
British Columbia Ferry Services Inc.

Annual Report
to the
British Columbia Ferries Commissioner

Year Ended March 31, 2008



Table of Contents

Introduction.....	2
 Part 1: Services on Designated Routes	
Overview	5
Reports for the Year Ended March 31, 2008.....	9
Operations Summary Report	9
Temporary Service Disruptions Reports.....	12
Route Financial Report.....	23
 Part 2: Service Quality	
Customer Satisfaction Tracking Annual Report	31
Executive Overview.....	34
Detailed Findings	39
Appendices	66
 Part 3: Additional or Alternative Service Providers	
Overview	77

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, 2008 (the "fiscal year"), 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 and the actions taken by the Company to investigate alternative service providers 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

BC Ferries delivers coastal ferry services on 25 designated ferry routes under the Coastal Ferry Services Contract (the "Contract") between BC Ferries and the Province of British Columbia as represented by the Ministry of Transportation. These ferry routes are regulated under the Act. 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 designated ferry routes.

Although BC Ferries has one of the largest fleets in the world, the average age of our assets is currently among the oldest of major ferry operators worldwide. To address this, BC Ferries has implemented a comprehensive fleet and asset renewal program resulting in the *Northern Adventure* and the *Kuper* being added to the fleet in March 2007, and in March 2008, the first Super C-class vessel, the *Coastal Renaissance*, commenced service. For summer 2008, the second Super C-class vessel, the *Coastal Inspiration*, has also commenced service. Over the next five-year period ending March 2013, BC Ferries expects to bring an additional five new vessels into service. Replacing vessels, and maintaining a comprehensive refit and upgrade program, will assist in maintaining operational reliability.

For each of the designated ferry routes, safety continues to be our highest priority. BC Ferries has voluntarily adopted and implemented a safety management system based on the International Maritime Organization's International Safety Management Code (ISM) and have chosen Lloyds Register, a world authority on marine safety, to be our external auditors to ensure full compliance with the ISM Code. In addition, BC Ferries' operations are regulated and audited by Transport Canada – Marine Safety.

In 2006/07 Mr. George Morfitt, former Auditor General of British Columbia, reviewed the Company's safety program and made 41 recommendations, all of which BC Ferries has committed to implement. As at May 2008, BC Ferries had implemented sixteen of the recommendations while twenty-five recommendations are in progress and ongoing, of which eighteen are being addressed as part of the SailSafe program. SailSafe is a joint

initiative of BC Ferries and the BC Ferry & Marine Workers' Union, which was launched in 2007/08 to identify areas and methods for enhancing current safety practices at BC Ferries. The program incorporates international best practices with a goal to continuously improve our Safety Management System.

Part 2: Service Quality

As in past years, BC Ferries commissioned an independent professional consulting organization to conduct and document a comprehensive customer satisfaction survey in 2007/08. In addition to meeting BC Ferries' obligations under the Contract, it 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 includes an identical set of questions. The questions and responses from the survey conducted in 2007/08 are contained in Part 2 of this report.

Part 3: Additional or Alternative Service Providers

Under the Act, BC Ferries is required to seek additional or alternative service providers to provide ferry services on the designated ferry routes. Section 69 of the Act requires that BC Ferries file an Additional or Alternative Service Providers Plan ("ASP Plan") with the Commissioner for each performance term under the Contract¹. In accordance with this requirement, BC Ferries' has filed ASP Plans for both performance terms one and two.

Part 3 of this report provides a status report on the alternative service delivery initiatives identified in the ASP Plan for performance term one, including the specific actions undertaken by the Company in respect of those initiatives during 2007/08, the final year of the first performance term.

¹ Performance Term One is defined under the Coastal Ferry Services Contract as April 1, 2003 to March 31, 2008. Performance Term Two is defined as April 1, 2008 to March 31, 2012. Subsequent Performance Terms are defined as the four-year periods thereafter. The Coastal Ferry Services Contract can be found on the BC Ferries website (www.bcferrries.com).

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 2007/08 for each of the designated ferry routes.

The following three reports are included:

Operations Summary Report

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

➤ Round Trips

The total number of round trips BC Ferries delivered on each of the designated ferry routes is provided.

Overall, BC Ferries delivered a total of 84,335 round trips during the year, which was 1,313.5 more net round trips than were scheduled and above core service levels as specified in the Contract.

➤ 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 Automobile Equivalents (AEQ). 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 2007/08, BC Ferries provided capacity sufficient to carry the traffic, with capacity utilization on the designated ferry routes ranging from 26% to 81%

➤ Traffic and Revenue

Vehicle traffic (AEQs or Automobile Equivalents) and passenger traffic carried on each of the designated ferry routes during 2007/08 is presented and compared to the traffic carried in the previous fiscal year. The associated tariff revenue generated from each route is also shown.

On a year over year basis, the number of AEQs carried increased by 1.0% and the number of passengers carried increased by 0.6%. On the major routes, the number of AEQs carried increased by 2.5% and the number of passengers carried increased by 1.4% from the previous fiscal year. On all other routes combined, the number of AEQs carried and the number of passengers carried

each decreased marginally by 0.3% from the previous fiscal year. Contributing to this slight decline was the major refit of the *Mill Bay*, which services BC Ferries' Mill Bay-Brentwood Bay route (route 12). Service on this route was suspended for almost two months in the first quarter to allow for the refit. The Contract provides for a temporary service disruption of up to sixty-five days once every four years to refit the *Mill Bay*.

Traffic on the northern routes (route 10 and route 11) recovered from the previous fiscal year, which was significantly impacted by the loss of the *Queen of the North* in March 2006. In 2007/08, the number of AEO's carried and the number of passengers carried on the northern routes increased 33.5% and 39.5%, respectively from the previous year. While traffic levels have steadily increased since the resumption of full service on the northern routes, traffic has not yet reached the levels experienced during 2005/06.

Revenue from all vehicle and passenger traffic on the designated ferry routes totalled \$382.2 million in the fiscal year. This includes revenue of \$286.6 million from the major routes and \$95.6 million from all other routes.

➤ **On Time Performance**

The percentage of sailings departing within 10 minutes of the scheduled time is provided for each of the designated ferry routes.

On a fleet wide basis 86.5% of the sailings in 2007/08 departed within 10 minutes of the scheduled departure time, up marginally from the previous year of 86.3%. Improvements in on-time performance included route group 5 (route 12) increasing 6.3% and route group 6 (minors) increasing 0.7% year over year. The major routes' on-time performance declined by 2.8% from the previous fiscal year, while on-time performance for route group 2 (route 3), route group 3 (north) and route group 4 (route 40) declined year over year by 3.7%, 19.6% and 15.3%, respectively.

With respect to the major routes, specifically route 2 and route 30, construction (and resulting traffic congestion) at both Duke Point and Departure Bay negatively impacted on-time performance. For route 1, heavier traffic during peak periods exerted pressure in maintaining on-time performance.

The introduction of new vessels into service can temporarily affect on-time performance. This was experienced with the introduction into service of the new northern vessel, *Northern Adventure*, and was the primary reason for the year-over-year decline in on-time performance for the northern routes.

Temporary Service Disruptions Report

These reports outline whether any round trips, as specified in the published schedule for the fiscal year, were missed at the route and route group level and the reasons for the missed round trips. There are four sections of this report:

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

For each designated ferry route, the cumulative and consecutive number of days for which scheduled round trips were missed and the causes of the missed round trips are noted. The cumulative information is reported on a calendar year basis, consistent with BC Ferries' reporting requirements under the Contract. It is important to note that although a specific scheduled sailing may have been missed on a route, overall, BC Ferries provides more sailings than those required.

In 2007/08, BC Ferries exceeded its core service level commitments under the Contract by 1,313.5 net round trips. Most of these additional round trips were delivered on route 21 (Vancouver Island to Denman Island) and route 22 (Denman Island to Hornby Island). While routes 21 and 22 provide additional sailings in the summer during peak demand, additional round trips were also provided when the route 21 vessel was removed from service for an extended refit. With a smaller vessel providing service, BC Ferries delivered additional round trips on both routes 21 and 22 to accommodate traffic demand.

For all route groups combined, BC Ferries delivered 101.6% of the scheduled number of round trips in 2007/08.

In the "Round Trip Service Delivery and On Time Performance" report, certain elements of reporting are graphically presented including the scheduled and actual round trips and on-time performance. The percentage of sailings departing 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, 11.2% of the BC Ferries' sailings on the designated ferry routes were overloaded in 2007/08. On a year over year basis, the percentage of overloaded sailings on the major routes increased from 36.1% to 45.0% while the percentage of overloads on all other routes decreased from 7.3% in fiscal 2006/07 to 6.8% in fiscal 2007/08.

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 the route groups specified in the Contract. 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 and have been consistently applied year over year. Included in operating expenses for each route, are the costs of refit and maintenance of vessels serving that route. Refit and maintenance costs for each vessel may vary significantly from year to year with a corresponding effect on route net income (loss).