

Review of Coastal Ferry Act

Commissioner's Discussion Paper #5

The BC Ferry Commission (“the commissioner”) has been mandated under Bill 14 to conduct a review of the Coastal Ferry Act and to make recommendations to the Minister of Transportation and Infrastructure on potential changes which would better enable the commissioner to balance the financial sustainability of the ferry operator and the interests of users. The commissioner is conducting public consultation meetings in coastal communities served by BC Ferries and is inviting additional input via written submissions or comments on a number of key issues.

This is the fifth of a series of discussion papers to be published on key issues to be considered by the commissioner during his review. Previous discussion papers have separately dealt with interests of ferry users, financial sustainability objectives and the balance between the two. This paper deals with price regulation issues as they apply to the BC ferry system.

In the past few decades, new approaches toward price regulation have arisen to provide an effective discipline on firms with monopoly power, but at a lower regulatory cost, and in a form which preserves incentives for firms to be cost efficient. The most widely known, and now widely adopted regulatory type is price cap regulation.

The price cap system allows a firm to increase prices whenever there is inflation or an increase in costs (including capital costs). Prices can be increased up to the cap. The price cap is determined by the commissioner using several regulatory building blocks that allow for a prescribed rate of return to be earned on the regulated asset base. In some price cap systems, the cap is set at inflation, less a provision for efficiency gains expected to be achieved by the firm.

The price cap with BC Ferries applies to fares only. BC Ferries has greater flexibility to set prices for ancillary revenues such as food and beverages and concession sales without the need for regulatory approval.

Price caps have typically been set for periods of time such as four to six years. Once every performance term, the regulatory body does an audit or review. It then sets a new price cap for the next performance term and the company is subject to regulatory oversight and compliance proceedings during the next performance term.

This regulatory method is low cost for both the firm being regulated as well as the government regulator. It is the essence of the ‘regulatory light’ approach. It provides a higher degree of flexibility for a price-regulated firm. It also provides incentives for innovation and efficiency. The price cap process allows for price increases above inflation to cover costs associated with new capital investments. This has been one of the main drivers of increases in fares during the first two performance terms, as BC Ferries has purchased a number of new vessels and upgraded a number of terminals.

The commissioner is interested in obtaining public feedback on the following question:

- What improvements are possible within the existing price cap system?

Comments can be submitted by email to info@bcferrycommission.com or by mail to BC Ferry Commission, RPO Box Hillside, Box 35119, Victoria BC, V8T 5G2.