

IR RESPONSES

IR Responses – C-6 Commission Staff Interrogatories (Dated September 2, 2026)

Prepared For:
Island Regulatory and Appeals
Commission

September 18, 2026

Prepared By:
Signal Energy Consulting
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Introduction

Regarding PMC25-01, Signal Energy Consulting ("Signal") filed a report and recommendations with the Island Regulatory and Appeals Commission ("IRAC" or "the Commission") on March 31, 2026 (Exhibit C-1). In addition, Signal responded to Commission Staff's interrogatories (IRs) related to that report (Exhibit C-3).

I have attached Signal's responses to the next round of Commission Staff's interrogatories (IRs) on the report and initial IR responses.

Responses to Interrogatories

September 18, 2026

To: Island Regulatory and Appeals Commission Staff (Commission Staff).

From: Jason Parent, Signal Energy Consulting

Signal Energy Consulting (Commission Staff) IR-1 September 18, 2026

Question:

Given the use of consignment sales arrangements in the petroleum industry and the relationship between wholesalers and retailers, is the continued use of the Commission's current margin framework still valid? Please provide a detailed response including the following:

- a. An explanation of how consignment sales in the petroleum industry work.
- b. An explanation of how ownership of petroleum products and fuel pump infrastructure may be structured under consignment arrangements versus typical ownership models.
- c. Based on the information available to Signal Energy Consulting, please discuss the extent to which PEI petroleum wholesalers and retailers are operating under consignment sale agreements.
- d. Please provide, with any supporting documentation available, the extent to which consignment sales have grown in PEI's petroleum industry over time.
- e. A discussion of the impact consignment sales have on PEI's existing margin framework.
- f. An explanation of how consignment sales impact wholesalers and retailers, including how the available margin may be shared between the parties under consignment arrangements.
- g. A discussion on the impact consignment sales have on PEI's current margins and whether consignment sales might necessitate an adjustment of the current margins.

Response:

Generally, "consignment sales" is a fairly common model in the retail fuel business and has been used broadly for a long time. It doesn't represent a new or novel business model, and there is little evidence that its usage has shifted in a way that materially changes the retail fuel landscape in PEI. Broadly, I do not think consignment sales affect the validity of PEI's current margin framework.

- a. Consignment fuel sales in the retail petroleum industry are a common business model in which the retailer/site operator may not own the fuel inventory at their outlet; the fuel is owned by the fuel marketer/supplier, and the marketer/supplier sets pricing. In effect, the retailer is compensated for fuel sales as a commissioned agent, earning a contractually agreed commission fee based on fuel sales volume, rather than buying refined product from the supplier/wholesaler.
- b. Again, a consignment approach is a fairly typical business model for fuel retailers and can take a few forms with respect to ownership of site infrastructure, assets, and site operation. In many cases, the supplier/marketer will also maintain ownership of the site assets/infrastructure. In contrast, the site operator or retailer oversees site operations and typically manages and directly controls convenience and other tertiary site offerings, paying a commission or fee back to the supplier/marketer for things like convenience sales.
- c. I do not have access to detailed data showing the extent of its use in PEI, but based on long-standing industry trends, its use in smaller markets like PEI tends to be lower than in larger markets, where sites typically have higher volume throughputs.
- d. I do not have access to data showing how consignment use has changed in PEI over time; however, the long-standing industry trend has been moving away from this model in markets (like PEI) with lower average site volume throughputs. In markets like PEI, there tends to be a higher percentage of (and growth in) models where independent site operators/retailers own the retail sites and inventory and act as fuel buyers rather than operating under consignment.
- e. I don't see consignment having much impact on PEI's existing margin framework. That framework is set up to determine "fair margins" and build to a fair retail price across the entire value chain, from wholesale to retail. Wholesalers, suppliers, marketers, and retailers decide how to structure their businesses and apportion that margin, but that choice does not fundamentally change what constitutes a "fair" margin across the value chain.
- f. The impact of consignment sales on wholesalers/suppliers/retailers depends on the specific structure of their agreements. Still, it fundamentally comes down to differences in risk allocation, capital requirements, and operational/pricing approaches, with margin allocations and specific compensation agreements meant to reflect each party's role in those parts of the business.
- g. Again, I do not believe using consignment in PEI requires adjusting current margins or the existing regulatory framework. I think current regulations and margins effectively determine fair margins and pricing for the entire value chain; how businesses choose

to position themselves and operate within that value chain, and how those margins are allocated, are business decisions that do not fundamentally change what constitutes a fair margin within the framework of PEI's regulated price build-up.

Signal Energy Consulting (Commission Staff)

IR-2

September 18, 2026

Question:

To what extent was Signal Energy Consulting's initial report and analysis limited by lack the of data, particularly around acquisition cost, from the petroleum industry operating on PEI? Please provide a detailed response, including the following:

- a) An explanation of why wholesalers and retailers may not have freely shared acquisition cost data for Signal Energy Consulting's analysis of the current benchmark and margins.
- b) An explanation of how the acquisition cost information received was considered in Signal Energy Consulting analysis, including whether the information identified any material differences between acquisition costs and rack prices.
- c) An explanation of the significance of acquisition costs in the overall pricing of petroleum products and whether the lack of completed acquisition cost information represents a material gap in the analysis.
- d) An analysis on the risk associated with accepting recommendations with respect to benchmarks and margins without access to acquisition cost data from the petroleum industry.
- e) An explanation of Signal Energy Consulting's level of confidence in conclusions and recommendations made without access to acquisition data.
- f) A discussion of the implications of delaying a decision on the recommended margins until more complete acquisition cost information is available, including whether there is a reasonable expectation that materially better information would be available during a future margin review.

Response:

Generally, while there was limited industry data supplied on acquisition costs of petroleum products, I think the likely impact of those missing items is fairly small; the risks of those missing items are well understood and, in our view, do not invalidate or materially change the findings in our report.

- a) Some wholesalers/retailers supplied usable acquisition cost data, while others were challenged to supply data for a number of (in some cases, valid) reasons. Those reasons included challenges related to continuous operation (they may not have had continuous operation throughout the evaluation period), changes in operations or accounting that affected the consistency of how these acquisition costs were captured

and accounted for over the evaluation period, or other concerns about confidentiality and the sensitivity of sharing competitive pricing data.

- b) In our report, the acquisition cost data was never, in our view, robust enough to report or base a recommended change to margins. Effectively, it lacked consistent market coverage throughout the evaluation period and did not meet a reasonable threshold of market representation by volume or number of operators. However, the data we did receive showed little or no change in the acquisition cost-to-rack price differentials over the evaluation period and raised no concerns in that regard.
- c) In these types of reviews, we consider acquisition cost to ensure that material changes in contractual pricing elements (such as volume discount levels on wholesale transactions in the market) do not affect the relevance of the rack price or materially distort the total available margin. While not having this information does technically constitute a "blind spot" in the view of total available margin, past reviews in other Atlantic jurisdictions where this data was available and robust showed relatively small (fractions of a cent) and directionally inconsistent (sometimes the differential increases and other times decreases) changes in this measure.
- d) In reference to the comments in c), I would classify the risk of accepting recommendations to benchmarks and margins without robust acquisition cost data as low. Based on the data we received and our assessments of this measure in other reviews, it is very unlikely that this particular piece would yield a material change in the available margin and thus support a material change in the recommended margins.
- e) As per the previous responses, I view the level of confidence in the recommended margins and findings/conclusions in our original report as high, despite the lack of acquisition cost data. I view it as very unlikely that access to more robust acquisition cost data would have yielded materially different recommendations. Any change from this information was unlikely to affect recommendations by more than a few tenths of a cent in either direction.
- f) I do not think delaying a decision to obtain more complete acquisition cost data is prudent. Another round of acquisition cost data collection would not guarantee different (better) results, and it would further delay addressing the observed cost changes that supported the recommendations in our original report. I suggest the Commission continue to work with industry to obtain this information in future reviews. Still, given the limited risk (outlined above) of material differences stemming from this data, I do not believe delaying this particular decision is the right approach.

Question:

To what extent was Signal Energy Consulting's initial report and analysis limited by lack of data, particularly with regard to margin information? Please provide a detailed response, including the following:

- a) An explanation of the overall impact that the lack of data could have had on the final recommendations for both benchmark pricing and margins.
- b) Whether the level of participation by industry in this review provides any indication as to whether the existing wholesale or retail margins are appropriate. Please explain.
- c) The feasibility of a zero-based margin review to analyze the Commission's current assumptions and margins for petroleum rack prices, margins for wholesalers and retailers.
- d) Whether Signal Energy Consulting recommends that the Commission undertake a zero-based margin review and the reasons for that recommendation.
- e) If the Commission were to change its benchmark pricing methodology, please explain how the existing wholesale and retail margins would typically be addressed, including whether a change in methodology would require margins to be established on a zero-based approach.

Response:

Generally, I do not believe a lack of information, such as margin data, impacted our review, report, and recommendations. Beyond the acquisition cost data issues outlined in the previous responses (IR-2), the industry data we received was high quality and robust enough for us to carry out our analysis (according to our normal approach and methodology) and make recommendations with a relatively high level of confidence.

- a) Again, I do not think any lack of data materially affected our analysis, reporting, or recommendations.
- b) I thought the level of industry participation and the data provided were very good. Beyond some issues with acquisition cost data (which, in most cases, were due to valid reasons), the data was sufficient for Signal to use its preferred approach and methodology and to have confidence in its recommendations. I do not think the level of participation, or any related challenges, indicates anything about the appropriateness of existing wholesale and retail margins. The industry response to our requests was typical of other reviews we have conducted in Atlantic Canada.
- c) Regarding the feasibility of a zero-based margin review to analyze the Commission's current assumptions and margins, I do not view this approach as any better than the approach undertaken in our original report. In our view (and experience), a zero-based approach to a margin review is more likely to produce inconclusive results and

unsupported recommendations because it typically requires much more detailed and robust (complete) cost, margin, and profit/return-on-capital data from industry. This is one reason regulatory and margin reviews in Atlantic Canada (at least over the last few decades) have rarely relied on a zero-based approach.

- d) I do not recommend that the Commission undertake a zero-based margin review based on the comments above and that, in my view, the approach taken in our original report sufficiently captures the impact of changes that would support a required change to regulated margins. I do not think a zero-based approach, all things considered, delivers a more accurate recommendation for benchmarks and margin levels, and it carries considerably more risk due to data sufficiency challenges and the potential for cost/margin pressures in the market to go unaddressed.
- e) If the Commission were to change its benchmark pricing methodology, the existing wholesale and retail margins could be addressed by either attempting a zero-based approach as part of a complete (from the ground up) review of margins or by effectively recalculating regulated margin levels based on the current regulatory framework's regulated retail price-level differentials to the amended benchmarks. The latter approach was similar to our recommendations to the NBEUB in PT-005-2025, when we suggested they move to a rack-based benchmark (from their NYH-based benchmark).

Signal Energy Consulting (Commission Staff)

IR-4

September 18, 2026

Question:

The Commission has observed promotions that offer consumers discounts that may exceed the approved wholesale or retail margin. Please explain how promotions of this nature are generally structured and funded. Please provide a detailed response, including the following:

- a) A discussion of how the costs associated with promotional discounts may be shared between wholesalers, retailers and third parties, and whether retailers are generally expected to absorb the full or partial cost of the discount.
- b) How costs associated with promotions are currently being structured in the petroleum industry, specifically with regard to the transition toward consignment sales?

Response:

Promotions in the retail fuel industry are very common and often used by brands/retailers to cross-promote their offerings. The structure of these arrangements varies widely. Still, they typically share or allocate funding between promotional partners from existing margins to pursue volume gains or other benefits aligned with individual business objectives. For example, cross-promotion between fuel retailers and grocery offerings is common and can be structured so that grocery store spend results in savings at the retail fueling station (some cent-per-litre discount off retail pricing), or spend at the retail fueling station results in discounts at the grocery partner locations.

How this type of arrangement is structured and funded depends on existing relationships and agreements between the promotional partners, and the business structures and operating model of the participating operations, but approaches are not standardized. Typically, these arrangements involve some cross-subsidy to offset costs, so parties share or allocate costs, generally structured to reflect the promotion's perceived benefits.

Using a consignment model in fuel retail doesn't necessarily change the fundamental approach to how these promotions are structured or how costs are shared or allocated, but it may affect which parties participate in the promotion (whether it's the fuel retailer or the brand marketer/supplier) on the fuel side. Often, these arrangements happen at the brand marketer/supplier level (regardless of site operation model), target a more regional/national level, and may account for the related costs through brand fees applied to wholesale sales or adjustments to commission structures. Again, none of this materially affects the Commission's assessment of fair margins and fair retail prices over the entire value chain.

Signal Energy Consulting (Commission Staff)

IR-5

September 18, 2026

Question:

Based on Signal Energy Consulting's review of the Commission's petroleum pricing model and processes, please discuss whether there are additional tests or information the Commission could reasonably use to assess the ongoing reasonableness of rack prices and benchmark pricing. Please provide a detailed response, including the following:

- a) The market information or other sources that may reasonably be used to assess the reasonableness of rack prices and benchmark pricing.
- b) Whether comparisons with petroleum pricing in other regulated jurisdictions may be useful and, if so, which jurisdictions would be most relevant to PEI and any limitations that should be considered when making those comparisons.
- c) The usefulness of market data sources, including OPIS, in assessing the reasonableness of rack prices and benchmark pricing.
- d) Whether Signal Energy Consulting recommends any additional monitoring, testing or verification of rack prices or benchmark pricing and, if so, please explain the recommended approach.

Response:

Generally, I am comfortable with the level and frequency of analysis and market monitoring the Commission conducts, based on our review of Commission-supplied data and analysis that we received as part of this undertaking. The Commission generally tracks rack and benchmark prices (and their differentials), as well as some contributing factors to the differences and how those differences have evolved (including cost differences between E-10 and conventional gasoline and CFR-related costs).

As outlined in our original report, using a rack benchmark is generally effective but relies on an assumed competitive rack market. To assess the rack market's level of competition, consider how

local/regional rack prices compare with other regulated and unregulated markets in their general supply orbit¹. Differences can exist between rack prices within a specific supply orbit when impacted by other factors such as the use of E-10 vs conventional gasoline, so this requires understanding where these differences may exist and monitoring the contributing factors to ensure the price gaps and their changes can be reasonably explained by market factors.

In addition, the Commission should monitor rack pricing strategies and comparative pricing across all PEI market participants to assess whether pricing is generally competitive or whether there is evidence of efforts to manipulate rack prices or distort rack-price averages. Reporting agencies such as OPIS provide this level of competitor detail on daily rack pricing in PEI.

I do not have specific recommendations for testing or verification methods or triggering thresholds because these markets are generally dynamic, and their interrelationships can change considerably over time. Ultimately, the Commission should look for material, sustained, and unexplained pricing gaps in any of these areas, which could signal the need for further investigation or an official regulatory review process.

¹ This should include other major Atlantic regulated markets such as Halifax, St. John's, and Saint John, as well as unregulated regional comparators such as Montreal and Toronto.