



July 10, 2019

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| BCUC INQUIRY INTO GASOLINE AND DIESEL PRICES IN BC EXHIBIT A-8 |
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To: Interveners

Re: British Columbia Utilities Commission – An Inquiry into Gasoline and Diesel Prices in British Columbia – Project No. 1599007 – Oral Workshop Questions

By Order G-112-19 dated May 24, 2019, the British Columbia Utilities Commission (BCUC) established an inquiry into gasoline and diesel prices in British Columbia (Inquiry). The regulatory timetable and terms of reference of the Inquiry can be found on the [proceeding webpage](#) on the BCUC website.

The BCUC's letter dated July 9, 2019 provided information about the structure and format of the Oral Workshop ([Exhibit A-6](#)). In that letter, the Panel indicated that it will notify interveners of the subject area, where possible, prior to the commencement of the Oral Workshop. However, interveners should be prepared to answer any questions posed by the Panel.

Appended to this letter are questions that the Panel intends to ask interveners at the workshops. Questions are directed to specific interveners, however other interveners are invited to respond as well.

The Panel would like interveners to consider addressing some, or all, of the relevant questions listed in Appendix 1 in their presentations. If you choose to address these questions in your opening remarks, it will not count towards the up to 40 minutes allocated for opening remarks.

The Panel has reviewed the evidence submitted to date. Opening remarks or presentations should only include new factual material and should not reiterate information already filed unless required to provide context.

As indicated in the July 9, 2019 letter, once all interveners have had an opportunity to provide opening remarks, question the BCUC's experts and answer questions from the Panel, they will have an opportunity to provide closing remarks including whether or not additional rebuttal evidence or undertaking is required.

Sincerely,

Original signed by:

Patrick Wruck
Commission Secretary

/dc
Enclosure

| # | High Level Key Issues Summary | Questions for Interveners |
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| 1 | TRANSPORT (Crude to Refinery) | |
| 1A | <p>Trans Mountain (Tariffs and Aftermarket prices)</p> <p>Parkland states when the Burnaby Refinery requires space on Trans Mountain to source sufficient crude, it must either purchase aftermarket line space from other shippers on the line or use alternate sources such as crude delivered by rail, neither of which is efficient or as cost effective as paying approved tolls on the Trans Mountain Pipeline. Aftermarket pipeline purchases come at a significant premium: the average successful bid has ranged from \$70/m³ to in excess of \$340/m³ CAD. These bid values equate to approximately 7 to 34 times the Trans Mountain Pipeline base tariff.</p> <p>Aftermarket prices seem to indicate there may be capacity issues in the TMPL.</p> | <p>Questions for Parkland:</p> <ul style="list-style-type: none"> i. How do the ‘aftermarket’ prices on Trans Mountain Pipeline compare with the cost of delivering crude and petroleum products from Edmonton by rail or by truck? ii. Is the ‘aftermarket’ price on Trans Mountain a good indicator (proxy) for rail or truck delivery cost? iii. Has the ‘aftermarket’ price on Trans Mountain Pipeline changed since 2015? <p>Questions for NEB:</p> <ul style="list-style-type: none"> iv. Please comment on these statements and explain the extent to which TMPL contributes to BC’s supply of crude oil. |
| 1B | <p>Husky’s crude supply transportation cost</p> <p>Husky sources its crude oil supply from local producers in Northern BC. Husky primarily transports crude oil to its Prince George Refinery via the Pembina West Pipeline. Staff note that the toll of that pipeline increased from \$15 CAD/m³ in January 2015 to \$61 CAD/m³ in September 2016.</p> | <p>Question for Husky:</p> <ul style="list-style-type: none"> i. How has the increase in pipeline tolls affected their business and refining margin? |

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| 2 | REFINERIES | |
| 2A | <p>Refinery unavailability Shell also notes there have been instances of combined planned and unplanned refinery unavailability in the Pacific NW (US) and western Canada.</p> | <p>Questions for Parkland and Husky:</p> <ul style="list-style-type: none"> i. Do refineries coordinate with other refineries to plan maintenance/repairs and shut-downs? Is the scheduling of these shut-down periods flexible? ii. How do refineries manage inventories during these shut-down periods? What is the impact on prices during these shut-down periods? iii. What is your experience with periods where refineries have been unavailable in recent years? iv. What do buyers do to mitigate the risk of planned and unplanned refinery outages? v. Where there have been refinery outages in the US, what has been the impact on your wholesale prices and how determinative is this with respect to BC pricing? <p>Questions for Suncor, Super Save, Parkland, Husky, Imperial, 7-Eleven and Shell:</p> <ul style="list-style-type: none"> vi. What do buyers do to mitigate the risk of planned and unplanned refinery outages? vii. What is the price differential between summer and winter gasoline and diesel prices? |
| 2B | <p>Wholesale or “Rack” price Imperial Oil submits that the crude oil supply cost and the refining cost drivers are not factored in the wholesale gasoline and diesel prices. Instead, the wholesale or “rack” price is based upon relevant U.S. finished product benchmark prices (e.g., wholesale prices in BC may be influenced by Chicago spot prices and Pacific NW spot prices since finished products priced in terms of benchmarks can be shipped to BC). Other factors influencing the wholesale</p> | <p>Questions for Suncor, Parkland, Husky and Shell:</p> <ul style="list-style-type: none"> i. Do you agree with Imperial’s submission about setting rack prices? ii. If so, do you set your rack price based on Imperial’s approach? iii. If not, how does your company set the rack price? |

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| | <p>price include foreign exchange and regulatory compliance costs.</p> <p>Husky's submission is similar to Imperial Oil, but the difference is that Husky follows Suncor's rack price and does not set their own. Husky states:</p> <p style="padding-left: 40px;">The price of refined products sold by Husky is not set based on the cost of crude oil supply or value of refined products inventory. The Refinery prices its refined products off the Prince George rack prices posted by Suncor, Imperial and Shell. Husky does not currently post a rack price in Prince George or elsewhere in Canada for refined products.</p> | |
| 2C | <p>Husky's comparator rack price</p> <p>Husky says that they don't currently post a rack price in Prince George or elsewhere in Canada for refined products. Husky's refinery prices its products off the Prince George rack prices posted by Suncor, Imperial and Shell.</p> | <p>Questions for Husky:</p> <ul style="list-style-type: none"> i. Why does Husky choose not to post a rack price? |

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| 2D | <p>Functioning market for supply for retailers of gasoline and diesel</p> <p>Dr. Kahwaty submits:</p> <p>“There are multiple sources for the supply of gasoline and diesel for retailers in British Columbia. Both Parkland and Husky Energy own and operate refining assets in the province. Parkland’s refinery is located in Burnaby and Husky’s refinery is located in Prince George. Other refiners like Imperial Oil, Suncor and Shell operate in Alberta and ship refined products into British Columbia, primarily using the Trans Mountain Pipeline. In addition, British Columbia imports gasoline and diesel supply from refineries located in Washington.”</p> <p>In addition to the refiners some of which are vertically integrated and supply to their owned/controlled retailers there are many wholesalers that provide gas and diesel to retailers.</p> <p>Allan and Eliesen submit that there is a significant concentration of market power vested in four refiners. They submit that “BC’s market exhibits all these characteristics, suggesting that not only is the gasoline and diesel market in BC highly concentrated, it is also ripe for unfair pricing practices.”</p> | <p>Questions for Parkland/Dr. Kahwaty and Suncor:</p> <ul style="list-style-type: none"> i. To what extent does the competitiveness of the wholesale market provide assurance that the rack prices are competitive? <p>Question for all Companies:</p> <ul style="list-style-type: none"> ii. There are low and sometimes negative margins on crude oil. Do refiners/marketers make up for these low margins on refined products? |

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| 2E | <p>Marginal cost – Parkland, evidence by Dr. Kahwaty Dr. Kahwaty submits that the marginal cost product is Pacific Northwest supply.</p> | <p>Questions for Parkland:</p> <ul style="list-style-type: none"> i. In tight supply circumstances what evidence is there of product movement from the US to BC market? How much is imported and in what circumstances? |
| 2F | <p>Allan and Eliesen claim that BC does not have to rely on external US sources. Instead they claim that capacity exists to deliver sufficient quantities of refined product from Alberta.</p> | <p>Questions for Parkland and oil companies:</p> <ul style="list-style-type: none"> i. Is it feasible for Parkland or other oil companies to divert refined product from the BC Market in the event that gas prices in the Pacific Northwest are sufficiently high to justify it? If so, what is the total capacity available to move this product? How would this impact BC prices? ii. In what circumstances would companies divert refined product to other markets when gas prices are lower in BC than elsewhere in the Pacific Northwest and how often does this occur? |
| 2G | <p>Allan and Eliesen references Port of Vancouver imports and exports.</p> | <p>Questions for Allan and Eliesen:</p> <ul style="list-style-type: none"> i. As these terms are used by the Port of Vancouver are all “imports” and “exports” international? Or does the Port just capture ins and out from the harbour (i.e. domestic and international)? |
| 2H | <p>Refining Margin The NEB has stated that in April 2019, the refining margin for regular gas in Vancouver averaged 52.1 cents/litre which is double the Canadian Average refining margin and the marketing margin averaged 10.5 cents/litre which is approximately 54% higher than the Canadian marketing margin.</p> | <p>Questions for all:</p> <ul style="list-style-type: none"> i. Is this statement correct? If not, why not ii. What factors have contributed to this divergence? iii. Please confirm that this divergence results from competitive market dynamics and is not related directly to cost of production or operation. Please provide your reasoning. |

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| | | <p>Question for refiners:</p> <ul style="list-style-type: none"> i. What is the relationship between rack price and the pricing in supply agreements with marketers and other customers? ii. Are most supply agreements marked to rack price? iii. How are benchmarks for rack pricing established? |
| 2I | <p>Refining capacity BC has low capacity but there are other Provinces with no refining capacity</p> | <p>Question for all companies:</p> <ul style="list-style-type: none"> i. Why are retail prices lower in provinces with no refining capacity? ii. If refinery margins are high, then why does there seem to be no interest in building new refineries in BC or expanding existing refineries in BC? |
| 2J | <p>No supply challenges Imperial Oil submits that 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.</p> | <p>Question for Imperial:</p> <ul style="list-style-type: none"> i. How does this stack up against the commentary that we have a very supply constrained market? <p>Questions for Suncor, Super Save, Parkland, Husky, Imperial Oil, 7-Eleven and Shell:</p> <ul style="list-style-type: none"> ii. Have these companies experienced challenges in sourcing supply? If not, why not? If so, at what price was refined gasoline and diesel products not available at all? iii. How many times have there been supply shortage since 2015? How did it affect wholesale prices? Show in graphs. iv. What signals are read to indicate a future shortage, and when they occur, is the wholesale margin increased? If the price is increased, does it reduce demand sufficiently enough to alleviate the shortage? |

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| | | <p>Questions for all oil companies:</p> <ul style="list-style-type: none"> v. In 2018 and 2019, what amounts of refined gasoline and diesel are imported to BC from the US, and during what periods? |
| 2K | <p>Allan and Eliesen commented that “what is unclear is how refinery shortages in far off markets can be used to rationalize price spikes in gasoline, but when it comes to diesel there does not appear to be a corresponding impact despite the fact both gasoline and diesel are produced from every barrel of crude in relative to proportion</p> | <p>Questions for Suncor, Parkland, Imperial Oil, Shell, 7-Eleven</p> <ul style="list-style-type: none"> i. Please comment on this statement <p>Questions for Suncor, Parkland, Imperial Oil, Shell:</p> <ul style="list-style-type: none"> ii. Where there have been refinery outages in the US, what has been the impact on their wholesale prices and how determinative is this with respect to BC pricing? |
| 2L | <p>BC Low Carbon Fuel Requirements and BC Clean Fuel Standards</p> <p>Suncor state that their main changes over the last 3-5 years relate to the implementation of the BC Low Carbon Fuel Requirements (BC LCFRR) and the preparation of the BC Clean Fuel Standards, and how these changes have increased both the regulatory compliance costs and the operating and capital costs with the production of diesel for sale in BC, particularly in relation to meeting blending requirements.</p> <p>Only California and BC have the low carbon fuel standards.</p> | <p>Questions for Suncor, Super Save, Parkland, Husky, Imperial Oil, 7-Eleven and Shell:</p> <ul style="list-style-type: none"> i. What is the cost per litre to comply with BC LCFRR and estimated costs for compliance with BC Clean Fuel Standards? And how does these compliance costs compare to regulatory compliance costs in other provinces in Canada, as well as other PADD 5 regions. ii. How much, if any, do refineries spend on credits in BC? iii. What effect, if any has storage constraints related to the storage and blending of biofuels affected prices, and has there been any changes in prices after the re-allocation of storage to accommodate these regulatory requirements? |

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| 3 | TRANSPORT (Refined products to wholesaler) | |
| 3A | <p>Trans Mountain Pipeline apportionment – movement to truck, rail and marine transport</p> <p>Imperial Oil submits that since 2015 the apportionment of refined products on the existing Trans Mountain Pipeline into BC has constrained the movement of gasoline and diesel into BC, which has required increased movement of gasoline and diesel by rail and/or marine. Rail and marine transportation is more expensive than pipeline.</p> <p>Imperial Oil has also secured increased storage to serve the Vancouver area and increased marine logistics from that facility to Imperial’s existing distribution facilities in BC.</p> <p>Suncor states that “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.”</p> | <p>Questions for Imperial:</p> <ul style="list-style-type: none"> i. How much more expensive are these alternative methods of transportation compared to the pipeline? Please provide dollar values and/or percentages. <p>Questions for all companies:</p> <ul style="list-style-type: none"> ii. To what extent do Suncor, Imperial, Parkland and Shell rely on TMPL versus other transportation methods such as rail, truck and marine to transport product to BC. iii. Has the increased reliance on alternative more expensive methods of transport reduced your supply volumes to BC? iv. What are the marine logistics? <p>Questions for Shell:</p> <ul style="list-style-type: none"> v. How much does it cost for Shell to ship from Alberta to BC markets by each market? <p>Questions for Suncor, NEB, Parkland and Husky:</p> <ul style="list-style-type: none"> vi. How has the Trans Mountain Pipeline apportionment impacted transportation costs? What about other costs? vii. How does the unit cost (\$ per m3) of transporting refined petroleum product by rail and truck compare with tariff prices on Trans Mountain? How does it compare with aftermarket prices on Trans Mountain? viii. To what degree has your company passed the extra transportation costs, if at all, to consumers? |
| 3B | <p>Trans Mountain capacity utilization</p> <p>Allan & Eliesen state Trans Mountain has had capacity to deliver refined product to the BC market —but it was not</p> | <p>Questions for NEB</p> <ul style="list-style-type: none"> i. What percentage of the 54,000 barrels per day contracted by shippers to the Westridge Marine Terminal is being resold in the aftermarket? |

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| | <p>used. Further Allan & Eliesen state “analysis... reveals that the capacity on Trans Mountain is 400,000 barrels a day, falling to 300,000 barrels a day only if 20 percent of the capacity is taken up by heavy oil. Trans Mountain rarely ships 20 percent heavy crude and therefore capacity is generally greater than 300,000 barrels a day.”</p> <p>Allan & Eliesen depict NEB data showing that the volume of refined products via TMPL has declined in recent years</p> <p>Allan & Eliesen also claim there were 97000 barrels a day of TMPL capacity in the 1st Quarter of 2019 which was not used.</p> <p>The NEB states capacity on the Trans Mountain pipeline varies depending on the proportion of heavy and light crude oil and RPPs that shippers choose to transport. When 20% of pipeline throughput is heavy crude oil, the capacity of the pipeline is approximately 300,000 barrels a day...the average utilization rate on the pipeline was 98.5% in the first quarter of 2019. In recent years, all available capacity on the Trans Mountain pipeline has been utilized by shippers each month.</p> <p>The NEB also states of the capacity, 54,000 barrels a day has been contracted by shippers to the Westridge Marine Terminal, while the remaining capacity is available to uncommitted shippers each month.</p> | <p>ii. What percentage of contracted service to the Westridge Marine Terminal is resold in the aftermarket to shippers of light oil and refined petroleum products?</p> |

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| 4 | MARKETERS and WHOLESALERS (Terminals and Storage) | |
| 4A | <p>Retail cost drivers</p> <p>Suncor state that the key cost drivers which have substantially changed in the last 3-5 years include:</p> <ul style="list-style-type: none"> • 30% increase in overall petroleum costs • 30% increase in maintenance costs • 20% increase in rental expenses • 21% increase in BC minimum wage | <p>Questions for Suncor, Parkland, Shell, Imperial Oil and Shell:</p> <ul style="list-style-type: none"> i. How do BC's increases compare to the rest of Canada? ii. How do these costs compare with urban areas vs rural areas? iii. Please explain how these cost increases translate to cost per litre of gasoline/diesel. |
| 4B | <p>Benchmark Spot prices for finished prices</p> <p>Parkland states that "fuel traders will buy and sell gas and diesel based on requirements. As an example, if the refineries in Vancouver and US West Coast market are running at full capacity and supply is greater than demand, you may see fuel traders discount the prices of gas or diesel in the PNW marketplace to sell the excess product faster. The aforementioned example will reduce the PNW benchmark spot prices because of the need to sell excess product. When setting fuel prices in Vancouver, the benchmark spot prices for the PNW are incorporated"</p> | <p>Question for Parkland:</p> <ul style="list-style-type: none"> i. How many fuel traders are there in the PNW and Chicago spot markets? Are there enough fuel traders to consider this to be an open and transparent market? |
| 4C | <p>Advanced Biofuels – refiner sale arrangements with wholesalers</p> <p>ABF submits that marketers/wholesalers have very little influence over price. Wholesalers are locked into supply agreements and are not free to buy from any refiner. Retail margins are a very small component compared to refining and crude oil.</p> | <p>Questions for Suncor, Super Save, Parkland, Husky, Imperial Oil, 7-Eleven and Shell:</p> <ul style="list-style-type: none"> i. How is the rack price established? ii. To what extent do independent wholesalers have the flexibility to switch between suppliers? |

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| | | <p>Question for Suncor:</p> <ul style="list-style-type: none"> iii. What is the difference between controlled retailers vs. not controlled with regards to setting price? |
| 4D | <p>The data show that the ability of retailers to control prices is extremely limited; the reality of price control in the Vancouver (and broader BC market) is that refiners exercise the vast majority of control over prices that motorists see at the pump. Further, incidents in other markets shows the lack of market power that non-refiner retailers have to control prices when they compete in a market with refiner owned stations.</p> | <p>Question for Advanced Biofuels</p> <ul style="list-style-type: none"> i. Can Advanced Biofuels provide verifiable evidence? |
| 4E | <p>Competitive activity</p> | <p>Questions for all retailers and oil companies</p> <ul style="list-style-type: none"> i. Please provide examples from recent years of significant competitive activity at the retail level in a major urban area such as Vancouver or surrounding municipalities ii. In the last 10 years, have there been any activity which could be described as price wars occurring in the BC market? |
| 4F | <p>Vancouver and Victoria charge an extra tax. This means that those petrol stations outside the border of these cities charge less. If so, then the stations within the cities, but on the border could lose significant volume.</p> | <p>Questions for all retailers/marketers:</p> <ul style="list-style-type: none"> • What strategies are used to mitigate the potential loss of sales associated with unique, local/regional cost differences, such as higher taxes in one area vs another? |
| 5 | DISTRIBUTION AND RETAIL | |

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| 5A | Ancillary sales | <p>Question for Retailers</p> <ul style="list-style-type: none"> i. What percentage of your net sales is derived from ancillary sales? ii. What percentage of your operational profits are derived from ancillary sales? Are there geographic differences? |
| 5B | Full service options | <p>Question for Retailers</p> <ul style="list-style-type: none"> i. What percentage of your gas station operators offer full serve options in BC? What impact does this have on operating costs? |