



Suncor Energy Services Inc.
Legal Affairs
2489 North Sheridan Way
Mississauga, ON L9T 4Z6
www.suncor.com

June 27, 2019

Sent by email to: Commission.Secretary@bcuc.com

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

Attention: Patrick Wruk, Commission Secretary

**Re: BCUC – An Inquiry into Gasoline and Diesel Prices in British Columbia – Project N0 159907
(the “Inquiry”)**

Dear Sir,

Further to your email dated May 28th, 2019 (the “Request”), Suncor is prepared to participate in the Inquiry as an Intervener. Our response to the questionnaire attached as Appendix C to Order G-122-19 is attached, together with our comments to the BCUC Consultant Reports.

Suncor’s participation as an Intervener is voluntary based on the wording of the Commission’s May 24 Order, the wording of the Request and the information provided during the teleconference call sessions held on May 31st, and June 7th, 2019.

Accordingly, Suncor’s response to the questionnaire is also voluntary, as are any other comments, information or data submitted or provided by Suncor during the course of the Inquiry, including, without limitation, Suncor’s participation in the Oral Workshops scheduled for July 2019. Furthermore, Suncor reserves its rights regarding the Commission’s jurisdiction, including any future participation by Suncor in the Inquiry.

Suncor does not intend to submit any expert reports.

Sincerely,

A handwritten signature in black ink, appearing to be "LB", followed by a horizontal line extending to the right.

Louis Biancolin
Senior Legal Counsel
Suncor Energy Services Inc.

cc. J. Mclean

**RE: BCUC Inquiry into Gasoline and Diesel Prices in British Columbia and SUNCOR ENERGY
response to BCUC Questionnaire attached as Appendix C to the Order G-122-19**

Intervener: Suncor Energy

Submission Date: June 27, 2019

INTRODUCTION

Suncor is an integrated Canadian energy company. The company supplies refined petroleum products into British Columbia from its Edmonton refinery and operates or supplies 229 Petro-Canada service stations across the province, as well as third-party marketers and commercial fuel customers. The company does not operate a refinery in British Columbia.

Suncor independently sets its wholesale and retail prices for gasoline and diesel based on many factors including the cost of crude, the cost of maintaining and operating the Edmonton refinery and associated terminals, environmental compliance, transportation and logistics, marketing and competitive factors, including the supply and demand balance.

Prices in British Columbia may be different than prices in other parts of Canada because of different supply and demand considerations including 1) low domestic refining capacity, 2) issues relating to the transportation of refined products into the province, 3) environmental compliance regulations, 4) land use and other local considerations, and 5) taxes.

COMPANY SCOPE

Please describe your business and identify your role in the gasoline and/or diesel industry. Please describe your company's size relative to the market in British Columbia and in Canada.

Suncor is an integrated energy company headquartered in Calgary, Alberta, Canada. The company is strategically focused on developing one of the world's largest petroleum resource basins – Canada's Athabasca oil sands. In addition, Suncor explores for, acquires, develops, produces and markets crude oil and natural gas in Canada and internationally; the company transports and refines crude oil, and markets petroleum and petrochemical products primarily in Canada. The company also conducts energy trading activities focused principally on the marketing and trading of crude oil, natural gas, power and by-products. Suncor also operates a renewable energy business as part of its overall portfolio of assets.

In Canada, Suncor operates refineries in Alberta, Ontario and Quebec:

- Edmonton, AB: 142,000-barrel-per-day refinery
- Montreal, QC: 137,000-barrel-per-day refinery
- Sarnia, ON: 85,000-barrel-per-day refinery

Each refinery produces the following primary products: gasoline, jet and diesel fuels.

Suncor markets most of its gasoline and diesel production through more than 1,500 Petro-Canada retail stations and wholesale outlets. The remaining production is sold to third party resellers within Canada and to export markets located outside of Canada.

Suncor does not have any refining or crude processing assets in British Columbia. Refined products marketed by Suncor in British Columbia are sourced from Suncor's Edmonton Refinery, Suncor's Oil Sands assets in Northern Alberta, and purchased imports delivered to Suncor's Burrard Terminal. Accordingly, the responses provided herein relating to refining focus on Suncor's Edmonton Refinery.

CRUDE OIL SUPPLY

1. What are your sources and types of crude oil supply? Please outline any significant changes that have occurred to your sources and grades

Suncor's Edmonton Refinery has the capability to run a full slate of feedstock sourced from Suncor's Oil Sands operations. Crude oil is supplied to the refinery via company-owned and third party pipelines. This refinery processes a mixture of heavy crude, sour crude, and sweet synthetic crude, which has been relatively consistent over the past 4.5 years:

Edmonton Refinery Average Yearly Crude Mix						
		2015	2016	2017	2018	2019 YTD
	% Sweet	38.5%	35.2%	38.1%	40.7%	30.6%
	% Sour	25.1%	28.9%	31.0%	30.4%	28.2%
	% Heavy	36.3%	35.8%	30.8%	28.9%	41.2%

2. How is crude oil transported to your refinery? Have there been any changes in transportation methods or costs since January of 2015? Please provide a price breakdown by month, where possible.

Crude Oil is transported to Suncor's Edmonton Refinery through several different pipelines listed below. There have been no significant changes in transportation logistics to Edmonton Refinery since 2015.

- Oil Sands Pipeline (OSPL)
- Horizon Pipeline
- Alberta Oil Sands Pipeline (AOSPL)
- Waupisoo Pipeline
- Cold Lake Pipeline
- Access Pipeline

Suncor is not prepared to provide a price breakdown by month as this information is competitively sensitive.

3. How do you manage your inventory valuation? How quickly does a change in your crude oil supply cost affect the price of refined products? Please provide any supporting data, where possible.

Suncor does not consider inventory valuation when setting wholesale or retail prices.

REFINING OF PETROLEUM PRODUCTS

4. What are your refining cost drivers? Are there refining cost drivers which have substantially changed in the last 3–5 years?

Refining cost drivers include:

- Regulatory Compliance costs
- Process unit operating and capital costs
- Utility Costs (e.g. Power, Natural Gas, etc.)
- Labour costs

The main changes over the last 3-5 years relate to the implementation of the British Columbia Low Carbon Fuel Requirements (BC LCFRR) and preparation for the implementation of the British Columbia Clean Fuel Standards (CFS). These changes have increased both the regulatory compliance costs and the operating and capital costs associated with the production of gasoline and diesel for sale in British Columbia, particularly in relation to meeting blending requirements.

5. What are the key factors affecting your refining margin (crack spread)? Have there been any significant changes since January of 2015?

Refining margins are affected by:

- Prevailing wholesale (rack) prices for gasoline and diesel in each market within the province of British Columbia;
- Western Canadian crude pricing;
- Logistics Costs (pipeline, trucking, rail, terminals) to move feedstocks (crude) to the refinery; and to move finished products to markets; and
- The cost drivers listed in question #4.

Since 2015 gross refining margins (the difference between wholesale (rack) prices for gasoline and diesel versus the cost of crude) have been impacted by the implementation of the British Columbia Low Carbon Fuel Requirements (BC LCFRR) and preparation for the implementation of the British Columbia Clean Fuel Standards (CFS) per Suncor's answer to question 4.

Suncor is not prepared to comment on changes to its refining margin as this information is competitively sensitive.

6. What refined products do you produce? What changes in demand for refined products has there been since January of 2015? Please provide supporting data, where possible.

The Edmonton refinery produces:

- Regular Unleaded Gasoline (RUL);
- Premium Unleaded Gasoline (PUL);
- Jet Fuel / Aviation Turbine Fuel;
- Seasonal Ultra Low Sulphur Diesel (ULSD); and
- Other fuels and Heating oils.

Changes since 2015 - New product:

- Marine Gasoil (MGO or Marine Diesel) - This product is similar to Ultra Low Sulphur Diesel (ULSD) but requires separate logistics systems to ensure the product always meets its unique specifications in the marketplace.

Information about demand for refined products is available in the Deetken Group's report filed with the Commission. Weekly average wholesale rack prices for gasoline and diesel are available at:

http://www2.nrcan.gc.ca/eneene/sources/pripri/wholesale_bycity_e.cfm?priceYear=2018&productID=9&locationID=66,8,39,17&frequency=W#priceGraph

7. Please discuss the seasonal variations in the supply and demand of gasoline and diesel and how this affects your wholesale price. Have there been any significant changes since January of 2015?

There are minimal variations in supply due to seasonality. Typically, Suncor's supply decisions in BC and elsewhere reflect demand forecasts.

There is some seasonality in demand with peaks in gasoline demands in the summer months but in general no significant changes since January 2015.

8. Does your refinery generally operate at full capacity? If not please explain.

Suncor Energy's Edmonton Refinery generally operates at full capacity. It can process approximately 41 mbbbls/d of blended heavy feedstock (comprised of 29 mbbbls/d of bitumen and 12 mbbbls/d of diluent) and process approximately 44 mbbbls/d of sour synthetic crude oil (SCO). The refinery can also process approximately 57 mbbbls/d of sweet SCO through its synthetic crude train.

9. How does your refining margin compare to other refiners:

a. elsewhere in Canada? Please provide data and information by year.

b. elsewhere in your market area?

Suncor cannot comment on the refining margins of other refiners as it does not have access to this information.

10. Please provide information on your monthly average refining margin per litre of gasoline and diesel since January 2015 (by grade if possible).

Wholesale prices for gasoline and diesel in British Columbia are determined by the prevailing Market Prices for refined products in each market.

Suncor is not prepared to provide monthly average refining margin as this information is competitively sensitive.

TRANSPORTATION, DISTRIBUTION AND STORAGE

11. Are there gasoline/diesel storage and distribution cost drivers which have substantially changed in the last 3–5 years? If so, please provide details on these changes.

- Regulatory Cost Drivers - increasing Provincial and Federal requirements for renewable fuels blending (i.e. ethanol, bio-diesel, and renewable diesel) have driven up storage, blending and distribution costs.
- Logistical Cost Drivers - over the last 3-5 years, the Trans Mountain Pipeline (TMPL) has decreased its line space (capacity) allocated to finished products (gasoline and diesel) delivered to Suncor's terminals in British Columbia by approximately 30-36 ml per month, which resulted in an increase in the more costly transportation of these products by rail and truck.

12. Where are your gasoline storage terminals located?

Suncor's gasoline terminals in British Columbia are located in:

- Burrard (Greater Vancouver)
- Nanaimo
- Terrace
- Kamloops

While they are not terminals, Suncor has Petro-Canada Branded Bulk Plants operated by independent Wholesale Associates/Marketers who own bulk fuel inventories at the following locations in British Columbia:

- 100 Mile House
- Campbell River
- Chilliwack
- Courtenay
- Cranbrook
- Dawson Creek
- Fort Nelson
- Fort St John
- Gold River
- Golden

- Invermere
- Kelowna
- MacKenzie
- Nanaimo
- Penticton
- Port Hardy
- Prince George
- Prince Rupert
- Quesnel
- Salmon Arm
- Smithers
- Williams Lake

13. Where are your diesel storage terminals located?

Same locations as listed in Question 12

14. What is your storage capacity for gasoline and diesel? Please explain if there have been any significant changes to your storage capacity since January of 2015. Please also explain whether your storage terminals operate at full capacity, at surplus capacity or if there are storage constraints.

	Gasoline / Ethanol (Millions of Litres)
Burrard	61
Kamloops	21.6
Nanaimo	1
Terrace	2

	Diesel Bio Diesel (FAME) Renewable Diesel (Millions of Litres)
Burrard	66
Kamloops	9.7
Nanaimo	1.7
Terrace	1.5

The overall storage of capacity for gasoline and diesel at these terminals has not changed since 2015.

Changing regulatory compliance requirements has resulted in the need to reallocate existing storage in order to store and blend bio fuel products at these terminals (e.g. ethanol, bio-diesel/FAME, renewable diesel/HRD) thereby causing storage constraints:

- Increased stringent blending regulations for ethanol, bio-diesel/FAME and renewable diesel/HRD required installation of additional storage tanks, re-servicing of existing storage tanks and/or modification to loading/offloading equipment for these products delivered to the terminals by rail, marine or truck.
- Additional storage was required for the finished products: “E10 blended product” (a blend of gasoline and ethanol); “B5 blended product” (a blend of diesel and bio-diesel (FAME)); and various blends of diesel and renewable diesel

15. How is gasoline transported from refineries to your storage terminals? How is diesel transported from the refineries to your storage terminals? Have there been any changes in transportation methods and costs since January of 2015?

Both gasoline and diesel are transported to Suncor’s storage terminals via pipeline, rail and truck.

Changes since 2015:

- The transportation of gasoline and diesel via truck and rail has increased significantly since 2015 (approximately 30-36ML / month) due to the decrease in TMPL line space (capacity) allocated to Suncor’s finished products.

16. How does your transportation and storage costs compare to other storage facilities:

- a. elsewhere in Canada?**
- b. elsewhere in your market?**

Costs vary based on a number of factors (e.g. distance from supply source to terminal, distance from terminal to market, size of asset, age of asset, complexity of the asset (blending), logistical options available to the storage facility, labour costs, etc.).

Suncor cannot comment on transportation and storage costs of other parties as it does not have access to this information.

17. What are the factors governing the level and changes in the wholesale price of gasoline and diesel? Are there seasonal variations in transportation, storage or distribution operations that affect the wholesale price?

Market prices and competitors’ wholesale (rack) prices are the primary factors governing the level and changes in the wholesale price of gasoline and diesel on a daily basis.

Market prices:

- Levels and changes in the wholesale (rack) prices are heavily influenced by market prices for gasoline and diesel.
- Market prices are generally based on North American and International benchmarks (referenced daily from various independent reporting agencies e.g. Argus Media and OPIS (Oil Price Information Service)).

- The cash traded price for gasoline and diesel in the Pacific North West (Portland) and in Chicago as reported by OPIS are the main benchmarks Suncor references to help determine Wholesale (rack) prices in British Columbia.
- Market prices are also influenced by the value of Canadian currency (CDN): wholesale gasoline and diesel benchmarks for the Pacific North West (Portland) and Chicago are priced in USD. Suncor adjusts these benchmarks to Canadian Dollars (CDN) referencing daily changes in Canadian currency valuation.

Competitive wholesale (rack) prices:

- Suncor's monitors competitive wholesale prices (rack postings) for gasoline and diesel by terminal location as reported by OPIS.
- Suncor must remain competitive in each unique market within British Columbia and so competitive wholesale (rack) prices ultimately set the market price in each market.

Of note - Wholesale (rack) prices in Vancouver are highly correlated to wholesale market prices in the US Pacific North West (Portland):

- Ultra Low Sulphur Diesel (ULSD) – 98% correlation after adjusting for CDN currency changes
- Gasoline – 90% correlation after adjusting for CDN currency changes

Seasonal variations in transportation, storage or distribution operations due to weather related issues may or may not impact the wholesale price of gasoline and diesel as the wholesale price is market driven.

18. What are the factors your company considers when setting the price for your fuel services?

- That depends on the nature of the customer. For wholesale customers, the terminal or "rack" price establishes a published reference for the price of wholesale fuel at each terminal, but individual customers may pay an adjusted price based on the customer's size, types and quantities of products purchased, service requirements (including delivery terms), length of supply agreement, credit arrangements, and other terms and factors of their supply agreement.
- For retail customers, Suncor's Mississauga office sets prices for the company-controlled Petro-Canada stations based on several factors including: the rack price, operating costs (labour, transportation/delivery, overhead, property maintenance and taxes), demand, competition, and Suncor's volume and margin targets. Independent dealers that purchase fuel from Suncor set their own retail prices.

19. Have there been any constraints since January of 2015 in sourcing refined petroleum and diesel products? Please explain.

Yes:

- Forest Fires in Ft. McMurray, AB in May 2016 affected Suncor's ability to produce diesel at our Oil Sands facility and our Edmonton refinery, leading to constraints on delivering refined petroleum and diesel products to British Columbia.
- Decreases in the TMPL line space (capacity) allocated to finished products delivered to Suncor's terminals (as noted previously) has constrained deliveries of refined petroleum and diesel products from Alberta refineries.

- Deliveries of refined petroleum and diesel products into Terrace and Kamloops can be interrupted from time to time due to weather.
- An Enbridge pipeline explosion near Prince George in October 2018, significantly reduced natural gas supply to refineries in British Columbia and Washington state, causing gasoline and diesel supply shortages that in turn, resulted in higher gasoline and diesel prices; at the same time, demand for Canadian Crude Oil dropped significantly as those refineries dropped their production rates, significantly reducing Canadian crude oil prices.
- Extended unplanned refinery upsets on the US West Coast (PADD V) in the first quarter of 2019 created a significant shortage of gasoline across the Pacific North West, pushing the cash traded price for gasoline in the Pacific North West (Portland) significantly higher than other markets (e.g. Chicago and New York Harbour). As refinery capacity returned to 'normal', fuel supply returned to the market and the cash traded price for gasoline in the Pacific North West (Portland) dropped back into line with other markets (e.g. Chicago and New York Harbour).

20. Have there been any constraints relating to refinery or pipeline access since 2015? How has this affected the wholesale prices? Please explain.

Yes. Please see our answers to questions 15 and 19.

RETAILING OF GASOLINE AND DIESEL

21. Are there gasoline and diesel retail cost drivers which have substantially changed in the last 3-5 years?

Yes, the key cost drivers which have substantially changed in the last 3-5 years include:

- a 30% increase in overall petroleum costs (gasoline/diesel both have similar increase)
- a 30% increase in maintenance costs
- a 20% increase in rental expenses
- a 21% increase in the BC minimum wage

22. What are the factors affecting your retailing margin for gasoline and diesel, and how have these factors changed since January of 2015.

Factors that affect the retail margin (on an ex-tax basis) are:

- Competitive pricing in each unique market (Suncor must match competitive pricing on a site by site basis)
- Local supply and demand at a micro market level
- Retail costs, including:
 - Utilities (Electricity, Natural Gas)
 - Property taxes
 - Labour costs – wages, taxes, fees, benefits
 - Site maintenance
 - Secondary freight – from the supply location to the site
 - Transaction Fees
 - Other overhead costs – promotional costs, advertising, etc.
- Throughput – economy of scale
- The wholesale price of gasoline and diesel in each unique market

Retail costs such as labour, utilities, and property taxes, etc. have risen since 2015.

a. Please explain the correlation between your retail price for gasoline and diesel and your wholesale costs.

As discussed above, the wholesale (rack) price is one factor that drives the retail price for gasoline and diesel. Suncor described the other factors in Question 18. Moreover, local, provincial and federal taxes significantly increase the price of gasoline and diesel in British Columbia.

23. How does your retailing margins in BC compare to your retailing margins in other markets within Canada? Please provide any supporting data, where possible.

Suncor is not prepared to provide its retailing margins at controlled sites as this information is competitively sensitive.

Suncor cannot comment on the retail margins at non-controlled sites as it does not have access to this information.

BCUC can calculate a gross retail margin by comparing daily average retail gasoline prices reported by Kent vs. reported daily average wholesale gasoline prices for each unique market within British Columbia and Canada. BCUC would need to do so on an “ex-tax” basis to account for levies and taxes that are unique to particular regions in the province and the rest of Canada (e.g. dedicated TransLink tax).

Vancouver retail prices change daily with daily wholesale price changes. Retail prices in other regions of the Province may lag wholesale price increases and decreases for short periods, but will correlate to changes in wholesale prices over longer periods.

24. How do seasonal variations in supply and demand affect your retail margins?

Price fluctuations at the retail level result primarily from changes in wholesale pricing (rack price) as retail costs tend to be more ratable and tied less to seasonality. Retail margins in some micro markets can improve during periods of higher demand and reduce during periods of lower demand due to local market dynamics.

Seasonal fluctuations in wholesale (rack) prices can impact retail margins. For example, production and refining operating costs increase during the winter due to the impact of cold climate conditions on maintenance, transportation and other costs. Demand for refined products also typically increases in the summertime as consumers tend to drive more.

25. Where do you sell your gasoline in BC? Where do you sell your diesel in BC? How many retail station do you own, lease or franchise?

Suncor currently has 229 Petro-Canada branded retail stations in BC:

- 179 of these sites sell both gasoline and diesel. The remaining 50 so only gasoline or diesel.

- Suncor is responsible for setting the pump price at 117 of the 229 Petro-Canada locations (controlled sites) while the remaining 112 Petro-Canada locations are operated by Petro-Canada retailers where Suncor is not responsible for setting the pump price (non-controlled sites).

26. Where are your sources of supply and how are they transported to your retail locations? Please explain if this has changed since 2015

Suncor's primary sources of supply for British Columbia are its terminal locations in British Columbia:

- Burrard (Greater Vancouver)
- Nanaimo
- Terrace
- Kamloops

Suncor also obtains supply from the following terminals:

- Suncor's terminal located at the Edmonton Refinery
- Husky's terminal in Price George

All retail products are transported from the terminal or bulk plant to the retail site by truck. This has not changed since 2015.

27. What factors do retailers selling your product consider when setting prices across BC? Please explain the factors that affect retail price differences in BC.

For Suncor's controlled sites (were Suncor sets the price of fuel sold) the factors include:

- the prevailing market prices for retail gasoline and diesel products in each market within British Columbia; and
- the wholesale prices for retail gasoline and diesel products in each market within British Columbia.

Suncor cannot comment on what factors retailers consider to set prices at non-controlled Petro-Canada sites (Suncor does not set the price of fuel sold).

28. Please discuss any seasonal variations that are taken into account when setting the retail prices within BC.

See response to question 24 above.

29. Please provide information on your monthly average retailing margin per litre of gasoline and diesel since January 2015 (by grade if possible).

BCUC can review daily average retail gasoline and diesel prices as reported by Kent by major market.

Suncor is not prepared to provide monthly average retailing margin as this information is competitively sensitive.

RE: BCUC Inquiry into Gasoline and Diesel Prices in British Columbia and SUNCOR ENERGY comments to BCUC Consultant Reports Exhibit A2 and A2-1

Intervener: Suncor Energy

Submission Date: June 27, 2019

Deetken Group Independent Consultant Report Exhibit A2-1

The report acknowledges that 40% of gasoline and 45% of diesel demands are supplied from BC production – so imports from Alberta and the US meet the majority of the province’s demands. In the conclusion and next steps it states:

The forthcoming Phase 2 report will analyze the contributors to the divergence in BC’s gasoline price behaviour from other areas in Western regions

At this time, areas of inquiry are likely to include:

- *Competition*
- *Operational costs*
- *Supply access & transportation costs*
- *Regulatory framework*

There appears to be no mention of a comparison to relevant US benchmarks in phase 2 in particular Pacific Northwest Portland (PNW). With US imports supplying a significant portion of the market this would be a significant gap in the analysis. PNW is a relevant reference especially for the Lower Mainland and the Island.

A comparison of wholesale prices between Vancouver and relevant US benchmarks should be part of the second part of the analysis unless “Western Regions” includes US benchmarks.