



British Columbia Ferries Commissioner

Annual Report for the Fiscal Year Ending March 31, 2016

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

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August 29, 2016



To the Lieutenant Governor in Council

Victoria, BC
August 29, 2016

May It Please Your Honour:

**BC Ferries Commissioner Annual Report
For the Fiscal Year Ending March 31, 2016**

I am pleased to submit to you the thirteenth 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 BC Ferries Commissioner for the above period along with full disclosure of the expenses of, and associated with, the Office of the BC Ferries Commissioner.

Yours truly,

Gord Macatee
BC Ferries Commissioner

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Introduction

The Office of the BC Ferries Commissioner regulates ferry operators under the *Coastal Ferry Act* of 2003 as amended by subsequent legislation (the “Act”). The Province appoints the commissioner and up to two deputy commissioners for a term of at least six and not more than eight years. They are independent of both the government and the ferry operators. Gord Macatee of Victoria BC was appointed commissioner on May 1, 2011 for a six-year term expiring on April 30, 2017. Sheldon Stoilen of Bowen Island was reappointed deputy commissioner for a six year term expiring on June 30, 2020.

The role of the commissioner is set out in section 38(1) of the Act which stipulates the commissioner must regulate ferry operators in accordance with the following principles:

- 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; and
- d) ferry operators are to be encouraged to be innovative and to minimize expenses without adversely affecting their safe compliance with core ferry services.

This is the thirteenth annual report of the commissioner and has been prepared in accordance with Section 53 of the Act. The report summarizes all major decisions, orders and reports issued by the commissioner and the financial statements of the Office of the BC Ferries Commissioner for the fiscal year ended March 31, 2016 (“FY 2016”). The report includes the commissioners’ opinions on the performance of British Columbia Ferry Services Inc. (“BC Ferries”) relative to its obligations under the Act and the Coastal Ferry Services Contract. The report also includes the commissioners’ opinion regarding the performance of the B.C. Ferry Authority relative to its obligations under the Act.

Decisions, Orders and Reports of the Commissioners in FY 2016

The following sets out briefly all applications and requests for decisions to the commissioners under the Act and the orders and reports of the commissioners during FY 2016:

Report on Follow-up to Performance Review of BC Ferries` Automated Customer Experience (“ACE”) Program – May 11, 2015

This review was conducted by PricewaterhouseCoopers LLP (“PwC”) as a follow up to their initial review of the ACE program in October 2013. ACE is a set of information technology initiatives to enable transformational change in the operations of BC Ferries. PwC found that the ACE program had undergone significant improvements in project management, governance and contracting strategy which has lowered the risk profile of the program.

Report on BC Ferries` Integrated IT Program Management - July 7, 2015

This review was conducted by PwC who reported that the proposed governance for the inter-dependencies between the ACE Program and the Fare Flexibility and Digital Experience Initiative provide a solid foundation for enabling effective coordination, management and risk mitigation of the inter-dependencies across the multiple initiatives.

Order 15-03 – September 16, 2015

This Order sets the final decision on the price cap increase on ferry fares at 1.9% each year over the upcoming four year performance term (“PT4”), beginning April 1, 2016, and ending March 31, 2020.

Condition 1(c) satisfied under Order 15-01 - Fare Flexibility and Digital Experience Initiative – September 25, 2015

The commissioner confirmed that Condition 1(c) of Order 15-01 regarding the implementation of an integrated IT program management process has been satisfied.

Order 15-03A – September 28, 2015

This Order authorized the establishment of fuel deferral accounts for PT4 and established the set price per litre for diesel and LNG fuel for purposes of calculating any fuel surcharges or rebates during PT4.

Public Notice – December 2, 2015

The commissioner initiated a review of BC Ferries' drop trailer services pursuant to Order 11-01 and invited comments from the public. On February 1, 2016, subsequently revised on March 22, 2016 and April 13, 2016, the commissioner issued a Notice of Procedures for his review of BC Ferries' drop trailer services. The results of his review are expected to be released early in FY 2017.

Conditions Met for Cable Ferry Operations - January 22, 2016

The commissioner confirmed to BC Ferries that the conditions set out in Order 14-01 regarding the cable ferry for Denman Island have been sufficiently addressed.

Order 14-03B – January 29, 2016

The commissioners approved the revised maximum amount of the major capital expenditure for the mid-life upgrades of the Spirit Class vessels, as described in the Supplemental Application, for a total expenditure of up to \$218.89 million including interest during construction and supplemental project expenditures. The commissioner also confirmed on February 1, 2016 that, based on Confidential Order 14-03B and the information provided with respect to addressing the concerns of commercial ferry users, conditions 1(b)(i), 1(b)(ii) and 1(b)(iii) of Order 14-03 have been satisfied.

Other Performance Reviews

During Q4 of FY 2016 which was the last year of performance term three ("PT3"), the commissioners engaged PwC to conduct performance reviews of BC Ferries' compliance with the price caps and with the minimum allowed average tariff or MAAT under Order 11-01. PwC's report on their performance review of BC Ferries' compliance with the price caps was issued on April 1, 2016 which indicates that BC Ferries was in compliance during PT3. PwC's report on their performance review of BC Ferries' compliance with the MAAT during PT3 will be issued upon completion of the commissioners' review of BC Ferries' drop trailer business in early FY 2017.

BC Ferries and B.C. Ferry Authority Performance in 2016

During FY 2016 the commissioners continued their practice of conducting quarterly meetings with BC Ferries to review their quarterly reports on price cap compliance, operations summaries, customer complaints resolution, and deferral account balances. The commissioners also reviewed and posted on their website BC Ferries' Annual Report to the Commissioners for FY 2016 which was submitted as required before July 31, 2016. The commissioners received satisfactory responses from BC Ferries to all follow-up queries and requests for additional information.

The key findings of the commissioners for the year ended March 31, 2016 are that BC Ferries:

- complied with price cap increase of 3.9% for all routes combined;
 - experienced a 4.9% increase in vehicle traffic and 4.5% increase in passenger traffic resulting in capacity utilization increasing by 2.2% system wide over the previous year;
 - delivered a total of 76,871.5 round trips or 592 more than the the number of round trips required under the Coastal Ferry Services Contract ("CFSC"), as amended for performance term three (April 1, 2012 - March 31, 2016). Many of these additional round trips were delivered on the major routes and on route 21 (Buckley Bay to Denman Island) and route 22 (Denman Island to Hornby Island) to accommodate peak period traffic demand in the summer. There were 206 round trips cancelled for weather or other reasons allowed under the CFSC. Additionally 523 round trips were cancelled on Route 12 (Mill Bay) in Q1 2016 to allow for the refit of the Klitsa which is permitted every four years under the CFSC;
 - delivered good on-time performance of 90.8% system wide, down slightly from 91.7% in the previous year and a high standard of service reliability delivering 99.72% of the scheduled sailings;
 - continued to invest in fleet renewal, terminal upgrades and other infrastructure. In FY 2016 capital expenditures included \$114.2 million in vessel upgrades and modifications, \$31.9 million in information technology and \$24.3 million in terminal marine structures and \$10.8 million in terminal and building upgrades and equipment; and
 - conducted the annual customer satisfaction survey indicating 87% of passengers in 2015 (85% in 2014) reported to be satisfied overall with their experience travelling on BC Ferries. Satisfaction levels have rebounded on Route 19 (Nanaimo – Gabriola Island) and improved among other Vancouver Island and Southern Gulf Island residents. Dissatisfaction with overall value of fares declined from 45% of customers dissatisfied in 2014 to 42% in 2015.
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Based on our reviews and key findings, the commissioners are satisfied that during FY 2016, BC Ferries met its obligations under the *Coastal Ferry Act* and also met its obligations under the Coastal Ferry Services Contract.

Finally, based upon a review of B.C. Ferry Authority's submission to the commissioner and discussion with the Chair of its Board of Directors, the commissioners are satisfied that the B.C. Ferry Authority performed all of its obligations under the Act during FY 2016.



Gord Macatee
BC Ferries Commissioner



Sheldon Stoilen
Deputy BC Ferries Commissioner

Price Cap Compliance

The chart below tracks the values of the price cap index compared to an index of actual weighted average fares system wide for BC Ferries (price cap index was reset at 100 effective the beginning of the third performance term on April 1, 2012).

The values for the indices are computed by methods laid down in Commission Order 05-01 and Order 11-03 and are based on trailing four-quarter data. The commissioner allows BC Ferries to exceed the price cap (highlighted in colored or shaded text) for no more than three consecutive quarters. This ensures that the company does not retain revenues earned at above-price cap levels.

The chart shows that BC Ferries did not exceed the price cap for more than three quarters during FY 2016. Accordingly, the company was in compliance with the price cap during the year.



Average Fare Index Summary

System	PT3 →						
	Sep-2014	Dec-2014	Mar-2015	Jun-2015	Sep-2015	Dec-2015	Mar-2016
Cap	111.08	111.97	112.76	113.85	115.36	116.31	117.15
Actual	110.74	111.89	112.96	114.17	115.29	115.23	115.85

- Price cap and price compliance indices are calculated in accordance with Commission orders 05-01 and 11-03.

-The annual price cap increase for each fiscal year is phased in over four quarters. The amount phased in will vary from quarter to quarter as it is based on proportions of revenue received in the previous year for that quarter. The amount of the phase in for a particular quarter can vary from year to year due to variations in prior year revenue. Such variations can be caused, for example, by the timing of promotions and changes in the timing of Easter. (Easter occurs in either Quarter 1 or Quarter 4)

Activity Summary

Commissioners' Activities in FY 2016

1. Monitoring of Price Cap and Service Level Compliance

- monitored BC Ferries compliance with the price cap and delivery of contracted round-trips under the CFSC.

2. Special Decisions

- approved a revised major capital expenditure for the Mid-Life Upgrades to the Spirit Class Vessels.
- released the Final Price Cap Decision allowing price cap increases of 1.9% for each year of the next performance term starting on April 1, 2016 ("PT4").
- authorized the establishment of fuel deferral accounts for PT4 and established the set price of diesel and LNG fuel for calculating rebates and surcharges for PT4.
- confirmed that the conditions set out in Order 14-01 for operating the cable ferry to Denman Island had been satisfied by BC Ferries.

3. Enforcement and Performance Reviews

- conducted follow up performance review on BC Ferries' Automated Customer Experience Program and initiated performance reviews on price cap and minimum allowed average tariff ("MAAT") compliance for drop trailers.

The commissioners' activities during FY 2016 are summarized in the table to the left. The core ongoing activities are regulating ferry fares through the price cap mechanism, monitoring compliance with service levels specified in the Coastal Ferry Services Contract and the approval of major capital expenditures.

Special decisions in FY 2016 included the Final Price Cap Decision for PT4, the next performance term, as well as the approval of the revised major capital expenditure for the mid-life upgrades of the Spirit Class vessels. Special decisions also include consideration of opportunities for possible alternative service providers and/or the regulation of unfair competitive advantage. There was no activity in the area of possible alternative service providers during the year. In the area of unfair competitive advantage the commissioners continued their monitoring of BC Ferries' compliance with Order 11-01 regarding drop trailer fares. In December 2015 the commissioners initiated a review of BC Ferries' drop trailer service in accordance with Order 11-01.

There was also no activity in FY 2016 for Enforcement as BC Ferries was found to be compliant with its obligations under the *Coastal Ferry Act* and the Coastal Ferry Services Contract.

During the year the commissioners conducted a follow up performance review on BC Ferries' Automated Customer Experience Program and found that improvements have been made in the areas of governance and project management. The commissioners also initiated performance reviews conducted by PwC on price cap and drop trailer minimum allowed average tariff or MAAT compliance in performance term three. PwC's report on price cap compliance was issued on April 1, 2016 indicating price cap compliance during PT3. PwC's report on compliance with the MAAT will be issued upon

**4. Administration and Reporting,
Publication, Outreach**

- maintained records; submitted Annual Report and Service Plan; published all applications, submissions and decisions and communicated with stakeholders.

completion of the commissioner’s review of BC Ferries’ drop trailer business in early FY 2017.

An important activity area for the commission is keeping the public informed about the commissioner’s role, activities and decisions. All quarterly and annual reports from BC Ferries, applications to the commissioners and the decisions of the commissioners were posted on the Commission’s website. The public was invited to comment on BC Ferries’ drop trailer service in December 2015 and submissions were received up to June 10, 2016 as part of the commissioners’ review. All submissions received were posted on the Commission’s website.

Financial Statements

Accounting Services

The Ministry of Justice provides accounting and payment services at no cost to the commission. The summary financial statement is based upon information provided by the ministry.

Summary Financial Statement

BC Ferries Commissioner Summary Financial Statement (Expenditures in \$ thousands)

	FY 2016		FY 2015
	Budget	Actual	Actual
Commissioners' Fees and Expenses	324	199	212
Professional Services	450	120	439
Other Expenses	71	7	44
	845	326	695

Budgeted Expenditures

The *Coastal Ferry Act* requires ferry operators to cover the expenses associated with the operation of the Office of the Commissioner. Under section 59(2) of the Act the budget for the Office of the Commissioner must not exceed 1/5 of 1% of the ferry operator's previous year's tariff revenue. Total budgeted expenditures for FY 2016 were \$845,000 or 85% of the maximum budget allowable under Act.

Actual Expenditures

Actual expenditures in FY 2016 were \$326,000, or 39% of the budget. Expenditures were for commissioners' fees and expenses, fees and expenses for consultants' professional services and other expenses. Actual expenditures were substantially below budget due to lower legal and performance review costs and BC Ferries' deferral of several section 55 applications seeking approval of major capital expenditures.

Commissioners' Remuneration

The commissioner and deputy commissioner are paid a per-diem fee for their services. The commissioner received \$83,325 in fees for his services and was reimbursed \$5,108 for travel and other expenses. The deputy commissioner received \$102,300 in fees for his services and was reimbursed \$8,012 for travel and other expenses incurred in the period.