

Imperial Oil
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August 8, 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 – Imperial Oil (“Imperial”) responses to further oral workshop panel questions issued July 25, 2019 (the “Second Questionnaire”)

Please find enclosed a copy of information in answer to the Second Questionnaire. Any confidential answers will be indicated as such in the enclosed and delivered separately.

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

Sincerely,



Brian Scammell
Revenue Management Lead
Encl.

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Potential issues with retail market accessing alternative wholesale contract structures

	Question	Comments
1	Please provide your views regarding a “crude related contract” that has been suggested in the question.	<p>Imperial is not in a position to comment on contractual discussions that occurred in 1996. Imperial’s present day position is that prices should be based on the product being sold - which, in this case, is refined gasoline and diesel (not crude).</p> <p>As explained in question 4 below, each contract is negotiated individually with each customer, and include any number of terms that are unique to the specific circumstance and conditions surrounding that deal. Imperial’s current pricing offers are structured in a way that it believes gives customers confidence their pricing is competitive as compared to potential alternatives and can be easily compared to other options for the refined products being purchased.</p> <p>Please also see the responses to questions 3 and 17 from the questionnaire responses previously submitted.</p>
2	Would the option to access existing terminals in BC by Independents change the retail market in BC? How could this function?	<p>Independents have access to existing terminals via commercial negotiations, and Imperial’s position is that free-market commercial negotiations for terminal access is the best method of increasing competition in the region.</p> <p>Imperial is not in a position to speculate on the impact of such an option on the retail market in B.C. (as stated previously, Imperial does not participate in the retail space).</p>
3	What is the degree of flexibility for retailers and marketers to switch from one supplier to another? For example, are there contracts that limit or make the purchaser captive for a specific period? Are there any penalties imposed for early cancellation of these contracts?	<p>Imperial has some customers who purchase fuel from multiple suppliers, and other customers who have chosen to purchase fuel exclusively from Imperial.</p> <p>Contracts negotiated between Imperial and its customers are entered into freely by both parties, with each party (i) giving or receiving concessions on a variety of commercial terms, and (ii) intent on maximizing value under mutually acceptable terms. The length of the term and termination conditions are two examples of commercial terms that are freely agreed upon and are in consideration of the value each party is receiving across the entire contract. As an example; a customer that agrees to buy higher volume from Imperial may, in return, receive a higher discount and chose to buy exclusively for that reason; others may put more value on</p>

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		<p>having multiple suppliers. In any case, both parties are free to compare the terms of a potential deal to their respective alternatives, and decide freely whether to enter into a contract or not.</p> <p>In the event that a customer has entered into an exclusive supply contract, that customer is free to switch suppliers upon termination of that contract.</p> <p>The details of our contracts are confidential and are negotiated individually with our customers in an open market with the goal of arriving at mutually acceptable terms.</p>
4	Are there any other features in the wholesale supply contracts, for example, cash incentives, price protections or other discounts?	Each contract is negotiated individually with each customer. The contract may include any number of terms that are unique to the specific circumstance and conditions surrounding that deal. Most importantly, the deals are negotiated in an open market with the goal of arriving at mutually acceptable terms. Customers choose to purchase fuel from Imperial because (i) of our reputation for being a reliable supplier of high quality fuels, and (ii) Imperial has negotiated contractual terms that are competitive as compared to other options in the market.
5	In the Oral Workshop sessions, it seems that a discount to the rack price is common in supply contracts. Do premiums to the rack price exist?	The term “rack price” refers to the price at which a customer can purchase fuel on a spot or uncommitted basis on any given day at the terminal in question. Discounts from rack are common. However, a customer may also be paying a premium for additional services being offered, such as the delivery of the fuel to a different and/or remote location other than the terminal in question. In short, the net price a customer will pay will be the result of the many commercial terms negotiated in the contract (some examples include length of term, credit, volume, value added services such as delivery to customer site, types of products, location etc.).

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Refined Petroleum Product Supply and Demand Balance

	Question	Comments
6	Please provide your refinery capacity and its actual production volume for 2013–2018	CONFIDENTIAL
7	If your refinery did not operate at full capacity for any or all of those years, please advise why.	Unused capacity could occur from a combination of factors such as maintenance, operating constraints, unplanned outages, and possibly reducing throughput for economic reasons; however, the latter is expected to be negligible over the period in question (generally speaking Imperial makes all possible efforts to run our refineries full when refining economics / market conditions are favourable).

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Trans Mountain Pipeline – Product Destination

	Question	Comments
8	<p>Some interveners assert that there is under utilised capacity on the TMPL. Does Imperial think there is an opportunity to increase capacity on the existing line of the TMPL under the current tariff?</p>	<p>Imperial relies on information from Trans Mountain Pipeline in terms of available capacity on the pipeline in a given month. The volume of pipeline space made available to Imperial is consistently lower than our nominated (requested) volume. Due to the lack of cost effective TMPL space, Imperial has chosen to develop alternative supply chains including rail and purchases in-market to meet its demands (an example of buying in market is buying product in Vancouver).</p> <p>The Government of Canada, as owner of TransMountain Pipeline, could choose to allocate more capacity to refined products versus crude; this would need to be negotiated with committed shippers.</p>
9	<p>Could changes be made to the tariff to support the shipment of refined product?</p>	<p>During NEB (2013-10-15) Application for Tariff Amendments Regarding Verification Procedures (RHW-001-2013), Imperial publicly stated during the consultation that proposed TMPL changes at that time – which are now in effect – were/are largely inappropriate and punitive toward refined products shippers. Imperial’s final position can be found in the link below but is summarized as follows from the final arguments:</p> <p>“1) Some of the Tariff revisions proposed by Trans Mountain regarding nomination verification procedures are inappropriate.</p> <p>(2) The proposal to establish Verification Limits based on historical deliveries to Land Destinations is inappropriate.</p> <p>(3) There should be no need to establish a minimum Verification Limit for a Land Destination based on three percent of Available Capacity.</p> <p>(4) It would be appropriate for Trans Mountain to adopt a downstream capacity verification procedure to verify the capability of a shipper to remove Petroleum from the Delivery Point(s).</p>

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		<p>(5) No terms or conditions to the Board's decision should be necessary.”</p> <p>In addition, Imperial explained:</p> <p>“...There is also a seasonal pattern to refined product shipments on Trans Mountain, with demand higher in the winter and late summer.</p> <p>23. The establishment of Verification Limits based on historical average monthly volumes delivered to a Land Destination would be particularly punitive for the refined products shippers. Using a historical average to limit their nominations would ignore the variability in their nominations and would understate what their nominations would be roughly half the time. During such periods, refined product shippers would be precluded from nominating the full volumes for which they need Trans Mountain capacity. It would not be fair for Trans Mountain, as a common carrier pipeline, to favour shippers with constant monthly volumes over shippers with variable monthly volumes.”</p> <p>Link to the full closing argument: https://apps.neb-one.gc.ca/REGDOCS/File/Download/2524018</p>
10	<p>Imperial has noted it has difficulty securing capacity for refined products on the TMPL. Has Imperial considered making a Priority Destination application to ship refined product on the TMPL?</p>	<p>Imperial notes that a similar application for Priority Destination designation was unsuccessful, as described in Exhibit A2-13. Specifically, the NEB stated that Priority Designation “...is a relief that should only be applied in extraordinary circumstances.” , “...PDD should only be a measure of last resort and only for a limited period of time”, and “The purpose [of PDD], rather, is to provide a brief respite from a severe supply shortfall...”</p> <p>Indeed, the NEB had not designated a Priority Destination between the introduction of this concept in 1985 and the time of issuing the Reasons for Decision in 2013.</p>

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Differences between Canadian vs. US gasoline quality specifications

	Question	Comments
11	How much refined product volume does your company import from the US on an annual basis, and from which PADD region? Does this change over time? Have you purchased product specially manufactured for the BC market or do you purchase refined product and make the changes required to meet BC specifications? Are there any minimum orders?	CONFIDENTIAL
12	How do you ensure that imported gasoline meets all Canadian specifications? Please explain the process taken in detail.	CONFIDENTIAL
13	Has the cost and availability of refined products significantly changed since 2015?	The cost and availability of product fluctuates along with market conditions and depends to some extent on the amount of advance notice available. In general, periods of tighter product availability on the West Coast of North America will be reflected by elevated prices on the applicable product benchmark prices (Imperial's purchases from U.S. supply sources are commonly done based on the relevant benchmark). As previously submitted, Imperial believes that the Pacific Northwest benchmark is the most suitable benchmark to use for the B.C. lower mainland, while the Chicago benchmark can be more appropriate to use for some locations in the interior of B.C.
14	Other than refined products transported through the TMPL, please provide information on type of refined product, volumes, geographical locations and methods of transportation Imperial uses to transport refined products into BC since 2015.	CONFIDENTIAL

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15	Please confirm that these products are imported into Imperial’s storage facilities and “blended” to comply with Canadian standards.	CONFIDENTIAL
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Terminal Operations

	Question	Comments
16	Do storage terminals allow third party companies to use the terminal facilities to mix product from the US to Canadian standards? Or is each storage terminal reserved for its own use?	CONFIDENTIAL
17	Please provide specifics of agreements for third parties to use terminals. Are all agreements for terminal use reciprocal agreements with other terminals owners?	The terms of Imperial’s agreements regarding terminal use are confidential (as they relate to a confidential agreement with a third party).
18	Has there been any storage constraints caused by the need for extra storage space to store biofuels?	CONFIDENTIAL
19	Which customers deal directly with your Primary terminals?	Imperial sells fuel on a wholesale basis in B.C. (and Canada). All our customers deal directly with our primary terminals.
20	Which customers deal directly with your Bulk terminals? Please explain how the relationship between Primary and Bulk terminals work financially.	Imperial no longer owns bulk terminals in B.C.

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Price Competition

	Question	Comments
21	Is there evidence that price wars exist on a <u>retail</u> level in BC? How often do these price wars occur, and for how long? Has there been any significant events since 2015?	Imperial is not active in the retail market in B.C.
22	Is there evidence that price wars exist on a <u>wholesale/refinery</u> level in BC (i.e. rack rate or wholesale price)? How often do these price wars occur, and for how long? Has there been any significant events since 2015?	<p>Imperial seeks to ensure it is competitive in all geographies where it participates. Imperial takes the position that the price on any given day is being driven by the supply and demand fundamentals at play, including competition. We would characterize price increases or decreases simply as a result of that local dynamic and one to which we respond in order to remain competitive.</p> <p>Imperial considers the wholesale markets in BC to be as-or-more competitive than other jurisdictions in Canada.</p>