



BRITISH COLUMBIA
FERRY COMMISSION
ORDER NUMBER: 15-01

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IN THE MATTER OF

A Major Capital Expenditure for
The Fare Flexibility and Digital Experience Initiative
Proposed by British Columbia Ferry Services Inc.
Pursuant to Section 55 (2) of the *Coastal Ferry Act*

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

ORDER

WHEREAS:

- A. On December 2, 2014, British Columbia Ferry Services Inc. (“BC Ferries”) submitted an application (the “Application”) under section 55(2) of the *Coastal Ferry Act* (the “Act”) seeking the commissioner’s approval of the proposed major capital expenditures for the Fare Flexibility and Digital Experience Initiative (the “Initiative”);
- B. BC Ferries states in the Application that it “proposes to implement two key business strategies that will increase customer satisfaction while generating financial benefits, and in the process, reduce pressure on future fare increases. These two business strategies, the Fare Flexibility and Revenue Management Strategy and the Digital Experience Strategy, will together modernize the way BC Ferries sets pricing, sells travel, and manages capacity utilization of sailings. BC Ferries expects these strategies will drive significant increases in traffic, online/self-serve transaction volumes and revenues, while improving the overall customer experience”;

C. BC Ferries further states in its application that the Initiative “will deliver the information technology elements required for successful deployment of BC Ferries’ Fare Flexibility and Revenue Management Strategy and the system-wide modernization of the Company’s information technology platforms to support the Digital Experience Strategy”;

D. Section 55 of the Act governs the commissioner’s consideration of capital deployment and major capital expenditures of ferry operators as follows:

(1) Subject to subsections (2) to (5), before deploying capital assets on, or incurring capital expenditures in connection with, a designated ferry route or terminal, the ferry operator may apply to the commissioner and the commissioner must, within one month after the application, declare whether the capital assets proposed to be deployed on, or the capital expenditures proposed to be incurred in connection with, the designated ferry route or terminal are reasonably required;

(2) A ferry operator must not incur a major capital expenditure without first obtaining the commissioner's approval of the expenditure;

(3) A ferry operator may apply to the commissioner for approval of a proposed major capital expenditure and the commissioner must respond to the application within 2 months after its receipt by the commissioner;

(4) The commissioner may approve a proposed major capital expenditure if the proposed major capital expenditure is:

(a) reasonable,

(b) prudent, and

(c) consistent with:

(i) the current Coastal Ferry Services Contract, and

(ii) any long term capital plan established by the ferry operator;

(5) For the purposes of this section, a capital expenditure of a ferry operator is a major capital expenditure if it meets the criteria:

(a) established from time to time by the commissioner, and

(b) most recently provided by the commissioner to the ferry operator.

- E. Pursuant to section 55(5) of the Act, the commissioner established the criteria of a major capital expenditure by issuing Order 12-04 dated September 30, 2012 which defines a major capital expenditure as any capital expenditure which exceeds \$30 million, inclusive of component programs and interest during construction, and irrespective of the level of expenditure, any new vessel or terminal and any vessel life extension which extends the life of the vessel more than five years. In addition, upgrades to information technology (IT) systems in excess of \$5 million which support ticketing and reservations, are considered a major capital expenditure;
- F. Upon receipt of the Application, the commissioner issued a public notice on his website and in relevant print media inviting comments or submissions regarding BC Ferries' proposed major capital expenditures for the Initiative;
- G. The commissioner and the deputy commissioner (the "commissioners") have reviewed and considered the Application, together with the report prepared for the commissioners by a qualified independent consultant and the comments received from the public;
- H. With reasons to follow the commissioners have determined that, subject to certain conditions specified in this order, the major capital expenditure for the Initiative is:
 - (a) reasonable,
 - (b) prudent, and
 - (c) consistent with:
 - (i) the current Coastal Ferry Services Contract, and
 - (ii) any long term capital plan established by the ferry operator;

NOW THEREFORE pursuant to Section 55 of the *Coastal Ferry Act* the commissioners order as follows:

- 1. The proposed major capital expenditure for the Fare Flexibility and Digital Experience Initiative, as generally described in the Application, is approved subject to the following conditions:

- a) The maximum amount of the major capital expenditure for the Initiative is set at the total amount as stated in the Application which will be confirmed by a separate confidential order to BC Ferries. The maximum amount will remain confidential until substantial achievement of all milestones identified in the project plan for the Initiative;
- b) All future life cycle capital costs for the Initiative which enable continued functionality of the Initiative or sustainment of the benefits from the Initiative will be subject to the commissioners' further approval;
- c) BC Ferries may commence the procurement process for the Initiative, but must not enter into a binding agreement until it satisfies the commissioners that issues identified in the performance review of the parallel Automated Customer Experience ("ACE") program, as they relate to the Initiative, have been addressed and that an appropriate, integrated IT program management process is in place;
- d) If BC Ferries is authorized to proceed with implementation of the Initiative pursuant to subparagraph (c) above, it may do so only on the routes 1, 2, 3, 30, 9, 10, 11 and 17 (the "Reservable Routes"). If BC Ferries decides at some future date that it wishes to proceed with implementation of the Initiative beyond the Reservable Routes, it must satisfy the commissioners that a comprehensive public information and consultation process has been undertaken and that the concerns of ferry users on the relevant routes have been considered.

DATED at Victoria, in the Province of British Columbia, this 2nd day of February 2015.

BY ORDER



Gordon Macatee
BC Ferries Commissioner



Sheldon Stoilen
BC Ferries Deputy Commissioner