

**Prince Edward Island Regulatory & Appeals Commission**

**BOARD FILE: PMC22-01**

**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**

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Evidence submitted by  
Convenience Industry Council of Canada (CICC)

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## 1. INTRODUCTION & SUMMARY

1. The Convenience Industry Council of Canada (CICC) is a national, non-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 Prince Edward Island Regulatory and Appeals Commission (IRAC) is the body responsible for setting wholesale and retail mark-ups and minimum and maximum retail selling prices for motor fuels within the province of Prince Edward Island, as per the Petroleum Products Act (the PPA or the Act), and the Petroleum Products Act Regulations (the Regulations).
3. Under its authority, the Commission issued an order on October 5, 2023 (PC23-006), that it was undertaking a public hearing with respect to reviewing the pricing model of petroleum products, including gasoline, diesel, furnace oil and commercial diesel.
4. As the hearing order states: "The scope of the review includes the appropriate benchmark price used to make weekly price adjustments, the wholesale and retail margins for petroleum products, and incorporating carbon costs associates with the *Clean Fuel Regulations* into the Commission's pricing model."
5. As part of this matter, the Board commissioned Gardner Pinfold Consultants Inc. (Gardner Pinfold or GP) to conduct research and analysis into the issues and make recommendations. GP's findings and recommendations were presented in their report, Petroleum Products Benchmark and Margin Review (Exhibit C-1a).
6. In its report, GP recommends 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).
7. The CICC supports this recommendation and presents additional evidence that reinforces the reasonableness of the recommendation. The CICC also recommends that a protective minimum RUL:PUL spread of 6.9 cents per litre be implemented similar to the minimum spread recently implemented in Nova Scotia.

## 2. DISCUSSION

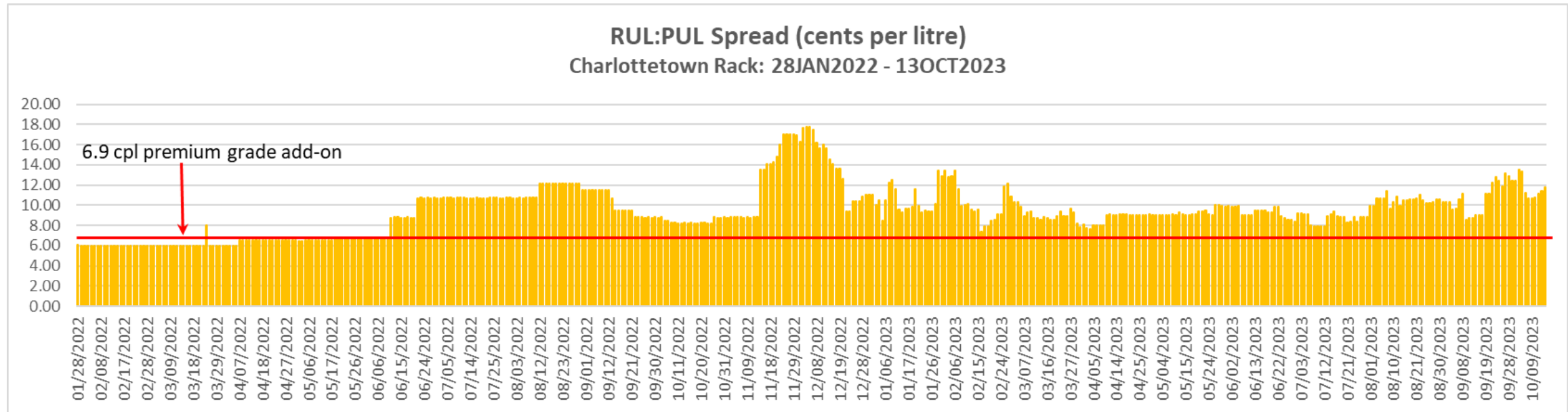
8. As stated in GP’s report: “The Commission’s pricing model sets and adjusts the prices of regular gasoline and diesel in relation to corresponding rack prices. The prices for mid-grade and premium grades of gasoline are set by applying a fixed grade premium to regular gasoline based on historic differences between these products and regular gasoline” (Exhibit C-1a, p. 26, para. 67).
9. In establishing base pricing for premium unleaded gasoline (PUL), IRAC uses the period average rack price for regular unleaded gasoline (RUL) and adds a fixed 6.9 cents per litre grade price premium. This is illustrated in Exhibit 1 taken from IRAC’s website.

**Retail Dealer Pump Prices – All Brands – October 06, 2023**

	REGULAR Gasoline	MID-GRADE Gasoline	PREMIUM Gasoline	DIESEL
Period Average Rack	101.8	101.8	101.8	137.0
Wholesale Margin	5.0	5.0	5.0	5.0
Forward Averaging Adjustment	-2.7	-2.7	-2.7	-2.1
Grade Price Premium	--	3.5	6.9	--
<b>DEALER BASE PRICE</b>	<b>104.1</b>	<b>107.6</b>	<b>111.0</b>	<b>139.9</b>
Federal Excise Tax	10.0	10.0	10.0	4.0
PE Provincial Tax	8.47	8.47	8.47	14.14
Federal Fuel Charge	14.31	14.31	14.31	17.38
<b>WHOLESALE PRICE</b>	<b>136.9</b>	<b>140.4</b>	<b>143.8</b>	<b>175.4</b>

**Exhibit 1 Source:** IRAC

10. This pricing mechanism for PUL presumes a strong marketplace correlation between market prices for RUL and PUL. Or, as GP states: “This approach works if these products maintain their historic price relationships” (Exhibit C-1a, p. 26, para. 68).
11. However, as GP notes: “But this is no longer the case” (Exhibit C-1a, p. 26, para. 68).
12. Exhibit 2 presents a calculation of the daily Charlottetown RUL:PUL rack price spread from January 28, 2022 to October 9, 2023 using Kalibrate online data accessed at <https://charting.kalibrate.com/Charting/FullMonty>.



**Exhibit 2 Source:** Kalibrate Technologies Ltd. online Full Monty petroleum price data

13. The data illustrate that beginning in mid-June 2022, the rack price spread between RUL and PUL consistently exceeded the fixed premium grade add-on used by IRAC.
14. Year-to-date in 2023 to October 13, the market spread has exceeded the fixed premium grade add-on on 80 percent of the reporting days, going as high as 13.5 cpl and averaging 9.8 cpl. On October 13, the most recent date presented, the spread was 11.8 cpl, or 71 percent higher than the fixed premium add-on.
15. It is important to recognize that a market RUL:PUL rack price spread above the fixed spread used by IRAC results in margin erosion for motor fuel resellers. As noted above, this has occurred on 80 percent of the reporting days year-to-date through October 13. And given the magnitude of the spread, it is evident that retailers are losing money on every litre of premium gasoline sold.
16. It is clear that a fixed premium add-on to the RUL benchmark to establish a PUL benchmark is no longer practical. Today, regulatory pricing must be more flexible.
17. As such, the evidence presented strengthens the CICC's agreement 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).
18. As previously noted by the CICC in comments submitted to IRAC (Exhibit CC-2), the Nova Scotia Utility and Review Board in Matter M10853 made a decision to adopt this approach effective September 1, 2023. While the NSUARB uses New York Harbor pricing, Gardner Pinfold's recommendation supports the use of the approach using rack pricing.
19. The CICC also recommends that IRAC establish a minimum RUL:PUL spread as the NSUARB has:

"3. The pricing of premium gasoline (Grade 3) shall be calculated in the same manner as regular gasoline (Grade 1), such that the benchmark price prescribed by the Board will be the average of the average of the daily high and low reported product prices during the period since the last benchmark price adjustment **but will be no lower than 6.0 cents per litre more than the benchmark price of regular gasoline** [emphasis added]. Any amounts that would have otherwise fallen below the 6.0 cents per litre minimum will be considered by the Board in forward averaging corrections" (NSUARB Matter M10853, Exhibit 91054, p. 56).

20. In the case of the NSUARB, the minimum spread set of 6.0 cpl reflects the former fixed 6.0 cpl premium add-on to the RUL benchmark. The CICC recommends the same approach, which for IRAC would be 6.9 cpl.