PRINCE EDWARD ISLAND
Regulatory & Appeals Commission
Commission de réglementation et d'appels
ÎLE-DU-PRINCE-ÉDOUARD

ISLAND REGULATORY AND APPEALS COMMISSION

PETROLEUM REGULATION

About the Commission

The Prince Edward Island Regulatory and Appeals Commission was established in 1991. The Commission is an amalgamation of the Public Utilities Commission, the Land Use Commission, and the Rentalsman Office.

The Commission is an independent, quasi-judicial tribunal with appellate, regulatory, and administrative responsibilities defined in the Island Regulatory and Appeals Commission Act and in a number of provincial statutes.

The Commission operates at arm's length from government, free of influence from government, industry, or any other source. Upholding the Commission's independence is fundamental to ensuring public confidence in its objectivity, expertise, and impartiality in decision-making.

The Commission reports to the Legislative Assembly through the Minister of Education and Early Years.

Understanding Petroleum Regulation in PEI

In this briefing we will discuss:

- IRAC's mandate under the *Petroleum Products Act*, with special focus on petroleum product price-setting;
- IRAC's pricing formula, including a breakdown of the components that result in the price that consumers pay at the pump;
- Data that IRAC tracks and analyzes and the pricing methodology;
- Weekly price setting process for scheduled price adjustments;
- Interruptions;
- External factors that may impact prices; and
- Margin reviews.

After the briefing, we will take general questions from Committee members.

Petroleum Products Act & Regulation of Petroleum Products

Under the *Petroleum Products Act*, the Commission has responsibility for all matters related to petroleum regulation.

This includes:

- setting the minimum and maximum prices for petroleum products each week;
- determining the minimum and maximum markup for wholesalers and retailers; and
- issuing annual retail and wholesale petroleum product licenses.

IRAC's Regulatory Mandate in Setting the Price of Petroleum Products

In regulating the price of petroleum products in Prince Edward Island, the Act directs the Commission to:

> ***"…ensure at all times a just and reasonable price for heating fuel and motor fuel to consumers and licensees within the province."***

What this means in practice:

- Balancing the interests of consumers and wholesalers/retailers in PEI to ensure fair prices and consistent supply across the Island.
- Customers deserve fair prices **(and)** wholesalers and retailers are entitled to cover their operational costs .

Petroleum Pricing Formula

Starting Price

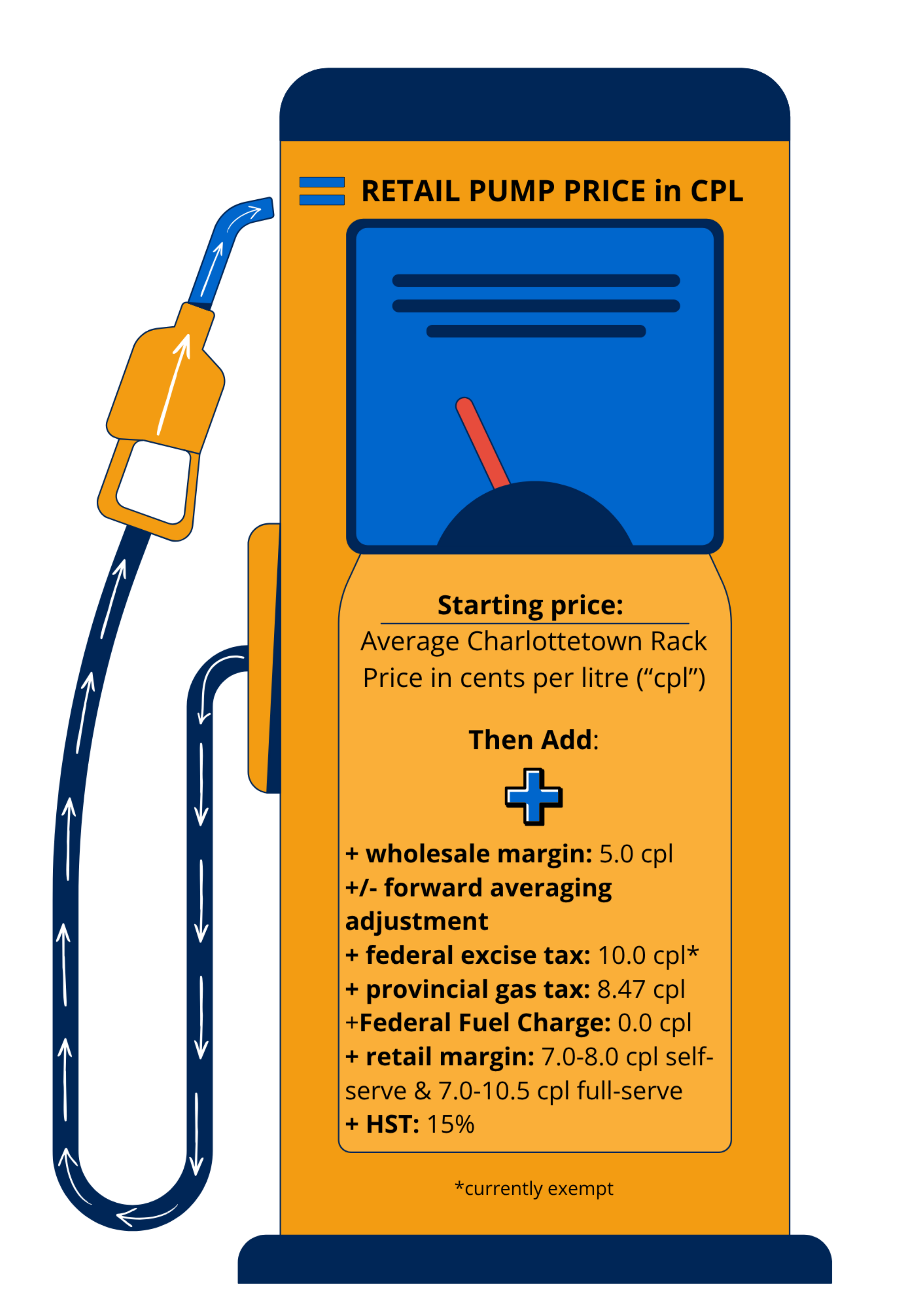
- IRAC receives Charlottetown rack price from Irving each day
- Rack prices throughout the week are averaged and this average is used as our starting point to set the price each week. Also known as the benchmark price.

IRAC then adds the following to the average rack price for the week:

+ Wholesale margin
+ Forward averaging adjustment (+/-)
+ Federal excise tax (currently exempt until 2027)
+ Provincial gas tax
+ Federal fuel charge (has been set at 0.0 cpl since April 1, 2025)
+ Retail margin
+HST

= PUMP PRICE THAT CONSUMERS PAY

- A minimum and maximum price for products is set based on this formula.
- Retailers may choose to price their products within the minimum and maximum range set by IRAC each week.
- Prices range based on self-serve vs. full serve.



Charlottetown Rack Price vs. New York Harbour Price

Rack Price

- Rack price reflects the actual cost of refined product as delivered to the Charlottetown harbor.
- Includes things like refinery and transportation costs, logistics, and Clean Fuel Adjuster costs.
- Charlottetown Rack Price is provided to IRAC each evening, with prices effective at midnight for the following day.
- The rack price is used by IRAC as the benchmark price in the pricing formula. It forms the starting point for the price that consumers pay at the pump.

New York Harbour Price

- Used by other jurisdictions as their benchmark price.
- Jurisdictions must add in costs to this benchmark price such as: transportation costs, Clean Fuel Adjuster costs, etc.
- IRAC tracks this price alongside the rack price to monitor for trends or price abnormalities.

Charlottetown Rack Price vs. New York Harbour Price

Why does IRAC use the rack price as its benchmark price?

- Reflective of the actual cost of product delivered to PEI.
- More accurate pricing.
- Was specifically examined in last margin review and independent expert confirmed that use of rack price in PEI is appropriate.
- Current margin review is examining use of rack price as the appropriate benchmark in PEI.

Petroleum Product Margins

Wholesale Margins

- Included in the price of a petroleum product for the general purpose of covering the costs of the wholesaler.
- Measured in cents per litre ("cpl") and reflected in the overall price at the pump.

Current wholesale margin: 5.0 cpl on all products, with the exception of furnace oil, which has a combined wholesale and retail margin of 23.1 cpl.

Retail Margins

- Included in the price of a petroleum product for the general purpose of covering the costs of the retailer.
- Measured in cpl and reflected in the overall price at the pump.
- Retail margins may differ slightly for self serve fuel vs. full serve fuel.

Current retail margin: 7.0 - 8.0 cpl for self-serve and 7.0 - 10.5 cpl for full-serve for regular gasoline, premium gasoline, and diesel.

How Product Margins Are Set

Determining Margins

- Margin changes are typically initiated by wholesalers or retailers filing an application with the Commission, or IRAC may initiate a petroleum product and margin review to ensure that the price being charged is reasonable and just.
- This process is also used by other provincial utility boards in Atlantic Canada.

Margin Review Process

- Notice is provided to industry and the public, which includes the scope of the review and relevant timelines for public feedback and intervener applications.
- Commission may engage independent experts to assist.
- Order outlining wholesale and retail margins is issued when review is complete.
- Last petroleum margin review was initiated in 2022 and completed in 2023.
- Current margin review began in Fall 2025.

Forward Averaging

- Tool used by IRAC to ensure that the year-to-date weighted average wholesale and retail margins are achieved.
- IRAC takes this into account by using forward averaging to adjust the price up or down to smooth out the impacts on margins.
- Also used to adjust the weekly price if other factors, such as supply and demand, geopolitical tensions, and other extenuating factors are impacting the market price so much that an adjustment to the calculated weekly average price is required.
- Analysis helps determine forward averaging with the goal of getting as close to target margins as possible with each price adjustment, while taking into account factors that may impact margins.
- Commonly used in petroleum price regulation and is used by other Boards in provinces with price regulation.

Federal Excise Tax and Provincial Gas Tax

- Federal and provincial gas taxes are added into the formula.
- Federal excise tax is administered by the Government of Canada and is currently exempt on some petroleum products, including gasoline. This exemption was just extended into January 2027.
  - Federal Excise Tax is 10.0 cpl, when in effect.
- Provincial Gas Tax is collected by the Government of PEI.
  - Provincial Gas Tax is currently 8.47 cpl.

Federal Fuel Charge

- This relates to the former federal fuel charges, which were charged by the Government of Canada under the Greenhouse Gas Pollution Pricing Act.
  - Has been set at 0.0 cpl since April 1, 2025.

HST

- Harmonized Sales Tax is the final component added into pricing.
  - HST amounts to 15%

Daily Data Tracked and Analyzed by IRAC

On a daily basis, IRAC tracks and analyzes:

- Daily rack prices for all regulated products
- New York Mercantile Exchange (“NYMEX”) price and New York Harbour price for all regulated products
- Crude barrel market opening price
- Daily margins
- Weekly average margins
- Weekly weighted average margins
- Year-to-date margins
- Price difference between ethanol-blend product and conventional gasoline product
- Clean Fuel Adjustment compliance costs
- Product price maximums across the Atlantic region

Daily tracking is essential to monitor trends in price, observe anomalies, and to determine if an unscheduled price adjustment (interruption) is warranted.

All data is input and stored in a petroleum pricing database and model.

Pricing Methodology

The Commission follows a set methodology for petroleum pricing.

Changes in the price of petroleum products are tracked daily in the pricing database and petroleum pricing model. The prices tracked for each product are:

- the commodity price on the NYMEX and the New York Harbour price
- the Charlottetown rack price, which is the delivery price of refined product to Charlottetown Harbour

The daily price for each petroleum product is calculated, an average price for the week since the last price adjustment is calculated, and a year-to-date weighted average price is calculated using actual volumes of petroleum product sold.

When setting the price of petroleum products, three prices are reviewed:

- the daily price for each petroleum product;
- the average price for each petroleum product over the prior one-week period; and
- the year-to-date weighted average price for each petroleum product calculated using actual volumes sold.

These numbers are the starting point for determining any price adjustments for gasoline, diesel, and furnace oil.

Weekly Pricing Adjustment Process

The petroleum pricing panel meets every Thursday morning to review three prices:

1. Daily price for each petroleum product;
2. Average price for each product over the week; and
3. Year-to-date weighted average price for each product.

The Panel primarily uses the average price for the prior one-week period and then adjusts the weekly average price up or down by the forward averaging amount to ensure that the year-to-date weighted average wholesale and retail margins are achieved.

The panel also reviews and discusses analysis provided by staff, which includes:

- Market trends and conditions that may impact prices;
- Product inventories, pressures, and changes in production, imports and exports;
- Regional pricing comparisons; and
- Information from IRAC's model, which generates the starting point of a recommended adjustment (+/-/no change) based on the quantitative data provided by the petroleum database.

Quantitative data + qualitative factors in weekly analysis = the panel's decision to adjust prices up, down, or leave them unchanged.

Unscheduled Price Adjustments (Interruptions)

What is an unscheduled price adjustment?

Unscheduled price adjustments (interruptions) are when the price of petroleum products is adjusted outside of the weekly scheduled price adjustments.

Why does IRAC need to interrupt on petroleum product prices?

- Staff monitor rack prices and markets each day to assess for significant changes in rack price or factors that may have a material impact on petroleum prices and margins.
- Changes in the daily rack price may result in a **margin surplus** or **deficit** for each product.
- IRAC must consider if the impact to the margin is significant enough that a price adjustment is warranted.

What happens when there is an unscheduled price adjustment (interruption)?

- Staff advise the petroleum panel members if there are significant price fluctuations and changes in margin.
- Petroleum panel meets to review data and recommendations and determine whether an interruption is warranted to restore margins.
- If an interruption is warranted, advance notice is provided to the public and includes the effective date of price change and the products impacted by the adjustment.

Pricing Adjustments in Volatile Markets

What is market volatility?

When prices of stocks or commodities, such as oil, quickly increase and/or decrease in a short period of time.

Why did IRAC move to scheduled pricing adjustments twice a week?

- Markets became very volatile toward the end of February into early March 2026 as a result of the escalating conflict between the US and Iran.
- IRAC was having to interrupt on the price of products frequently to ensure fair prices and reliability of supply.
- Commission moved to scheduled pricing adjustments twice a week: Tuesdays and Fridays.
- First Tuesday price adjustment came into effect on March 10, 2026.

What is the goal of increased price adjustments?

- Reduce the number of unscheduled price adjustments (interruptions) to provide for more price stability and predictability for consumers and wholesalers/retailers; and
- Allow IRAC to be more responsive to rapidly changing prices to ensure margins are being maintained.

IRAC will continue to set prices twice a week for the foreseeable future.

Other Factors That May Impact Price

Market Volatility

Market Volatility: the rapid change in price of a stock or commodity on the stock market.

What Can Cause Market Volatility?

- Supply and/or demand pressures;
- Interruptions to production or supply chains;
- Geopolitical conflict;
- Adverse weather, etc.

Why it may have an impact on pump prices:

- Uncertainty in the market leads to increased risk and prices that are harder to predict.
- Suppliers may face increasing costs and often use the cost to replace their products to set prices.
- Other costs related to gasoline production (refining costs) and transportation usually increase when the price of product increases.

Increased risk + harder to predict prices + increased supplier costs = higher gasoline prices

Brent Crude Oil Price

What is the Brent Crude Oil Price?

- A global benchmark pricing standard used to price a barrel of crude oil on the stock market.
- Unrefined, crude product.
- This is a pricing standard and **does not** reflect the actual spot price (price of product as it is physically being bought, sold and delivered).

Does Brent Crude Oil Price a Factor in Pricing?

- IRAC **does not** use the Brent Crude barrel price to set gasoline prices in PEI.
- Represents the cost of one barrel of **unrefined product** in US dollars and does not represent the cost for refined product that is transported to PEI.
- IRAC uses the Charlottetown rack price in its pricing formula. Rack price includes things like the cost of refining and transporting the product.

Why do gas prices go up when Brent Crude oil price is decreasing on the market?

- Brent Crude Oil price and rack prices often follow similar trends, but they may move differently sometimes.
- Increases in crude price result in increased costs associated with refining, transportation and logistics.
- These prices may not decrease as quickly as the barrel price and may stay elevated for periods of time.

Margins

How Does the Weekly Average Margin and Year-to-Date Margin Impact Pricing Decisions?

- Margins may fluctuate throughout the week, resulting in a surplus or deficit on each product.
- Surpluses and deficits are considered as part of the larger pricing picture each week: Has the margin been in a surplus or deficit position for consecutive days? What are the year-to-date weighted average margins looking like? What decisions might need to be made to restore the margin back to target?
- Margin surpluses throughout the week may mean that IRAC can adjust prices lower to return the margin closer to its target. Or it may mean that we may not need to increase the price as much to try to meet margin.
- Margin deficits operate similarly; large deficits throughout the week may mean more of an increase in price or less of a decrease in price.
- The public sometimes questions why pump prices have not been decreased or increased as much as expected based on market prices: margins may be playing a factor here.

Regional Comparisons of Regulated Petroleum Prices: What Causes Price Differences Between PEI, NS & NB?

Product Availability: Conventional Gasoline vs. Ethanol Blend

- Ethanol blend is used as the base price in pricing formulas in other provinces.
- Generally speaking, ethanol blend products tend to be cheaper than conventional gasoline.
- Ethanol blend products are not available in Prince Edward Island and IRAC uses the price of conventional gas as its base price in its formula.
- Pricing formulas in each jurisdiction are using different products (with different prices) to set their base prices.

Transportation Costs

- Rack price reflects the cost of refined product as delivered to the Charlottetown terminal and includes transportation and logistics costs.
- Generally gasoline is shipped via boat to the harbor and then distributed across the Island.
- There are differences in transportation methods and their associated costs between PEI and other jurisdictions.
- The extra logistics and challenges posed by delivering product to an Island contribute to differences in the overall price compared to other provinces.

Regional Comparisons of Regulated Petroleum Prices: What Causes Price Differences Between PEI, NS & NB?

No Minimum Price in New Brunswick

- No legislated minimum price in New Brunswick = retailers may sell products cheaper as a business decision/strategy.
- IRAC is legislated to set a minimum price, which helps ensure that fuel is available across the Island.

Current Petroleum Product Price and Margin Review

- Petroleum product and margin review was initiated in Fall 2025.

- Scope of review includes:
  - Assessment of the continued use of the Charlottetown rack as the appropriate benchmark price used to make weekly price adjustments;
  - Wholesale and retail margins for petroleum products;
  - The Commission's interruption policy;
  - Propane pricing;
  - A review of the Clean Fuel Regulations and compliance costs; and
  - The fuel products available in Prince Edward Island.

- Engaged independent expert to assist in the review.
- Expert has submitted a report of findings to the Commission.
- IRAC is currently accepting public feedback on this review.
- Review is ongoing at this time.