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Utilities Commission

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September 30, 2019

Sent via email

BCUC INQUIRY INTO GASOLINE AND DIESEL PRICES IN BC **EXHIBIT A-33**

Ms. Christy J. Elliott
VP, Senior General Counsel & Corporate Secretary
Parkland Fuel Corporation
Suite 1800, 240 – 4th Avenue S.W.
Calgary, AB T2P 4J8
christy.elliott@parkland.ca

Re: British Columbia Utilities Commission – An Inquiry into Gasoline and Diesel Prices in British Columbia – Project No. 1599007 – Panel Information Request No. 1 to Parkland Fuel Corporation

Dear Ms. Elliott:

Further to Parkland Fuel Corporation's submission of additional intervener evidence dated September 23, 2019, please find enclosed British Columbia Utilities Commission (BCUC) Panel Information Request No. 1. In accordance with the regulatory timetable established by BCUC Order G-216-19, please file your response no later than **Friday October 4, 2019**.

Sincerely,

Original signed by:

Patrick Wruck
Commission Secretary

/dc
Enclosure

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British Columbia Utilities Commission
An Inquiry into Gasoline and Diesel Prices in British Columbia

PANEL INFORMATION REQUEST NO. 1 TO PARKLAND FUEL CORPORATION

1.0 Reference: Exhibit C5-30, Figures 1–3, pp. 8–12
Refining Margins in BC and Other Provinces

Figure 1
Monthly Refining Margins for Regular Unleaded Gasoline in British Columbia and Alberta
January 2015 – September 2019

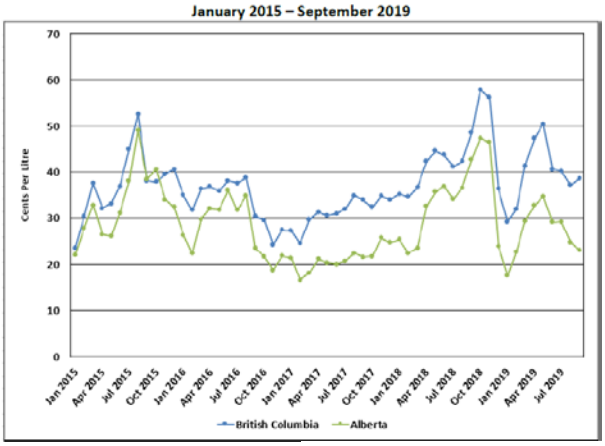


Figure 2
Monthly Refining Margins for Regular Unleaded Gasoline in British Columbia and Saskatchewan
January 2015 – September 2019

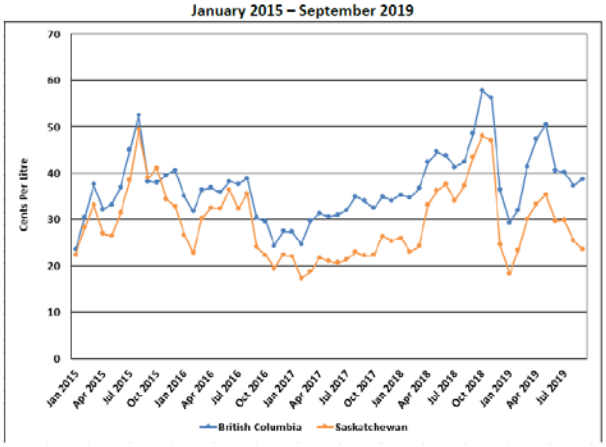
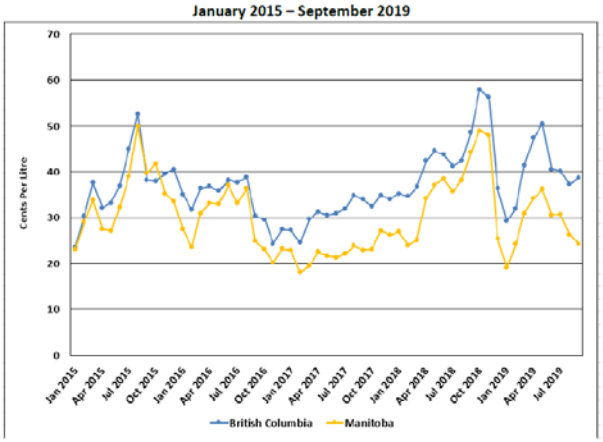


Figure 3
Monthly Refining Margins for Regular Unleaded Gasoline in British Columbia and Manitoba
January 2015 – September 2019



1.1 The Alberta, Saskatchewan and Manitoba wholesale prices plotted on the graphs above appear to be identical based on a visual comparison of the graphs. Please confirm, or otherwise update, the accuracy of the data underlying these graphs.

On pages 8-11, Dr. Kahwaty states that the average monthly differences between refining margins in BC and Alberta, Saskatchewan and Manitoba are 8.2 cents per litre (cpl), 7.7 cpl and 6.8 cpl respectively over the January 2015 to September 2019 period.

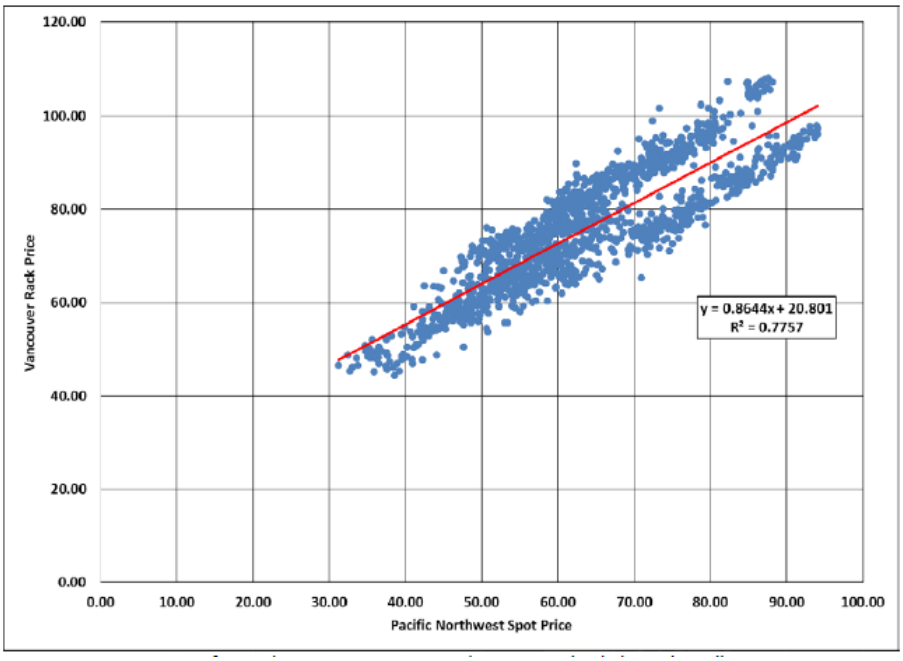
1.2 There is an increasing trend in the monthly differences between refining margins in BC and each

of the other three provinces over time from January 2015 to September 2019. Please provide an explanation for this trend.

2.0 Reference: Exhibit C5-30, p. 2, Figures 4–14, pp. 23–35
The Regression Between Vancouver Rack Prices and PNW Spot Prices

For each of the Figures 1 to 14, a linear equation written in the form $y = ax + b$ is shown. Figure 12 is shown below as an example where the linear equation representing the result of the regression is shown as: $y = 0.8644x + 20.801$.

Figure 12
Relationship between Regular Unleaded Gasoline Prices
Vancouver Rack and Pacific Northwest Spot Prices
Cents Per Litre, January 2014 – August 2019



2.1 Please explain how to interpret the value of the intercept "+20.801."

3.0 Reference: Exhibit C5-30, p. 36
Marginal Source of Supply

On page 36, Dr. Kahwaty states:

> Just because a method of transport is the predominant method used does not make it the marginal supply source. Indeed, one would expect predominant transportation methods not to be the marginal supply source because the marginal method of transportation should be used by market participants as sparingly as possible. If barged supply is not the marginal supply source, then the Commission's analysis of unexplained wholesale price differentials (which is built on barged product) is mis-specified and is not probative.

3.1 Please explain over what time frame would a supply source be considered marginal. (i.e. a day, a week, a month?)

3.1.1 Consider an example where only one barrel per day is trucked from the PNW (at a higher cost) while all other barrels from the PNW were barged (at a lower cost). Would that one barrel shipped by truck be considered the marginal source of supply every day

for the purpose of setting the wholesale price in the BC market? Please explain.

3.1.2 Consider another example where barged product from the PNW is sufficient to balance supply and demand for most days of a given month except for a few days when trucked product is also needed to balance the market. Would trucked product be considered the marginal source of supply for the whole month or only on those days that it is required to balance the market? Please explain.

3.1.3 Which of the two above examples best represents the BC situation? Please elaborate.

3.1.4 If one barrel shipped by the marginal method of transportation (highest cost) is all it takes to set the wholesale price for the BC market, why would it not become an incentive to have recourse to such transportation method strategically once a day, rather than as sparingly as possible?

3.2 Please state which supply source and which transportation method should be considered the marginal source of supply for the BC market. Please provide data to support your response and indicate whether this marginal source of supply is Parkland's marginal barrel or BC's marginal barrel.

3.2.1 On which marginal barrel does Parkland base its wholesale price – Parkland's or BC's?

4.0 Reference: Exhibit C5-30, p. 44; British Columbia Utilities Commission Final Report, Appendix D, Table 12
Retail Market Control

On page 44, Dr. Kahwaty states:

> The economic analysis of the retail market in this inquiry should be conditional on the wholesale market – given the level of upstream competition in the wholesale market, is the retail market structured to behave competitively? This is to focus the Commission's policy recommendations at the proper part of the vertical chain of production – if the Commission's concerns are at wholesale (retail), then there is no need to recommend regulation or other changes at the retail (wholesale) level of the supply chain.

Table 12 of the Final Report shows that Prince Edward Island, New Brunswick and Nova Scotia have implemented price regulations on both retail and wholesale portions of the market.

4.1 In light of the regulations in those three provinces, please explain why a regulatory body should only be concerned with the retail or the wholesale part of the vertical chain of production.