

PARKLAND FUEL CORPORATION UNDERTAKING NO. 2

Hearing Date: July 17, 2019

Transcript Reference: Volume 1, Page 191, Line 16 to Page 192, Line 14

Requestor: Chairman Morton

Witness: Dr. Kahwaty

Question: Is there economic data supporting land values being a driver of retail prices generally in Vancouver?

Response:

Data are not available that would allow me to make comparisons of pricing for specific products across geographies in a manner similar to, for example, the Deetken analysis comparing retail (margins) for a litre of regular gasoline in Vancouver to those in Edmonton, Calgary, Winnipeg, and Regina. Data are available, however, at a more macro level to compare the cost of living in Vancouver to other cities in Western Canada. The cost of living is based on pricing for a basket of products, not one specific product, like regular gasoline.

Expatistan.com collects data on pricing for a group of individual products and services in cities around the world, including Vancouver, Edmonton, Winnipeg, Calgary, and other cities and towns in Canada. These data allow Expatistan.com to calculate a cost of living index that can be used to compare across cities in Canada and elsewhere in the world. This cost of living index includes information on pricing for consumer goods and services, housing, utilities, and other living expenses. Based on Expatistan.com data, Vancouver and Toronto are tied as the most expensive cities to live in Canada. According to the index, the cost of living in Vancouver is 18% higher than the average of the Western Region cities.^{1,2} **Table 1** shows the index values for all the Canadian cities tracked in order from most to least expensive.

¹ The Western Region cities used to arrive at this figure were Edmonton, Calgary, Winnipeg, and Saskatoon. The Deetken retail margin comparisons used Edmonton, Calgary, Winnipeg, and Regina. The index reported includes Saskatoon and not Regina because the Expatistan.com data for Regina are based on a smaller number of observations, and the Regina index, therefore, is not available on Expatistan.com. Saskatoon and Regina are similarly-sized cities separated by about 250 km, and I would not expect using Saskatoon instead of Regina to make a material difference in the analysis.

² In certain instances, the Deetken report excludes Winnipeg from the Western Region due to a lack of data. If Winnipeg is excluded from the Western Region, then the 18% figure adjusts to 17%.

Table 1
Cost of Living Index Across Major Canadian Cities
July 24, 2019

City, Province	Cost of Living Index
Vancouver, BC	173
Toronto, ON	173
Mississauga, ON	157
St. John's, NL	155
Victoria, BC	155
Calgary, AB	152
Ottawa, ON	152
Edmonton, AB	148
Kelowna, BC	147
Halifax, NS	144
Saskatoon, SK	143
Winnipeg, MB	143
Hamilton, ON	143
London, ON	137
Montreal, QC	134
Quebec City, QC	127

Note: The index uses Prague as the central reference city (index value of 100).

Source: *Expatisan – Expatisan's Cost of Living Map of North America*, available at <https://www.expatisan.com/cost-of-living/index/north-america>.

To examine this in a more granular way, I compared a sample of once a month expense items in Vancouver to the same items in the Western Region. Rent and public transport were more expensive in Vancouver, while utilities, internet, and a gym membership were less expensive in Vancouver than the average of the other cities. Given that rent is a comparatively large expense, monthly living expenses were substantially higher (roughly 38%) in Vancouver than the average in the Western Region.³ **Table 2** shows the sample of the recurring monthly expenses included in the analysis.

³ The 38% figure is unchanged if Winnipeg is dropped from the analysis. If Saskatoon is replaced by Regina, the figure adjusts to 36%.

Table 2
Select Monthly Expenses in Vancouver v. Canada's Western Region
July 23, 2019

Expense	Vancouver, BC	Western Region					Vancouver Premium (Discount)
		Edmonton, AB	Calgary, AB	Winnipeg, MB	Saskatoon, SK	Western Region Simple Average	
Monthly rent for 85 m2 (900 Sqft) furnished accommodation in NORMAL area	\$ 2,117.00	\$ 1,511.00	\$ 1,402.00	\$ 1,344.00	\$ 1,233.00	\$ 1,372.50	\$ 744.50
Utilities 1 month (heating, electricity, gas ...) for 2 people in 85m2 flat	\$ 159.00	\$ 250.00	\$ 214.00	\$ 234.00	\$ 177.00	\$ 218.75	\$ (59.75)
Internet 8 Mbps (1 month)	\$ 58.00	\$ 55.00	\$ 61.00	\$ 62.00	\$ 65.00	\$ 60.75	\$ (2.75)
Monthly ticket public transport	\$ 109.00	\$ 98.00	\$ 104.00	\$ 93.00	\$ 82.00	\$ 94.25	\$ 14.75
1 month of gym membership in business district	\$ 56.00	\$ 62.00	\$ 67.00	\$ 59.00	\$ 50.00	\$ 59.50	\$ (3.50)
Total	\$ 2,499.00	\$ 1,976.00	\$ 1,848.00	\$ 1,792.00	\$ 1,607.00	\$ 1,805.75	\$ 693.25

Note: Saskatoon has used in this table instead of Regina because Expatistan identifies the Saskatoon data as more reliable. Including Regina in this table in place of Saskatoon results in a total Vancouver premium of \$660 and does not make a material difference in the analysis. Excluding Winnipeg results in a total Vancouver premium of \$688.67, which also does not make a material difference in the analysis.

Source: Expatistan – Cost of Living by City, available at <https://www.expatistan.com/cost-of-living/all-cities>.

In addition to recurring monthly expenses such as those for housing and utilities, I examined prices for a sample of goods and services that may be purchased repeatedly by consumers, though not necessarily once per month. I compared the prices of the sample items in Vancouver to the prices in the same Western Canada cities as in **Table 2**. A majority of the items sampled were more expensive in Vancouver, however certain goods such as tomatoes and apples were more expensive elsewhere in the Western Region. Altogether, the sum of the prices for the sample items in Vancouver was \$24.63 or 13% higher than the sum of the prices for the sample items in the Western Region.⁴ **Table 3** shows the full sample of items and their respective prices in Vancouver, Edmonton, Calgary, Winnipeg, and Saskatoon, and the average of the Western Region cities.

⁴ The 13% figure adjusts to 12% if Winnipeg is dropped from the analysis. If Saskatoon is replaced by Regina, the figure becomes 14%.

Table 3
Prices of Select Consumer Goods and Services in Vancouver v. Canada's
Western Region
July 23, 2019

Item Description	Vancouver, BC	Western Region					Vancouver Premium (Discount)
		Saskatoon, SK	Calgary, AB	Edmonton, AB	Winnipeg, MB	Western Region Simple Average	
Basic lunchtime menu (including a drink) in the business district	\$ 17.00	\$ 18.00	\$ 17.00	\$ 16.00	\$ 16.00	\$ 16.75	\$ 0.25
Combo meal in fast food restaurant (Big Mac Meal or similar)	\$ 10.00	\$ 10.00	\$ 10.00	\$ 10.00	\$ 11.00	\$ 10.25	\$ (0.25)
500 gr (1 lb.) of boneless chicken breast	\$ 8.00	\$ 8.00	\$ 8.00	\$ 7.00	\$ 8.00	\$ 7.75	\$ 0.25
1 liter (1 qt.) of whole fat milk	\$ 2.56	\$ 1.95	\$ 1.85	\$ 1.99	\$ 1.69	\$ 1.87	\$ 0.69
12 eggs, large	\$ 4.75	\$ 3.29	\$ 3.60	\$ 4.10	\$ 3.14	\$ 3.53	\$ 1.22
1 kg (2 lb.) of tomatoes	\$ 3.75	\$ 3.71	\$ 4.34	\$ 3.60	\$ 4.85	\$ 4.13	\$ (0.38)
500 gr (16 oz.) of local cheese	\$ 15.00	\$ 10.00	\$ 9.00	\$ 10.00	\$ 9.00	\$ 9.50	\$ 5.50
1 kg (2 lb.) of apples	\$ 3.71	\$ 3.51	\$ 4.18	\$ 4.10	\$ 4.53	\$ 4.08	\$ (0.37)
1 kg (2 lb.) of potatoes	\$ 3.35	\$ 2.23	\$ 2.64	\$ 2.59	\$ 2.96	\$ 2.61	\$ 0.75
Hourly rate for cleaning help	\$ 29.00	\$ 27.00	\$ 26.00	\$ 21.00	\$ 19.00	\$ 23.25	\$ 5.75
Taxi trip on a business day, basic tariff, 8 km. (5 miles)	\$ 27.00	\$ 23.00	\$ 20.00	\$ 20.00	\$ 16.00	\$ 19.75	\$ 7.25
Standard men's haircut in expat area of the city	\$ 27.00	\$ 30.00	\$ 25.00	\$ 23.00	\$ 22.00	\$ 25.00	\$ 2.00
Basic dinner out for two in neighborhood pub	\$ 53.00	\$ 45.00	\$ 54.00	\$ 52.00	\$ 53.00	\$ 51.00	\$ 2.00
Cappuccino in expat area of the city	\$ 5.05	\$ 5.14	\$ 5.20	\$ 5.23	\$ 4.76	\$ 5.08	\$ (0.03)
Total	\$ 209.17	\$ 190.83	\$ 190.81	\$ 180.61	\$ 175.93	\$ 184.55	\$ 24.63

Note: Saskatoon has been used in this table instead of Regina because Expatistan identifies the Saskatoon data as being more reliable. Including data for Regina in this table in place of Saskatoon results in a total Vancouver premium of \$25.11 and does not make a material difference in the analysis. Excluding Winnipeg results in a total Vancouver premium of \$21.75 and does not make a material difference in the analysis.

Source: Expatistan – Cost of Living by City, available at <https://www.expatisitan.com/cost-of-living/all-cities>.

In my presentation to the Commission, I indicated that changes in costs, including increasing land values in Vancouver, are one of the factors that lead to increased retail price for fuel since 2015, an area of agreement between me and the Deetken Phase 2 report.⁵ That report observes “rising land costs and credit card processing fees may account for nearly the entire differential observed between Vancouver and comparable areas, at least up to the end of 2018.”⁶ The pricing and cost of living data show that

⁵ Presentation of Henry J. Kahwaty, Ph.D., The Markets for Gasoline and Diesel in British Columbia, An Inquiry into Gasoline and Diesel Prices in British Columbia Project No. 1599007, July 17, 2019, Slide 24, available at https://www.bcuc.com/Documents/Proceedings/2019/DOC_54619_C5-9-Parkland-OralWorkshop-DrKahwatySlides.pdf.

⁶ Deetken Group Phase 2: Analysis of Factors Contributing to BC's Gasoline and Diesel Price Behaviour, The Deetken Group, An Inquiry into Gasoline and Diesel Prices in British Columbia Project No. 1599007, July 10, 2019, p. 1, available at https://www.bcuc.com/Documents/Proceedings/2019/DOC_54513_A2-1-1-Deetken-IndependentConsultantReport-Phase2.pdf.

prices in general are substantially higher in Vancouver than in the Western Canadian cities analyzed in the Deetken Phase 2 report and that this differential in prices in Vancouver relative to other cities in Western Canada is not unique to retail gasoline prices.