

# British Columbia Ferry Services Inc.

## Supplemental to Performance Term Six Filing



**March 3, 2023**

Note: In this copy of the Filing, information of a confidential and commercially-sensitive nature has been redacted.

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#### *Caution Regarding Forward-Looking Statements*

*This report contains certain "forward looking statements". These statements relate to future events or future performance and reflect management's expectations regarding the company's growth, results of operations, performance, business prospects and opportunities, financial and business risks, and industry performance and trends. They reflect management's current internal projections, expectations or beliefs and are based on information currently available to management. Actual results may differ materially from any forward looking statement. Although management believes that the forward looking statements contained in this report are based upon reasonable assumptions, investors cannot be assured that actual results will be consistent with these forward looking statements. These forward looking statements are made as of the date of this report, and the Company assumes no obligation to update or revise them to reflect new events or circumstances except as may be required by applicable law.*

## Introduction

British Columbia Ferry Services Inc. (“BC Ferries” or the “Company”) provides this supplemental filing in support of its Performance Term Six Submission (“PT6 Submission”),<sup>1</sup> to update the British Columbia Ferries Commissioner (the “Commissioner”) on key factors relevant for the establishment of price caps for Performance Term Six.

In the months following its September 30, 2022 submission, the Company has become exposed to an elevated risk of recession and has experienced significantly higher inflationary and cost pressures across all parts of the organization, requiring a reassessment of its estimates and plan adjustments in three key areas:

- Traffic Outlook – Section 1 provides an updated traffic outlook reflecting the elevated certainty of a recession during 2023, and discusses how fare increases above inflation may further influence traffic in the long term;
- Capital Program and Maintenance – Section 2 provides updates on the PT6 12-year capital plan and maintenance expenses reflective of continued inflation, and schedule adjustments informed by asset condition assessments; and
- Labour and Development – Sections 3, 4 and 5 provide an updated view into talent availability challenges, including a growing gap of both exempt and bargaining unit wages relative to the marketplace.

While these pressures were only beginning to be felt as BC Ferries finalized its PT6 Submission, they have now come to be reflected six months later in the Company’s Fiscal 2023 performance and planning efforts, with further mitigation efforts required for Fiscal 2024 onwards.<sup>2</sup>

In addition, the Company’s PT6 Submission highlighted several short-term activities under its workforce planning strategies that have since progressed. These activities have identified several factors that are contributing to the Company’s current labour challenges, along with several mitigation initiatives that while helping to ensure safe, reliable service, place further upward pressure on the Company’s expenses.

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<sup>1</sup> British Columbia Ferry Services Inc. Performance Term Six Submission, September 30, 2022.

<sup>2</sup> Fiscal years at BC Ferries are from April 1 to March 31.

Since September 30, 2022, the Company has identified the following incremental increases for Performance Term Five:

**Table 1 – Revision to the Fiscal 2023 and 2024 PT6 Submission Outlook**

(\$millions)	<b>Fiscal 2023</b>	<b>Fiscal 2024</b>
<b>Tariff Revenue</b>		
<b>PT6 Submission Outlook</b>	<b>682.0</b>	<b>712.6</b>
<i>Traffic Increase</i>	<i>5.1</i>	<i>0.0</i>
<i>Recession</i>	<i>0.0</i>	<i>(14.0)</i>
<i>Yield Opportunity</i>	<i>0.0</i>	<i>15.9</i>
<b>Change to Tariff Revenue</b>	<b>5.1</b>	<b>1.9</b>
<b>Supplemental Submission Revised Outlook</b>	<b>687.1</b>	<b>714.5</b>
<b>Operating Expenses</b>		
PT6 Submission Outlook	793.9	828.8
Labour and Development	(15.2)	(32.3)
Maintenance & Refit Inflation Pressure	(6.9)	(7.9)
Other Changes	(3.9)	1.8
Contingency	18.3	-
<b>Change to Operating Expenses</b>	<b>(7.7)</b>	<b>(41.6)</b>
<b>Supplemental Submission Revised Outlook</b>	<b>801.6</b>	<b>870.4</b>

The Company believes that this information is relevant to the Commissioner's preliminary price cap determination and respectfully submits these details for the Commissioner's consideration.

## Section 1 – Traffic Outlook

BC Ferries' traffic outlook has been updated to reflect the growing certainty of a mild recession occurring during Fiscal 2024, along with the implication that cost escalation may have on yields.

### 1.1 Forecasted 2024 Recession

Section 3 of the PT6 Submission discussed BC Ferries' risk profile, including the possible impacts to coastal ferry traffic associated with current high energy prices, inflation and the potential for a recession. BC Ferries noted the following for the near-term traffic forecast:

*"The high levels of consumer spending witnessed during 2021 and 2022 may dissipate due to current high levels of inflation and the aggressive interest rates set in place by central banks to combat it. Traffic may also decrease if a recession materializes. Given the difficulty of forecasting the likelihood, timing and severity of economic events, BC Ferries has assumed a slowing economy for the remainder of PT5" (page 99).*

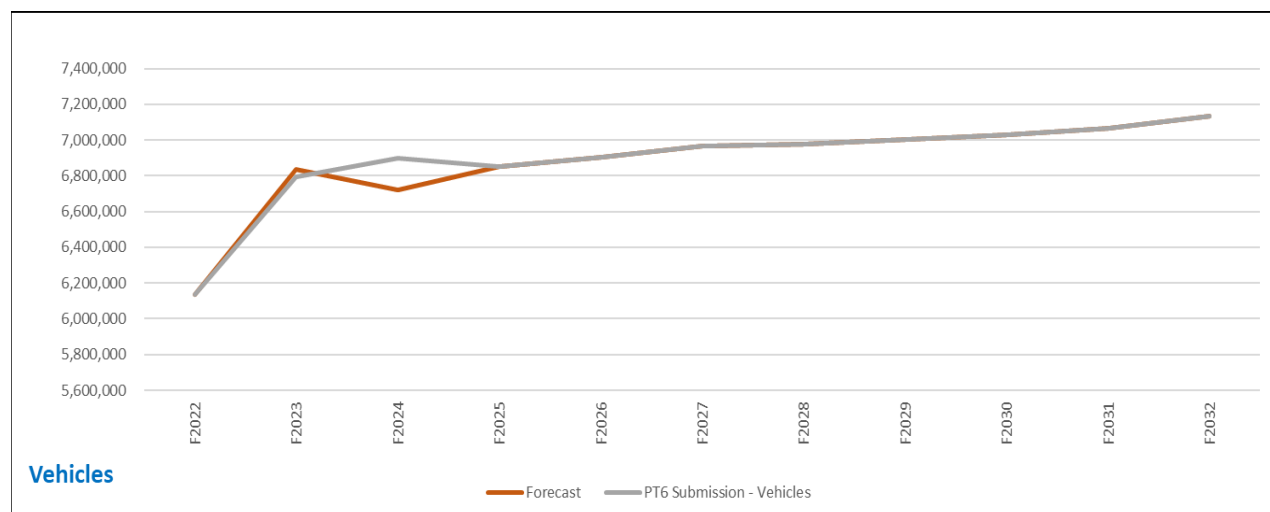
In fact, since the PT6 Submission was filed last September, a recession is now being forecast by the six major banks in Canada. While the forecasted timing and severity of the recession varies, the forecasts generally suggest that it will occur in the first half of calendar 2023 and that it will be mild. Using these details as a guide, BC Ferries has updated its traffic outlook to assume a mild recession will now occur primarily in the early part of Fiscal 2024.

Based on experience with past recessions, BC Ferries expects that a mild recession, with the downturn in economic activity, would impact traffic across the coastal ferry system by between one and three percent. The Company has therefore assumed that the forecasted recession will reduce traffic on the minor and northern route groupings on average two percent from levels provided with its PT6 Submission. The major route grouping is expected to remain near previously forecasted levels through the use of revenue management to mitigate the recession's impacts.

In addition to a forecasted recession, high inflation and rising interest rates are expected to slow down consumer spending over the next two years. As consumer spending slows down there is a real risk there will be a reduction in discretionary travel, which could further impact traffic. For now this has been identified as a risk, as there is currently insufficient information to determine the size and duration a slowdown in consumer spend could have above the impacts of the recession.

For its revised forecast, the Company has assumed that all traffic impacts related to the changing economic conditions will be limited to the early part of Fiscal 2024, reducing tariff revenue by \$14.0 million. The Company is assuming that favourable economic conditions will return in Fiscal 2025 and that traffic will realign with the long-range forecast contained in the PT6 Submission:

**Figure 1 – Impact of Forecasted Recession to System Private Vehicles versus PT6 Submission**



## 1.2 Price Elasticity

A key consideration in forecasting traffic is anticipating how it responds to changes in fares (price elasticity). Price elasticity is the percentage change in traffic as a result of a percentage change in price (fares). The following table provides the fare elasticities for the major and minor route groupings:

**Table 2 – BC Ferries private and passenger traffic fare elasticities\***

Average Fare Elasticities (Percent Change in Fares) x Fare Elasticity = Percent Change in Traffic		Private Vehicles	Passengers
Fares	Major route grouping	-0.36 to -0.24	-0.36 to -0.22
	Minor route grouping	-0.31 to -0.12	-0.25 to -0.07

\* There are no elasticities available for the northern route grouping as it has not been modeled in the same way as the major and minor route groupings.

The price elasticities have been estimated from changes in inflation-adjusted fares. Based on recent historical inflation rates, the price elasticities are applied to the amount of the change in fares above a two percent rate of inflation. For example, for every one percent change in the fares above two percent private vehicle traffic on the major routes are expected to decrease between 0.24 and 0.36 percent. This places the focus on fare increases above general price changes in the economy, or more directly, the amount of the increase unique to fares.

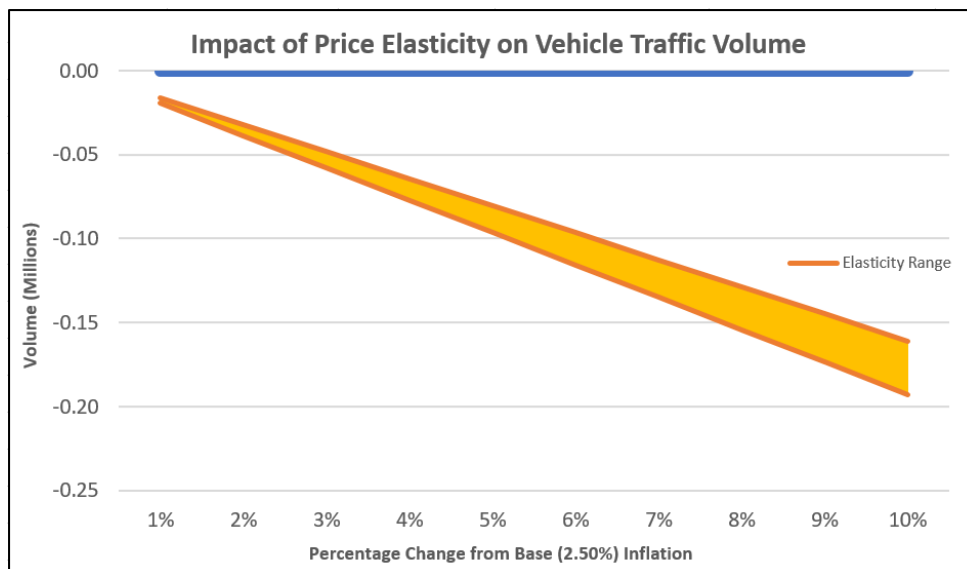
Relative to recent high levels of inflation, recent fare increases have actually been well below inflation, which could be stimulating traffic. Uncertain inflationary conditions, combined with the potential for



larger fare increases, could result in price elasticity leading to variation from the base forecasted traffic levels.

Figure 2 provides an overview of the range of how traffic may be impacted as fares increase relative to the rate of inflation.

**Figure 2 – The Impact of Price Elasticity to Vehicle Traffic Volumes**



### 1.3 – Fiscal 2024 Yield

Under the Contribution Agreement signed between the Province and BC Ferries on November 11, 2020 ("Contribution Agreement"), BC Ferries agreed to limit its price cap increases to 2.3 percent for each fiscal year from Fiscal 2022 to 2024, foregoing a 2.3 percent increase for Fiscal 2021. In return, the Province provided \$24 million in compensation. The \$24 million value was predicated on a traffic forecast developed at the onset of the COVID-19 pandemic. Actual traffic has returned by varying degrees for each traffic type and at a faster pace overall.

During this same period, BC Ferries introduced fare options through its revenue management program. Customers are able to access discounted fares when reserving and prepaying in advance, while still having the option to arrive at the terminal without a reservation and wait for the next available sailing. This program provides customers with greater choice, certainty and access to discounted fares, while enabling the Company to manage demand and achieve higher overall capacity utilization. As a result, up to 80 percent of customers are booking in advance where available.

Given the recent strong return in traffic, and customers' growing propensity to take advantage of the opportunities offered by booking in advance, discussions are under way with the Province to ensure the terms of the Contribution Agreement do not inadvertently place a restriction on tariff revenue. This

restriction would reduce the Fiscal 2024 fares used as a 'base' from which average annual fare increases could be applied, causing significant upward pressure on fares for Performance Term Six to make up for what would not be earned. The Fiscal 2024 outlook provided as part of the PT6 Submission had assumed this restriction was in place. While discussions are still underway with the Province, removing the restriction provides up to \$15.9 million in additional tariff revenue in Fiscal 2024.

# Section 2 – Capital Program & Maintenance

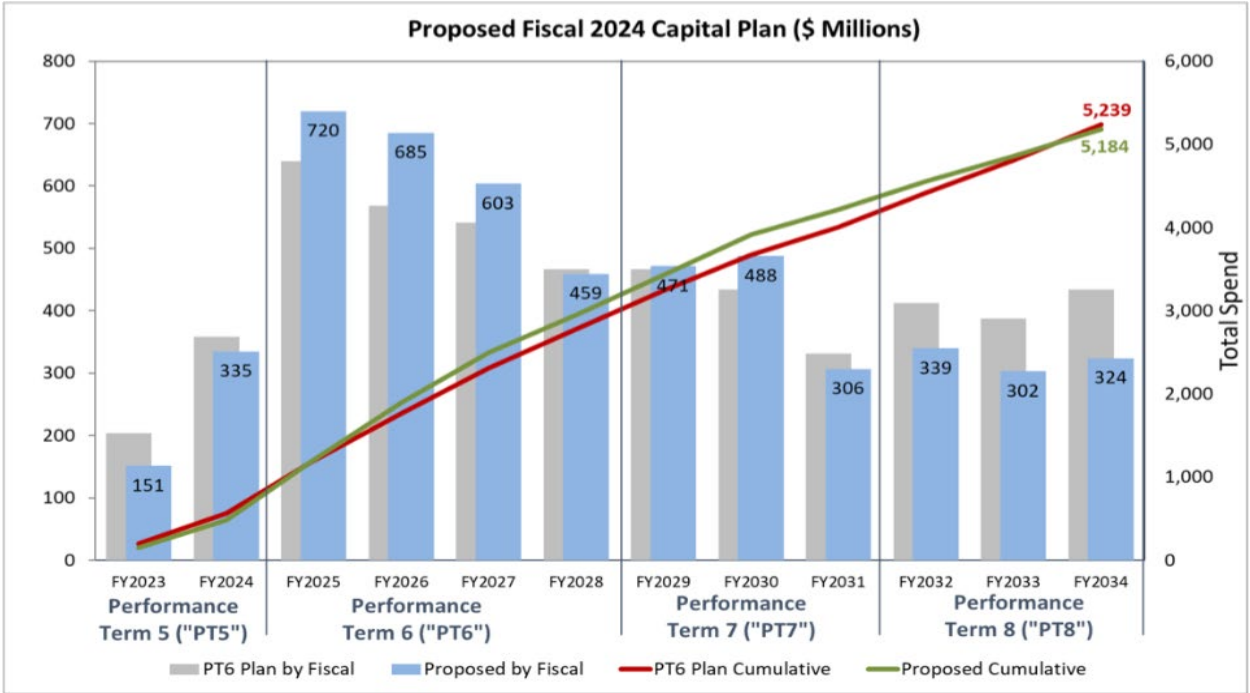
Since the PT6 Submission was provided to the Commissioners in September, 2022, BC Ferries’ 12-year Capital Plan has been updated as part of a regular annual review exercise. As discussed below, changes in the updated plan reflect inflationary cost pressures and updated asset condition assessments.

## 2.1 Capital Plan Refresh

Every fall/winter, management reviews and updates the Company’s 12-year capital plan, which is then submitted to the BC Ferries Board of Directors for approval the following February. This process captures changes to needed investments arising from asset conditions, market factors, business needs and strategic priorities.

During the fall of 2022, management updated the 12-year Capital Plan (Fiscal 2023 to 2034) resulting in a net reduction of \$56 million to a total of \$5.184 billion (as compared to \$5.240 billion previously). Inflation and asset condition based additions have been offset by deferring certain investments beyond Fiscal 2034. There is, however, a net increase in expenditures during the first half of the plan:

**Figure 3 – Update Twelve Year Capital Plan**



The following table categorizes the key changes to the capital plan both in the first six years and the last six years:

**Table 3 - Changes in the Twelve Year Capital Plan relative to the PT6 Submission**

	<b>Fiscal 2023 to Fiscal 2028</b>	<b>Fiscal 2029 to Fiscal 2034</b>	<b>12 Year Total</b>
Placeholder changes (inflation)	(\$177)	(\$52)	<b>(\$229)</b>
New projects (50+)	(\$81)	(\$82)	<b>(\$163)</b>
Cancelled projects (~20)	\$17	\$7	<b>\$24</b>
Re-profiled projects	\$64	(\$6)	<b>\$58</b>
Deferred outside plan	-	\$366	<b>\$366</b>
<b>TOTAL</b>	<b>(\$177)</b>	<b>\$233</b>	<b>\$56</b>

At its meeting in February 2023, the Board *endorsed* (did not approve) management’s updates to the twelve year capital plan and will revisit it in June 2023, following the Commissioner’s preliminary price cap decision for PT6.

## **2.2 Placeholder Changes (inflation)**

The project spend placeholders that were included in the PT6 submission reflected market conditions as of the fall/winter of 2022. Over the past year (and since the PT6 submission), as a result of extraordinary inflationary pressures, each asset area (terminals, vessels and information technology) has reviewed their required investments and updated their capital estimates.

In total, the twelve year capital spend has increased by ~\$229 million for placeholder changes:

- The capital spend in the PT6 submission for new vessels, representing approximately 40 percent (~\$2.2 billion) of the capital plan, included an allowance for shipbuilding market escalation. Estimates remain the same with the exception of Island Class Phase 3 project. The placeholder spend for the Island Class Phase 3 project has been increased to address assumed cost escalation and the incremental cost to build new all-electric vessels versus modifying existing ones.
- The capital spend on existing vessels, terminals and information technology, approximately 60 percent (~\$3.1 billion) of the capital plan, had placeholder increases of ~\$187 million (~6 percent), largely attributed to inflationary pressures.
- To a lesser extent, placeholder updates also reflect adjustments for scope and estimate refinements, and have also been made to ensure consistency across similar scopes of work (e.g., terminal berth rebuilds).

## 2.3 New Projects and Advancements

Since the PT6 submission, approximately \$163 million in new projects have been added to the twelve year capital plan, largely through schedule advancements due to asset condition.

In practice, the scope and timing of condition-based projects are based on asset age and BC Ferries' best and most recent assessments. For *vessel* assets, conditions are gauged during regulatory refit overhauls, planned maintenance inspections, condition monitoring and day to day operating oversight. These factors, along with original equipment manufacturer recommendations, help in the development of long range maintenance plans. On the other hand, *terminal* condition assessments are completed internally on quarterly and annual cycles and are supplemented by external "Level II" condition assessments every five to seven years.

Two key projects with placeholder updates have been *advanced* within the twelve year capital plan into PT6, contributing to the increase in spend from Fiscal 2023 through 2028:

- ***Major Terminal Efficiency Program***

Capital funds for this program have been advanced into Fiscal 2023 through 2028. The program is projected to provide a return on investment, primarily from labour savings. The overall placeholder for the program has been reduced.

- ***Northern Adventure Mid-Life Upgrade***

Due to the age and condition of the *Northern Adventure*, the timing of its mid-life upgrade has been brought forward by five years. As a result, capital funds have been advanced to Fiscal 2023 through 2028. The overall placeholder for the upgrade has been reduced.

In addition, the following four *new* projects account for approximately 50 percent of the increased spend for new projects and relate to condition-based advancements of terminal asset replacements:

- ***Snug Cove Berth Replacement in Fiscal 2030***

This project will replace a trestle and berth at Snug Cove, including separate foot passenger walkways, in alignment with the terminal development plan. While the PT6 12 Year Capital Plan assumed replacement would be completed in Fiscal 2036 (~\$0.5 million spend occurred in Fiscal 2034 within the capital plan), this timing has been advanced to Fiscal 2031 because of a recent condition review by Terminal Engineering. The next Level II survey is scheduled for Fiscal 2026 and will further inform the project timing.

- ***Earls Cove Berth 2 Replacement in Fiscal 2032***

This project will replace the berth and all marine structures at Earl's Cove. At the time of the PT6 Submission, it was assumed that replacing the berth would be outside the capital plan as a

life extension is already planned for Fiscal 2028. However, it is now recognized that a berth replacement must also be undertaken, as the existing berth has been previously extended several times and another extension has a limited life. The next Level II condition assessment, scheduled for Fiscal 2026, will provide more insight into the condition of the structures.

- **Mill Bay Trestle & Berth Replacement in Fiscal 2033**

The Mill Bay project includes replacement of the berth and all marine structures. Based on the last Level II condition assessment in 2017, the structures are expected to reach the end of their useful lives in 2032. The replacement project had been missed in previous capital planning cycles and was added this year.

- **Shearwater Berth Life Extension or Replacement in Fiscal 2024**

The Terminal Engineering department completed a preventative maintenance inspection in Fall 2022 that indicated the barge at Shearwater has reached end of life condition. Due to the urgent need for a floating structure to support the ramp at Shearwater, this newly created project will replace the existing barge with a new concrete one, and will modify the existing floating lead to limit its movement within the berth.

The remaining increase is comprised of over 50 projects. The amount includes a dedicated commercial vessel (potentially tug and barge) with a placeholder in Fiscal 2026 and 2027, to address commercial demand and corresponding overall capacity on the major routes. All other new projects have spends below \$5 million, and consist primarily of condition-based work, and information technology efficiency and modernization projects.

## 2.4 Projects Cancelled

Over 15 projects have been cancelled as part of the update, totaling approximately \$24 million.

Multiple projects were deemed not necessary as a result of progress in the defined scope of work for the Major Terminal Efficiency project. In addition, information technology related projects were cancelled where the assumed adoption of 'software as a service' reduced the need for continued capital investment in software upgrades.

Other cancellations included the *Mayne Queen* Refit (major overhaul and inspection) based on the vessel's assumed retirement, and the *Northern Sea Wolf* Bow Thruster Project, which is being addressed through another upgrade project.

## 2.5 Horseshoe Bay Re-Profiling

Based on the condition of the berths at Horseshoe Bay, the berth replacements will be advanced ahead of the replacement of the transfer deck (order reversed from the PT6 submission). Correspondingly,

the Berth 2/3 Active Lift and Wingwall Strengthening Project was cancelled as active lift will be installed with the new berths. A transfer deck life-extension project was also added to allow for deferral of its replacement.

These changes resulted in a deferral of expenditures beyond Fiscal 2034.

## **2.6 Coastal Class Mid-Life Upgrade Deferrals**

In the PT6 Submission, the Coastal class mid-life upgrades had been scheduled to occur from Fiscal 2032 to 2034. However, based on the present condition of the Coastal class vessels, their mid-life upgrades have been pushed out by five years deferring these expenditures beyond Fiscal 2034. This schedule revision was also a result of the revised schedule for the vessels' *quarter* life upgrades and installation of variable frequency drives, which are now planned to occur in the mid to late 2020's. The deferral provides four to five years between the mid-life upgrades and the introduction of seven new major vessels.

## **2.7 Operational Maintenance**

Terminal and vessel maintenance has experienced significant cost increases since the PT6 Submission due to supply chain pressures, high inflation, and unplanned condition based work resulting from deferred capital programs. Terminal maintenance costs have risen because of emergent repairs due to asset condition. While assets are routinely inspected and serviced, the costs to maintain them during the deferral period are higher than previously estimated.

These conditions have increased expenditures by \$6.9 million in Fiscal 2023 and \$7.9 million in Fiscal 2024.

## Section 3 – People and Culture Function

BC Ferries has historically depended on hiring seasonal and casual employees to support increases in ferry service during peak demand periods. In so doing, the Company relied on having the requisite skills available within the labour market as needed, while being viewed as an employer of choice.

However, in the past few years, changing conditions have created significant talent availability challenges. These challenges manifested during the summer of 2022 when the Company cancelled several sailings and closed services because it was not able to secure sufficient personnel. Contributing and ongoing factors include the following:

- **COVID-19 Pandemic and BC Ferries' Workplace**

The preventative measures and travel restrictions imposed during the COVID-19 pandemic led to a significant decrease in traffic and a very limited line of sight into a financial recovery for the Company. As a result, the Company curtailed expenditures on human resources by:

- Limiting the number of new regular employees and instead hiring a large complement of casual employees for backfill; and
- Reducing non-essential training and limiting leadership development programs.

During the pandemic, several new regulatory requirements were also introduced. These included safe distancing measures and the need to wear a mask in public spaces. In addition, employees who chose not to act in accordance with Transport Canada's mandatory vaccination requirements were not permitted to work.

It was also during this time that the Company began to experience increased levels in workforce anxieties and physical sick time, with an increased number of mental health leaves of absence, short term disability claims and increased sick leave usage. Claims rose from average of 200 at any one time to more than 500.

The Company also began to see an increase in employee complaints, misconducts, disagreements and departures. This discontent led to a difficult collective bargaining session in 2020 as well as a substantive change in leadership within the British Columbia Ferry and Marine Workers' Union ("Union").

- **Inflation**

During calendar year 2022, British Columbia experienced annual inflation of 6.9 percent and Canada experienced annual inflation of 6.8 percent. Inflation, cost of living concerns, and other financial considerations are causing upward pressure on compensation in the labour market and potential employees' overall salary expectations.



- **Labour Market Shortages**

COVID-19 has had a significant impact on labour market conditions, as lay-offs, reduced labour needs, and changes to service have driven people to seek new employment opportunities. At the same time, the baby boom generation has reached retirement age, and employees are increasingly prioritizing flexible work arrangements and overall work/life balance.

With BC Ferries' large and diverse workforce, the effects of the current labour market shortages are being felt across the Company. This is particularly true for experienced marine and engineering professionals, where a global and local shortage of professional seafarers is creating a high demand for skilled ship-based workers. This shortage is a result of multiple factors including, anticipated retirement rates above historical averages, difficulty attracting workers to the industry, wage pressures and industry expansion.

### **3.1 Spring 2022 Situation Assessment of Human Resources Division**

The workload placed on the Human Resources Division (now People and Culture Division; see section 3.3 below) dramatically changed as a result of COVID-19 and the other factors described above. Throughout Fiscal 2021 and 2022, the Human Resources Division became focused on:

- Developing and implementing policy and communications in response to the COVID-19 regulatory requirements, including vaccination mandates and ensuing accommodation requests;
- Sourcing replacements for employees testing positive for COVID-19, and conducting contact tracing for employees who may have been in contact with infected individuals; and
- Managing the elevated employee claim activity.

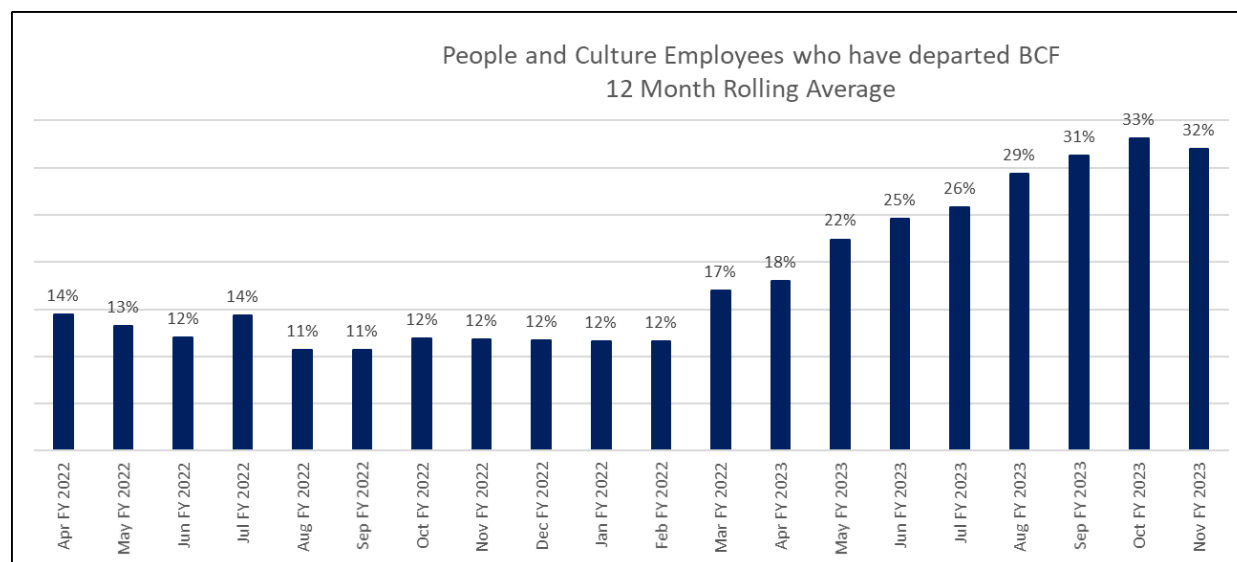
With this required work, the Human Resources Division was not able to provide services such as operational site visits and proactive management of grievances and disputes, leadership coaching and development, wellness and attendance management and manual data tracking.

Under these conditions, the Company began to experience escalating employee turnover rates within the Human Resources Division ("HR team"). Over a twelve month period, to March 2021, the average departure rate for the HR team was approximately 12 percent. By November 2022, this escalated to 32 percent:<sup>3</sup>

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<sup>3</sup> During Fiscal 2023, turnover became especially acute among the HR teams located at the Point of Assembly locations with rates of 20 to 70 percent. These teams are responsible for managing the employee experience from hiring through to end of employment. In addition, the Staffing Services team, located at Swartz Bay, Tsawwassen, Horseshoe Bay, Nanaimo and Little River, have also had a notable volume of departures over the past 18 months, up to 40 percent in a month. This team is responsible for staff planning and scheduling services in accordance with operational policy, collective agreement and regulatory requirements for vessel and shore based positions.

**Figure 4 – Twelve Month Rolling Average Departures**



In response to the high levels of turnover, the Company's Internal Audit department was asked to conduct exit interviews to understand why employees were leaving. These interviews identified the following consistent themes:

- Significant processes remain paper-based with a general absence of the use of technology to enable the work;
- Operations management insufficiently trained to manage staff independently, resulting in reliance on the HR team to handle fundamental workforce leadership responsibilities;
- Unsustainable workload (years of working 12-15 hour days including most weekends);
- Work/life balance deemed not possible in the short term and without structural, system, and process improvements, there appeared no end in sight; and
- A lack of progress in Human Resources-related project work, needed to address complex emerging workforce matters and historical work, compounded feelings that an already unmanageable workload could not improve in the long term.

### **3.2 Consultant Engagement Findings**

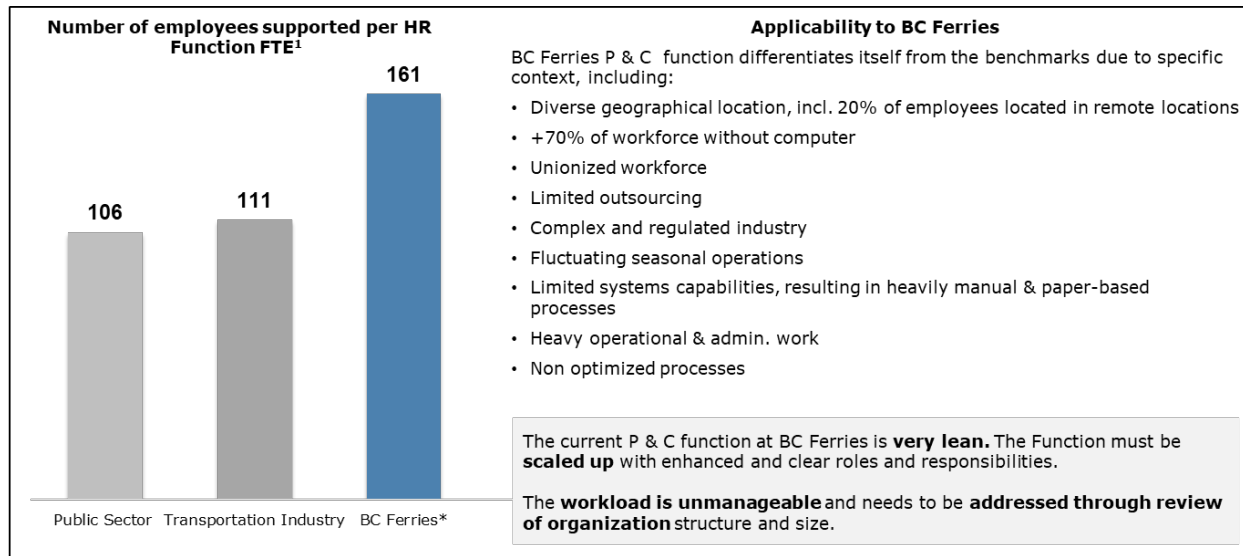
The Company needed to understand and address the root cause of the escalation in turnover occurring in the Human Resources Division. In early 2022, BC Ferries engaged a consulting services firm ("consulting firm") to assess the Company's human resources operating model and structure. Their assessment provided the following key recommendations:

- Clarify roles and structure;
- Enhance divisional service delivery;
- Ensure scalable capacity to support both day-to-day business needs and strategic priorities; and

- Implement enabling processes, tools and technology.

The consulting firm determined the Company’s human resources function was extremely lean in comparison to other transportation organizations and the public sector. BC Ferries had one human resources representative per 161 employees, in contrast to approximately 110 employees at comparable entities:

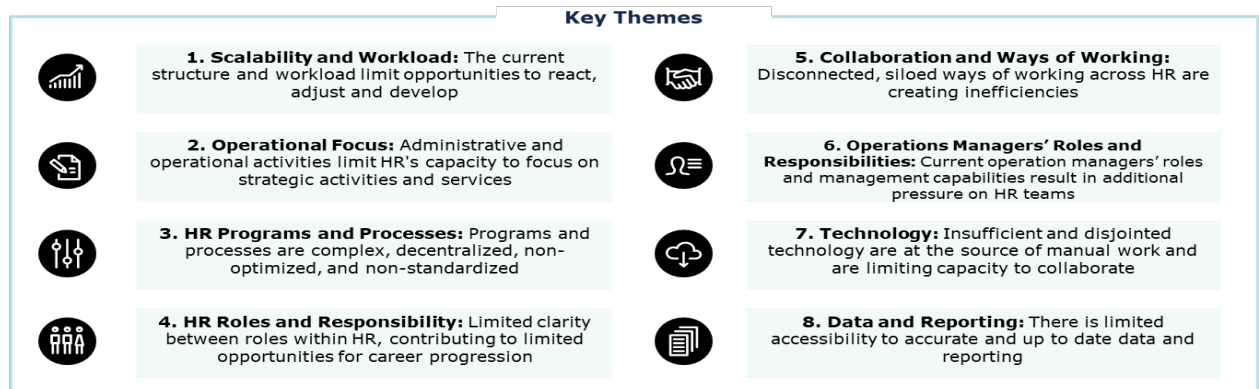
**Figure 5 - Consulting Firm Industry Benchmark Comparators**



The consulting firm also noted that the competitive labour market, changing employee expectations and the COVID-19 pandemic increased pressure on BC Ferries’ human resources function. Within the Company, these conditions had contributed to increased workforce turnover, grievances and absenteeism, with the result that the HR team was unable to fulfill day-to-day responsibilities, reducing morale and increasing the already substantive backlog of work.

The figure below provides the key human resources challenges:

**Figure 6 - Consulting Firm Identifies Eight Key Human Resources Challenges**



### 3.3 New Direction in Response to Assessment and Recommendations

In response to the situational assessment, the Human Resources Division was renamed the People and Culture Division, and restructured to focus on four functional areas of service:

- Function 1 - People Experience, including Staffing Services;
- Function 2 - Talent Development and Attraction;
- Function 3 - Labour Relations; and
- Function 4 - Corporate People Services.

Functions 2 through 4 reflect newly established centres of excellence, focused on developing strong programs providing strong service across the coastal ferry system, under the guidance of a centralized People Experience function. This change in operating model is depicted in Figure7:

**Figure 7 – New People and Culture Operating Model**



To address the challenges summarized above, the People and Culture Division commenced developing new programs and services, increased its resources by roughly 50 percent to staffing levels that are more consistent with the transportation and public sectors, and began to build strong People and Culture programs and services.

## Section 4 – Operational Workforce Management

As noted in the previous section, by the fall of 2021, the Company began to experience an escalation in issues threatening its ability to secure the workforce needed for reliable service. With mounting absences, the need to call in backfill resources increased, which was compounded by having fewer resources available following restricted hiring in 2020. At the same time, recruiting became more challenging because of the shift in labour market conditions and historically low unemployment for non-licensed roles. BC Ferries' historical approach for securing workforce needs were no longer successful, and talent availability became a top strategic risk for the Company.

### 4.1 Operational Workforce Condition Assessment

Various conditions have altered the labour market and contributed to a degradation in BC Ferries' employee value proposition over the past few years.

#### 4.1.a Effect of Labour Market Conditions

The Canadian labour market continued to be strong through to the end of 2022. Statistics Canada reported that the unemployment rate fell to five percent in December, nearing the record low of 4.9 percent reached in June and July of the same year. These economic indicators were reflected in the limited labour pool available to BC Ferries and competing sectors and organizations. Over the past twelve months, BC Ferries was successful in hiring over 1,100 new employees, but also lost over 600 employees during the same period.

The Province reports that over the past five years, wages in British Columbia have risen at 4.3 percent per annum to an average of \$31.85 per hour, with employees working on average slightly more than 31 hours/week.<sup>4</sup>

**Table 4 - Average Hourly Wage Rates**

	CANADA		B.C.	
	Wage (\$)	Change (%)	Wage (\$)	Change (%)
2018	26.82	2.8	26.72	3.9
2019	27.75	3.5	27.63	3.4
2020	29.51	6.3	29.76	7.7
2021	30.03	1.8	30.54	2.6
2022	31.37	4.5	31.84	4.3

<sup>4</sup>"Earnings & Employment Trends - December 2022." Wage Rate Information, BC Stats [https://www2.gov.bc.ca/assets/gov/data/statistics/people-population-community/income/earnings\\_and\\_employment\\_trends\\_data\\_tables.pdf](https://www2.gov.bc.ca/assets/gov/data/statistics/people-population-community/income/earnings_and_employment_trends_data_tables.pdf).

In response to the onset of the global pandemic, BC Ferries significantly scaled back seasonal hiring to align workforce availability with reduced passenger travel. In the same period, the Union and Company negotiated a five year Collective Agreement with wages frozen for Fiscal 2022 and two percent increases in each of Fiscal 2023 and 2024. As a result of these circumstances and combined with the labour market conditions, BC Ferries' wages have narrowed and are no longer providing an attractive premium that had helped to offset:

- The Company's inability to offer predictable weekly hours of work;
- The Company's overreliance on individual employees in certain positions due to staff shortages;
- Limited work-life balance and flexibility, caused by on-demand / call-in shift work;
- Employment requirements in high cost of living areas with limited public transit; and
- Further wage adjustments needing to be collectively bargained.

#### 4.1.b Labour Supply & Demand in the Marine Sector

The labour market for professional deck and engineering seafarers is highly competitive. Due to a global shortage of these skilled workers, employers need to provide competitive employment offerings to attract and retain talent. Marine labour market studies indicate that the shortage of seafarers will increase in the years ahead, and that reliance on external recruitment efforts alone will not satisfy the projected talent requirements.

In 2021, Transport Canada identified the need for 19,000 seafarers (ratings and officers) over the next 10 years, with 52 percent of engineering officers and 47 percent of deck officers in Canada expected to retire during this timeframe. Meanwhile, the global fleet is predicted to grow by 6.4 percent over the next five years. The Transport Canada study, along with a study completed by the Association of British Columbia Marine Industries, therefore noted a key challenge faced by the industry is competition for the same pool of limited skilled workers.<sup>5</sup> To address current international mariner shortages and to prepare for the impending retirements, the Company is aware it must invest in the development of the requisite skills and promote its existing employees.<sup>6</sup>

#### 4.1.c Regulatory Changes

At the same time, the marine industry is required to increase investment in skills development. In past years, the typical pathway was self-study and/or taking courses at a college and then challenging the

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<sup>5</sup> Details about the Transport Canada study obtained through: Association of British Columbia Marine Industries (ABCMI) "Take Note! The Labour and Skills Crisis in the Marine Sector in Canada Is HERE!" *LinkedIn*, 14 Oct. 2022, [www.linkedin.com/pulse/take-note-labour-skills-crisis-marine-](https://www.linkedin.com/pulse/take-note-labour-skills-crisis-marine-).

<sup>6</sup> Guy Platten, Secretary General of the International Chamber of Shipping, stated: "To meet the future demand for seafarers it is vital that the industry actively promotes careers at sea and enhances maritime education and training worldwide, with a focus on the diverse skills needed for a greener and more digitally connected industry." See: "Potential for Serious Shortage of Officers by 2026", *The Maritime Executive*, July 28, 2021 at <https://maritime-executive.com/article/potential-for-serious-shortage-of-officers-by-2026>.

exam at Transport Canada. However, as of the autumn of 2023, Transport Canada will require in-person attendance at an accredited institution. Non-accredited institutions will no longer be able to support nautical/engineering students, making obtaining certifications more onerous and costly.

Once the new regulations are in place, there will be increased pressure on the marine educational institutions to offer sufficient seats, and on the Company's resources as it relieves engineers and others to attend required courses.

#### 4.1.d BC Ferries Employee Value Proposition

According to the digital employment platform Indeed ([www.indeed.com](http://www.indeed.com)), the value proposition is what sets a company apart from the competition.<sup>7</sup> A company's value proposition typically includes benefits, financial rewards, career development opportunities and additional perks. It also includes the company's vision, mission and values and the extent to which this aligns with an individual's values.

The goal of BC Ferries' value proposition is to generate workforce loyalty and pride towards the Company. However, there are factors that impact this objective when hiring new employees.

- Due to the nature of the Company's operations as well Collective Agreement language, the bulk of BC Ferries operational hiring involves casual and seasonal positions. Employees in these roles traditionally have been expected to be "on call" 24 hours a day and seven days a week, which inhibits them from holding a second job, attending school or making other personal commitments. There is no on-call pay associated with the expectation to remain available for work on short notice, and BC Ferries' practice has been to terminate employment after three events of non-response to calls to work.

This on-call model is unpredictable with little flexibility. Employees who live and work in the smaller island communities need to be concerned with missing a call to work if they book medical appointments, plan grocery shopping or visit the bank. Those with childcare needs find it challenging to secure childcare space on a moment's notice.

- Many shipboard catering employees have been expected to pay to obtain job-required "Serving it Right" and "Food Safe" certifications as well as Seafarers' medical clearances. These same roles have had limited access to internal training and limited corporate commitment for career development.

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<sup>7</sup> "What Is Employee Value Proposition (EVP)? [Updated for 2021]." [www.indeed.com](http://www.indeed.com), [www.indeed.com/hire/c/info/employee-value-proposition](http://www.indeed.com/hire/c/info/employee-value-proposition).

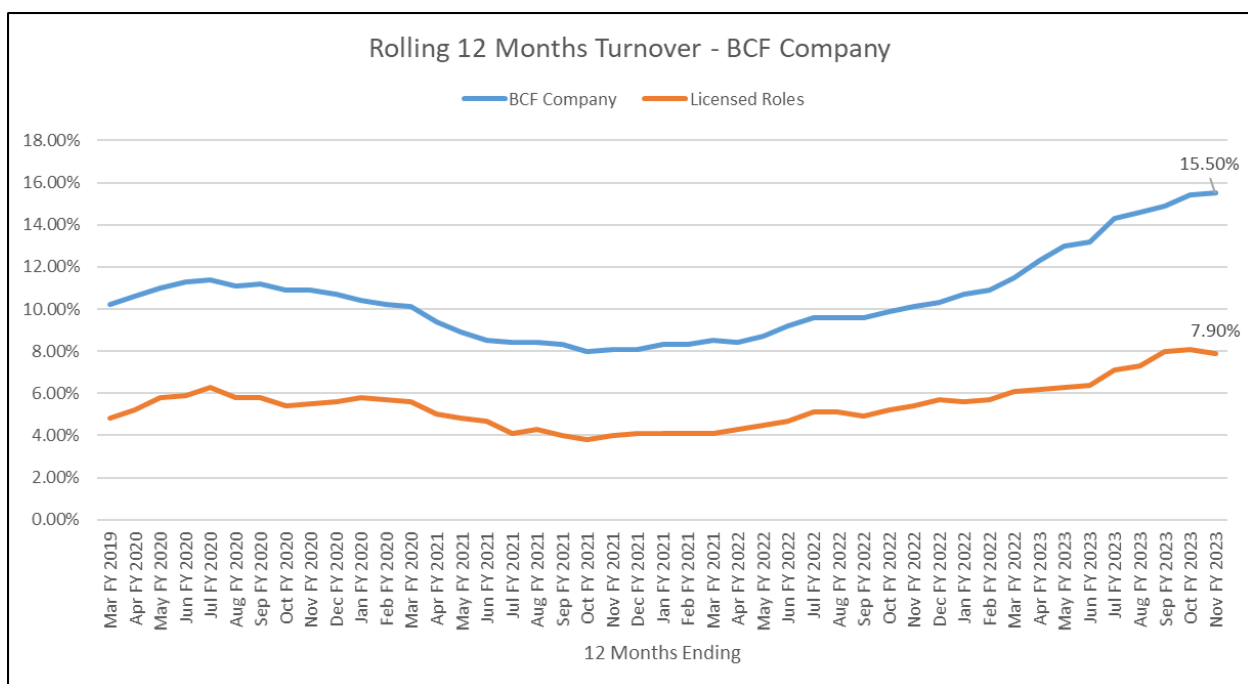
- The high cost of living in many coastal communities, combined with limited public transportation, makes working in those communities less desirable than employers operating in urban centres well-served by public transit.
- New employees also experience an extended lag between their training and actual shift offerings due to the need to stagger onboarding training schedules while the Company is working to meet peak seasonal workforce demands. This is a consequence of the Company’s capacity to relieve only a limited number of internal crew members to conduct required training and to move the high volume of ‘new-hires’ through regulated training programs. The result is that BC Ferries loses new hires who cannot afford weeks (sometimes months) with no pay while waiting for their first shifts after the company has invested in their onboarding and certification of competence. In 2022, BC Ferries experienced 29 percent turnover of seasonal employees prior to the middle of the season.

## 4.2 Operational Workforce Conditions

### 4.2.a Turnover

BC Ferries has experienced steadily increasing turnover amongst its casual, regular and exempt employees over the last two years: approximately 15.5 percent in total, with 7.9 percent amongst its licensed deck and engineering positions and 20 percent (15 percent excluding retirements) amongst exempt personnel. This is a 52 percent increase in turnover across all employees and a 65 percent increase in turnover for licensed roles.

**Figure 8 – Turnover (# of Departing Employees / Average Headcount across 12 months)**

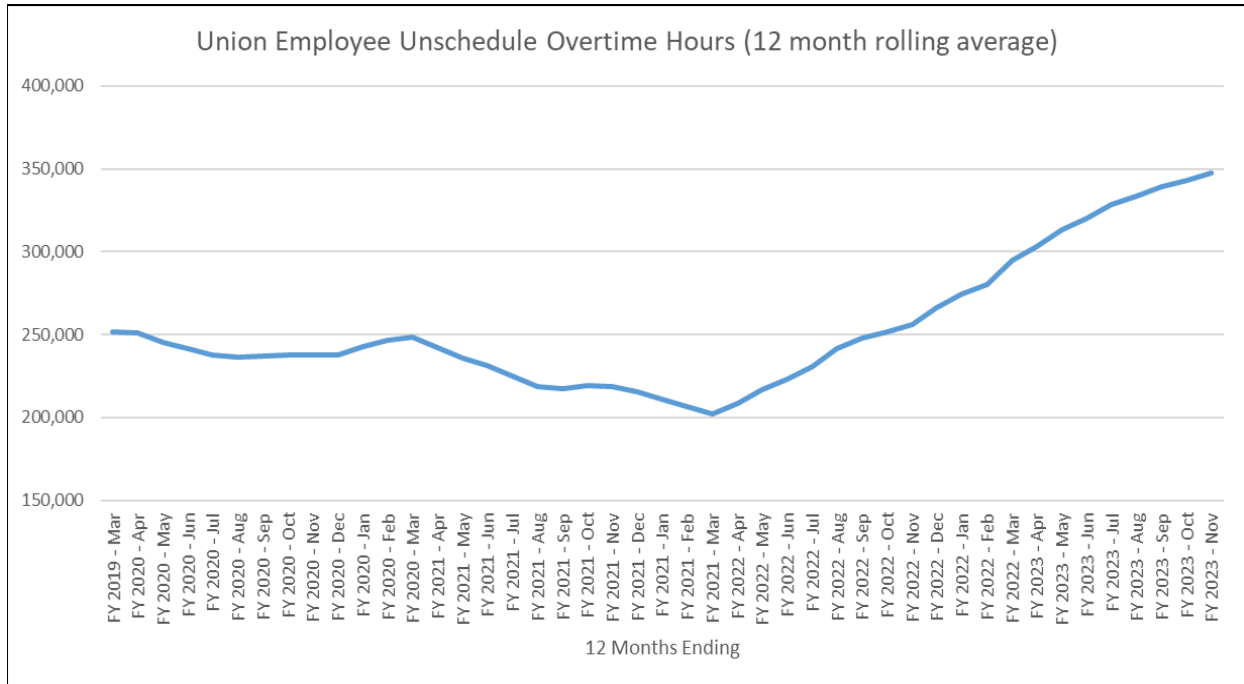




## 4.2.b Unscheduled Overtime

Unscheduled overtime hours represent paid overtime hours for unionized employees who work an unscheduled extended day or on a day of rest. Unscheduled overtime has been steadily increasing due to increased absenteeism, a reduced casual or staffing pool workforce, and a return to normal service levels.

**Figure 9 – Unscheduled Overtime (rolling 12 month average)**

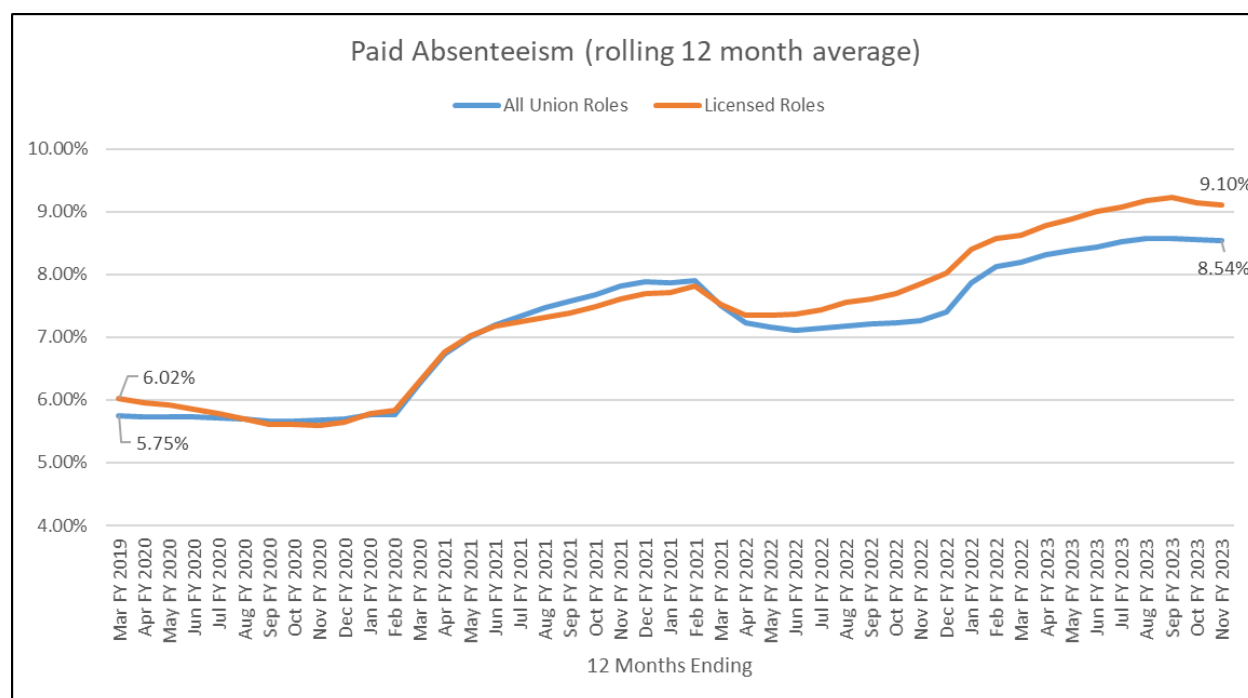


## 4.2.c Paid Absenteeism

Paid absenteeism, reportable for unionized employees, reflects illness, family illness, special leave, education, Workers Compensation Board wage loss and suspension with pay. Absenteeism has steadily increased from 5.7 percent in May 2019 to 8.5 percent in November 2022. The increase is primarily driven by higher volumes of illness leave, which makes up the vast majority of paid leave.

For key licensed deck and engineering roles, absenteeism has increased from 6.0 percent in May 2019 to 9.1 percent in November 2022. These results are connected with limited staffing levels and increased overtime, which drive increased illness and the need for rest:

**Figure 10 –Paid Absenteeism (rolling 12 month average)**



#### 4.2.d Service Disruptions and Revenue Losses

The Company was aware by early 2022 that it would face challenges with securing sufficient personnel to provide planned service during that year’s peak summer months. In response, BC Ferries proactively re-set service levels on the major routes connecting Vancouver with Vancouver Island (Routes 1, 2 and 30). Specifically, 220 sailings were proactively removed from the summer schedule between July and September, reducing available capacity by six percent over this time. Excluding the 220 sailings, BC Ferries saw 679 further sailing cancellations from April to November 2022 as a result of crew shortages:

**Table 5 –Sailing cancellations from April 2022 through November 2022**

	Apr Q1	May Q1	Jun Q1	Jul Q2	Aug Q2	Sep Q2	Oct Q3	Nov Q3	Total (Apr-Nov)
All Routes	82	35	105	170	52	80	106	49	<b>679</b>
Routes 1, 2 & 30	47	3	75	8	24	17	10	6	<b>190</b>

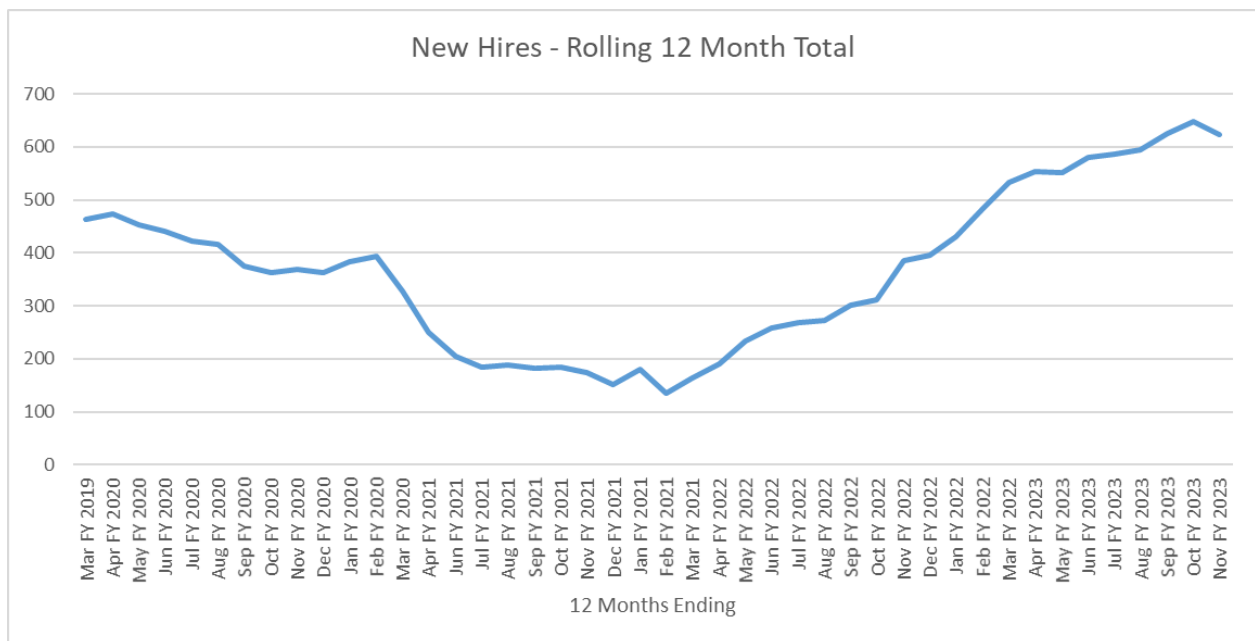
Year-to-date November, BC Ferries estimates Fiscal 2023 tariff revenue losses of \$5.3 to \$6.0 million due to proactive reductions and sailing cancellations, with the further loss of approximately \$3.0 million from reduced catering services as a result of crew shortages.

### 4.3 Hiring Activity

With both the return in demand for coastal ferry service, and to address the recent turnover and absentee challenges, BC Ferries has hired over 1,180 new employees in the past twelve months, with new employees representing 20 percent of the Company’s total workforce.

The figure below shows the external hiring efforts for casual, regular and exempt staff. Hiring activities declined throughout the pandemic but have since increased to address increases in retirements, turnover and the replenishment of staffing pool employees:

**Figure 11 – New Hires (rolling 12 months)\***



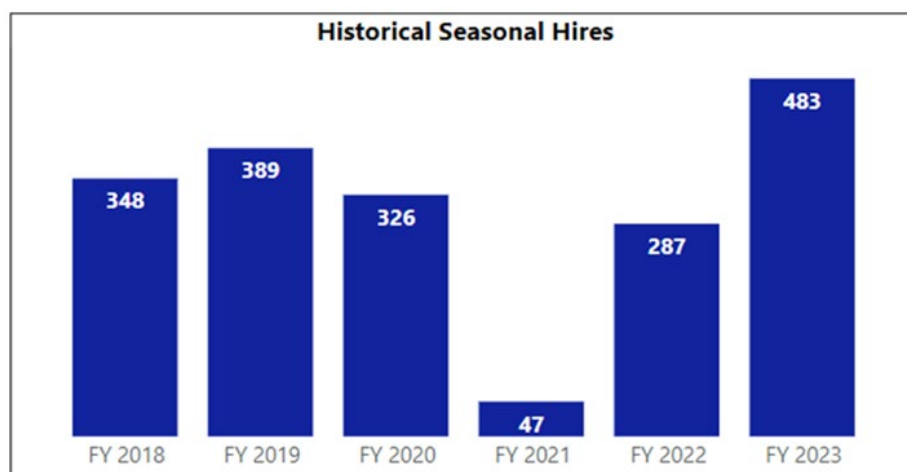
\* Excludes seasonal staff hired to increase workforce during peak times.

BC Ferries has prioritized the recruitment of licensed officers, but there has been a growing number of declined employment offers. Several factors are contributing to this:

- Compensation;
- Work life balance (offering casual work or lack of predictable schedule);
- Underutilization of candidates’ highest certification level and/or compensation for the highest certification level; and
- Geographic location, limited housing availability and high cost of living.

In comparison, the hiring activity for seasonal employees has been particularly busy, to accommodate demand with high levels of turnover due to challenges with the BC Ferries value proposition. As illustrated in figure 12, seasonal hiring has returned with activity exceeding Fiscal 2019 levels:

**Figure 12 – Historical Seasonal Hires**



#### **4.4 Limited Supervisory and Leadership Development**

BC Ferries is experiencing a gap in overall leadership capabilities, with front-line leaders needing higher levels of support to manage both operations and their team members. Operational leaders are promoted based on their technical skills and seniority (for Bargaining Unit positions). While highly valued in their new roles, at times they may not have the necessary leadership competencies in place. This has been exacerbated by the recent high levels of turnover and limited access to leadership development training.<sup>8</sup>

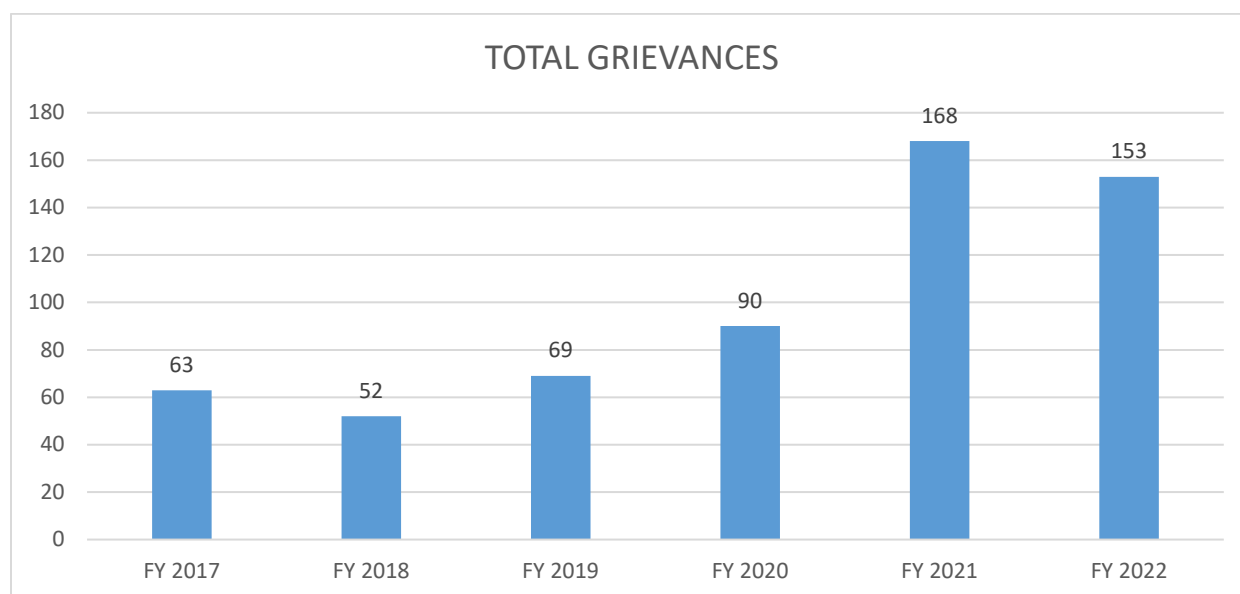
Until cost-cutting measures (brought on by service reductions because of COVID-19) eliminated the funding, the Company offered a suite of internal leadership development programs.<sup>9</sup> With the suspension of these programs, limited leadership development and experience is viewed as contributing factor to the increases in grievances experienced by BC Ferries between Fiscal 2019 and 2022. Prior to Fiscal 2019, the Company averaged 60 grievances per year. This number has increased to 168 in Fiscal 2021 and 153 in Fiscal 2022:

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<sup>8</sup> Transport Canada has recently recognized the need to develop leadership skills by adding requisite leadership courses to the marine officer Certificate of Competency curriculum. However, these courses are limited and are not tailored to BC Ferries' needs.

<sup>9</sup> For example, One day Welcome to Management course; Coaching for Business Success ("CFBS") and a five day follow up program to CFBS; five day course for new supervisors, managers and other high potential employees; Coaching for Excellence; and an Advanced Leadership Program in partnership with the University of Victoria's School of Business School.

**Figure 13 – Total Grievances**



This increase has resulted in the Union moving more grievances to arbitration. Prior to 2019, there were on average two to four arbitrations per year. This has escalated to between 14 and 17 in Fiscal 2020 through 2022.

## **4.5 Actions Taken to Date**

The Company has taken some steps during Fiscal 2023 to address its labour shortages, with focus on certified personnel and peak season needs.

### **4.5.a Certificate Allowance**

To mitigate the high turnover and challenges recruiting licenced deck and engineer officer positions, BC Ferries expanded and increased the monthly certificate allowances paid to licensed officers. This helped to address the wage gap with market, to incentivize the internal development of staff into licensed positions and to support external recruitment.

### **4.5.b Seasonal Guarantees**

In February 2022, the Company centralized all employee recruitment activity within a Recruitment Centre of Excellence. This team, formed to meet unprecedented recruitment demands, hosted 21 speed hiring events and interviewed over 1,500 candidates within the first four months of being formed.

However, the ability of the recruitment team to deliver the target number of new recruits was influenced by the high turnover within People and Culture team, coupled with low maturity in processes and systems. In addition, the recruitment team experienced the following challenges consistent with labour market conditions:

- An increasing number of candidates declining seasonal and casual employment offers;
- 15 percent no show rate for new hire orientation after offers were accepted; and
- Higher than normal turnover within the seasonal and casual workforces.

In addition, competitors were offering generous tuition subsidies to students, increasing their wage offerings and improving flexible work arrangements to support better work life balance. As BC Ferries has an 85 percent unionized workforce, it is less agile when responding to changes in labour market dynamics such as these.

To address recruitment volumes ahead of the peak season in summer 2022, BC Ferries enhanced the employee value proposition for seasonal employees, including:

- A \$350 Start Payment for new seasonal employees;
- A \$500 Start Payment for returning seasonal employees;
- A guaranteed 420 hours of work between mid-May and the Labour Day long weekend;
- A \$500 Stay Payment for those who are on staff up to and including the Labour Day long weekend.<sup>10</sup>

#### 4.5.c Recruitment and Retention Incentives

In June 2022, the Company introduced enhanced referral, signing, restart and retention incentives of up to \$10,000 for key classifications, with payment of 50 percent of the incentives upon successful completion of probation (120 days), and the remainder provided following one full year of service.

#### 4.5.d Ukrainian Seafarers

Since the beginning of the war in Ukraine, Transport Canada created a reciprocal agreement to recognise the marine competencies of, and issue temporary work permits for, Ukrainian seafarers.

In the past year, the Company has relied heavily these seafarers to meet its workforce needs. To secure these employees, BC Ferries has provided competitive relocation support, in return for a commitment for 36 months. However, it is possible that when these commitments end in 2025, the Company may lose some of these licensed officers/engineers to competitors offering higher compensation.<sup>11</sup>

#### 4.5.e Early Collective Agreement Wage Re-Opener

During the 2020 Collective Agreement negotiations, BC Ferries and the Union were unable to reach full agreement on wages. As a result, wage negotiations for the final two years of the agreement were

<sup>10</sup> It is unclear whether this is a strategy that will be continued in the long term.

<sup>11</sup> Currently the Ukrainian seafarers at BC Ferries include two 4<sup>th</sup> Class Motor Engineers, eight Chief Mates, six First Engineers, three Master Minors and two Watchkeeping Mates.

deferred as wage reopeners, a process unique to BC Ferries stemming from earlier arbitration in 2007. The collective agreement currently reflects the following wage increases:

- April 1, 2021            No change
- April 1, 2022            Two percent
- April 1, 2023            Two percent
- April 1, 2024            Wage re-opener
- April 1, 2025            Wage re-opener

In fall 2022, the Company and the Union agreed to advance the negotiated wage re-opener process from April 2024 to August 2023, with rate changes commencing in October 2023. Unless otherwise negotiated, there will be a second wage re-opener process commencing in April 2025. If the parties are unable to negotiate a wage settlement, a negotiated Arbitration Panel review process will render a binding decision.

The wage re-opener will include negotiating both general wage increases and adjustments to specific positions. With regard to general wage increases, public and private sector negotiated rates have come to recognize a cost of living adjustment ("COLA") as a critical component of the negotiated results. There have been several recent bargaining wage negotiations that provide insight into current wage pressures:

**Table 6 – Recent Bargaining Wage Negotiations**

<b>Date</b>	<b>Employer / Sector</b>	<b>Outcome</b>
June 2022	Transportation (Canadian Maritime Guild)	Four year term: 13.5% + 2% bonus
October 2022	BCGEU	Three year term: 13.25%
October 2022	Health Care (Health Employee Union)	Three year term: 14.22%
November 2022	YVR Transportation/ Catering	Three year term: 12.0%
November 2022	Public Education (BCTF, CUPE)	Three year term: 13.25% + grid increases

The actual cost of the wage reopener will be determined through the wage re-opener negotiation.

Based on published collective agreements, Table 7 provides insight into how BC Ferries hourly rates compare to its competitors:

**Table 7 - BC Ferries Comparison with Project Hourly Rates at Seaspan**

BC Ferries Position	Seaspan Position	BC Ferries*	Seaspan**	Difference
Chief Officer, Spirit	First Officer	\$51.67	\$53.37	-3.3%
Chief Officer, LV		\$48.32	\$53.37	-10.5%
Second Officer, Spirit	Second Officer	\$47.92	\$50.47	-5.3%
Deckhand/Bridgeward	Deckhand	\$30.70	\$38.33	-24.9%
Chief Engineer, Intermediate (exempt)	Chief Engineer	\$61.03	\$59.41	2.7%
First Engineer, Spirit	Second Engineer	\$51.67	\$53.37	-3.3%
Third Engineer, Spirit	Third Engineer	\$46.46	\$50.47	-8.6%
Third Engineer, Large (4th class motor)		\$42.55	\$50.47	-18.6%

\* BC Ferries' hourly rates were calculated using the salary table in Appendix C of the Collective Agreement. April 1, 2020 salaries were adjusted for a two percent salary increase in 2022 as well as \$0.50 salary increase for all third engineers on October 1, 2021 (per Letter of Understanding #11 "3rd Engineer Wage Adjustment").

\*\* Seaspan hourly rates were calculated the using salary table in the Seaspan Collective Agreement. They were adjusted for 0.9 and 0.4 percent COLA increases on October 1, 2018 and 2019 respectively, as well as 2.0 and 2.7 percent salary increases on October 1, 2020 and 2021 respectively.

## 4.6 Go Forward Actions

In addition to the early collective agreement wage re-opener, BC Ferries is planning to enhance its hiring and operational development programs.

### 4.6.a Hiring Approaches

BC Ferries finds it will need 103 licensed staff and 803 unlicensed staff (906 total) to ensure reliable service during the peak of summer 2023. Several options are being considered to secure the necessary workforce levels to provide reliable coastal ferry service for the upcoming peak season. These include:

- *Increase to Staffing Pool Ratios*

The staffing pool consists of regular salaried employees who are placed into a relief pool to fill temporary vacancies or to backfill employees in regular watches who take vacation or are sick. The ratio of regular watch placed staff to staffing pool staff needs to be increased to accommodate required relief rates by department, and to ensure sufficient relief for regular employees from absenteeism, vacation and leaves.



- *Secure Sufficient Catering Crew to Protect Sailings and Catering Services*

Increase minimum catering crew profiles at select locations to address the catering crew shortages that have resulted in lowered vessel licences, closed food services, cancelled sailings and, ultimately, less service reliability, lost revenues and unmet customer expectations. These increases will focus on reducing the swing between non-peak and peak periods and decreasing the dependency on casual labour.

- *Hire Casual Employees rather than Seasonal Employees*

Last year BC Ferries experienced a low rate of accepted seasonal offers followed by high rates of turnover early in the season. Candidates highlighted they were deterred by the comparative rate of pay (being at or below our competitors), combined with being required to be available at all times with no guarantee of work.

The Company is addressing this by hiring employees into casual as opposed to seasonal positions for summer 2023, and by providing a guaranteed number of hours of work through peak season. This approach provides a higher rate of pay and earning certainty through the peak summer months.

Following the peak season, in an effort to increase retention and lower recruitment and training efforts, casual employees will be permitted more flexibility with their availability. Individuals will be able to take short term leaves, or significantly lessen their availability outside the peak season. This will enable them to secure secondary employment during off-peak months, return to school and/or make themselves available for weekend work only. Individuals who wish to resign at the end of peak season will be able to return the next season, and/or through Christmas peak.

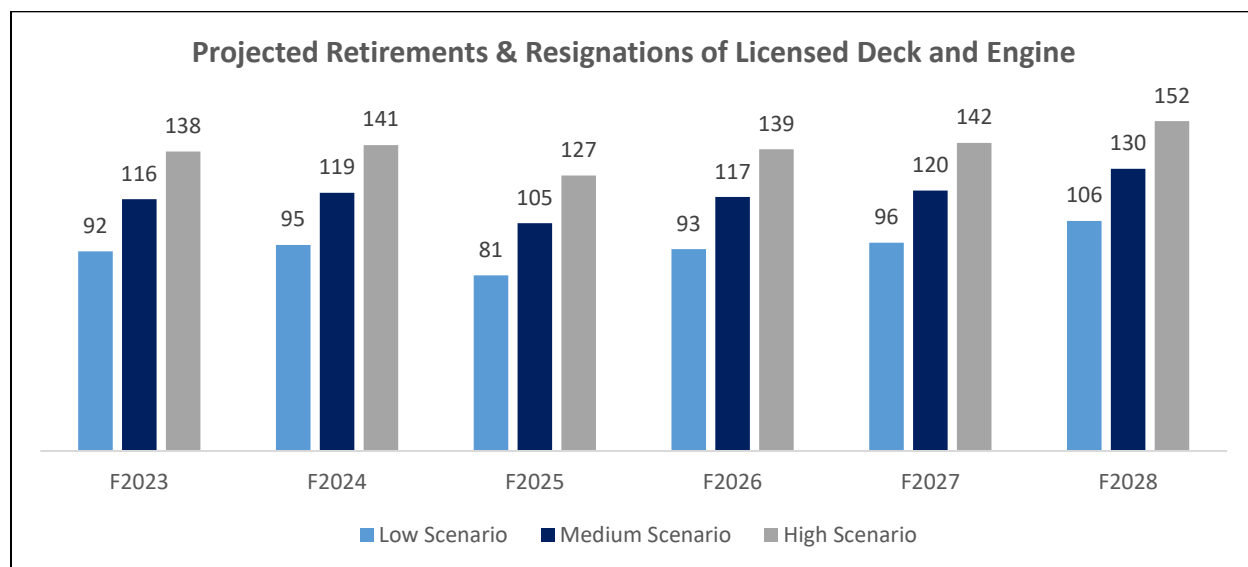
This approach will be reviewed following the peak season for success and ongoing consideration.

#### 4.6.b Operational Development Programs

Historically, BC Ferries has provided limited support towards competency and certification development of internal talent through its Marine Education Program ("MEP"). Funding was made available at the rate of one or two courses per year, meaning it would take approximately 16 to 20 years for an employee to progress from a position of no experience to a master or chief engineer. The program was cut in response to required cost saving measures during COVID-19, with investments reinstated in Fiscal 2021 and then doubled to \$2.0 million in Fiscal 2022. However, in light of current and forecasted competency requirements, the Company's operational development programs will need to expand and increase over the next few years to approximately \$10.0 million.

It is estimated that BC Ferries will experience a loss of anywhere from 450 to 700 certified employees over the next five years:

**Figure 14 – Projected Retirements and Resignations of Licensed Deck and Engineer Personnel**



Based on the projected retirements and resignations, and taking into consideration the knock-on effect of filling vacant positions with internal candidates, BC Ferries has estimated the following certified vacancies will need to be filled over the next five years:

**Table 8 – Estimated New Marine Certification Requirements through Fiscal 2028**

Estimated Marine Certification Requirements	Fiscal 2024	Fiscal 2025	Fiscal 2026	Fiscal 2027	Fiscal 2028	Total
Bridge Watchman	43	53	56	64	58	274
Watch Keeping Mate	36	41	39	42	39	197
Chief Mate	27	26	26	26	31	136
Master	25	23	23	26	23	120

**Table 9 – Estimated New Engineer Certification Requirements through Fiscal 2028**

Estimated Marine Certification Requirements	Fiscal 2024	Fiscal 2025	Fiscal 2026	Fiscal 2027	Fiscal 2028	Total
4 <sup>th</sup> Class Motor	26	38	48	48	48	208
3 <sup>rd</sup> Class Motor	6	8	8	4	4	30
2 <sup>nd</sup> Class Motor	12	16	26	44	36	134
First Class Motor	6	10	12	14	12	54

Based on current market conditions, BC Ferries anticipates it will be unable to rely on filling certification requirements through external hiring to the same degree as in the past. To ensure sufficient certifications, the Company is planning to sponsor the development of employees to fill up to 50 percent of the certification requirements within the next five years. The following three programs will provide employees with options, with varying degrees of commitment obligations, to achieve this:

- Marine Education Program
  - An employee typically completes one to two courses per year
  - Time to complete – approximately 16 to 20 years
  - Sponsor approximately 70 employees each year in both Marine and Engineer streams
- Officer Development Program
  - An employee completes one level a year (September through May)
  - Time to complete – approximately 12 years from no experience to Master/First Class Motor Certification
  - Sponsor a minimum of five employees at each of the four certification levels per year in both Marine and Engineer streams
- Cadet Program
  - Four year cadet program
  - Time to complete – approximately seven years from no experience to Master/First Class Motor Certification
  - Sponsor a minimum of five employees at each of the four certification levels per year in both Marine and Engineer streams

The following table summarizes the indicative time required for an employee without any experience to attain the nautical certificate under each program:

**Table 10 – Time Required to Complete Nautical Certificates under each Program**

<b>Competency</b>	<b>Officer Development</b>	<b>Marine Education</b>	<b>Cadet</b>
Bridge Watch	1 Year	1 Year	9 months
Watchkeeping Mate	Additional 5 years	Additional 7 years	Additional 2 Years
Chief Mate	Additional 3 years	Additional 4 years	Additional 1.25 Years
Master	Additional 3 years	Additional 4 years	Additional 3 years
<b>Total timeline</b>	<b>12 Years</b>	<b>16+ Years</b>	<b>7 Years</b>

While experience has shown sponsored employees remain with the Company, those who attend the cadet and officer development programs will be required to sign a service commitment. Over the coming years, BC Ferries will continue to monitor and assess the level of new certifications needed to secure safe and reliable service.

## Section 5 – Exempt Employees

The Company's exempt profile consists of employees from across all functions who do not fall under the collective agreement.

### 5.1 Exempt Profile

The level of exempt employees fluctuate with workload, changing expectations, turnover and service levels.

**Table 11 – Exempt Profile from Fiscal 2019 through Fiscal 2024\***

Exempt Profile	Fiscal 2019	Fiscal 2020	Fiscal 2021	Fiscal 2022	Fiscal 2023	Fiscal 2024
Capital Program	92	76	75	63	69	85
Direct Operational	265	252	248	248	248	267
Maintenance	34	33	30	30	32	37
Indirect Operational and Administration	425	394	404	411	483	511
<b>Total</b>	<b>816</b>	<b>755</b>	<b>757</b>	<b>752</b>	<b>832</b>	<b>900</b>

\* Results for Fiscal 2019 to 2022 reflect the exempt profile as of July 1 for each respective fiscal year. Fiscal 2023 reflects the forecast as of November 2022, with Fiscal 2024 reflecting budgeted levels by the end of the year.

#### 5.1.a Capital Program

The number of exempt employees devoted to the Company's capital program will fluctuate with the level of capital activity, and the use of contracted versus Company employees.

- In Fiscal 2019 and 2020, several capital programs were in progress, including the IT projects Automated Customer Experience (ACE) and Fare Flexibility and Digital Experience Initiative (FFDEI)
- Island Class Phase I was in execution with an on-site acceptance team
- Island Class Phase II and Salish IV was commencing
- The purchase and modification of the *Northern Sea Wolf* was in execution
- New Major Vessel program was in the Request for Proposal stage

In Fiscal 2021, in response to COVID-19, BC Ferries reduced capital expenditures for Performance Term Five by up to \$800 million by deferring several projects, including the New Major Vessel program. Since that time, several programs have commenced that require additional resources, including:

- Vessel replacement program (New Major Vessels, Island Class Phase III feasibility, electrification of some Island class routes);
- Information Technology investments, including the Major Terminal Efficiency Program, Gift Card and Campaign Program, Human Resource IT System Improvement Program, Ship to Shore

Connectivity, Financial Planning and Analysis Application Upgrade/Replacement, Cloud Readiness and Website Upgrade;

- Fleet Maintenance Unit site development; and
- Several terminal projects.

### 5.1.b Direct Operational

Over the past few years, the number of exempt employees within direct operations has fluctuated:

- There has been high turnover in fleet and engineering operations; and
- At the same time, two vessel service has been introduced on the routes serving Quadra Island and Gabriola Island, resulting in the need for additional employees.

### 5.1.c Maintenance

An additional three exempt employees are planned to be added to the terminal engineering function to address required maintenance, including a backlog resulting from deferrals over the past few years.

### 5.1.d Indirect Operations and Administration

Over the past few years, several areas that traditionally had been under-resourced required an increase in resources to address escalating challenges and expectations.

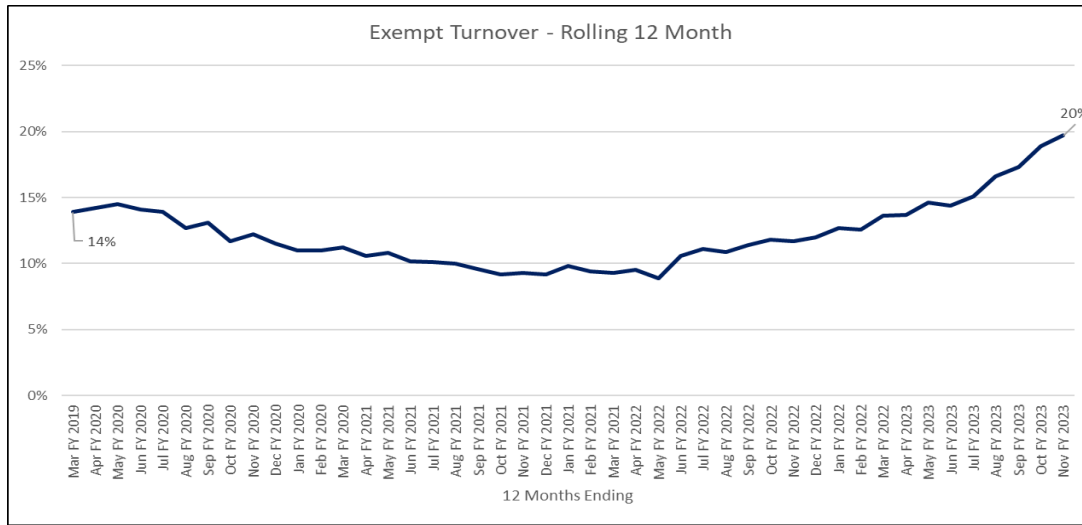
- People and Culture: as described in Section 3.3, to adequately resource the multiple services needed by the Company, an additional 33 exempt employees have been added to the function, with an additional four planned in Fiscal 2024.
- Operations: added a few resources to protect and grow commercial and catering services, and incorporated new engineering skills.
- Safety: two employees were added to address an increase in regulatory requirements, along with incident reporting, site audits and investigations.
- Strategy and Community Engagement: three employees were added to strengthen and expand engagement with customers and communities, including First Nations.
- Finance: two new employees were added for Corporate Finance (with an additional employee for environment/social/governance planned in Fiscal 2024); six employees have been added in support of revenue management initiatives; and three new employees have been added to address workload and succession planning needs in payroll and claims management.
- Information Technology: as a reflection of the complexity and evolutionary roadmap ahead, eight employees have been added to the Strategy and Architecture team since 2019.
- Marketing and Customer Experience: the sales and marketing team was restructured and incorporated additional employees to improve the customer experience; employees were also added to BC Ferries Vacations to support growing demand; and the Customer Care department has grown in response to service needs from COVID-19 and the implementation of revenue

management. Additionally, five Customer Care staff were devoted to the Operations Security Centre responsible for keeping customer information current and addressing schedule changes and customer bookings during service disruptions.

## 5.2 Exempt Employee Experience

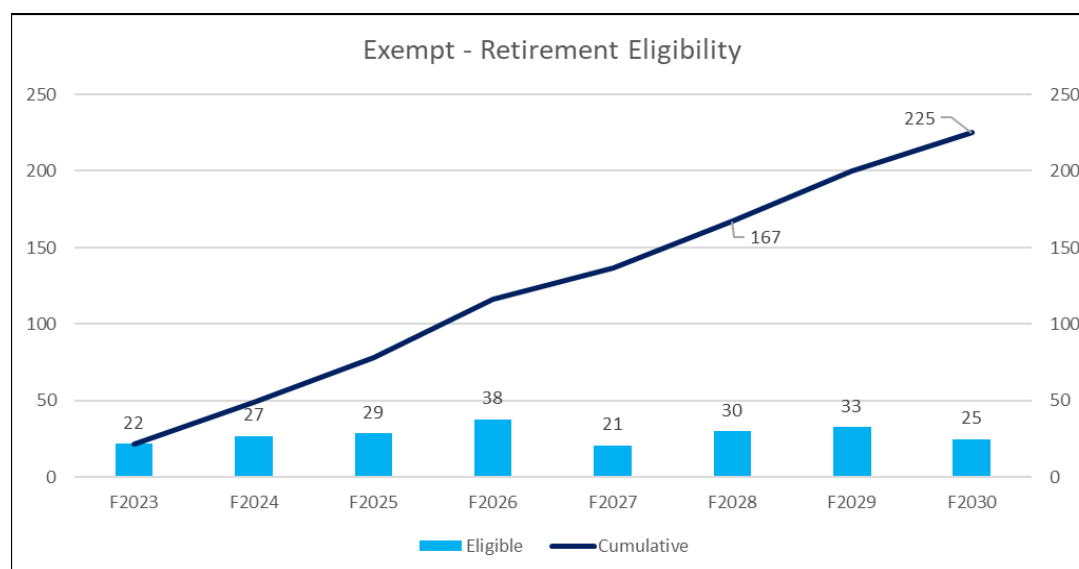
BC Ferries has recently seen escalating turnover levels and challenges in recruiting new exempt employees. In the past year, 125 of the Company’s exempt employees have left for reasons other than retirement, with turnover rates escalating to 20 percent of the workforce.

**Figure 15 – Exempt Turnover (rolling 12 months)**



At the same time, approximately 20 percent of current exempt employees will be eligible to retire within the next five years.

**Figure 16 – Exempt Retirement Eligibility**



The high levels of turnover and the growing number of employees eligible for retirement has become more of an issue for the Company, particularly as a higher proportion of candidates are not accepting employment offers on the basis of total compensation levels.

To improve both retention and recruitment, the Company engaged a human resources consulting firm (“HR consultant”) to assess its exempt compensation structure and assist in implementing an updated compensation program. This work began in June 2022 and to date has found that exempt employees:

- Find the exempt compensation plan, and its administration, lacks transparency;
- Have low confidence that the exempt compensation plan delivers internal equity; and
- Lack confidence that the compensation framework is competitive in today’s marketplace.

Based on the Company’s most recent compensation data, the HR consultant’s initial assessment points to an approximate 10 to 20 percent lag in total compensation compared to market, with variability among the Company’s multiple roles. This work continues to progress, with the HR consultant assisting BC Ferries in developing a job evaluation tool and designing a total compensation structure that is both fair and transparent. This work is expected to be completed in fall of 2023.

An implementation plan will be developed and progressed following an assessment of the results and recommendations.

## Section 6 – Provincial Commitment

On February 28, 2023 the Province announced \$500 million in new funding for BC Ferries in support of lowering fare increases for people who rely upon the coastal ferry service. While the terms of this investment have not been finalized, the intent is to provide relief from inflationary pressures, support greenhouse-gas-emissions reduction through electrification of vessels and ultimately reduce the need for significant annual fare increases. The Company appreciates the support and commitment provided by the Province to aid in providing safe and reliable service to the people and communities of British Columbia's west coast, and in helping to keep coastal ferry service accessible and affordable.



## Section 7 – Conclusion

BC Ferries respectfully submits this additional information to assist the Commissioner in making the PT6 price cap preliminary determination. Since BC Ferries submitted its original PT6 Submission in September, 2022, circumstances have evolved and the Company is now exposed to a risk of recession, while facing inflationary pressures and significantly higher operational and capital costs. Accordingly, the Company provides these details in support of being able to provide safe, reliable service while also making adequate capital investments to sustain the coastal ferry system.