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## NEWS RELEASE

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Office of the BC Ferries Commissioner

### **BC Ferries Commissioner Makes Preliminary Price Cap Decision**

VICTORIA — The BC Ferries Commissioner today announced his preliminary decision on price caps for the next performance term which would allow average ferry fares to increase by a maximum of 2.3% annually beginning April 1, 2020 and ending March 31, 2024.

The proposed price cap increases anticipate that total operating expenses — including those that BC Ferries has no control over — will increase at or slightly above the rate of inflation, while the trend of increased traffic will level off.

The commissioner has until September to finalize the decision. In the meantime, the public have an opportunity to comment on the preliminary decision, and the BC Government and BC Ferries have an opportunity to review the Coastal Ferry Services Contract and possibly make changes that could affect the final decision.

Detailed reasons for the preliminary price cap increase are set out on the *Report on the Preliminary Price Cap Decision for the Fifth Performance Term*. The report, available online, also includes a review of the BC Ferries' current performance. Highlights include:

- In fiscal 2018 BC Ferries delivered 79,082 round trips, exceeding the required trips under the Coastal Ferry Services Contract by 2,962.
- BC Ferries implemented average fare increases that were lower than the 1.9% they were allowed for performance term four.
- Vehicle and passenger traffic increased in fiscal 2017 by 2.9% and 1.7% respectively, breaking the previous 2008 record. The trend continued through 2018 and is expected to climb further in 2019 and 2020.
- Fuel costs, the second highest operating cost for the service and projected to be \$108.7 million in fiscal 2019, have been effectively managed and are expected to decline primarily due to higher usage of LNG fuel.
- Long-term capital plans will have a moderate impact on performance term five price caps but could have a larger impact for following terms.
- Increases in non-controllable costs in performance term five include: \$19.8 million for the provincial carbon tax, \$6.1 million for the new provincial health tax, and \$19.4 for Canada Pension Plan rates.

Along with its preliminary decision on price caps, the BC Ferries Commissioner is urging BC Ferries to develop a plan for the conversion to all-electric ferries as soon as infrastructure and technology is available, consider possible reductions in its long-term capital plan to ease pressure on future price caps, and develop a tracking process and reporting requirement to meet targets for reducing operating, maintenance costs and administration costs.

The deadline for public comments on the preliminary price cap decision and report by June 30, 2019. Comments can be sent to: [info@bcferrycommission.ca](mailto:info@bcferrycommission.ca) or by mail to Office of the BC Ferry Commissioner, P.O. Box 9279, Victoria, British Columbia V8W 9J7.

**Quote:**

**Sheldon Stoilen, BC Ferries Commissioner —**

“BC Ferries have fully cooperated in providing the commissioner with the information he needs to make a preliminary price cap decision. I am pleased to see the price caps tracking close to the Consumer Price Index for British Columbia.

“The major challenges to operating a world-class system that is affordable to the riding public and taxpayers can be expected to persist and even deepen. The commissioner will applaud any effort by BC Ferries and the Province to address the Redlin report recommendation for a jointly developed vision to address them.”

**Quick Facts:**

- A price cap is a form of regulation to set on the total amount of revenue that can be earned from ferry fares.
- Under provincial legislation the Office of the BC Ferries Commissioner (BCFC) serves an oversight and regulatory role over BC Ferries’ operations including setting price caps on the maximum allowable increase in the average fare levels that BC Ferries is permitted to charge its customers and the approval of major capital expenditures.
- The last price cap decision by the BC Ferries Commissioner was September 2015 when it was set at 1.9% annually for the current performance term.

**Learn More:**

To learn more about the BC Ferries Commissioner’s *Report on the Preliminary Price Cap Decision for the Fifth Performance Term*, visit:

[www.bcferrycommission.ca/PT5-Preliminary-Price-Cap-Report.pdf](http://www.bcferrycommission.ca/PT5-Preliminary-Price-Cap-Report.pdf)

PricewaterhouseCoopers LLP Assessment of BC Ferries’ PT5 Submission

[www.Assessment-of-BC-Ferries-PT5-Submission-March-2019.pdf](http://www.Assessment-of-BC-Ferries-PT5-Submission-March-2019.pdf)

PricewaterhouseCoopers LLP Price Cap Compliance Performance Review

[www.Price-Cap-Compliance-Performance-Review-March-2019.pdf](http://www.Price-Cap-Compliance-Performance-Review-March-2019.pdf)

PricewaterhouseCoopers LLP Drop Trailer Compliance Review

[www.Drop-Trailer-Compliance-Review-March-2019.pdf](http://www.Drop-Trailer-Compliance-Review-March-2019.pdf)

A backgrounder follows.

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## BACKGROUND

### **External reviews assess BC Ferries' operations, forecasts**

The BC Ferries Commissioner's *Report on the Preliminary Price Cap Decision for the Fifth Performance Term* contains three external performance reviews conducted by PricewaterhouseCoopers LLP (PwC). These reviews assess BC Ferries past performance and evaluate the company's submissions related to forecasted performance and trends for the current and next performance terms.

Highlights include:

#### **Traffic volumes and fares**

Vehicle and passenger volumes from 2015 to 2018 were stronger than anticipated, particularly on major routes as fuel costs were low and a strong economy, low Canadian dollar that encouraged tourism from the US and travel within B.C. and the rest of Canada. Lower fare price increases beginning in 2017 to levels less than general inflation, fare freezes and fare reductions in 2018 also contributed to traffic growth.

Growth in fiscal 2019 and 2020 will continue but at slower rates of 2.6% and 1.7% respectively.

The fare and seniors' 100% discount initiatives for travel Monday to Thursday on major and minor routes are contracted to be in place until March 2020.

Variable pricing is expected to drive traffic volumes by offering customers discounted fares on low demand sailings on the major routes between Vancouver Island and Metro Vancouver.

BC Ferries was fully compliant with fourth term performance price caps set for April 1, 2016 to September 30, 2018. Based in large part on the provincial government Fare Initiative that resulted in reduced fares on the minor routes and a decision by BC Ferries not to raise fares on routes starting in F2018, the actual fare index is well below the price cap.

Foregone revenue from fare initiatives will total \$58.8 million for the fiscal years 2018 to 2020.

#### **Capital Plan**

Actual capital expenditures in the current performance term was \$842 million, which is \$255 million less than BC Ferries forecast primarily because:

- The deferral of projects, including the Langdale terminal development and the Fleet Maintenance Unit site development. Deferrals on these two projects have also impacted the timelines of other upland infrastructure projects planned for Swartz Bay and Horseshoe Bay.
- \$50 million in duty savings on the first three Salish class vessels.

### **Fuel costs**

Fuel is BC Ferries second largest expense and is subject to a fuel management program that aims to minimize cost and consumption. Overall fuel expense declined, due to a reduction in fuel prices and the shift to cleaner and lower-cost alternative fuels. For example, BC Ferries estimate that fuel savings from the introduction of three Intermediate class ferries and engine conversions of two Spirit class vessels total \$17.1 million.

### **Efficiency**

BC Ferries will in the next performance term seek efficiencies through use of low-carbon technology, improved maintenance capacity and increased labour flexibility, variable pricing, retirement of older ships, and increased foot passenger capacity. Other ideas under consideration include a frequent traveller program and new services including:

- Passenger-only service, similar to the Vancouver Seabus, from Royal Bay in Colwood to Ship Point in downtown Victoria, and from Royal Bay to Esquimalt Harbour at Canadian Forces Base Esquimalt;
- Intermodal partnerships with car sharing services and transit operators, to create a seamless and efficient travel experience for ferry users.

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