

Petroleum Regulation - PEI

Presentation to Standing Committee on Infrastructure & Energy



October 22, 2015

Outline

- ☑ IRAC Overview
- ☑ Petroleum Products Act — General
- ☑ Retail Outlets
- ☑ Pricing — Gas, Furnace Oil & Diesel
- ☑ Bi-Monthly Pricing vs Weekly Pricing
- ☑ Barrel of Oil vs Litre of Gas
- ☑ Sales Volumes
- ☑ Public Information

IRAC Overview

Responsible for Administration of:

Regulatory Functions		Quasi-judicial Functions	
Regulations		Regulations and Rate Setting	
<ul style="list-style-type: none">• Lands protection regulation• Petroleum products regulation• Waste management regulation		• Electricity regulation and rates	
		• Water and sewer utility rates	
		• Auto insurance rates	
		• Petroleum Licenses	
Rental		Appeals	
<ul style="list-style-type: none">• Residential and rental property regulation		• Planning and municipal appeals	
		• Rental appeals	
		• Property tax appeals	
		• Environmental appeals	



Petroleum Products Act

PURPOSE

2. The purpose of this *Act* is to regulate the distribution and sale of petroleum products within the Province of Prince Edward Island for use within the province, and the type, location, and operation of facilities and equipment associated therewith, and to ensure at all times a just and reasonable price for heating fuel and motor fuel to consumers and licensees within the province. 1990,c.43,s.2.



Petroleum Products Act

PRICING SUPERVISION

27. The Commission has general supervision of all wholesalers, wholesaler-retailers and retailers with respect to the pricing of heating fuel and motor fuel, including the authority to regulate the timing and frequency of price changes . . .



Petroleum Products Act

COMMON PRICING

29. (1) The price charged by a wholesaler or wholesaler-retailer for each grade of heating fuel and motor fuel shall be a common and universal price to all retailers throughout the province.

30. No retailer, wholesaler or wholesaler-retailer shall sell . . . at a price different from the price last approved by the Commission . . . within the minimum and maximum markup.



Petroleum Products Act

LICENSING

9. (1) The Commission has general supervision of
- (a) the licensing of wholesalers and wholesaler-retailers with respect to the distribution of petroleum products; and
 - (b) the licensing of outlets operated by retailers, wholesalers and wholesaler-retailers.



Outlet Modes of Operation

GASOLINE

	Full-Serve	Split-Serve	Self-Serve	TOTAL
2014	18	20	50	88 ¹
2013	21	22	50	93
2012	23	25	46	94
2011	23	28	42	93
2010	24	27	41	92

¹43% of retail network features full-serve mode of operation. Represents highest such concentration in North America other than state of New Jersey which is 100% full-serve by virtue of state legislation.



Retail Outlets (by Classification)

	Service Stations	Marine	Propane	TOTAL
2014	88	54	50	192
2013	93	53	47	193
2012	94	53	46	193
2011	93	57	48	198
2010	92	57	48	197



Margins

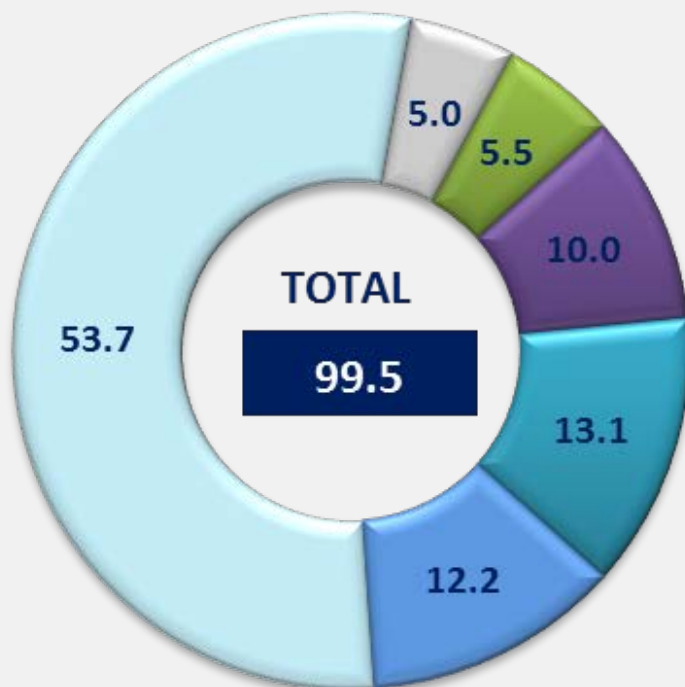
	Regular Unleaded Self-Serve (cents per litre)	Diesel (cents per litre)	Furnace Oil (cents per litre)
Wholesale	5.0 ¹	5.0	19.5
Retail	5.5-6.5	5.5-6.5	
TOTAL MARGIN	10.5-11.5 ²	10.5-11.5	19.5
Federal Excise Tax	10.0	4.0	--
Provincial Tax	13.1	20.2	--
HST	14%	14%	5%
Notes: ¹ Over Charlottetown Rack ² Prevalent PEI self-serve market price is at retailer margin of 5.5 cpl			



Breakdown of Pump Price

GASOLINE

Pump Price



- Petroleum Base Cost (Including Refining)
- Wholesale Margin
- Retail Margin
- Federal Excise Tax
- Provincial Tax
- HST



Pricing Interruption Policy

GASOLINE

Gas prices are set on the 1st and 15th of each month.

Interruption Policy - When there is a change in the New York wholesale price amounting to +/-4.0 cents per litre for a period of 5 days, the Commission will formally review prices and consider a pricing interruption.

Between 2010 and September 2015, there were only 17 interruptions—12 decreases and 5 increases.



Pricing Interruptions 12 Decreases 5 Increases

GASOLINE

	Date	Decrease (cpl)	Increase (cpl)		Date	Decrease (cpl)	Increase (cpl)
2010	May-20	-3.0		2013	Jul-13*		6.3
2011	May-14*	-5.5			Sep-25	-4.0	
	Jun-28	-3.0		2014	Oct-10	-5.0	
	Aug-10	-4.5			Dec-09	-5.5	
2012	Jan-12		3.0	2015	Feb-07		5.3
	Apr-26	-5.0			Mar-21	-2.4	
	May-09	-4.5			Apr-25		4.0
	Jul-13*		6.0		Aug-26	-5.0	
	Oct-24	-7.5					

*Instead of 15th



Pricing Interruptions - NS & PE

GASOLINE

		NS	PE
2014	Down	--	2
	Up	1	--
	Total	1	2
2015 (YTD)	Down	2	2
	Up	3	2
	Total	5	4
Two-Year Total		6	6



Comparison of Pump Prices (cents per litre)

GASOLINE

2013

AVG YEARLY:

Halifax	131.1
Moncton	126.9
Ch'town	129.3

2014

AVG YEARLY:

Halifax	130.8
Moncton	128.7
Ch'town	130.5

2015 YTD

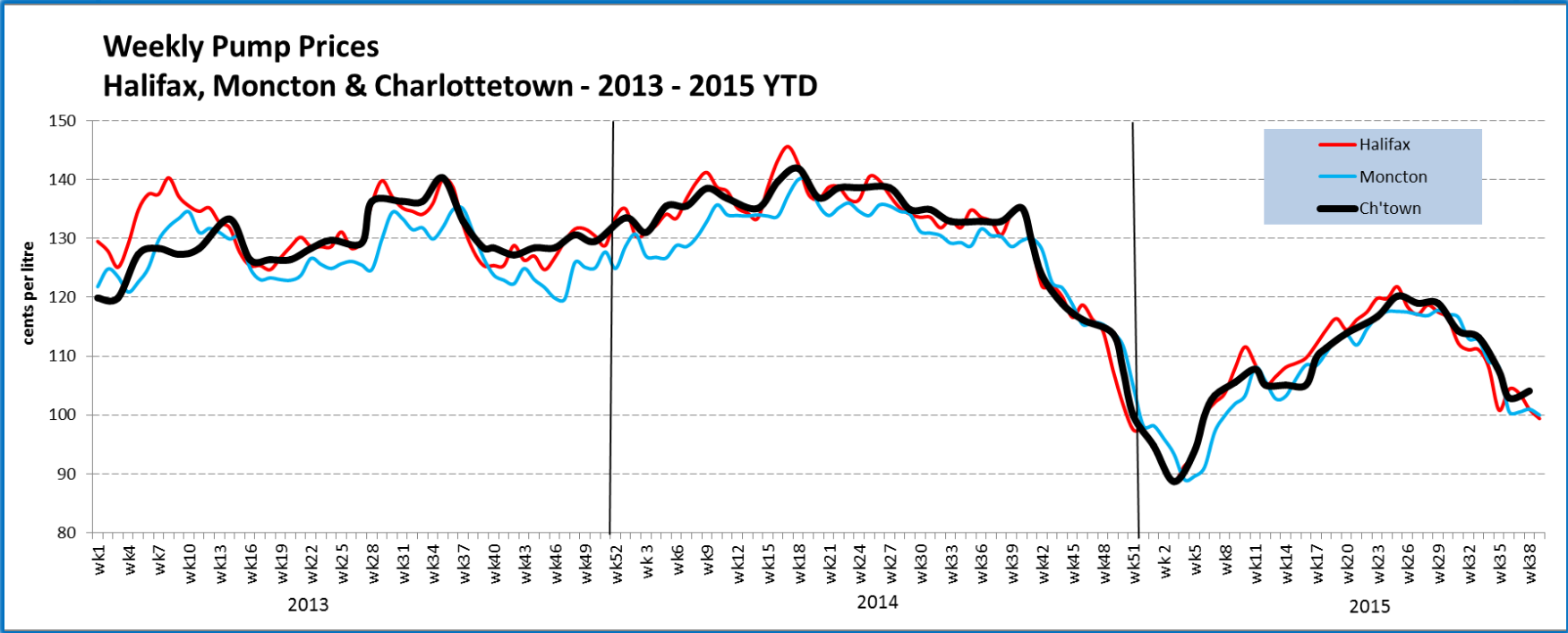
AVG YEARLY:

Halifax	108.3
Moncton	106.8
Ch'town	107.3



Comparison of Weekly Pump Prices

GASOLINE

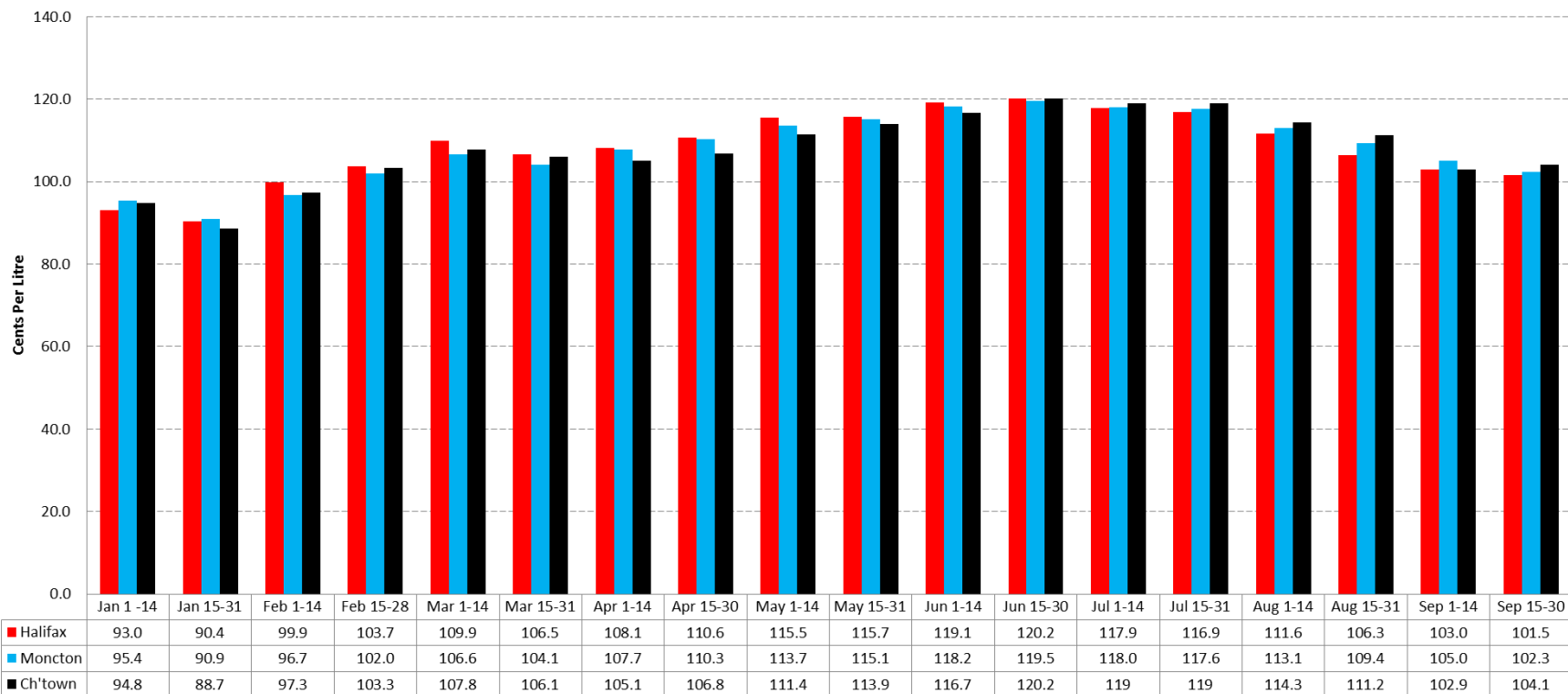




Comparison of Pump Prices - PE, NS & NB Averages

GASOLINE

2015 (Jan- Sep)





Comparison of Pump Prices

(cents per litre)

FURNACE OIL

2013

AVG YEARLY:

Halifax	110.1
Moncton	103.7
Ch'town	105.3

2014

AVG YEARLY:

Halifax	110.8
Moncton	119.6
Ch'town	106.2

2015 YTD

AVG YEARLY:

Halifax	97.2
Moncton	89.7
Ch'town	85.4

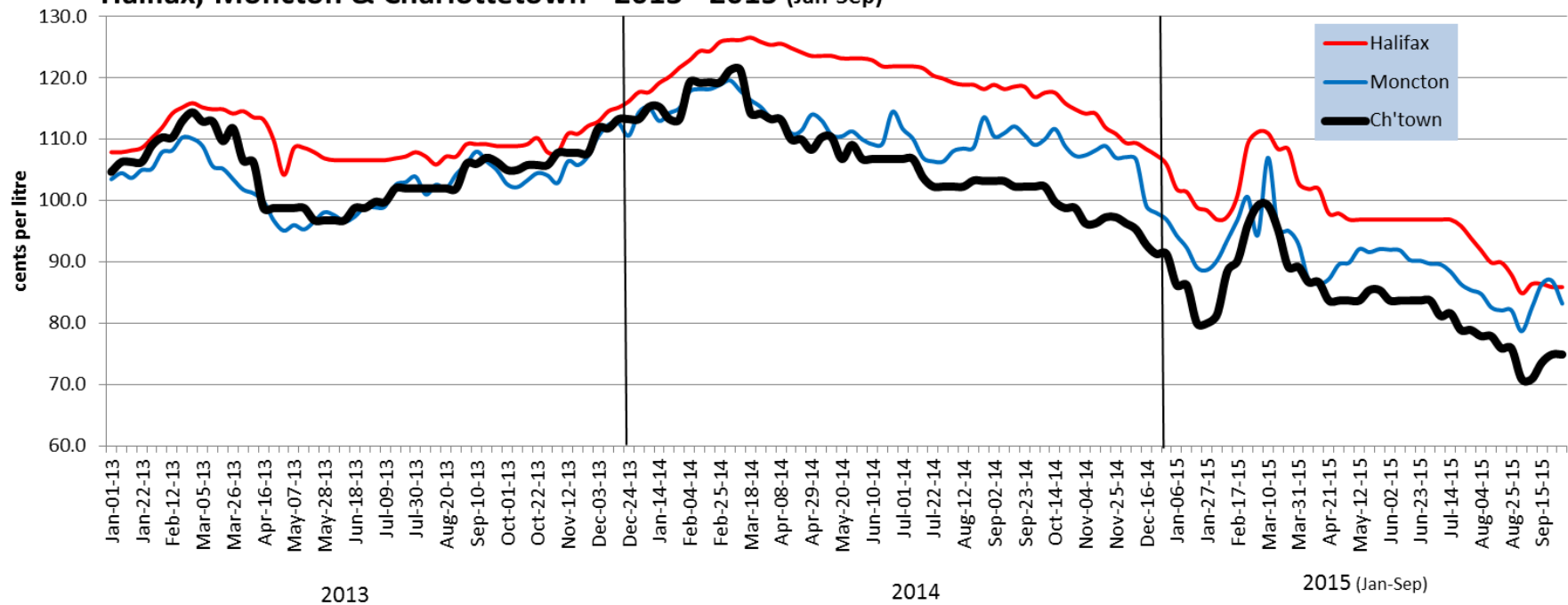


Comparison of Weekly Prices (Excl. Taxes)

FURNACE OIL

Weekly Prices (Excl. Tax)

Halifax, Moncton & Charlottetown - 2013 - 2015 (Jan-Sep)





If Crude Prices Are Down, Why Aren't Gas Prices Lower?

	Crude (US \$/bbl)	Gasoline (Cdn cpl)	Furnace Oil (Cdn cpl)	Diesel (Cdn cpl)
Oct-15-2015	\$46.38	99.5	79.9	112.7
Oct-15-2014	\$81.78	123.7	98.8	133.8
YoY Difference \$	-\$35.40	-24.2	-18.9	-21.1
YoY Difference %	-43%	-20%	-19%	-16%



If Crude Prices Are Down, Why Aren't Gas Prices Lower?

1. Lower Canadian Dollar—Due to exchange rate devaluation, purchasing power of Canadian dollar is significantly lower. Currently, approximately 30% below year ago levels. Adjusting for devalued Canadian dollar, crude is actually down only 35%.

	Crude US\$	Crude Cdn \$
Oct-15-2015	\$46.38	\$59.58
Oct-15-2014	\$81.78	\$92.07
YoY Difference \$	-\$35.40	-\$32.48
YoY Difference %	-43%	-35%



If Crude Prices Are Down, Why Aren't Gas Prices Lower?

2. Impact of Lower Dollar—Kent Marketing reported this month that the lower Canadian dollar has added 15.5 cents to the price of a litre of gasoline.
3. Market Influences—Gasoline, furnace oil and diesel are traded as separate and independent commodities, hence, subject to supply and demand and speculative investment dynamics.
4. Crude—Typically it takes 30 days for oil to go from the wellhead to the consumer—and up to 3 times longer depending on location of refinery and gas station, how crude is transported, and whether it is being stockpiled to wait out low prices. The relationship between crude and retail prices is often disjointed.



If Crude Prices Are Down, Why Aren't Gas Prices Lower?

5. Increased Demand—Demand for gasoline has been up this past year in US due to an improved US economy, which has resulted in an upward pressure on gasoline market price.
6. Supply Interruptions—From time-to-time, delivery system or refinery production interruptions occur. A number of refinery outages were experienced this past summer.
7. Higher Refining Margins—Kent Marketing reports that the average Canadian refining margins made by wholesalers has risen to historic levels. In January 2015 refining margins were 12.5 cents per litre, by July 2015 margins rose to 28.6 cents per litre, and reached 35.8 cents per litre in August 2015.



Petroleum Product Sales (Litres)

2014

132,452,846

furnace &
stove oil

74,921,654

diesel fuel

201,812,134

gasolines

24,922,886

propane

434,109,520

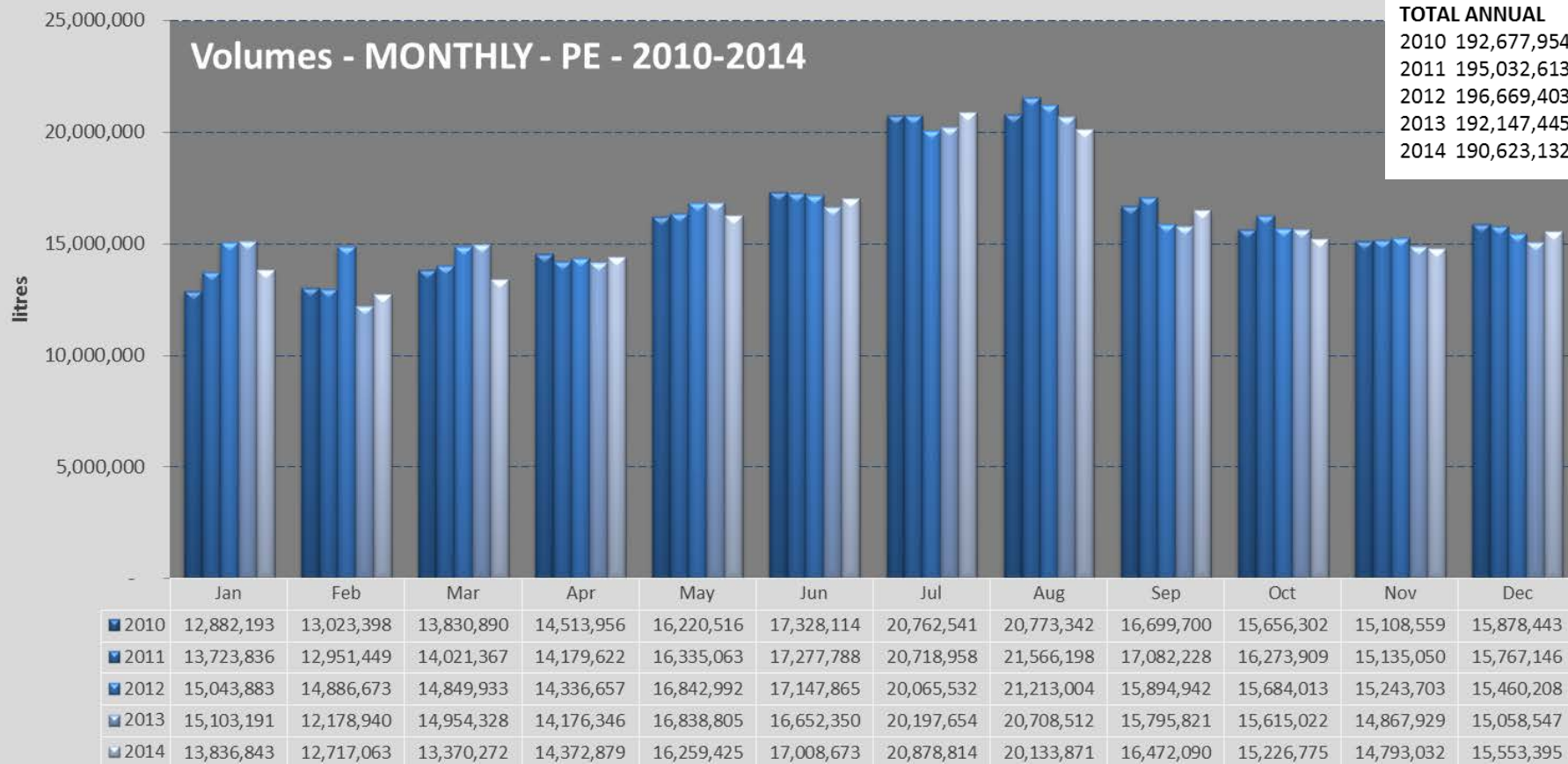
TOTAL



MONTHLY Volumes - PE

GASOLINE

Volumes - MONTHLY - PE - 2010-2014



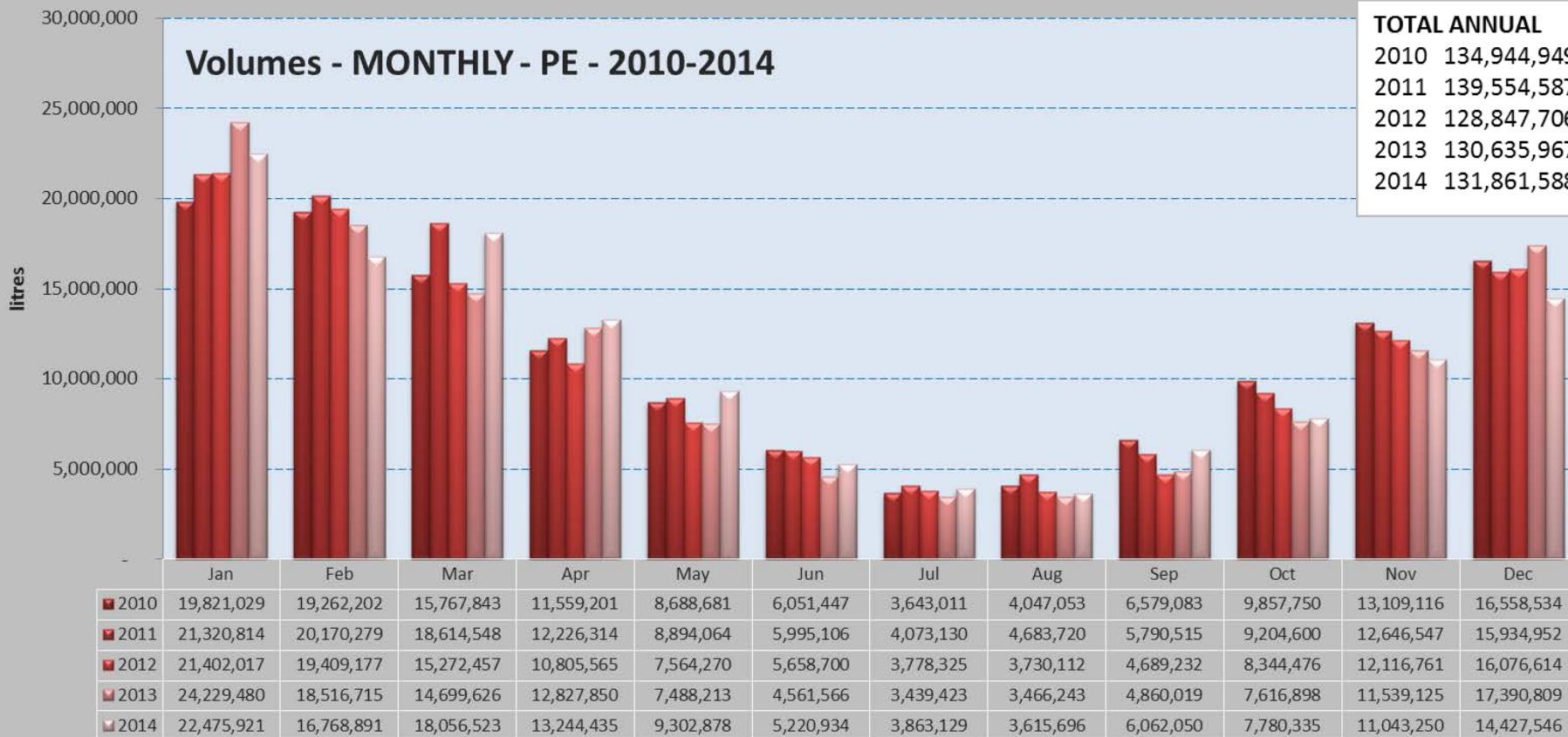
TOTAL ANNUAL	
2010	192,677,954
2011	195,032,613
2012	196,669,403
2013	192,147,445
2014	190,623,132



MONTHLY Volumes - PE

FURNACE OIL

Volumes - MONTHLY - PE - 2010-2014

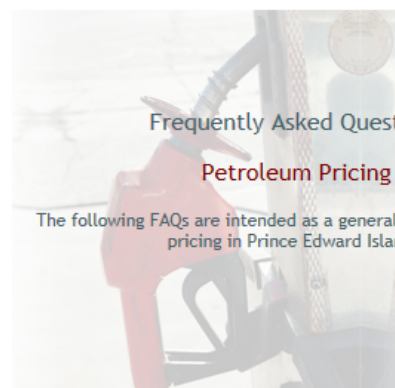


TOTAL ANNUAL

2010	134,944,949
2011	139,554,587
2012	128,847,706
2013	130,635,967
2014	131,861,588



IRAC Frequently Asked Questions - Petroleum Pricing



1. How can petroleum product pricing rise while the market price of crude is declining?

While crude is often the most frequently used barometer of petroleum product pricing and certainly the one most quoted by the news media, the Commission utilizes actual refined product wholesale market pricing in the determination of its pricing adjustments. Adding to the confusion, crude pricing often tracks quite differently from refined product pricing due to seasonal or other market factor determinants. Accordingly there are times, such as in January 2009, when crude prices were falling while refined product prices were rising.

Referencing the price of gasoline to the last time crude was trading at a certain dollar value a barrel, for example, is to a large degree meaningless as so many other factors including tax rate differentials, changes in the Canadian and U.S. exchange rates, seasonal market demand variables and other relevant market determinants would have to be taken into consideration in order to make the comparison accurate. To illustrate, crude traded at an average of \$40.28 in May of 2004. During that month, the average price of gasoline on PEI amounted to 87.7 cpl. On January 9, 2009 crude closed at \$40.83 on a day when the maximum posted price for regular unleaded gasoline on PEI was to 69.1 cpl. As you can see, the relationship between crude and refined product pricing does not always correspond intuitively.

2. What is the relationship between world crude prices and what I pay at the pumps for gasoline?

There is an indirect relationship. Pump prices as established by the Commission are based on changes in refined gasoline product prices as traded on the New York Mercantile Exchange (NYMEX). While over time, the trending of crude prices should correlate with refined product pricing, it is not uncommon, in the short term, for crude prices to be heading in one direction while refined product prices head in the other. Both are internationally traded commodities and as such can be subject to different market influences. Crude prices for instance may be falling due to global economic conditions while refined gasoline prices may be rising due to local and regional supply circumstances.

[Link to FAQs](#)



THANK YOU