CICC CONVENIENCE INDUSTRY COUNCIL OF CANADA
CCID CONSEIL CANADIEN DE L'INDUSTRIE DES DÉPANNEURS

July 17, 2023

Mr. Allison MacEwen
Director, Regulatory Services
Prince Edward Island Regulatory & Appeals Commission
P.O. Box 577
Charlottetown, PE C1A 7L1

Via email: petromarginreview@irac.pe.ca

Dear Mr. MacEwen:

IN THE MATTER OF THE PETROLEUM PRODUCTS ACT
- and -
IN THE MATTER OF A REVIEW by the Commission under s. 27: Powers of Commission of the Petroleum Products Act with respect to the pricing model and margins for petroleum products including the Clean Fuel Regulations

COMMENTARY SUBMISSION ON PETROLEUM PRODUCTS BENCHMARK AND MARGIN REVIEW REPORT

1. The 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 fuels in Prince Edward Island in terms of both volume and number of retail sites.

2. The CICC welcomes the opportunity to make a commentary submission with respect to the report, Petroleum Products Benchmark and Margin Review, prepared by the Commission Consultant, Gardner Pinfold Consultants Inc. [Exhibit C-1a].

3. For this report, Gardner Pinfold was tasked with:
    a. Recommending a benchmark for pricing petroleum products;
    b. Recommending just and reasonable wholesale and retail margins;
    c. Recommending appropriate wholesale and retail margins for furnace oil/commercial diesel (Exhibit C-1a, p. 1, para. 2).

A BENCHMARK FOR PRICING PETROLEUM PRODUCTS

4. The CICC concurs with Gardner Pinfold that in the case of Prince Edward Island, "…[r]etaining the rack price as the benchmark in PEI carries greater weight than any risk of price manipulation or lack of reliable information" [Exhibit C-1a, p. 15, para. 36]. As suggested by Gardner Pinfold, the Commission "…[may wish to consider either adopting the rack price set by the terminal operator as the benchmark price for its pricing formula, or possible a blended benchmark based on a weighted averaged rack price set by each of the wholesalers" [Exhibit C-1a, p. 16, para. 37].

5. The CICC concurs with Gardner Pinfold's recommendation with respect to using "…the posted rack prices for mid-grade and premium grade gasoline as the base prices for setting wholesale and retail prices" [Exhibit C-1a, p. 27, Recommendation 9]. It is notable that from a recent hearing (M10853), the Nova Scotia Utility and Review Board has made a decision to adopt this approach. While the NSUARB uses New York Harbor pricing, Gardner Pinfold's recommendation supports the use of the approach using rack pricing.

WHOLESALE MARGIN ON MOTOR FUELS

6. The Convenience Industry Council of Canada is primarily focused on supporting convenience retailers. As such, the CICC has no position on wholesale margins as this is fundamentally a matter for primary and secondary wholesalers.

RETAIL MARGINS ON MOTOR FUELS

7. Using a retail operating cost-based approach in examining any need for a retail margin adjustment, the CICC is of the opinion that Gardner Pinfold has done a reasonable job in collecting operating cost data. Regulatory authorities frequently base decision making on 'best evidence available.' Given the limited time available and resources required, the CICC is not in a position to submit any evidence that would meaningfully bring into question Gardner Pinfold's findings and recommendation for no change in the current retail margin. This includes the interim 1.0 cent per litre in place.

8. The CICC is concerned with the time between retail margin reviews and the length of time it takes to complete a retail margin review and render a Commission decision. The CICC is open to dialogue with IRAC and PEI motor fuel retailers on establishing a more regular and timely review process.

9. The CICC concurs with Gardner Pinfold's recommendation that "[t]he next retail margin review should use 2022 as the base year against which to measure cost changes" [Exhibit C-1a, p. 26, para. 66].

INCORPORATING CFR CARBON COSTS IN THE IRAC PRICING MODEL

10. An additional task for Gardner Pinfold was to examine the incorporation of CFR (Clean Fuel Regulations) carbon costs in the IRAC pricing model. Given the July 1, 2023 activation of the CFR by the federal government, considerable effort has been undertaken by petroleum product regulators in examining approaches to incorporating CFR carbon costs in regulated pricing models.

11. A credit market mechanism appears to be the preferred approach, but it is a market very much in its infancy with considerable uncertainty as to how the market may develop. And how are compliance costs for producers to be reflected in regulated pricing, particularly in Atlantic Canada where we are disadvantaged with respect to carbon intensity reduction options?

12. Motor fuel retailers are of the opinion that the implementation of a carbon adjustment and the related methodology to set the cost is a complex issue that retailers have very limited experience with and minimal depth of knowledge. That being said, it is also generally believed that the implications of a carbon adjustment will have a much greater impact on refiners and wholesalers.

13. A carbon adjustment cost should be a pass-through cost for motor fuel retailers that should have no impact on margins and operating costs. One exception may be the cost of credit card merchant fees that are directly impacted by the retail price of motor fuels. As noted by Gardner Pinfold, "…[c]ost elements…[c]an be tracked and incorporated as an 'adder' into wholesale prices and flowed through to retail prices" [Exhibit C-1a, p. 35, para. 4].

14. From the CICC's perspective, it is important the regulators monitor the credit adjustment mechanism as it unfolds to ensure equilibrium in rack pricing among wholesalers serving the Prince Edward Island marketplace.

Respectfully submitted at Charlottetown, Prince Edward Island, this 17th day of July 2023.

Sincerely,

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