Petroleum Products Pricing Review

Public Participation - Comments

	Initials	Date Received
1	Convenience Industry Council of Canada (CICC)	Aug 6, 2024
2	R & B Services Ltd.	Aug 6, 2024
3	Consumer Group for Fair Gas Prices	Aug 8, 2024
4	North Atlantic	Aug 8, 2024
5	Oil Heat Association of Newfoundland and Labrador (OHANL)	Aug 14, 2024
6	Canadian Fuels Association	Aug 15, 2024
7	Imperial Oil	Aug 15, 2024
8	Irving Oil Limited	Aug 16, 2024
9	C-Gas Management	Aug 16, 2024
10	Sarah Stoodley, MHA Mount Scio	Aug 19, 2024
11	Gander and Area Chamber of Commerce	Aug 19, 2024
12	Town of Fogo Island	Aug 20, 2024
13	Clifford Small, MP Town of Fogo	Aug 23, 2024
14	GB	Aug 23, 2024
15	Sobeys Inc.	Oct 4, 2024
16	Town of Mary's Harbour	Oct 18, 2024
17	William Normore Ltd.	Oct 25, 2024
18	Town of L'Anse Au Loup	Oct 25, 2024
19	Harnois Energies Inc.	Oct 25, 2024
20	Woodward's Oil Limited	Oct 28, 2024
21	Edward Barney	Nov 4, 2024
22	Mike Yetman	Nov 4, 2024
23	Lela Evans, MHA Torngat Mountains	Nov 5, 2024
24	Lisa Dempster, MHA	Nov 7, 2024
25	Yvonne Jones, MP	Nov 12, 2024

August 6, 2024

Newfoundland and Labrador Board of Commissioners of Public Utilities
PO Box 21040
St. John's, NL A1A 5B2

Via email: board@pub.nl.ca

Subject: Submission – Petroleum Process Pricing Review

1. The Convenience Industry Council of Canada (CICC) is a national, not-for-profit trade organization representing retail owners, operators and suppliers in Canada's convenience channel. The convenience store industry is the largest retailer of motor fuel in Newfoundland and Labrador in terms of both volume and number of retail sites.

2. The CICC is responding to a call for submissions from the Newfoundland and Labrador Board of Commissioners of Public Utilities (the PUB or the Board) with respect to a consultation document issued by the Board, Review of Petroleum Products Pricing, Newfoundland and Labrador Island Consultation Document (PUBDOC).

3. PUBDOC addresses, in part, the PUB's proposed changes to retail motor fuel pricing in Newfoundland and Labrador.

4. Without a doubt, fair and reasonable returns on investment for operating retail motor fuel sites are critical to the supply of motor fuels in Newfoundland and Labrador, particularly in more rural areas.

5. For more than 15 years the Atlantic Canada division of the CICC, formerly the Atlantic Convenience Stores Association, has been actively engaged with Atlantic regulatory authorities with respect to retail motor fuel regulation. Through these years, the association has garnered considerable knowledge and insight into fair and reasonable best practices in retail motor fuel regulation.

6. The CICC's submission addresses the specific changes in retail motor fuel pricing proposed in PUBDOC. Before addressing these specific changes, the CICC comments on what the association sees as an unprofessional approach to this review by the PUB. While criticizing the practices of a regulatory body conducting a review would typically be

counter to common sense, it is the opinion of the CICC that the PUB has been totally deficient in timely and reasonable execution of the review and transparency.

7. As a reminder: "On **June 7, 2022** [emphasis added] the Honourable Sarah Stoodley, Minister of Digital Government and Service NL, wrote the Board requesting a review of the following matters with respect to petroleum products pricing: the suitability of the pricing mechanism for benchmark prices; and the maximum markup between the wholesale price to the retailer and the retail price to the consumer for all regulated fuels (both of which comprise the total allowed markup)."

   Newfoundland and Labrador Board of Commissioners of Public Utilities
   Petroleum Product Pricing Review
   http://www.pub.nl.ca/PP/ApplicationsProceedings/2022PetroleumPricingReview/reviewrequest.php

8. On June 6, 2024 – **a full two years later** – the PUB issued a media release seeking input on proposed changes. From the perspective of private businesses operating in a regulated pricing environment, that is unconscionable for a public regulator relative to the operating cost pressures experienced by these retailers.

9. Furthermore, it is odd that the PUB does not extend the simple courtesy of transparency in matters of petroleum that are extended to matters such as the provincial supply of electricity.

10. While the CICC does not advocate for the resources required for a full public hearing, quasi, but still formal "paper" hearings, provide opportunities for acknowledged interveners to present interrogatories to key evidence in order to be best informed and to present any countering insights for the Board's consideration.

11. Examples, in this case, would be the report of the Board consultant, R Cube (Phase III Report – Retail Mark-Ups and Other Items), of which no opportunities were given for an interrogatory process, or the PUB's rationale or calculation for establishing a proposed -1.0 cent per litre reduction in the Board consultant's (R Cube) recommended mark-up increase due to what the PUB categorizes as "Additional Adjustment" [PUBDOC, Appendix E).

12. At this point, the review can reasonably be viewed as a 'minimize the negative' public relations effort by the PUB. For example, there is no reasonable rationale for asking average members of the public to provide meaningful and informed insight into what is,

and always has been, technical issues that require far more than passing opinion for a review body to be adequately and accurately informed.

13. From the CICC's vast experience with regulatory bodies in Atlantic Canada, the term "fair and reasonable" as expressed by PUB senior management, is considered to mean a price that is fair to all stakeholders in a transaction and are inline with the cost of doing business. As will be addressed further on, there are clearly indications that the PUB is deferring to anticipated fallout from "fair and reasonable" adjustments that may be perceived as running up against consumer or political sentiments.

14. Consider the following:
"The board is, as I always say, we are data-driven, we are evidence-based and we want to make sure the decisions we make and recommend to government are fair and justified."

> Jo-Anne Galarneau, Executive Director and Board Secretary
> Newfoundland and Labrador Board of Commissioners of Public Utilities
> CBC online news: https://www.cbc.ca/news/canada/newfoundland-labrador/pub-nl-petroleum-review-1.7226560. Accessed 19 July 2024.

15. "Fair and justified" is closely aligned with "fair and reasonable." Regretfully, the CICC questions whether the PUB is ultimately exercising "fair and justified" or "fair and reasonable" decision making with certain of the proposed changes.

Summary of CICC Positions

16. Benchmark Pricing: Changing the market reporting agency to Argus from Platts

17. The CICC supports a switch from Platts market data to Argus market data.

18. Benchmark Pricing: Recommending to change the benchmarking for higher grades of gasoline.

19. The CICC supports legislative changes whereby a premium unleaded specific marketplace pricing methodology is used in establishing a premium unleaded benchmark price. Mid-grade would be the mid-point between the regular unleaded and premium unleaded benchmarks.

20. In adopting a premium unleaded specific marketplace pricing methodology, the CICC supports maintaining a minimum 6.0 cents per litre spread or differential between regular unleaded and premium unleaded benchmark prices.

21. Benchmark Pricing: Changing the benchmark price averaging calculation

22. The CICC concurs with the Board's commentary and supports a change in the weekday averaging period from seven (7) to five (5) days.

23. Mark-Ups and Zone Differentials: Decreasing the current (interim) wholesale mark-ups for gasoline, diesel and furnace oil.

24. While wholesale suppliers are an integral and vital component of the retail distribution chain, the CICC's comments are limited to issues that impact vehicle fuel retailers.

25. Mark-Ups and Zone Differentials: Increasing the current zone differentials for gasoline, diesel, furnace oil and propane.

26. The CICC fundamentally supports the motor fuel zone differential changes being proposed by the Board.

27. Mark-Ups and Zone Differentials: Increasing the current retail mark-ups for gasoline, diesel and furnace oil.

1. **Changes to Operating Costs:** The CICC is concerned that R Cube's +3.06 cpl recommended retail mark-up adjustment and that proposed by the Board likely understates the realities of the marketplace and may harm independent retailers. That being said, the time and resources required to acquire better evidence are not practical. It can best be said that R Cube's findings are "reasonably" representative of the population of retail motor fuel outlets.

2. **2023 Costs:** Inclusive of higher wages driven by changes in minimum wage, continually increasing insurance costs (particularly environmental), and escalating costs for repairs and maintenance, it is possible that changes in operating costs for retail motor fuel outlets between 2022 and 2023 would exceed the 5.1% CPI All Item factor used by the Board.

   As a minimum, the baseline should be the <u>proposed new retail mark-up (which is inclusive of 2022)</u> adjusted by the NL 2022 – 2023 All Items CPI change of 5.1%. For retail gasoline this would a 2023 cost adjustment of +0.68 cpl and +0.87 cpl for diesel instead of the +0.52 cpl and +0.66 cpl proposed by the Board.

3. **Additional Adjustment:** The CICC strongly maintains that there is no basis for the inclusion of an "additional adjustment" factor.

69. In analyzing the retail motor fuel mark-ups proposed by the PUB the CICC is of the opinion that examination and evidence-based adjustments warrant new retail motor fuel mark-ups shown in Exhibit 1.

CICC Proposed Changes to NL Retail Motor Fuel Mark-Ups

	2020 Mark-Ups	Changes to Operating Costs	Changes to Marine Freight Costs	2023 Costs	Additional Adjustments	New Mark-Up	Current Mark-Up	Change from Current Mark-Up
Gasoline	10.28	3.06	-	0.68	-	14.02	10.28	3.74
Diesel	14.03	3.06	-	0.87	-	17.96	14.03	3.93

Exhibit 1

28. Zone Boundaries

29. The zone consolidations proposed by the Board do not appear to be material in nature and more a reflection of minor administrative ‘housekeeping.’

30. The Price Setting Process and Other Matters: Changing the effective day for weekly price adjustments to Friday.

31. The CICC supports a change in the weekly adjustment of prices from Thursday to Friday primarily to be aligned with the other Atlantic provinces.

32. The Price Setting Process and Other Matters: Recommending Government grant the Board greater discretion in determining price adjustments.

33. In the absence of regular and more frequent retail motor fuel mark-up reviews, the CICC supports Government granting the Board more discretion and flexibility in determining price adjustments.

34. The Price Setting Process and Other Matters: The frequency and process of future reviews.

35. Given the challenges in timely reviews, the Board may consider an annual adjustment to retail motor fuel mark-ups based on an index such as the CPI. These adjustments would be more responsive to annual cost changes for retailers. They would, in effect, be interim adjustments that would be reconciled as part of the next full review.

CICC Commentary

36. Benchmark Pricing: Changing the market reporting agency to Argus from Platts

37. In a Matter 567 decision dated March 7, 2024, the New Brunswick Energy & Utilities Board (the NBEUB) concluded "that the benchmark prices published by Argus more reasonably reflect the market than the published prices reported by Platts."

38. The NBEUB also noted that "The Canadian Energy Marketers Association and the Convenience Industry Council of Canada concurred with R Cube's recommendation on the basis that switching to Argus would align regulators and industry to a common pricing source. The Canadian Fuels Association also supported R Cube's recommendation [to switch to Argus]."

39. Based on the evidence from Matter 567, the NBEUB made the decision that the regulator would switch to the Argus Media reporting service for spot market pricing data.

40. Effective June 2, 2023, amendments to Nova Scotia's Petroleum Products Pricing Regulations (O.I.C. 2023-149, N.S. Reg. 95/2023) included switching from Platts market data to Argus market data as the designated data source for spot market pricing.

41. It is also notable that a switch from Platts market data would be necessary to effectively address the serious issue of the significant divergence in the spread between regular unleaded and premium unleaded marketplace pricing which is discussed further on.

42. With respect to premium unleaded spot pricing, the Nova Scotia Utility and Review Board, In a Matter 10853 decision dated August 29, 2023, observed that "Argus (and OPIS) appear to be more correlated to each other than with Platts. As a result, absent a change in reporting source, the continued use of Platts may have required more frequent margin reviews to account for the increased changes in the spread between acquisition costs and benchmarks."

43. Based on decisions by other regulators, the practices and opinion of industry, and a need for premium unleaded specific spot pricing, it is clear that Argus is a more suitable data source for spot market pricing. And, as noted by the PUB, a switch "...would provide consistency in the market data used to set maximum prices with the approach used in New Brunswick and Nova Scotia" [PUBDOC, Section 2.1.4].

44. Therefore, the CICC supports a switch to the Argus Media reporting service.

45. Benchmark Pricing: Recommending to change the benchmarking for higher grades of gasoline.

46. Historically, the benchmark price of premium unleaded gasoline in all four Atlantic provinces was established by adding a fixed cents per litre “lift” or “premium” to the established benchmark price for regular unleaded. The premium for mid-grade was half of the premium for unleaded premium.

47. Evidence presented at public hearings in Nova Scotia, New Brunswick and Prince Edward Island has clearly established that a fixed premium add-on was an ineffective methodology as the global marketplace pricing premium unleaded had become distinctly different from regular unleaded and there was no correlation between the two products from a marketplace pricing perspective.

48. As a result of these hearings, the pricing methodology for premium unleaded in all three provinces has been changed to utilize premium unleaded specific marketplace pricing. In the case of Nova Scotia and New Brunswick, New York Harbor (NYH) premium unleaded spot market pricing from Argus is used while Prince Edward Island utilizes premium unleaded rack pricing. The benchmark for mid-grade gasoline is the mid-point between regular and premium unleaded.

49. Under a fixed premium add-on methodology, motor fuel retailers are unquestionably losing money on every litre of premium unleaded gasoline sold. The CICC has strongly advocated for a change in methodology to premium unleaded specific marketplace pricing, with the need being recognized and acted upon in Nova Scotia, New Brunswick and Prince Edward Island.

50. The CICC strongly supports legislative changes whereby a premium unleaded specific marketplace pricing methodology is used in establishing a premium unleaded benchmark price. Mid-grade would be the mid-point between the regular unleaded and premium unleaded benchmarks.

51. In adopting a premium unleaded specific marketplace pricing methodology, Nova Scotia and New Brunswick implemented a minimum 6.0 cents per litre spread or differential between the regular unleaded and premium unleaded benchmark prices. Prince Edward Island’s Island Regulatory and Appeals Commission decided against implementing a minimum spread.

52. From a premium unleaded retailer's perspective, a minimum 6.0 cents per litre spread maintains a reasonable balance between the selling prices of the two products. In the limited case where the retail price of premium unleaded is close to that of regular unleaded, significant numbers of regular unleaded motorists would purchase premium in the misguided belief that premium unleaded is "better" for their vehicle and will enhance their vehicle's performance. In a situation like this, a minimum spread would avoid considerable supply and at-site inventory management disruptions throughout the retail channel.

53. In adopting a premium unleaded specific marketplace pricing methodology, the CICC supports maintaining a minimum 6.0 cents per litre spread or differential between regular unleaded and premium unleaded benchmark prices.

54. Benchmark Pricing: Changing the benchmark price averaging calculation

55. In the calculation of benchmark prices, the PUB is considering changing the averaging period from seven (7) weekdays to five (5) weekdays.

56. As stated by the Board: "Based on the information provided it appears that it may be appropriate to move to a 5-day weekday average in the calculation of average benchmark prices. This would be consistent with some industry commentary and would bring consistency with the other Atlantic provinces. In addition, it would avoid potential concerns with disproportionate weighting being given to the Friday data point, which can be an issue where there is significant commodity market volatility" [PUBDOC, Section 2.4.4].

57. The CICC concurs with the Board's commentary and supports a change in the weekday averaging period from seven (7) to five (5) days.

58. **Mark-Ups and Zone Differentials: Decreasing the current (interim) wholesale mark-ups for gasoline, diesel and furnace oil.**

59. While wholesale suppliers are an integral and vital component of the retail distribution chain, the CICC's comments are limited to issues that impact vehicle fuel retailers.

60. Mark-Ups and Zone Differentials: Increasing the current zone differentials for gasoline, diesel, furnace oil and propane.

61. As retailers, the CICC is concerned with reasonable fuel supply to all parts of Newfoundland and Labrador and that volumes delivered and delivery cost recovery do not become a supply disincentive for wholesalers.

62. The CICC fundamentally supports the zone differential changes being proposed by the Board.

63. Mark-Ups and Zone Differentials: Increasing the current retail mark-ups for gasoline, diesel and furnace oil.

64. In PUBDOC, the Board proposes changes to retail mark-ups under three categories:

1. changes to operating costs;
2. 2023 costs; and
3. additional adjustment.

These three categories are addressed individually in the CICC's comments.

65. **Changes to Operating Costs:** Board consultant R Cube surveyed motor fuel retailers, conducted analysis and made recommendations to the existing retail mark-up in a report, Phase III Report – Retail Mark-Ups and Other Items [R Cube Phase III].

66. According to R Cube, 11 retailers "representing roughly 150 retail gas stations provided data" [R Cube Phase III, p. 11]. R Cube states that "[e]leven submitted data on this matter for the entire evaluation period" [R Cube Phase III, p. 13], but that "two out of eleven retailers submitted data for just heating fuels" [R Cube Phase III, p. 13]. Also, according to R Cube, "[t]wo retailers failed to submit data for one or more years representing a total of four retail gas stations" [R Cube Phase III, p. 13], and that data for a full-service station converted to self-serve was not useable [R Cube Phase III, p. 13].

67. Overall, it appears that the sample of motor fuel retailers consisted of some six (6) entities operating 145 retail motor fuel outlets.

68. R Cube presents no detailed evidence with respect to findings, such as any cost category specifics, while the graphs presented are minimal. Overall, it is very difficult to assess the quality of R Cube's work without more background information.

69. Historically, retailer sampling for mark-up reviews has been challenging. Like R Cube's methodology, the most common approach has been an attempted census survey of the population of motor fuel retailers. There are an estimated 369 motor fuel outlets in Newfoundland & Labrador [Source: Kalibrate National Petroleum Retail Site Census]. The 145 retail motor fuel outlets in R Cube's sample would then account for 39% of the retail motor fuel site population.

70. A 39% response rate for a census survey is generally considered low. Census surveys aim to gather data from the entire population, and a high response rate is crucial for accurate and representative results.

71. While a 39% response rate might provide some insights, it is important to consider potential biases due to the lower participation. Certain groups within the population might be more likely to respond than others, affecting the overall representativeness of the data.

72. Most notable in the context of a motor fuel retailer survey is the participation, or lack of, among independent retailers/dealers, many of whom operate smaller businesses with lower volume throughput and, ultimately, higher operating costs per litre.

73. According to Statistics Canada data (Table 23-10-0066-01), provincial volume throughput for road transportation gasoline in 2022, the most recent year reported, was 599 million litres. With 369 retail motor fuel sites in the province, this represents average throughput per site of 1.62 million litres. This is clearly indicative of numerous smaller volume retail sites.

74. With six entities in R Cube's sample operating 145 sites, the data are clearly skewed to multi-location corporate outlets. For example, it is likely that one entity accounted for 30% or more of the 145 sites in the sample.

75. Also, one independent retailer participating in R Cube's survey submitted operating cost data on nine (9) sites. This means that the remaining survey participants were five (5) entities operating 136 sites, or 94% of the site sample.

76. It is well-established that corporate retail outlets generate higher gross margins on motor fuel sales due to overarching corporate economies of scale and purchasing power. If mark-ups for smaller businesses are not adequately accounted for, financially viability and continuity of supply are threatened as a majority of these outlets would be located in rural, more remote locations.

77. The limitations of R Cube's surveying are not unique as similar outcomes have consistently been experienced in retail mark-up reviews in other Atlantic provinces. In the end, regulators typically make decisions based on:

   a. Are the data "reasonably" representative of the population?

   b. Is this the "best" evidence available?

70. The CICC is concerned that R Cube's +3.06 cpl recommended mark-up adjustment and that proposed by the Board likely understates the realities of the marketplace and may harm independent retailers. That being said, the time and resources required to acquire better evidence are not practical. It can best be said that R Cube's findings are "reasonably" representative of the population of retail motor fuel outlets.

71. **2023 Costs:** The Board is proposing a 0.52 cpl increase in the retail gasoline mark-up and a 0.66 cpl increase in the retail diesel mark-up to adjust for 2023 operating cost changes. It is stated that the 2023 Costs category "[r]eflects a CPI adjustment for the 2023 year" [PUBDOC, p. 43].

72. It appears that the proposed +0.52 cpl 2023 retail mark-up adjustment for gasoline is based on Newfoundland and Labrador's 2022 – 2023 All Items CPI change of 5.1% applied to the existing retail gasoline mark-up of 10.28 cpl (Exhibit 2).

	Mark-Up (cpl)	Adjustment (cpl)	% Change
Existing retail gasoline mark-up	10.28	0.52	5.1
Proposed new retail gasoline mark-up	13.34	0.52	3.9
CPI change 2022 - 2023 (All Items)			5.1
CPI change 2022 - 2023 (Excluding food & energy)			4.5
CPI change 2022 - 2023 (Services)			6.4
Proposed new retail gasoline mark-up	13.34	0.68	5.1

Exhibit 2 CPI Source: Statistics Canada, Consumer Price Index, Table 18-10-0005-0

73. The Board's 2023 CPI cost adjustment calculation is arguably non-sensical. Instead of using the existing retail mark-up, the baseline should be the proposed new retail mark-up (which is inclusive of 2022) adjusted by the NL 2022 – 2023 All Items CPI change of 5.1%. For retail gasoline this would a 2023 cost adjustment of +0.68 cpl, while diesel would be +0.87 cpl.

74. Should the adjustment be higher? Consider the impact of minimum wage increases on 2022 and 2023 wage costs.

75. A typical retail motor fuel outlet operates 16 hours a day, 365 days a year. Each day consists of two shifts with two staff on each shift. Based on changes in minimum wage, Exhibit 3 illustrates the basic impact on wages in 2022 and 2023.

76. Even if staff are earning more than minimum wage, a minimum wage increase has a ripple effect on all wages in order to maintain actual-to-minimum wage ratios in order to retain staff. The wage costs illustrated also do not factor in a store manager's salary.

77. As can be seen in the change between 2022 and 2023 in Exhibit 3, minimum wage increases conceivably contributed to at least a 7.2% increase in wages. Wages typically account for 45% to 50% of a retail motor fuel outlet's operating costs.

NL Minimum Wage		Date Range		Days	Min Wage	Operating Hours per Day	Shifts	Staff per Shift	Staff Hours per Day	Total Wages
October 1, 2021	12.75	1-Jan-22	31-Mar-22	90	$ 12.75	16	2	2	32	$ 36,720.00
April 1, 2022	13.70	1-Apr-22	30-Sep-22	183	$ 13.70	16	2	2	32	80,227.20
October 1, 2022	13.70	1-Oct-22	31-Dec-22	92	$ 13.70	16	2	2	32	40,332.80
April 1, 2023	14.50	**Total 2022**								$157,280.00
October 1, 2023	15.00	1-Jan-23	31-Mar-23	90	$ 13.70	16	2	2	32	$ 39,456.00
		1-Apr-23	30-Sep-23	183	$ 14.50	16	2	2	32	84,912.00
		1-Oct-23	31-Dec-23	92	$ 15.00	16	2	2	32	44,160.00
		Total 2023								$168,528.00
		2022 - 2023 $ Change								$ 11,248.00
		2022 - 2023 % Change								7.2%

Exhibit 3

78. Inclusive of higher wages driven by changes in minimum wage, continually increasing insurance costs (particularly environmental), and escalating costs for repairs and maintenance, it is possible that changes in operating costs for retail motor fuel outlets between 2022 and 2023 would exceed the 5.1% CPI All Item factor used by the Board.

79. As a minimum, the baseline should be the <u>proposed new retail mark-up (which is inclusive of 2022)</u> adjusted by the NL 2022 – 2023 All Items CPI change of 5.1%. For retail gasoline this would a 2023 cost adjustment of +0.68 cpl and +0.87 cpl for diesel instead of the +0.52 cpl and +0.66 cpl proposed by the Board.

80. **Additional Adjustment:** The Board is proposing an "additional adjustment" of -1.0 cpl on the retail mark-ups for both gasoline and diesel. As stated in the consultation document, the additional adjustment "[r]eflects a reduction giving consideration to the magnitude of the increase, Canadian price comparisons, and the retail mark-ups currently in place in the other Atlantic Canadian provinces" [PUBDOC, p. 43].

81. The Board maintains that its decisions are evidence-based but provides no calculations as to how the "additional adjustment" was derived or how the proposed reduction is fair and reasonable from the Board's perspective.

82. An obvious question is why gasoline and diesel are both reduced by 1.0 cpl when the magnitude of the proposed "core" changes between the two are different (Exhibit 4).

Gasoline	
Existing retail gasoline mark-up	10.28
Proposed new retail gasoline mark-up	13.34
Proposed 2023 CPI adjustment	0.52
Total proposed retail gasoline mark-up	13.86
% Change over existing retail gasoline mark-up	34.8
Proposed CPL change over existing retail gasoline mark-up	3.58
Proposed 1.0 cpl reduction as % of mark-up CPL change	27.9
Diesel	
Existing retail diesel mark-up	14.03
Proposed new retail diesel mark-up	17.09
Proposed 2023 CPI adjustment	0.66
Total proposed retail diesel mark-up	17.75
% Change over existing retail gasoline mark-up	18.41
Proposed CPL change over existing retail gasoline mark-up	3.72
Proposed 1.0 cpl reduction as % of mark-up CPL change	26.9

Exhibit 4

83. **Magnitude of the Increase:** An expert in wholesale and retail motor fuel economics (R Cube) has conducted a retail mark-up assessment and made recommendations that appear to be reasonable and that the Board appears to support. On what basis then, and

on what calculation, can the Board make an adjustment that incorporates "magnitude of the increase" with no additional evidence?

84. **Canadian Price Comparisons:** The Board provides no explanation of what "Canadian price comparisons" encapsulates. However, the term and a negative "additional adjustment" would suggest that the Board is of the opinion that NL retail motor fuel prices are 'too high' compared to other jurisdictions.

85. Using Statistics Canada CPI data for 2023, the CICC analyzed monthly average retail prices paid for regular unleaded gasoline, comparing St. John's, Halifax, Saint John and Charlottetown/Summerside [Statistics Canada; Monthly Average Retail Prices 2023; Table 18-10-0001-01, Self serve RUL].

86. The analysis included tests of statistical significance as to whether there was a statistically significant difference between the average monthly retail price paid in 2023 for regular unleaded (RUL) gasoline in St. John's versus Halifax, Saint John and Charlottetown/Summerside.

87. Findings are summarized in Exhibit 5. The average monthly variance in 2023 for regular unleaded ranged from Halifax averaging 0.099 cpl below St. John's, to Charlottetown/Summerside averaging 0.214 cpl above St. John's.

Monthly Average Retail Prices 2023: Self Serve Regular Unleaded
Source: Statistics Canada, Table 18-10-0001-01, Self Serve RUL

	Avg Mthly Variance (cpl)	Anova P-value	Statistically Significant Difference @ .05	Notes
St. John's : Halifax	0.099	0.03723	Yes	Halifax RUL retail selling averaged a nominial 0.099 cpl lower than St. John's
St. John's : Saint John	0.067	0.09719	No	Saint John RUL retail selling averaged a nominal 0.067 cpl lower than St. John's
St. John's : Chtown/Sside	-0.214	0.00425	Yes	Chtown/Sside RUL retail averaged 0.214 cpl higher than St. John's

Exhibit 5

88. The ANOVA (Analysis of Variance) statistical test was used to determine if there were statistically significant differences in the price variances for what motorists paid for regular unleaded gasoline between St. John's and Halifax, Saint John and Charlottetown/Summerside.

89. Using a statistically significant *p*-value of .05:

    a. The variance between St. John's and Halifax was statistically significant with Halifax prices being marginally lower;

    b. The variance between St. John's and Saint John was not statistically significant although Saint John prices were marginally lower;

    c. The variance between St. John's and Charlottetown/Summerside was statistically significant with Charlottetown/Summerside prices being notable higher.

90. Individual ANOVA summaries are shown in Appendix A.

91. In many respects, rack rates and regulated minimum and maximum retail prices are of far less significance to what motorists actually pay for motor fuel. From the analysis conducted of average prices paid for regular unleaded gasoline in 2023 in core Atlantic markets, it is unlikely that NL motorists, at least in the St. John's census metropolitan area, are paying materially more than the other Atlantic provinces.

92. The CICC concludes that there is no basis for including Canadian price comparisons in consideration of adjusting retail motor fuel mark-ups.

93. **Retail mark-ups currently in place in the other Atlantic Canadian provinces:**

94. Again the Board provides no insight into how retail mark-ups currently in place in the other Atlantic Canadian provinces were factored in for consideration of "additional adjustment."

95. In the New Brunswick Energy & Utilities Board's Matter 485, Board consultant and motor fuel retailing economics expert Gardner Pinfold Consultants Inc. assessed retail motor fuel mark-ups in New Brunswick. In the report prepared (Section 14 Petroleum Margin Review: Retail Motor Fuel and Heating Fuel) Gardner Pinfold presented current regulated retail motor fuel mark-ups in Atlantic Canada, stating that differences in mark-ups reflected "differences in marketing economics" [p. 4, para. 17].

96. Exhibit 6 presents several factors impacting differences in marketing economics between the Atlantic provinces in retailing motor fuel.

		NL	NS	NB	PE
Current maximum retail gasoline self-serve mark-up (cpl)	1	10.28	7.40	8.46	8.00
Effective date		01OCT20	01FEB21	23DEC22	02DEC22
Estimated population of retail motor fuel outlets	2	369	393	428	82
Provincial road transportation gasoline throughput (M litres)	3	599	1,236	1,051	215
Ranking among Atlantic provinces		3	1	2	4
Variance with NL		[redacted]	2.1	1.8	0.4
Average volume throughput per retail motor fuel site (M litres)		1.62	3.15	2.46	2.62
Ranking among Atlantic provinces		4	1	3	2
Variance with NL		[redacted]	1.94	1.51	1.62
Approximate provincial population (000)	4	533	1,036	818	169
Average volume throughput per 100,000 residents (M litres)		11.24	11.93	12.85	12.72
Ranking among Atlantic provinces		4	3	1	2
Variance with NL		[redacted]	1.06	1.14	1.13
Average retail motor fuel outlets per 10,000 residents		6.9	3.8	5.2	4.9
Ranking among Atlantic provinces		1	4	2	3
Variance with NL		[redacted]	0.55	0.76	0.70

1. In addition, NS currently has in place an interim market adjustor for credit card processing costs which is currently approximately 0.4 cpl.

1. NS and PE also have a minimum retail motor fuel mark-up used in establishing a minimum retail selling price.

2. Source: Industry contacts and hearing evidence from other Atlantic provinces

3. Source: Statistics Canada Table 23-10-0066-01 (2022)

4. Source: Statistics Canada Table 17-10-0009-01 (Q4 2022) (To be comparable with 2022 provincial volume throughput)

Exhibit 6

97. As mentioned in Note 1, NS and PE also have a minimum retail motor fuel mark-up used in establishing a minimum retail selling price. It is well-proven that a minimum retail selling price has a meaningful impact on moderating operating costs and retailing economic stability without limiting consumer choice. It is highly questionable how retail motor fuel mark-ups from a maximum only model such as NL's can be reasonably reconciled against regions using a minimum-maximum model.

98. Among the four provinces, NL ranks third in provincial volume throughput of regular unleaded gasoline for road transportation. Volume is essential to motor fuel retailing profitability and optimizing operating costs and it is notable that NS's provincial volume throughput is more than double NL's, while NB's is almost double.

99. Based on the estimated populations of retail motor fuel sites in each province, NL ranks fourth (last) with a low average volume throughput of 1.62 million litres per site. This is an average and when high-volume sites are factored in there are likely numerous sites throughout the province where motor fuel retailing is not profitable and losses on motor fuel retailing must be covered by whatever profits are generated by non-gas sales.

100. Case-in-point...As far back as 1997, it was "...suggested that at the present levels of obtainable retail margins, a station operator must sell a minimum of 1.5 million litres of gasoline yearly." "Given that a number of stations in the Province sell significantly higher volumes than the average throughput of 1 million litres (some in excess of three million litres of gasoline yearly) , it necessarily follows that there are a number of stations in operation whose total volume of sales may not exceed any more than 200,000 litres annually."[1]

101. If annual volume throughput of 1.5 million litres was essentially breakeven in 1997, there should be no question at all that minimum breakeven throughput in 2024 would be, at a minimum, 2.0 million litres annually.

102. In Matter M09727, a retail margin review conducted by the Nova Scotia Utility and Review Board (December 2020), examples were given of recent occurrences where independent retailers with annual volume throughput between 1 and 2 million litres could not obtain third-party financing to replace underground tanks and were forced to cease retailing motor fuel. These occurrences were not extraordinary, and the lower volume segment of the marketplace was at risk as government environmental regulations and/or insurance companies forced retailers to renew underground storage.

103. By comparison, the significantly higher average volume throughputs per site in NS, NB and PE compared to NL are notable.

104. A third metric is population-based throughput where NL, at 11.24 million litres, ranks fourth (last) in volume throughput per 100,000 residents behind even PE. To this point, Prince Edward Island is a classic example of how comparing retail motor fuel mark-ups between Atlantic provinces is not practical.

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[1] Government of Newfoundland and Labrador. (1997). Gasoline Prices and the Public Interest: The Consumer Advocate's Report on Gasoline Prices in the Province of Newfoundland and Labrador. Chapter Three. A report prepared by the provincial consumer advocate.

105. PE ranks last in provincial volume throughput, but second in average volume throughput per retail site and second in average volume throughput per 100,000 residents. This strong performance overall is a reflection of the relatively small physical size of the geographic marketplace served; the relatively short delivery distances from the one terminal in Charlottetown; the concentration of retail motor fuel outlets in the greater Charlottetown area and the corresponding volume due to area population concentration and non-area workforce numbers; and the impact of high numbers of seasonal road tourists visiting from NS and NB.

106. A fourth metric is also population-based. In this case, NL has the highest number of retail motor fuel outlets per 10,000 residents. By comparison, NS has almost half the number as NL while the NB and PE numbers are between 25% and 30% lower than NL.

107. Overall, NL is an economically challenging environment for motor fuel retailing. The CICC maintains that there is no homogeneity between the retailing economics in NL and those of the other Atlantic provinces. As such, it is the opinion of the CICC that there is no evidence-based rationale for considering an adjustment to the NL retail motor fuel mark-up based on regulated retail motor fuel mark-ups in the other Atlantic provinces.

108. The CICC strongly maintains that there is no basis for the inclusion of an “additional adjustment” factor.

109. In analyzing the retail motor fuel mark-ups proposed by the PUB, the CICC is of the opinion that evidence-based examination and adjustments warrant new retail motor fuel mark-ups shown in Exhibit 7.

CICC Proposed Changes to NL Retail Motor Fuel Mark-Ups

	2020 Mark-Ups	Changes to Operating Costs	Changes to Marine Freight Costs	2023 Costs	Additional Adjustments	New Mark-Up	Current Mark-Up	Change from Current Mark-Up
Gasoline	10.28	3.06	-	0.68	-	14.02	10.28	3.74
Diesel	14.03	3.06	-	0.87	-	17.96	14.03	3.93

Exhibit 7

Zone Boundaries

110. The zone consolidations proposed by the Board do not appear to be material in nature and more a reflection of minor administrative ‘housekeeping.’

111. The Price Setting Process and Other Matters: Changing the effective day for weekly price adjustments to Friday.

112. The CICC supports a change in the weekly adjustment of prices from Thursday to Friday primarily to be aligned with the other Atlantic provinces.

113. The Price Setting Process and Other Matters: Recommending Government grant the Board greater discretion in determining price adjustments.

114. In addition to interruption pricing authority, the Nova Scotia Utility & Review Board has the authority to adjust retail motor fuel mark-ups under the market adjustor. The intent of the market adjustor is to adjust for material retail operating cost changes since the last retail motor fuel mark-up review. There is currently a market adjustor in place to adjust for material increases in credit card processing costs and this adjustment will be reconciled as part of the next retail motor fuel mark-up review.

115. The New Brunswick Energy & Utilities Board has been given the authority to incorporate a market adjustor in the Board’s pricing mechanism, but a market adjustor methdolody has yet to be established.

116. In the absence of regular and more frequent retail motor fuel mark-up reviews, the CICC supports Government granting the Board more discretion and flexibility in determining price adjustments.

117. The Price Setting Process and Other Matters: The frequency and process of future reviews.

118. It is the CICC’s understanding that NL, NS and PE will not initiate a retail motor fuel mark-up review without an application by a retailer, or in the case of PE, a recognized retailer association. If an individual application is submitted, these boards will typically initiate an industry-wide retail motor fuel mark-up review.

119. The New Brunswick Energy & Utilities Board had the intent of Board-initiated retail motor fuel mark-up reviews every two years, but adhering to that schedule has been somewhat challenging.

120. The CICC does acknowledge the resources required to complete a review, particularly where public hearings are mandated, which is typically the case in NS and NB, and where PE conducted its first retail motor fuel mark-up public hearing for the most recent review.

121. Overall, there is considerable inconsistency and lag time in the completion of reviews with the time lag in the current review by the PUB being totally unacceptable.

122. Given the challenges in timely reviews, the Board may consider an annual adjustment to retail motor fuel mark-ups based on an index such as the CPI. These adjustments would be more responsive to annual cost changes for retailers. They would, in effect, be interim adjustments that would be reconciled as part of the next full review.

Convenience Industry Council of Canada
Mike Hammoud, Vice President – Atlantic Division
902.880.9733
hammoud@convenienceindustry.ca

Appendix A

Anova: Single Factor
St. John's : Halifax
SUMMARY

Groups	Count	Sum	Average	Variance
Row 1	12	20.629	1.719083	0.00792
Row 2	12	19.446	1.6205	0.015797

ANOVA

Source of Variation	SS	df	MS	F	P-value	F crit
Between Groups	0.058312042	1	0.058312	4.917228	0.037228	4.30095
Within Groups	0.260891917	22	0.011859			
Total	0.319203958	23				

Anova: Single Factor
St. John's : Saint John
SUMMARY

Groups	Count	Sum	Average	Variance
Row 1	12	20.629	1.719083	0.00792
Row 2	12	19.828	1.652333	0.009893

ANOVA

Source of Variation	SS	df	MS	F	P-value	F crit
Between Groups	0.026733375	1	0.026733	3.001488	0.097186	4.30095
Within Groups	0.195947583	22	0.008907			
Total	0.222680958	23				

Anova: Single Factor
St. John's : Chtown/Sside
SUMMARY

Groups	Count	Sum	Average	Variance
Row 1	12	20.629	1.719083	0.00792
Row 2	12	23.198	1.933167	0.046195

ANOVA

Source of Variation	SS	df	MS	F	P-value	F crit
Between Groups	0.274990042	1	0.27499	10.16311	0.004251	4.30095
Within Groups	0.595268583	22	0.027058			
Total	0.870258625	23				

Exhibit 8

R & B SERVICES LTD
HOME HEATING FUELS
227 TRANS CANADA HIGHWAY
CLARENVILLE, NL
A5A 1Y4

TO: The Public Utilities Board
RE: Review of Petrolem Products Pricing

I am a home heating fuel distributor and I wish to submit this letter of comment on the boards Petroleum Products Pricing Review.

The review has very favorable potential changes and the changes should definitely be implemented.

I state that the timing of these changes is very crucial as they definitely need to be in place prior to the beginning of this heating season here on the island, which for all distributors starts September 01, 2024.

The past few years have been very difficult for us as distributors to try and hang on to keep our business afloat, however, we feel we are out of time. If changes are not made until late fall or halfway through the heating season the fears of all distributors on the island will become a reality. We fear we will not be able to service our customers with heating needs this winter as paying payroll and expenses will be not be possible.

The proposed increase of 4.3 cents per litre in our furnace oil margin is appreciated by us as distributors, however, this increase only reflects the increases of costs up to the year of 2022. The past two years have seen more frightening increase in expenses which have not been reflected in this review. We also have to take into account the decrease in our volume sales due to the governments heat pump programs. It is going to take a considerable amount of time for us to catch up and recover. More timely and frequent reviews are definitely needed to keep the margins verses the expenses even, balanced and viable.

I thank you for the opportunity to comment and hope that changes are implemented soon.

Sincerely,

Elaine Smith
Owner
R & B Services Ltd

TEL: (709) 466-7315 **EMAIL: rbservices@eastlink.ca**
FAX: (709) 466-7340

Presentation

Public Utilities Board

Petroleum Products Pricing

Presented by: Dennis M O'Keefe

Consumer Group for Fair Gas Prices

History

The Consumer Group for Fair Gas Prices lobbied for petroleum regulation in the province. As a result, the Petroleum Pricing Commission was established by the Roger Grime's Government to carry out that mandate. Under Danny Williams that mandate was passed on to the Public Utilities Board ("PUB") which developed its own formula, making adjustments over the years.

Challenges

The PUB has the following challenges that it must overcome if it is to play a meaningful role in pricing petroleum products that impact the lives of Newfoundlanders and Labradorians:

(a) The public currently has no confidence or trust in the PUB or the price-setting formula. This must change.

(b) In the public eye, the PUB operates mysteriously and behind closed doors. The PUB has failed to connect with the public and develop a "public persona"

(c) The public believes that the price-setting formula is flawed and that prices are established unfairly. This must change.

(d) The public has absolutely no idea of the mechanics of establishing the price. This must change.

(e) Every week these feelings and perceptions are reinforced at 12:01am on Thursday when people are told that they must pay more for: (i) gas for their vehicles; (ii) heat for their homes: (iii) diesel for their trucks; and (iv) their propane.

This lack of public connection and confidence has to be overcome by the PUB if it is to gain public trust and, in part, an understanding of the role of the PUB. These are days of tumultuous and abrupt change in petroleum markets. The public needs to know: (i) how prices are set; (ii) the criteria used; (iii) the impact of taxation; and (iv) what the PUB can and cannot control.

The Review Document prepared by Kalibrate Canada & R Cube Consulting is a complex technical document. It contains recommendations which are the result of much consultation, research, analysis and discussion by experts in the field as well as the technical professionals at the PUB. What is missing is an equivalent expert who could examine the document and its impact on the consumer. Consumers need someone on their side who will provide a balanced analysis.

While I do not have that expertise, I do have years of lobbying for and supporting regulation and acting on behalf of consumers. I can provide some insights for the Board to consider.

Insights

The following are my observations on the Recommendations proposed in the Review of Petroleum Products Pricing document:

(a) Items 2.1 and 4.1. Adjusting prices on a Friday, instead of Thursday, as well as moving from Platts to Argus will have little or no serious impact on the pricing.

(b) Item 2.3. A change in the calculation of the benchmark prices will likely result in higher consumer prices.

(c) Item 2.5. Extraordinary adjustments, i.e. the Interruption Formula, has caused the public confusion, anger and cost. Industry has mixed opinion although it "appeared generally" supportive of it. The public is confused as to its necessity and why price changes occur so frequently during times of market volatility. The PUB considers the existing criteria reasonable. I feel that there has to be a change. I recommend that the PUB consider mechanisms to reduce the impact on consumers. It could come as some form of "leveling formula" or a change to setting the prices twice weekly on a Tuesday and a Friday. This might lesson dramatic use of the Interruption Formula. Change is needed.

(d) Items 3.1, 3.2 and 3.3. These items involve revision of the Zone Boundaries and Differentials, as well as, adjusting Mark-Ups and Zone Differentials. This will be a major challenge for the PUB and a tipping point for consumers. Based on information gathered "to date" it "appears" that wholesalers have experienced decreases in cost and retailers have experienced increases. "Potential" mark-up changes "may" be supported based on information "to date". The following increases in fuels prices would result based on where one lives in Newfoundland and Labrador:

   i. Regular gasoline.

      a. Avalon - 0.8 cpl
      b. St. Brendan's – 6.4 cpl

c. Ramea – Grey River – 6.5 cpl

ii. Diesel

a. Avalon - 1.8 cpl
b. St. Brendan's – 6.4 cpl
c. Ramea – Grey River – 7.6 cpl

iii. Furnace Oil

a. Avalon - 4.9 – 7.3 cpl
b. St. Brendan's – 9.4 cpl
c. Ramea – Grey River – 10.6 cpl

iv. Propane

a. Avalon – 1.15 cpl
b. Ramea – Grey River – 13.2 cpl
c. Gaultois/McCallum and Rencontre East – 13.2 cpl
d. Stephenville – 10.8 cpl

(e) Item 4.2 – the notification process. Currently advance notification is given only to industry and media. Consumers are left out based on the belief that consumer notification "could" cause a rush on the market and supply which I feel is unlikely. Consumers need to be informed and changing the process would be a start in reaching out to the public. The PUB should make a change, for example, to notify: (i) the industry at 6:00 pm; and (ii) the media and consumers at 9:30 pm.

One can only imagine the impact of these price increases on family budgets, fuel costs, cost of living, and the cost of all goods/services, food and clothing throughout the province. The PUB must look seriously at these increases with a view towards mitigating them.

Other Observations

There are three other actions that may be taken by the PUB and/or the provincial government, as follows:

(a) When purchasing fuel all taxes should be listed on the invoice. This is information that consumers don't have but should have. The only reason that government would not enact this is their reluctance for the public to know what proportion of the cost of fuel is taxation.

(b) The PUB has the funding to hire expertise like Kalibrate and R Cube to research and compile data and evaluate this data as part of the price setting process. It also has in-house expertise to research and evaluate the recommendations. This leaves the consumer out in the cold in the price-setting process. They have no expertise, technical information, ability or skills to evaluate the recommendations. I would recommend the PUB and/or Government provide support so that an advocate, similar to the current Consumer Advocate representing ratepayers on electricity issues, can be hired to oversee and protect the interests of consumers of oil, gas, diesel and propane.

(c) That the PUB develop and implement a public relations program to improve their image and connect with the public.

North Atlantic

NARL Marketing LP
29 Pippy Place
St. John's, NL
Canada, A1B 3X2

CONFIDENTIAL

August 08, 2024

Kevin Fagan
Chair
Newfoundland and Labrador Public Utilities Board

Re: Comments on the Petroleum Pricing Consultation Document

Dear Mr. Fagan,

On behalf of North Atlantic, I am pleased to provide comments on the Petroleum Pricing Island Consultation Document. North Atlantic appreciates the opportunity to provide feedback and we recognize the time and effort that has gone into conducting the Petroleum Product Pricing Review. As the owner and operator of the province's largest liquid bulk storage terminal, we look forward to working with the Public Utilities Board to ensure fuel security for Newfoundland and Labrador.

The information contained in this letter is confidential and represents sensitive commercial and financial information. Disclosure would cause financial harm to North Atlantic and its ongoing business interest. Specifically, Table 1 has commercially sensitive information that would cause interference with North Atlantic's competitive and negotiating position.

Positive Recommendations:

North Atlantic supports the following recommendations which better reflect acquisition costs and improve regulatory alignment with other Atlantic Canada jurisdictions:

- Replacing jet fuel with ULSK as the furnace oil blend component. This will more accurately reflect the costs of the low sulfur furnace oil that North Atlantic is supplying to the island.

- Using an average of the 5 weekdays in calculation of the benchmark prices rather than the 7-day average that is currently used. This will provide consistency with other Atlantic Canada jurisdictions and will eliminate the 3-day weighting of the Friday data point.

- Moving the weekly adjustment from Thursday to Friday to align with other Atlantic Canada jurisdictions.

- Maintaining the current price adjustment notification process. Notice at 2:00 pm to the industry with no advance notice to the general public helps prevent local supply concerns that could develop.

- The proposed change to zone differentials better reflects the challenges and additional costs with supplying product to remote areas.

- North Atlantic has no concerns at this time with removing stove oil heating fuel maximum prices as we no longer supply this product.

<u>Areas of Concern:</u>

Additional Adjustment to Retail Margin

The Consultation Document includes a 1 cpl reduction on gasoline and diesel to reflect the magnitude of the increase, Canadian price comparisons, and the retail mark-ups currently in place in the other Atlantic Canadian provinces. North Atlantic would like to highlight the additional expenses of supplying fuel in NL compared to other jurisdictions:

- Retail stations in NL with an annual throughput above 1 million liters are required to have gasoline vapour control systems in place at gasoline stations in accordance with the provincial *Air Pollution Control Regulations.* The only other Canadian jurisdictions having this requirement are Metro Vancouver, Lower Fraser Valley area of BC, Ville de Montreal and select geographical areas in Ontario. This regulation also requires terminals supplying gasoline above a certain threshold to have vapor recovery systems in place. These regulations come with a capital cost and associated annual operating expenses.

- In accordance with the *Gasoline and Associated Products Regulation*, Terminals supplying gasoline and diesel in NL are required to have secondary containment of tanks at a minimum of 110% of the storage capacity. These same regulations also impose minimum tank inspection intervals. Such regulatory requirements are costly and do not exist in other Atlantic provinces.

- All other provinces in Canada, including Atlantic Canada, have access to refinery production via the Trans-Canada Highway and in most cases, rail. NL no longer has an operating petroleum refinery, and all volumes must be shipped by vessel to a primary terminal before distribution by truck. Operating a large marine terminal, such as the one in Come By Chance, incurs significant costs which have increased materially since 2019 due to inflation and the conversion of the Come by Chance refinery to a renewable diesel refinery.

- The 2023 National Retail Petroleum Site Census indicates that NL has 6.9 fuel outlets per 10,000 people, the highest of any province in Canada. This speaks to our large geography and subsequent inefficiencies which require higher wholesale margins to support. As we now operate in NS and PEI, we have firsthand information on transportation cost differences. The average transportation cost to deliver in NL is 1.81 cents per litre higher than in NS and 1.54 cents per litre higher than in PEI.

- The 2023 Census also indicates the average throughput at a retail station in NL is 2.3 million liters per year. Based on the 2.62 cpl retail margin increase, this just covers the additional labor costs of the minimum wage increases over recent years and leaves nothing for increases that have occurred in insurance, utilities, maintenance, processing fees, etc. It leaves nothing for reinvestment.

Based on the information above, North Atlantic respectfully requests that the 1 cpl additional adjustment to the retail margin on gasoline and diesel be reconsidered.

Wholesale Operating Costs

The increase in wholesale operating costs experienced by North Atlantic differs significantly from the 1.71 cpl indicated in the R Cube report, which is the basis for the recommendations in the consultation document. The R Cube report indicates the 1.71 cpl is based on data received by 6 wholesalers. Since there are only 3 primary suppliers in Newfoundland (North Atlantic, Irving Oil and Imperial), the data must also include operating costs provided by resellers. Costs incurred by resellers are very different from those of primary suppliers who import fuel to the island and bear the costs of maintaining large terminals with high storage capacity.

North Atlantic estimates that our operating costs have increased by [redacted] cpl since early 2020. This has resulted in North Atlantic increasing the price of non-regulated products in NL by an average of [redacted] cpl. For example, Table 1 provides the average gross margin that North Atlantic has charged for non-regulated fuel sales in the province relative to Platts NY Harbor prices. Since North Atlantic competes for this business with [redacted] the gross margin represents a good proxy for the changing acquisition costs of the product.

Table 1: Average Gross Margin for Non-Regulated Products

	Jet Margin (cpl)	Marine Diesel Margin (cpl)
2019	[redacted]	[redacted]
2020	[redacted]	[redacted]
2021	[redacted]	[redacted]
2022	[redacted]	[redacted]
2023	[redacted]	[redacted]
2024	[redacted]	[redacted]

Higher costs experienced by North Atlantic are due to:

- Conversion of the NARL Refinery to Renewable Diesel. The refinery no longer produces regular hydrocarbon fuels.
- Increased shipping costs.
- Increased interest rates leading to higher Inventory financing costs.

- Hedging costs for hedging inventory which were previously absorbed by the Refinery.
- Canadian dollar value depreciation.
- Operating costs of the Terminal. This was previously absorbed by the refinery.
- Carrying costs to maintain a 60-day inventory (these were previously absorbed by the Refinery).
- Increasing union wages at the Terminal.
- Gasoline evaporation losses (tank breathing and working losses), which were previously absorbed by the Refinery.

These costs are not experienced by resellers, bulk plants or secondary terminals in the province and are not accurately reflected in the recommended 1.71 cpl operating cost increase.

Table 2 compares the wholesale cost increases experienced by North Atlantic to those recommended in the Consultation Document.

Table 2: A comparison of Actual Cost Increases Versus Recommended Increases

[redacted]

Hedging Costs

Hedging of fuel is an important financial instrument which protects both the supplier and the consumer. While hedging may be a choice for larger corporations, it is not a choice for a medium sized organization such as North Atlantic. Nearly all medium sized suppliers in North America who maintain significant fuel inventory, hedge the fuel prices of that inventory. [redacted]

[redacted] In summary, hedging inventory for medium sized firms is akin to buying insurance against price declines of its fuel inventory. [redacted]

It is our understanding that the costs reported by North Atlantic related to hedging were excluded from the R Cube analysis of operating costs and subsequently, could be used as a proxy for acquisition costs or as a standalone cost. Published hedging costs for diesel/furnace oil and gasoline are demonstrated in Table 3. These costs were previously absorbed by the Refinery since NARL Marketing purchased fuel from the Refinery on a real time basis and did not incur any price risk.

Table 3: Published Hedging Costs Relative to Sale Price of Inventory

	2019	2020	2021	2022	2023	5-yr Average
Distillate Hedging Costs (cpl)[1]	-0.050	2.00	-0.33	-18.17	-6.29	-4.57
Gasoline Hedging Costs (cpl)[2]	-1.99	1.23	-2.59	-10.21	-4.61	-3.63
Average (cpl)	-1.02	1.62	-4.46	-14.19	-5.45	-4.70

Note: Positive implies a hedging gain and negative implies a hedging loss. These losses are systematic and are well understood in the Economics literature by the Theory of Normal Backwardation, i.e., Hedgers have to compensate hedge providers to provide them the insurance associated with hedging.

On the basis of the data provided herein, North Atlantic requests that consideration be given to increasing the interim mark-up by [redacted] cpl for gasoline and [redacted] cpl for motor diesel and furnace oil to address increasing costs incurred since 2019, as summarized in Table 4.

[1] Average of monthly HO2 – HO1 rolls

[2] Average of monthly XB1 – XB2 rolls

Table 4: North Atlantic Requested Mark-Ups.

	Retail		Wholesale		
	Board Recommended Mark-Ups	North Atlantic Requested Mark-Ups	2020 Mark-Ups	Current Mark-Ups (Interim)	North Atlantic Requested Mark-Ups
Gasoline (RUL)	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Gasoline (PUL)	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Road Diesel	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Furnace Oil	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]

We would be pleased to meet with the Board to discuss our comments further. North Atlantic is committed to working with the Public Utilities Board to ensure a pricing mechanism that is fair to the consumer and wholesalers alike. We look forward to further collaboration with the PUB to ensure an economically viable pricing structure to provide fuel security to Newfoundland and

Sincerely,

Ted Lomond

Ted Lomond
President
North Atlantic

Via Email PDF (to board@pub.nl.ca)

14 August 2024

Board of Commissioners of Public Utilities
Prince Charles Building
120 Torbay Road, P.O. Box 21040
St. John's, NL A1A 5B2

Re: Petroleum Process Pricing Review

Enclosed please find the Submission of the Oil Heat Association of Newfoundland and Labrador (OHANL) in response to the Public Utilities Board's Consultation Document and request for comments dated 6 June 2024.

This Submission is being made further to OHANL's presentation to the Board on 17 July.

If there are any questions or concerns, please do not hesitate to contact us.

Yours very truly,

Todd

G. Todd Stanley, K.C.

GTS

Encl.
1395-6600-5518, v. 1

G. Todd Stanley, K.C. | Managing Partner

Direct 709 570 5512 ***Main*** 709 738 7800 ***Fax*** 709 738 7999 ***Email*** tstanley@coxandpalmer.com

Suite 1100 Scotia Centre 235 Water Street St. John's NL A1C 1B6

OIL HEAT ASSOCIATION OF NEWFOUNDLAND AND LABRADOR

SUBMISSION to the Public Utilities Board

Regarding the Petroleum Process Pricing Review and the *Petroleum Products Act*

14 August 2024

The Oil Heat Association of Newfoundland and Labrador ("OHANL") is a voluntary association representing companies engaged in the retail sales and distribution of home heating oil (also known as furnace oil) in the province of Newfoundland and Labrador. The members of OHANL are Harvey's Oil Ltd., North Atlantic Petroleum, Western Petroleum and Parkland Fuels (Ultramar).

This submission is to the Public Utilities Board's ("Board") public consultation process as part of its Petroleum Process Pricing Review. This is further to our presentation to the PUB on 17 July; a copy of the PowerPoint presentation we submitted at the presentation is attached.

Overall, OHANL is in agreement with the approach being taken and the changes proposed by the Board in its consultation document. The purpose of this written submission is to confirm the details of same, and to provide detailed commentary on the issues which OHANL is requesting the PUB to reconsider or reevaluate.

We have reviewed the proposed changes for discussion in the Board's 6 June Press Release, as well as the Island Consultation Document and the two Reports of R-Cube released with it. Having reviewed these documents and the Board's proposed changes, we can confirm that OHANL is generally in support of the following proposed changes (as phrase in the Press Release):

Benchmark Pricing

- changing the market reporting agency to Argus Media from Platts US Market Scan
- changing the seasonal blending for furnace oil
- changing the benchmark price averaging calculation from 7 days to 5 days

Mark-Ups and Zone Differentials

- increasing the current zone differentials for furnace oil
- increasing the current retail mark-ups for furnace oil by 4.4¢/l

Zone Boundaries

- changing Zone 3a - St Brendan's (Island) to include Zone 3b - Fogo Island and Zone 3c - Change Islands
- changing Zone 5a - Long Island to include Zone 5b - Little Bay Islands
- changing Zone 7a - Ramea to include Zone 7b - Grey River/François/Grand Bruit/La Poile
- merging heating fuel Zone 7W - Stephenville/Port au Port/Codroy Valley/Channel-Port aux Basques and Zone 7SE - Burgeo and renaming as Zone 7

The Price Setting Process and Other Matters

- changing the effective day for weekly price adjustments to Friday
- recommending Government of Newfoundland and Labrador ("Government") grant the Board greater discretion in determining price adjustments
- the frequency and process of future reviews
- eliminating stove oil maximum prices on the Island

We offer no comment upon the following changes, as they do not relate to home heating oil:

- recommending to Government to change the benchmarking for higher grades of gasoline
- decreasing the current (interim) wholesale mark-ups for gasoline, diesel and furnace oil
- changing the current (interim) total allowed mark-ups for propane varying by pricing zone

We wanted to highlight a couple of specific issues as discussed in our presentation upon which we believe the Board may want to reevaluate or reconsider before it makes final decisions.

The Special Case of the Retail Home Heating Industry

As discussed in our presentation, the members of ONAHL believe there is a significant and special public policy issue associated with our industry, and as a result the need to ensure the industry participants are protected.

OHANL members fully acknowledge that the home heating oil industry is a diminishing business, as the transition away from fossil fuels to other options proceeds and even accelerates. Somewhat unique to this industry, it actually faces active provincial and federal Government programs to provide funding to its customers to convert away from its products. See for example the joint federal - provincial oil to electric program at OiltoElectric – TakeCHARGE (takechargenl.ca). This is a level of active government promotion of industry product avoidance that even the tobacco industry does not face in Canada.

The issue for the Board and for Government is that as this transition occurs, it appears to be based on the underlying assumption that home heating services will be available for the remaining customers until the last customer transitions. Our members suggest that without better protection and processes surrounding the industry, the transition process may be far more chaotic, as a decreasing market should be expected to result in significant market disruption and contraction.

OHANL suggests this potential scenario creates a significant public policy issue for the Board and Government, given the essential nature of home heating oil. For most customers home heating oil is critical, as they have limited alternative means to heat their home in Newfoundland and Labrador's challenging climate. The delivery of home heating oil is effectively an essential service to these customers. However, unlike electrical service, which Newfoundland and Labrador Hydro has a positive statutory duty to deliver, all the home heating oil delivery businesses in the province are private business interests. In a steady or growing market, there is rarely an issue of worrying about the availability and certainty of supply from the private sector. However, in a declining business, the possibility exists for businesses to leave the industry as it becomes uneconomic. Even recognizing the commitment to servicing long term customers and the full awareness of the importance of product, at some point if the industry is increasingly unprofitable, business investment will leave the industry. We have already seen this as businesses have been selling their interests and existing the local industry. If this trend were to continue, the loss of business investment will inevitably cause shrinkage and rationalization of operations in the industry. This will result in a reduction of service levels. The worst-case scenario would be the possibility that customers who have not transitioned may suddenly find they do not have home heat available to them, as suppliers are no longer in the business of delivering to their locations. This may particularly be an issue in rural areas which are only serviced by a limited number of companies, and which have higher marginal delivery expenses.

In addition to the supply issue, there is another reason it is the public policy interest in ensuring home heating oil delivery companies have reasonable margins; it will ensure they invest in the maintenance and upkeep of their equipment particularly their delivery trucks. As discussed in our meeting, home heating oil delivery trucks are inherently environmentally risky assets; the industry model is based upon vehicles holding thousands of litres of hydrocarbons being on highways and rural streets and delivering the products through pressurized hoses directly to storage tanks in or next to residential homes. The industry is justifiably proud of its safety record in its operations. However, maintaining those standards of operations and maintenance are part of the costs associated with the retail margin on operations.

As a consequence, OHANL members submit that there are significant public policy issues associated with ensuring that the home heating oil supply industry is supported and even insulated somewhat against the implications of the decrease in its market. Only such support will ensure that the eventual transition away from home heating oil as a product occurs as smoothly as possible, so that the inevitable final remaining customers have a reliable supply.

Retail Margin Adjustment

The primary request of OHANL members is for the Board to contemplate a more regular adjustment process to the retail margin. The current system contemplates the retail margin being set in perpetuity with adjustment only upon either the application of OHANL members or following a Board review. The result is that the margin has only been adjusted once since 2019.

The actual costs of delivering retail home heating oil are tied to the economy and affected by various factors, including inflation in underlying costs, inflation in wages, as well as (unique to the retail home heating market) increases in diesel fuel, given diesel is required for the tanker trucks transporting home heating oil to customers. In other words, as diesel fuel prices increase over time, the actual margin enjoyed by home heating oil suppliers necessarily decreases in lockstep.

The inevitable result is that even if a retail margin is set in the current system on the basis of the best information available at the time, it inevitably becomes a less accurate reflection of increasing actual costs over time. That results in a decreasing rate of return on investments in this area over time, which decreases the attractiveness of the business as a going concern for the participants in the industry.

Our suggestion is to change the retail margin system entirely. Instead of irregular adjustments years apart, the suggestion is to have the retail margin set, and then adjusted regularly on the basis of an agreed inflation metric such as one of the CPI metrics from Statistics Canada. Such adjustment could be monthly or quarterly. ONAHL would propose that there would then be a review process on a regular basis, annually or every two years, to ensure the margin is still reflective of actual costs and has not varied too high or too low. Such a process would ensure that the home heating industry would be able to rely upon having reasonable and accurate margins available to fund their business operations.

Extraordinary Price Adjustments - Range

As noted in section 2.5 of the Consultation Document, the Board currently has a benchmark of a +/- 6.0¢/l variation between the running average benchmark price and established benchmark price for a product as a trigger for when it will consider an extraordinary adjustment to the established benchmark price. The Board's proposed decision at this time is not to modify that parameter as part of this process.

OHANL members believe that these parameters are too broad and permit too great a variation in the average daily price before the benchmark is modified. OHANL members buy home heating oil on a daily basis (and at time multiple times per day) from wholesalers; there are no OHANL members with storage facilities to stockpile reserves. The wholesale price paid for the home heating oil is based on daily spot prices. OHANL members are therefore exposed to pricing variability for the home heating oil as a cost but are constrained by the price set based on the established benchmark price in what it can charge customers.

The +/- 6.0¢/l standard before the benchmark pricing is modified means that OHANL members can be paying up to 6.0¢/l more for home heating oil than was the basis for their retail price. This 6.0¢/l effectively comes out of their retail margin; at a retail margin of 18.27¢/l (currently) and 22.7¢/l (proposed), this is a 32.8% to 26.4% effective reduction in the retail margin before the benchmark price is reset to re-establish the correct retail margin.

ONAHL members submit this is too high a level of variability before adjustments to the benchmark are made. They propose instead a change of +/- 3.0¢/l. While they acknowledge this will result in more frequent adjustments to the benchmark pricing, it will also assist in protecting the OHANL member's retail margins in periods where prices are increasing.

Extraordinary Price Adjustments - Transparency

OHANL members also wanted to encourage the Board to increase the transparency in its deliberations and metrics for determining when to implement extraordinary adjustments. As noted in section 2.5 of the Consultation Document, the current +/- 6.0¢/l variation is the point which triggers whether the Board will *consider* an extraordinary price adjustment. However, there is little information available as to what the Board considers in making such a decision once the threshold is crossed.

As noted in our meeting, the perception of OHANL members is that the Board acts more quickly to issue extraordinary adjustments when prices are decreasing than when they are increasing. In that discussion you indicated that the Board's position is that this can be shown empirically not to be the case. We would suggest an increase in transparency as to the factors the Board considers in whether and when to issue an extraordinary adjustment would assist in overcoming this perception in industry.

Suggested Legislative Amendment

As a final comment, we are attaching a copy of a letter written 23 May 2024 to the Minister of Digital Government and Service NL as the Minister responsible for the Petroleum Pricing Act. As you can see from the letter, we were responding to comments the Minister made in the Budget Estimates process lamenting the Board's difficulty in gathering industry information. We highlighted to the Minister that this difficulty was in part the uncertainty caused the lack of protection for industry information collected by the Board from disclosure under the *Access to Information and Protection of Privacy Act, 2015*. We drew the Minister's attention to the New Brunswick legislation, which is very similar to that in Newfoundland and Labrador, but which includes exclusions to ensure information gathered by the regulator was not subject to disclosure.

Conclusion

We thank you for both the opportunity to meet and present with the Board and its personnel in person on 17 July, and the opportunity to provide this written submission. If there are any questions respecting this submission or any other issues upon which we can provide information, please do not hesitate to contact the Oil Heat Association of Newfoundland and Labrador through either Chris Forward at chrisforward@harveysoil.com or Janet March at info@ohanl.ca.

1389-1318-2477, v. 2

OIL HEAT ASSOCIATION
NEWFOUNDLAND AND LABRADOR

PRESENTATION TO PUBLIC UTILITIES BOARD
17 JULY 2024

AGENDA

Opening Statement

Extraordinary Change Threshold

Statutory Changes

Retail Margin Adjustment Process

OVERALL OHANL MEMBERS HAPPY WITH PROCESS

OHANL members generally approve of both the process and the recommendations in the Consultation Document

Most importantly, OHANL generally agrees with:

- changing the market reporting agency to Argus Media from Platts US Market Scan.
- changing the seasonal blending for furnace oil, but there is a need to confirm pricing equivalency between jet and ultra low sulfur diesel as both are used in NL
- changing the benchmark price averaging calculation from 7 to 5 days
- increasing the retail mark-ups for furnace oil by 4.4¢/l.
- increasing the current zone differentials for furnace oil.

ISSUES TO DISCUSS

OHANL members view the Extraordinary Price Adjustment as being too opaque and the +/- 6 ¢/l too broad – would like

- more transparency into the process, and
- +/- 3 ¢/l band before changes are triggered.

OHNAL has written Government to suggest amendments to the Petroleum Pricing Act relating to protecting industry information collected from ATIPP disclosure (as is done in NB)

ISSUES TO DISCUSS

Most importantly, OHANL is seeking more regular Retail Margin Adjustments:

- Home heating fuel retail business is critical and economics have to be protected as the market diminishes, to ensure continuing investment
- It is also cost sensitive to the actual cost of diesel; as diesel prices increase, actual margins in the business decrease
- Unique from the other regulate petroleum products in that regard
- Business needs to have great certainty of recovery of investment, otherwise investment and operations will pull out o the business, potentially faster than the transition

Suggestion is for the Home Heat Retail Margin to be tied to CPI, with monthly or quarterly adjustments and a review every two years (possibly using Calibrate).

THANK YOU

Chris Forward - chrisforward@harveysoil.com

Janet March - info@ohanl.ca

Todd Stanley – tstanley@coxandpalmer.com

OIL HEAT ASSOCIATION NEWFOUNDLAND & LABRADOR

Via Email PDF

May 23, 2024

Department of Digital Government and Service NL
Digital Government and Service NL
100 Prince Phillip Drive
P.O. Box 8700
St. John's, NL A1B 4J6

Attention: Minister Sarah Stoodley

RE: *Petroleum Pricing Act* – PUB Review

We are an association representing companies engaged in the sales and distribution of home heating fuel in the province of Newfoundland and Labrador. As a result, our association and its members are very interested in the review being undertaken, at your instruction, by the Public Utilities Board ("PUB") of the wholesale and retail markups included in the pricing formulas for products governed by the *Petroleum Products Act*, such as home heating fuel.

We are writing specifically in response to comments you made on 19 April 2024, in response to a question during your Department's appearance before the Government Services Committee hearing reviewing Estimates 2024-25. Transcripts of the hearings are not available, but in the audio recording of the testimony you noted that the Public Utilities Board's review is taking longer than had been anticipated. We share that frustration as parties who have submitted into the process without any sign of progress.

You also noted that part of the difficulty with this process was the difficulty in the PUB getting information from wholesalers and distributors. We wanted to write to explain why this is in part a product of a legislative deficiency in the *Petroleum Pricing Act* which contributes to this difficulty.

The businesses engaged in the delivery of home heating fuel and any other residential petroleum products in the province are in competition in a declining market. As such, they are extremely sensitive to sharing any business information relating to their operations, costs, suppliers or customers, as that information can be of obvious use to their competitors to their detriment. It is important to remember that the companies involved are not regulated public utilities, or otherwise subject to public disclosure requirements for their businesses.

The PUB's review process is reliant upon the voluntary disclosure of just such business information by these companies. However, despite the highly confidential nature of the information requested, on our legal analysis the PUB cannot guarantee the confidentiality of any information supplied. As a result, companies are very hesitant to provide the PUB with the information requested out of fears of public disclosure.

The issue is the treatment of the information and the PUB under the *Access to Information and Protection of Privacy Act*. The PUB is subject to the Act; as a result, it would be required to respond to an access to information request seeking all information provided by participants into the PUB's petroleum pricing review. While the Act contains provisions that are supposed to protect third party commercial information, such as that that would be provided by the companies, our legal advice has been that these provisions as interpreted and applied in the Province cannot be relied upon to protect the information provided. As a result, the advice we have received is that any party providing information to the PUB has to be prepared for this information to possibly be disclosed by the PUB in response to an ATIPP request.

This fundamental contradiction between the requirements of the PUB for information in performing its duties and its potential disclosure obligations was apparently identified and dealt with in New Brunswick in similar legislation. New Brunswick passed its *Petroleum Products Pricing Act* in 2006, largely patterned after our *Petroleum Pricing Act*. However, it also contains the following provision:

> Confidentiality
>
> 16(1)Where information obtained by the Board concerning the costs of a person in relation to the operations of the person that are regulated under this Act, or other information that is by its nature confidential, is obtained from such person in the course of performing its duties under this Act, or is made the subject of an inquiry by any party to any proceeding held under the provisions of this Act, such information shall not be published or revealed in such a manner as to be available for the use of any person unless in the opinion of the Board such publication or revelation is necessary in the public interest.
>
> 16(2)Notwithstanding subsection (1), the Board shall provide information to the Minister that it has obtained under any reporting requirements provided for under the regulations, upon the written request of the Minister.

No such provision exists under the *Petroleum Pricing Act*. Our suggestion is that if such a provision were to be included in the *Petroleum Pricing Act*, and recognized by Schedule A of the *Access to Information and Protection of Privacy Act*, it would alleviate many of the concerns expressed by members of our association respecting the disclosure of information to the PUB, and possibly result in the PUB being provided with more information for its review processes.

We are of course available to discuss at your convenience.

Yours truly,

Christopher Tanard

Cc: Sean Dutton, Deputy Minister

1377-9889-7676, v. 2

Canadian Fuels
ASSOCIATION
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August 15, 2024

Jo-Anne Galarneau

Public Utilities Board Newfoundland& Labrador

Suite E210, Prince Charles Building

120 Torbay Road, St, John's, NL

A1A 5B2

Sent by Email:

board@pub.nl.ca

jgalarneau@pub.nl.ca

Re: Petroleum Products Pricing Review

Dear Ms. Galarneau,

On behalf of the Canadian Fuels Association (CFA) and its member companies[1] operating in Newfoundland and Labrador, we thank the Public Utilities Board of Newfoundland and Labrador (PUB) for the opportunity to comment on the Petroleum Products Pricing Review.

The PUB review summary and the Island Consultation Document provide a number of positive potential changes and/or recommendations with outcomes that CFA supports. Among them are weekly regulated price adjustments that align with other Atlantic Canada jurisdictions, changing the market reporting agency to Argus from Platts, using an average of five weekdays in calculating benchmark prices, using a factual market pricing marker for setting the price of premium gasoline and adjusting the winter blend schedule.

While we agree with and support some potential changes PUB is considering, the possibility of a decrease in the wholesale markup, that includes both an assessment of operating and acquisition costs,

[1] Canadian Fuels members: Braya Renewable Fuels, Cenovus Energy, Federated Co-operatives Limited, Greenergy, Greenfield Global, Imperial Oil Limited, Irving Oil, North Atlantic, North West Redwater Partnership, Parkland Corporation, Petro-Canada Lubricants Inc., Shell Canada Products, Suncor Energy Products Partnership, Tidewater Midstream and Infrastructure Ltd. and Valero Energy Inc.

raises a concern. It is critical that that PUB avoid any potential unintended consequences including those that may place undue pressure on product supply in the province.

Based on the R Cube consultant report, six wholesalers provided data on operating costs. However, there are only three primary suppliers (wholesalers) in the province while the other three are resellers. Since wholesalers have significantly more infrastructure costs and investment than resellers, the R Cube aggregated data may be skewed or inaccurate as a base for determining operating costs.

The PUB should be cautious in its analyses to not rely solely on data from one consultant's report while meaningful data is only available from confidential and competitive data of producer/providers and is not generally available to consultants.

There is no doubt that operating costs, including shipping and transportation, have shown a significantly increasing trend in the 2019 -2022 period. Proposed mark-ups in the review only provide for an additional CPI adjustment from 2022 to 2023, however as costs continue to rise CPI, at a minimum, should be considered for 2024.

CFA is also monitoring cost pressures associated with the introduction of a significant number of new environmental regulations including the decarbonization of heavy fuels for ships, restricting its use, and the addition of costly scrubbers. Additional regulations are not reflected in the 2019-2022 cost data reviewed by R Cube suggesting that reducing wholesale margins could initiate inadvertent consequences.

Regarding the issue of product acquisition costs, without access to private, confidential and competitive data, there is currently no surrogate for individual company costs. Furthermore, there is a significant change in the make vs buy formulation in Newfoundland and Labrador.

Since the closure of the local refinery, the fuels market is now fully an import-based market. As a result, acquisition costs vary due to a variety of factors such as long- or short-term contracts, the spot and opportunistic markets, proprietary financial interests and competitive supply/demand inventory decisions.

The following points are noted for consideration:

- Recognize the introduction and substantive role of ethanol in regulated pricing of regular and premium gasoline
- Consider assessing the need for ethanol in the gasoline benchmark in a future review
- Consider more frequent and timely reviews of mark-ups

Assessing and incorporating accurate data that reflect practical market conditions will contribute to the success of meeting the challenges for positive outcomes in a revised regulation.

We thank you again for the opportunity to offer our comments and we would be most happy to continue a conversation with the PUB.

Sincerely,

Carol Montreuil

Vice-President, Eastern Canada and Economics

August 15, 2024

VIA EMAIL (board@pub.nl.ca)

Newfoundland and Labrador Board of Commissioners of Public Utilities
120 Torbay Road
P.O. Box 21040
St. John's, Newfoundland and Labrador
Canada, A1A 5B2

Attn.: **Jo-Anne Galarneau**
Executive Director and Board Secretary

Dear Ms. Galarneau,

Re: Petroleum Products Pricing Review – Potential Changes Being Considered

In response to the invitation received from the Newfoundland & Labrador Board of Commissioners of Public Utilities ("Board") to provide additional information and feedback as to the potential changes being considered for petroleum products pricing regulation on the Island, Imperial Oil ("Imperial") offers the below responses.

Imperial offers the following comments on a number of changes being considered by the Board:

- Imperial's view is that the benchmark price used to formulate the weekly regulated price for Premium Gasoline (PUL) should reference a market relevant Premium Unleaded Gasoline reference, making the mechanism market responsive and reflective of the cost of Premium Gasoline supplied in the province. The 6cpl fixed PUL differential to Regular Unleaded Gasoline (RUL) does not capture fluctuations to benchmark prices, which in periods of high volatility, can result in unfavorable financial impacts to suppliers. Updates to the spread between the RUL versus the PUL NYH benchmarks should be assessed regularly (For example: each week during the weekly regulated pricing updates) to ensure the latest market values are reflected. In addition, a lower limit to the spread between the RUL versus the PUL NYH benchmarks should be established to ensure a minimum reasonable profitability for market participants due to the additional supply chain complexity for supplying premium gasoline. Imperial believes that designing the regulated price formula in a way that reflects and captures true market dynamics will help ensure wholesale margin is adequately maintained in all market scenarios and supply of the products needed in the market remains reasonably profitable for market participants.

  Imperial submits that to reflect the market dynamics, the formula used to calculate regulated Unleaded Gasoline prices within the "New Brunswick General Regulation – Petroleum Products Pricing Act" and their recent decision on Matter 565 (Mar 7, 2024) are reasonable approaches to ensuring the resiliency of wholesale margin in all market scenarios.

- Imperial is supportive of changing the benchmark references for Furnace Oil price calculations to the same benchmarks as Diesel; namely, NYH Ultra Low Sulphur Diesel (ULSD) and NYH Ultra Low Sulphur Kerosene (ULSK) instead of the current blending products of NYH ULSD and NYH Jet. To meet the Cloud

Point requirements of Furnace Oil, Imperial only blends ULSK (not Jet) with ULSD at our terminal at Corner Brook.

Imperial is supportive of aligning the benchmark that is used to set the Furnace Oil maximum regulated price with the actual product that is blended.

Imperial's view is to maintain a seasonal winter blend schedule for diesel and heating fuel/furnace oil in order to ensure suppliers can recover the cost of supplying products that meet the seasonal operability requirements in the province. In order to meet low temperature operability, much of the winter season requires ULSK blending beyond the 75% ULSK blend formula stipulated in the Newfoundland & Labrador regulation. A blend schedule that reflects the requirements within the region should be considered.

- Imperial does not support the decrease in wholesale margin. Costs across various business models may differ depending on the operation of the business. Imperial acts as both an Importer and Supplier of petroleum products as well as a Wholesaler in Newfoundland. As the owner and operator of one of the primary terminals in the province (Corner Brook), Imperial bears significant ongoing infrastructure costs and investments that need to be recovered in order to maintain viability of supply. These costs specific to importers/suppliers should be considered in addition to the costs reported by pure wholesalers who do not act as importers/suppliers in the province.

  Imperial did elaborate in detail on the request to review the wholesale margin in our letter to the Board dated February 21, 2023.

- Imperial submits that a calculation of the benchmark price that is based on seven days of data, using Friday benchmark data for Saturday and Sunday (seven-day average), is a more accurate reflection of the actual average price throughout the entire week. Using only five days' worth of data to develop a weekly average fails to capture the most accurate average price for the entire week. As a supplier our cost of inventory is based on the full week average, therefore market prices should reflect a consistent approach for cost recovery.

Should additional information be required, or additional questions arise, you may contact the under sign.

Sincerely,

Elamin Sobair
Regional Pricing Manager, Fuels – Atlantic & Quebec
elamin.sobair@esso.ca
505 Quarry Park Blvd. SE
Calgary, AB, T2C 5N1

August 16, 2024

Jo-Anne Galarneau
Executive Director and Board Secretary
Newfoundland and Labrador Board of Commissioners of Public Utilities
P.O. Box 21040
St. John's, Newfoundland and Labrador
Canada, A1A 5B2

Re: Letter of Comment – Review of Petroleum Product Pricing – Island Consultation Document

On June 6, 2024, the Newfoundland and Labrador Board of Commissioners of Public Utilities ("NL PUB") issued an Island Consultation Document and Request for Additional Information and Commentary as part of its ongoing review of petroleum products pricing. Please find Irving Oil's comments to the NL PUB in response to its invitation to provide feedback and commentary on the potential changes set out in the Island Consultation Document.

Irving Oil has a long history of providing safe reliable supply to the Province of Newfoundland and Labrador. With the potential changes to the wholesale and propane mark-ups, the NL PUB places significant doubt on the ability of our organization to deliver continued long term supply reliability. The potential wholesale mark-ups for gasoline, diesel, furnace oil, and the propane mark-up, if put in place, will not be sufficient to allow Irving Oil to recover all costs to supply the NL market.

As Irving Oil is supportive of some of the potential changes the NL PUB has outlined in the Island Consultation Document, this comment letter focuses on Section 3.1 (Wholesale Mark-Ups) and Section 3.3 (Propane Mark-Ups).

Section 3.1 – Should the Wholesale and Retail Mark-Ups be adjusted?

The Island Consultation Document proposes reductions in the wholesale mark-up for gasoline (1.95 cpl), diesel (1.1 cpl), and furnace oil (0.1 cpl). For the reasons noted below, the existing wholesale mark-ups should remain in place.

Irving Oil participated in the process with NL PUB's independent consultant and provided detailed **confidential** cost data for the period requested for gasoline, diesel and furnace oil (2019-2022). The data review period from 2019-2022 showed wholesaler costs have increased on an annual basis, a trend that has continued. Should the Board proceed with the potential adjustments, based on Irving Oil's estimated 2024 costs, the allowed mark-ups would not allow for recovery of all costs.

To determine new potential mark-ups, the Island Consultation Document makes an adjustment to the data using the Consumer Price Index (CPI) for the 2023 year only. A CPI adjustment for a single year since 2022 is not sufficient to reflect the cost increases that have been and will continue to be experienced by wholesalers during the time period in which any new potential wholesale mark-ups ordered by the NL PUB would be in effect (e.g. later in 2024 and beyond).

Further, the use of CPI alone is not reflective of the actual annual cost increases faced by the industry, particularly in areas such as marine freight rates. NL is heavily reliant upon marine vessels to supply the Island, as the majority of motor fuels and furnace oil are imported into the province.

In January 2020 the adoption of the Marine Pollution (MARPOL) Convention permanently shifted the market to more expensive costs for fuel for marine vessel movements. In addition, continued implementation of the 2022 Russian sanctions have impacted petroleum prices and disrupted shipping lanes, creating higher freight costs, helping to perpetuate increased inflationary prices in marine transportation.

It is not only global market factors that contributed to the rise in freight rates over the years. For example, in 2023 the International Maritime Organization (IMO) GHG Regulations came into effect requiring marine vessels to meet a specified Carbon Intensity Index (CII) and Energy Efficiency Existing Ships Index (EEXI). Vessel operators are required to consider fuel switching and reduced ship speeds to comply with these regulations. As a result, marine freight rates are expected to increase further to recover these increased regulatory costs incurred by the industry.

The 2019-2022 data reviewed by the NL PUB's consultant focuses on wholesaler operating costs. It does not reflect the recovery of ongoing and future capital and infrastructure investments that are required to allow fuels to continue to be reliably supplied to the Island. Significant regulatory changes are also expected to place additional compliance obligations on the industry in the very near future. For example, draft federal regulations with respect to Volatile Organic Compounds (VOC) are expected to be released and in force in Q1 2025. The potential wholesale mark-ups set out in the Island Consultation Document do not account for the impact of the cost pressures from these and other new federal regulations. Irving Oil would have to make significant investments in both capital and operating expenses to be compliant.

In summary, the Board's potential new mark-ups do not consider or allow for the following:

1) A CPI adjustment for 2024
2) Industry to recover cost increases that exceed CPI inflation
3) Industry investments in the long-term sustainability of the supply chain
4) Investments to be compliant with new and changing environmental regulations

Irving Oil has been a long-term supplier to the province of Newfoundland and Labrador. While we remain committed to the reliable supply of petroleum products in NL, the proposed changes place significant challenges on the continuity of long-term supply reliability.

In October 2020, the NL PUB took a proactive approach by approving interim wholesale mark-ups which have been critical to ensuring that wholesalers remain in a position to provide reliable supply to NL. Consideration of all of the evidence and surrounding circumstances suggests that those existing wholesale mark-ups remain appropriate. The NL PUB should continue to maintain the current mark-ups.

3.3 - Should the Board Adjust Mark-Ups and Zone Differentials for Propane?

Irving Oil has reviewed the potential changes to the propane mark-up and zone differentials provided in Appendix J. These changes do not reflect the cost increases associated with the current supply chain to accommodate the transition to an import-only market.

Propane is no longer produced in the province. It is transported via rail car from multiple locations in North America to the Maritimes, then trucked to Sydney, Nova Scotia to cross on the ferry to Port-aux-Basque. The propane is then trucked across NL to Irving Oil's bulk plant in Mount Pearl. By the time propane is delivered to the end user there are now a number of significant and additional transportation costs that are incurred.

Overall, on an annual basis, the costs to transport propane have increased significantly since Irving Oil provided cost data that was used to set the interim mark-ups that were last established by the NL PUB in 2021. As a result, no decreases in the propane mark-ups are justified. At a minimum, these mark-ups should remain at existing levels, and a further review of costs should be undertaken to determine the magnitude of the increase that is justified in the circumstances.

Conclusion

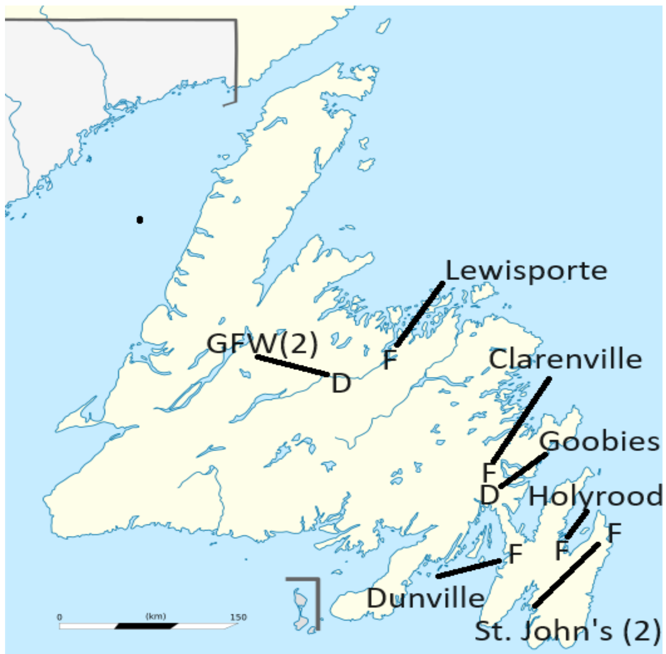
Thank you for the opportunity to submit these comments. Please let us know if you have any questions or require further information.

Yours truly,

Sherry Duncan
Director, Regulated Markets

Introduction

C-Gas Management Inc. is a locally owned and privately held company operating nine gas stations in the province. We are independent gas retailers wholly invested in the province and rely on the retail gas margin incorporated into the gas price to provide a living for ourselves and our 100 employees. Of our nine locations, three of these locations are dealer (D) sites, meaning the company owns the real estate as well as the gasoline inventory. The other six are franchise (F) locations, where C-Gas operates the location and is paid a commission on gas sales by the gas supplier. We are a small business, operating mostly in rural NL, that depends on retail gas and diesel margins for the survival of our business.



Fuel retailers in NL face unique business challenges, as they have little control over critical business factors such as sales margins on fuel or salary costs—the latter of which accounts for an average of 50% to 55% of operating expenses. The retail gas margin is determined by the NL Public Utilities Board (the "PUB"), while minimum wage increases are set by the Government of NL. Coupled with recent rises in the Consumer Price Index ("CPI") and interest rate increases, the lack of timely and adequate adjustments to the retail margin has resulted in significant margin deterioration between adjustments and consequently an inability for retailers to earn a reasonable return on their investment.

Our submission addresses two critical issues regarding the ongoing review of petroleum products pricing in NL, specifically as it relates to the proposed retail gas margin increase. First, the proposed 2024 margin increase of 2.6 cents per litre, the first adjustment since 2019, is woefully inadequate to offset the rise in operating costs that retailers have faced in the intervening years. Secondly, the PUB's current practice of reviewing the retail gas margin only once every four to five years is unsustainable. This approach jeopardizes the survival of local independent businesses like ours. If this continues, only large national or multinational companies that can weather these challenges through geographic diversification and vertical business integration will be left in NL and smaller rural areas will be left without gasoline supply.

Issue 1: Inadequate Margin Increase

The model is not working for independent retailers. Small retailers have very few levers to pull to offset rising wages and operating costs. This is particularly true in rural NL where population growth is stagnant or declining. The lack of periodic review and reliance on dated information results in significant margin deterioration between adjustments and an inability for retailers to earn a reasonable return on their investment.

Consider the following simplified but realistic scenario based on our own dealer sites in rural NL.

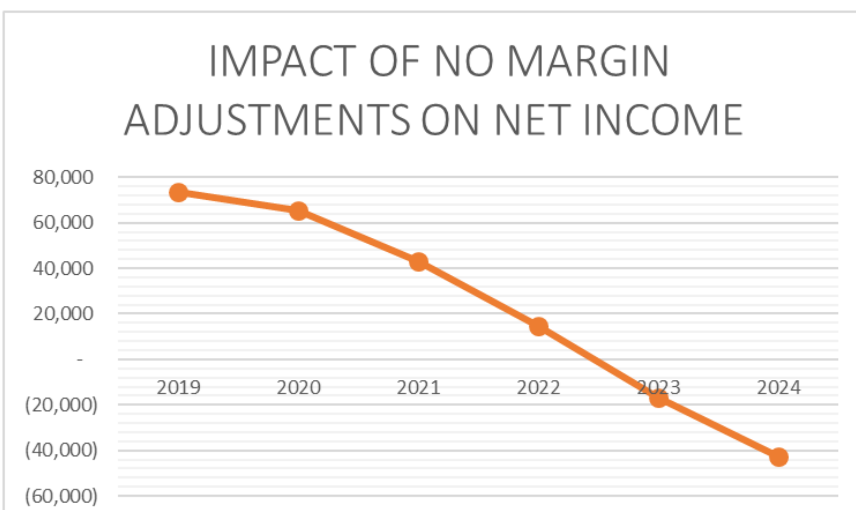
- Gasoline volume maintained at 3M liters per year
- Gasoline margin at 10.28 CPL (full allowable margin since 2020)
- Convenience store with $2M in annual sales making a blended margin of 10%
- Wages increasing annually in accordance with the NL minimum wage
- Operating expenses increasing annually at the rate of NL CPI
- Use 2019 as the base year since this was the final year used in the 2020 Grant Thorton (GT) review to arrive at the margin increase that was considered "fair and reasonable" at the time by GT, the PUB, and the industry. (Note, however, that the 2019 baseline is theoretical and was never actually achieved because the price increase was not implemented until October 2020).

Exhibit A is a proforma income statement based on these assumptions. You can clearly see the severity of the situation. Net income before tax has deteriorated from $73,400 in 2019 to a loss of $42,943 in 2024. For clarity, the only things that changes each year in this model is the increase in minimum wage and the impact of inflation, both of which retailers have no control over. With no means of increasing gas margins, the business has become unsustainable. This has several negative impacts for retailers, employees and the communities they serve:

- No ability to reinvest in the business thereby forcing retailers to put off critical maintenance projects and abandon any plans to grow their business.
- Pushing small retailers out of business as they see their profit dwindle and their retirement plans vanish.
- Reduced competition in the marketplace and less consumer choice
- Threatens access to fuel in rural areas as gas stations close

EXHIBIT A

	2019	2020	2021	2022	2023	2024
PETROLEUM						
Volume	3,000,000	3,000,000	3,000,000	3,000,000	3,000,000	3,000,000
Allowable Margin	10.28	10.28	10.28	10.28	10.28	10.28
Gross Margin	308,400	308,400	308,400	308,400	308,400	308,400
CONVENIENCE STORE						
Sales	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000
Margin %	10%	10%	10%	10%	10%	10%
Gross Margin	200,000	200,000	200,000	200,000	200,000	200,000
TOTAL REVENUE	508,400	508,400	508,400	508,400	508,400	508,400
EXPENSES						
Wages	220,000	227,277	242,073	256,384	279,912	299,802
Average NL Min wage	$ 11.34	$ 11.71	$ 12.48	$ 13.21	$ 14.43	$ 15.45
Increase		0.38	0.76	0.74	1.21	1.03
% Increase		3.3%	6.5%	5.9%	9.2%	7%
Operating Expenses	215,000	215,463	223,335	237,534	245,406	251,541
NL CPI Increase		0.22%	3.65%	6.36%	3.31%	2.50%
TOTAL EXPENSES	435,000	442,740	465,407	493,918	525,318	551,343
NET INCOME BEFORE TAX	73,400	65,660	42,993	14,482	(16,918)	(42,943)
NET INCOME VS 2019 "FAIR AND REASONABLE"		**(7,740)**	**(30,407)**	**(58,918)**	**(90,318)**	**(116,343)**
CUMMULATIVE DIFFERENCE 2020-2024						**(295,986)**



It is our argument that the proposed margin increase of 2.6 cents per liter is insufficient to get retailers back to the "fair and reasonable" position of 2019. The following adjustments need to be made to accurately reflect the **real costs** incurred by retailers.

1. The R-Cube report proposed at 3.06 CPL increase for the 2020-2022 period. We support this finding.
2. The PUB's Island Consultation Report did not include the 0.318 CPL increase in transaction fees as identified in the R-Cube report although it was acknowledged that this increase was incurred by retailers. This should be added to the retail margin increase.
3. The proposed increase of 0.52 CPL for 2023 is not calculated correctly. This is a CPI adjustment only and ignores the fact that minimum wage increased by 9.2% in 2023 while CPI increased by 3.31%. Given that wages make up 53% of total operating expenses the actual increase should be 0.86 CPL for 2023 based on the following calculation:

Proposed 2023 Gasoline Increase based only on CPI per Appendix E			**0.52**
Margin Increase based on Actal cost structure			
	Wages	Opex	
% of total expensese	53%	47%	
Increase in 2023	9.20%	3.31%	
Blended Average increase in costs	4.88%	1.56%	6.43%
Gasoline margin 2022 (10.28 2020 +3.06 from 2022)			13.34
Actual 2023 Gasoline Increase required			**0.86**

4. Given that it is now August 2024, another year has now gone by without an increase for retailers. Average minimum wage has increased by another 7% in 2024 vs 2023 and the CPI for January to June 2024 has increased by 2.5%. Based on the same formula as used above for 2023, a 2024 increase of 0.69 CPL should be added to reflect 2024 costs.

Proposed 2024 Gasoline Increase based only on CPI per Appendix E			**0**
Margin Increase based on Actal cost structure			
	Wages	Opex	
% of total expensese	53%	47%	
Increase in 2024	7.00%	2.50%	
Blended Average increase in costs	3.71%	1.18%	4.89%
Gasoline margin 2023 (10.28 2020 +3.06 from 2022 + 0.86 from 2023)			14.20
Actual 2024 Gasoline Increase required			**0.69**

5. The “Additional Adjustment” of -1.0 CPL should be removed as it is arbitrary, non-transparent and mostly the result of the PUB’s inaction over the past several years. Appendix E from the PUB’s Island Consultation Report states that this reduction in margin of 1.0 CPL is “giving consideration to the magnitude of the adjustment, Canadian price comparisons, and the retail mark-ups currently in place in other Atlantic Canadian provinces”. Our comments on this are as follows:
   a. “Magnitude of the adjustment” - The cost increases incurred by retailers are very real and to disregard the findings of the R-Cube report is irresponsible of the PUB. If the PUB had an ANNUAL margin review process, then there would not be a large one-time increase.
   b. “Canadian price comparisons” - No data was presented to support a “Canadian price comparison”. Even if there was data to support this, is it a stated objective of the PUB to achieve Canadian gas price parity? And if so, is it fair to do this on the backs of small retailers?
   c. “Retail mark-ups in other Atlantic Canadian provinces” - These other jurisdictions have very different demographics, economic drivers and market conditions and are not directly comparable. Fuel retailers in NL serve a less concentrated population over a more expansive geographical region than the other three Atlantic Canadian provinces which is reflected in the cost of doing business here.

Referencing the model in Exhibit A once again, the 2.6 CPL increase, as proposed, would have a full year impact on net income of $78,000 (2.6 CPL x 3M liters). While this would turn the $42,943 loss in 2024 into a profit of $35,057, it is still woefully below the 2019 baseline of $73,400 by $38,343. In fact, it does not even return profitability to the 2021 level, leaving retailers still over two years behind, still trying to play catch up, and with no means of recouping any of the losses suffered over the past two years or hope of making a reasonable return on their investment. (Also note, that the “Exhibit A” 2019 baseline net income before tax of $73,400 when adjusted for inflation to 2024 dollars should actually be $86,500).

In summary, it is our believe that the actual retail margin increase should reflect **actual market conditions and cost drivers of the fuel retailing business operating in NL**. To provide retailers with a reasonable return on investment we propose the following:

Changes to operating costs 2019 to 2022, per R-Cube	**3.06**
Recalculation of the 2023 cost adjustment	**0.86**
Inclusion of a 2024 cost adjustment	**0.69**
Removal of the “Additional Adjustment”	**0.00**
REVISED RETAIL MARK-UP BEFORE TRANSACTION FEE INCREASE	**4.61**
Add the proposed transaction fee increase, per R-Cube	**0.32**
TOTAL REVISED RETAIL MARK-UP ON GASOLINE	**4.93**

(same methodology should be used on diesel as well)

Issue 2: Frequency of Future Margin Adjustments

It is imperative that retail margins be adjusted annually, in order to:

- Stop this cycle of large one-time increases
- Provide a more stable and predictable environment for retailers and consumers.
- Stop the erosion of small retailer's livelihood and allow a reasonable return on investment for retailers.

The formula for adjustment needs to be transparent and based on the actual cost drivers impacting retailers in NL.

- Wages make up 50-55% of total costs and all wages are tied to minimum wage so changes to minimum wage can be easily built into the formula.
- For the remaining 45-50% of expenses, NL CPI is a reasonable starting point but awareness of extraordinary changes to cost structure should be considered (for example the 7% increase in electricity rates coming soon).
- Transaction fees increase as the price of gas increases and decrease when the price of gas decreases. A simple formula based on fuel prices can be built into the annual review to account for the impact of gas price fluctuation on transaction fees, either up or down.

Conclusion

The PUB's recommended 2.6 per litre increase is based on already outdated data, fails to consider the true costs of operating a fuel retail business in NL, disregards the impact of transaction (credit card) fee increases, and takes an arbitrary 1 cent per litre decrease on estimated operating costs. Ultimately, the PUB's approach places the burden of uncontrollable market factors squarely on retailers, further jeopardizing their ability to sustain their businesses.

Our analysis, as presented in these submissions, demonstrates that the actual increase in operating costs for fuel retailers in NL since the last gas retail margin adjustment is 4.93 cents per litre. Further, it is crucial that the PUB adjust the gas retail margin annually. This would create a more stable and predictable environment for both retailers and consumers, help prevent the erosion of retailers' livelihoods, and ensure a reasonable return on investment for fuel retailers in NL.

Finally, the formula for adjusting the gas retail margin must be transparent and directly tied to the *actual* cost drivers affecting retailers in NL. Since wages account for 50 to 55% of total costs and are linked to minimum wage increases, these adjustments can be easily incorporated into the formula. For the remaining 45 to 50% of expenses, the NL CPI is a reasonable benchmark, but the formula should also account for extraordinary changes in cost structures (e.g., the impending 7% increase in electricity rates).

Independent gas retailers in NL are facing an increasingly untenable situation due to outdated and inadequate adjustments to the retail gas margin. The proposed 2.6 cents per litre increase fails to reflect the true rise in operating costs, threatening the viability of these businesses. To safeguard the future of independent retailers and maintain a competitive market, it is imperative that the PUB adopts an annual review process for the retail gas margin, based on transparent and accurate cost assessments. Without these necessary changes, independent retailers will continue to struggle, potentially leading to their exit from the industry and a loss of local business presence in NL's fuel market. We urge the PUB to take immediate action to address these critical issues and ensure a fair and sustainable operating environment for all fuel retailers in the province.

HOUSE OF ASSEMBLY
Newfoundland and Labrador

Sarah Stoodley, MHA
Mount Scio

August 16, 2024

Petroleum Pricing Review

Thank you for the important work that the Public Utilities Board undertakes in regulating utilities and petroleum products, among other things. Thank you for the opportunity to participate in this review.

In terms of the consultation document and the communications surrounding this review, I believe greater importance should have been placed on communicating the pricing changes across the island (not just in the base zone), as well as the fact that the difference in price will come from lowering the wholesale markup, increasing the retail markup, and increasing the zone differentials.

There has been a lot of public discussion since the PUB granted an increase in the wholesale markup by 5 cents in October 2020 for all wholesalers, in all zones, as one wholesaler's business model changed. I met with staff and board members from the Public Utilities Board in September 2022 after learning about the very long timeline for this very gas price review (that we had to change the Petroleum Products Act to direct the PUB to undertake). My team and I suggested six reasonable ways the PUB could decrease the scope and/or timeline to complete the review sooner, and none of the suggestions were considered. At that meeting I was told that the Board did not expect prices to go down, only up, and so there was no rush.

I see now that the consultant undertaking this review is recommending a decrease in the wholesale price of petroleum products. That should be considered alongside the fact that the Public Utilities Board continues to increase the Carbon Price Adjuster, the amount at which the PUB allows wholesalers to recover costs to meet the Clean Fuel Standards (currently 5.40 cents). Also important to note that the amount at which the PUB allows wholesalers to recover to cover the costs of meeting the Clean Fuel Standards is increasing at a higher rate than the other Atlantic provinces, despite wholesalers having to comply nation-wide at the same rate, not at a provincial level.

I implore the PUB and the consultant to triple check that the data and costs provided by wholesalers justifying increases to the zone differentials and retail markup not be duplicated in the data provided as justification to increase the amount the PUB allows wholesalers to recoup to meet the federal Clean Fuel Regulations. There cannot be double counting. There is zero public visibility into how the wholesale markup, the retail markup, the zone differentials and the carbon price adjuster amounts are derived, and I know there are very few consulting firms with expertise in this area. I am very concerned by this, and I am also concerned by the low industry participation in these reviews (which I take to mean that there is little data to justify price increases).

I am pleased to see that the PUB are planning on doing smaller, more frequent reviews of gas prices rather than multi-year reviews that occur twice a decade. I believe it is critically important that the PUB significantly increases its internal knowledge and capabilities around gas pricing, given the limited availability of knowledgeable gas pricing consultants.

Please keep consumer interests in the forefront of this review and please appropriately and thoroughly challenge the information provided to you to justify cost increases for consumers.

Thank you,

Sarah Stoodley

MHA Mount Scio

Gander and Area Chamber of Commerce

109 Trans Canada Highway, Gander, NL A1V 1P6
Tel: 709-256-7110 or 1-877-256-7110
E-mail: ganderchamber@ganderareachamber.ca ~Website: www.ganderareachamber.ca

August 16, 2024

Public Utilities Board
St. John’s, NL

On behalf of the Gander and Area Chamber of Commerce and our Fogo Island Chapter I would like to thank you for the opportunity to speak with you on August 1, 2024, regarding the Petroleum Process Pricing Review.

Our concerns relate to the proposed changes which will affect Fogo Island, Change Islands and St. Brendan’s. We hope you will take our concerns into account when finalizing your plans.

As discussed in our in-person presentation, we believe that the best course of action would be to include Fogo Island, Change Islands and St. Brendan’s within Zone 3 – Central.

Please find attached a copy of our written submission to accompany our in-person presentation, which outlines our position in regard to petroleum pricing.

I can be reached by e-mail at jmills@ganderareachamber.ca or by phone at 709-256-7110 if you have any further questions. Thank you again for allowing us the opportunity to participate in this review.

Thank you,

Jennifer Mills

Jennifer Mills
Executive Director
Gander and Area Chamber of Commerce

"In Business, for Business"

Gander and Area Chamber of Commerce
Petroleum Process Pricing Review
August 16, 2024

WHO WE ARE?

The Gander and Area Chamber of Commerce is a not-for-profit membership-based organization consisting of businesses, professionals, relevant government organizations and community groups. The Chamber acts as a unified voice for business, enabling its membership to accomplish collectively what one person cannot do easily. The Chamber partners with community stakeholders in determining strategic development opportunities and action plans that aid in diversifying the local economy.

The Chamber has been a strong community force in the Gander area for many years. First incorporated in 1991, but functioning since 1959, the Chamber presently has 275+ members and is governed by a thirteen-member volunteer Board of Directors. The Chamber is extremely active and has recently formed a Chapter on Fogo Island with its own executive. Activities include monthly meetings and information sessions, research studies, public relations and advocacy on behalf of businesses within the area. The Chamber is committed to working to ensure businesses and the economy recover and remain strong.

2024-25 BOARD OF DIRECTORS

Corey Smith	Chair	Gander Aviation/Briggs Aero
Deborah Brinson	1st Vice Chair	Gander Bay Castle Building Centre
Marc Eady	2nd Vice Chair	Gander Property Management
Brad Eisan	Past Chair	Landmark Surveys
Sarah Barry	Treasurer	TD Canada Trust
Krystle West	Secretary	Xheight Zone
Jonathan Dalton	Director/Chair Fogo Island Chapter	Edward Jones
Duane Collins	Director	Hare Bay Adventures
Jaime Evans	Director	Evexia Osteopathy
Jennifer Strickland	Director	College of the North Atlantic
Frank Skeard	Director	Glenwood Ward Councillor
Chantelle Lamoreaux	Director	Canadian Tire
Victoria Boland	Director	Grant Thornton

CURRENT STAFF

Executive Director	Jennifer Mills
Executive Assistant	Aaron Woolfrey

FOGO ISLAND DEMOGRAPHICS

Fogo Island has a unique history dating back to the 1600s and, as of the 2021 census, is inhabited by 2,117 resilient residents in 11 different communities scattered throughout the island.

Can you walk around Fogo Island? You could, but at 254 square kilometers it would take you a very long time. Of the approximately 980 households currently on Fogo Island, more than 93% of employed residents require a vehicle to get to their place of work. Over 20% have a significant commute to work of over half an hour, many leaving the island by ferry on a daily basis. There is no public transportation on Fogo Island.

Fogo Island also has a higher percentage of low-income households compared to the rest of Newfoundland and Labrador, with over 25% of households making under $37,000 per year.

Like many parts of Newfoundland and Labrador, Fogo Island also has an aging population. Between the 2016 and 2021 census years, the number of seniors living on Fogo Island increased by more than 20 per cent. As of the 2021 census, more than 50% of residents are age 55 or older.

Homes on Fogo Island are also well above the provincial average in terms of age, with approximately 60% of homes over 45 years old on the island and a significant portion over 65 years old. Older homes are more likely to rely on more "traditional" forms of heat, including reliance on furnace oil. It can also be quite difficult to complete renovations on Fogo Island to use more modern forms of heating and cooling because of the elevated costs involved and the availability of construction trades.

CONSIDERATIONS

The cost differential between Fogo Island and Central Newfoundland has had a definite impact on retail businesses on Fogo Island over the past 5 years. Our members are reporting that the price differential is creating a behavioural economic trend, that puts Fogo Island retailers at a major disadvantage.

Residents who routinely take the ferry for work, shopping or appointments will wait to purchase gasoline until after they get off the ferry, additionally residents/visitors will often purchase gasoline before taking the ferry. This is happening with a price differential of just over 4 cents, the effect will be aggravated when the differential jumps to 7.5 cents under the proposed changes.

The consultant report prepared by R Cube is located on your website at:

Phase II Report – Supply Dynamics, Benchmarking, Wholesale Mark-ups (pub.nl.ca)

This report states "Since operating costs are independent of acquisition costs, we recommend a 1.7136 cents per litre increase to the wholesale markups from 2019 (Base year) for all regulated fuels (except propane)."

The increase that has been proposed is well above this figure.

Diesel Motor Fuel Potential Mark-Up,
Zone and Zone Differential Changes Cents Per Litre

3 - Central Newfoundland / Notre Dame Bay East	30.28	33.0	+2.7
3a - St. Brendan's (Island)	33.98	40.5	+6.5
3b - Fogo Island (To be merged into Zone 3a) ^	34.42	40.5	+6.1
3c - Change Islands (To be merged into Zone 3a) ^	37.70	40.5	+2.8

With a gas station just 10 minutes from the ferry selling motor fuel at a significant discount in comparison to Fogo Island, retailers will be at a major disadvantage moving forward that could be disastrous for the island.

We believe quite strongly that the increased mark-up is not reflective of the increased costs involved in serving these three islands in Central Newfoundland.

Cost of a ferry trip to Change Islands/Fogo Island:

- $93.25 (cost for a fuel tank transporter type vehicle). You only pay once to travel to Change Islands/Fogo Island, there is no return cost.
- An 18-wheel fuel tank transporter carries 30,000 to 40,000 litres
- A 22-wheel fuel tank transporter carries 40,000 to 60,000 litres
- Gas stations receive on average 8,000 litres per delivery meaning that either sized tanker could fill all four gas stations on Change Islands and Fogo Island in one trip.
- Cost of ferry per litre (based on delivery of 32,000 litres) = 0.0029 cents/litre
- The proposed mark-up of 7.5 cents per litre (based on delivery of 32,000 litres) = $2,400 per tanker delivery.

We fully understand that there are additional costs involved in delivering to the islands, including extra time required because of the ferry. Tankers travel when the ferry is running a hazardous goods run and tankers are given preference regarding boarding, i.e. a tanker will get on the ferry when it docks before any cars/trucks etc. that were there in the line-up. But certainly, none of these additional costs add up to an additional $2400 per trip which is what consumers are being charged at the pumps.

There are also additional costs involved in delivering to many areas in Central Newfoundland that requires hours of extra driving equivalent to accessing Change Islands/Fogo Island and yet they are all still included within Zone 3.

Our understanding as well, is that while retailers do not get any of this additional mark-up, wholesalers only get a portion of the mark-up, which leaves us asking where is the rest of the mark-up going?

There are currently half the number of gas stations on Fogo Island that were there just a handful of years ago, one gas station closed just recently. Most communities on Fogo Island no longer have a gas station and residents must drive a significant distance to another community to get motor fuel.

We are concerned that additional increases in the fuel differential will drive more gas stations out of business. This will have a significant impact economically on Fogo Island. Change Islands and St. Brendan's each have just one gas station, losing that single gas station could be disastrous to the local economy. And with Change Islands, Fogo Island and St. Brendan's all reliant on ferry service, which at times can be unreliable, particularly in the winter months, this could create a significant issue for residents if there is no place to purchase motor fuel locally.

From a socio-economic perspective, our concern is also on the impact to low-income residents and seniors, who travel off the island less frequently. They will be impacted more by the increasing costs of both motor fuel and heating fuel than the average resident and they are the residents who can afford it the least.

Furnace Oil Heating Fuel Potential Mark-Up,
Zone and Zone Differential Changes Cents Per Litre

3 - Central Newfoundland / Notre Dame Bay East	31.38	37.7	+6.3
3a - St. Brendan's (Island)	34.38	42.6	+8.2
3b - Fogo Island (To be merged into Zone 3a)^	33.88	42.6	+8.7
3c - Change Islands (To be merged into Zone 3a)^	35.78	42.6	+6.8

The costs of furnace oil have gone up considerably over the past few years. On Fogo Island the cost for furnace oil in February has gone up 50 cents a litre in just three short years (.8501/litre in 2021 to 1.3308/litre in 2024). At times low-income residents are forced to make a decision between buying furnace oil or buying food. We must do whatever we can to ensure market prices are not inflated so that people do not have to make this difficult decision.

Residents on Fogo Island have been paying 2.5 cents per litre more than residents on the other side of the ferry run. The proposed changes will see residents of St. Brendan's, Change Islands and Fogo Island pay 4.9 cents per litre of furnace oil, almost doubling the price differential.

This will affect residents living in older homes that still rely on furnace oil the most, which includes low income residents and seniors which make up a high percentage of the population in Fogo Island, as noted in our demographic section.

Again, as with motor fuel costs, the increase does not seem to be in line with the recommendations of the consultant hired by the PUB, nor does it seem in line with the actual costs involved in transporting furnace oil to the islands.

CONCLUSION

Fogo Island is a remarkably adaptable place. They have adapted to changes in the fishery, using a co-operative model that benefits everyone. They have developed a Tourism product that has been celebrated time and again in provincial tourism marketing products. We must do whatever we can to protect these unique and special regions of our province.

And while the Federal Government does not classify Fogo Island as a remote location, the provincial government and other provincial agencies continually designate them as a remote location with extra surcharges and additional costs. Residents incur the extra costs for being remote with no tax break for being remote.

The additional costs involved in transporting both furnace oil and gasoline to Fogo Island when broken down by litre are negligible. Spread out over the entire central region they break down to a minuscule number, barely a fraction of a penny. And yet the difference in the cost of a litre of regular gasoline between Fogo Island and Stoneville, just 10 minutes from the ferry terminal, will be 7.5 cents per litre. This puts retailers on "mainland Central Newfoundland" at a major advantage over Fogo Island retailers, which seems extremely unjust and unnecessary. Visually there is a very big difference between gasoline at $1.93 and gasoline at $2.01. As residents and visitors choose to gas up off the island it will make it extremely hard for local retailers on Fogo Island to remain financially viable.

Our recommendation is that Zone 3A as proposed, which includes Fogo Island, Change Islands and St. Brendan's, be included with the rest of Central Newfoundland in Zone 3. Having all of Central Newfoundland in one zone will accomplish the following for Change Islands, Fogo Island and St. Brendan's:

1. Ensure residents are able to access the petroleum products they require
2. Create a fair marketplace for all retailers in Central Newfoundland
3. Protect low-income residents and seniors
4. Ensure retailers are able to remain open and serve their communities
5. Protect the fragile economic ecosystem of island life

Thank you very much for your time and consideration. I have also included a letter from one of our members who operates a gas bar on Fogo Island so she can explain herself how these proposed changes will negatively impact her business.

Respectfully submitted to the Public Utilities Board,

Jennifer Mills
Executive Director
Gander and Area Chamber of Commerce

Gander and Area Chamber of Commerce
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Town of Fogo Island

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August 20, 2024

Public Utilities Board
St. John's, NL

On behalf of the Town of Fogo Island, we would like to thank you for the opportunity to address the Board on August 20th, 2024, regarding the Petroleum Pricing Review.

Our concerns relate to the proposed changes to the fuel and furnace oil surcharges, particularly the zone differential, that will affect Fogo Island. We hope you will consider our socio-economic concerns when finalizing your price adjustments now and in the future.

As demonstrated in our presentation, we recommend that Fogo Island either be included in the Central Newfoundland Zone or reconsider the increase rate of these differentials as they're supposed to be increased by 49% and we're set to increase by 71% for fuel and 67% for oil.

Please find attached a copy of our written submission to accompany our presentation, which gives further details on our considerations of impacts regarding petroleum pricing.

If you have any further questions, we can be reached by phone at (709) 266 – 1320 or by email at edo@townoffogoisland.ca. Thank you for allowing the Town of Fogo Island to bring forward our concerns and we hope you'll consider them in your decision-making process.

Regards,

Town of Fogo Island Council

6 Centre Island Road South, Site 5, Unit 2, Box 2 Fogo Island Central, NL A0G 2X0
t: 266-1320 f: 266-1323 e: info@townoffogoisland.ca w: www.townoffogoisland.ca

About Town of Fogo Island

Nestled off the northeast coast of Newfoundland, with a population of 2,117 people and made up of eleven separate communities amalgamated under one municipality, the Town of Fogo Island is a vibrant and resilient community known for its stunning landscapes, rich cultural heritage, and strong sense of identity. As a place where tradition meets innovation, Fogo Island is home to hospitable residents with a commitment to preserving the island's unique way of life.

Our community values sustainability, creativity, and collaboration, working together to support economic development and enhance the quality of life for all who call Fogo Island home. From our picturesque fishing villages to the internationally renowned Fogo Island Inn, we offer a truly distinctive experience that celebrates the beauty and history of our island. The Town of Fogo Island is dedicated to serving its residents and visitors alike, fostering a strong community spirit and a deep connection to our natural environment.

Our Vision for the Town of Fogo Island is to create a united, vibrant, and inclusive island that is a great place to raise a family and is economically diversified and focused on maintaining its unique heritage, while providing activities and programs for all ages. The Mandate for the Town of Fogo Island is to provide citizens, businesses, and visitors with effective, efficient, and financially responsible programs and services while focusing on maintaining traditional ways in a modern world.

Our vision and mandate become significantly challenged as the cost of living rises and mobility decreases, so it's our priority to mitigate these pressures the best we can. The Town of Fogo Island is committed to economic growth and ensuring our island does not become more economically disadvantaged compared to our neighbors. We strive for a better quality of life for our residents and a unique experience for our visitors, and this hinges on our ability to mitigate unnecessary financial inflations on essential services such as fuel, heat, water, and groceries.

Current Members of Council:

- Mayor Andrew Shea
- Deputy Mayor Alexander Crawford
- Councilor Mark Budden
- Councilor Lary Roebotham
- Councilor Adam Young
- Councilor David McKenna
- Councilor Damian Roebotham

Current Town Staff:

- Chief Administrative Officer Pauline Payne
- Economic Development Officer Cheryl Gardner
- Town Clerk Daphne Coles

Introduction

Significant increases in fuel surcharges could have significant socio-economic impacts on Fogo Island, particularly given its geographic isolation and reliance on fuel for transportation, heating, and other essential activities. It is important to note that NL Hydro have also introduced a 6.9% increase in electricity within the year, which impacts everyone at varying degrees. This increase is already a big adjustment to our vulnerable populations and business owners, so introducing a disproportionate increase to the fuel surcharge will apply further pressures to these populations.

This presentation will outline the socio-economic impacts of this decision and will analyze the differentials of Central NL and the Zone 3a, 3b, 3c differentials to understand the variance between these areas. We will demonstrate why the islands in Zone 3 should be included in the Central NL zone.

Impact on Economic Growth

Local businesses, particularly those in transportation, fishing, and tourism—key industries on Fogo Island—would face higher **operating costs**. For example:

- **Small Businesses** with tight margins could struggle to absorb increased costs, potentially leading to reduced services, layoffs, or even closures. This could further impact the local economy, leading to job losses and reduced economic activity. This can have significant implications for our food & beverage businesses, as their margins will shrink and they are already struggling to keep their doors open as is.
    - **Gas Station Retailers** will benefit from the reduced acquisition mark-ups and increased retail mark-ups, but it will not compensate for the sharp increase to the zone differential. This price increase will exacerbate the behavioral trend of having many residents choose to purchase fuel in Stoneville at a lower rate when they need to leave Fogo Island for business or personal reasons, adding to the fragility of the fuel business. This has become a fragile business on Fogo Island due to constant inequalities in fuel pricing on Fogo Island compared to other communities in Central NL.
    - **Reduced Consumer Spending** will also become an economic trend as higher fuel costs would likely reduce disposable income, leading to lower spending in other areas of the local economy. This could slow economic growth on the island, particularly in sectors like retail and hospitality. When possible, people will find other sources of acquiring fuel so the consumer spending at local fuel stations will reduce and increase outside of our local economy. This also impacts the buying potential on retail items as they will not be coming into these locations as often, so they are buying less products from these businesses.

- **The Fishing Industry** is a major economic driver on Fogo Island, and fuel is a significant expense for fishing vessels and co-op transports. A price increase could reduce profit margins or lead to higher prices for seafood products, which could impact their competitiveness in the seafood market.
- **Tourism Businesses**, which rely on visitors traveling to the island, might experience higher costs for fuel-dependent services, such as transportation and hospitality. This could potentially reduce the competitiveness of the island as a tourist destination, especially if higher costs are passed on to visitors.

Impact on Transportation and Mobility

Fogo Island is comprised of eleven communities across a geographic area of 285km². Four of our eleven communities currently have a gas bar; soon to be three as the gas bar in our most populated community is set to close in the near future. Given that Fogo Island is not a walkable community, and with the distance residents need to travel to access essential services and places of work, the community is becoming vulnerable to potential demobilization. If the fuel business does not make sense to business owners, they will be unable to operate, and we risk losing access to fuel completely. It is not reasonable to think that Fogo Island, given its size, can survive without access to fuel.

- **Ferry Services** are essential for connecting Fogo Island to the 'mainland', and if they face increased fuel costs, ticket prices could rise. This would further increase the cost of travel for both residents and visitors, impacting tourism and limiting access to healthcare, goods, and services from off-island.
- **Emergency & Service Vehicles** will also be impacted. Using the ambulance as one example, they can travel up to 30 kms to the local hospital and many times they are required to travel to the Gander hospital, which is 100 kms from Farewell. This increase in the pricing differential can impact the budget spent on fuel for such services, which could impact the fees charged for the use of ambulance services to compensate for the extra expense.
- **Access to Services** is dependent on fuel, as there are large distances to travel to access essential goods and services, such a grocery, medical services and drinking water, so large price increases could limit the ability to travel, further marginalizing disadvantaged and vulnerable groups. Given the absence of public transportation options on Fogo Island, residents depend on their own vehicles. The fuel price increase could lead to reduced mobility for those who cannot afford the higher costs, potentially isolating them from social, economic, and recreational opportunities.

Cost of Living & Economic Inequality

- **Food and Goods Prices** will be the first thing to increase with this differential increase. If the cost of transporting goods to the island is to increase, this will likely result in higher prices for groceries, household items, and other necessities. Since many goods have to be shipped to the island, this could significantly raise the cost of living.
- **Household Budgets** will be impacted in a variety of ways. Residents of Fogo Island, like those in many rural and remote areas, already have a higher-than-normal cost of living. A fuel price increase would raise the cost of commuting, accessing services, and transporting goods, which could strain household budgets. Along with the increase of electricity, housing & heating are quickly becoming unaffordable as affordable housing is defined as costing 30% of income, so an increase in cost of living will push most people out of affordability with their current earning potential.
- **Impact on Vulnerable Populations** will be the most significant. The fuel price increase would disproportionately affect low-income households on Fogo Island, as they typically spend a larger share of their income on essential goods and services. This could exacerbate existing economic inequalities and lead to greater financial hardship for vulnerable populations; especially considering 25.5% of the population has low household income. 53% of the population of Fogo Island is aged 55+, and many on a fixed income and cannot compensate for the extra expenses.
- **Energy & Heating** will apply further pressure on households, especially for our vulnerable, including low-income and senior populations with fixed income. Given the island's cold climate, higher fuel prices would impact heating costs, particularly for those using oil-based heating systems. While higher fuel prices might encourage some residents and businesses to explore more energy-efficient alternatives or renewable energy sources, the options for such a shift may be limited on Fogo Island due to infrastructure and financial constraints.

Pricing Differential Analysis

The Public Utilities Board has received recommendations to increase each differential by 49%. For simplicity and accuracy, the following analysis will only consider the differential and not the total mark-ups which include fluctuations in acquisition and retail mark-ups. With this in mind, analysis of the revenue from the differential price is shown below:

Differential Analysis – Motor Fuel

Location	Current	New	Change	Increase Rate
1a	0.48	0.72	0.24	50%
3	2.18	3.25	1.07	49%
3a	5.88	10.83	4.95	84.2%
3b	6.32	10.83	4.51	71.4%

Differential Analysis – Furnace Oil

Location	Current	New	Change	Increase Rate
1a	1.3	1.94	0.64	49.2%
3	4	5.96	1.96	49%
3a	7	10.88	3.88	55.4%
3b	6.50	10.88	4.38	67.4%

Revenue on 30,000 Liters of Motor Fuel

Location	Current	New	Change	Increase Rate
1a	144	216	72	50%
3	654	975	321	49%
3a	1764	3249	1485	84.2%
3b	1896	3249	1353	71.4%

Revenue on 30,000 Liters of Furnace Oil

Location	Current	New	Change	Increase Rate
1a	390	582	192	49.2%
3	1200	1788	588	49%
3a	2100	3264	1164	55.4%
3b	1950	3264	1314	67.4%

Comparing Fogo Island to Central NL, the increase to the differential cost is disproportionate compared to the extra cost of delivering to the island. Stoneville, for instance, is included in the Central zone, comparatively Fogo Island requires less than 100 kms of extra driving distance for deliveries (round trip) and a $93 ferry fee per fuel tanker. This leads to the question of why the differential is so much higher, as it was increased by 71% for motor fuel and 67.4% for furnace oil, rather than the recommended 49%.

We understand where the acquisition and retail mark-ups go, but we fail to understand who receives the revenue from this differential. We are requesting answers to these questions so we can better understand the economic breakdown of fuel surcharges for our region.

Conclusion

The Town of Fogo Island is asking that the Petroleum Pricing Review Board, do away with the Zone 3 subzones and instead include Fogo Island, Change Islands and St. Brendan's with the rest of Central Newfoundland's Zone 3. It does not make sense to create further disadvantages to select communities in an already highly competitive economic region. Most importantly, the health and well-being of Fogo Islands residents, particularly those in the vulnerable sector, is at risk. The proposed fuel price increases will greatly reduce mobility and access to essential goods and services and further marginalize the senior population, particularly in the winter months, where this population group already choose between heat and food.

PRESENTATION TO PETROLEUM UTILITIES BOARD

Telephone
(709) 266 - 1320

Address
6 Centre Island Road South,
Site 5, Unit 2, Box 2
Fogo Island Central
A0G 2B0

Website
www.townoffogoisland.ca

August 2024

TABLE OF CONTENT

Town of Fogo Island

INTRODUCTION

Disproportionate increases in fuel surcharges will have significant socio-economic impacts on Fogo Island, particularly given its geographic isolation and reliance on fuel for transportation, heating, and other essential activities.

This presentation will outline the socio-economic impacts of this decision and will analyze the differentials of Central NL and the Zone 3a, 3b, 3c differentials to understand the variance between these areas. We will demonstrate why the islands in zone 3 should be included in the Central NL zone.

IMPACT ON ECONOMIC GROWTH

Small Business

The Fishery

Tourism

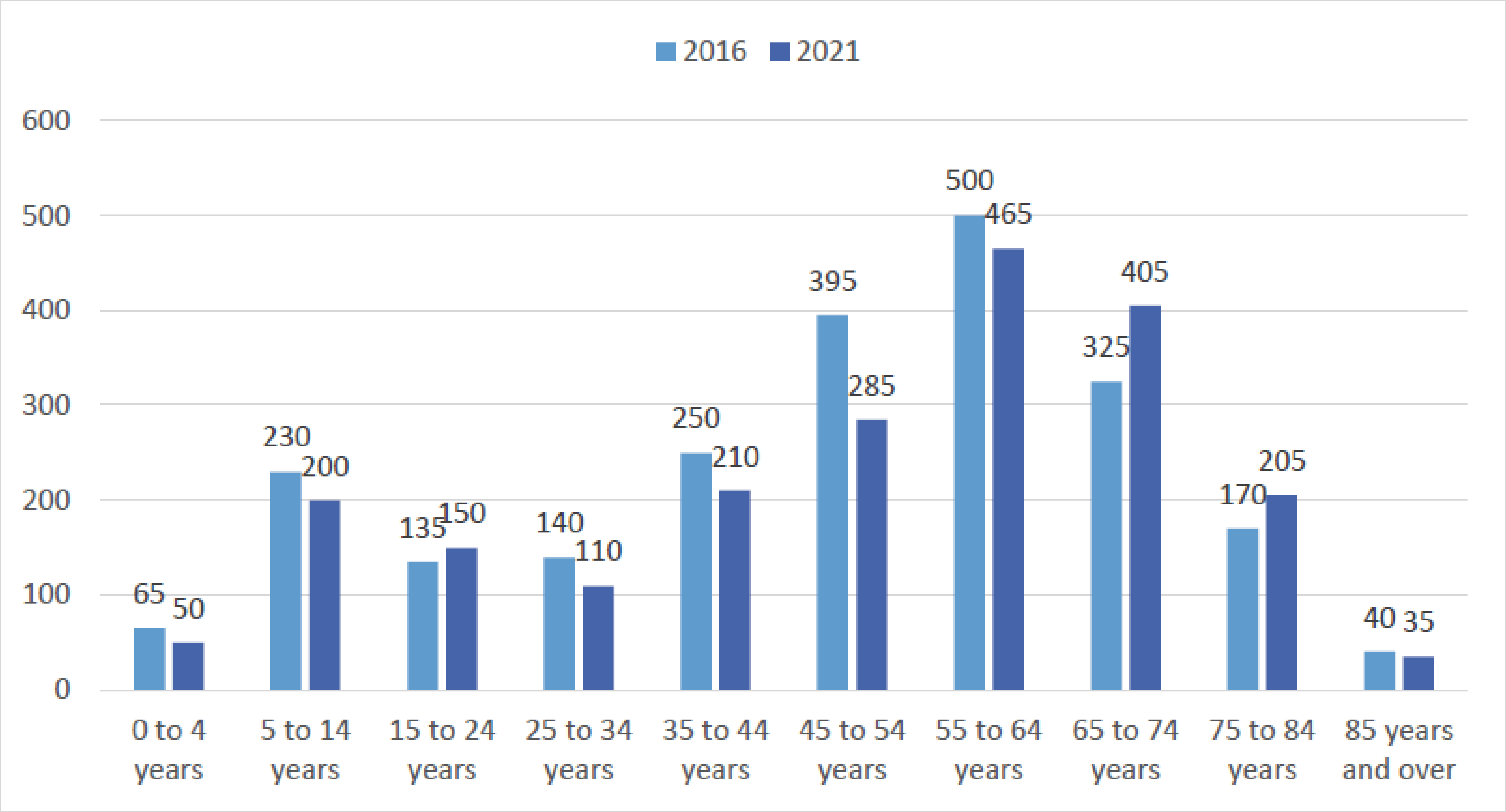
IMPACT ON TRANSPORTATION & MOBILITY

01 Ferry Services

02 Emergency & Service Vehicles

03 Mobility & Access to Services

Population by Age, Fogo Island, 2016-2021



Source: Statistics Canada Census, Profile, 2016, 2021

Income Categories and Affordable Shelter Costs, Fogo Island, 2021

	Number of Households	Percent of Total Households	Annual Household Income
Very Low Income (20% or under of AMHI)	0	0%	<=$14,800
Low Income (21% to 50% of AMHI)	240	25.5%	$14,800 - $37,000
Moderate Income (51% to 80% of AMHI)	130	13.8%	$37,000 - $59,200
Median Income (81% to 120% of AMHI)	250	26.6%	$59,200 -$88,800
High Income (121% and over of AMHI)	320	34%	=>$88,801

Source: Statistics Canada Census, 2021, Custom Order (Housing Assessment Re

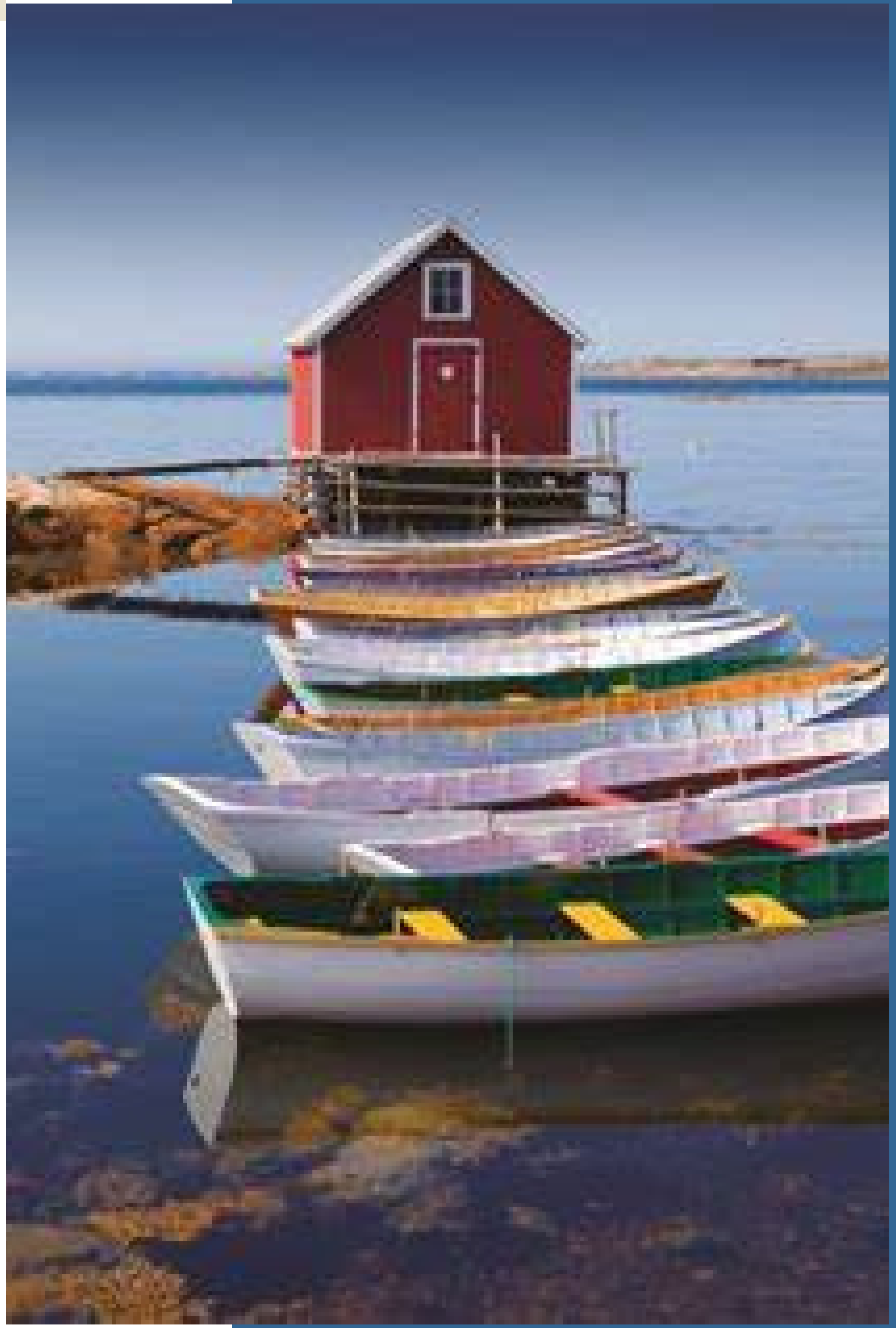
COST OF LIVING & ECONOMIC INEQUALITY

01 Food & Goods Prices

02 Household Budgets

03 Low-Income Households

04 Energy & Heating



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3	2.18	3.25	1.07	49%
3a	5.88	10.83	4.95	84.2%
3b	6.32	10.83	4.51	71.4%
3c	9.60	10.83	1.23	12.8%

Differential Analysis – Furnace Oil

Location	Current	New	Change	Increase Rate
1a	1.3	1.94	0.64	49.2%
3	4	5.96	1.96	49%
3a	7	10.88	3.88	55.4%
3b	6.50	10.88	4.38	67.4%
3c	8.40	10.88	2.48	29.5%

PRICING DIFFERENTIAL ANALYSIS

49%	**Recommended increase rate for zone differentials**
49%	**Differential increase rate for Central NL**
71%	**Fogo Island’s zone differential increase rate for motor fuel**
67%	**Fogo Island’s zone differential increase rate for furnace oil**

Compared to Central NL’s differential, when calculating the revenue on a 30,000-liter tanker, there’s an additional $2,274 per tanker.

The only extra cost for delivery is the $93 ferry fee and less than 100 kms round trip extra for travelling to gas stations.

CONCLUSION

The Town of Fogo Island is asking that the Petroleum Pricing Review Board do away with the Zone 3 subzones and instead include Fogo Island, Change Islands and St. Brendan's with the rest of Central Newfoundland's Zone 3. It does not make sense to create further disadvantages to select communities in an already highly competitive economic region. Most importantly, the health and well-being of Fogo Islands residents, particularly those in the vulnerable sector, is at risk. The proposed fuel price increases will greatly reduce mobility and access to essential goods and services and further marginalize the senior population, particularly in the winter months, where they already choose between heat and food.

THANK YOU

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August 2024

HOUSE OF COMMONS
CHAMBRE DES COMMUNES
CANADA

Clifford Small
Member of Parliament
Coast of Bays-Central-Notre Dame

August 22, 2024

Public Utilities Board
P.O. Box 21040
St. John's, NL A1A 5B2

Attention: Public Utilities Board,

I am writing to express my strong support for the Town of Fogo in its opposition to the proposed increase in fuel surcharges that are significantly higher for Fogo as opposed to other regions. As the Member of Parliament for the region, I am deeply concerned about the potential impact this increase could have on this community.

Fuel surcharges are already a significant burden on families, businesses, and local government budgets. An increase would only exacerbate this strain, especially at a time when many are already struggling with the rising cost of living. For small businesses, the very backbone of our communities and economy, higher transportation costs could lead to higher prices for consumers, reduced profit margins, and in some cases, the difficult decision to close their doors.

Moreover, many residents of Fogo Island are on fixed incomes and any additional costs can create further financial hardships. This proposed increase in fuel surcharges would disproportionately affect those who are least able to afford it, including low-income households and our senior residents.

In light of the numerous concerns, and considering the importance of Fogo Island's significant economic contributions, I urge you to follow the town proposed recommendations which are the following: Fogo Island be included in the Central Newfoundland Zone or reconsider the increase rate of these differentials as they are supposed to be increased by 49% and they are set to increase by 71% for fuel and 67% for oil.

We require polices that support economic stability and fairness for all residents, not measures that place additional burdens on those who can least afford them.

Thank you for your consideration on this important issue. I trust you will listen to the residents of Fogo Island in opposing this increase.

Sincerely,

Clifford Small, MP
Coast of Bays-Central-Notre Dame
Conservative Shadow Minister for Fisheries, Oceans and The Canadian Coast Guard

Ottawa Office
House of Commons, Ottawa, ON, K1A 0A6
Tel.: 613-996-3935 Fax: 613-996-7622

Gander Constituency Office
61 Elizabeth Dr, Gander, NL, A1V 1G4
Tel.: 709-256-3130 Fax: 709-256-3169

Grand Falls-Windsor Constituency Office
70B Hardy Ave, Grand Falls-Windsor, NL, A2A 2M4
Tel.: 709-489-8470 Fax: 709-489-8478

Clifford.Small@parl.gc.ca
1-866-663-2626

From: G B
To: Public Utilities Board
Subject: Fuel surcharge Fogo Island.
Date: August 23, 2024 11:28:13 PM

Good Day,

I am writing to express my concerns over the potential fuel surcharge increase for Fogo Island. My family operates a family fishing operation that consumes approximately 100,000 litres of diesel fuel plus 10,000 litres of gasoline per year. As you can appreciate, we are paying approximately $6 thousand more for our fuel on Fogo Island due to our location thereby increasing our operating cost. Fogo island has a large GDP for its population with an economy of 75-100 million dollars. We feel we are being unfairly treated as other similarly remote areas of the province are not charged a similar surcharge. The Harbour Breton area, for example, are they charged a fuel surcharge fee? They are just as remote and there is just as much of an additional expense to transport fuel to that area.

My question is, how can you justify a cost of over $2000.00 to bring a tanker load of fuel to Fogo Island, when it's a 50 minute ferry ride at acost of $90.00 dollars. Factor in $300.00 labour at best and it still doesn't account for the extra cost. As for storage, fuel has to be stored whether it's a supplier on Fogo Island or a supplier who has a storage facility off the island. The same fuel at the Stoneville gas station is seven cents cheaper and is only ten kilometers from the ferry terminal.

The people of Fogo Island are being unfairly taxed with this surcharge and the result is many people will fill up on gas after leaving and before returning to Fogo Island, thereby jeopardizing the viability of the gas stations on the island. It seems to me that this situation does not benefit the supplier or the retailer of fuel.

As a business owner that operates four fishing vessels and employs 20 people, this surcharge causes more financial strain on my businesses and in my opinion does not help to grow our Island economy. Also, this extra cost is another burden to families, old and young, that heat their houses with furnace oil. Residents cannot understand the need for such a surcharge. Why was no justification given for this surcharge so that residents of Fogo Island could understand its implementation. The lack of transparency is frustrating as proposed increases seem to come out of the blue.

I feel that this extra surcharge is unwarranted and in fact will negatively impact the economic health of Fogo Island.

Regards.
G B

Thank you so much for the opportunity. Please see our comments below corresponding to the Labrador Consultation Document released on October 1, 2024.

3.1 - Diesel and Stove Oil in Western Labrador
We support the Board's consideration on adopting a blending methodology for diesel motor fuel as shown in Appendix H.

3.2 - Additional Discretion in the Calculation of Maximum Prices
We support the introduction a market adjustor or forward averaging mechanism that is calculated based on the price difference between Argus NYH and actual rack. The Labrador City terminal is supplied out of Sept-Iles in Quebec.

3.3 - Market Data Reporting Agency
We support the Board's consideration on replacing Platts with Argus. The Argus product options illustrated in Appendix J appear to be adequate. We also like to highlight 2 points below.

A. Currently, the Irving St. John's marine terminal still carries conventional gasoline.
B. Should the Irving St. John's marine terminal be converted to E10 gasoline in the future, we would suggest using – Argus Ethanol New York barge fob NYH month PA0006829 – as it is commonly used in fuel supply contracts in Atlantic.

3.4 - Average Price Calculation - Five Days versus Seven Days
We support the Board's consideration on moving to a five-day weekday average.

3.5 - Extraordinary Adjustment Criteria
We support what the Board decides.

3.6 - Weekly Adjustment Timing
We support the Board's consideration on moving weekly adjustments to Friday.

4.0 - MARK-UPS AND ZONE DIFFERENTIALS
We support the Board's considerations on

A. Reallocation of the wholesale mark-ups and zone differentials
B. Implementing an increase in retail mark-up illustrated in Appendix N.

5.1 - Pricing Different Grades of Gasoline
We support the Board's consideration on using "Argus-reported market prices to calculate mid-

grade and premium gasoline prices” as it is the current practice in NS and NB.

Have a great weekend.

Thanks
Chris

Petroleum Products Pricing Review - Labrador
October 18, 2024 1:52:48 PM

Good afternoon,

Please see the blow responses to your questions:

1. **What is the benchmark price and how is it determined?**

Benchmark prices reflect the market price for a type of fuel. Following the 2020-2021 Interim Labrador Review, benchmark prices for gasoline, diesel and stove oil in Labrador areas supplied by marine tanker (i.e. Zones 10, 11, 11a, 11b, 12 and 14) have been based on the cost of the product when resupplied. The Board obtains invoices from the companies resupplying the region and sets benchmark prices based on these filed costs and volumes. Benchmark prices are included in the Board's wholesale maximum prices in order to allow suppliers and wholesalers to recover their purchase cost for the product delivered to (and in inventory at) marine storage terminals.

Benchmark prices in all other areas of the province, including Labrador West and Churchill Falls, are changed weekly and reflect market prices from New York Harbor as published in Platts US Marketscan, in accordance with legislation. Wholesaler purchase prices in these areas of the province change daily, influenced by price changes which occur in New York Harbor (and Quebec in the case of Labrador West).

2. **How are zones and zone prices determined?**

The zonal boundaries were established considering, in part, the locations of storage facilities and the costs of product supply to each zone. Each pricing zone is assigned a Zone Differential, which reflects additional storage and transportation costs for the zone above those for the base zone (which is Zone 1 - Avalon Peninsula for gasoline) including additional marine freight costs, operation of marine terminal and bulk storage facilities, and tank wagon or tractor trailer delivery costs. The zones in Labrador were examined by the Board as part of the 2020-2021 Interim Labrador Review, but based on the information filed at the time there appeared to be no evidence supporting a change.

Maximum prices in all zones in the province are the sum of (1) benchmark price, (2) carbon price adjustment, (3) total allowed mark-ups, (4) zone differentials, and (5) taxation. The difference in maximum prices in Zone 11, compared to other marine-tanker supplied areas of Labrador are the result of differences in the benchmark prices and the zone differentials. We provide a breakdown of the current maximum price for gasoline in Zones 11 and 12 to illustrate:

Breakdown of Current Gasoline (Self-Service) Maximum Prices Zones 11 and 12 (cents per litre)		

Pricing Component	Zone 11	Zone 12
Benchmark Price	94.17	74.28
Carbon Price Adjustment	5.40	5.40
Wholesale Mark-Up	10.65	10.65
Zone Differential	21.55	7.23
Retail Mark-Up	10.28	10.28
Federal Excise Tax	10	10
Carbon Tax	17.61	17.61
Provincial Fuel Tax	7.5	7.5
HST (@15%)	26.57	21.44
Total Retail Maximum Price	203.7	164.4

As noted in the response to Question 1 above, benchmark prices in Zones 10, 11, 11a, 11b, 12 and 14 are based on invoiced cost and volumetric information obtained from industry upon resupply of product (only changed upon resupply), whereas benchmark prices in Zone 1 are based on a weekly average of New York Harbor market prices (changed each week).

3. **Why are prices frozen in Labrador?**

Suspending maximum price adjustments during periods when there is no or minimal resupply provides for supplier cost recovery of purchased inventories and a better matching of maximum prices for consumers with actual costs. Appendix C of the Labrador Consultation Document provides an overview of the 2020-2021 Interim Labrador Review, which led to the implementation of the suspension of maximum price adjustments in Zones 10, 11 and 12.

4. **Why are the prices in our Zone (11) so much higher than other parts of Labrador?**

Maximum prices in Zone 11 are currently higher than maximum prices in other parts of Labrador due to a higher benchmark price (reflecting the higher market price for the product), a high zone differential (reflecting higher costs associated with the storage and transportation of the product to and within the zone), or a combination of the two. The table below provides a comparison of the benchmark prices and zone differentials in Labrador pricing zones 10, 11, 12 and 14:

Benchmark Price and Zone Differential Comparison Gasoline (cents per litre)				
Pricing Component	**Zone 10**	**Zone 11**	**Zone 12**	**Zone 14**
Benchmark Price	94.17	94.17	74.28	74.28
Zone Differential	18.20	21.55	7.23	27.81

Also, the application of HST at 15% can have a material impact on the established maximum prices, as evident in the table provided in our response to Question 2 above.

5. **How is oil/gas delivered to the Island of Newfoundland (and how often) – compared to**

Labrador?

Resupply of product to the Island occurs more frequently than in marine tanker supplied areas of Labrador, and more importantly the purchase prices for wholesalers at terminal racks change daily on the Island portion of the province necessitating a more frequent adjustment to maximum prices to reflect changing costs. In 2020 the general method of supply on the Island changed from a local refinery to an import-based method of supply.

6. **Is it possible that fuel prices can be regulated similar to liquor prices**

The Board sets maximum prices for petroleum products in accordance with the Petroleum Products Act and the Regulations thereunder. The Board has no authority over legislation and limited discretion in the calculation of maximum prices. Authority over the Petroleum Products Act and the Regulations, which govern the manner in which petroleum products prices are regulated, rests with the Provincial Government.

If you have any concerns or would like to discuss this further with board staff, please feel free to reach out.

From: admin@mhtc.ca <admin@mhtc.ca>
Sent: October 15, 2024 10:21 AM
To: Jo Galarneau <jgalarneau@pub.nl.ca>
Subject: Petroleum Products Pricing Review - Labrador

Hi Jo:

Thank you for taking my call this morning. It was nice to talk to you.

As I mentioned in our conversation, the Town of Mary's Harbour has a number of questions regarding the petroleum prices in Labrador and we would appreciate some information (in layman's terms) that can help us with our submission –

1. What is the benchmark price and how is it determined?
2. How are zones and zone prices determined?
3. Why are prices frozen in Labrador?
4. Why are the prices in our Zone (11) so much higher than other parts of Labrador?
5. How is oil/gas delivered to the Island of Newfoundland (and how often) – compared to Labrador?
6. Is it possible that fuel prices can be regulated similar to liquor prices

We would welcome the opportunity to meet with someone from the PUB that may be able to answer these questions and shed more light on how petroleum pricing works.

Thanks again,

Glenys

Glenys D. Rumbolt
Town Clerk/Manager
Mary's Harbour Town Council
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Phone: 709-927-5895
Fax: 709-927-5747
E-Mail: jwnormore@nf.aibn.com

October 25, 2024

Public Utilities Board
Newfoundland and Labrador

Dear Board:

Re: Petroleum Products Pricing Review – Labrador Consultation Document

As requested by the Board, please consider this William Normore Limited's perspective regarding the Labrador Consultation Document as it pertains to its operating area.

The current and potential pricing component information as outlined in Appendix O tends to be misleading to the average consumer trying to rationalize pricing. By this I mean that it suggests the listed markups are secured or guaranteed in all markets. The pricing model takes a calculated benchmark and adds the taxes, wholesale markup, retail markup and zone differential. In reality, at point of trade, it's more of taking the retail price and working backwards to calculate what wholesale margin is attainable. The challenge with this model as it relates to most of Labrador is the wide discrepancy between the benchmark price and actual acquisition cost for any given period. The zone differential bridges this discrepancy but it is often perceived as extra margin being gained rather than additional expense being covered off.

Up until late 2018 the main terminal in this area was owned and supplied by a major oil producer / refiner. Having a major industry participant involved in supply at a local level not only ensured continuous supply but provided a great tolerance to market risk such as holding large volumes of inventory for extended periods and variations in market price. This change in 2018 was part of a much larger shift by the industry to consolidate operations, retract from certain markets and create more viable operations. This change also played a large role in dissolving the long-standing capability of having this area competitively priced with the island.

Seasonal Pricing

Due to change alluded to above, minimal annual supply opportunities, constant shifts in prices and lack of interest in servicing smaller remote areas Seasonal Pricing will likely be imperative to maintaining local access to product. The average variance between suspension versus no suspension illustrated by Appendix D is negligible.

Implementation date of seasonal pricing (suspension) across all participating Labrador zones needs to be all in line with each other. This date needs to be either a predetermined date based on historical timelines, or a date received from the product importers that ensures the province's pricing model is utilizing accurate cost factors in all zones.

Although all product is not delivered to its final destination in the same week, much of it is imported / loaded around the same time. It is reasonable to assume the market price when the product is acquired, normally when it is loaded aboard the ship would be a more accurate cost versus date of arrival at destination. Perhaps an average cost could be calculated over the few seasonal bulk shipments. This should protect the importer against market shifts during the time period product is being distributed to various terminal locations while ensuring prices in all seasonal Labrador zones only vary by their respective differentials.

Market shifts between the various dates being used in the pricing model across zones 10, 11, 12, and 14 are causing much confusion and frustration for consumers.

Zones

All supply dynamics need to be carefully considered when evaluating zone boundaries. There is no change to zone boundaries that will have a positive effect on the region as a whole.

Breaking out smaller (site specific) zones will lead to more communities losing the service of a gas station. Certain costs associated with supplying a zone, most notably the need for terminals, tanks and various freight considerations, has to be spread over an area. This is the whole principle behind the creating of zones.

There are multiple factors and justifications for every station in the province to have a different price but consider the effect that would have on several of those stations. It needs to be determined if the objective is to retain the areas current stations / service coverage or to trade that off for a couple stations that can offer a marginally lower price to a broad geographical area.

The entire volume consumed between zone 10 and 11 could easily be handled by a couple appropriately-sized stations while there are currently eleven or twelve. There are scenarios that can help decrease cost but not without reduction in service to the communities, businesses and both local and travelling consumers.

Benchmark Pricing

The benchmark prices used in the PUB model do not accurately reflect or have bearing on actual acquisition cost in areas of Labrador. The zone differentials are set to cover the added cost, from the base zone, associated with servicing each zone but comparing the differentials on their own illustrates a wide spread in added cost. This leads to all sorts of conclusions such as price manipulation, conspiracy, collusion and so on. In actuality the extra differential is bridging the gap between the benchmark prices used in the model and actual acquisition cost.

The island portion of the province has several advantages over Labrador with respect to petroleum prices. The most significant of those is that almost the entire island is covered by major players who produce, refine, market, transport, wholesale and retail the products all under the one entity. The consolidation of all market segments from production to retail sale offers a financial flexibility that cannot otherwise be matched.

The gap between benchmarks being used and actual acquisition cost is clearly evident when you compare posted rack pricing with pricing model benchmarks. The established rack prices are basically what a producer will sell its product for at its refinery or major supply point. This price is generally always higher than the posted wholesale price for the zone that the supply point falls within. Only conclusion to be made here is that those specific areas do not have "independent" retailers, wholesalers, suppliers or whatever the case might be.

Minimum Pricing

Minimum price setting could help in a situation of one retailer underselling another in close proximity but we are not aware of either example of this in the area. Minimum pricing would just add more work for everyone involved in the industry and another level of confusion for consumers.

Potential Changes to Mark Ups and Zone Differentials

The potential 2.58 cents per litre increase at the retail level would likely offer some aid to struggling service station operators. Credit card fees tend to dissolve a significant portion of the retail markup and some stations report that over ninety percent of sales are paid for with a credit card. This is yet another example where large-scale operators with national agreements, found in other parts of the province, has an advantage over local independent operations.

The potential change to the wholesale markup will only change the price mix and not price level. The potential increase is just reduced from the differential but it is agreed that this should be brought in line with the rest of the province. In either case there is no mechanism in the pricing model that ensures the wholesaler achieves this margin. This is what was referred to as misleading about Appendix O in paragraph two. The margin level built into the price is necessary in order to perform the wholesale function / distribution to the retail locations. Insurance coverage at the wholesale (transportation and storage) level has a similar effect as the credit card at retail level.

Additional Items for Consideration

Major players that service the island portion of the province, and that once had a presence in Labrador, have moved on and the likelihood of any new interest or re-entry materializing is highly unlikely.

In the absence of major changes to how dangerous goods are handled on the Strait of Belle Isle ferry service supply from any point on the island is not possible. With unrestricted dangerous goods access on this crossing there are still many potential challenges with supply such as ferry cancellations, weather, equipment availability, product availability, retailer site capacities, inability to gravity drop at retail sites and the list go on. It is doubtful that there would be any substantial reduction in pump price with this approach, certainly not enough to justify the added risk of not having product readily available.

To ensure year-round product availability, substantial terminal infrastructure is required, along with financing and carrying large volumes of inventory for extended periods of time. Every time product is moved, whether by ship, truck, train or plane, there is added expense. Those costs are real, are not going away and no business has the ability or desire to try to absorb those cost to provide a service to any given area.

William Normore Limited's ability to supply its affiliated retailers and other customers in the areas it serves is contingent first and foremost on having readily accessible product. The overall cost factors that go into the end price of this product is highly contingent on factors outside of its control. This company is open to discussion or partnership with anyone who has a constructive idea that presents an opportunity of a better way forward.

Town of L 'Anse-au-Loup

P O Box 101, L'Anse-au-Loup, NL A0K 3L0

Board of Commissioners of Public Utilities
P.O. Box 21040
St. John's, NL
A1A 5B2

October 16th, 2024

To whom it may concern,

We are writing this letter on behalf of the Towns of L'Anse Au Clair to Red Bay, Labrador who is located in Zone 10 The Straits – Red Bay. At a joint council meeting held on October 3rd, 2024 the topic of the gas pricing was brought forward. Councils are really concerned about the high prices that we experiencing in our Zone and the impact that these prices are having on families and businesses in our communities.

Currently our gas, diesel, and home heating oil is being delivered by tanker boat (Woodward Oil Ltd) to the holding tanks in our community, which are owned by Le Groupe Harnois Inc, and then distributed to gas stations /homes /businesses via tanker truck. Historically our gas and diesel prices were usually 5-6 cents more expensive than Happy Valley- Goose Bay and the Great Northern Peninsula and now we are seeing that our gas prices are 35.5 cents more than Happy Valley- Goose Bay and 26.7 cents more than the Great Northern Peninsula. Our Diesel prices are 32.6 cents more than Happy Valley –Goose Bay and 51.3 cents more than the Great Northern Peninsula. We understand that our volume is lower which definitely affects the pricing, but with our fuels being stored in HVGB, and being delivered from there we should be frozen at amounts similar to the historical pricing differentials. Right now we are almost 10 cents more expensive that the most Northern Labrador towns.

Presently fuels are being provided to the Great Northern Peninsula from the Imperial Depot in Corner Brook. What is the reasoning that towns in Zone 10 cannot be provided by this measure as well? The only additional cost would be around 6 extra hours for the tractor trailer and the return ferry ride which is approximately $300.00. Right now the extreme over charge on our gas prices are causing people to take chances by transporting large amounts of improperly stored concealed fuel storage containers, via the Labrador Straits Ferry, because they can save $50.00 - $75.00 on a drum of gas, this type of act is also making it dangerous for the ferry crossing itself.

We believe that there is no concrete data that warrants the PUB setting Zones 10 & 11 with the most expensive fuel prices in the province, it is imperative that this organization do what it can to help ease this financial burden being put on our people and re-evaluate the current pricing in our zone to be more on par with the above listed areas. If you have any further questions, please feel free to reach out to me via email at lanseauloup@nf.aibn.com. We look forward to a fast and favourable reply to our request.

Sincerely,

Janice Normore
Town Manager / Clerk

fa: Trent O'Brien
Mayor, Town of L'Anse Au Loup

Town Manager/Clerk: Phone: (709) 927-5573 Fax: (709) 927-5263, Email: lanseauloup@nf.aibn.com

Joliette, Thursday October 24th, 2024

Emelie St-Denis
Harnois Énergies Inc
80 Route 158, Québec
J0K 3L0, Canada

Letter of comments

- We, Harnois Énergies, are in favor of using a 5-day benchmark average instead of a 7-day. This change in methodology would be more representative of the actual inventory costs.

- We, Harnois Énergies, are in favor with the price change being on Friday’s instead of Thursday. This would align with the other Atlantic provinces and would simplify operations.

- We, Harnois Énergies, are in favor of the new methodology used to calculate grade differentials. Simply implementing a 3 cpl and 6 cpl differential does not properly reflect actual rack prices.

- We, Harnois Énergies, are not in favor of the minimum pricing mechanism. This can create instability in an otherwise stable market. Minimum prices have not proven to be optimal for consumers either as they often lead to higher prices.

October 25, 2024

Public Utilities Board of NL ("Board")
St. John's, NL

Re: Zones 11, 11a, 12 and 14

Dear Sirs:

Further to your "Review of Petroleum Products Pricing" document dated October 1, 2024, following are our comments:

1) Marine Tanker Supplied Areas
    a. Seasonal Pricing – we support continuation of seasonal pricing. For a small supplier it brings stability and protection from the volatility of the world fuel markets particularly when holding inventory for 6 to 10 months;
    b. Zone Boundaries – we have no objections to the single pricing zone for 11 a and 11 b, and to creating a separate zone for Cartwright

2) Western Labrador and Churchill Falls

    Woodward's does not operate in these zones.

3) Mark-ups and Zone Differentials

    a. Gasoline, Diesel and Stove Oil

        With respect to retail dispensing in Nain, Hopedale, Postville and Makkovik, they are combined with our wholesale operations and accordingly our costs are a combined wholesale and retail. See attached as Appendix 1 wholesale costs plus combined retail/wholesale cost for the above mentioned coastal communities. Attached as Appendix2 is a summary of retail costs for Goose Bay.

    b. Propane

        Woodward has no experience with propane, thus no comments.

4) Other Pricing Matters

   a. Pricing Different Grades of Gasoline

      Woodward's no longer sells Premium gasoline in Labrador for a number of reasons:

         i) No storage at the Goose Bay storage terminal to import;
         ii) Woodward's experimented with hauling by truck from Labrador City but with the prices frozen in Goose Bay and floating in Labrador City, economically it did not work out. The cost of trucking from Labrador City was about 6 cents per litre but also the incremental cost of PUL over RUL at the load rack in Labrador City was about 13 cents per litre.

   b. Notification Processes

      Current notification process is satisfactory.

   c. Other

Further to the Board's letter to Roy Osmond on July 31, 2024, we also request the carrying cost of the wholesaler's inventory be taken into account for future prices given the long holding periods of 6 months or greater for fuel inventories.

Kind regards,

Snormore.

Stephanie Normore
Manager of Special Projects
Woodward Group of Companies

-----Original Message-----
From: Edward Barney <eddiebarney2002@yahoo.ca>
Sent: Sunday, November 3, 2024 9:38 PM
To: Public Utilities Board <board@pub.nl.ca>
Subject: Gas Prices in Labrador.

I hereby stand in suppport of the concerns presented to the .P.U .B by our MHA, Mrs. Lisa Dempster on Nov. 1/ 2024. I applaud her questions and explanations surrounding the unreasonable Gas Prices in Southern Labrador. The existing policies and procedures is unfair and discriminatory, her request for change needs to be addressed immediately.

T
Regards Edward J Barney
Sent from my iPhone

From: Mike Yetman <myetman76@gmail.com>
Sent: Sunday, November 3, 2024 10:03 PM
To: Public Utilities Board <board@pub.nl.ca>
Subject: Gas prices from Cartwright to Lance au Clair, Lab

I am sending this email regarding the high gas prices here in our area. I think it's absurd that with what we pay here for a liter of gas. Most of our population is on fixed incomes and are struggling. We can go to the northern peninsula and the gas is .40 cents a liter cheaper for majority of the year. When we see Normores trucks hauling gas from goose bay and newfoundland and then selling it for these ridiculous prices. There is no need for a price freeze, as it is only Padding the pockets of Normores in Lance au Loup and Woodwards in Goose Bay. Let the prices go to market and let the prices go up and down like it do everywhere else. It's time for a change and things has to change. It seems like the PUB and Provincial government doesn't care about our wonderful part of the province. Tourism in our area is a huge part of our economy and with the high gas prices, it is hurting. So this is a great time to get rid of the price freeze and put the people of our area finally catch a break.

Thank you

Michael Yetman

Red Bay, Labrador.

HOUSE OF ASSEMBLY
NEWFOUNDLAND AND LABRADOR
Official Opposition Office

November 05, 2024

Board of Commissioners of Public Utilities
120 Torbay Road
P.O. Box 21040
St. John's, NL
A1A 5B2

Dear Board of Commissioners of Public Utilities

<u>RE: Petroleum Pricing Review Consultations - Labrador</u>

Thank you for meeting with me on Tuesday, October 22, 2024. As I clarified at the beginning of that meeting, my attendance is not to be mistaken for participation in your Petroleum Pricing Review consultation process. My purpose in attending on Tuesday was strictly to advocate to you, the PUB, to do adequate consultation for constituents in my district and to educate you of the unique challenges my district must deal with when accessing fuel. I believe that true and adequate consultation can only take place if representatives of the PUB travel to northern Labrador and speak to the people who are directly impacted by the price setting of fuels.

At the meeting I stated that there is a great mistrust among my constituents towards you, the PUB. This mistrust is rooted in the fact that serious changes have been made in the past, many miles away in St. John's, without any consultation and without you, the decision makers, speaking directly with the people to discuss how prices have been determined, and without you listening to the grave impact your assumptions have on the every day lives of residents. Your decisions have occurred in a vacuum and my people repeatedly had to suffer the consequences in silence. I am asking that the PUB's harmful way of making decisions stop and you properly engage with the people first.

Many residents of the North Coast do not have sufficient broadband connectivity to participate in online consultations. The internet speed is so slow for many people that it does not even meet the criteria for online learning. The internet is too slow and unreliable to assume that people will spend time waiting for the consultation document to download, then suffering through slow internet to draft an email only to wonder if it was successfully sent or not.

Additionally, many residents do not have skills to navigate to and read such a technical document and then respond. This is another barrier to online consultations which can be overcome with face-to-face meetings.

I believe that an in-person session would allow you, the PUB to present the details of your consultation document orally and allow for stakeholders to respond with their feedback and their concerns. At a minimum, a session should be held in one community with the ability to bring participants from the other communities.

Official Opposition Office, 5th Floor, East Block, Confederation Building
P.O. Box 8700, St. John's, NL, Canada ▪ A1B 4J6
Phone: (709) 729-3391 ▪ Fax: (709) 729-5774

High fuel prices are having a detrimental impact on the existing socioeconomic conditions of Northern Labrador. Northern Labrador is a unique region of the province where the residents face very specific challenges. We rely on fuel to heat our homes due to the even higher cost of electricity. We rely on fuel for to hunt and fish for food. The prices must be fair.

I believe that the petroleum pricing model must protect the financial interest of customers, while also ensuring a reliable and adequate supply.

I also believe that the model must ensure that Northern Labrador receives quality product. You will recall that I spoke in the meeting about residents believing that “bad gas” has been shipped to the North Coast of Labrador, putting their costly vehicles, snowmobiles, outboard motors, etc are risk.

I also believe that the practice of freezing prices should not give wholesalers or suppliers a greater benefit over residents.

Residents of the North Coast of Labrador cannot continue to be ignored. By way of this letter, I documenting my request you to please visit the North Coast of Labrador and truly engage with the residents. Note that I stated this request to you in 2020 when you were doing the Labrador Pricing Review.

Yours sincerely,

Lela Evans, MHA
District of Torngat Mountains

Official Opposition Office, 5th Floor, East Block, Confederation Building
P.O. Box 8700, St. John’s, NL, Canada ▪ A1B 4J6
Phone: (709) 729-3391 ▪ Fax: (709) 729-5774

Department of Labrador Affairs
Brief - Labrador Petroleum Pricing Review by PUB
Summation of Issues and Concerns

On November 1, 2024, Lisa Dempster, Minister of Labrador Affairs, participated in the ongoing Labrador Petroleum Pricing Review by presenting to the PUB. The following is a summation of the Labrador issues and concerns that the Minister wishes to put forward to the PUB for consideration and response.

<u>Supply</u>

- Southern Labrador is a region of the Province that is sparsely populated area with communities connected by road in recent years. These communities still receive petroleum products by marine tanker, which is the same manner when these communities were isolated. With the road completed, tanker trucks may be an option to supply this area with a lower priced product. Further review of the feasibility of this option by the PUB is required.

- The Provincial improvements in transportation infrastructure in Labrador includes a ferry that runs year-round between the Island portion of the Province and the Straits in Labrador. This has allowed for tanker trucks to cross into Labrador with products sourced from zones on the Island portion of the Province. Examination by the PUB of this an option as a source of cheaper and reliable petroleum products for Labrador is warranted.

- Based on the information in the Labrador Consultation Document, the Town of Cartwright is now being supplied with gasoline for Happy Valle-Goose Bay (Zone 12). Diesel and stove oil continue to be supplied by marine tanker or storage facility in Zone 12. The PUB is considering creating a separate pricing zone for the Town of Cartwright. The pricing methodology for the new Cartwright zone must reflect the supply of gasoline from Happy Valley-Goose Bay.

- Based on recent reports, the one retailer in St. Lewis is now being supplied with gasoline from Happy Valley-Goose Bay. However, gasoline prices for the Town of St. Lewis are currently based on the regulated gasoline price for Zone 11, which is significantly higher than Happy Valley-Goose Bay. This is similar to the situation in Cartwright and the PUB should consider further changes in the Labrador zones.

- The previous two points highlights the need for flexibility in the pricing methodologies to deal with anomalies within a zone. The current methodology does not allow for flexible pricing at the community or regional level within a zone. This is an issue that requires further review by the PUB.

- With exception of the North Coast, Norman Bay and Black Tickle, all communities in Labrador are now connected by road. The Trans Labrador Highway is paved, however access roads on the South Coast are gravel. The marine service between island portion of the province and the Straits is now year-round. These improvements in transportation infrastructure have impacted the way petroleum products are stored and distributed in Labrador. While the comments made above have focused on making changes within the current pricing methodology and zones, there are questions on whether the current pricing process should be used. The time may have come where a large-scale change in pricing methodology is required in Labrador to reflect the way petroleum products are currently being supplied. Further review by the PUB on this matter is warranted.

Zone Differences

- The sale of petroleum products from a supplier to a wholesaler is unregulated in this Province. Benchmark pricing in Labrador is based on the purchase price paid by a wholesaler to a supplier for a petroleum product. It is the starting point of regulated pricing within the Labrador zones. There is a currently significant differences in the benchmark prices within the marine supply areas in Labrador – 94.17 cents/litre for gasoline in Zones 10 and 11 versus 74.28 cents/litre and in Zones 12 and 14. These discrepancies in benchmark pricing highlights the need for further review by the PUB on how these prices are determined. The setting of benchmark prices needs to be transparent so that there is degree of comfort that petroleum prices are reasonable and fair.

- There have been concerns raised in Labrador when there are significant differences in maximum prices between adjacent zones, in particular Zones 9 (Northern Peninsula to Englee and St. Anthony) and Zone 10 and also between Zones 11 and 12. In addition, concerns have been expressed in Zone 10 when there are significant changes in maximum prices at the time of resupply, especially when the product is from storage facilities in a zone with significantly lower prices, such as Zone 12. This is an issue that warrants further review by the PUB.

- There was the expectation that the South Eastern Labrador (Zones 10 and 11) would become one zone after being connected by road. The PUB should examine the possibility of combining these two zones, especially if the end result will be pricing that is beneficial to the consumer.

- There is often debate within Labrador over the benefits of seasonal adjusted prices versus regular weekly adjustments, especially when prices adjust upwards or there are significant differences in petroleum prices among the Labrador zones. A review of historical petroleum by the PUB may help determine which pricing setting schedule would be best for Labrador.

- In the Labrador Consultation Document, the PUB has identified ten matters that it is considering for petroleum pricing in Labrador. The increase in the retail markup is concerning as it will increase the cost of petroleum products throughout all zones in Labrador. There are communities in Labrador that are experiencing the highest costs of living in the Province and any increase in petroleum prices will only add to the financial stress of residents in these communities. Commentary on the anticipated impact of each matter being considered by PUB on petroleum prices is requested.

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House of Commons
Chambre des communes
Canada
Yvonne Jones MP

October 25, 2024

Public Utilities Board
PO Box 21040
St. John's, Newfoundland and Labrador
Canada, A1A 5B2

To Whom it May Concern,

I write to you in response to the Labrador Consultation Document as part of the Petroleum Pricing Review, dated October 2024.

As you are aware, over recent months we have received numerous inquiries from individuals concerned with the pricing of petroleum products in Labrador (particularly in zones 10, 11 and 11a), and furthermore, these prices as compared to other zones.

While I appreciate the idea behind pricing suspension, and understand the *reason* that there is currently such a substantial variance in gas and fuel prices between zones in the province, I am quite concerned for consumers in Labrador, as well as for the small businesses affected. The prices of gas and diesel have been substantially higher in Southern Labrador for far too long, which means that we have to revisit the model.

We recognize that Labrador has a large geography with a relatively small population, which creates challenges and expenses that makes coastal Labrador different from the island. As such, we will require a unique solution that allows all Labradorians to have access to petroleum products at fair and equitable prices.

There have been many suggestions made on how to address these challenges. But while you consider all the options regarding pricing, there are other factors that I ask you to consider as well. Supply of stock, for example, is non-negotiable, and that means to all areas (including remote places like Black Tickle, which is not connected by land). Effect on gas stations is also essential to consider. Not only does pricing affects sales volumes, but also certain transportation alternatives might affect the type of infrastructure they need, which they may or may not be able to afford.

As we continue to field calls and hold meetings with stakeholders, this topic remains a high priority item for our office. Please feel free to reach out to me at any time to discuss further, as your decisions here have real, long-reaching effects on Labradorians.

Sincerely,

Yvonne Jones, MP Labrador