

# British Columbia Ferry Commission



## Service Plan and Budget for the Fiscal Year Ending March 31, 2013

*Prepared and submitted in accordance with  
Section 59 of the Coastal Ferry Act  
of the Province of British Columbia*

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September 23, 2011

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September 23, 2011

Honourable Blair Lekstrom  
Minister of Transportation and Infrastructure  
Parliament Buildings  
PO Box 9047, Stn Prov Govt  
Victoria, BC  
V8W 9E2

Mr. David Hahn  
President and CEO  
British Columbia Ferry Services Inc.  
Suite 500 - 1321 Blanshard Street  
Victoria, BC  
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Dear Minister Lekstrom and Mr. Hahn:

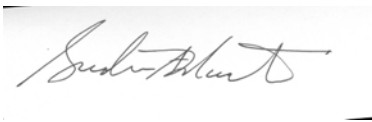
**BC Ferry Commission Service Plan and Budget  
For the Fiscal Year Ending March 31, 2013**

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

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

Yours truly,



Gord Macatee  
BC Ferries Commissioner

# **Service Plan and Budget**

## **for the Fiscal Year Ending March 31, 2013**

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# 1. Executive Summary

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

## *Service Plan for 2012/13*

This **Service Plan** for the coming fiscal year describes the expected activities of the Commission in order to meet its mandate of regulating ferry fares and service levels, making certain special decisions, and carrying out public outreach and administrative responsibilities. In addition, it describes the expected activities of a result of the one-year delay in finalizing the price caps for the next performance term which starts on April 1, 2012 and ends on March 31, 2016. Price caps for the first year of the next performance term have been legislated at 4.15% for all routes. The Commission expects to finalize price caps for the balance of the next performance term by September 30, 2012. The Service Plan and the Budget for 2012/13 does not include any new responsibilities that may result from the review of the Coastal Ferry Act currently being conducted by the Commission. Under Bill 14 recommendations are to be submitted by the Commission to the Minister of Transportation and Infrastructure by January 24, 2012.

## *Budget for 2012/13*

The Service Plan is used to estimate expenditures for the year (see Table 1). **Total expenditures for 2012/13 are budgeted at \$556,238.** This total is 80% of the maximum permitted for the Commission's expenditure budget as set out under the Coastal Ferry Act<sup>1</sup>.

The budget for 2012/13 reflects a high level of activity and costs due to the price cap review for the Third Performance Term which has been extended for one year to September 30, 2012 and the additional responsibilities of the Commission as a result of Bill 20. These additional responsibilities include the regulation of unfair competitive advantage,

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<sup>1</sup> The Act's section 59(2) limits the budget to one-twentieth of one percent per quarter (in a year such as 2012/13 with activity on price cap review under section 40 of the Act) of BC Ferries' gross tariff revenue for the last fiscal year. This figure for 2010/11 was \$458 million.

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initiating Alternative Service Delivery processes, monitoring BC Ferries' customer complaint process and considering the interests of ferry users when regulating ferry operators.

The increase in activity is reflected in the first budget category, Regulation of Ferry Fares. The second budget category (Regulation of Ferry Service Levels) reflects the Commission's ongoing review of quarterly and annual operational reports of BC Ferries. This category also includes a provision for monitoring BC Ferries' customer complaint process and compliance thereto. The third category (Special Decisions) deals with BC Ferries' plan to deploy capital in vessels and terminals during the third performance term, applications for temporary service reductions and the initiating and monitoring of any Alternative Service Delivery process. This category would also include any regulation of unfair competitive advantage. The fourth category (Enforcement), in expectation of compliance by BC Ferries, receives only a small allocation of the budget.

The fifth and sixth budget categories (Publication and Outreach, and Administration and Reporting) reflect the estimated volume of correspondence with the public and the effort required to maintain the Commission's website as the main vehicle of publication. The budget for Publication and Outreach reflects the responsibility of considering the interests of ferry users and conducting frequent public consultation meetings.

<b>Table 1: Expenditure Budget</b> for Fiscal Year Ending March 31, 2013	
Fare Regulation and Monitoring	\$247,000
Service Regulation and Monitoring	11,500
Special Decisions	98,500
Enforcement	4,500
Publication and Outreach	81,000
Administration and Reporting	87,250
Contingency @ 5%	26,488
<b>Total Expenditure</b>	<b>\$556,238</b>

## 2. Role of the Commission

### Policy Principles for the BC Ferry Commission

Coastal Ferry Act, section 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.

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

BC Ferries was created in April 2003 from the former BC Ferry Corporation, which was a taxpayer-supported Crown corporation. It is now 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 of British Columbia, BC Ferries must operate its system to comply with defined minimum "core" service levels on each of the 25 saltwater routes. On three of them, called "major" routes and regarded as financially self-sufficient, it receives no subsidy. On the other 22, the government pays BC Ferries a "ferry transportation fee" per round-trip sailing.

BC Ferries currently holds a virtual monopoly position in most of the transportation markets it serves. Given the lack of effective competition, a major role of the Commission is to set a ceiling or "price cap" on the 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 divided into four geographic groups. Each group is to have its own price cap, which is a weighted average of the individual fares within the group. The level is reset after every fourth year. Each four-year<sup>2</sup> period is termed a "performance period."

Another key task is to monitor the adherence of BC Ferries to the terms of its contract. It is worth noting that the Commission serves as neither ombudsman nor complaints bureau. Further, it is not responsible for regulating safety or environmental aspects of ferry operations.

Bill 20, amending the Coastal Ferry Act, received Royal Assent on June 3, 2010. Under these amendments, the Commission is now responsible for regulating unfair competitive advantage, initiating searches for Alternative Service Providers, monitoring the customer complaints process and considering the interests of ferry users in the regulation of ferry operators.

<sup>2</sup> Except for the first performance period, which was five years and ended on March 31, 2008.

### 3. Service Plan

This section summarizes the Commission's planned activities with an estimate of time and budget allocated to each activity.

This is the basis for budgeting the Commission's costs in Section 4, which produces the expenditure budget.

Activity Number	Coastal Ferry Act Section	Activity Description	Level and Timing of Activity Anticipated in 2012/13
<b>1.0</b>		<b>Regulation of Ferry Fares</b>	
1.1	40,41	Establishment of price caps for next performance term	
		Under Bill 14, the preliminary price caps for the next performance term have been set at 4.15% for all route groups in the first year (FY 2013) and 4.15 and 8.2% for the major and all other routes, respectively, for each of the remaining years of the next performance term (FY 2014-2016) pending the results of the commissioner's review of the Coastal Ferry Act. The commissioner will publish a final decision on the price caps for the final three years by September 30, 2012.	The Commission has budgeted for 100 days plus \$100,000 in consultants fees to cover the finalization of price caps for the next performance term.
1.2	38,65	Review BCF quarterly reports on price cap compliance	
		The Commission specifies content required in BC Ferries' quarterly reports respecting fare levels for each route group. The Commission determines 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 will monitor the functioning of this 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.	One review per quarter, requiring two days of Commission time per quarter.  In addition the Commission has budgeted for validation in April 2012 of the methodology for calculating weighted average fares and the reporting of the minimum average tariff on drop trailers.
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.	None are expected.

1.4	45	Impact on price cap of service reductions or discontinuance	
		The Commission will review service reductions or discontinuance of routes for impact on price cap and make appropriate adjustments in price cap.	Applications for route discontinuance are allowed from October 2006 under the Coastal Ferry Services Contract between BC Ferries and the Province of British Columbia. Applications for service reduction may occur at any time, but none are expected in 2012/13.
<b>2.0</b>	<b>Regulation of Ferry Service Levels</b>		
2.1	38,65	Review BCF quarterly reports on service levels and customer complaints	
		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.	One review per quarter, requiring two Commission days per review.
2.2	38,66	Review BCF annual reports on service level	
		The Commission will specify the format of, and review annual reports of BC Ferries to the Commission to determine if it is meeting the service requirements under the Coastal Ferry Contract as amended. It will also review BC Ferries' summary of customer complaints and the annual customer satisfaction survey, which BC Ferries must provide to the Commission under the terms of the Coastal Ferry Services Contract.	One review of BC Ferries annual report for 2012/13 requiring two Commission days supported by \$4,000 in consultants' time.
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).	None are expected.
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. After October 2006, route discontinuance applications may be made (the determination process takes nine months).	Route discontinuance is allowed from October 2006, but no activity is expected.
<b>3.0</b>	<b>Special Decisions</b>		
3.1	55,	On BCF 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 BC Ferries analysis.	Regarding capital deployment two determinations may be required in 2012/13 for a total of 20 Commission days and \$30,000 in consultants' fees. This relates to the possible replacement of the <i>Queen of Nanaimo</i> and <i>Queen of Burnaby</i> during the next performance term.



3.2	38(4)	Deregulate a ferry route if competition sufficient	
		Make a determination of removing the designation for a route upon which sufficient competition exists so that regulation of that route is no longer necessary.	No activity expected.
3.3	69	Additional or Alternative Service Providers	
		Identify opportunities to improve efficiencies of BC Ferries and if warranted order BC Ferries to seek additional or alternative service providers and approve BC Ferries' plan setting out its process pursuant to such order and monitor the execution of the plan.	Twenty Commission days and \$10,000 in consulting fees are budgeted for ASP activity.
3.3	45.1	Regulation of unfair competitive advantage	
		Review and make determinations on any potential unfair competitive advantage situations.	Ten Commission days and \$15,000 in consulting/legal fees are budgeted for regulation of unfair competitive advantage.
<b>4.0</b>	<b>Enforcement</b>		
4.1	38(2)	Monitor BCF reporting to public	
		The Commissioner will observe how BC Ferries reports its own performance respecting pricing its fares under the price cap, and respecting its service levels actually delivered versus the contracted service levels.	Quarterly observation by the Commission to be covered in an annual report to the Lt. Governor in Council (see 6.4 below). One Commission day per quarter is required.
4.2	46,53	Inspect BC Ferries' and BC Ferry Authority records as required	
		Order inspections of the records of the ferry operator as necessary.	Two Commission days planned in regard to determining if ferry operators and the BC Ferry Authority have performed their respective obligations under the Act.
4.3	48	Issue orders to BC Ferries re: non-compliance with the law as required	
		Issue orders for non-compliance with the legislation as necessary.	No activity expected.
<b>5.0</b>	<b>Publication and Outreach</b>		
5.1	52	Maintain Commission records, provide public access	
		Files will be maintained accessible to the public under the Freedom of Information and Protection of Privacy Act. Response to public enquiries will be made by telephone, postal mail, or e-mail. A website will be maintained and regularly updated as needed.	Budget is 50 days of Commission time supported by \$10,000 in consulting time for 2012/13.

5.2	52	Publish decisions/determinations/orders/proceedings	
		The Commission will publish every decision, determination and order in a manner that the Commission believes will bring it to the attention of the public. All such items will be published on the Commission's website, at a minimum.	Three to five official publications expected. The manner of publication will depend on the Commissioner's judgment of the groups having most interest in the content. Website maintenance is budgeted at 10 days plus \$5,000 for consultants.
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.	Commissioner or Deputy Commissioner attending one industry conference per year; two media pieces per year written by Commissioner; and two public meetings per quarter are budgeted.
<b>6.0</b>	<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, and website) and equipment 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.	No rental costs expected in the year due to virtual office operation. Accounting and payment system is provided by the Office of the Attorney General at no charge to the Commission. A budget of \$40,000 is made for obtaining independent legal or accounting advice as required.
6.2	n/a	Familiarization and background research	
		This activity reflects the commissioners' familiarization of the ferry system and industry. Commissioners will continue to travel all ferry routes on a rotational basis and attend one international ferry conference.  Research investigations as initiated by the Commission.	Nine days of Commission time is allotted for this activity in 2012/13.  One special research investigation by consultants is budgeted at \$10,000 in fees.
6.3	59	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.	Preparation time for the annual Service Plan and Budget will be needed in quarter two of each fiscal year. Two days allotted for the Service Plan and Budget.

6.4	53	Report annually to Lieutenant-Governor in Council	
		<p>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, setting out briefly:</p> <ol style="list-style-type: none"> <li>1. all applications and requests for decisions to the commissioner under the Act,</li> <li>2. all orders issued by the commissioner,</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</li> <li>4. other information the Lieutenant-Governor in Council directs.</li> </ol>	<p>One report annually within four months of the end of the fiscal year requiring three days' work of the Commission.</p>

## 4. Budget

The following page provides a detailed expenditure budget for 2012/13.

For each activity, estimates are made for the fees of the Commissioner(s), staff and consultants, travel and other expenses (e.g. equipment, support services and supplies).

**Expenditure Budget for FY2012/13**

Coastal Ferry Act Section	Activity Number	Activity and Expected Level	Commissioners		Consultants	Expenses		TOTAL
			Days	Fees*	Fees	Travel	Other	
			<b>1.0 Special Decisions</b>					
	1.0	<b>Special Decisions</b>						
39	1.1	Monitor how weighted average fare is calculated Guide and validate adjustments to Average Price Model	32	\$ 24,000	\$ 20,000	\$ 2,000	\$ -	\$ 46,000
38, 65	1.2	Review BCF quarterly reports on price level One review per quarter	8	\$ 6,000	\$ -	\$ -	\$ -	\$ 6,000
42	1.3	Handle any BCF applications for extraordinary price increases None are expected						
45	1.4	Adjust price cap for any service cuts/abandonments None are expected	0	\$ -	\$ -	\$ -	\$ -	\$ -
40,41	1.5	Conduct price cap review for next performance term Finalize price cap ruling April -September 2012	100	\$ 75,000	\$ 100,000	\$ 10,000	\$10,000	\$ 195,000
		<b>SUBTOTAL - REGULATION OF FERRY FARES</b>	140	\$105,000	\$ 120,000	\$ 12,000	\$10,000	\$ 247,000
<b>2.0 Regulation of Ferry Service Levels</b>								
38,65, 45(2)	2.1	Review BCF quarterly reports on service levels and complaints One review per quarter	8	\$ 6,000	\$ -	\$ -	\$ -	\$ 6,000
38, 66	2.2	Review BCF annual report on service levels and complaints One review of BCFS annual report in June following	2	\$ 1,500	\$ 4,000	\$ -	\$ -	\$ 5,500
43	2.3	Handle any BCFS application for service reductions None are expected	0	\$ -	\$ -	\$ -	\$ -	\$ -
44	2.4	Handle any BCF applications for route discontinuance, possibly hold hearing None are expected	0	\$ -	\$ -	\$ -	\$ -	\$ -
		<b>SUBTOTAL - REGULATION OF FERRY SERVICE LEVELS</b>	10	\$ 7,500	\$ 4,000	\$ -	\$ -	\$ 11,500
<b>3.0 Special Decisions</b>								
55	3.1	On BCF request, decide if a proposed capital deployment is reasonable Two determinations are assumed	20	\$ 15,000	\$ 30,000	\$ 5,000	\$ -	\$ 50,000
38(4)	3.2	Deregulate a ferry route if competition sufficient None are expected	0	\$ -			\$ -	\$ -
69	3.3	Alternate Service Providers Initiate an ASP process and monitor implementation	20	\$ 15,000	\$ 10,000	\$ 1,000	\$ -	\$ 26,000
45(1)		Review potential unfair competitive advantage One determination is assumed	10	\$ 7,500	\$ 15,000			\$ 22,500
		<b>SUBTOTAL - SPECIAL DECISIONS</b>		\$ 37,500	\$ 55,000	\$ 6,000	\$ -	\$ 98,500
<b>4.0 Enforcement</b>								
38(2)	4.1	Monitor BCF reporting to public Quarterly observation	4	\$ 3,000	\$ -	\$ -	\$ -	\$ 3,000
46,53	4.2	Inspect records of BCF and BCF Authority as required Review annual report of BC Ferry Authority	2	\$ 1,500	\$ -	\$ -	\$ -	\$ 1,500
48	4.3	Issue orders to BCF re: non-compliance with the law as required No activity expected to be necessary	0	\$ -	\$ -	\$ -	\$ -	\$ -
		<b>SUBTOTAL - ENFORCEMENT</b>	6	\$ 4,500	\$ -	\$ -	\$ -	\$ 4,500
<b>5.0 Publication and Outreach</b>								
52	5.1	Maintain Commission records, provide public access Recording, monitoring, & replying to public enquiries/feedback	50	\$ 37,500	\$ 10,000	\$ -	\$ -	\$ 47,500
52	5.2	Publish decisions/determinations/orders/proceedings Website maintenance	10	\$ 7,500	\$ 5,000	\$ -	\$ -	\$ 12,500
NA	5.3	Communicate with public and stakeholders Commissioner speaking engagements Two media pieces per year written by Commissioner Two public consultation meetings per quarter	2 2 16	\$ 1,500 \$ 1,500 \$ 12,000	\$ - \$ - \$ -	\$ 1,000 \$ - \$ 4,000	\$ 1,000 \$ - \$ -	\$ 3,500 \$ 1,500 \$ 16,000
		<b>SUBTOTAL - PUBLICATION AND OUTREACH</b>	80	\$ 60,000	\$ 15,000	\$ 5,000	\$ 1,000	\$ 81,000
<b>6.0 Administration and Reporting</b>								
36	6.1	Operate office and engage external support services Office equipping and updating software Rent: none expected (virtual office) Office ops (secretarial, phone, courier, post, internet, website) Office equipment dedicated to Commission use Accounting, audit, archiving, and legal advice as required	1 3 0 4	\$ 750 \$ 2,250 \$ - \$ 3,000	\$ - \$ 2,000 \$ - \$ 40,000	\$ - \$ - \$ 1,000 \$ 1,000	\$ 3,000 \$ - \$ 1,000 \$ -	\$ 3,750 \$ - \$ 5,250 \$ 1,000 \$ 44,000
NA	6.2	Research background to ferry operating environment Commissioners' ferry industry familiarization Research and investigations initiated by Commission	5 4	\$ 3,750 \$ 3,000	\$ - \$ 10,000	\$ 10,000 \$ 2,000	\$ - \$ -	\$ 13,750 \$ 15,000
59	6.3	Prepare Commission's annual budget Preparation time for next year's annual service plan and budget	2	\$ 1,500	\$ -	\$ -	\$ -	\$ 1,500
53	6.4	Report annually to Lt-Gov-in-Council One annual report on last year's activities	4	\$ 3,000	\$ -	\$ -	\$ -	\$ 3,000
		<b>SUBTOTAL - ADMINISTRATION AND REPORTING</b>	23	\$ 17,250	\$ 52,000	\$ 13,000	\$ 5,000	\$ 87,250
		<b>GRAND TOTAL - ALL ACTIVITIES</b>	#REF!	\$231,750	\$ 246,000	\$ 36,000	\$16,000	\$ 529,750

\*Commissioner's daily fee is set by Order In Council at \$ 825  
Deputy Commissioner's daily fee is set by Order in Council at \$ 600

CONTINGENCY: 5%  
TOTAL including contingency \$ 556,238