



Imperial Oil
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June 27, 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 – Survey Questionnaire Responses

On behalf of Imperial Oil ("**Imperial**"), I enclose a copy of information in answer to the BCUC's request to answer the questions posed in the questionnaire attached as Appendix C to BCUC Order G-112-19, dated May 24, 2019.

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

Sincerely,

A handwritten signature in black ink, appearing to read "Brian Scammell", written over a horizontal line.

Brian Scammell
Revenue Management Lead
Encl.

IMPERIAL OIL
Responses to Questionnaire attached as
Appendix C to BCUC Order G-112-19 dated May 24, 2019

Crude Oil Supply

Question	Comments
<p>1. What are your sources and types of crude oil supply? Please outline any significant changes that have occurred to your sources and grades of crude oil supply since January 2015.</p>	<p>Imperial uses a variety of crudes at its Strathcona refinery - both sweet and sour - including lights, synthetics and heavies. These crudes come from various fields in Alberta and Imperial's Norman Wells, NWT, production operation.</p> <p>Since 2015 there have been no significant changes to the sources and types of crude oil used at Strathcona refinery.</p>
<p>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.</p>	<p>Crude oil is transported to Strathcona refinery by pipeline.</p> <p>There have been no changes to that transportation method since 2015.</p> <p>The vast majority of the crude oil supply for Strathcona refinery is sourced from various producers in Alberta. Crude oil transportation costs from these producers to Strathcona refinery are included in the delivered price and are not separately provided.</p> <p>A small portion of Imperial's crude oil for Strathcona is sourced from Imperial's own production at Cold Lake (used primarily in the production of asphalt) and Norman Wells and is transported by pipeline to Strathcona at published pipeline tariff rates. The tariffs for these pipelines are publicly available from the National Energy Board or the pipeline operator.</p>
<p>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.</p>	<p>Imperial's crude inventory valuation and changes to Imperial's crude oil supply cost do not affect the price of its gasoline and diesel; neither crude inventory valuation nor Imperial's crude oil supply cost are factored into Imperial's wholesale prices for its gasoline and diesel. Accordingly, a change in Imperial's crude oil supply cost does not affect the price of Imperial's refined products.</p> <p>Please see the answer to question 17 for a more detailed response.</p>

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Refining of Petroleum Products

Question	Comments
<p>4. What are your refining cost drivers? Are there refining cost drivers which have substantially changed in the last 3–5 years?</p>	<p>As noted above, changes in refining cost drivers are not factored into Imperial’s wholesale gasoline and diesel prices.</p> <p>Major refining cost drivers are:</p> <ul style="list-style-type: none"> • crude oil costs; • energy cost (natural gas); • planned and unplanned maintenance cost (planned maintenance costs are sometimes referred to as “turnaround” costs); • other operating costs such as salaries, wages and benefits, and catalyst/chemicals needed for the refining process); • depreciation related to capital expenditures; and • taxes. <p>The following refinery cost drivers have substantially changed in the last five years:</p> <ul style="list-style-type: none"> • The price of crude oil has fluctuated substantially since 2015; and • Imperial executed a major planned maintenance project at Strathcona refinery in 2018.
<p>5. What are the key factors affecting your refining margin (crack spread)?¹ Have there been any significant changes since January of 2015?</p>	<p>Refining margins are not factored into Imperial’s wholesale gasoline and diesel prices.</p> <p>The key factors impacting (net) crack spreads are:</p> <ul style="list-style-type: none"> • crude oil costs; • refinery costs (see answer to question 4 for list of major refining cost drivers); • U.S. dollar foreign exchange rate (crude oil is purchased in U.S. dollars); • regulatory compliance costs; • transportation and storage costs for refined products; • overhead such as salaries, wages, benefits and other costs related to the marketing of refined products; • wholesale rack price for refined products (please see answer to question No. 17 for additional detail on wholesale rack prices); and • taxes.

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	<p>Changes in last 5 years:</p> <ul style="list-style-type: none"> • due to pipeline apportionment: <ul style="list-style-type: none"> ○ finished product movements to British Columbia by rail and marine vessel have increased; ○ new rail loading and offloading infrastructure were procured; ○ additional storage facilities were procured; • crude oil cost fluctuations; • increased regulatory compliance obligations and costs (e.g., Low Carbon Fuels Standard in British Columbia); • changes in the U.S. dollar foreign exchange rate; • changes to U.S. finished product benchmarks; and • Strathcona refinery experienced a major planned maintenance project in 2018.
<p>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.</p>	<p>Imperial Oil generally produces the following refined finished products¹:</p> <ul style="list-style-type: none"> • Gasoline • Diesel • Jet fuel • Aviation Gasoline • Asphalt • Propane • Heavy Fuel Oil <p>Changes to demand for refined products in B.C. and in other Canadian provinces are summarized by Statistics Canada and can be found on their website located at: https://www150.statcan.gc.ca/t1/tbl1/en/cv.action?pid=2510004401.</p>

¹ This does not include intermediates.

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<p>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?</p>	<p><u>A. Gasoline</u></p> <p>In British Columbia and other Canadian provinces seasonal variation for the demand of gasoline is generally based on consumer driving patterns, with gasoline demand peaking in the summer and reaching a low in the winter as consumers drive less.</p> <p><u>B. Diesel</u></p> <p>In British Columbia and other Canadian provinces the demand for diesel is generally tied to the prominent industries in that province (for example demand may increase in the spring, summer and fall when agriculture is more prominent and may peak in January to March when oil and gas activity is prominent).</p> <p>Imperial’s wholesale price for gasoline and its wholesale price for diesel are influenced by relevant U.S. finished product benchmark prices which tend to reflect general seasonal supply/demand trends. Other local factors also impact the price, as identified in the response to Question 17 below.</p> <p>There have been no significant changes to these seasonal variations since January 2015.</p>
<p>8. Does your refinery generally operate at full capacity? If not please explain.</p>	<p>Imperial’s refinery utilization nationally² was approximately 90% on average between 2014 and Q3 2018. Most refineries do not operate at 100% capacity. This is mostly due to planned/unplanned maintenance and outages.</p> <p>For example, the National Energy Board has indicated that in 2017, Canadian refineries operated at 84% of their capacity.” (http://www.neb-one.gc.ca/nrg/sttstc/crdlndptrlmprdct/rprt/2018rfnryrprt/2018cndnrfnrvrvw-eng.pdf).</p>
<p>9. How does your refining margin compare to other refiners: a. elsewhere in Canada? Please provide data and information by year.</p>	<p>Imperial does not know the refining margins of other refiners.</p>

² This includes Imperial’s Ontario refineries.

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b. elsewhere in your market area?	
10. Please provide information on your monthly average refining margin per litre of gasoline and diesel since January 2015 (by grade if possible).	Given the commercial and competitive sensitivity of this information and the impact its disclosure could have on Imperial's business, Imperial respectfully declines to answer this question.

Transportation, Distribution and Storage

Question	Comments
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.	In the last three to five years: <ul style="list-style-type: none"> • Imperial has invested more in pipeline and terminal inspection and repair costs; and • as a result of pipeline apportionment on the Trans-Mountain Pipeline, Imperial has: <ul style="list-style-type: none"> ○ increased the amount of refined products it ships to British Columbia by rail and marine vessel, which are typically more expensive means of transportation than transportation by pipeline; and ○ secured increased storage to serve the Vancouver area and increased marine logistics from that facility to Imperial's existing distribution facilities in British Columbia.
12. Where are your gasoline storage terminals located?	In British Columbia, Imperial's designated gasoline terminals are located at Kamloops, Prince George, Vancouver and Nanaimo.
13. Where are your diesel storage terminals located?	In British Columbia, Imperial's designated diesel terminals are located at Kamloops, Prince George, Vancouver and Nanaimo.
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	Given the commercial and competitive sensitivity of this information and the impact its disclosure could have on Imperial's business, Imperial respectfully declines to answer this question.

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<p>explain whether your storage terminals operate at full capacity, at surplus capacity or if there are storage constraints.</p>	
<p>15. How is gasoline transported from refineries to your storage terminals? How is the diesel transported from the refineries to your storage terminals? Have there been any changes in transportation methods and costs since January of 2015?</p>	<p>Gasoline and diesel are transported primarily by pipeline, marine vessel, and rail.</p> <p>For changes to transportation methods and costs since January of 2015, please see the answer to Question 11 above.</p>
<p>16. How does your transportation and storage costs compare to other storage facilities: a. elsewhere in Canada? b. elsewhere in your market?</p>	<p>We interpret “other storage facilities” to mean storage facilities of other companies. Imperial does not know the transportation and storage costs of other companies’ storage facilities.</p>
<p>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?</p>	<p>The wholesale price for gasoline or diesel in a given area is determined by the competitive supply and demand dynamics for each of those products. The wholesale price will land at the point where available supply and demand reach a balance.</p> <p>The competitive supply and demand factors include (i) what customers in that area are willing to pay for the product as compared to their alternatives, and (ii) what other competitors are willing to sell their product for as compared to their alternatives. If one competitor drops its price to attract new customers, others may drop their price to retain their customers and/or attract new customers.</p> <p>Factors that influence the setting of wholesale prices may include (i) relevant U.S. finished product benchmark prices (e.g., wholesale prices in British Columbia may be influenced by Chicago spot prices and Pacific Northwest spot prices since finished products priced in terms of such benchmarks can be shipped to British Columbia), (ii) U.S. – Canadian foreign exchange rates; and (iii) local factors such as transportation and storage costs, regulatory compliance costs (e.g., Low Carbon Fuels Standard in British Columbia) and supply disruptions.</p> <p>It is understood that, over time, general trends in North American crude prices may influence U.S. finished product benchmark prices.</p>

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	Generally, there are no seasonal variations in transportation, storage or distribution operations that affect Imperial's wholesale price for gasoline or diesel.
18. What are the factors your company considers when setting the price for your fuel services?	Imperial considers "fuel services" to be fuel management services primarily for business to business sales (non-retail), which services typically include tank monitoring, inventory monitoring, fuel reconciliation, and management of fuel costs. The price for fuel services will be negotiated by arm's length parties, on a case-by-case basis.
19. Have there been any constraints since January of 2015 in sourcing refined petroleum and diesel products? Please explain.	With the exception of occasional operational disruptions experienced by its refined products suppliers, Imperial has not faced any constraints in sourcing refined gasoline and diesel products in British Columbia.
20. Have there been any constraints relating to refinery or pipeline access since 2015? How has this affected the wholesale prices? Please explain.	Yes. The apportionment of refined products on the existing pipeline into British Columbia has constrained the movement of gasoline and diesel into British Columbia, which has required increased movement of gasoline and diesel by alternative means (i.e., rail and/or marine vessel).

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Retailing of Gasoline and Diesel

Question	Comments
21. Are there gasoline and diesel retail cost drivers which have substantially changed in the last 3-5 years?	Imperial does not own, operate or set prices at any retail locations in British Columbia or elsewhere and is therefore not in a position to respond to these questions.
22. What are the factors affecting your retailing margin for gasoline and diesel, and how have these factors changed since January of 2015. a. Please explain the correlation between your retail price for gasoline and diesel and your wholesale costs.	
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.	
24. How do seasonal variations in supply and demand affect your retail margins?	
25. Where do you sell your gasoline in BC? Where do you sell your diesel in BC? How many retail stations do you own, lease or franchise?	
26. Where are your sources of supply and how are they transported to your retail locations? Please explain if this has 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.	
28. Please discuss any seasonal variations that are taken into account when setting the retail prices within BC. a. What factors do retailers consider when setting intraday and intraweek prices?	
29. Please provide information on your monthly average retailing margin per litre of gasoline and diesel since January 2015 (by grade if possible).	