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Delivered by Email

British Columbia Utilities Commission
Suite 410, 900 Howe Street
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Dear Inquiry Panel Members:

Re: British Columbia Utilities Commission (“BCUC”) – An Inquiry into Gasoline and Diesel Prices in British Columbia – Project No. 1599007 (“Inquiry”) - Imperial Oil (“Imperial”) Comments on BCUC Report

I. Introduction

Further to Order in Council No. 470/2019 and Order G-219-19 Imperial is grateful for the opportunity to share additional information in response to the Commission’s final report on gasoline and diesel prices in B.C., dated Aug 31, 2019 (“Report”).

Imperial’s additional evidence covers the following:

1. the data and analysis used to arrive at the 13 cpl “unexplained” differential between Vancouver gasoline rack prices and Pacific Northwest prices fails to include some key costs and is therefore substantially overstated;
2. primary logistics are, in fact, available or can be established by new competitors should they choose; and
3. the Report’s conclusion that, following 2015, the market began to function improperly due, in part, to an alleged high concentration of Wholesale suppliers.
4. Vancouver prices/cost-to-serve relative to other geographies

While the enclosed information addresses some of the items examined in the Report, Imperial was precluded from completing a comprehensive assessment given the short timeline provided. As such, the absence of additional information or the failure of Imperial to comment on some aspect of the Report does not indicate that Imperial agrees with the Report in whole or in part. In this submission, Imperial has focused on identifying evidence that it believes is critical that the Inquiry panel (“Panel”) consider in preparing its supplemental report.

II. The 13 cpl “Unexplained Difference” is based on incomplete cost information and substantially overstates any difference

The Panel notes in the Report: “that there may be additional costs that were not considered” (p.78) due to the availability of information. As a result of this missing information, Imperial is of the view that the 13 cpl “unexplained difference” is not an accurate reflection of the difference in pricing between marginal supply from the Pacific Northwest and Vancouver rack prices, and greatly overstates any difference that exists.

Imperial is pleased to provide some information that can be used to help better understand imports by marine and truck. This analysis is based, in part, on Imperial data; however, it models what a general import may look like, not necessarily Imperial’s itself. Imperial does not ‘structurally’ import into Vancouver as part of its normal business but it does import occasionally (usually responding to a disruption), and consequently we have unique insight into costs applicable to a third party importer.

All values are Imperial Oil estimates based on actual data or subject matter expert estimates. A smaller supplier, or U.S.-based importer, may face additional administrative costs, or be less efficient than what is contemplated below. Each producer or supplier will have different cost profiles, which will impact the differential analysis for that individual party.

As indicated below, Imperial’s analyses show a substantially smaller difference than the 13 cpl highlighted by the Panel.

A. Example 1: Marginal Gasoline Supply Estimate – Marine Import

This models a marine import of gasoline from Seattle into intermediate storage for sales into the market. This is not intended to illustrate Imperial's business model; rather, it is an attempt to model what a third party import may look like.

	3rd Party Import (As modeled by BCUC)		3rd Party Import (as modeled by Imperial)	
	2015 BCUC	2019 BCUC	2015	2018
Base	PNW + freight	PNW + freight	PNW + freight	PNW + freight
Freight	1.7	2	1.7 to 1.8	1.9 to 2.0
LCFS BC	3	4	1.3	3.9
LCFS Federal	0.5	0.5	0.5	0.5
Discount Range	0	0	2.5 to 4.0	3.0 to 6.0
Terminaling	0.0	0.0	0.9 to 1.5	0.9 to 1.7
Overhead	0.0	0.0	1.0 to 1.5	1.0 to 1.5
RINS Discount	0.0	0.0	-1.8	-1.4
Other Costs for Importer			?	?
Total vs PNW	5.2	6.5	6.1 to 8.8	9.8 to 14.2
Inquiry Value (Rack vs PNW)	5.0	20.0	6.7	17.5
Delta vs PNW	-0.2	13.5	-2.1 to 0.6	3.3 to 7.7

Very likely a smaller or U.S.-based importer would face additional costs not captured here.

*Notes:

1. This table seeks to model a third party import; it is not intended to represent Imperial's normal supply or its own profitability
2. All values above are Imperial estimates based on actual data, or subject matter expert estimates; Imperial is not a structural importer but does occasionally import due to disruptions in normal operations; others may (and likely do) face different costs
3. BC LCFS cost is calculated based on the credit cost;
4. RINS = US Renewable Identification Number; used as part of US biofuel regulation, the cost of these credits are built into the US spot price and are typically credited back to any purchaser that is exporting out of the US market.
5. Discount range denotes the likely range of discount; some exceptions may lay outside the range however it is considered directionally accurate
6. Some costs are based on point-in-time and adjusted using yearly inflation
7. Other costs for importers recognizes that smaller or US-based importers are likely to be less efficient or have other costs not seen by Imperial as such, the Delta to PNW value is likely higher than it would be for an independent importer
8. 2018 used as last full calendar year to avoid potential seasonal price effects of partial 2019 calendar year

The foregoing data illustrates important costs/credits are absent from the Inquiry's analysis of the marginal import layer including (a) the cost of any discounts to the rack price (b) terminalling costs

and (c) overhead. Also, the Panel's analysis likely overstates Pacific Northwest prices as it fails to account for RINS discounts. Based on Imperial's analysis, it appears the value of the difference for marine import is likely near half of difference calculated by the Inquiry.

The Panel does not appear to account for any profit of an importer, inferring an importer should be willing to import gasoline at break-even cost. Any "unexplained difference" noted by the panel is considered by Imperial to be the potential profit that an importer would take after accounting for their own costs that may not be captured here.

Using Imperial's calculations for this theoretical import, the 2018 profit would likely range from 3.3 cpl to 7.7 cpl before tax or 2.2 cpl to 5.2 cpl after tax (using a placeholder tax rate of 33%). This net profit would represent 3% to 6.5% of an 80 cpl Wholesale price *prior* to accounting for the additional costs likely to be faced by or a smaller or U.S.-based importer.

B. Example 2: Truck Import Seattle Direct to Site

This models a Seattle truck rack pickup delivered directly to a retail site in Vancouver

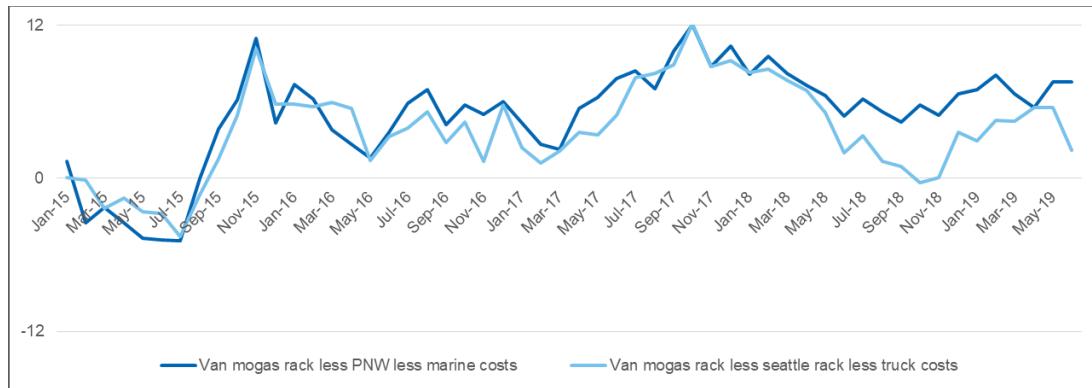
3rd Party Truck Import (as modeled by Imperial)		
	2015	2019
Base	Seattle + freight	Seattle + freight
freight	1.8 to 2.2	2.0 to 2.4
LCFS BC	1.29	4.89
LCFS Federal	0.5	0.5
Discount Range	2.5 to 4.0	3.0 to 6.0
Terminaling	0.0	0.0
Overhead	1.0 to 1.5	1.0 to 1.5
RINS Discount	-1.8	-1.0
Other Costs for Importer	?	?
Total vs Seattle Rack	5.3 to 7.7	10.4 to 14.3
Inquiry Value (Rack vs Seattle)	6.0	16.0
"Unexplained Difference"	-1.7 to 0.7	1.7 to 5.6

Given the unique requirements for gasoline in the Canadian market combined with the smaller lift sizes of truck, this is less likely to occur. It would be possible with some intermediate storage to blend and certify to Canadian specification but that additional cost would reduce profitability

This analysis demonstrates a truck delivered direct to site has a modest 1.1 cpl to 3.8 cpl after-tax profit in 2018 as opposed to near break-even economics or loss in 2015 prior to accounting for other cost not considered for a smaller or US-based importer.

III. Volatility in the Marginal Layer

cpl



*Note: This analysis uses representative numbers from within the ranges provided in the marine and truck import tables above

This analysis is a month by month modelling of the marine and truck import examples above. It is intended to illustrate that (a) calculating a point-in-time profitability does not accurately reflect the potential volatility that an importer may experience and (b) volatility risk exposure would likely be factored into a decision to import, i.e. higher profitability incentive is needed to offset the higher risk introduced with the volatility.

IV. Imperial Revenue vs. Cost-to-serve in Vancouver

To further address the discussion of Vancouver vs. other geographies, Imperial has modelled its own Vancouver revenue versus cost-to-serve relative to that in Edmonton and submits the following:

1. After netting cost-to-serve from revenue Vancouver is roughly equal to Edmonton
2. **There has been no appreciable change in Vancouver vs Edmonton over the past five years**

In other words, for Imperial, the Vancouver wholesale price increases have been offset by cost-to-serve increases.

V. Primary Logistics and Barriers to Entry

In the Report, the Panel writes that “*if a marketer wanted to import gasoline into the BC market they would need a Primary Terminal facility. There are significant barriers to entry for any new market participant that wished to establish Primary Terminal facilities.*” Further, the Panel states that lack of access to primary logistics is a “*significant barrier to entry to potential new entrants to the market as their ability to access critical infrastructure that is required to be a viable competitor in the market is limited.*” (p.59).

Imperial agrees that Vancouver/B.C. can be challenging to serve; however, we disagree with the Panel’s assertions that (a) marketers would need a Primary Terminal facility to import gasoline into

BC; (b) there are *significant* barriers to entry for any new market participant that wished to establish logistics; and (c) that the ability of potential new entrants to the market to access critical infrastructure is limited. In response to these assertions, Imperial respectfully points to the following:

1. The Vancouver Airport Fuel Facilities Corporation has received approval from both provincial and municipal governments to build new fuels infrastructure, which includes new fuels marine import facilities on the Fraser River, new tankage for storage and new petroleum pipelines in the greater Vancouver / Richmond area (<https://www.vancouverairportfuel.ca/projectOverview>).
2. Transloading facilities (truck loading facilities supplied by train where the rail cars themselves serve as the tankage) are available, are commonplace and can be established at minimal cost and effort to anyone (i.e. one does not need to go through a wholesale supplier or use a Primary Terminal facility). In Imperial's experience, a typical trans-loader is cost effective and can be used for smaller volumes and can be installed for between \$250 to \$500K on an existing track with minimal effort (a tiny fraction of the full Primary Terminal facility cost described in the report which can run up to \$100M or more). Greenergy successfully used transloading facilities to become a new market entrant in the Toronto market (<https://www.greenergy.com/canada/supply>)
3. Kinder Morgan successfully established petroleum import and export facilities in Vancouver (among other commodities), while others have established rail logistics into Ashcroft, B.C.

VI. Changes in the Competitive Landscape

The panel concludes that, following 2015, the market began to function improperly due in part to the high concentration of Wholesale suppliers. However, as illustrated below via an OPIS (Oil Price Information Service) listing of Wholesalers posting rack prices, there were generally the same number of competitors participating prior to and after 2015. Accordingly, supplier concentration cannot be a structural change, and therefore does not explain the shift in the market.

Further, as previously stated, Imperial faces a similar number of competitors in Vancouver as most other markets often with fewer available logistics (Winnipeg would be an excellent example). In other words, this cannot be pointed to as unique characteristic of the BC/Vancouver market relative to others as an explanation for Wholesale price differences between geographies.

OPIS Listed Wholesale Rack Posters by Year (Vancouver)

	Imperial							
	Chevron	Parkland	Oil	Shell	Suncor	PetroCanada	COOP	Husky
2009	✓		✓	✓		✓		
2010	✓		✓	✓	✓			
2011	✓		✓	✓	✓			
2012	✓		✓	✓	✓			
2013	✓		✓	✓	✓			
2014	✓		✓	✓	✓			
2015	✓		✓	✓	✓			
2016	✓		✓	✓	✓			
2017	✓		✓	✓	✓			
2018		✓	✓	✓	✓			
2019		✓	✓	✓	✓			

*As noted by the panel, COOP and Husky both also participate in the BC market but are not listed in the OPIS listing

Sincerely,



Brian Scammell
Revenue Management Lead
Encl.