IMPERIAL OIL
Closing Remarks

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August 8, 2019

SENT VIA E-MAIL

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

Attention: Patrick Wruck, Commission Secretary

Re: British Columbia Utilities Commission ("BCUC") – An Inquiry into Gasoline and Diesel Prices in British Columbia – Project No. 1599007 ("Inquiry") – Imperial Oil Closing Remarks

On behalf of Imperial Oil ("**Imperial**"), please find below Imperial's closing remarks to the Inquiry.

Inquiry Participation

Imperial thanks the BCUC for the opportunity to participate in the Inquiry. Imperial is proud of its partnerships with its customers, and cares deeply about the issues raised in the Inquiry and how its industry is viewed by Canadians. Imperial is voluntarily participating in the Inquiry because it believes this forum is an opportunity to inform not only the panel but all British Columbians and Canadians about its industry. Imperial also believes it can have a role in educating the BCUC with respect to the industry as experienced by a refiner and seller of finished products.

Imperial would like to take this opportunity to re-state its position on a number of critical areas:

1. Imperial's view is that free markets work – intervention in a free market disrupts the supply and demand dynamic and often has unintended consequences that can never be fully anticipated;
2. From Imperial's perspective, the BC wholesale market is highly competitive (as much or more so than other regions across the country Imperial competes in);
3. Imperial does not own or operate retail stations and does not set retail prices for gasoline and diesel. Imperial sells gasoline and diesel at the wholesale level in B.C.;

4. Imperial's methodology for setting its wholesale prices in B.C. is the same methodology it uses to set wholesale prices in other parts of Canada; the final wholesale price is driven by supply and demand - each region has unique supply and demand characteristics that drive a unique price;
5. British Columbia (Vancouver in particular) is an exceptionally difficult area to serve. Logistics, land cost/availability and regulation all function as substantial barriers relative to many other areas we operate; and
6. There has been significant attention given in the Inquiry to crude prices and refinery margins and how they might impact wholesale prices for gasoline and diesel. Imperial's wholesale price methodology is not margin driven, nor does its crude cost factor into its wholesale price – the wholesale price is set at the point where supply and demand for the finished product reach a balance.

Imperial's position on "mechanisms the Province could use to moderate price fluctuations and increases"

As stated above, Imperial firmly believes that free markets work and intervention may result in unintended consequences that can never be fully anticipated. For example, should a regulation inadvertently eliminate the incentive needed to attract the 'marginal layer' (i.e. last layer) of supply required to balance the area in question, it is possible that chronic shortages may result as suppliers shift supply to more economic areas. Similarly, government regulation introduces uncertainty and business risk and may disincentivize infrastructure investment needed to bring more product into the region.

Should the panel consider the topic of price volatility specifically, we would encourage consultation with provinces that have introduced legislation regulating price volatility.

Response to Advanced Biofuels Testimony

Although Imperial is only choosing to respond to two specific statements by Advanced Biofuels, in no way does this imply agreement by Imperial with any portion of the testimony or evidence of any participant in the Inquiry.

Response #1 – E15 Statements

On page 508, Transcript Volume 2, Mr. Thomson of Advanced Biofuels states:

"…The E15 ruling by EPA simply says motorists can use it, and so yes, we believe it is fully available in Canada."

Imperial's position is that this statement is incorrect and misleading. On July 17, 2019, the Canadian Fuels Association submitted a letter to the Ontario Climate Change Programs Branch regarding Increasing Renewable Content in Fuels in Ontario where E15 is specifically addressed. Imperial supported the following conclusions stated in that letter:

"…The data shows that…:

- As of 2018, BMW, Mazda, Mitsubishi, Mercedes Benz, Toyota, and Volvo have not begun producing E15 approved vehicles
- The majority of vehicles on the road today are not designed to operate on ethanol levels higher than 10% and only about 70% of the fleet will be validated for E15 use by 2030

…The U.S. Environmental Protection Agency (EPA) has indicated that the use of E15 did not affect emissions systems for the 2001 model year and newer vehicles. However, EPA is not in a position to warrant if those vehicles will, or will not, be damaged by using fuel not recommended by the Original Equipment Manufacturers (OEMs). Vehicle manufacturers warn against the use of ethanol blends greater than 10 percent in vehicles not designed and validated for it, and this also applies to many motorcycles, ATVs, boats and outdoor power equipment.

Testing by the Coordinating Research Council (CRC), the global leader for engineering and environmental studies on the interaction between automotive equipment and petroleum fuels, confirms that most vehicles on the road today could suffer engine and fuel system damage from using fuels containing higher levels of ethanol for which they were not designed. The position of OEMs is to 'protect the legacy fleet', and that new fuel blends should be backwards compatible. OEMs have approved vehicles/engines on fuels expected to be broadly available in the market at the time of initial vehicle/engine sale. For the legacy fleet, fuel changes outside the original design increase risk and the probability of problems developing should fuel blends or fuel properties exceed those validated by the manufacturers. Consumers should not be at risk with respect to fuels available in the market. This means that gasoline with ethanol levels of 10% or lower will be needed for the legacy fleet to ensure that customers have the fuels that their vehicles were designed to run on".

Response #2 – Retail fuel prices

On pages 500-501, Transcript Volume 2, Mr. Thomson states:

"…they [refiners] directly an[d] unilaterally dictate retailer's fuel costs. They are an extensive legal agreement that bind the person who has the privilege of owning that brand."

This statement is inaccurate as it applies to Imperial. Imperial does not, in any form, dictate or advise, in any capacity whatsoever, on how the retail fuel price is set at Esso and Mobil-branded service stations. Retail fuel prices at those stations are independently set by the owner or operator of those stations.

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Should you require any clarification of this letter please contact the writer.

Sincerely,

Brian Scammell
Revenue Management Lead