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August 8, 2019

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VIA ELECTRONIC FILING

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

Attention: Patrick Wruck
Commission Secretary

Re: British Columbia Utilities Commission ("BCUC" or "Commission")
An Inquiry into Gasoline and Diesel Prices in British Columbia
Project No. 1599007 ("Proceeding")
Final Submission of Suncor

Dear Mr. Wruck:

We act on behalf of Suncor Energy ("**Suncor**") in respect of British Columbia Utilities Commission ("**BCUC**" or "**Commission**") Project No. 1599007: An Inquiry into Gasoline and Diesel Prices in British Columbia.

Please find enclosed Suncor's Final Submission to the above noted Proceeding.

Should you have any questions or require any additional information, please do not hesitate to contact the undersigned.

Sincerely,

Terri-Lee Oleniuk

jahk
Enclosure

cc. Chris Hustwick, Director Downstream Legal Affairs Canada, Suncor Energy

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BRITISH COLUMBIA UTILITIES COMMISSION

AN INQUIRY INTO GASOLINE AND DIESEL PRICES IN BRITISH COLUMBIA
PROCEEDING NO. 1599007

SUNCOR ENERGY

FINAL SUBMISSION

AUGUST 8, 2019

To: The Commission Secretary
British Columbia Utilities Commission
Suite 410, 900 Howe Street
Vancouver, BC V6Z 2N3

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I. INTRODUCTION

This final submission is made on behalf of Suncor Energy ("Suncor") in the British Columbia Utilities Commission ("Commission") Inquiry into Gasoline and Diesel Prices in British Columbia ("Inquiry"). Suncor voluntarily participated in the Inquiry, and filed public and confidential evidence, and appeared in person at both oral workshop sessions. Suncor would like to note that the extremely compressed Inquiry timeframes and process steps occurring during the summer months made effective and efficient participation manner challenging.

A summary of Suncor's position is set out below, followed by Suncor's final submission, which, in accordance with the request of the Commission, generally follows and addresses each of the items as set out in the Inquiry's terms of reference. This final submission focuses solely on gasoline and does not address diesel prices at a wholesale or retail level. In addition, Suncor relies on the evidence it provided during the Inquiry, both written and oral. Where Suncor relies on the evidence of other interveners in support of its position, a reference to that evidence is provided as a footnote.

A. The market is highly competitive from both a wholesale and retail perspective:

- As discussed in section C., below, a number of factors relating to the higher cost of doing business in British Columbia ("BC") have been presented to the Commission through both written evidence and oral testimony during the Inquiry.
- The higher costs of doing business have impacted the price of fuel in BC more than in other parts of the country.
- The risk of regulating is higher than the reward and may have unintended consequences.
- The evidence presented at the Inquiry, including that of Navius Research Inc.,[1] regarding the impact of regulation suggests that price ceilings likely have not resulted in lower prices for consumers.

B. Wholesale Pricing is based on Market Supply/Demand:

- Suncor's wholesale price ("Rack Price") is dictated by the free market dynamic at the point where supply and demand reach equilibrium and not based on a "cost plus" pass-through approach.
- The infrastructure available in BC to support imports is extensive; however, there are capacity constraints that limit the flow of product.

[1] Exhibit A2-2, Letter dated June 20, 2019 – BCUC staff filing Independent Consultant Report by Navius Research Inc. – Jurisdictional Scan of Regulation and Oversight on Gasoline and Diesel Prices in Canada and North America – June 20, 2019.

- As a result, BC is a net importer of gasoline; and the marginal barrel is thus the import barrel, which in turn sets the Rack Price for gasoline
- Daily changes in spot market prices highly influence Rack Prices. Spot markets are reliable benchmarks that assist in determining daily fluctuations in the value of gasoline.
- The Pacific Northwest Spot Market Price is the referenced spot price in the Lower Mainland. The Chicago Spot Market Price is the referenced spot price in the interior of BC.
- As the Pacific Northwest Spot Market Price is more volatile than other spot markets, fuel prices in the Lower Mainland are, in turn, more volatile than other regions.
- Spot markets are only the starting point; additional factors will also affect the Rack Price, including the adjustment for foreign exchange and costs specific to selling products in the BC market, such as transportation / logistics; unique quality and seasonality specifications; jurisdiction-specific regulatory requirements, etc.

C. Doing business in BC has become more costly and complex over the past five years. These costs are reflected in finished product prices:

- *Transportation Costs*: the Trans Mountain Pipeline ("TMPL") is oversubscribed, and the allocation methodology for acquiring space on the pipeline in conjunction with crude economics vs. refined petroleum products economics results in the dilution of allocable space for refined petroleum products shipment. This means that refined petroleum products shippers need to rely on other methods of transportation, such as rail, truck and marine, which are sub-optimal relative to pipelines.
- *Regulatory Compliance Costs*: regulatory compliance costs in BC have increased since 2015 at a higher rate than the Canadian average as the requirement to use renewable fuels and initiatives to reduce carbon intensity have increased substantially. Regulatory compliance obligations have also challenged logistics infrastructure within the province.
- *Retail Location Costs*: rental costs, labour costs (minimum wage), transaction fees, etc., have all increased at a higher rate than the Canadian average.
- *Taxes:* taxes are much higher in BC and, in particular, in the Lower Mainland. There is an 11 cent difference between Vancouver and the rest of BC, and a 21 cent difference between Vancouver and Alberta.[2]

[2] Exhibit C5-2, Letter dated June 27, 2019 – Parkland Evidence, at pages 7-8.

II. FINAL SUBMISSION

Set out below is Suncor's submission regarding each of the factors that the Commission must inquire into as set in section 3 of OIC No. 254:

> ***(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 BC and other jurisdictions in Canada and the reasons for any differences;***

Suncor does not operate a refinery in BC and, as such, is unable to comment on the refining margins in BC compared to the jurisdictions in Canada where it has refinery operations (Alberta, Ontario, and Quebec). Instead, as reflected in its testimony throughout the Inquiry, Suncor has focused on the differences in the Rack Prices in BC as compared to the Rack Prices in Alberta (primarily Edmonton, where Suncor's western refinery is located).

The Rack Price for gasoline is driven by supply and demand. Each region has unique supply and demand characteristics that drive a unique price. Rack Prices are not margin driven; nor are they driven by actual feedstock prices. The Rack Price is dictated by the free market dynamic at the point where supply and demand reach equilibrium, which has also been referred to as the "marginal unit of supply". The marginal unit of supply is the most expensive delivered source of supply that would be required to satisfy local demand.[3]

The starting point for setting a Rack Price is the applicable US finished product benchmark, or the spot price for finished product in a particular market. Spot prices are a widely traded, relatively liquid indication of the value of gasoline in a large market and are trusted by both sellers and buyers as an independent and non-biased benchmark that indicates the daily fluctuations in the value of gasoline.

Rack Prices in Vancouver reference the Pacific Northwest Spot Price for gasoline, not only because it is the closest spot price market, but also because the Pacific Northwest is typically the primary source of the applicable marginal unit of supply.

Rack Prices in Kamloops and Alberta reference the Chicago Spot Price for gasoline.

Rack Prices have gone up since Jan 2015. This is true for all markets across Canada. In particular, Rack Prices in Alberta and BC have increased relative to their reference spot price

[3] Exhibit A2-1-1, Letter dated July 10, 2019 – BCUC staff filing Independent Consultant Report by the Deetken Group - Phase 2: Analysis of Factors Contributing to BC's Gasoline and Diesel Price Behaviour, at 33.

markets since 2015. The delta between the Vancouver Rack Price and the Pacific Northwest Spot Price increased between 2015 and 2019 by approximately 12 cents a litre over that period. This increase is attributable to the many reasons that Suncor and other interveners discussed in their testimony: local supply/demand factors, logistical constraints that have put pressure on transportation costs, terminalling and blending costs, the regulatory compliance costs that are unique to BC (e.g. the B.C. Low Carbon Fuel Standard), fuel quality premiums, foreign exchange and other factors that interveners raised during the Inquiry. The delta between the Kamloops Rack Price and the Chicago Spot Price has also increased by approximately 12 cents a litre since 2015. This suggests a consistent increase in the wholesale cost of gasoline in BC over this period.

The delta between the Edmonton Rack Price and the Chicago Spot Price has increased since 2015, but only by approximately 6 cents a litre. This lower delta can be explained by fewer logistical constraints (and associated cost increases) versus BC, and significantly lower regulatory compliance costs relative to BC.

In addition to the specific BC-related costs discussed above (e.g. transportation costs, terminalling and blending costs and regulatory compliance costs), another key factor in understanding the difference between Rack Prices in Vancouver vs. the BC interior (Kamloops) vs. Edmonton (Alberta), is the difference between the spot price markets influencing these Rack Prices.

On average, the differences in the spot price markets between the Pacific Northwest and Chicago have not changed. At certain points in time, however, the differences can be quite substantial, resulting in significant differences between pricing in Vancouver vs. the BC interior vs. Alberta. One such point in time was the April / May 2019 period when the Pacific Northwest Spot Price increased dramatically as compared to the Chicago Spot Price due to a significant number of temporary refinery closures in PADD V. Once the PADD V supply/demand imbalance was resolved, Pacific Northwest spot prices aligned back with Chicago and Rack Prices for gasoline in Vancouver returned to a price very similar to Kamloops with the usual premium over Rack Prices in Alberta to account for the above noted factors.

ii. the differences, if any, in retail margins among BC and other jurisdictions in Canada, and among different regions in BC, and the reasons for any differences

Suncor provided a comparison of retail margins in its confidential response to Question 23 of the Commission's request for information.

Suncor notes that each province has different local factors that affect the retail margin (on an ex-tax basis), including the following primary factors:

- local supply and demand conditions;
- retail costs such as: utilities, land costs (including opportunity costs), property taxes, labour costs (wages, taxes, fees, benefits), site maintenance, secondary freight (from

the supply location to the site), transaction fees and other overhead costs (promotional costs, advertising, etc.);

- price matching against competitors;
- throughput (economy of scale); and,
- the wholesale price of gasoline and diesel.

Retail costs in BC, such as labour, utilities, land costs, and property taxes, have risen since 2015 at a much higher rate than in other parts of Canada, including Alberta.

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 BC to crude oil supply and other components
B. the amount of gasoline and diesel stored in BC for sale in BC
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
F. seasonal variations in supply and demand;

As discussed above, generally speaking, spot prices drive Rack Prices. Spot prices are reliable benchmarks, but are only the starting point as they need to be adjusted to reflect the unique cost drivers in BC. Several interveners, including Suncor, provided testimony regarding the incremental cost of doing business in BC. In addition to influence from the benchmark spot price, the most significant contributors to the increases in wholesale gas prices are transportation costs and regulatory compliance costs, particularly when compared to Alberta. Other factors also play a role in the incremental cost, including terminalling and blending requirements, fuel quality premiums, seasonal costs, and foreign exchange. Some of these factors, like increased terminalling and blending requirements, are further compounded by geographical and regulatory constraints affecting the ability to expand existing infrastructure.

The factors that have contributed to increases in retail gas prices are discussed in more detail in Suncor's response to question ii, above. Although not included in the Commission's terms of reference, there is ample evidence that demonstrates that local and provincial taxes have contributed significantly to increases in retail gas prices relative to other jurisdictions, such as Alberta. For example, taxes account for a 15 cent difference between Vancouver and Alberta. There is even an 11 cent difference between Vancouver and rest of BC.[4]

[4] Exhibit C5-2, Letter dated June 27, 2019 – Parkland Evidence, at pages 7-8.

As noted above, Suncor does not operate a refinery in BC and therefore does not have a view regarding the access of refineries in BC to crude oil supply and other components.

The overall storage capacity for gasoline and diesel at Suncor's terminals in BC has not changed since 2015. That said, changing regulatory compliance requirements has resulted in the need to reallocate existing storage in order to store and blend biofuel products at these terminals (e.g. ethanol, biodiesel/fatty-acid methyl ester ("FAME"), renewable diesel/hydrotreated renewable diesel ("HRD")), thereby causing storage constraints.

Several interveners provided testimony regarding the logistical constraints affecting Vancouver in particular as a result of capacity limitations on the TMPL: expanding rail facilities, finding storage for rail cars, access to the local market (i.e., getting from storage to a terminal to serve the local market). All of these constraints add to the cost of doing business in Vancouver, and hamper expansion of existing infrastructure and supply chain development.

Suncor's refinery in Edmonton has been and is operating at full capacity, with the exception of periods where there are planned turnarounds / maintenance, unplanned turnarounds / maintenance, logistical constraints, force majeure/unplanned events (e.g. fires), and seasonal diesel demand. Where these events are planned, Suncor must take steps to manage its gasoline supply, including enhanced storage and imports. These steps often occur months in advance of the event and may still be required to be in place after the event has concluded. In addition, quality requirements change seasonally (e.g. vapour pressure), resulting in additional challenges to secure imports that meet the Canadian standards.

The TMPL is the only pipeline that carries petroleum products from Alberta to the interior of BC and Vancouver. TMPL is oversubscribed and under apportionment. Changes in 2015 to the allocation process for acquiring pipeline space have resulted in less refined products being shipped on TMPL. Market economics favour shipping crude over refined petroleum products, which, in conjunction with the purchase by crude shippers of additional pipeline space in the secondary market and the revised allocation methodology, has diluted the share of line space allocable to refined product shippers. This means that refined product shippers are required to move their products using more expensive transportation, such as rail and truck.

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

As noted by several interveners, including Suncor, the market competition in BC is vigorous. Suncor is not able to drive pricing in any local area.

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

Suncor supports free and unencumbered market dynamics and believes that the market in BC is competitive. Intervention in a free market can disrupt the supply and demand dynamic resulting in unintended consequences that can never be fully appreciated.[5]

While certain jurisdictions in Canada have implemented gasoline price regulation, the evidence presented at the Inquiry regarding the impact of regulation suggests that it does not necessarily result in lower prices for consumers.

Unsuccessful attempts at price regulation are discussed in the Navius Research Inc. Report, which concluded that "[t]he evidence on the impact of the Canadian regulations mostly indicates that the prices ceilings likely have not resulted in lower prices for consumers."[6]

With respect to price transparency, there is a considerable amount of data that is already publicly available through various private and public sources. To protect competitively sensitive information and maintain competitive market dynamics would require more detailed pricing information to be aggregated, which, as indicated in the evidence presented at the Inquiry, is of limited value to consumers in terms of understanding the overall costs of doing business.

In conclusion, Suncor submits that the evidentiary record before the Commission establishes that several factors influenced gasoline and diesel prices since 2015. Many of these factors continue to influence prices and are specific to BC and, more particularly, Vancouver. Suncor is of the view that there are limited mechanisms that the Province could use to effectively moderate price fluctuations and increases, and that any mechanism carries associated risks, which risks have not been adequately assessed in this Inquiry.

Respectfully submitted,

August 8, 2019

Mississauga, Ontario

Chris Hustwick
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Suncor Energy

Calgary, Alberta

Terri-Lee Oleniuk
Partner
Blake, Cassels & Graydon LLP

[5] Exhibit C5-19, Letter dated July 26, 2019 – Parkland Submitting responses to Undertaking 3.

[6] Exhibit A2-2, Letter dated June 20, 2019 – BCUC staff filing Independent Consultant Report by Navius Research Inc. – Jurisdictional Scan of Regulation and Oversight on Gasoline and Diesel Prices in Canada and North America – June 20, 2019, at ii.