

IR RESPONSES

IR Responses – Petroleum Products Benchmark, Pricing, and Margin Review (2025)

Prepared For:
Island Regulatory and Appeals
Commission

May 15, 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. The purpose of that report was to assist the Commission in understanding the issues related to this review, interpreting the evidence presented therein, and providing an impartial, objective analysis, enabling the Commission to make the best possible decision under the law.

I have attached Signal's responses to the Commission Staff's interrogatories (IRs) on the report.

Responses to Interrogatories

May 8, 2026

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

From: Jason Parent, Signal Energy Consulting

Signal Energy Consulting (Commission Staff)

IR-1

May 8, 2026

Question:

In light of current market conditions, including increased global petroleum price volatility and heightened expectations regarding transparency and public accountability, is the continued use of rack pricing as the primary benchmark for petroleum price regulation on Prince Edward Island appropriate? Please provide a detailed response, including the following:

- a) An explanation of how rack pricing tracks underlying market costs during periods of volatility, including any limitations of this approach.
- b) A discussion of whether the rationale supporting the use of rack pricing in the report remains valid under current market conditions, including any factors that may not have been fully captured in the report.
- c) Please provide, with supporting calculations, how petroleum prices on Prince Edward Island would be determined using a New York Harbour (NYH) based benchmark, including:
 - i. all inputs and assumptions;
 - ii. margin components;
 - iii. the step-by-step methodology used to translate NYH prices into PEI retail prices; and
 - iv. any adjustments required to reflect local market conditions.
- d) Using the approach in (c), please provide a comparison of pricing outcomes under:

- i. the current rack-based approach; and
 - ii. an NYH-based approach.
- e) Based on the analysis above, please state whether you continue to support the use of rack pricing as the primary benchmark, and identify any limitations, uncertainties, or areas where further analysis may be warranted.

Response:

Generally, current market conditions do not affect my assessment of the appropriateness of a rack-based vs. NYH benchmark. The geopolitical issues that have caused the current market upheaval and driven prices higher are centred around global crude supply and a steep rise in global crude prices. There is no aspect of either a rack-based or an NYH-based benchmarked regulatory framework that would effectively address the current crude market issues, and these market factors would likely impact both a rack-based and an NYH-based benchmarked regulatory system in nearly identical ways.

- a) Rack pricing, particularly in Atlantic Canada, tends to follow the price movements of other regional supply hubs such as NYH. There can be day-to-day differences in price movements, and specific localized/regional supply dynamics can uniquely impact regional racks, but, on average, over time, the general movements of these prices tend to track one another relatively closely. The crude price impacts observed in the current market are likely to affect both NYH and regional rack pricing in very similar ways, and the differences between rack and NYH are unlikely to be related to those same impacts.
- b) Again, the current market conditions do not affect the rationale for supporting a rack-based benchmark approach. The primary reason for selecting a rack-based benchmark over an NYH-based benchmark in PEI's regulatory system is that it simplifies the general approach, better reflects local/regional product pricing, and requires less regulatory intervention to convert NYH market pricing into a suitable proxy for product pricing in PEI. A rack-based approach minimizes potential disconnects between regulated and market pricing in the Province that could negatively impact both consumers and industry. The suitability of the rack as a benchmark is not materially impacted by higher or more volatile market pricing for refined products.
- c) PEI transitioning from its current rack-based benchmark to an NYH-based benchmark would require several additional regulatory interventions and changes to the current approach. I will provide a general outline of the types and changes required, which involve several assumptions and regulatory choices that would likely need to be assessed separately (and in more depth) to determine an optimal approach.

The first step would be to select the chosen NYH price assessments to serve as the benchmark. Two general aspects would need to be considered in this decision: product formulation assumptions and which reporting agency/price assessments best reflect the PEI market.

Regarding gasoline product formulation, a decision must be made on how to address the differences between E10-blended gasoline and conventional gasoline. Since the current

gasoline market in PEI is supplied with (and priced off) conventional gasoline, it would make sense to select a NYH conventional gasoline price. It should be noted, however, that product supply formulations can evolve based on market opportunities, and so the market should be monitored for product formulation changes and rack pricing trends to determine whether the Commission ever needs to consider an E-10 formulation, as pricing differences between the two types of gasoline can be material.

Regarding diesel product formulation, most provinces that regulate prices and use an NYH benchmark employ a seasonal blending schedule to account for the seasonal use of kerosene in winter diesel blends (to improve cold-weather operability). The precise blend percentages and their application to the regulatory formula need to be determined. Some provinces include products (kerosene/diesel/biodiesel) and prescribed percentages in the actual calculation of the benchmark (New Brunswick). In contrast, others adjust after establishing the diesel-based benchmark to account for price differences arising from varying winter blend percentages (Nova Scotia). Either way, the precise blend percentages need to be established based on the specifics of product supply in the PEI market.

In addition, the Commission would need to select a reporting agency and specific price assessments to establish its benchmarks. Several organizations report NYH price assessments (OPIS, Platts, and Argus, for example), and each uses its own methodology to calculate its reported market prices. The primary consideration for selecting an agency and price assessment should be one that best reflects and tracks local/regional product pricing. And again, this can change over time, so the Commission would likely need to track the various reporting agencies and their price assessments against local/regional product markets and make adjustments accordingly.

After the benchmarks are established, the Commission could apply (generally) their current regulatory pricing approach/margins with a few minor tweaks to bring the NYH pricing more in line with local/regional product pricing. These tweaks would include:

- The addition of a "cost-of-carbon" adjustor to address the costs associated with CFR compliance that are not reflected in NYH pricing. There are several ways to structure this sort of adjustment, but the most accurate (in terms of alignment with actual incurred costs) and dynamic is to use a market price assessment, such as the Argus Atlantic or Argus Canada CFR compliance cost assessment. Taking an average of these reported assessments and adding it to the wholesale price build-up would be recommended.
- There would need to be an adjustment in the wholesale margin to "add back" the costs associated with the primary supply function. Primary supply in PEI happens downstream of NYH pricing but upstream of the rack price. This means that the costs/margins associated with primary supply should be included in an NYH-based benchmark approach, where they are excluded from the current rack-based approach (because they are embedded in the rack price itself). Assessing primary supply costs (specifically) was not part of the scope of this report, so there would need to be some additional work to determine a fair adjustment to current wholesale margins to account for this aspect. Upon assessing primary supply costs/margins, this amount would need to be added to the current wholesale margin under an NYH-based benchmark.

- d) I do not have access to all the information required to calculate rack vs. NYH-based benchmarks separately, nor do I have the information to translate the proposed NYH-based approach (above) into regulated prices that I can compare with the current approach. Specifically, I do not have access to NYH-based price assessments, CFR-compliance-cost price assessments, or sufficient and usable primary supplier costs/margins. In my experience, when I have done this type of comparison in other reviews (such as New Brunswick's PT-005-2025), the regulated price outcomes have tended to be similar, and if each approach is effectively crafted and applied, that is the outcome I would expect.
- e) Based on the analysis above, I support the use of a rack-based benchmark and recommend that the Commission continue its use in PEI. Effectively, the use of an NYH benchmark requires additional regulatory interventions to align pricing with local/regional product-market pricing, and each additional intervention is a potential point of failure for the general regulatory approach. As long as the rack markets and their pricing are proven to be sufficiently competitive and reflective of local/regional market conditions (which is supported in our report and our analysis of these markets), then they are likely to be the most effective way to establish a regulatory benchmark price that fairly balances the needs of both consumers and industry.

Signal Energy Consulting (Commission Staff)

IR-2

May 8, 2026

Question:

Is the Commission's current reliance on periodic expert reviews sufficient to ensure that the petroleum pricing framework remains appropriate and responsive to market conditions? Please provide a detailed response, including the following:

- a) An assessment of whether periodic reviews remain adequate in the current pricing environment.
- b) The feasibility and value of implementing ongoing internal monitoring (e.g., weekly or monthly) comparing rack pricing to NYH or other benchmarks.
- c) Identification of appropriate indicators or thresholds that could signal when the Commission should initiate further review of its pricing framework.

Response:

I do believe that the Commission's general reliance on periodic expert reviews is generally sufficient to ensure that the regulatory pricing framework remains appropriate and responsive to market conditions. Even in markets where prices are rising steeply or becoming increasingly volatile, the current approach is generally effective at mitigating potential negative effects. I understand that the Commission does its own internal (general) monitoring of rack, NYH, and inter-provincial product markets. I think there is value in continuing that monitoring and using it as a tool to assess whether the markets remain sufficiently comparable/competitive, and to understand the areas where they may differ and why. Effectively, internal monitoring can help identify when and where issues may

have arisen and inform the Commission's decision to initiate a periodic expert review of broader issues.

In terms of appropriate indicators that could signal the Commission's need to initiate an expert review, I think the Commission's efforts should focus on tracking PEI's rack prices against NYH prices (from different reporting agencies and with all the relevant adjustments for product formulation differences considered), as well as tracking PEI product prices and margins against other regional comparator markets. With respect to thresholds, I do not like the idea of prescribing specific and formulaic thresholds that should trigger Commission action. The reason for this is that there can be real price differences between PEI rack and NYH pricing, or differences between PEI rack and other comparator markets, and these price differences can change over time in response to very real market-based factors. Those differentials can grow and shrink and may not indicate any regulatory issues; they may simply reflect changing market dynamics. The general rule for monitoring these markets is to look for material, sustained, and unexpected or unexplainable pricing/margin differentials. An observation that fits those criteria should likely result in additional action by the Commission, either a deeper look at internal monitoring or the triggering of an expert review of the issue(s).

Signal Energy Consulting (Commission Staff)

IR-3

May 8, 2026

Question:

Does the report provide sufficient information and tools to ensure ongoing transparency in petroleum price regulation, including the ability to demonstrate that rack pricing remains appropriate and aligned with underlying market conditions? Please provide a detailed response, including the following:

- a) An assessment of whether the report provides sufficient information to enable the Commission to regularly evaluate whether rack pricing remains aligned with underlying market indicators, including NYH.
- b) Identification of any additional analysis, data, or metrics that would be required for the Commission to monitor and test the relationship between rack pricing and NYH on an ongoing basis, particularly during periods of volatility or when gaps between benchmarks widen.
- c) Recommendations for specific tests, comparisons, or indicators (e.g., spreads, thresholds, trend analysis) that the Commission could implement to assess whether rack-based pricing outcomes remain reasonable relative to underlying market costs, including those reflected in NYH pricing over time, including identification of any thresholds or conditions that may indicate that rack pricing is no longer appropriately aligned with underlying market conditions.
- d) Recommendations on how the results of such monitoring and testing could be clearly communicated to the public to support transparency and confidence in the pricing framework.

Response:

I think that the report provided sufficient analysis to support the recommendation to continue with the rack-based benchmark approach (regardless of current market conditions) and that the analysis was presented in a way that transparently communicated the rationale for that decision.

- a) The report addresses the criteria used to assess the rack-based benchmark against other options. It lays out the evaluations conducted to determine whether the rack-based approach remained appropriate and how it aligned with underlying market indicators, including NYH pricing (among others).
- b) This was largely addressed in the response to IR-2, but, again, it is appropriate for the Commission to monitor the relationships between rack and NYH, and between rack and other comparator market rack prices. The key is understanding the potential market drivers of any differential movement, as they may sufficiently explain the observed changes and mitigate the need for further evaluation or regulatory intervention.
- c) As mentioned in my response to IR-2, I do not prefer to prescribe specific tests and thresholds that should trigger action from the Commission. Again, market divergence, volatility, and pricing differentials change over time, and that does not necessarily indicate market issues that need to be addressed through the regulations. The key is to look for material, sustained, and unexplained changes, or any indication that the rack market is not sufficiently competitive, and, in any such situation, the Commission can investigate further (through either internal review or independent expert review).
- d) Any findings resulting from this type of review (whether internal or independent expert review) can be communicated in much the same way as this review has been conducted. All of the information from this review, for example, is publicly available and easily accessible.

Signal Energy Consulting (Commission Staff)

IR-4

May 8, 2026

Question:

Based on the analysis and comparisons provided in response to IR-1, what are the practical impacts of using rack pricing as the primary benchmark for petroleum price regulation on Prince Edward Island? Please provide a detailed response, including the following:

- a) An explanation of whether the use of rack pricing results in higher or lower prices for consumers compared to an NYH-based approach over time.
- b) An assessment of whether the use of rack pricing increases or reduces price volatility, and the extent of any such impact.
- c) Commentary on the implications of the benchmark choice for:
 - i. Consumers; and

- ii. Regulated companies,

Response:

I do not have access to the detailed (typically subscription-based) data to calculate the rack-based vs NYH-based regulatory price build-ups; however, in my experience, if both approaches are effectively crafted and applied, they typically result in comparable pricing levels. In my view, whether the NYH-based approach yields prices above or below those of the rack-based approach has little to do with which is more appropriate. A lower-regulated price from one approach does not mean it is the most appropriate way to approach the benchmark. The focus should be on finding the approach that best reflects local/regional market pricing dynamics and balances the inferred interests of the consumer (a fair price) with those of the industry (sufficient margins to generate a return on capital employed). In my view, based on the evidence presented in my report, the rack-based approach delivers the best proxy for local/regional pricing dynamics and provides the best balance of benefits to perceived (and, in this case, manageable) risks. As a result, it is likely to be the preferred approach for balancing the interests of consumers and regulated companies, providing consumers with a fair price while ensuring sufficient margins/returns for the industry.

Regarding price volatility, neither benchmark approach (rack vs. NYH) is inherently better at addressing it. PEI's regulatory approach and its ability to reduce (or address) volatility are almost entirely the result of its general structure (periodic price setting and having a strict price ceiling and floor), and whether the benchmark is based on rack or NYH pricing does not have a material impact on the volatility that the consumer experiences in the Province.

Signal Energy Consulting (Commission Staff)

IR-5

May 8, 2026

Question:

Is the Commission making sufficient use of available data to validate and assess the performance of its petroleum pricing model? Please provide a detailed response, including the following:

- a) How the Commission should utilize existing data comparing rack pricing, NYH, and other jurisdictions to validate the pricing model.
- b) Whether formal periodic analysis (e.g., daily, weekly, monthly or quarterly) of these comparisons is warranted.
- c) Recommendations for a framework to document and explain differences between PEI prices and those in other jurisdictions.

Response:

My only window into the Commission's current monitoring and use of data to validate and assess its regulatory approach is from the Commission-supplied data and analysis provided to me as part of my review. All the data and analysis I would use to effectively monitor these markets and evaluate the Commission's regulatory approach are effectively present in those data files. I would recommend continuing with the current levels of monitoring and analysis frequency, as they should be sufficient

to identify potential market issues. I think the data should be at a daily frequency, but the analysis and identification of shifting trends should be on a longer timescale (weekly or monthly).

In terms of a framework to document and explain differences between PEI prices and other jurisdictions, I would again suggest focusing on material, sustained, and unexplainable differences or shifts in the differentials. When the supplemental analysis does not clearly identify the issue, the Commission should engage with industry participants or experts to gain a more nuanced understanding of the issue(s).

Signal Energy Consulting (Commission Staff)

IR-6

May 8, 2026

Question:

What would be the implications of setting the minimum price at zero within the current petroleum pricing framework on Prince Edward Island? Please provide a detailed response, including the following:

- a) An assessment of how setting the minimum price at zero would affect market behavior, including pricing practices and competition among market participants.
- b) Commentary on potential impacts on consumers.
- c) An assessment of the implications for regulated companies, including any risks related to cost recovery, supply stability, or market participation.

Response:

Setting the minimum price at zero, or effectively removing the price floor aspect of PEI's regulatory approach, is likely to increase (at least in theory) retailers' ability to compete on price and open the door for lower-cost or lower-margin-need retailers to employ that approach in the PEI marketplace effectively. This type of outcome can be observed by looking at other regulated jurisdictions operating under only a price ceiling and how their prices move relative to the regulated maximums. Prices in these regulatory environments (price ceilings only) can, at times, sit well below the regulated maximums, depending on the mix of market participants and the interactions of their individual pricing strategies.

In terms of consumer and industry impacts, this regulatory structure has both short- and long-term potential implications. In the short term, a strict price ceiling approach is likely to result in lower prices, as it enhances the ability to compete more aggressively on price and opens up opportunities for lower-cost retailers. This price competition is likely to be accompanied by increased price volatility, as is typically observed in markets with healthy price competition.

In the long term, this type of price competition can drive smaller (more likely to be independent) retailers out of the market, potentially reducing operator and price-setter diversity (at least in theory). The concern, often stated as a rationale for price floors, is that if you do not protect these smaller operators, it can result in reduced competition in the long term. I have seen little evidence of this concern and material reductions in price competition playing out in the regulated jurisdictions in

Atlantic Canada that operate only under a price ceiling. Where I have assessed day-to-day price competition and price movements in regulated markets with a price ceiling that is not overly restrictive, they tend to move similarly to those in unregulated fuel pricing markets.

Signal Energy Consulting (Commission Staff)

IR-7

May 8, 2026

Question:

To what extent does the absence of actual acquisition cost data impact the reliability of the Commission's pricing decisions? Please provide a detailed response, including:

- a) An assessment of the implications of not having access to actual acquisition cost data when evaluating petroleum pricing and margins.
- b) An explanation of how the absence of acquisition costs data may affect the Commission's ability to determine whether margins and price adjustments are appropriate.
- c) Identification of any risks that the Commission may be setting prices or margins that are not aligned with actual market conditions as a result of relying on incomplete information.

Response:

Ideally, this information was available, as it is part of the "total available margin" for which we do not have insight in its absence. That said, I do not think that its absence invalidates or impacts the reliability of the findings or recommendations in my report in any meaningful way. In my experience with similar reviews and projects, where this information was available in other regulated jurisdictions in Atlantic Canada over a similar period, the change in actual acquisition costs relative to the benchmark price has been small (bordering on immaterial) and directionally inconsistent. This means that where it has been properly assessed with supporting data, it has had little impact on the findings and recommendations.

The most prominent concern - driven by the way the absence of this measure (the change in the acquisition cost relative to the benchmark price) could meaningfully impact the Commission's ability to determine the appropriateness of margins, adjustments, and the chosen benchmark - is that a significant shift could indicate efforts to manipulate the rack-based benchmark through a combination of inflated rack pricing and corresponding adjustments to rack-based contractual discounts. However, given the findings of our assessment of PEI rack pricing and movements relative to other regulated jurisdictions that rely on an NYH-based benchmark, there is no evidence to support any claim that such manipulation is occurring. Combined with our findings from assessments of acquisition costs to benchmark differentials in other Atlantic regulatory reviews, I think there is little risk that the absence of this information in this review affected the reliability of its findings and recommendations, or that price settings/margins are unknowingly misaligned with actual market conditions as a result of its absence.

I do, however, suggest that this piece of information (acquisition cost) be a particular point of emphasis in future reviews, to ensure a more "complete" picture of the evolution of total available

margin and to help corroborate the assessment of the competitive dynamics of the rack market in PEI.

Signal Energy Consulting (Commission Staff)

IR-8

May 8, 2026

Question:

Is it appropriate for the report to assume that existing petroleum margins are reasonable? Please provide a detailed response, including the following:

- a) The basis for the assumption that existing margins are appropriate.
- b) Whether margins should be re-evaluated from first principles.

Response:

The assumptions and methodology I employed stated that margins determined in previous reviews should be considered "correct" or reasonable, and that the analysis we conducted would focus on what has changed during the identified evaluation period (since the previous review). This approach is the same one I have employed in every regulatory (margin) review I have conducted and is, generally, the standard approach taken by experts in these types of reviews. Part of the basis for this assumption and the reason for taking this particular approach is the desire not to reassess or relitigate previous reviews that I was not a party to, or to which I do not have access to the first-hand data to assess properly.

An alternative approach is to assess margins using a "zero-based" or first-principles approach, where you attempt to capture and reassess fair margin levels without regard for previously agreed levels. The difficulty with this approach, and why I choose not to employ it, is that, in my view, it typically requires much more detailed and complete supporting information (including more sensitive items like return on capital), more intensive audit procedures, and, generally, a much higher evidentiary threshold than these types of reviews can reasonably meet. One of the main concerns with this approach is the potential for material fluctuations in regulated margin levels depending on the makeup of the data sample the expert was able to procure. This sort of zero-based approach is much more likely to yield inconclusive or disputed findings, potentially leaving the regulated margins in a state of "neglect" or at least unresponsive to actual market changes that occurred over the evaluation period.

Question:

Is the current allocation of costs between rack pricing and the secondary wholesale margin appropriate? Please provide a detailed response, including the following:

- a) Identification of the specific costs intended to be recovered through:
 - i. rack pricing; and
 - ii. the secondary wholesale margin.
- b) An assessment of whether there is any overlap or potential for double recovery.

Response:

The current allocation of wholesale margin between primary and secondary suppliers is entirely appropriate for a regulatory framework that relies on a rack-based benchmark. The reason it is appropriate is that primary suppliers' businesses sell into the secondary supply market (or to end-users) at rack prices, meaning that the primary supply function, including all associated costs, is embedded in those rack prices. If primary suppliers' costs rise, that increase would be reflected in the rack price, which would also serve as the basis for the regulatory benchmark. Incorporating any aspect of the primary supplier's business into the regulated wholesale margin with a rack-based benchmark risks "double counting" those costs.

Secondary suppliers buy products from primary suppliers using the rack price as a proxy, so their businesses and all related business/operational costs are downstream of that benchmark. As a result, changes in their costs would not be reflected in the benchmark and should therefore be included in the wholesale margin part of the regulated price build-up to ensure full pass-through into the regulated prices. The specific cost items that are intended to be recovered are all business and operational costs and return on capital, which includes a fairly standard list of items (wages and salaries, repairs and maintenance, transportation and storage, working capital costs, depreciation, etc.), and this would apply to both primary and secondary supply. The key factor in our assessment is the separation of the primary and secondary functions, along with the related costs.

There is (theoretically) the potential for a business to serve as both a primary and a secondary supplier. Still, in our review of PEI's information, the separation is fairly clear and relatively easy to achieve from a data standpoint. I would assess the risk of overlap or "double recovery" in PEI to be very low.

Question:

In your report, you conclude that the current interruption policy is appropriate in principle; however, it was developed under a different pricing schedule and may not reflect the Commission's current weekly pricing framework.

Please provide a formal recommendation for an updated interruption policy that is aligned with the Commission's current pricing model, including clear criteria for when interruptions should occur, how they should be implemented, and how they would operate within a weekly pricing schedule.

Response:

My assessment of the interruption policy was based on outcomes (rather than process), and I evaluated those outcomes through a weekly price-setting framework lens. I determined in that assessment that the current interruption policy was appropriate and was meeting the objectives of the policy (both stated and inferred). On that basis, I do not believe that the policy needs to be rewritten or amended to conform to the Commission's current pricing model, because the interruption policy's current form is working as intended and achieving effective outcomes regardless of its development under a different pricing schedule.

I would recommend that the Commission continue with the interruption policy in its current form. If there is a specific legislative impetus for an update, I would then recommend keeping all aspects of the current interruption unchanged and simply increasing the frequency of the review/decision window to better align with the current price-setting cycle. My concern is that forcing a change for the sake of administrative alignment could result in unintended consequences and could effectively be seen as the pursuit of a solution to a problem that does not exist.

Question:

Furnace oil prices on Prince Edward Island appear to differ from those in Nova Scotia and New Brunswick. Please explain the reasons for these differences, including the role of benchmarks, margins, and any other elements of the pricing framework, and indicate whether, in your view, these differences are appropriate.

Response:

It is entirely normal and appropriate for furnace oil prices to differ across provinces or regions. Furnace oil operators are diverse in terms of their size, scope, structure, and their "margin need", and these differences can result in varied pricing in different markets, which may also be impacted by operating under different regulatory environments.

These price differences can result from differences in pricing for the underlying products, product formulation, approaches to fuel taxation, margins (regulated or market-derived), and regulatory

approaches and structures. Some of the biggest contributors to the differences between the Atlantic provinces are the regulated margin components. Each Province evaluates their allowable margins based on the (potentially) unique aspects of the furnace oil operators in its Province. Margin requirements, or "margin need," can vary considerably depending on the size and scope of furnace oil operations and have been particularly affected by changes in furnace oil demand.

Demand for furnace oil has shifted considerably as there has been a push for alternatives (such as natural gas and heat pumps), but that shift has varied by Province/region, with some regions more affected than others. Declines in demand and varying rates can impact the industry and typically increase the margin requirements for existing furnace oil operations. Each Province's regulations on furnace oil and their regulated margins have evolved differently in response to these market factors, leading to differences in furnace oil margins and prices.

Another contributor to the differences in furnace oil prices is how regulations address product formulation, specifically winter blending for distillate products like furnace oil. The costs of the components of winter blended distillates can vary widely throughout the year, and the diversity in how each Atlantic province addresses product formulation/ winter blending can lead to general price variances. For example, some provinces produce a blended version of their benchmark (by calculating a benchmark using prescribed percentages of blending component price assessments), while others add a separate adjustment to their simple benchmark to account for shifting blending component costs. In contrast, a jurisdiction like PEI that operates under a rack-based benchmark does not need to adjust for this, since the rack price always reflects the cost of an "on-specification" product. Any disconnect between how these winter blends and their varied component costs relate to the actual market costs of refined products (rack prices) can lead to price disparities across markets.

Signal Energy Consulting (Commission Staff)

IR-12

May 8, 2026

Question:

Given that propane remains within the Commission's current legislative mandate, and recognizing that deregulation may not be a viable option within that framework, what steps should the Commission take to ensure that propane pricing remains appropriate and that concerns within the propane market are effectively identified and addressed? Please provide a detailed response, including the following:

- a) Identification of the key risks, issues, or concerns that may arise in the propane market under the current regulatory framework.
- b) Recommendations on the type of information the Commission should collect on an ongoing basis to monitor propane pricing and market conditions.
- c) Recommendations on how the Commission should assess and respond to concerns in the propane market, including any regulatory tools, processes, or approaches that could be implemented within the Commission's existing authority.
- d) Where applicable, identification of approaches used in other jurisdictions that could be adapted to support effective oversight of the propane market on Prince Edward Island.

Response:

I think one of the key issues identified in my review was that past reviews, due to either a lack of usable evidence or general inattention, have not provided an update of propane margins for a very long time (a period that predates the evaluation period of my review). While I identified cost changes and proposed margin adjustments for the evaluation period of this report, there was insufficient information to evaluate the changes before that period. Combined with a general lack of information/data on propane pricing, margins, and market activity, there was no effective manner to evaluate the general appropriateness of current price/margin levels. The issue is that there may be changes in the propane business that justify changes to the way the product is regulated, but there was not enough information in the context of this review to further assess or scope those changes beyond our review of costs over the evaluation period.

I also do not think there is any simple way to address this issue through further review of additional data, because in some cases, there is insufficient market data to support the analysis. It's not just that we didn't gather enough or the right data; some of the data simply doesn't exist (at least not in a publicly available or consumable form). On that basis, there is difficulty in advising the Commission on what data to collect to monitor propane pricing and market conditions. Likely, any such data (general product pricing, margins, costs, etc.) would need to be gathered by working more closely (and potentially on an ongoing basis) with industry participants.

The Commission could initiate a stand-alone review focused specifically on the propane portion of its regulations. This approach could narrow the engagement focus but broaden the scope of data collected from industry and extend the evaluation period. In my view, to avoid any implication of regulatory neglect, additional action is needed to address the issues facing the propane business in PEI, which extend well beyond the scope and focus of this review.