

For Immediate Release
2002TRAN0054-001076
Dec. 9, 2002

Ministry of Transportation

NEW FERRIES MODEL MEANS BETTER SERVICE, MORE JOBS, STABLE RATES

VICTORIA – BC Ferries will be transformed into a customer-focused and financially stable marine transportation system that improves services and revitalizes the economy of the province's coastal communities, Minister of Transportation Judith Reid announced today.

BC Ferries, which currently operates as a taxpayer-supported Crown corporation, will be restructured into an independent company under the B.C. Company Act and will be renamed BC Ferry Services. The new operating company will be governed by the British Columbia Ferry Authority, an oversight body modelled along the lines of the successful Vancouver International Airport Authority. An independent regulator will be appointed to regulate rates and protect consumers' interests.

"BC Ferries has served British Columbians well in the past, but is clearly not meeting the needs of today's customers," Reid said. "Reports by Hugh Gordon, George Morfitt and Fred Wright, and our own comprehensive review of the corporation, have all confirmed the need for change. Mismanagement and bad business decisions have cost taxpayers over \$1 billion in the past decade alone, including \$454 million for the fast ferry fiasco. The fleet is aging, services are deteriorating, and new capital investment is urgently required.

"The new structure will help ensure services are delivered on time and on budget. It will create a vibrant, properly managed ferry system that improves customer service, creates new jobs for coastal communities, ensures stable rates and is sustainable for the future."

Reid said a revitalized ferry system will mean:

- Improved service and customer choice
- Guaranteed service levels and fair rates
- An independent regulator to protect the public interest
- Economic development and job creation
- Public ownership of ferry terminals
- No new public debt
- Ongoing accountability.

BC Ferries' chair David Emerson said that an independent ferry corporation with a capital structure similar to a private-sector company will be better able to compete in the capital markets for funds. "Access to outside sources of capital is required to raise the \$2 billion needed to modernize the fleet and terminals without adding to the government's debt burden. It is also key to ensuring the ongoing safety of vessels and passengers," he said.

-more-

Dec. 9, 2002

Ministry of Transportation

BC FERRIES RESTRUCTURING

B.C. needs a reliable ferry system that provides superior service to British Columbians with no financial risk or additional debt burden for taxpayers.

THE PROBLEM

As a Crown corporation, BC Ferries has been subjected to years of political interference in everything from rate-setting to vessel construction and spending priorities. This problem, which has been well chronicled in independent reports about the ferry system by Hugh Gordon, George Morfitt and Fred Wright, has seriously inhibited the corporation's ability to operate in a businesslike manner. A lack of strategic planning and poor decision-making has resulted in deteriorating service and outdated vessels. More than \$1 billion of taxpayers' money has been wasted in the last decade alone, including \$454 million for the fast ferries. Over the next 15 years, \$2 billion will be required to replace aging ships and upgrade terminals. But the ferry corporation's current structure inhibits access to the outside capital needed to make these necessary investments. In addition, ferry users have grown increasingly frustrated by service disruptions, inefficiencies, late sailings and a lack of service and amenity choices.

NEW AUTHORITY STRUCTURE

The provincial government and BC Ferries' board of directors examined a variety of potential solutions for the coastal ferry system. The authority model option that was selected best meets the objective of creating a modern, safe and reliable ferry system that will provide improved service and greater customer choice at guaranteed fair rates. The authority model also protects B.C. taxpayers from further financial risk and debt burden.

BC Ferries will become an independent, regulated, self-financing company called BC Ferry Services. An independent, no-share capital authority will own the issued common voting shares and will oversee the delivery of ferry services. The services will be specified in a multi-year contract with the province called the coastal ferry services contract.

Much like the Vancouver Airport Authority, the British Columbia Ferry Authority and its operating company, BC Ferry Services, will be shielded from political interference through the establishment of an independent board of directors appointed by the authority. This independence will enable management to run the business based on sound commercial principles. The new authority will be created by legislation and will be responsible for the governance and oversight of its operating company, BC Ferry Services.

-more-

The authority will comprise nine directors. Four directors will be drawn from B.C. coastal communities on both sides of the Strait of Georgia; two will come from the community at large; government will appoint two directors; and one director will be nominated by labour. The board will be mandated to act in the overall interests of the operating company. BC Ferry Services will be publicly accountable and will prepare and publish audited financial statements and hold an annual general meeting.

The authority will own the issued common voting shares of BC Ferry Services. BC Ferries will continue under the Company Act and will be renamed BC Ferry Services. The Ferry Corporation Act will be repealed. The province's remaining interest in BC Ferry Services will be 75,000 non-voting preferred shares and interest-bearing debt – the combination of these investments represents the fair market value of the new corporation.

BENEFITS TO BRITISH COLUMBIANS

No new public debt

The authority model makes sense for taxpayers, customers and government. It ensures that no new debt burden is placed on taxpayers. The capital structure of BC Ferry Services will allow it to compete for funds in the capital markets. Accessing outside capital borrowing to finance the \$2 billion needed for improvements is the only way to reduce the risk to taxpayers of higher government debt. New capital projects will be delivered on time and on budget.

Improved service and customer choice

A major focus of the new company will be to improve customer service and provide more customer choice. BC Ferry Services will commission new ferries and upgrade terminals, leading to more reliable, on-time service. Partnerships with the private sector will provide customers with a greater choice of amenities, such as restaurants and retail shops, and will provide BC Ferry Services with funds that it can reinvest in improving vessels and terminals.

To make the service more responsive and reliable, BC Ferry Services will consider a range of opportunities to improve and enhance the current reservation system.

The new model will allow new service providers to offer competitive services, where appropriate and approved by BC Ferry Services.

Guaranteed routes and service levels

Routes and service levels will be established under a 60-year contract between the province and BC Ferry Services called the coastal ferry services contract. The new model will provide greater protection for existing routes and service levels. Under the current structure, service levels can be subject to political influence, but under the coastal ferry services contract, routes and service levels will be laid out in detail. Future changes will be permitted only according to specific criteria outlined in the contract.

In addition to establishing required routes and service levels, the contract will outline the terms under which the province will pay BC Ferry Services an annual service fee. The service fee will be negotiated between the government and BC Ferry Services and will be established for a five-year term. This payment will enable existing service levels for minor, northern and Sunshine Coast routes to continue, and will also offset the cost of the provincial government's travel programs for seniors, school children and health services.

Under the coastal ferry services contract, service levels and routes will be assured for five years. Detailed schedules will be committed two years in advance. Adjustments would focus on maximizing customer utilization. Future adjustments will be permitted only: (i) if demand or utilization falls below an acceptable level; (ii) to avoid a major increase in service fee or tariff, or (iii) if the change does not materially affect service levels and (iv) if alternative access is provided or will be provided by the time of the route adjustment. The regulator may only approve the discontinuation of a route based on specific criteria laid out in legislation. This will provide certainty and a transparent process that allows full debate, unlike the current situation where a route can be discontinued by a cabinet order.

Under this process, no route can be discontinued for at least the next five years.

Public ownership of terminals

The province will retain ownership of the terminals, which will be leased to BC Ferry Services for a 60-year term. This arrangement ensures that BC Ferries can make the much-needed capital improvements, while protecting the public interest.

Guaranteed fair rates

BC Ferries' current rate structure was developed in an ad hoc manner, without a guiding policy to ensure consistency. Under the new model for ferry services in British Columbia, annual rate increases will be modest and predictable. Greater flexibility in pricing will allow BC Ferry Services to manage traffic during peak times, make the overall ferry system more efficient and improve customer service.

To help pay for a long overdue vessel and terminal improvement program, rates will be increased. However, rate increases will be fair, stable, below historical levels and clearly set out in five-year periods, which will bring predictability for ferry users.

Historically, rate increases have been erratic and inconsistent. On average, rates have increased 4.5 per cent per year over the past 10 years. Under the new model, rates will increase by an average of 3.1 per cent each Nov. 1 for the next five years. Specifically, rates will increase by an average of 2.8 per cent on the three major routes connecting Vancouver Island to the mainland and by an average of 4.4 per cent on the remaining minor routes. These rate increases become effective in November 2003.

An inflation-based increase outlined in the government's 2002-03 provincial budget will take place as planned on Dec. 15, 2002. This increase will be 3.8 per cent. For a car and driver travelling during off-peak periods, this is an increase of just \$1.25 for a trip from Tsawwassen to Swartz Bay (\$1.75 during peak periods); \$1.00 for Horseshoe Bay to Langdale (\$1.25 peak); and \$0.75 for Swartz Bay to Saltspring Island (\$1.00 peak) – less than the price of a cup of coffee.

Rates: Historic (1991 – 2001)		Rates: Going Forward (2003 – 2007)	
Major Routes	4.6%	Major Routes	2.8%
Minor Routes	4.4%	Minor Routes	4.4%
Average	4.5%	Average	3.1%

The difference in the increase between the three major routes connecting Vancouver Island to the mainland and the remaining routes is aimed at beginning the process of phasing out the historical problem of cross-subsidization.

BC Ferry Services will be required to keep the average of all prices below a price cap. Individual prices may rise above the cap, provided others fall below it. The price cap will be set to require BC Ferry Services to achieve productivity gains. If higher gains are achieved within a five-year rate period, BC Ferry Services will keep the benefits. In the subsequent five-year period, the excess gains flow back to consumers in the form of reduced fees and rates.

Independent regulator

To further protect consumers and the public interest, an independent regulator will enforce the provisions of the coastal ferry services contract. The regulator will ensure that the services outlined in the contract are provided, and that rate changes are reasonable. This structure provides much greater public protection for routes and service levels than currently exists. The regulatory framework will also ensure that regulation of BC Ferry Services does not undermine its financial viability, provide incentives for BC Ferry Services to be efficient and innovative, and encourage services that compete with BC Ferry Services.

Regulation will protect consumers' interests while allowing the company sufficient flexibility to operate a sound business. BC Ferry Services will be allowed to create innovative products, services and pricing models to best use capital, make the overall ferry service more efficient and improve customer service. The regulator will set standards to which BC Ferry Services will adhere but will not have an intrusive role in the company's day-to-day operations.

Much like the approach used for monopolies in the United States, United Kingdom, Australia and New Zealand, the regulator will set a price cap on the average fare. For example, BC Ferry Services will not be required to obtain pre-approval for each price or tariff it charges. Rather, the regulator will consider the average price being charged and will set standards for how the average price may increase over time.

Job creation and economic development

Economic growth in coastal communities relies on a responsive and dependable ferry service to move people and goods throughout the region. This more modern, customer-focused ferry service will provide certainty for ferry users, which, in turn, will help to invigorate the economy of coastal British Columbia. BC Ferry Services will also have the ability to access private capital investment. A \$2-billion investment in the ferry system will mean improved terminals and new vessels for ferry users, in turn generating jobs and opportunities.

Ongoing accountability

To protect the public interest, the new authority and BC Ferry Services will be accountable in these ways:

- The coastal ferry services contract will be a binding agreement, reviewed every five years, that will detail the level of service BC Ferry Services must provide.
- The service fee paid by the government to BC Ferry Services will be reviewed and approved each year by the legislature during budget estimates.
- An independent regulator will enforce the provisions of the coastal ferry services contract.
- The province will appoint two members to the board of the BC Ferry Authority and BC Ferry Services.
- BC Ferry Services will hold annual general meetings open to the public, at which time the audited financial statements and the annual reports will be presented.

Contact: For Minister Reid:
Media Relations
250 356-2456

For BC Ferries:
Mark Stefanson
VP Corporate Communications
250 978-1267

The new structure will resemble the Vancouver International Airport Authority that Emerson played a key role in establishing in the early 1990s. Since then the airport has been transformed into a financially independent transportation gateway and has been rated one of the world's top 10 airports for the fourth straight year by the International Air Transport Association's global survey.

Unlike the airport authority, which is self regulating and able to set rates and fees, BC Ferry Services will be overseen by an independent regulator who will protect consumers from unreasonable rate hikes through the establishment of a price cap. Service levels and routes will be assured for five years through a coastal ferry services contract that the provincial government will sign with BC Ferry Services. The independent regulator will oversee the 60-year contract, which will be reviewed every five years.

The rate increases that have been established for the first five years of the term of the coastal ferry services contract are fair, stable and lower than historic averages.

Between 1991 and 2001, rates for major routes increased 4.6 per cent a year and for minor routes 4.4 per cent, for an average increase of 4.5 per cent a year. Moreover, increases over the 10 years were erratic and variable.

An inflation-based increase outlined in the government's 2002-03 provincial budget will take place as planned on Dec. 15, 2002. This increase will be 3.8 per cent. For a car and driver travelling during off-peak periods, this is an increase of just \$1.25 for a trip from Tsawwassen to Swartz Bay (\$1.75 during peak periods); \$1.00 for Horseshoe Bay to Langdale (\$1.25 peak); and \$0.75 for Swartz Bay to Saltspring Island (\$1.00 peak) – less than the price of a cup of coffee.

Starting Nov. 1, 2003, average rate increases will be capped for five years at 2.8 per cent a year for the three major routes connecting Vancouver Island to the Lower Mainland, and 4.4 per cent a year for the remaining minor, northern and Sunshine Coast routes.

"The difference in the increase between the major and smaller routes is aimed at helping to address the historical problem of cross-subsidization," Reid said.

Current labour agreements with the B.C. Ferry and Marine Workers' Union, including successor and collective bargaining rights, will be transferred to the new entity. All pensions and benefits will remain in place for employees.

Contact: For Minister Reid:
Media Relations
250 356-2456

For BC Ferries:
Mark Stefanson
VP Corporate Communications
250 978-1267