C-Gas Management Inc.

St. John's, NL

February 9th, 2023

Ms. Cheryl Blundon
Director of Corporate Services and Board Secretary
Newfoundland & Labrador Board of Commissioners of Public Utilities
PO Box 21040
St. John's, NL A1A 5B2

Via email: ppreview@pub.nl.ca

Dear Ms. Blundon:

Subject: Petroleum pricing review

C-Gas Management Inc. is a locally owned company which owns/operates nine retail gas stations in Newfoundland. The company is owned by Glenn and Lynn Sullivan of St. John's and has been in business for 10 years.

I am happy to participate in the PUB petroleum pricing review and provide input regarding my concerns at this phase of the process. I have provided input in the past and remain deeply concerned with the current model and its impact upon gasoline retailers. My specific concerns are as follows:

## 1. URGENCY

The current work plan as laid out by Kalibrate and the PUB will see no change in retail margins for at least another year (February 2024). The costs you are expecting retailers to continue to absorb are extraordinary and pushing retailers, like me, to the brink. Most significant of these costs is the increase in minimum wage, which was $11.40 in April 2019 (data used in 2020 margin review), is currently $13.70, and will be $15.00 by Oct 2023. That is a 32% increase in wages that are not reflected in current gas margins – how are we supposed to pay for that? I understand that "comprehensive reviews" take time but at the very least you should consider a "minimum wage interruption adjustment" to help offset some of these costs as they occur rather than deferring to 2024. Retailers can not wait until then.

## 2. FREQUENCY OF MARGIN UPDATES AND USE OF HISTORICAL DATA

When the PUB initiates a margin review and grants retailers a margin increase, they are acknowledging that retailer costs have increased over a given historical period. Since I have been in business, the margin has increased twice – in 2014 and 2020. The 2014 increase used data up to 2012 and the 2020 increase used data up to 2019. This process is fundamentally flawed and skewed against retailer's financial viability. The increase in margin in 2020 only compensated for costs increases to 2019 and has

quickly been eroded in the subsequent three years. My point is that retailers are ALWAYS behind and, under the current model, will NEVER catch up. Costs will continue to rise, and margins will always lag by 4 to 8 years and the PUB seems to think that is acceptable! With inflation today at 6% per year, the stress on retailer viability has never been greater. The retail margin model needs to be updated annually and should, in fact, project cost increases for the upcoming year rather than adjusting after the fact. The PUB needs to seriously rethink the way they are impacting small independent retailers. We are not big oil companies; we do not have deep pockets. We are small businesses trying to make a reasonable livelihood in a very difficult industry.

**3. USE OF SURVEY DATA**

I have reviewed the "Motor Fuels Survey – Retailer" as circulated by Kalibrate. I am a CPA with 25 years of industry experience. I can provide this data for my locations (not quarterly but at least annually). However, I very much doubt that most independent retailers would have the sophistication and access to financial data required to complete this. Lack of comprehensive and representative data could lead to a risk of data biases and inaccuracy in margin setting decisions. The last margin review used Statistics Canada data for Newfoundland and Labrador which, in my opinion, provided a reasonable and consistent index for analysis of cost increases. Furthermore, as an input, it is easy and timely to update as well as transparent. Therefore, it could be updated annually (as I deem necessary in point #2 above).

**4. VOLUME DECLINE**

I am concerned about how volume decline will be factored into retail margins in the future. NL gasoline sales peaked in 2016 and most analysts are predicting a slow tapering of demand over the next 20 years. As volumes decline, gross margin dollars decline but cost of maintaining gasoline infrastructure and operations continue to rise. Eventually, in the not to distant future, it will result in retailers being forced out of business because margin dollars no longer cover operating costs. I think the PUB should be concerned about this (particularly in rural markets) as it could result in loss of supply and almost certainly a reduction in competition and choice for consumers. The model going forward should consider how declining volumes will be factored in to ensure retailer viability. The time to think about this is now, not in five years when it is too late.

Thank you for the opportunity to voice my concerns, I do hope that the current review results in a more equitable process for small businesses in the future.

Sincerely,

Glenn Sullivan, CPA, CA
President