LETTER OF COMMENT TO BCUC INQUIRY INTO GASOLINE AND DIESEL PRICES IN BC - Project #1599007

I am a lifelong resident of British Columbia and in particular of the Lower Mainland. I am a retail consumer of gasoline so have an interest in the subject matter of this Inquiry. I require and use approximately 3900 litres of regular gasoline per year for residential and work use. I am currently a lawyer but also have an Honours Degree in Economics from the University of British Columbia. I am making these comments on behalf of myself as a consumer and am not paid or solicited by any other party to make these comments. I have a personal interest in ensuring that all the gasoline products that I buy are competitively priced. All the information that follows was acquired by me from public sources and to the best of my knowledge does not come from any confidential sources.

In my view, the retail gasoline supply market is a classic example of a "working monopoly". This market has the three key ingredients for an oligopoly, 1) supplier of a relatively homogenous product, 2) relatively low number of producers/distributors, and 3) relatively high barriers to entry. I say working monopoly because there are more than one producer/distributor in this market but the numbers are small enough that as an oligopoly it can function as a working monopoly. I note that other jurisdictions such as Nova Scotia have recognized this and have regulated the price of gasoline in their markets as a result. I respectfully submit that we are no different in that respect. I would like to add that just because there is the ability to collude on pricing, doesn't mean that a working monopoly will collude. Exercising monopoly power to bring in monopoly pricing brings with it the risk of political backlash and the introduction of a regulatory framework when the market fails for the consumer in that way. As such for years, we have had the conditions that support a monopoly but not necessarily the prices that I would suspect to be monopoly pricing. That however has changed in the last few years.

Indicators of market failure

I want to start with a true story of my social studies teacher in grade 11 who asked a question of the class. He asked, is the fact that gasoline prices all over town are virtually identical proof of a monopoly on pricing. I was the only person who had the answer he was looking for. I said in a perfectly competitive market the price will be competed down to its lowest possible value and anyone who sells above that price will go out of business. Therefore in a competitive market the prices for a commodity like gasoline should all be the same. The teacher was thrilled at my answer and I later went on to obtain an Honours degree in Economics.

The point of this story is that what we have been seeing in gasoline pricing in Metro Vancouver for the last few years is markedly different than anything we have experienced previously. Price variations in the region have been remarkable with an up to 20 cent spread in prices in the same day. I am not talking about comparing inside the Metro Vancouver tax zone with outside (there has been an 11 cent tax spread between Metro Vancouver and the Fraser Valley as can be seen in the table below). I am talking about a price variation between gas stations within a neighbourhood, and at different times of the day where the price will drop at times 12 or up to 20 cents at night. I live in West Vancouver and work in Burnaby. Recently I have driven by gas stations in Burnaby saying 1.50/l and when i reach West Vancouver the price was 1.38/l. I have the gas receipts to prove it, from West Vancouver of course. This

pricing certainly contradicts the high land cost theory because West Vancouver commercial land prices are much higher than Burnaby. More importantly I submit this is a strong indicator of market failure. In a competitive market we would not see this. It is such basic economics that they teach it in some high schools.

Below I describe a price comparison between the regulated Halifax gas pricing with same day pricing in Vancouver, equalized for taxes. I have noticed over the last six months that the bottom of the range for gas prices in Metro Vancouver seems to closely match the tax equalized price in Halifax. What appears to be happening is we have this extraordinarily wide gas price range where the bottom seems to match the competitive price and the top is likely the monopoly price. In an imperfect monopoly one would expect variations of pricing within the range when individual distributors within an oligopoly grab extra market share based on localized conditions by dropping price. In a truly competitive market there is no room to drop price because the market has already been competed down to the lowest possible price. In the current Vancouver market there seems to be lots of room to have substantial variations in price.

I am hopeful that the Commission members are residents here so have seen the vast discrepancy in pricing on a daily basis. There are at least a million witnesses to this fact in Vancouver today, basically anyone who can read gas prices and travel around town. It is so well known as to be obvious so I did not document daily pricing variations around town to show you this but this fact should be beyond any doubt if you live in the region.

Another indicator of market failure is the fact that pricing in BC seems to completely violate the basic principles of economic geography. One of the basic tenets of economic geography is that pricing of a product goes up based on transportation cost from a Port. An international port like Vancouver should enjoy the lowest pricing and the cost away from Vancouver towards the interior of BC should go up based on transportation cost from the Port of Vancouver. In fact the opposite is occurring without any economically rational excuse.

On April 26, 2019 I drove from Vancouver to Penticton to attend a Law Conference. The price of regular gasoline in Vancouver that morning was generally $1.72/l. In order to equalize for taxes you would take the 11 cent difference in Metro Vancouver gas taxes off to make it the equivalent of $1.61/l outside of Metro Vancouver. Instead of the prices increasing on the drive through the mountains to Penticton, the prices decreased. In fact there was a dramatic decrease when I reached Princeton of $1.46/l and by the time I reached Penticton the price was $1.30/l at almost all the gas stations (one gas station was $1.29 revealing a price spread of only 1 cent). I did not see any wide variations of price, instead I found a virtually universal price around town of a $1.30/l. How is it that small villages along the way to Penticton had gas prices getting up to 30 cents cheaper than the Port of Vancouver? How is it that the Port of Vancouver has the most expensive prices in North America (or close to it when equalizing for taxes). This violation of the principles of economic geography is evidence of market failure in the retail pricing of gasoline in the Vancouver region.

When I returned home that weekend I put together a price comparison with Halifax gas pricing because the regulator in Nova Scotia publishes the price breakdowns weekly so it is easy see each component

and equalize for taxes. The regulator publishes the weeks numbers on Friday (shown below) which is the same day I drove to Penticton. The price comparison therefore compares virtually the same day of prices.

Nova Scotia Utility and Review Board
Petroleum Product Pricing
Breakdown of Weekly Prices - Zone 1
Effective date: **April 26, 2019**

The following information is provided to illustrate the calculation of the weekly price set for the date above. It is an unofficial document provided to assist in understanding of the components of the pump price.

GASOLINE

Price Breakdown:

Previous Benchmark Price	72.10		- see Note 1 below
Changes in Benchmark during period:			
Net change in NYMEX commodity price (US$)	2.82		
Converting commodity prices to Canadian dollars	0.31		
New Benchmark Price	**75.23**		
Forward Averaging Correction (current week)	2.2		- see Note 3 below
Add: Transportation Adjustment	0.6		- see Note 4 below
Add: Cost of Carbon	0.94		- see Note 5 below
Add: Wholesale Margin	6.65		- see Note 6 below
Add: Federal Excise Tax	10.0		- see Note 7 below
Add: Provincial Motive Fuel Tax	15.5		- see Note 8 below
Equals: Wholesale Selling price (rounded)	111.12		
	Minimum	**Maximum**	
Add: Retail Margin	5.1	7.0	- see Note 9 below
Add: HST (15%)	17.4	17.7	
Equals: Pump Price	**133.7**	**135.8**	

TAX DIFFERENTIAL CALCULATION TO EQUALIZE FOR TAXES
(UNITS IN CENTS)

	HALIFAX	VANCOUVER	REST OF BC
Federal excise	10	10	10
Provincial Taxes	15.5	34.39**	23.39
HST(NS)/GST(BC)	17.4 (15%)*	7.5 (5%)*	7 (5%)*
TOTAL:	42.9	51.39	40.39

*estimate based on % of total litre price **increased July 1, 2019 a further 1.5 cents to 35.89

Tax Rates on Clear Gasoline

Clear Gasoline Tax Rates per Litre			
Type of Tax	**South Coast British Columbia Transportation Service Region (Vancouver Area)**	**Victoria Regional Transit Service (Victoria Area)**	**Remainder of the Province**
Dedicated Motor Fuel Tax – TransLink	17.00¢	N/A	N/A
Dedicated Motor Fuel Tax – BC Transit (Victoria)	N/A	5.50¢	N/A
Dedicated Motor Fuel Tax – BCTFA	6.75¢	6.75¢	6.75¢
Provincial Motor Fuel Tax (general revenue)	1.75¢	7.75¢	7.75¢
Total Motor Fuel Tax	**25.50¢**	**20.00¢**	**14.50¢**
Carbon Tax	8.89¢	8.89¢	8.89¢
Total Provincial Tax	**34.39¢**	**28.89¢**	**23.39¢**

Tax Rates on Fuels **Page 5 of 18**

When equalizing for taxes I found that Halifax pays 2.5 cents more in taxes over BC (outside of Metro Vancouver) so the $1.33.7 Halifax price includes an extra 2.5 cents in tax. The price of gas in Penticton was virtually the same as Halifax when equalized for taxes. I respectfully submit that this provides a strong indication that the competitive market price for Metro Vancouver was $1.30 + .11 (tax differential) = $1.41 on April 26, 2019 but the prevailing regular gas price in Metro Vancouver was $1.72 indicating that the public was being overcharged that week by 30 cent/l. That represents a significant impact on British Columbians on limited income who have to drive.

When addressing the question of "Is this collusion?" I respectfully submit that when there exists a working monopoly, you do not need actual collusion to obtain monopoly price. You simply need a commonality of interests among the small group of players. I do not know what is being talked about in the Boardrooms of the head offices in Calgary by the small number of players that control the distribution of gasoline in Vancouver. I do note a very concerning coincidence of timing that raises strong suspicions. The extreme price increases in Vancouver this year coincided with a very significant political debate over the Trans Mountain pipeline expansion, a proposal that will provide huge financial benefits to the same players who control gasoline distribution in Vancouver. The expansion will greatly boost volumes of exports of bitumen in particular. It will not benefit gasoline consumers because our refineries can not refine bitumen. This project is specifically designed to expand exports. However this political campaign to support the expansion sees Vancouver politicians as the enemy. It is a remarkable coincidence that this market failure leading to extreme gas prices in Vancouver coincides with an ad

campaign run in the late spring and summer blaming high gas prices in Vancouver on lack of pipeline capacity. There actually is no economic connection between the expansion project and our high gas prices. An Intervenor in this proceeding, Robyn Allen, has written an excellent paper why there is no connection in economic terms. However, this misleading ad campaign coincided with Vancouver experiencing the highest gas prices it has ever seen, even after adjusting for taxes, at a time when the world price of crude is half of what it has been in recent years. Though I cannot show you proof of collusion, the coincidence of timing over these various events, extreme prices being used to create political pressure for a pipeline that the oil companies (with monopoly control over gas prices) will greatly profit from, leaves one with an overwhelming smell and taste of price manipulation. Price manipulation can take place with or without direct collusion. It could be the result of a collection of decisions preferring export supply to local supply leaving the local market short. It would be very easy for a small number of large suppliers to do. The large profit margins that result may be difficult to explain and the Commission has the challenge of going through the books to see if it can be explained. Ultimately though, looking at the big picture, the prices and price variations in Vancouver do not make economic sense. There are strong indications of market failure. The market failure now seems coincidentally to be serving a political agenda that benefits the oil companies responsible for distributing gasoline in BC.

As for what we can do about it, perhaps the time has come to adopt the Nova Scotia solution, gas price regulation. Some critics of regulation have suggested it will lead to shortages. I have never heard of Halifax running short on gas. The system seems to work well there and can be a model for what BC can do here. In the past we had another solution. The federal government set up a fully integrated national oil company to supply gasoline to Canadians and thereby ensured a competitive market. It was called Petrocan and it developed its own sources of crude, built its own refineries and acquired a network of gas stations so it could be a completely independent supplier of retail gasoline. As a national government controlled supplier, it was able to ensure collusion could not take place because it could move into markets where the price was too high and through competitive supply would bring the market price back down. Vancouver benefited from having more than one refinery competing for market share which resulted in us having stable and low prices for fuel. Unfortunately Petrocan was slowly privatized and when completely private, shut down its local refinery leaving southern BC to have only one refinery. The potential for monopoly prices have existed since then because of the small number of oil companies as retail suppliers. I do not believe there is any political support to set up an independent government controlled supplier of gasoline so that leaves us with the Nova Scotia option as the only viable one left, namely gasoline/diesel prices being regulated by the utility commission.

As a final attachment I am showing a receipt for my purchase of regular gasoline for $1.349/l at the West Vancouver Chevron on July 1, 2019 after the Metro Vancouver TransLink tax increased 1.5 cent. The prevailing gas price that same day was a $1.549/l in North Vancouver. This website states the average regular gas price in Vancouver the day before (before tax increase) was 1.484/l https://ycharts.com/indicators/vancouver_bc_average_retail_price_for_regular_unleaded_gasoline_at_self_service_filling_stations. This evidences the extreme price variations in one day for gasoline prices. I

have no idea why the West Vancouver Chevron is so much cheaper considering the high opportunity cost of the land on Marine Drive in the Ambleside area of West Vancouver.

AMBLESIDE CHEVRON
1613 MARINE DRIVE
WEST VANCOUVER, BC
V7V 1J2

2019-07-01 20:14:43

STORE #: 43006
TRANS #: 390478
GST #: R743318321

PUMP 2
REGULAR
60.127L AT $1.349/L

ACCT:
VISA
$ 81.11

GST INCLUDED $ 3.86

TOTAL $ 81.11

TYPE: PURCHASE

VISA
**********0041
REFERENCE #:
66281906 0012060370C
AUTH 423536

SCOTIABANK VISA
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0080008000
F800

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