, web site and other communications expenses. The Deputy Commissioner received \$57,112 in fees for his services and he was reimbursed \$5,583 for travel and other expenses incurred in the period.

*Net Assets*

The difference between the amounts received from ferry operators and expenditures is carried forward for use in the next fiscal year. The Net Assets of the Commission are included in the Financial Statements of the Province of British Columbia.