



British Columbia Ferries Commissioner

Annual Report for the Fiscal Year Ending March 31, 2018

*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, 2018



To the Lieutenant Governor in Council

Victoria, BC
August 29, 2018

May It Please Your Honour:

**BC Ferries Commissioner Annual Report
For the Fiscal Year Ending March 31, 2018**

I am pleased to submit to you the Annual Report of the British Columbia Ferries Commissioner ("commissioner") for the fiscal year ended March 31, 2018.

As required by Section 53 of the *Coastal Ferry Act (the "Act")*, the Annual Report sets out briefly all applications and requests for decisions to the commissioner, all orders issued by the commissioner, the financial statements applicable to the office of the commissioner for fiscal year ended March 31, 2018 along with full disclosure of the expenses of, and associated with, the office of the commissioner.

The report also provides the commissioner's opinion that for the fiscal year ended March 31, 2018, the B.C. Ferry Authority and the ferry operator have performed their respective obligations under the *Act*, and that the ferry operator has performed its obligations under the Coastal Ferry Services Contract.

Yours truly,

Sheldon Stoilen
British Columbia Ferries Commissioner

CONTENTS

Introduction.....	2
Applications for Decisions, Orders and Performance Reviews in FY 2018	3
BC Ferries and B.C. Ferry Authority Performance in FY 2018	5
Price Cap Compliance.....	7
Activity Summary for FY 2018.....	8
Financial Statements.....	9

Introduction

The Office of the British Columbia Ferries Commissioner (“commissioner or commissioners”) 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 March 1, 2018. Sheldon Stoilen of Bowen Island, previously deputy commissioner, was appointed commissioner on March 1, 2018 for a six year term expiring on March 1, 2024.

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 fifteenth 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, 2018 (“FY 2018”). The report includes the commissioner’s 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 commissioner’s opinion regarding the performance of the B.C. Ferry Authority relative to its obligations under the Act.

Applications for Decisions, Orders and Performance Reviews in FY 2018

The following sets out briefly all applications for decisions to the commissioner under the Act and the orders issued by the commissioner during FY 2018. Also included are the reports of performance reviews conducted by the commissioner during FY 2018. Excluded are the quarterly compliance reports of BC Ferries which can be found on the commissioner’s website at www.bcferrycommission.ca.

Commissioners release Order 17-03 declaring procurement of used vessel for Route 28 is reasonably required – April 5, 2017

Pursuant to BC Ferries’ application dated March 8, 2017, Order 17-03 declared that the proposed capital expenditure for the procurement of a used vessel and the necessary modifications or upgrades to terminals provide mid-coast ferry service on Route 28 and Route 10 was reasonably required.

Commissioners publish BC Ferries’ update regarding the Baynes Sound Connector’s service reliability – September 5, 2017

In this update BC Ferries confirmed that during its initial time in service (February 9, 2016 to July 31, 2017) the new cable ferry had no weather-related sailing cancellations and its reliability from a mechanical perspective was 99%.

Commissioners publish report regarding the performance of the B.C. Ferry Authority during FY 2018 – September 5, 2017

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 performance review of BC Ferries annual customer satisfaction tracking survey – November 20, 2017

The commissioners engaged the firm of MNP LLP to review the methodology and resulting information from the annual survey. The review resulted in future considerations to improve the survey including developing a plan to ensure all routes are surveyed.

Commissioners release update on BC Ferries' comparative fare analysis – November 20, 2017

The commissioners engaged PricewaterhouseCoopers to update its fare analysis conducted in 2012. The analysis compared BC Ferries' fares on various routes benchmarked to comparable ferry operators. The updated analysis indicates that fares charged by BC Ferries do not appear to be excessive relative to other operators' comparable routes.

Commissioners release Order 18-01 regarding BC Ferries' annual customer satisfaction survey - February 7, 2018

As a follow up to the commissioners' performance review of BC Ferries' annual customer satisfaction surveys, this order requires BC Ferries to address a number of recommendations to improve the annual customer satisfaction survey. All routes must be surveyed by the end of 2019.

Commissioner acknowledges BC Ferries' intent to reset fuel deferral account balance for non-northern routes complies with Order 15-03A – March 23, 2017

In response to correspondence from BC Ferries dated March 19, 2018 the commissioner acknowledged that BC Ferries' intent to reset the fuel deferral account balance for the non-northern routes to zero on March 31, 2018 is not inconsistent with Order 15-03A which authorizes and governs the operation of fuel deferral accounts.

BC Ferries and B.C. Ferry Authority Performance in FY 2018

During FY 2018 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 Commissioner for FY 2018 which was submitted as required on July 31, 2018. 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 2018 BC Ferries performed as follows:

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

Despite an approved price cap increase of 1.9% effective April 1, 2017, annual tariff increases were 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 promotional fares offering discounts during FY 2018 on 3,300 sailings 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.
 - delivered a total of 79,082 round trips or 2,962 more than the number of round trips required under the CFSC. The additional round trips were delivered to accommodate traffic demand on the major routes (Tsawwassen-Swartz Bay; Horseshoe Bay-Departure Bay; Langdale-Horseshoe Bay and Duke Point-Tsawwassen); on route 9 (Tsawwassen-Southern Gulf Islands); on route 26 (Skidigate-Aliford Bay); and in the summer on route 21 (Buckley Bay to Denman Island) and route 22 (Denman Island to Hornby Island). There were 179.0 round trips cancelled for weather or other reasons allowed under the CFSC.
 - experienced a 5.0% increase in vehicle traffic and 4.7% increase in passenger traffic compared to the year ended March 31, 2017. Passenger traffic levels were the highest BC Ferries has experienced in 20 years and vehicle traffic levels were the highest the company has ever experienced;
 - delivered on-time performance of 89% system wide, down slightly from 89.5% in the previous year and fleet reliability increased slightly to 99.83% of the scheduled sailings.
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- conducted the annual customer satisfaction survey as required under the CFSC indicating that in 2017, 87% of passengers reported to be satisfied overall with their experience travelling on BC Ferries compared to 88% in 2016. Although value for money of fares continues to be an area of opportunity, the rating has improved steadily every year since 2014; and
- continued investments in fleet renewal with three new Salish Class vessels capable of running on LNG fuel entering service on the Comox to Powell River route and on the Tsawwassen-Southern Gulf Islands route. The first Spirit Class vessel commenced a mid-life upgrade in the fall of 2017 including conversion to LNG fuel and re-entered service on the Tsawwassen-Swartz Bay route in late spring 2018. In addition two new hybrid electric diesel Island Class vessels for the Northern Gulf Islands were ordered for delivery in 2020.

Based on his reviews and key findings, the commissioner is satisfied that during FY 2018, BC Ferries met its obligations under the *Coastal Ferry Act* and also 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 commissioner is satisfied that the B.C. Ferry Authority performed all of its obligations under the Act during FY 2018.



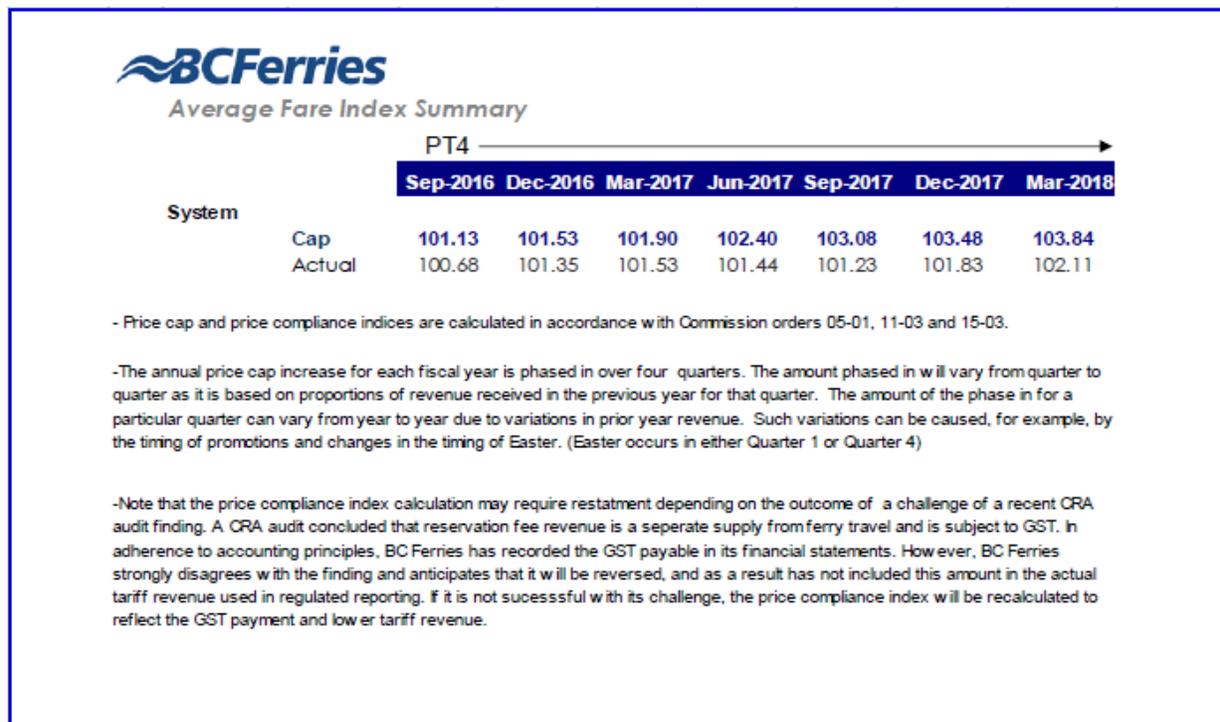
Sheldon Stoilen
British Columbia Ferries Commissioner

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 2018. Accordingly, the company was in compliance with the price cap during the year.



Activity Summary for FY 2018

Monitoring of Price Cap and Service Level Compliance

The core activities are regulating ferry fares through the price cap mechanism, monitoring compliance with service levels specified in the Coastal Ferry Services Contract (“CFSC”) and the approval of major capital expenditures.

Special Decisions

Special decisions in FY 2018 included a declaration that capital expenditures for a used vessel and necessary upgrades to terminals required for the new route 28 connecting Port Hardy and Bella Coola are reasonably required.

Enforcement and Performance Reviews

There was also no activity in FY 2018 for enforcement as BC Ferries was found to be compliant with its obligations under the *Coastal Ferry Act* and the CFSC.

The commissioners released the results of a performance review of BC Ferries’ annual customer satisfaction surveys. The review resulted in Order 18-01 requiring BC Ferries to address recommendations to improve measuring customer satisfaction including a requirement to survey all routes by the end of 2019.

Administration and Reporting, Publication, Outreach

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 commissioner and the decisions of the commissioner were posted on the commissioner’s website.

The commissioners provided background information regarding the office of the commissioner to Mr. Blair Redlin, Special Advisor to the Ministry of Transportation and Infrastructure, who is overseeing a review by the government of coastal ferry services.

Financial Statements

Accounting Services

The Ministry of Attorney General (formerly Ministry of Justice) provides accounting and payment services at no cost to the office of the commissioner. The summary financial statement is based upon information provided by the Ministry of Attorney General.

Summary Financial Statement

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

	FY 2018		FY 2017
	Budget	Actual	Actual
Commissioners' Fees and Expenses	254	196	198
Professional Services	395	201	186
Other Expenses	86	23	28
	735	420	412

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 2018 were \$735,000 or 66% of the maximum budget allowable under the Act.

Actual Expenditures

Actual expenditures in FY 2018 were \$420,000, or 57% 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 primarily due to fewer 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 \$89,775 in fees for his services and was reimbursed \$1,290 for travel and other expenses. The deputy commissioner received \$100,100 in fees for his services and was reimbursed \$5,074 for travel and other expenses.