
British Columbia Ferry Services Inc.

Annual Report
to the
British Columbia Ferries Commissioner

Year Ended March 31, 2015



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Introduction

In accordance with Section 66 of the *Coastal Ferry Act* ("Act"), British Columbia Ferry Services Inc. ("BC Ferries" or the "Company") is pleased to submit its annual report for the year ended March 31, 2015 (the "fiscal year" or "fiscal 2015"), to the British Columbia Ferries Commissioner (the "Commissioner").

This report is a compilation of information on the services BC Ferries has provided during the fiscal year on designated ferry routes and includes information on the costs and quality of services provided to deliver services on these designated routes. This report responds to the specific information requirements conveyed to BC Ferries by the Commissioner and as identified in the Act.

Part 1: Services on Designated Routes

In fiscal 2015, BC Ferries delivered coastal ferry services on 24 designated ferry routes under the Coastal Ferry Services Contract (the "Contract") between BC Ferries and the Province of British Columbia (the "Province") as represented by the Ministry of Transportation and Infrastructure. These ferry routes are regulated under the Act. In accordance with the Contract, BC Ferries also manages ferry transportation services on other unregulated routes through contracts with alternative service providers ("ASPs").

BC Ferries is required by Section 69 of the Act to seek ASPs on designated ferry routes when so ordered by the Commissioner. During the fiscal year, no such Orders were issued by the Commissioner and no actions were required or taken by the Company in respect of this matter.

Part 1 of this report contains financial statistics as well as information on traffic levels and operating and performance statistics for the fiscal year for each of the 24 designated ferry routes.

In fiscal 2015, BC Ferries carried 7.7 million vehicles¹ and 19.8 million passengers and delivered 77,432.5 round trips on the designated ferry routes. For the fiscal year, the Company's on-time performance rate system-wide was 91.7%, while its fleet reliability score was 99.75%. This reliability score means that only 0.25% of scheduled sailings in fiscal 2015 were cancelled for controllable reasons, such as mechanical issues related to the vessels or terminals or crew availability.

Over the fiscal year, BC Ferries experienced a 0.6%² increase in vehicle traffic and a 0.5% increase in passenger traffic compared to the year ended March 31, 2014 ("fiscal 2014"). As a result of the higher traffic levels and fewer sailings, annual capacity utilization in fiscal 2015 increased, on a year-over-year basis, by 2.0% system-wide and 5.7% on routes with service level adjustments.

¹ Equivalent to 8.7 million automobile equivalents (see the Operations Report for more information).

² Equivalent to 0.7% when calculated on the basis of automobile equivalent.

Traffic levels were negatively impacted in fiscal 2015 by a reduction in seniors travel related to the lower passenger fare discount for BC seniors travelling Mondays to Thursdays on the Non-Northern routes effective April 1, 2014³ and the reduction in student travel resulting from the teachers' labour dispute in the first and second quarters of fiscal 2015. Traffic levels were also impacted by service level adjustments determined by the Province on certain routes. However, in the last two months of the year, BC Ferries' total traffic was significantly higher than the same period in the prior year. Vehicle traffic was 7.8% higher and passenger traffic was 6.7% higher. The Company believes the traffic in these two months was impacted by favourable weather and by lower gas prices, while the same period in fiscal 2014 was negatively affected by unfavourable weather. The lower Canadian dollar may also have had a positive impact towards the latter part of the year.

The Company continues to focus on employee and passenger safety. BC Ferries' SailSafe program, which is designed to achieve world class safety performance, is in the sustainment phase. It has transitioned from the implementation of a safety program to embodying safety as a normal part of all business activities and an integral part of the Company's culture. BC Ferries continues to ensure safety becomes completely ingrained in every activity undertaken, every day, throughout its business.

Overall, BC Ferries is experiencing the benefits of its investments in safety and security. Injuries to passengers continue to decline, down 10.0% in fiscal 2015 compared to fiscal 2014. Time loss injuries to employees were fewer than 150 in both fiscal 2015 and fiscal 2014.

In both fiscal 2015 and fiscal 2014, BC Ferries received a Certificate of Recognition ("COR") from WorkSafeBC. The COR recognizes companies that go beyond the legal requirements of the *Workers' Compensation Act* and the Occupational Health & Safety Regulations by taking a best practices approach to implementing health, safety and return to work programs. In fiscal 2015, nine specific areas were audited, resulting in a 92% score in Health and Safety and 94% in Injury Management. WorkSafeBC provided the Company with a COR rebate of \$556,000 based on its 2014 assessed premiums; similarly, last year BC Ferries received a \$600,000 COR rebate based on its 2013 assessed premiums. Besides confirming the Company's workforce is safer and healthier, it is expected this COR will result in ongoing premium savings.

The Company continues to manage costs as prudently as possible without compromising safe operations. BC Ferries' operating expenses in fiscal 2015 were \$15.3 million below previously planned levels as published in the Company's annual Business Plan for the year.

³ Resulting from the Province's decision to amend its program to reduce the passenger fare discount for BC seniors travelling Mondays through Thursdays from 100% to 50% on the routes other than the Northern routes connecting Port Hardy with Prince Rupert and Skidegate with Prince Rupert.

On April 28, 2014, the Company implemented new schedules for certain of the designated routes intended to achieve a net savings of \$14 million over the remainder of performance term three ("PT3"), which ends March 31, 2016. These new schedules reflect the service reductions determined by the Province in order to better align service levels with demand and to ensure the coastal ferry system is affordable, efficient and sustainable. The service level adjustments completed in fiscal 2015 have generated savings in fuel and labour, and the Company expects to continue to benefit from these changes.

BC Ferries reviewed opportunities for further service level reductions of \$4.9 million on the three routes connecting Vancouver Island with the Lower Mainland and determined that the economics of further reductions were no longer favorable; however, the Company remains committed to saving the \$4.9 million through other efficiencies, including cost containment.

On an inflation-adjusted basis, administrative expenses have declined by 15.1% since 2009. Overall administrative expenses have been reduced as a result of lower executive compensation, reduced head count and lower scheduled and unscheduled overtime hours.

On March 18, 2015, in conjunction with his release of Order 15-02 establishing the preliminary price caps for performance term four ("PT4"), the Commissioner issued his report on the Performance Review of the Efficiency of BC Ferries. The review included an assessment of the efficiency of operating, maintenance, administration costs, labour costs and the organizational design. The significant report findings conclude that the Company is demonstrating good cost control while obtaining good outcomes with customer satisfaction and passenger and employee safety, and that the Company appears to have a strong culture of efficiency. The report concludes that the financial and management controls and processes addressing planning, budgeting, reporting and internal controls appear to be appropriate.

Also on March 18, 2015, the Commissioner released his reports on the performance reviews of BC Ferries' homeporting arrangements, fuel management, and BC Ferries Vacations. These reviews concluded that:

- significant measures to manage fuel consumption have been implemented;
- fuel procurement policies and procedures appear to be appropriate;
- some homeporting arrangements may not be ideal, but changing them would be cost-prohibitive; and
- BC Ferries Vacations is making a positive contribution to net income and as such, is helping keep fares lower than they would otherwise need to be.

On April 1, 2014, the Company implemented average tariff increases in accordance with the Commissioner's Order 12-02 dated September 30, 2012. Tariff increases were 4.2% on average on the Non-Northern routes. On the Northern routes, BC Ferries increased fares by less than 2% on average and eliminated the incremental tariff for over-height vehicles. These increases were directly associated with increased operating costs, notably fuel, capital replacement and labour.

BC Ferries has a multi-year major fleet and asset renewal program which has involved upgrading and replacing a large share of the Company's major vessels and terminal assets. Over the next 12 years, the Company plans to invest over \$3 billion to replace 18 aged vessels, as well as to upgrade terminals and other infrastructure. In fiscal 2015, capital expenditures included \$69.0 million in vessel upgrades and modifications, \$47.6 million in terminal marine structures, and \$9.7 million in terminal and building upgrades and equipment.

In July, 2014, BC Ferries entered into contracts with Remontowa Shipbuilding S.A. in Gdansk, Poland to build three new intermediate class vessels. Each vessel will have the capacity to carry 145 automobile equivalents ("AEQs") and be designed to operate as dual-fuel capable, so they can run predominantly on liquefied natural gas with marine diesel fuel as a backup. These vessels will set a new standard of efficiency with standardized bridges, engine rooms and lifesaving equipment, moving the Company to a higher safety standard and improving interoperability.

On March 5, 2015, the keel-laying for the first of the three new intermediate class vessels, the *Salish Orca*, took place at Remontowa Shipbuilding S.A. shipyard. This was followed on April 10, 2015 and July 8, 2015 by the first steel cutting respectively for the next two 'Salish class' vessels, the *Salish Eagle* and the *Salish Raven*. The *Salish Orca* will replace the 50-year old *Queen of Burnaby* and the *Salish Eagle* will replace the 51-year old *Queen of Nanaimo* which are scheduled for retirement in 2016. The *Salish Raven* will augment service during the peak and shoulder season and provide relief when other vessels are in refit. The new vessels are scheduled for delivery in August 2016, October 2016 and February 2017.

The *Salish Eagle* and *Salish Raven* will service the Southern Gulf Island routes commencing 2017. The opportunity exists to improve service and better align customer needs with sailing schedules as well as balance seasonal service, capacity and demand with operating efficiencies. To this end, BC Ferries has launched a survey to understand the service needs of Southern Gulf Island customers better.

In fiscal 2015, work also continued on the cable ferry system on route 21, connecting Buckley Bay and Denman Island. After many years of studying the feasibility of a cable ferry, performing extensive design and analysis and obtaining regulatory approvals, BC Ferries awarded a \$15 million contract to Seaspan's Vancouver Shipyards of North Vancouver for the construction of the new cable ferry. On April 30, 2015, the Company completed the installation of the drive and guide cables necessary to move the cable ferry, along with significant improvements to the two terminals. The ferry, named the *Baynes Sound Connector*, is expected to be placed in service in the early fall of 2015. Compared to the current service, it is projected that, over 40 years, the cable ferry will provide over \$80 million in cost savings as well as significant environmental benefits.

BC Ferries continues to look for innovative ways to serve its customers and actively pursue opportunities for growth. BC Ferries' drop trailer service remains the fastest growing segment of the Company's market with increases in revenue

over the past three fiscal years of 14%, 15% and 34%, respectively. Meanwhile, through the use of the BC Ferries' travel centre and an integrated marketing approach, BC Ferries is able to leverage its core business to drive incremental ferry traffic as well as generate commissions from the related services. In fiscal 2015, the number of vacation packages sold generated over \$4.3 million in revenue, an increase of 29.1% over the prior year. The Company also has opportunities for continued growth with its retail services which include food service and giftshops. BC Ferries' retail revenue is approximately 10% of the Company's total annual revenues and has increased over the past two fiscal years by 2% and 3%, respectively.

During fiscal 2015, the Company also continued to invest in its human resources. In fiscal 2015, over 13,400 personal training days were conducted, inclusive of operational training and Standardized Education and Assessment training.

Part 2: Service Quality

Customer Satisfaction Tracking

As in past years, the Company commissioned an independent professional consulting organization to conduct and document a comprehensive customer satisfaction survey. Part 2 of this report contains a copy of the 2014 customer satisfaction tracking report along with an overview of the key findings and the actions taken by BC Ferries to respond to the survey results.

Complaints Resolution Report

Part 2 of this report also includes BC Ferries' complaints resolution report for fiscal 2015. This report contains a summary of the feedback BC Ferries has received during the fiscal year, the lessons learned and the actions taken in response.

Part 1

Services on Designated Routes



Part 1: Services on Designated Routes

Overview

This section contains financial statistics as well as information on traffic levels, and operating and performance statistics for fiscal 2015 for each of the designated ferry routes. As indicated in the reports, BC Ferries fully complied with the Contract's core service level requirements in fiscal 2015.

The following three reports are included:

Operations Report

This report provides the following information for the designated ferry routes, presented in numeric format for each route:

➤ ***Round Trips***

The total number of round trips BC Ferries delivered on each of the designated ferry routes is presented. Overall, BC Ferries delivered a total of 77,432.5 round trips during the fiscal year, which exceeded by 683.5 the core service level requirements specified in the Contract, as amended for PT3.

➤ ***Vessel Capacity***

For each designated ferry route, the vessel capacity BC Ferries provided in the fiscal year is presented along with the calculation of capacity utilization. Capacity is calculated on the basis of AEQs. An AEQ represents the amount of vessel capacity occupied by a particular vehicle type expressed as the number of under height vehicles it displaces (e.g. a bus which displaces three under height vehicles – or cars – would have an AEQ of 3). In fiscal 2015, BC Ferries provided capacity sufficient to carry the traffic, with capacity utilization on the designated ferry routes ranging from 27.9% to 73.2%. As compared to the prior fiscal year, capacity utilization in fiscal 2015 increased 2.0% system-wide and 5.7% on routes with service level adjustments.

➤ ***Traffic and Revenue***

Vehicle traffic (AEQs) and passenger traffic carried on each of the designated ferry routes during fiscal 2015 is presented and compared to the traffic carried in the previous fiscal year. The associated tariff revenue generated from each route is also shown.

In fiscal 2015, vehicle and passenger traffic increased 0.6%⁴ and 0.5%, respectively, compared to fiscal 2014. As noted above, BC Ferries' total traffic in the last two months of the year was significantly higher than the same period in the prior year.

⁴ Equivalent to 0.7% when calculated on the basis of AEQs.

Revenue from vehicle and passenger traffic on the designated ferry routes in fiscal 2015 totalled \$520.0 million, an increase of \$30.7 million from the prior fiscal year.

By Order 12-02, dated September 30, 2012, price cap increases for fiscal 2014 through fiscal 2016 were set by the Commissioner as follows: 4.1% at April 1, 2013; 4.0% at April 1, 2014; and 3.9% at April 1, 2015. BC Ferries implemented tariff increases effective April 1, 2014 to the levels authorized.

On December 17, 2014, fuel surcharges were removed from the Non-Northern routes due to declining fuel prices and locking in pricing for a significant portion of the Company's forecast fuel consumption to the end of fiscal 2016. Surcharges of 3.5% on average had been in place on these routes since January 17, 2014 due to the high cost of diesel fuel. At the time of the general tariff increase on April 1, 2014, no changes were made to the nominal values of the fuel surcharges. Accordingly, these fuel surcharges averaged 3.4% following the general tariff increase on April 1, 2014. No surcharges were in place on the Northern routes. Effective April 1, 2015, the Company implemented a 1% fuel rebate on the Non-Northern routes.

A recent history of fuel surcharges and rebates in effect through to the current date is below:

Date Range	% Surcharge (Rebate)	Applicable Routes
April 1, 2012 – July 19, 2012	2.5%	Horseshoe Bay-Langdale route
	5.0%	All other designated routes*
July 20, 2012 – November 29, 2012	2.0%	All designated routes*
November 30, 2012 – January 16, 2014	0.0%	All designated routes
January 17, 2014 – December 17, 2014	3.5%	All designated routes*
December 18, 2014 – March 31, 2015	0.0%	All designated routes
April 1, 2015 –	(1.0%)	All designated routes*

*with the exception of the Northern routes

➤ **On-Time Performance**

The percentage of sailings departing or arriving, as applicable, within 10 minutes of the scheduled time is provided for each of the designated ferry routes.⁵

⁵ On-time performance on the Non-Northern routes is defined as the percentage of sailings departing within 10 minutes of the scheduled time. On-time performance on the Northern routes is defined as the percentage of sailings arriving within 10 minutes of the scheduled time.

Meeting customer service expectations is an important factor in BC Ferries' focus on on-time performance. In fiscal 2015, BC Ferries' on-time performance system-wide was 91.7%.

Temporary Service Disruptions Report

This report describes how the services provided by BC Ferries during the fiscal year compared to the core service levels set out in the Contract, as amended for PT3. There are four sections of this report:

1. Cancelled Round Trips by Route and route grouping,
2. Cancelled and Extra Round Trips by Route and route grouping,
3. Cancelled Round Trips by Days For Route and route grouping, and
4. Round Trip Service Delivery and On-Time Performance.

For each designated ferry route, the cumulative and consecutive number of days for which round trips were missed and the causes of the missed round trips are noted. In fiscal 2015, BC Ferries exceeded its annual core service level commitments under the Contract by 683.5 round trips. Many of these additional round trips were delivered in the summer on route 21 (Buckley Bay to Denman Island) and route 22 (Denman Island to Hornby Island) to accommodate peak period traffic demand.

In the "Round Trip Service Delivery and On-Time Performance" section of the report, certain elements of reporting are graphically presented including the scheduled and actual round trips, and on-time performance. The percentage of sailings departing or arriving, as applicable, within 10 minutes of the scheduled time is provided for each of the designated ferry routes, as well as the reasons for the delays.

This report also provides information on "overload sailings" which is defined as a sailing for which one or more vehicles waiting to travel could not be accommodated. Overall, 8.5% of the sailings on the designated ferry routes were overloaded in fiscal 2015, which is an increase from 7.2% in fiscal 2014.

Route Financial Report

This report provides financial information for the fiscal year with comparative figures for the previous fiscal year for each of the designated ferry routes.

The information is provided by individual route and is also summarized by route grouping. Revenues and expenses are assigned directly to a route where possible or allocated to routes where direct assignment is not possible. Allocation to routes is based on various factors which reflect the activity that gave rise to the revenue or expense.

As of fiscal 2013, all of BC Ferries' financial reporting is prepared in accordance with International Financial Reporting Standards (IFRS).

Operations Report

Year Ended March 31, 2015





Operations Summary Report for the Year Ended March 31, 2015

	A	B	C	D	E	F	G	H	I	J
Routes	Actual Round Trips	Capacity Provided (AEQ's)	AEQ's Carried Fiscal 2015	Capacity Utilization Fiscal 2015 (C / B)	Capacity Utilization Fiscal 2014	AEQ's Carried Fiscal 2014	AEQ Growth (C - F)	AEQ Tariff Revenue Fiscal 2015 Note 2	AEQ Tariff Revenue Fiscal 2014 Note 2	AEQ Tariff Revenue Growth (H - I)
1	3,794.0	2,868,210	2,100,417	73.2%	72.4%	2,072,208	28,209	\$ 115,496,149	\$ 110,247,009	\$ 5,249,140
2	3,039.0	2,208,182	1,267,009	57.4%	58.2%	1,280,398	(13,389)	65,921,987	64,817,132	1,104,855
3	3,020.0	2,186,118	1,205,768	55.2%	54.1%	1,192,143	13,625	25,916,436	24,609,337	1,307,099
30	2,689.0	1,734,870	860,670	49.6%	48.1%	835,959	24,711	56,561,313	53,414,201	3,147,112
Major Routes	12,542.0	8,997,380	5,433,864	60.4%	59.8%	5,380,708	53,156	263,895,885	253,087,679	10,808,206
10	87.0	30,269	14,528	48.0%	36.8%	15,658	(1,130)	4,221,428	4,904,111	(682,683)
11	139.5	31,601	18,213	57.6%	45.4%	18,580	(367)	3,268,601	3,202,209	66,392
Northern Routes	226.5	61,870	32,741	52.9%	41.0%	34,238	(1,497)	7,490,029	8,106,320	(616,291)
4	2,882.0	572,530	309,840	54.1%	53.8%	302,115	7,725	3,364,147	3,181,644	182,503
5	3,475.0	709,256	258,883	36.5%	37.2%	257,145	1,738	3,125,532	3,039,115	86,417
6	4,511.0	631,540	241,843	38.3%	34.2%	240,870	973	2,895,374	2,796,897	98,477
7	2,542.0	624,952	183,657	29.4%	26.8%	184,035	(378)	4,124,955	3,984,341	140,614
8	5,385.0	897,420	475,576	53.0%	49.0%	475,937	(361)	5,381,246	5,155,315	225,931
9	811.0	352,740	153,347	43.5%	42.2%	146,614	6,733	6,700,330	6,225,644	474,686
12	3,210.0	141,240	79,501	56.3%	58.9%	83,322	(3,821)	896,234	943,171	(46,937)
13	4,073.0	Pass. Only	Pass. Only	Pass. Only	Pass. Only	Pass. Only	Pass. Only	(1,732)	(137)	(1,595)
17	1,364.0	511,716	158,159	30.9%	33.0%	152,161	5,998	5,787,098	5,378,225	408,873
18	2,940.0	262,658	84,862	32.3%	25.9%	79,790	5,072	653,924	590,696	63,228
19	4,963.0	694,820	344,445	49.6%	44.4%	356,368	(11,923)	2,886,918	2,895,948	(9,030)
20	3,745.0	237,414	82,675	34.8%	29.3%	81,829	846	687,114	634,709	52,405
21	5,448.0	544,800	238,282	43.7%	38.0%	238,535	(253)	1,729,693	1,628,188	101,505
22	4,280.0	256,800	103,840	40.4%	37.9%	105,523	(1,683)	725,170	717,683	7,487
23	5,851.0	814,240	367,569	45.1%	41.9%	366,181	1,388	2,926,306	2,842,462	83,844
24	2,116.0	126,960	57,174	45.0%	44.4%	56,855	319	532,331	509,729	22,602
25	3,972.0	219,744	84,632	38.5%	36.2%	83,871	761	894,585	818,029	76,556
26	3,096.0	160,992	44,938	27.9%	23.1%	49,452	(4,514)	422,359	435,536	(13,177)
Minor Routes	64,664.0	7,759,822	3,269,223	42.1%	39.2%	3,260,603	8,620	43,731,584	41,777,195	1,954,389
Total	77,432.5	16,819,072	8,735,828	51.9%	49.9%	8,675,549	60,279	315,117,498	302,971,194	12,146,304

Note 1) Revenue arises from bike traffic and freight.

Note 2) Obligations deferred or settled reflect the following:

Obligation deferred (settled) **615,054** **741,907**

Fiscal 2015 - At March 31, 2015, the routes were over price cap by \$1 million (\$0.6 million and \$0.4 million for vehicle and passenger, respectively).
 Fiscal 2014 - the deferral of tariff in excess of the price cap reflects the differences between the balances at March 31, 2013 (\$0.9 million and \$0.5 million for vehicle and passenger tariff, respectively), and the zero balances at March 31, 2014. The obligation was transferred to the fuel deferral account in accordance with British Columbia Commission Memorandum 45 dated March 20, 2014.

315,732,552 **303,713,101**

Note 3) Indicates percentage of sailings departing within 10 minutes of scheduled departure for the Major and Minor Routes, and arriving within 10 minutes of scheduled arrival for the Northern Routes.

Note 4) Effective April 1, 2014, Route 40 was discontinued as part of the service adjustments outlined by the Province, and replaced with an extension of Route 10. For comparative purposes, reporting of AEQ and passenger totals, tariff revenues, capacity utilization and on-time performance for Routes 10 and 40 in the prior years have been combined.



Operations Summary Report for the Year Ended March 31, 2015

Routes	K	L	M	N	O	P
	Passengers Fiscal 2015	Passengers Fiscal 2014	Passenger Growth (K - L)	Passenger Tariff Revenue Fiscal 2015 Note 2	Passenger Tariff Revenue Fiscal 2014 Note 2	Passenger Tariff Revenue Growth (M - N)
1	5,656,166	5,566,130	90,036	\$ 82,390,745	\$ 74,726,955	\$ 7,663,790
2	3,286,455	3,315,156	(28,701)	48,005,476	44,117,572	3,887,904
3	2,483,071	2,469,646	13,425	14,938,072	13,394,241	1,543,831
30	1,393,271	1,357,799	35,472	20,203,146	17,744,446	2,458,700
Major Routes	12,818,963	12,708,731	110,232	165,537,439	149,983,214	15,554,225
10	39,617	42,760	(3,143)	4,970,380	5,489,505	(519,125)
11	35,491	38,340	(2,849)	1,283,027	1,352,509	(69,482)
Northern Routes	75,108	81,100	(5,992)	6,253,407	6,842,014	(588,607)
4	621,888	605,300	16,588	3,052,628	2,704,051	348,577
5	460,196	456,697	3,499	2,185,447	1,892,634	292,813
6	444,853	450,043	(5,190)	1,830,294	1,632,092	198,202
7	324,841	329,276	(4,435)	1,923,831	1,764,668	159,163
8	1,120,017	1,117,329	2,688	3,755,457	3,360,182	395,275
9	434,628	416,257	18,371	5,309,735	4,503,249	806,486
12	154,738	161,439	(6,701)	830,387	726,013	104,374
13	41,814	43,640	(1,826)	179,133	165,253	13,880
17	341,819	329,058	12,761	4,113,684	3,586,084	527,600
18	154,586	156,188	(1,602)	533,811	447,872	85,939
19	748,066	757,454	(9,388)	2,263,367	2,012,557	250,810
20	237,706	241,110	(3,404)	632,063	569,820	62,243
21	446,682	457,856	(11,174)	1,282,624	1,142,066	140,558
22	197,861	206,039	(8,178)	550,529	519,832	30,697
23	769,888	775,546	(5,658)	2,159,748	1,959,344	200,404
24	95,843	98,415	(2,572)	371,090	329,558	41,532
25	223,090	215,006	8,084	831,772	727,512	104,260
26	83,435	90,226	(6,791)	263,790	270,077	(6,287)
Minor Routes	6,901,951	6,906,879	(4,928)	32,069,390	28,312,864	3,756,526
Total	19,796,022	19,696,710	99,312	203,860,236	185,138,092	18,722,144

% Sailings Within 10 Min. (Note 3)		
Fiscal 2013	Fiscal 2014	Fiscal 2015
87.2%	88.7%	87.7%
76.2%	72.5%	74.0%
81.9%	76.6%	77.4%
92.8%	92.6%	93.2%
84.5%	82.7%	83.1%
89.9%	89.8%	88.6%
97.0%	96.0%	94.6%
91.9%	91.6%	90.0%
95.9%	96.2%	96.6%
88.9%	88.2%	91.3%
91.1%	87.8%	86.6%
95.6%	88.7%	95.1%
90.3%	92.5%	89.0%
89.2%	89.1%	86.3%
91.9%	94.6%	93.7%
99.4%	99.8%	99.8%
94.4%	88.8%	94.2%
91.2%	86.9%	95.4%
96.1%	95.8%	90.1%
83.8%	82.3%	91.3%
99.1%	99.2%	97.2%
97.1%	98.5%	98.4%
98.6%	98.2%	98.0%
94.5%	92.8%	91.8%
88.0%	87.3%	85.4%
99.4%	99.0%	98.3%
93.6%	92.9%	93.2%
92.3%	91.5%	91.7%

Note 4

Obligation deferred (settled)	<u>397,898</u>	<u>453,364</u>
Total passenger revenue	<u>204,258,134</u>	<u>185,591,456</u>
Total vehicle and passenger revenue	<u>519,990,686</u>	<u>489,304,557</u>

Temporary Service Disruptions Report

Year Ended March 31, 2015



Route Financial Report
Year Ended March 31, 2015



Part 2

Service Quality



Part 2: Service Quality

Overview

This section provides information on the feedback customers have provided BC Ferries on its services and amenities.

The following two reports are included:

Customer Satisfaction Tracking Report

As in past years, the Company commissioned an independent professional consulting organization to conduct and document a comprehensive customer satisfaction survey. In addition to meeting BC Ferries' obligations under the Contract, the survey is an important part of the Company's ongoing market research program that supports various operational and marketing initiatives. For comparative purposes, each year's survey since 2003 has included an identical set of questions, with periodic minor modifications.

A copy of the 2014 customer satisfaction tracking annual report is provided, along with an overview of the key findings and the actions taken by BC Ferries to respond to the survey results.

Complaints Resolution Report

BC Ferries' current customer complaints process has been in place since 2005. Hearing from customers helps BC Ferries to understand if it is meeting or exceeding their expectations, or conversely, what areas need to be focussed on to improve service quality and support the Company in continuing to realize its vision and mission. The complaints resolution report contains a summary of the feedback BC Ferries has received during the fiscal year, the lessons learned and the actions taken in response.

Customer Satisfaction Tracking Report

2014





2014 Customer Satisfaction Tracking (CST) Results

Opportunities to Enhance the Customer Experience

Key Findings and Actions Taken

Summary

In 2014, a total of 85% of passengers surveyed reported to be satisfied overall with their experience travelling on BC Ferries, resulting in an average score of 4.11 on a 5 point scale. Customer satisfaction levels remained relatively consistent with the past year on most service areas. Satisfaction with *value for money of fares*, however, continued to decline year over year.

Areas of success identified by the CST are:

- Staff at the terminal and onboard;
- All aspects of the ticket purchase;
- Availability and cleanliness of terminal and onboard washrooms;
- Cleanliness of pre-boarding and onboard lounge seating;
- Appearance of terminals;
- Variety/selection in onboard gift shop/news stand;
- Availability and cleanliness of seating area of onboard food/beverage services;
- Availability of tourist and travel information;
- Outside decks and overall appearance of vessels;
- Procedures for loading and unloading; and
- Safety of ferry operations and loading/unloading.

Areas of opportunity to enhance the customer experience include:

- Value for money of fares, parking, and food/beverages both at the terminal and onboard;
- Ease of using automated phone system;
- Announcements at terminals and clarity of public address system;
- Ability to connect;
- Ferry sailing frequent enough;
- Latest ferry late enough; and
- Departing on time.

The factors thought to contribute to the lower scoring on these attributes, and the actions that have and/or will be taken in response, are provided in this report.

Overall Satisfaction with BC Ferries

A total of 85% of passengers surveyed reported to be satisfied overall with their experience travelling on BC Ferries, resulting in an average score of 4.11 on a five point scale. These findings represent a slight decrease from that recorded in 2013 (87% of passengers satisfied and a 4.17 average score). The overall satisfaction scores continue to be relatively stable by route with the exception of route 19 (Nanaimo Harbour - Gabriola), where satisfaction levels have weakened (3.46 in 2014 down from 4.13 in 2013). Demographically, Gulf Island residents reported lower overall satisfaction than the past measure (3.69 in 2014, down from 4.01 in 2013).

Correlation analysis that measures the strength of the relationship between survey variables in the research data reveals the drivers of total passenger overall satisfaction with BC Ferries are:

- Overall experience onboard ferry;
- Ability to get desired sailing;
- Overall experience at terminal;
- Ferry departing on time;
- Value for money of fares;
- Professionalism of terminal staff;
- Safety of operations; and
- Professionalism of onboard staff.

CST research shows that passengers rate BC Ferries as being overall successful in delivering on the majority of these satisfaction drivers, with the exception of *value for money of fares*. When examining satisfaction drivers by those routes with weakening results, *value for money of fares* continues to be an important driver, however it is surpassed in importance by *ability to get on desired sailing* and *ferry departing on time*.

Value for Money of Fares

Overall value for money of fares declined in 2014 to an average satisfaction score of 2.76, down from 2.93 in 2013.

Response:

BC Ferries understands that having an affordable ferry system continues to be an important consideration for its customers and the communities it serves.

BC Ferries' fares are regulated by the Commissioner in accordance with a price cap model. Over the past number of years, the price caps and the fares the Company has charged have risen at a level greater than the growth in the cost of living. In the report on his review of the Act, undertaken in 2012, the Commissioner noted that there are many reasons for this. BC Ferries' direct costs have risen significantly, some due to factors beyond the control of the Company such as fuel prices, new taxes and regulatory requirements. Indirect costs, such as amortization and interest have risen sharply as well, due to necessary capital investments in vessel replacements, terminal upgrades and other infrastructure. Though now stronger, traffic volumes have in past years been soft, which effectively requires that the costs of the service must be borne by a lower volume of riders. The Company's service contract with government has not enabled BC Ferries to optimize service delivery and at times, has limited its ability to consider opportunities to enhance efficiency and productivity. Despite the challenges referred to above, the public expectation is that ferry fares should be affordable, and should grow at rates that are reasonable and predictable over time.

In fiscal 2009, a time when fuel costs were rising and the economic downturn meant overall passenger revenues were falling, BC Ferries restructured its business to better align expenses within its control with revenue. Since then, the Company has continued with many of these cost containment measures and has managed costs as prudently as possible, without compromising the safety of its customers and operations.

BC Ferries is projecting to reduce operating expenses in PT3 by approximately \$20 million from the level incorporated in the PT3 price cap determination. This is in addition to efficiency and service adjustment targets of \$84.2 million as set out in the determination.

In his Performance Review of the Efficiency of BC Ferries issued on March 18, 2015, the Commissioner concluded that: "BC Ferries is demonstrating good cost control," and went on to say that "cost control has been achieved while obtaining good outcomes with customer satisfaction and passenger and employee safety."

Reducing costs is one way to keep fares as low as possible. Increasing revenues is the other. BC Ferries has created a Commercial Services Division and BC Ferries Vacations, and expanded catering and retail services – all of which have contributed strongly to the Company's bottom line.

While the Company continues to focus on productivity improvements, operating efficiencies and innovative ways to grow the business, many of its vessels are at the end, or are nearing the end, of their economic lives, necessitating a capital investment in new vessels. In addition to new ships, BC Ferries must also invest in its terminal marine structures and information technology. These capital costs create a challenge to fare affordability because the capital that is required is in the +\$3 billion range.

During PT3, through a combination of the price caps going above the rate of inflation, the Province contributing additional funding to keep the rate increases down, and BC Ferries' continued efforts to find and implement ways to contain costs and improve efficiency, the pressure on fares for PT4 and beyond has been significantly reduced, with the result that the preliminary price cap increases set by the Commissioner for PT4 are 1.9 percent per year, an amount comparable to the forecast rate of inflation.

In 2014, several fare reduction opportunities were available to customers:

- Fare discounts are available year-round for customers travelling BC Ferries' minor routes and route 3 (Horseshoe Bay – Langdale). Fare discount programs have been in place since 1961 for all Gulf Islands and since 1972 for the Sunshine Coast, previously in the form of paper books or pre-paid tickets. In the spring of 2008, the BC Ferries Experience™ Card was introduced as a replacement to the paper books of pre-paid tickets.
- BC Ferries implemented a "size up the savings" promotion in summer of 2014. On Wednesdays and Saturdays from June 18 through September 6, customers with vehicles longer than 20 feet paid only \$2.00 per foot additional length charge on the Tsawwassen – Swartz Bay and the Tsawwassen – Duke Point routes on sailings starting at 4:00 pm onwards. The Company is continuing this promotion in summer 2015.

While considerable strides have been made to date, it will take new initiatives to maintain fare affordability going forward. These initiatives will focus on larger, structural changes regarding how BC Ferries provides service and how it can enhance the customer experience, thereby supporting fare affordability by further cost reductions

and increasing traffic and revenue. Some of these initiatives will require an upfront investment that will pay dividends to customers, coastal communities, the Province and the Company over the longer term. For PT4 and beyond, BC Ferries is pursuing four strategies for further efficiency gains:

1. Liquefied natural gas fuel efficiencies;
2. Business transformation strategies enabled by new information technology infrastructure that result in an improved customer experience;
3. Major Routes Strategy; and
4. Southern Gulf Islands Strategy.

These strategies are addressed in the Company's submission to the Commissioner dated September 30, 2014, entitled Strategies for Enhanced Efficiency in Performance Term Four and Beyond.

Value for Money of Parking

Slight decreases were recorded this year for *value for money of parking* at the major terminals (2.95 in 2013 to 2.76 in 2014). The Tsawwassen terminal experienced the greatest decrease, from 2.95 in 2013 to 2.55 in 2014.

Response:

There have been no material changes to parking facilities or parking rates since January 2010. Parking rates at terminals in Metro Vancouver are slightly higher than Vancouver Island terminals due to the impact of the 21% transit tax implemented in 2010.

Improvements are underway to upgrade the parking system's phone for extended time service at Tsawwassen and Horseshoe Bay terminals to move from an automated system to a "live person service" for increased customer contact. This system is currently in place at the Swartz Bay, Duke Point and Departure Bay terminals.

Value for Money of Onboard Food/Beverages

Overall satisfaction ratings with the service aspects of *onboard food/beverages* and the *gift shop* continued to be stable and score high. However, *value for money* scores decreased for the Pacific Buffet from 3.55 in 2013 to 3.49 in 2014, and for the Snack Bar/Coffee Shop from 3.31 in 2013 to 3.24 in 2014.

Response:

BC Ferries endeavours to keep food and beverage price increases to a minimum. The overall food and beverage pricing strategy is to increase price to match cost of goods increases. Limited time promotions are offered from time to time to provide greater value to the customer. Examples include:

- Buy one and get one free light buffet;
- Save \$1 when you combine a soup and sandwich;
- Save \$1 when you add a pie to any entrée; and
- Celebrate BC White Spot Bundle at 50 cents lower than individual purchases and \$1.00 less than White Spot Restaurants.

Ease of Using Automated Phone System

Ease of use of the automated phone system rating has been stable for many years; however, with a score of 3.25 in 2014, it continued to be rated lower than some of the Company's other services.

Response:

There have been a number of technical issues with the automated phone system used to provide customers with information regarding schedules, card balances and reserved boarding. BC Ferries is working closely with the service provider to achieve better service reliability.

Announcements at Terminals and Clarity of Public Address System

Announcements at terminals and clarity of public address system continued to be rated lower than other terminal services, scoring 3.77 and 3.55 respectively in 2014.

Response:

BC Ferries conducted a survey of customers who previously provided feedback to its Customer Care Department regarding the clarity and content of terminal announcements. Survey results led to new hardware being installed at both the Swartz Bay and Tsawwassen terminals to improve clarity. New announcement scripts are being heard by customers at the Tsawwassen terminal as part of a pilot project. Customer feedback on the new announcements will be obtained through surveys and Customer Care contact mechanisms to gauge customer satisfaction. The announcements will be amended, if required, prior to implementing them at Swartz Bay, Horseshoe Bay, Departure Bay, Duke Point and Langdale terminals in 2015.

Ability to Connect

Ratings with most aspects of sailing schedules diminished in 2014, most notably the *ability to connect with other sailings* which declined from 3.35 in 2013 to 3.05 in 2014. Routes where this attribute was rated the lowest were route 1 (Swartz Bay - Tsawwassen) at 2.57, route 3 (Horseshoe Bay – Langdale) at 2.70 and route 19 (Nanaimo Harbour – Gabriola) at 2.71.

Response - Route 1 (Swartz Bay - Tsawwassen):

Declining satisfaction likely stems from through-fare travel at Swartz Bay where route 4 (Swartz Bay - Fulford Harbour) and route 5 (Swartz Bay - Gulf Islands) connect with route 1. Connection issues are caused by tight sailing schedules and logistical challenges at the Swartz Bay terminal. BC Ferries is conducting a review of logistical issues at the Swartz Bay terminal to see if any through-fare improvements can be realised.

BC Ferries is also conducting a review of the Southern Gulf Island schedules prior to the introduction into service on the Southern Gulf Island routes of two new intermediate class ferries, *Salish Eagle* and *Salish Raven*, in 2016 and 2017. Consultations with Ferry Advisory Committees are underway and public consultations will commence in August, 2015.

Response - Route 3 (Horseshoe Bay – Langdale):

Declining satisfaction is likely due to connectivity between this route and route 7 (Earls Cove - Saltery Bay). On-time performance on route 3 affects a customer's ability to make a connection between these routes. In the summer of 2014, BC Ferries revised summer schedule service on route 7 to increase the number of scheduled connections. BC Ferries is currently working to improve route 3 on-time performance to alleviate connectivity issues.

A midday gap in service implemented during the summer season on route 7 in 2014, after consultation with the communities, did not prove to be as workable as envisaged. Following further community consultation, BC Ferries revised the schedule for the 2015 summer season (now in operation).

Response - Route 19 (Nanaimo Harbour – Gabriola):

Declining satisfaction on this route is likely due to service level adjustments made in 2014. Connecting with the first sailing of the day on route 2 (Horseshoe Bay- Departure Bay) is important to BC Ferries' route 19 customers. However, with the service level adjustments made last year, the connection to the 06:30 route 2 sailing departing Departure Bay was lost. Service level adjustments were mandated by the Province and optimised with the community through consultation; no changes are presently contemplated.

Route 2 on-time performance can also make route 19 connections a challenge. Route 2 schedules change seasonally to allow sufficient time to load the vessel to maintain satisfactory on-time performance. Berth congestion is experienced at Horseshoe Bay and can negatively impact on-time performance. The schedule is currently being reviewed in the context of this issue.

Ferry Sailing Frequent Enough

Satisfaction with *ferry sailing frequent enough* decreased from 3.54 in 2013 to 3.40 in 2014. Routes with the greatest decrease were route 19 (Nanaimo Harbour – Gabriola) which declined from 4.01 in 2013 to 2.33 in 2014, and route 3 (Horseshoe Bay – Langdale) which declined from 3.11 in 2013 to 2.85 in 2014.

Response - Route 19 (Nanaimo Harbour – Gabriola):

Declining satisfaction on this route is likely due to service level adjustments in 2014, which were mandated by the Province. Service on this route was reduced from 15-16 round-trips per day to 12-14 round-trips per day. The first schedule implemented after the service adjustments had a large midday gap. Working with the communities, BC Ferries revised the schedule in April, 2015 to reduce the midday gap.

Response - Route 3 (Horseshoe Bay – Langdale):

As part of the service adjustments mandated by the Province in 2014, Sunday service on this route was reduced from eight round-trips to seven round-trips during the fall/winter/spring schedule creating a midday gap in service. The schedule was optimised through public consultation with the community to reduce the midday gap. Schedules for this route are currently under review to optimise service further.

Latest Ferry Late Enough

Overall satisfaction with *latest ferry late enough* decreased from 3.52 in 2013 to 3.45 in 2014. Route 19 (Nanaimo Harbour – Gabriola) reported the greatest decrease from 4.00 in 2013 to 3.08 in 2014.

Response - Route 19 (Nanaimo Harbour – Gabriola):

Declining satisfaction on this route is likely due to service level adjustments mandated by the Province in 2014. The latest sailing on this route was adjusted from 23:30 to 23:00 departing Nanaimo Harbour. No changes to the schedule are presently contemplated.

The schedule for this route does have one of the latest sailing times in the system. For reference:

- Latest sailing from Buckley Bay to Denman Island is 23:00 in the summer schedule and 21:45 on weekdays in the fall/winter/spring schedule.
- Latest sailing from Campbell River to Quadra Island is 21:45 on weekdays and 22:45 on weekends.

Departing on Time

Overall satisfaction with *departing on time* decreased from 3.80 in 2013 to 3.73 in 2014. Route 3 (Horseshoe Bay - Langdale) and route 19 (Nanaimo Harbour – Gabriola) reported the lowest satisfaction ratings at 3.11 and 2.69, respectively.

Response - Route 3 (Horseshoe Bay – Langdale):

Operations at the Horseshoe Bay terminal are challenged by the physical limitations of the terminal property:

- Constrained entry and exit point for the vessels;
- Single exit lane for vehicles;
- Three routes - route 2 (Horseshoe Bay – Departure Bay), route 3 (Horseshoe Bay – Langdale) and route 8 (Horseshoe Bay – Bowen Island) operating out of three berths with 31 to 38 sailings daily and no spare berth capacity.

Following completion of a review of procedures and practices, opportunities were identified and implemented effective July, 2015 to improve on-time-performance for all three routes.

Response – Route 19 (Nanaimo Harbour – Gabriola):

In September, 2014, the schedule for this route was adjusted to alleviate delays caused by limited time to turn the vessel around between sailings. Further adjustments on this route came into effect in April, 2015 which are intended to provide further improvements in on-time performance.

Complaints Resolution Report

Year Ended March 31, 2015



