



British Columbia Ferries Commissioner

Annual Report for the Fiscal Year Ending March 31, 2019

*Prepared and submitted in accordance with
Section 53 of the Coastal Ferry Act
of the Province of British Columbia*

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August 28, 2019



To the Lieutenant Governor in Council

Victoria, BC
August 28, 2019

May It Please Your Honour:

**British Columbia Ferries Commissioner Annual Report
For the Fiscal Year Ending March 31, 2019**

I am pleased to submit to you the Annual Report of the British Columbia Ferries Commissioner ("commissioner") for the fiscal year ended March 31, 2019.

As required by Section 53 of the *Coastal Ferry Act (the "Act")*, the Annual Report sets out briefly all applications and requests for decisions to the commissioner, all orders issued by the commissioner, the financial statements applicable to the Office of the British Columbia Ferries Commissioner for fiscal year ended March 31, 2019 along with full disclosure of the expenses of, and associated with, the Office of the British Columbia Ferries Commissioner.

The report also provides the commissioner's opinion that for the fiscal year ended March 31, 2019, the B.C. Ferry Authority and the ferry operator have performed their respective obligations under the *Act*, and that the ferry operator has also performed its obligations under the Coastal Ferry Services Contract.

Yours truly,

Sheldon Stoilen
British Columbia Ferries Commissioner

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Introduction

The Office of the British Columbia Ferries Commissioner (“commissioner or commissioners”) regulates ferry operators under the *Coastal Ferry Act* of 2003 as amended by subsequent legislation (the “Act”). The Province appoints the commissioner and up to two deputy commissioners for a term of at least six and not more than eight years. They are independent of both the government and the ferry operator. Sheldon Stoilen of Bowen Island was appointed commissioner on March 1, 2018 for a six year term expiring on March 1, 2024.

The role of the commissioner is set out in Section 38(1) of the Act which, for the year ended March 31, 2019, stipulates the commissioner must regulate ferry operators in accordance with the following principles:

- a) the primary role of the commissioner is to balance, in the manner the commissioner considers appropriate, the interests of ferry users, taxpayers and the financial sustainability of 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; and
- d) ferry operators are to be encouraged to be innovative and to minimize expenses without adversely affecting their safe compliance with core ferry services.

On May 16, 2019, Bill 25 - *Coastal Ferry Amendment Act 2019* - received Royal Assent. The amendments included a revision to Section 38(1) which now stipulates that the commissioner must undertake regulation in the public interest and in accordance with the following principles:

- a) the primary role of the commissioner is to balance, in the manner the commissioner considers appropriate, the interests of ferry users, taxpayers and the financial sustainability of ferry operators;
 - b) ferry operators are to be encouraged to meet provincial greenhouse gas emission targets in their operations and when developing capital plans;
 - c) ferry operators are to be encouraged to be innovative and to minimize expenses without adversely affecting their safe compliance with core ferry services.
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The effect of the amendments to the Act under Bill 25 which impact the commissioner's regulations will be reflected in the commissioner's annual report for the year ended March 31, 2020.

This is the sixteenth annual report of the commissioner and has been prepared in accordance with Section 53 of the Act. The report summarizes all major decisions, orders and reports issued by the commissioner and the financial statements of the Office of the British Columbia Ferries Commissioner for the fiscal year ended March 31, 2019 ("FY 2019"). The report includes the commissioner's opinions on the performance of British Columbia Ferry Services Inc. ("BC Ferries") relative to its obligations under the Act and the Coastal Ferry Services Contract. The report also includes the commissioner's opinion regarding the performance of the B.C. Ferry Authority relative to its obligations under the Act.

Applications for Decisions, Orders and Performance Reviews in FY 2019

The following sets out briefly all applications and requests for decisions to the commissioner under the Act and the orders issued by the commissioner during FY 2019. Also included are the reports of performance reviews conducted or published by the commissioner during FY 2019. Excluded are the quarterly compliance reports of BC Ferries which can be found on the commissioner's website at www.bcferrycommission.ca.

Commissioner publishes report on Performance Review of BC Ferries' procurement policies and practices – April 4, 2018

The commissioner's consultants found that "BC Ferries has solid procurement policies and practices in place, with good practices identified in numerous areas and in their ongoing continuous improvement activities. BC Ferries has a strong capital planning process that supports proactive planning for related procurement activities to enable alignment of strategic objectives. Additionally, a well-defined policy and governance framework supports strong consistency, risk management and control within procurement processes, and procurement and supply chain performance is regularly measured and reported".

Commissioner publishes Order 18-02 regarding an application to temporarily reduce service on routes 5 and 9 – May 11, 2018

This Order dated May 10, 2018 addressed an extraordinary situation, namely, the unanticipated requirement to remove the Queen of Cumberland temporarily from service as a result of a mechanical failure of the davit for the vessel's rescue boat. The commissioner ordered that BC Ferries must continue to provide an adjusted service and possibly increase the number of sailings in the adjusted schedules if warranted by demand and crews are available. In addition

BC Ferries was required to conduct a thorough investigation of the circumstances surrounding the incident.

Commissioner publishes report regarding the performance of the B.C. Ferry Authority during FY 2019 – September 7, 2018

This report summarizes the actions taken by the Board of Directors of the B.C. Ferry Authority during FY 2019 to meet its statutory obligations under the Act.

Commissioner publishes Order 18-03 approving BC Ferries' long term capital plan for purposes of publication under Section 40 of the Act - October 1, 2018

By order dated September 26, 2018 the commissioner approved BC Ferries' long term capital plan for publication as part of BC Ferries' submissions required under Section 40 of the Act in connection with the setting of the price caps for the next performance term from April 1, 2020 to March 31, 2024.

Commissioner invites public comments on BC Ferries' submissions for the next performance term - October 1, 2018

As required under Section 40 of the Act on September 28, 2018 BC Ferries filed their submissions for the next performance term including their performance term four report, fuel management report, a long term capital plan, an efficiency report, and a traffic demand forecast.

Commissioner publishes his Service Plan and Budget for the fiscal year ending March 31, 2020 - October 1, 2018

In accordance with Section 59 of the Act on September 26, 2018 the commissioner submitted to the Province of British Columbia the Service Plan and Budget for the Office of the British Columbia Ferries Commissioner.

Commissioner invites public comments on BC Ferries' application under Section 55(2) of the Act seeking approval of a major capital expenditure for four Island class vessels and one Salish class vessel - November 5, 2018

In its application BC Ferries proposed to invest in the procurement of four new Island class vessels and one new Salish class vessel which will enable the retirement of the Powell River

Queen, the Bowen Queen, and the Mayne Queen, all Bowen class vessels built in 1965. The first two of the four Island class vessels are to be deployed on route 23 connecting Campbell River and Quadra Island. The other two Island class vessels would be deployed on route 19 connecting Nanaimo Harbour and Gabriola Island. The Salish class vessel would replace the Mayne Queen and would be deployed, with the Queen of Cumberland, on route 5/5A connecting Swartz Bay with the Southern Gulf Islands.

Commissioner publishes Order 19-01 approving a temporary service reduction on route 20 - January 3, 2019

This Order dated January 3, 2019 authorized BC Ferries to temporarily reduce service below the core service levels set out in the Coastal Ferry Services Contract for designated ferry route 20 connecting Thetis Island and Penelakut Island with Chemainus on Vancouver Island, on the basis that an extraordinary situation existed, namely, weather induced damage to the trestle and berth at Penelakut Island.

Commissioner publishes Order 19-02 approving major capital expenditures to replace three Bowen class vessels - January 7, 2019

This Order dated January 7, 2019 approved the major capital expenditures outlined in BC Ferries' application dated November 5, 2018 to replace the three Bowen class vessels with four Island class vessels and one Salish class vessel. The commissioner encouraged BC Ferries to state its intentions on converting the new Island class vessels to all-electric propulsion as soon as possible. By Order 19-02A dated January 7, 2019 the commissioner set the amount of the approved major capital expenditure which is to remain confidential until completion of the procurement process by BC Ferries.

Commissioner publishes Order 19-03 regarding section 55 and section 67 of the Act, and establishment of the criteria for a major capital expenditure - January 29, 2019

This Order dated January 25, 2019 revised and updated the criteria for applications under Section 55(2) of the Act seeking the commissioner's approval for major capital expenditures. Under this order a major capital expenditure excludes any project that has already been approved under Section 55(1) of the Act where the revised estimated capital expenditures to complete the project exceed the original estimated capital expenditures by less than 5% and the original project scope and justification have not materially changed.

Commissioner publishes report on preliminary decision on price caps for the fifth performance term - April 1, 2019

The Commissioner issued his report dated March 31, 2019 regarding his preliminary decision and reasons for 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 commissioner's final decision must be made by September 30, 2019.

The report also included the results of two performance reviews which indicated BC Ferries was in compliance with price caps for the current performance term and with the regulation governing BC Ferries' drop trailer business.

BC Ferries and B.C. Ferry Authority Performance in FY 2019

During FY 2019 the commissioner continued the practice of conducting quarterly meetings with BC Ferries to review their quarterly reports on price cap compliance, operations summaries, customer complaints resolution, and fuel deferral account balances. The commissioner also reviewed and posted on their website BC Ferries' Annual Report to the Commissioner for FY 2019 which was submitted as required before July 31, 2019. The commissioner received satisfactory responses from BC Ferries to all follow-up queries and requests for additional information.

In FY 2019 the commissioner has determined that:

- Despite an allowable annual price cap increase of 1.9%, on April 1, 2018 and continuing through to March 31, 2020, BC Ferries applied a fare reduction of 15% on the Northern routes, the Minor routes and on the Major route connecting Horseshoe Bay and Langdale. On the remaining three Major routes connecting Metro Vancouver with mid and southern Vancouver Island fares were held constant. Also on April 1, 2018, the BC seniors' passenger discount was increased from 50% to 100% for travel Monday through Thursday on the Major routes and the Minor routes. For fiscal 2019 the Province contributed \$16.7 million for the fare reductions plus \$9.8 million for the change in the seniors discount. BC Ferries contributed \$16.7 million in foregone fare revenue;
 - BC Ferries complied with the requirements of the Coastal Ferry Services Contract ("CFSC") regarding the delivery of core service levels on the 25 designated routes. BC Ferries delivered a total of 79,959 round trips or 3,823.5 more than the number of round trips required under the CFSC. Most of the additional round trips were delivered to on the major routes connecting Metro Vancouver with southern and mid Vancouver Island, on route 26 connecting Skidegate and Alliford Bay and in the summer on route 21 connecting Buckley Bay to Denman Island and route 22 connecting Denman Island to Hornby Island. There were 280.5 required round trips cancelled, primarily for weather or mechanical reasons allowed under the CFSC, 85 round trips were cancelled on route 5 connecting Swartz Bay and the Southern Gulf Islands and route 9 connecting Tsawwassen and Long Harbour due to the removal from service of the Queen of Cumberland from April 18, 2018 to May 17, 2018 due to a mechanical issue;
 - BC Ferries experienced a 1.9% increase in vehicle traffic and 1.2% increase in passenger traffic compared to the year ended March 31, 2018. Vehicle traffic levels were the highest BC Ferries has experienced and passenger traffic levels were the second highest the company has ever experienced. Capacity utilization increased by 0.5% system wide primarily as a result of higher vehicle traffic partially offset by an increase in capacity provided by additional sailings;
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- Revenue from vehicle and passenger fares totalled \$618.2 million down \$22.0 million from the previous year mainly due to the fare initiatives that commenced on April 1, 2018;
- BC Ferries delivered on-time performance of 88.5% system wide, down slightly from 89% in the previous year and fleet reliability declined slightly to 99.73% of the scheduled sailings meaning that 0.3 % of scheduled sailings were cancelled due to weather, mechanical issues or crew availability;
- BC Ferries conducted the annual customer satisfaction survey as required under the CFSC indicating that in 2018, 88% of passengers reported to be satisfied overall with their experience travelling on BC Ferries compared to 87% in 2017. Value for Money of Fares, Ferry Departing on Time and Overall Experience on Board contributed to the overall increase in customer satisfaction score; and
- BC Ferries intends to continue its investments in fleet renewal with the proposed procurement of the four additional Island class electric battery hybrid vessels with the potential to convert to full electric propulsion in the future and one additional Salish class vessel.

Based on his reviews and key findings, the commissioner is satisfied that during FY 2019, BC Ferries met its obligations under the *Coastal Ferry Act* and also its obligations under the Coastal Ferry Services Contract.

Finally, based upon a review of B.C. Ferry Authority's submission to the commissioner and discussion with the Chair of its Board of Directors, the commissioner is satisfied that the B.C. Ferry Authority performed all of its obligations under the *Coastal Ferry Act* during FY 2019.



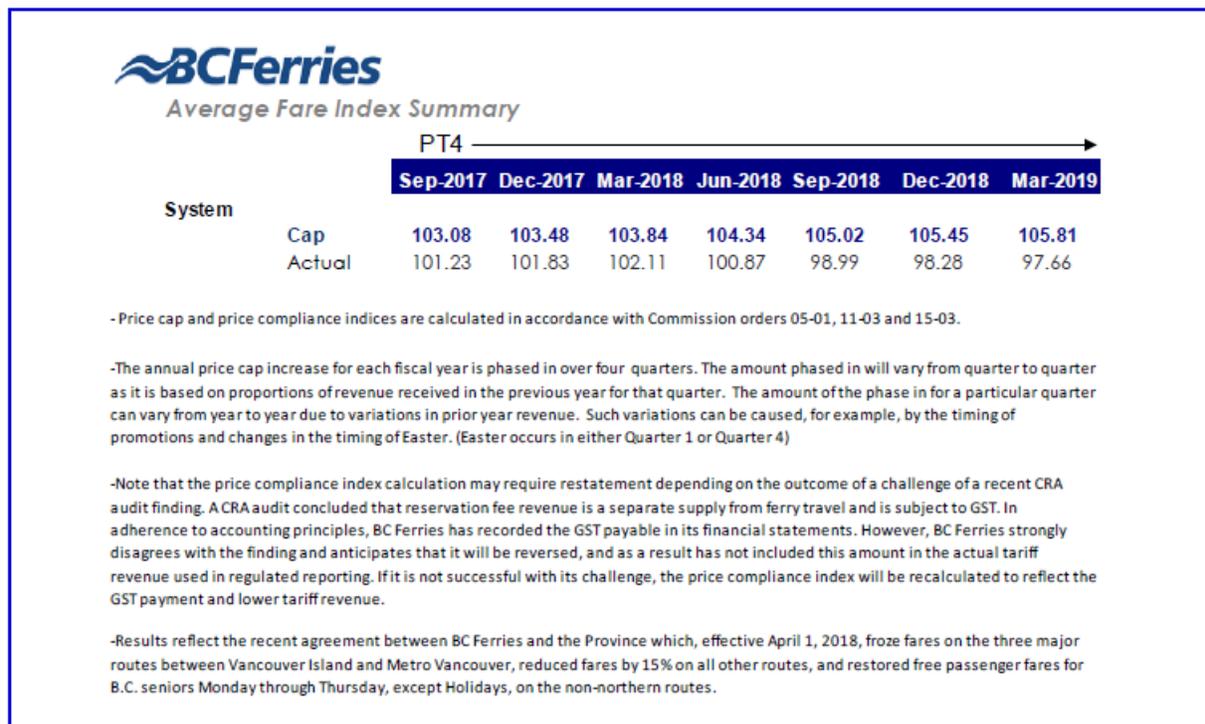
Sheldon Stoilen
British Columbia Ferries Commissioner

Price Cap Compliance

The chart below tracks the values of the price cap index compared to an index of actual weighted average fares system wide for BC Ferries (price cap index was reset at 100 effective the beginning of the fourth performance term on April 1, 2016).

The values for the indices are computed by methods laid down in Commission Order 05-01 and Order 11-03 and are based on trailing four-quarter data. The commissioner allows BC Ferries to exceed the price cap for no more than three consecutive quarters. This ensures that the company does not retain revenues earned at above-price cap levels.

The chart shows that BC Ferries did not exceed the price cap in any quarter during FY 2019. Accordingly, the company was in compliance with the price cap during the year.



Activity Summary for FY 2019

Monitoring of Price Cap and Service Level Compliance

The core activities are regulating ferry fares through the price cap mechanism, monitoring compliance with service levels specified in the Coastal Ferry Services Contract (“CFSC”) and the approval of major capital expenditures.

Special Decisions

Special decisions in FY 2019 included:

- the approval of major capital expenditures for the replacement of three Bowen Class vessels with four new Island class vessels and one new Salish class vessel.
- the authorization of temporary service reductions on routes 5 and 9 in the southern Gulf Islands due to vessel mechanical failure and on route 20 connecting Thetis Island and Penelakut Island with Chemainus on Vancouver Island due to terminal damage from a storm.
- the determination of preliminary price caps for the next performance term of 2.3% annually commencing April 1, 2020.

Enforcement and Performance Reviews

There was also no activity in FY 2019 for enforcement as BC Ferries was found to be compliant with its obligations under the *Coastal Ferry Act* and the CFSC.

The commissioner released the results of a performance review of BC Ferries’ procurement policies and practices, with good practices identified in numerous areas and in their ongoing continuous improvement activities.

Administration and Reporting, Publication, Outreach

All quarterly and annual reports from BC Ferries, applications to the commissioner and the decisions of the commissioner were posted on

the commissioner’s website. The Office of the British Columbia Ferries Commissioner also responded to 44 emails and enquiries.

The commissioner received and reviewed 10 submissions regarding BC Ferries Proposed Acquisition of five new Vessels and 9 submissions regarding BC Ferries’ Regulatory Reports and Submission for the Next Performance Term.

Financial Statements

Accounting Services

The Ministry of Attorney General provides accounting and payment services at no cost to the Office of the British Columbia Ferries Commissioner. The summary financial statement is based upon information provided by the Ministry of Attorney General.

Summary Financial Statement

Office of British Columbia Ferries Commissioner Summary Financial Statement (Expenditures in \$ thousands)

| | FY 2019 | | FY 2018 |
|----------------------------------|------------|------------|------------|
| | Budget | Actual | Actual |
| Commissioners’ Fees and Expenses | 281 | 159 | 196 |
| Professional Services | 530 | 319 | 201 |
| Other Expenses | 81 | 48 | 23 |
| | 892 | 526 | 420 |

Budgeted Expenditures

The *Coastal Ferry Act* requires ferry operators to cover the expenses associated with the operation of the Office of the British Columbia Ferries Commissioner. Under Section 59(2) of the Act the budget for the Office of the British Columbia Ferries Commissioner must not exceed 1/5 of 1% of the ferry operator’s previous year’s tariff revenue. Total budgeted expenditures for FY 2019 were \$892,250 or 70% of the maximum budget allowable under the Act.

Actual Expenditures

Actual expenditures in FY 2019 were \$526,100 or 59% of the budget. Expenditures were for commissioner’s fees and expenses, fees and expenses for consultants’

professional services and other expenses. Actual expenditures were below budget primarily due to fewer Section 55 applications seeking approval of major capital expenditures and fewer performance reviews than were anticipated in the budget for FY 2019.

*Commissioner's
Remuneration*

The commissioner and the deputy commissioner are paid a per-diem fee for their services. The commissioner received \$150,562 in fees for his services and was reimbursed \$8,404 for travel and other expenses. The position of deputy commissioner was vacant for the entire FY 2019.
