



## PEI Petroleum Marketer's Association Inc.

---



July 04, 2008

The Island Regulatory And Appeals Commission

Attn: Allison MacEwen

Assistant Director, Petroleum

P.O. Box 577

Charlottetown, PE, C1A 7L1

Dear Mr. MacEwen:

I am writing on behalf of the PEI Petroleum Marketer's Association (PEIMA) in response to your letter of May 26, 2008.

In the letter you indicated that due to the unprecedented escalation of petroleum prices and resulting challenges faced by all stakeholders involved in the pricing of petroleum products in Prince Edward Island, the Island Regulatory and Appeals Commission is genuinely open to the consideration of a formal request by the PEIPMA to change various aspects of the manner in which petroleum prices are set and managed on the Island.

I state "genuinely", since both the PEIPMA and its individual members have met and submitted data and various written recommendations to the Commission over the last couple of years with little evidence of any concrete action by the Commission to address very valid, and now critical, concerns.

The membership of the PEIPMA, by virtue of its status as a Chapter of the Canadian Oil Heat Association, is comprised of major petroleum industry players, associates/affiliates of majors, heating equipment manufacturers, suppliers and service contractors in addition to most of the independent marketers of petroleum products on the Island, whether "branded" or "unbranded".

It is this latter group whose concerns and issues I am addressing in this letter; marketers who buy product from a major supplier and then market this product, usually to end consumers. As you can see by this relationship, marketers are "customers" of the majors and buy product based on some type of pricing mechanism fixed to a daily fluctuating price marker such as the New York Harbor price or the supplier's posted rack price.

..../2

Because of this, marketers are at the mercy of the global market for petroleum products in terms of product cost, but often find themselves unable to market the product in a regulated environment at a price that provides reasonable returns for the considerable effort and investment required to operate this type of business.

As an Association, we have identified ***the frequency of pricing adjustments*** as a key area where we feel that changes are required in the administration of the regulated prices in PEI.

I think we can all now agree that traditional product cost prediction models are almost useless, as speculation has increasingly become the main driver of oil prices, and daily swings in price are becoming more and more significant. Obviously in non-regulated markets, marketers are capable of passing on large cost changes immediately, thus allowing them to maintain a reasonable level of margin, leaving only market forces as the main driver to the success of their pricing strategies. Our observation is that most of these marketers tend to smooth out small changes in product costs by absorbing increases and decreases in product cost but cannot afford to do so with more significant changes and therefore pass these on almost immediately. The Island model does not allow this immediate reaction and therefore unfairly places undue burden on the marketer to absorb cost changes regardless of how large. The Commission may think that it's interruption mechanism covers this situation but in almost all cases it is not instituted quickly enough to prevent financial damage to the marketer.

In summary, the Commission's current policy of reviewing prices ***twice monthly is not sufficient to address the volatility of petroleum product costs in today's marketplace*** and even a weekly review could be considered insufficient.

We recognize however, that there would be no appetite for a formal price change review more frequently than once per week and therefore ***we are formally requesting that a weekly mechanism be instituted immediately.***

The industry, and thus the marketers volumes are dropping due to consumers conserving account of high prices. Added to this we are also starting to see a trend by the Majors whereby they are divesting the end consumer relationship in favor of marketers. Therefore it is important for the Island to keep this mode of business viable for the long term.

The economic state of the marketers business has eroded to unattractive levels over the past few years and I suspect that the dramatic rise in product cost may be a final determining factor for some of our members' future. The requested change is required to return financial health to the reseller business with the hopes of preserving this business model on the Island.

Bottom line, our members are now at a stage of desperation and need to quickly pursue whatever means necessary for the regulators, government and public to understand the need for change. In this regard the PEIPMA is requesting that the Commission review our request and move to implement this critical change as soon as possible, in time for the upcoming heating season.

Sincerely,

A handwritten signature in blue ink that reads "Bill Lewis". The signature is written in a cursive style with a period at the end.

Bill Lewis  
President

c.c: Members of PEIPMA