



NEWS RELEASE

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BC Ferries Commissioner releases preliminary decision on price caps

VICTORIA – The BC Ferries Commissioner has set the preliminary price cap increase on ferry fares at 1.9% each year over the upcoming four year performance term, beginning April 1, 2016, and ending March 31, 2020.

The *Report on the Preliminary Price Cap Decision for the Fourth Performance Term*, released today, sets the cap on the maximum allowable increase in average fare levels that BC Ferries is permitted to charge its customers.

This preliminary decision is based on the commissioners' assessment of information provided by BC Ferries, which includes:

- A summary of financial and operating results for the current performance term 3 (PT3)
- A cost projection for the upcoming performance term 4 (PT4)
- A 12 year capital plan; and
- An efficiency plan and additional supporting information.

The commissioners also reviewed comments provided by the public in response to BC Ferries' PT4 submission.

The commissioner's report provides a review of the current performance term and includes four external performance reviews undertaken by PricewaterhouseCoopers (PwC) on the general efficiency of BC Ferries, fuel management, homeporting, and BC Ferries Vacations.

Progress made by BC Ferries during PT3 includes the following:

- Positioned to exceed the PT3 efficiency target of \$54 million
- Lowered administrative costs by \$5 million since 2009
- Reduced executive compensation levels by \$1.2 million per year
- Reduced overtime costs
- Implemented safety improvements leading to reductions in WorkSafeBC premiums
- Achieved positive labour relations, with no disruptions for more than 12 years
- Initiated capital projects on time and on budget
- Commenced development of new technology systems to support flexible pricing and expanded reservation systems

- Achieved continued growth of ancillary revenues, resulting in revenue that has relieved pressure on fares.

As part of its preliminary price cap decision, the commissioner is calling on BC Ferries to make further productivity improvements of \$27.6 million by the end of PT4.

The public is invited to comment on the preliminary price cap decision and accompanying report by June 30, 2015. The commissioner must make a final decision on the price caps for PT4 by Sept. 30, 2015.

Quotes:

Gord Macatee, BC Ferries commissioner –

“Four years ago, BC Ferries’ customers were facing the possibility of ferry fares rising by as much as 80% on some routes. Today, on a preliminary basis, we are able to set the annual increase in the price cap at 1.9% for the next performance term.

“Clearly, the Province and BC Ferries have done a great deal of work to create a more efficient, affordable and sustainable coastal ferry service in British Columbia. Keeping PT4 price caps below the rate of inflation could only have been achieved with all three of the key stakeholders in the coastal ferry system doing their part – the Province, BC Ferries, and ferry users.

“Following our review of the *Coastal Ferry Act*, the Province overhauled the legislation, set out a vision for future coastal ferry services, adjusted key policies, opened up the contract and provided additional taxpayer support in the form of higher service fees.

“BC Ferries has cut costs, exceeded its efficiency targets and moved forward with key innovations, while ferry users accepted service level adjustments and supported new ways of doing business. Collectively, these measures took pressure off fares and made it possible to set price caps below the long term rate of inflation for the next performance term.”

Quick Facts:

- Progress on the current PT3 is addressed in the commissioner’s report.
- On Sept. 30, 2012, the commissioner set the price cap increases for the final three years of PT3 as follows:
 - o Apr. 1, 2013 – 4.1%
 - o Apr. 1, 2014 – 4.0%
 - o Apr. 1, 2015 – 3.9%

Learn More:

To learn more about the BC Ferry Commissioner's *Report on the Preliminary Price Cap Decision for the Fourth Performance Term*, visit: <http://www.bcferrycommission.ca/wp-content/uploads/2011/04/PT4-Decision-Documents.pdf>

A backgrounder follows.

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BACKGROUNDER

External BC Ferries reviews find good cost control and efficiencies

The BC Ferry commissioner's *Report on the Preliminary Price Cap Decision for the Fourth Performance Term* contains four external performance reviews conducted by PricewaterhouseCoopers (PwC). These reviews examine BC Ferries efficiencies, fuel management, homeporting arrangements, and BC Ferries Vacations.

1. Efficiency

PwC looked at efficiencies in operating, financing, maintenance, administrative costs, overall labour costs, and organizational design, and found:

- BC Ferries is demonstrating good cost control, especially in the area of administrative expenses;
- Cost control has been achieved while maintaining good outcomes with customer satisfaction and safety;
- BC Ferries appears to have a strong culture of efficiency;
- Executive compensation is comparable with provincial crown corporations and appears to be appropriate for an organization of its size and complexity;
- Public Sector Employers Council guidelines are followed regarding executive holdbacks, organizational layers and the number of direct reports to the CEO;
- Administrative expenses and unscheduled overtime costs have declined by 15% and 16%, respectively. Employee absentee rates are below the average for comparable businesses, while turnover has declined from 10.14% to 2.94%;
- Executive compensation has declined significantly from \$3 million in 2009 to \$1.8 million in 2014, and is at the low end of the four largest provincial Crown corporations;
- A higher percentage of management-exempt labour has provided the company with more flexibility to manage overall labour costs.

Based on this review, the commissioner is satisfied that overall efficiency in the areas assessed by PwC is generally good.

2. Fuel Management

PwC reviewed BC Ferries' policies and procedures regarding fuel management, and found:

- Significant measures to manage fuel consumption have been implemented;
- Fuel procurement policies and procedures appear to be appropriate;

- BC Ferries' fuel hedging strategies may be advantageous to ferry users when used to limit increases in fares to the rate of inflation;
- BC Ferries' fuel deferral mechanism – an accounting tool that corrects the set price of fuel over time to reflect actual pricing – serves as a hedging tool which helps to mitigate fuel price risk, and still allows the company to purchase fuel at a price which is most beneficial to reducing fares.

The commissioner considers BC Ferries' fuel management policies and procedures to be generally acceptable. Fuel hedging may be appropriate when it is possible to lock in prices below the rate of inflation and then, only when it is clearly in the interests of ferry users. The fuel deferral mechanism in place at the end of PT3 will continue through PT4, with certain modifications.

3. Homeporting

Homeporting refers to the location where vessels are docked overnight. Homeports can drive costs if vessels must be moved to different starting locations for the next day's service. PwC conducted an assessment of the rationale and efficiency of current BC Ferries homeporting arrangements and any alternatives for enhancing efficiencies and found:

- Existing homeporting arrangements are not necessarily the most efficient choice, but changing them now would be cost-prohibitive;
- Future homeporting decisions should only occur when major decisions are being made on existing routes;
- A homeporting policy should be developed for future guidance, when new routes are established, or existing routes are faced with major changes;
- Crew accommodations on new vessels may allow BC Ferries to achieve savings without changing homeporting arrangements.

The commissioner agrees that some homeporting arrangements may not be ideal; however, there is no compelling reason to alter arrangements at this time. Consideration should be given to on-board crew accommodation where possible on new vessels proposed for any of the minor or northern routes.

4. BC Ferries Vacations

PwC reviewed the BC Ferries Vacations business model and financial performance to date and found:

- BC Ferries Vacations is meeting its intended goals;
- Gross and net revenue expectations have exceeded initial targets;

- The contribution and costs of a centrally located service centre in downtown Vancouver do not appear unreasonable; and
- The business line has yet to reach a mature state and has potential to expand further.

The commissioner is satisfied that BC Ferries Vacations is making a positive contribution to net income at BC Ferries and as such, is helping to keep fares lower than they would otherwise need to be.

Learn More:

PwC Assessment of BC Ferries' PT4 Submissions: <http://www.bcferrycommission.ca/wp-content/uploads/2011/04/PWC-Assessment-of-BC-Ferries-PT4-Submissions.pdf>

PwC Performance Review of the Efficiency of BC Ferries:
<http://www.bcferrycommission.ca/wp-content/uploads/2011/04/Performance-Review-of-the-Efficiency-of-BC-Ferries-March-2015.pdf>

PwC Performance Review of BC Ferries' Fuel Management:
<http://www.bcferrycommission.ca/wp-content/uploads/2011/04/Performance-Review-of-BC-Ferries-Fuel-Management-March-2015.pdf>

PwC Performance Review of BC Ferries' Homeporting Arrangements:
<http://www.bcferrycommission.ca/wp-content/uploads/2011/04/Performance-Review-of-BC-Ferries-Homeporting-Arrangements-March-2015.pdf>

PwC Performance Review of BC Ferries Vacations: <http://www.bcferrycommission.ca/wp-content/uploads/2011/04/Performance-Review-BC-Ferries-Vacations-March-2015.pdf>

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