



British Columbia Ferries Commissioner

Annual Report for the Fiscal Year Ending March 31, 2017

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

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August 28, 2017



To the Lieutenant Governor in Council

Victoria, BC
August 28, 2017

May It Please Your Honour:

**BC Ferries Commissioner Annual Report
For the Fiscal Year Ending March 31, 2017**

I am pleased to submit to you the Annual Report of the BC Ferries Commissioner for the fiscal year ended March 31, 2017.

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 with his term subsequently extended to November 1, 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 fourteenth 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, 2017 (“FY 2017”). 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 2017

The following sets out briefly all applications and requests for decisions to the commissioners under the Act and the orders and reports issued by the commissioners during FY 2017:

Commissioners release report on Performance Review of BC Ferries` compliance with the price caps for Performance Term Three – April 29, 2016

During Q4 of FY 2016 which was the last year of performance term three (“PT3”), the commissioners engaged PricewaterhouseCoopers LLP (“PwC”) to conduct performance reviews of BC Ferries’ compliance with the price caps and with the Minimum Allowed Average Tariff (“MAAT”) for BC drop trailer service. PwC’s report on price cap compliance indicated that BC Ferries was in compliance during PT3. PwC’s report on BC Ferries’ compliance with the MAAT was issued with Order 16-01 on September 6, 2016.

Commissioners publish report summarizing actions taken by B.C. Ferry Authority to meet its obligations under the Act – September 1, 2016

This report summarizes the actions taken by the Board of Directors of the B.C. Ferry Authority during FY 2017 to meet its statutory obligations under the Act.

Commissioners release Order 16-01 with determinations and reasons regarding pricing of BC Ferries’ drop trailer service – September 6, 2016

This Order eliminated the Minimum Average Allowable Tariff but requires BC Ferries to continue to price its drop trailer service above its direct costs and the appropriate proportion of its indirect costs as determined by the commissioners.

Commissioners release Order 16-02 approving a major capital expenditure for the Fare Flexibility and Digital Experience Initiative – September 21, 2016

This Order was in response to BC Ferries’ Supplemental Application filed on August 24, 2016 requesting approval of a revised maximum capital expenditure amount for the Fare Flexibility and Digital Experience Initiative. The approved maximum amount was set out in Confidential Order 16-02A. The approved maximum amount will be disclosed upon substantial achievement of all milestones identified in the project plan.

Commissioners restate price cap compliance index for quarter ended June 30, 2016 – September 30, 2016

The commissioners noted that despite the restatement of the price cap compliance index to correct a minor error in its calculation, BC Ferries continued to be in compliance with the restated price cap.

Commissioners release Orders 17-01 and 17-01A approving a major capital expenditure for two new minor class vessels – February 27, 2017

These Orders were in response to BC Ferries' application filed on January 3, 2017 requesting approval of a major capital expenditure for two new minor class vessels. These new vessels are to be deployed on Route 18 (Powell River-Texada Island) enabling the retirement of the North Island Princess and Route 25 (Port McNeill-Alert Bay-Sointula) replacing the Quadra Queen II which will be redeployed as a refit relief vessel in place of the Quinitsa. In turn the Quinitsa will be redeployed to Route 6 (Salt Spring Island (Vesuvius Bay)-Crofton) enabling the retirement of the Howe Sound Queen.

The maximum amount of the major capital expenditure was set at \$93.3 million including interest during construction and supplemental costs.

Commissioners release Order 17-02 regarding criteria for major capital expenditures – March 2, 2017

This Order revised the criteria for a major capital expenditure which requires the approval of the commissioner under Section 55(2) of the Act.

For purposes of Section 55(5) of the Act any capital expenditure for any new vessel or mid-life upgrade to a vessel is a major capital expenditure if the expenditure exceeds \$50 million inclusive of component programs and interest during construction. Any capital expenditure for new terminals, terminal upgrades, information technology systems or other non-vessel capital expenditures is a major capital expenditure if the expenditure exceeds \$25 million, inclusive of component programs and interest during construction.

This Order also requires BC Ferries to deliver a report to the commissioner within 15 days following board approval of any capital expenditure exceeding \$25 million, detailing the purpose of the expenditure and providing answers to the relevant questions set out in the Commissioner's Guidelines for Section 55 applications. This requirement is waived for any capital expenditure or major capital expenditure which will be the subject of an application under Section 55(1) or (2) of the Act.

BC Ferries files application seeking a declaration that a proposed procurement of a used vessel and modifications to terminals are reasonably required to provide mid-coast ferry service – March 8, 2017

In response to this application the commissioners released Order 17-03 on April 5, 2017 declaring that the proposed procurement of a used vessel and modifications to terminals, as outlined in BC Ferries' application, was reasonably required to provide mid-coast ferry service commencing in the summer of 2018.

BC Ferries and B.C. Ferry Authority Performance in FY 2017

During FY 2017 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 2017 which was submitted as required before July 31, 2017. The commissioners received satisfactory responses from BC Ferries to all follow-up queries and requests for additional information.

In summary the commissioners have determined that for FY 2017 BC Ferries performed as follows:

- complied with the allowable price cap increase of 1.9% for all routes combined;

BC Ferries announced in March 2017 that despite an approved price cap increase of 1.9% effective April 1, 2017, annual tariff increases were to be limited to 1.9% for vehicles only on the Major Routes excluding Route 3 (Horseshoe Bay-Langdale), and there were no increases in passenger or vehicle tariffs on Route 3 or the Minor and Northern Routes. Additionally, BC Ferries provided several fare reductions or promotions during FY 2017 and implemented reductions in reservation fees effective April 1, 2017.

- complied with the requirements of the Coastal Ferry Services Contract ("CFSC") regarding the delivery of core service levels on the 24 designated routes with the minor exception on Route 8 (Horseshoe Bay-Bowen Island) where on five separate days BC Ferries cancelled one core round trip due to the consolidation of end-of-shift sailings because of accumulated traffic delays;

BC Ferries delivered a total of 77,892 round trips or 1,768 more than the number of round trips required under the CFSC. Most of the additional round trips were delivered to accommodate peak traffic demand in the summer on the major routes (Tsawwassen-Swartz Bay; Horseshoe Bay-Departure Bay; Langdale-Horseshoe Bay and Duke Point-Tsawwassen); route 21 (Buckley Bay to Denman Island) and route 22 (Denman Island to Hornby Island). There were 130 round trips cancelled for weather or other reasons allowed under the CFSC.

- experienced a 2.9% increase in vehicle traffic and 1.7% increase in passenger traffic compared to the year ended March 31, 2016. Traffic levels in FY 2017 of 8.3 million vehicles and 21 million passengers were the highest BC Ferries has experienced since the year ended March 31, 2008;
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- delivered on-time performance of 89.5% system wide, down slightly from 90.8% in the previous year and fleet reliability of 99.69% of the scheduled sailings meaning only 0.3% of scheduled sailings were cancelled due to mechanical issues related to the vessels or terminals or crew availability;
- conducted the annual customer satisfaction survey as required under the CFSC indicating that in 2016, 88% of passengers reported to be satisfied overall with their experience travelling on BC Ferries compared to 87% in 2015. Although value for money of fares continue to be an area of opportunity, the rating has improved steadily every year since 2014; and
- took delivery of the Salish Orca in January 2017, the first of three new Salish Class vessels capable of running as dual-fuel on either LNG or ultra-low sulphur diesel. This new vessel entered service on Route 17 (Powell-River to Comox) in May 2017.

Based on our reviews and key findings, the commissioners are satisfied that during FY 2017, BC Ferries met its obligations under the *Coastal Ferry Act* and also its obligations under the Coastal Ferry Services Contract with the minor exception on Route 8 (Horseshoe Bay-Bowen Island) where on five separate days BC Ferries cancelled one core round trip due to the consolidation of end-of-shift sailings because of accumulated traffic delays.

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 2017.



Gord Macatee
BC Ferries Commissioner



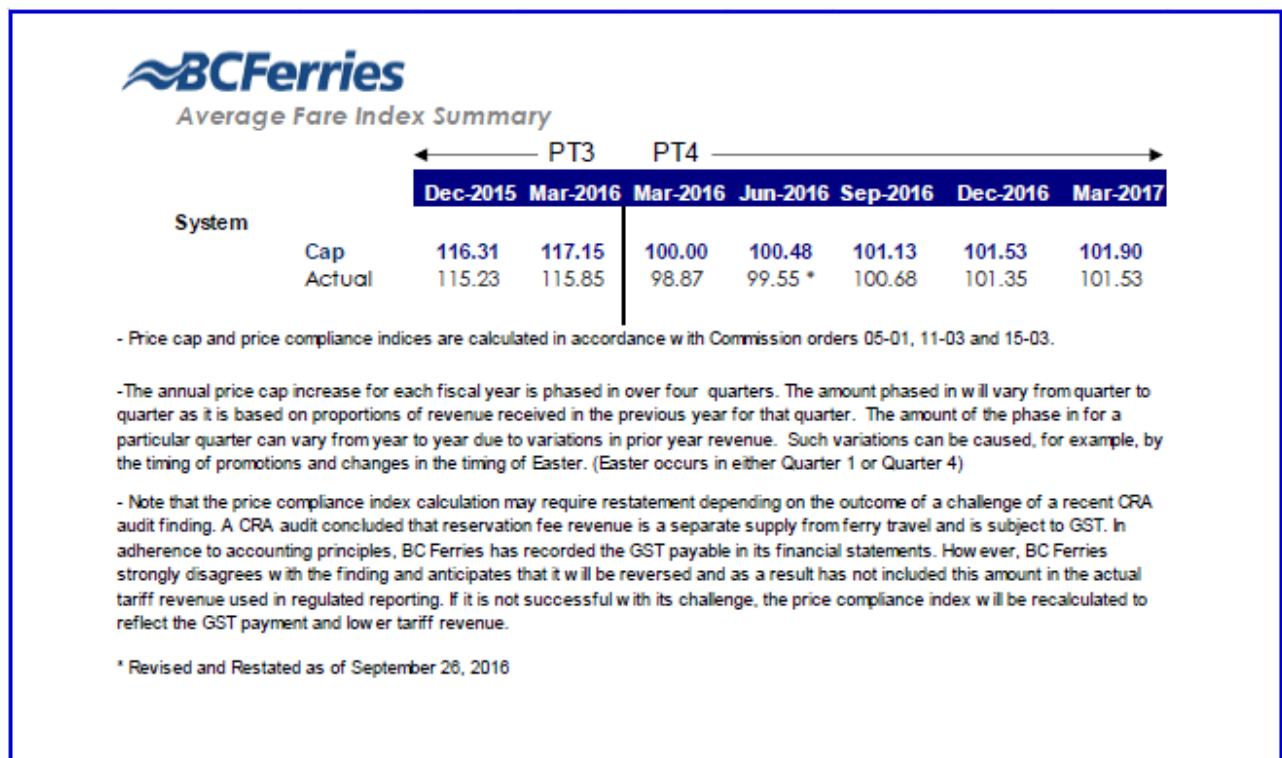
Sheldon Stoilen
Deputy BC Ferries Commissioner

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 fourth performance term on April 1, 2016).

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 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 in any quarter during FY 2017. Accordingly, the company was in compliance with the price cap during the year.



Activity Summary

Commissioners' Activities in FY 2017

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

- eliminated the Minimum Average Allowable Tariff for BC Ferries' drop trailer service but requires BC Ferries to price its service above its direct costs and the appropriate proportion of its indirect costs.
- approved a revised major capital expenditure for the Fare Flexibility and Digital Experience Initiative.
- approved a major capital expenditure for two new minor class vessels.
- revised the criteria for major capital expenditures which must be approved by the commissioner.

3. Enforcement and Performance Reviews

- released the results of performance reviews of BC Ferries' compliance with price cap and minimum allowed average tariff ("MAAT") for drop trailers during performance term three.

4. Administration and Reporting, Publication, Outreach

- maintained records; submitted Annual Report and Service Plan; published all applications, submissions and decisions and communicated with stakeholders.
- received and reviewed 33 submissions regarding BC Ferries' drop trailer services and 24 submissions regarding the proposed two new minor class vessels.

The commissioners' activities during FY 2017 are summarized in the table to the left. The core 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 2017 included a revision to the regulation of pricing BC Ferries' drop trailer service under Order 16-01. Major Capital Expenditures were approved for the Fare Flexibility and Digital Experience Initiative as well as for two new minor class vessels. Special decisions also include consideration of opportunities for possible alternative service providers but there was no cause for any activity in the area of possible alternative service providers during the year.

There was also no activity in FY 2017 for enforcement as BC Ferries was found to be compliant with its obligations under the *Coastal Ferry Act* and the Coastal Ferry Services Contract.

The commissioners released the results of performance reviews of BC Ferries' compliance with price caps and drop trailer minimum allowed average tariff ("MAAT") during performance term three ("PT3"). BC Ferries was found to be in compliance with both the price caps and the MAAT in PT3.

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.

Financial Statements

Accounting Services

The Ministry of Attorney General (formerly 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 of Attorney General.

Summary Financial Statement

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

	FY 2017		FY 2016
	Budget	Actual	Actual
Commissioners' Fees and Expenses	246	198	199
Professional Services	490	186	120
Other Expenses	101	28	7
	837	412	326

Budgeted Expenditures

The *Coastal Ferry Act* requires ferry operators to cover the expenses associated with the operation of the Office of the BC Ferries Commissioner. Under Section 59(2) of the Act the budget for the Office of the BC Ferries Commissioner must not exceed 1/5 of 1% of the ferry operator's previous year's tariff revenue. Total budgeted expenditures for FY 2017 were \$837,000 or 80% of the maximum budget allowable under the Act.

Actual Expenditures

Actual expenditures in FY 2017 were \$411,950, or 49% of the budget. Expenditures were for commissioners' fees and expenses, fees and expenses for consultants' professional services and other expenses. Actual expenditures were below budget due to fewer performance reviews and 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 \$91,162 in fees for his services and was reimbursed \$3,790 for travel and other expenses. The deputy commissioner received \$96,300 in fees for his services and was reimbursed \$6,972 for travel and other expenses.