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August 8, 2019

FILE NUMBER: 036250-00150

British Columbia Utilities Commission
Suite 410, 900 Howe Street
Vancouver, BC V6Z 2N3

Dear Commission Secretary:

**Re: BCUC Inquiry into Gasoline and Diesel Prices in British Columbia**

Please find enclosed the Final Submissions of 7-Eleven Canada, Inc. in respect of this Inquiry.

Sincerely,
**DLA Piper (Canada) LLP**
Per:

Kevin Wright
*Law Corporation

JKW:aqj
Attachment

CAN: 30900890.1

BRITISH COLUMBIA UTILITIES COMMISSION

IN THE MATTER OF THE *UTILITIES* COMMISSION ACT
R.S.B.C. 1996, CHAPTER 473

and

An Inquiry into Gasoline and Diesel Prices in British Columbia – Project No. 1599007

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# FINAL SUBMISSIONS OF 7-ELEVEN CANADA, INC.

AUGUST 8, 2019

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## OVERVIEW

1. 7-Eleven Canada, Inc. ("**7-Eleven**") voluntarily participated in this Inquiry as an intervener at the request of the Commission. 7-Eleven provided responses to the Commission's original questionnaire from its perspective as a retailer of gasoline and diesel in British Columbia and elsewhere in Canada. Mr. Doug Rosencrans, Vice-President and General Manager, testified on two days during the Oral Workshop held in July 2019.

2. The Final Instructions dated August 1, 2019 (Exhibit A-22) invite the interveners to address issues raised by the Inquiry's terms of reference:

> (a) the BCUC must advise on the factors influencing gasoline and diesel prices since 2015 and the mechanisms the Province could use to moderate price fluctuations and increases;
>
> (b) without limiting paragraph (a), the BCUC must inquire into the following:
>
> > (i) the differences, if any, in refining margins among British Columbia and other jurisdictions in Canada and the reasons for any differences;
> >
> > (ii) the differences, if any, in retail margins among British Columbia and other jurisdictions in Canada, and among different regions in British Columbia, and the reasons for any differences;
> >
> > (iii) factors that have contributed to the increases in gasoline and diesel prices, both retail and wholesale, including, without limitation,
> >
> > > (A) the access of refineries in British Columbia to crude oil supply and other components,
> > >
> > > (B) the amount of gasoline and diesel stored in British Columbia for sale in British Columbia,
> > >
> > > (C) usage of refinery and pipeline capacity,
> > >
> > > (D) wholesale and retail market sizes and demand,
> > >
> > > (E) methods of distribution of gasoline or diesel to retailers, and

(F) seasonal variations in supply and demand;

(iv) the extent to which price changes in gasoline and diesel have been determined by market competition and the extent to which those changes have been determined by other factors;

(v) measures used in other jurisdictions in Canada and North America to enhance transparency about how gasoline and diesel fuel prices are determined.

3. 7-Eleven does not own or operate a refinery. It does not sell fuels on a wholesale basis. 7-Eleven makes no submissions with respect to refining margins or wholesale pricing, margins and distribution.

4. As a retailer, 7-Eleven makes the following submissions, as is developed below:

(a) There are many local markets for retailing gasoline and diesel in British Columbia. These markets are highly competitive.

(b) Consumers may be attracted to select a service station to obtain fuel based on small differences in prices offered by local competitors. Retail prices are set to a tenth of a cent per litre. As operators of service stations compete, the retail prices for fuel in the local markets can change as frequently as multiple times a day. If a retailer wishes to attract fuel sales, it must monitor and set prices competitively according to the conditions in the local market.

(c) This is not a "costs plus" business where retailers can afford to mark up prices by a consistent margin over wholesale and other costs. In 7-Eleven's experience, it is not uncommon to sell fuel below wholesale costs (i.e. negative margin) in British Columbia in order to remain competitive.

(d) Although retail prices may trend over time and vary from day to day (and within a day), the average retail margins in British Columbia (as reported by the Kent Group) have remained relatively stable from 2015 through 2019.

(e) Retail margins are not the equivalent of profit. Out of the average retail margin, a retailer must cover the many fixed and partially variable costs associated with operating a service station.

(f) Since 2015, the average retail margins reported by the Kent Group have been somewhat higher in Greater Vancouver than in Western Canada. The Commission's independent consultants, Deetken Group, used statistical techniques to conclude in their Phase 2 Report (Exhibit A2-1-1) (as revised during testimony during the Oral Workshop) that credit card processing fees and land costs alone are able to fully explain the differences in retail margins between Vancouver and Western Canada from 2015 to 2019, except for about 0.9 cents/L in the first half of 2019.

(g) The Deetken Group's study reveals a dramatic decline in retail margins in Western Canada in 2019, particularly in Alberta, to levels not seen in 15 years. It is therefore not surprising that there may be differences between Vancouver and Western Canadian retail margins that are not captured by a statistical model based on data from prior years.

(h) The Deetken Group Reports do not imply that something happened in Vancouver or elsewhere in British Columbia in 2019 that is untoward. Average retail margins in Vancouver have remained stable. One might ask why competitive forces in Western Canada have operated to reduce margins thus far in 2019 and whether that has any implications for British Columbia, but neither the Deetken Group nor others in the Inquiry addressed that issue.

(i) The Terms of Reference ask the Commission to report on mechanisms the Province could use to moderate price fluctuations and increases. Fluctuations in retail prices are a function of factors including changes in wholesale prices and the competition between retailers. While some types of fluctuations might be controlled through regulation of wholesale and/or retail prices, that does not mean regulation is warranted or that it would

benefit consumers, industry participants or the British Columbia economy. The premise underlying the Canadian economy is that free competition will generally achieve efficient prices and levels of supply. Absent market failure, which 7-Eleven has not observed, interference in that process through regulation is not appropriate.

(j) In any event, further detailed study would be required to devise a robust regulatory scheme that fairly takes into account the interests of retailers and other market constituents and rapidly changing competitive conditions and costs. The costs of compliance by the private and public sector (i.e. the regulator) including the prospect of distorting the market and incentives to invest in continued competition, would also have to be weighed.

(k) In summary, 7-Eleven is concerned that regulation of retail gasoline and diesel prices or margins would not only be unwarranted, but that it would be inefficient; would precipitate a contraction of the number of service stations in favour of other uses; would discourage the development of new sites to serve the growing population in the province; would discourage investments to improve existing facilities, and otherwise would impose costs and restrictions that leave consumers, retailers and taxpayers worse off.

**Retail Prices and Margins**

5. Competition is a cornerstone of the Canadian economy. As the Competition Bureau explains,

> Competition among firms underpins a robust economy, incentivizing the creation of value and rewarding entrepreneurship and innovation. When firms compete on the merits, market forces generally deliver the most efficient and beneficial economic outcomes for society.
>
> Exhibit A2-21, Competition Bureau, Abuse of Dominance Enforcement Guidelines (March 7, 2019) [Preface]

6. These sentiments equally apply to gasoline and diesel industries, which are among the most studied in Canada. All witnesses for the interveners who testified on the

subject agreed that the British Columbia retail markets for gasoline and diesel are competitive. Dr. Kahwaty, an experienced industrial economist, noted that the retail gasoline and diesel markets are well-functioning, characterized by numerous competitors, low levels of concentration and no significant barriers to entry.

> Exhibit C5-9, Henry Kahwaty, "The Markets for Gasoline and Diesel in British Columbia" (July 17, 2019) slides 6-9
>
> Testimony of Dr. Henry Kahwaty, Transcript Vol. 1, p. 116 line 21 - p. 119 line 19; p. 121 line 11 - p. 124 line 24; p. 126 lines 11-22; p. 130 lines 9-17; p. 132 lines 11-19

7. Retail markets in British Columbia are so competitive that margins are often compressed to the point where the retailer at a given location sells fuel below wholesale costs (i.e. negative margins). For example, Mr. Rosencrans testified that since July 2017, 7-Eleven had over 2200 store days when fuel was sold below cost on average for the entire day.

> Testimony of Doug Rosencrans, Transcript Vol. 2, p. 567 lines 9-12; Transcript Vol. 4, p. 757 line 4 - p. 759 line 10
>
> Testimony of William Vanderkerkhove, Transcript Vol. 4, p. 744, lines 8-11, 20-22; p. 745 lines 7-9

8. A mandate of this Inquiry is to examine market forces and phenomena, including factors that explain prices and margins. There is a distinction between the bigger picture of how markets function and the day to day perspective of an individual retailer which lacks market power when setting its price. The street or pump prices are transparent, being posted on large signs visible from the streets. Consumers may "shop around" by driving from one local station to another. Many consumers are price sensitive and are prepared to select stations based on price differentials as low as a fraction of a cent per litre. Taken together, in practical terms a retailer must adjust its price in view of the competition and cannot, by contrast, simply set a price by adding a margin to its wholesale costs (as might be done in other industries or a regulated utility monopoly that operates on a costs-plus model without the challenges of competition).

Testimony of Elise Lepine (Deetken Group), Transcript Vol. 2, p. 424 lines 8-13

Testimony of Doug Rosencrans, Transcript Vol. 2, p. 567 lines 5-18

9. One issue before the Commission is price cycling, or the phenomenon that retail prices frequently change in some British Columbia markets, sometimes several times in one day. The Commission received expert guidance that the fact that retail prices of gasoline change quickly is an indication that competition is working. As the Competition Bureau has put it, "Prices go up or down as retailers compete, and each tries to match what the other is charging".

Exhibit A2-14, Competition Bureau, Factors that affect gas prices at the pumps (July 24, 2018)

Testimony of Dr. Henry Kahwaty, Transcript Vol. 1, p. 124 lines 9-24; p. 126 lines 2-10

Testimony of William Vanderkerkhove, Transcript Vol. 4, p. 733 lines 13-15

10. Retail price changes are also driven by changes in the wholesale/rack prices paid by retailers which themselves may change frequently.

11. The costs associated with retailing gasoline, including retail margins, comprise a small portion of the total retail price paid by consumers. The Competition Bureau estimates that on average across Canada, distribution and marketing accounts for 9% of the retail price whereas taxes are nearly four times that amount. Taxes represent more of the Vancouver retail price than the entire combined cost of transporting crude to a refinery, refining it, transporting the refined product to a retail station and then selling it to the public.

Exhibit A2-15, Competition Bureau, A Guide to Retail Gasoline Pricing in Canada (May 17, 2019), Figure 1

Testimony of Ian White, Transcript Vol. 1, p. 105 lines 17-21

12. One would expect in a competitive market that, over time, prices are competitive with a reasonable profit or rate of return on investments. Retail margins are not

synonymous with "profit" because there are other costs such as land, buildings, equipment, capital upgrades, financing, advertising and branding, property taxes, labour, credit card processing, transporting fuel to the station from the wholesale supplier's location, contingencies for environmental and other regulatory obligations, etc. associated with acquiring and operating a station. Thus, the retail margin would have to cover such costs before the retailer could hope to earn a fair return on its investment.

> Testimony of Elise Lepine, Transcript Vol. 1, p. 17 line 20 - p. 19 line 11

13. In Greater Vancouver, land costs including imputed rents or opportunity costs (in cases where the land is owned) are relatively high and have increased significantly since 2015. This trend has continued in 2018 and into 2019 for commercial and industrial uses, which have been characterized by "soaring" real estate values, "never-seen-before rental rates" and record low vacancies, the lowest in North America. Such low vacancies tend to drive up rents. This stands in contrast to residential property values in Vancouver which may have "softened" in 2018-2019 after years of sustained growth.

> Exhibit C9-3, Vancouver Sun, May 9, 2019, "Industrial land squeeze pushes Metro Vancouver to North America's lowest vacancy rate"
>
> Exhibit C9-4, Vancouver Sun, March 13, 2019, "Commercial Real Estate: Local CBRE director breaks down 2019 property forecast"
>
> Exhibit C9-5, CBRE Vancouver Industrial Marketview Q1 2019
>
> Exhibit A2-1-1 Deetken Group, Phase 2: Analysis of Factors Contributing to BC's Gasoline and Diesel Price Behaviour (July 10, 2019) at pp. 22-24
>
> Question of Commissioner Cote to Elise Lepine, Transcript Vol. 2, p. 391 lines 12-17
>
> Testimony of Elise Lepine (Deetken Group), Transcript Vol. 2, p. 391 line 4 - p. 393 line 12; p. 409 line 6 - p. 416 line 18

14. While land or rental costs may not factor into a day by day, hour by hour decision to set a price having regard to the competition, if there is not an adequate return on the investment over the longer term, it may not be worthwhile to stay or to expand in the market.

> Testimony of Elise Lepine (Deetken Group), Transcript Vol. 2, p. 424 line 14 - p. 425 line 4

15. One challenge for retailers operating in Greater Vancouver is that service stations generally only physically occupy one level but compete for highest and best use against residential and commercial/industrial developments which can secure higher returns and lower investment risk by building multiple stories.

> Testimony of Doug Rosencrans, Transcript Vol. 2, p. 562 line 14 - p. 564 line 11; p. 564 line 16 - p. 565 line 3
>
> Testimony of Elise Lepine (Deetken Group), Transcript Vol. 2, p. 413 lines 1- 19

16. Mr. Rosencrans explained that the land costs influenced a number of new locations that 7-Eleven has opened since 2015 in British Columbia and decisions to sell operating service station sites to land developers.

> Testimony of Doug Rosencrans, Transcript Vol. 2, p. 563 line 7- p. 564 line 11

17. One implication of the foregoing is that in the long run retailers will be influenced by the opportunity to earn a reasonable return from operating a service station. If the expected return is insufficient, a retailer may decide to deploy its capital elsewhere (by not opening new service stations or by selling properties on which existing service stations operate). Such a decision would tend to reduce supply and competition even as demand may be increasing due to growth of the population.

**Regional Comparisons**

18. Part of the Commission's mandate is to compare prices and margins in British Columbia with other parts of Canada.

19. The Competition Bureau explains that there are a number of legitimate factors that affect the final street or pump price of gasoline from one region of Canada to another.

> Exhibit A2-14, Competition Bureau, Factors that affect gas prices at the pumps (July 24, 2018)

20. The Deetken Group engaged in quantitative analysis of the impact of credit card processing fees and land costs in Vancouver relative to Western Canada (Edmonton, Calgary, Winnipeg and Regina). These costs alone explained all of the retail margin differential, save for 0.9 cents/L for 2019 to date.

> Exhibit A2-1-1 Deetken Group, Phase 2: Analysis of Factors Contributing to BC's Gasoline and Diesel Price Behaviour (July 10, 2019) at pp. 1-2, 5-30, 70-71, Charts 0.0, 6.0.1
>
> Testimony of Elise Lepine (Deetken Group), Transcript Vol. 1, p. 22 line 8 - p. 31 line 11
>
> Exhibit A2-1-3 Deetken Group Update for Oral Workshop (July 18, 2019) slides 10-11

21. Ms. Lepine admitted that there may be a perfectly good reason for the "unexplained differential." The Deetken Group had not done all the analysis needed to determine the explanation.

> Testimony of Elise Lepine (Deetken Group), Transcript Vol. 1, p. 27 line 21 - p. 28 line 15

22. To illustrate, even with respect to the land cost factor alone, the Deetken Group recommended further assessment be done with respect to actual land values and lease costs for the period under review. Having regard to the media reports of the tight commercial and industrial markets in Vancouver in 2019 (which the Deetken Group did not consider in their analysis), one could reasonably anticipate that the results of such further study would explain the margin differentials in 2019 as well.

> Exhibit A2-1-1 Deetken Group, Phase 2: Analysis of Factors Contributing to BC's Gasoline and Diesel Price Behaviour (July 10, 2019) p. 71

Testimony of Elise Lepine (Deetken Group), Transcript Vol. 2, p. 410 line 12 - p. 411 line 13

23. Moreover, it would be a mistake to assume that the explanation for a differential must be found in the circumstances of the Vancouver or British Columbia markets. The objective data reveals a significant and unusual downwards shift in Western Canadian retail margins in 2018 and into 2019.

24. Drawing on data from the Kent Group, the Deetken Group's Phase I report shows that the six month average retail margin in Vancouver has been stable since 2015. By contrast, by 2019 the average retail margin in Western Canada had dropped by half to under 4 cents/L, the lowest it had been in 15 years (since 2004).

Testimony of Elise Lepine (Deetken Group), Transcript Vol. 1, p. 67 line 6 - p. 70 line 7

Exhibit A2-1 Deetken Group, Phase I Report (June 20, 2019) at p. 26, Chart 4.3.2

25. Further charts reproduced in the Phase 2 report show that there was a "big drop" in retail margins in 2018/2019, taking average retail margins down to under 2 cents/L in Alberta. Ms. Lepine agreed that if the 2018 and 2019 reduction in retail margins in the Western Provinces had not been so severe, there would not have been any "unexplained" differential with Vancouver retail margins.

Testimony of Elise Lepine (Deetken Group), Transcript Vol. 1, p. 70 line 8 - p. 71 line 21

Exhibit A2-1-1 Deetken Group, Phase 2: Analysis of Factors Contributing to BC's Gasoline and Diesel Price Behaviour (July 10, 2019) p. 27, Chart 3.3.6

26. The Deetken Group did not discuss the decline in average retail margins in Western Canada in 2018 and 2019 nor the reasons for such decline. It is also impossible to predict whether the trends in Western Canada in the first part of 2019 will continue.

Testimony of Elise Lepine (Deetken Group), Transcript Vol. 1, p. 70 line 21 - p. 72 line 4

27. Indeed, there was virtually no evidence in the course of the Inquiry to ascertain the causes of the 2019 decline in Western Canadian retail margins and by extension whether such factors provide any insight into the situation in British Columbia. The Panel did ask Mr. Rosencrans about the lower margins prevailing recently in Western Canada. He observed that competitors in other markets appear to be more aggressive, although he could not explain why competitive behaviour had changed.

> Testimony of Doug Rosencrans, Transcript Vol. 2, p. 568 lines 2-26

28. The mandate of the Inquiry focusses on pricing and margins in British Columbia. The Deetken Group Reports account for the margin differentials since 2015 except for about 0.6 percent[1] in the first part of 2019, during an unusual situation in Western Canada. It is respectfully submitted that there is nothing to explain with respect to retail margins in British Columbia and certainly nothing that might warrant government intervention.

**Regulation**

29. The Terms of Reference direct the Commission to report on "mechanisms the Province could use to moderate price fluctuations and increases."

30. There was no evidence before the Commission about mechanisms that might control price fluctuations apart from some discussion of regulation elsewhere in Canada and in the United States. For instance, there was evidence from Navius Research Inc. about price regulations implemented in Atlantic Canada and Quebec. However, according to Navius Research, the weight of the evidence indicates that price ceiling regulations have not resulted in lower prices for consumers in those areas. Hawaii briefly experimented with a *wholesale* price cap law in 2005-2006 but according to Navius Research, that legislation was perceived as a failure and quickly removed. [There was also evidence about price

[1] To illustrate, if the total retail price including taxes was $1.50/L, then 0.9 cents /L represents 0.6 percent of the retail price.

*transparency* measures in Hawaii and California although such measures in themselves do not seek to control retail price fluctuations.]

> Exhibit A2-2, Navius Research Inc., "Jurisdictional Scan of Regulation and Oversight on Gasoline and Diesel Prices in Canada and North America," at pp. ii, 4, 8

31. With respect to regulation there are two key questions. First, is regulation appropriate at all; and, second, can regulation be fashioned in a way so as to both benefit the economy and fairly treat all stakeholders, including industry participants, consumers and taxpayers?

32. As noted, the general premise of the Canadian economy is that competition leads to efficient prices and levels of production and service. 7-Eleven submits that the evidence in this Inquiry does not establish that there are retail market deficiencies or distortions that require government intervention.

33. Dr. Kahwaty carefully examined the conditions for the retail markets in British Columbia and concluded that "There is no economic basis for the regulation of retail prices/margins or for price transparency regulation".

> Exhibit C5-9, Henry Kahwaty, "The Markets for Gasoline and Diesel in British Columbia" (July 17, 2019) slides 6-9
>
> Testimony of Dr. Henry Kahwaty, Transcript Vol. 1, p. 133 lines 5-8

34. In Parkland's response to undertaking No. 3 based on certain Panel questions, Dr. Kahwaty addressed potential regulatory mechanisms to smooth volatility of retail gasoline prices. In short, he noted:

    (a) There are several sources of retail price volatility including volatility in crude oil prices. [Implicitly, one may extend that comment to volatility in the wholesale fuel prices paid by retailers].

(b) Regulation might dampen retail price cycling by directly regulating retail margin added to wholesale prices at the average of the retail margin over the cycle or eliminating the high and low prices during the price cycle.

(c) There are potential costs and benefits of such regulation. Dr. Kahwaty focussed on potential retail as opposed to wholesale price regulations.

(d) He concluded that given the diversity of capital and operating costs, retail prices and wholesale prices should not be uniform.

(e) Market supply and investment decisions would be distorted if regulated prices or margins were too high or too low compared with a competitive market. Prices set a signal for supply and investment decisions. "One-size fits all" regulation for retailers should be avoided.

(f) While there may be benefits to consumers to reduce volatility, it is unclear how much of a benefit (if any) and for how many consumers (if any), and whether it would be worth trade-offs such as paying more per litre on average (or increasing the overall tax burden on British Columbians) to support the regulatory body.

(g) Drawing on economic theory and experiences with regulation in Eastern Canada, the potential adverse effects include elimination of low-price suppliers, fewer but larger price changes, loss of consumers' ability to take advantage of the downward stroke of price cycles, and administrative costs.

Exhibit C5-19, Parkland Fuel Corporation Undertaking No. 3

35. Ms. Lepine of the Deetken Group, in response to a question from Commissioner Cote, echoed concerns about imposing regulations:

> But speaking purely from an economist perspective, I think regulation, just a general comment, is that there are a lot of factors that go into determining prices that we've heard, and there are incentives that exist in a free market to allocate those goods.

> Testimony of Elise Lepine (Deetken Group), Transcript Vol. 2, p. 395 lines 7-12 ; see also p. 418 lines 7-12

36. Such concerns are shared by industry experts. Ms. Lepine of the Deetken Group agreed with Mr. Ervin of the Kent Group, a recognized authority in the area of gasoline and diesel markets and pricing, that regulating prices at the pump or "falsely reducing them" would have put gas stations out of business insofar as retail margins are the minimum required to keep such stations in business.

> Testimony of Elise Lepine (Deetken Group), Transcript Vol. 1, p. 59 line 5 - p. 60 line 5; p. 62 line 20 - p. 63 line 15
>
> Exhibit C5-7, National Post, "Gasoline Companies to speak at Public Inquiry into B.C. Pump prices Wednesday"

37. The record contains lessons of regulatory failure in other jurisdictions. In addition to the lessons from Eastern Canada and Hawaii summarized by Navius Research, one survey demonstrated that U.S. state laws banning sales below costs ("SBC") did not protect smaller establishments but had offsetting higher costs:

> While the belief that SBC laws protect smaller establishments is widespread, this report indicates there is little basis for that belief. Thus, the higher retail prices that have accompanied such laws have imposed costs on consumers with no offsetting benefit. Attempts to regulate an industry are often premised on the idea that regulation will improve matters for some constituency. But that outcome can be elusive, with the end result offering little to the favored constituency while imposing substantial costs on the general public.
>
> Exhibit A2-26: The Impact of Sales-Below-Cost Laws on the U.S. Retail Gasoline Market, February 1999 p. 6

38. Similarly, regulated price ceilings bring a lower price but also a lower quantity than the market would want to consume. The market would be short on supply.

> Testimony of Elise Lepine (Deetken Group), Transcript Vol. 2, p. 395 lines 7-12; see also p. 421 lines 8-19

39. Regulation carries with it the risk of setting the wrong incentives. There are lag effects: if the market did not keep up with the pack it would introduce a distortion into the market.

> Testimony of Elise Lepine (Deetken Group), Transcript Vol. 2, p. 422 lines 5-13

40. It is also important to keep in mind that one of the reasons for movement in retail prices are daily (or more frequent) fluctuations in the wholesale prices. Thus, if regulated retail prices were allowed to move as frequently as wholesale prices, consumers would still experience volatility. If the retail prices were not allowed to adapt to changes in wholesale prices, that would be unfair to retailers and would distort the markets unless regulation was extended to wholesale markets as well.

> Testimony of Doug Rosencrans, Transcript Vol. 4, p. 755 lines 9-11

41. One can easily anticipate significant difficulties for a regulator to determine the relevant costs and factors that contribute to the retail margins of many retail operators operating in many different localized markets in British Columbia in order to reach outcomes consistent with competitive markets but with less volatility. Not only do wholesale prices themselves fluctuate, they vary according to how and where the fuel is supplied and the terms of the arrangements reached by a particular retailer with a particular supplier. How would a regulator gather all the relevant information and process it in a timely way, and allow for representations by regulated parties? What would be the compliance costs for the regulator, the regulated parties and, ultimately, the consumers and taxpayers?

42. Further, how would the regulator take into account the other costs retailers incur which must be covered by the retail margin in order to make profit and a reasonable rate of return? These costs would vary from time to time but also according to very localized markets (that is, blocks within a city, and not merely at a city or regional level) and across different market participants.

43. With respect, it seems inevitable that retail price or margin regulation would bog down the market, and there would be significant compromises. The record on this Inquiry does not support a need or compelling reason for retail price or margin regulation. If there was a decision to impose such regulation, extensive further studies would be required with respect to particular models adapted for the circumstances of British Columbia and the local markets within the province.

44. Finally, in addition to the direct consequences of retail price or margin regulation on prices, taxes and returns, one should consider the longer run impact of such regulation on the allocation of capital and resources. As is outlined above, in the long-run, the balance between the supply of service stations and demand for such services depends on the expected returns from operating the service stations. Because of land (and other) costs in British Columbia, already there is pressure that tends to contract supply (whether through conversion of existing service station sites to alternate higher and better uses or fewer investments being made to create new stations). The supply and demand imbalance would most likely be exacerbated if the expected returns available to retailers were less attractive or fair due to price or margin regulation and the associated compliance costs: one would expect retailers to deploy at least some of their capital elsewhere. That would not be a positive development for consumers or the province.

## CONCLUSION

45. 7-Eleven thanks the Commission for the opportunity to provide its perspectives to this Inquiry.

ALL OF WHICH IS RESPECTFULLY SUBMITTED THIS 8TH DAY OF AUGUST, 2019

J. Kevin Wright
Justin Mooney
Todd Shikaze

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