



BRITISH COLUMBIA
FERRY COMMISSION

ORDER NUMBER: 15-02

P.O. Box 9279, Victoria, B.C. V8W3S2
Telephone (250) 952-0112

<http://www.bcferrycommission.ca>
info@bcferrycommission.ca

IN THE MATTER OF

The Preliminary Decision on Price Caps
for the Fourth Performance Term
Pursuant to Section 40 and 41
of the *Coastal Ferry Act*

BEFORE: Gordon Macatee, BC Ferries Commissioner
Sheldon Stoilen, BC Ferries Deputy Commissioner

PRELIMINARY DECISION

WHEREAS:

- A. The *Coastal Ferry Act* (the "Act") requires the commissioners to make a preliminary decision by March 31, 2015 regarding the price caps for the next performance term ("PT4"), which starts on April 1, 2016 and ends on March 31, 2020;
- B. Pursuant to subsection 40(1), the ferry operator, British Columbia Ferry Services Inc. ("BC Ferries"), has provided information satisfactory to the commissioners respecting designated ferry routes that are included in a route group for which a price cap is to be set and the commissioners have published this material on their website;
- C. Also pursuant to subsection 40(1.1), BC Ferries has provided the commissioners with a long term capital plan and an efficiency plan which the commissioners have published on their website;
- D. In accordance with subsection 40(2) of the Act, the commissioners invited and reviewed public comments received on the information referred to in paragraphs B and C above as well as on other information including regulatory reports required to be submitted to the commissioners;
- E. The commissioners retained external advisors to assist in the review of BC Ferries' submissions referred to in paragraphs B and C above as well as supplemental information;

- F. In accordance with subsection 41(2) of the Act, the commissioners have been guided by the following principles in setting the price caps:
- (a) the price cap must allow for a return sufficient to enable the ferry operator to recover
 - (i) the portion of operating expenses, including all financing charges, that can reasonably be applied to the route group,
 - (ii) the portion of administrative expenses that can reasonably be applied to the route group, and
 - (iii) the reasonable capital costs that are to be incurred in relation to the route group, and amortized in accordance with generally accepted accounting principles on a straight line basis;
 - (b) the price cap, when combined with all other price caps applicable to all route groups serviced by the ferry operator, must allow for a return sufficient to enable the ferry operator to
 - (i) meet its debt obligations, and
 - (ii) maintain access to borrowing rates that, in the opinion of the commissioners, are reasonable in all of the circumstances;
- G. BC Ferries and the Province have agreed to continue with the amalgamation of all route groups into one route group for purposes of price cap regulation;
- H. The Province has indicated that it will maintain service fees throughout PT4 at the level of service fees for the fiscal year ending March 31, 2016. Any change will be reflected in the commissioners' final price cap decision due on or before September 30, 2015;
- I. The commissioners have examined the capital expenditures that BC Ferries expects to undertake in the third performance term, and, being satisfied that they are reasonable, has taken them into account in setting price caps for the fourth performance term;
- J. The price caps must take into account a productivity gain;
- K. The Act allows the commissioners to require the ferry operator to establish fuel deferral accounts and establish terms and conditions for their use;
- L. The commissioners have determined a "set" price per litre for fuel as a reasonable forecast of the price that BC Ferries will pay for fuel in the fourth performance term;
- M. The commissioners are publishing this Order together with a report on their findings and determinations and are inviting comments from the public through to June 30, 2015.

NOW THEREFORE the commissioners' preliminary decision is as follows:

1. The price caps applicable to the amalgamated route group are increased by 1.9% annually from April 1, 2016 to the end of the next performance term at March 31, 2020.
2. BC Ferries is required to maintain the existing fuel deferral accounts under terms and conditions established by separate Order.
3. The set price per litre for the operation of fuel deferral accounts, being a required input into the calculation of fuel surcharges or rebates on the base fares to be charged within the above price caps, shall be 91.5 cents per litre for marine diesel and 46.4 cents per litre for LNG in the first year of PT4 and inflated by 2% per year for the balance of PT4.

DATED at Victoria, in the Province of British Columbia, this 18th day of March 2015.

BY ORDER



Gordon Macatee
BC Ferries Commissioner



Sheldon Stoilen
BC Ferries Deputy Commissioner