

FASKEN

Fasken Martineau DuMoulin LLP
Barristers and Solicitors
Patent and Trade-mark Agents

550 Burrard Street, Suite 2900
Vancouver, British Columbia V6C 0A3
Canada

T +1 604 631 3131
+1 866 635 3131
F +1 604 631 3232

fasken.com

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Matthew Ghikas
Direct +1 604 631 3191
Facsimile +1 604 632 3191
mghikas@fasken.com

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British Columbia Utilities Commission
Suite 410, 900 Howe Street
Vancouver, BC V6Z 2N3

Attention: Patrick Wruck, Commission Secretary

Dear Sirs/Mesdames:

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

We enclose, on behalf of Parkland, the response to the BCUC’s Additional Panel Information Request in Exhibit A-35. The response was prepared by Dr. Kahwaty.

Parkland’s Submission on the BCUC Report are being filed today under separate cover.

Yours truly,

FASKEN MARTINEAU DuMOULIN LLP

[Original signed by]

Matthew Ghikas
Personal Law Corporation

MTG/lh
Enclosure

PARKLAND FUEL CORPORATION RESPONSE TO BCUC QUESTIONS

Request Date: October 2, 2019

Request Document: Exhibit A-35

Witness: Dr. Kahwaty

Questions: **5.0 Reference: Exhibit C5-30, pp. 37–38, Table 5 | Wholesale Price Differential**

5.1. As illustrated in Table 5 above, the wholesale price differential between 2015 and 2019 has increased by approximately 10 cents per litre (cpl), from -5.10 cpl in 2015 to 5.12 cpl in 2019. However, the average rack discount of 2.50 cpl, distribution costs of 6.00 cpl, and the majority of costs have remained constant. Please explain why the wholesale price differential has widened year over year. Has there been any fundamental changes as to how Oil Companies set their rack prices in 2019 as compared to 2015?

Response:

Response to Question 5.1

Table 5 from my supplemental report dated September 23, 2019¹ (the “Kahwaty Supplemental Report”) referenced in question 5.0 from the Commission was intended only to illustrate my suggested adjustments to the Commission’s framework for evaluating whether there were or are any unexplained wholesale margin differentials and, if so, to estimate their magnitude. The numbers shown in the table should not be taken as being derived from actual data.² As stated in the Kahwaty Supplemental Report, I used the same LCFS, federal fuel standards, and barge transport costs that were used by the Commission.³ I did not attempt to update these amounts in any way and cannot verify their accuracy.⁴ The average rack discount and distribution costs used in Table 5 were simply illustrative and should not be considered reflective of the actual

¹ Supplemental Report of Henry J. Kahwaty, September 23, 2019, British Columbia Utilities Commission An Inquiry into Gasoline and Diesel Prices in British Columbia, Exhibit C5-30. Hereafter, the “Kahwaty Supplemental Report.”

² With the exception of the Vancouver Rack and PNW Spot prices shown in the table, which were derived from actual data.

³ Kahwaty Supplemental Report, ¶ 58.

⁴ Kahwaty Supplemental Report, ¶ 58.

average rack discounts and distribution costs over time. As I stated in the Kahwaty Supplemental Report:

My goal here is to provide a framework for the analysis so that it is clear how to update the Commission's work to make an apples-to-apples comparison between BC and PNW prices, not to provide an answer to the question of whether there is a differential, and, if so, to estimate its magnitude.⁵

Therefore, Table 5 in the Kahwaty Supplemental Report should not be interpreted as showing that the actual "wholesale price differential between 2015 and 2019 has increased by approximately 10 cents per litre (cpl), from -5.10 cpl in 2015 to 5.12 cpl in 2019."⁶ Table 5 does not support such a statement because Table 5 provides only illustrative wholesale price differential calculations, not calculations derived from actual market data. Table 5 was not developed to determine whether there was or is a differential or to estimate the magnitude of any differential. Rather, it was intended to be demonstrative of the analysis the Commission should undertake.

Similarly, nothing in Table 5 of the Kahwaty Supplemental Report demonstrates that the actual "average rack discount of 2.50 cpl, distribution costs of 6.00 cpl, and the majority of costs have remained constant."⁷ The average rack discount and distribution costs shown in Table 5 were simply illustrative and should not be assumed to have remained constant during the relevant time period.

The evidence and submissions in this Inquiry indicate that distribution costs have not remained constant. For example, according to Suncor:

The overall storage capacity for gasoline and diesel at Suncor's terminals in BC has not changed since 2015. That said, changing regulatory compliance requirements has resulted in the need to reallocate existing storage in order to store and blend biofuel products at these terminals (e.g. ethanol, biodiesel/fatty-acid methyl ester ("FAME"), renewable diesel/hydrotreated renewable diesel ("HRD")), thereby causing storage constraints.

Several interveners provided testimony regarding the logistical constraints affecting Vancouver in particular as a result of capacity limitations on the TMPL: expanding rail facilities, finding storage for rail cars, access to the local market (i.e., getting from storage to a terminal

⁵ Kahwaty Supplemental Report, ¶ 57.

⁶ Additional Panel Information Request No. 1 to Parkland, October 2, 2019, British Columbia Utilities Commission An Inquiry into Gasoline and Diesel Prices in British Columbia, Exhibit A-35.

⁶ Kahwaty Supplemental Report, ¶ 58.

⁷ Additional Panel Information Request No. 1 to Parkland, October 2, 2019, British Columbia Utilities Commission An Inquiry into Gasoline and Diesel Prices in British Columbia, Exhibit A-35.

to serve the local market). All of these constraints add to the cost of doing business in Vancouver, and hamper expansion of existing infrastructure and supply chain development.⁸

In addition:

Similar to some of the data presented in the Deetken Group report, Suncor confirms that taxes, leases, real estate, and the opportunity cost of land have all increased. An example of this is the costs associated with Suncor's Burrard Terminal. In particular, property tax for Suncor's infrastructure at 1155 Glenayre Drive, Port Moody have gone up 49% from 2014 to 2019. Suncor's costs associated with its Port of Vancouver lease during this same period have gone up 152%.⁹

I do not believe that distribution costs have remained unchanged at 6.00 cpl over the period from 2015 to 2019. The information referenced above suggests that costs have increased, but I do not have access to information sufficient to allow me to estimate these cost increases. In addition, I did not indicate that 6.00 cpl is an accurate figure for the 2015 distribution costs. This is an illustrative figure intended to highlight the framework of the analysis. I did not show an increase in this figure over time (even to account solely for inflation) because I did not want to suggest that the distribution cost information in Table 5 was accurately estimated; adjusting these amounts over time could have suggested a precision that was not present in the figure used and therefore could have been misleading.

As suggested in the Kahwaty Supplemental Report, the Commission should use the updated framework I suggested in Table 5 as a starting point for its analysis. The Commission should update the amounts shown in Table 5 as appropriate to reflect actual market data.¹⁰

If after making these adjustments a wholesale price differential is found to exist and to have widened year over year, there would be several explanations for this phenomenon. Many of these explanations are discussed in my response to Question 1.2 of the Commission's Information Request, Exhibit A-33, which has been reproduced below for convenience.

⁸ Suncor Energy Final Submission, British Columbia Utilities Commission An Inquiry into Gasoline and Diesel Prices in British Columbia Project No. 1599007, August 8, 2019, p. 7, available at https://www.bcuc.com/Documents/Arguments/2019/DOC_54938_2019-08-08-Suncor-FinalArgument.pdf.

⁹ Suncor Energy – Additional Intervener Evidence, British Columbia Utilities Commission An Inquiry into Gasoline and Diesel Prices in British Columbia Project No. 1599007, September 24, 2019, p. 3, available at https://www.bcuc.com/Documents/Proceedings/2019/DOC_55672_C2-15-Suncor-Additional-Intervener-%20Evidence.pdf.

¹⁰ Kahwaty Supplemental Report, ¶ 58.

Response to Parkland Fuel Corporation Response to Exhibit A-33 - Question 1.2

There has been an increasing trend in the monthly differences between the refining margins in BC and each of the other three Western Canada provinces over the past several years. There has also been volatility in these differences, which have increased and decreased over different time periods. There are several explanations for why the gap between wholesale prices in BC vs. other Western Canada provinces has generally widened since 2015. These explanations have been offered by multiple parties throughout this Inquiry. I provided an Expert Report in this Inquiry on June 27, 2019 (the “Kahwaty Report”) and provided hearing testimony and an accompanying presentation on July 17, 2019 (the “Kahwaty Testimony” and the “Kahwaty Presentation”). In the Kahwaty Report, I explain how the markets for gasoline and diesel in BC differs from other parts of Canada and North America.¹¹ These differences offer some explanation of the trend above. Additionally, in the Kahwaty Report and the Kahwaty Presentation, I explain the factors which have contributed to the increase in retail gasoline and diesel prices in BC since 2015.¹² Some of these factors are specific to the BC refining and wholesale market and provide additional reasons for the trend. In particular, I have stressed the reduction in the capacity available on TMPL to import refined products into BC from Edmonton.¹³

Refiners active in the BC wholesale market have also submitted evidence relating to this trend. For example, Imperial Oil indicated that changes in BC in the last five years include “increased regulatory compliance obligations and costs” and increased “finished product movements to British Columbia by rail and marine vessel” as a result of pipeline apportionment.¹⁴ Similarly, Suncor mentioned “[d]oing business in BC has become more costly and complex over the past five years” as a result of “transportation costs” and “regulatory compliance costs.”¹⁵ Suncor also noted increases in real estate costs at its British Columbia terminalling facilities.¹⁶ I note that I have not reviewed confidentially submitted evidence and therefore cannot comment on whether any of this additional evidence available to the BCUC relates to increases in the BC refining margin relative to those in these other provinces.

In the Kahwaty Supplemental Report, I discussed one of the key distinctions between the wholesale markets in BC and those in the other Western Canada provinces to be

¹¹ Kahwaty Report, Section IV B.

¹² Kahwaty Presentation, p. 24; Kahwaty Report, Section IV E.

¹³ Kahwaty Report, pp. 38-42, 85; Kahwaty Presentation, p. 12; Kahwaty Supplemental Report, pp. 15-17.

¹⁴ Imperial Oil Responses to Questionnaire, BCUC Inquiry into Gasoline and Diesel Prices in BC, Exhibit C8-2, June 27, 2019, p. 3.

¹⁵ Suncor Energy Final Submission, BCUC Inquiry into Gasoline and Diesel Prices in BC, August 8, 2019, p. 3.

¹⁶ Suncor Additional Intervener Evidence, BCUC Inquiry into Gasoline and Diesel Prices in BC, Exhibit C2-15, September 24, 2019, p. 3.

the availability of low-cost transportation capacity to facilitate the importation of low-priced refined products from elsewhere, especially from Edmonton.¹⁷ As I have previously discussed, since 2015 there has been decreasing availability of low-cost pipeline capacity for shipping refined product (and crude oil) into BC – especially in 2017, 2018, and 2019. The limitations on import capacity are an important part of the explanation for the increase in the difference between the BC refining margin and refining margins in other Western Canada provinces but are not the only explanation.¹⁸

The issue of Trans Mountain Pipeline (“TMPL”) allocation and its contribution to higher wholesale prices in BC since 2015 has been addressed by market players in addition to being addressed in my evidence. For example, Imperial Oil’s response to BCUC’s initial questionnaire mentions that “as a result of pipeline apportionment on the Trans-Mountain Pipeline, Imperial has...increased the amount of refined products it ships to British Columbia by rail and marine vessel, which are typically more expensive means of transportation than transportation by pipeline.”¹⁹ Additionally, Suncor’s Final Argument in this inquiry states:

Several interveners provided testimony regarding the logistical constraints affecting Vancouver in particular as a result of capacity limitations on the TMPL: expanding rail facilities, finding storage for rail cars, access to the local market (i.e., getting from storage to a terminal to serve the local market). All of these constraints add to the cost of doing business in Vancouver... The TMPL is the only pipeline that carries petroleum products from Alberta to the interior of BC and Vancouver. TMPL is oversubscribed and under apportionment. Changes in 2015 to the allocation process for acquiring pipeline space have resulted in less refined products being shipped on TMPL. Market economics favour shipping crude over refined petroleum products, which, in conjunction with the purchase by crude shippers of additional pipeline space in the secondary market and the revised allocation methodology, has diluted the share of line space allocable to refined product shippers. This means that refined product shippers are required to move their products using more expensive transportation, such as rail and truck.²⁰

¹⁷ Kahwaty Supplemental Report, p. 14.

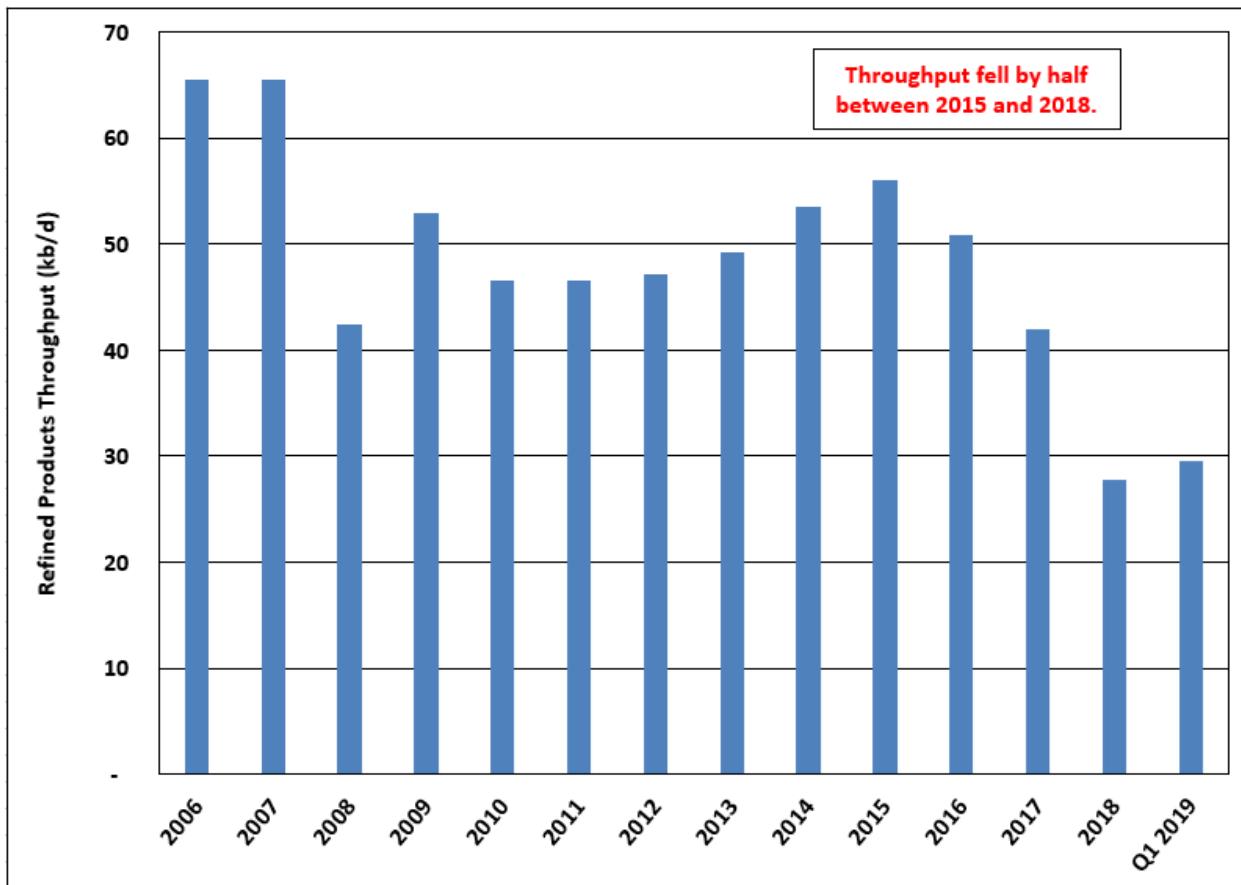
¹⁸ My response to question 1.2 is not meant to be a comprehensive summary of all the possible explanations to the refinery margin trends which have been offered during this Inquiry.

¹⁹ Imperial Oil Responses to Questionnaire, June 27, 2019, BCUC Inquiry into Gasoline and Diesel Prices in BC, Exhibit C8-2, p. 5.

²⁰ Suncor Final Submission, BCUC Inquiry into Gasoline and Diesel Prices in BC, August 8, 2019 p. 7.

As I stated in my Supplemental Report, the use of the TMPL to import refined products into BC for local consumption was greater in 2015 than in any of the prior seven years and has fallen by about half since then.²¹ This is shown in **Figure 3** below, which is reproduced from the Kahwaty Presentation.²² **Figure 4**, which is reproduced from the Kahwaty Report,²³ shows the overall downward trend of the TMPL quarterly throughput allocated to refined products since 2015.

Figure 3
Reproduction of Figure from Kahwaty Presentation, Slide 12
Trans Mountain Pipeline Throughput Allocated to Refined Products
2006 – Q1 2019



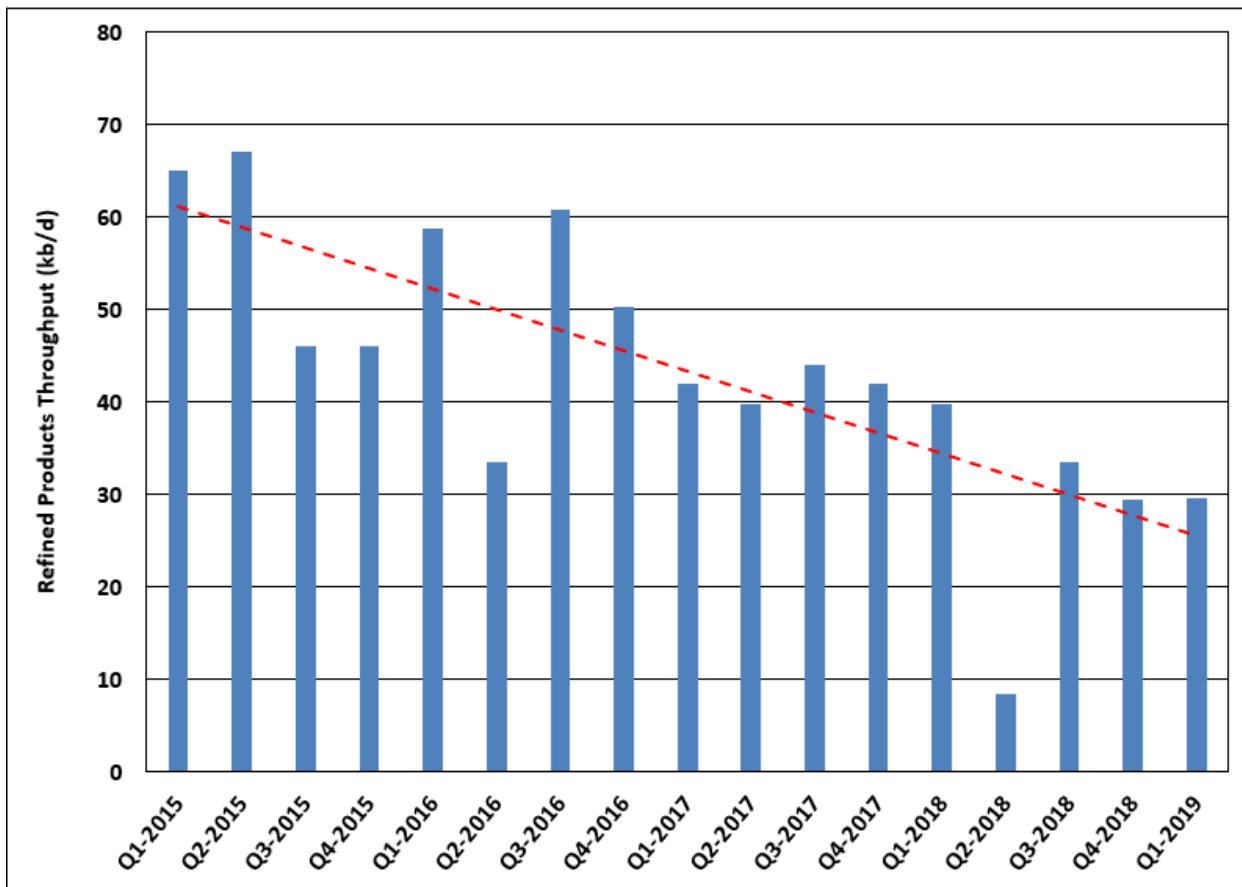
²¹ Kahwaty Supplemental Report, ¶ 28.

²² Kahwaty Presentation, p. 12.

²³ Kahwaty Report, Figure 17.

Sources: Government of Canada – Pipeline Throughput and Capacity Data - Trans Mountain Pipeline, available at <https://open.canada.ca/data/en/dataset/dc343c43-a592-4a27-8ee7-c77df56afb34>; “Pipeline Profiles: Trans Mountain,” National Energy Board, September 2018, available at https://www.nebone.gc.ca/nrg/ntgrtd/pplnprt/pplnprfls/crdl/trnsmntn-eng.html?_=undefined&wbdisable=true.

Figure 4
Reproduction of Kahwaty Report Figure 17
Trans Mountain Pipeline Average Quarterly Throughput Allocated to Refined Products
2015 – 2019



Note: The red dashed line is a simple linear trend line across all data points.

Sources: Government of Canada – Pipeline Throughput and Capacity Data - Trans Mountain Pipeline, available at <https://open.canada.ca/data/en/dataset/dc343c43-a592-4a27-8ee7-c77df56afb34>; “Pipeline Profiles: Trans Mountain,” National Energy Board, September 2018, available at https://www.nebone.gc.ca/nrg/ntgrtd/pplnprt/pplnprfls/crdl/trnsmntn-eng.html?_=undefined&wbdisable=true.

As lower-cost products are removed from the market due to pipeline constraints, BC is forced to rely on ever more expensive alternative sources of supply to meet provincial demand. Other Western Canada provinces have not faced these same pipeline constraints. As discussed in the Kahwaty Supplemental Report, Alberta is a large (net) exporter of both crude oil and refined products, and thus is not reliant on pipeline or other sources of transportation to import product to meet demand for gasoline and diesel in the province.²⁴ Like Alberta, Saskatchewan produces a surplus of refined products. Further, according to the National Energy Board, “[a]ll of the gasoline consumed in Saskatchewan is refined within the province.”²⁵ Thus, Saskatchewan is also not reliant on imports to meet the provincial demand for gasoline and diesel.

Like BC, Manitoba is a net importer of gasoline and diesel and is reliant on pipeline transportation to meet demand for refined products in its province. Indeed, there are no refineries in Manitoba, so all gasoline and diesel consumed in the province must be imported from outside sources.²⁶ However, unlike BC, Manitoba has not faced pipeline constraints in meeting its demand for refined products. Refined products from Alberta are transported to Manitoba on Line 1 of the Enbridge Mainline. Line 1 of the Enbridge Mainline has only been apportioned in eight months since the start of 2015.²⁷ In comparison, the TMPL has been apportioned every month since at least January 2018 and was frequently apportioned before then as well.²⁸

The reduced ability of BC refiners and wholesalers to access crude oil and refined products via a low-cost pipeline transportation since 2015 is an important part of the explanation of the increasing difference between wholesale prices and refining margins between BC and Alberta, Saskatchewan, and Manitoba. In recent years, BC has been forced to rely on ever more expensive alternative sources of supply to meet provincial demand whereas the other Western Canadian provinces have not.²⁹

²⁴ Kahwaty Supplemental Report, ¶ 22.

²⁵ Canada Energy Regulator – Provincial and Territorial Energy Profiles, Saskatchewan, available at <https://www.cer-rec.gc.ca/nrg/ntgrtd/mrkt/nrgsstmrfls/sk-eng.html>.

²⁶ Kahwaty Supplemental Report, ¶ 24.

²⁷ Kahwaty Supplemental Report, ¶ 26.

²⁸ Kahwaty Supplemental Report, ¶ 26.

²⁹ The limits on the availability of pipeline capacity to import refined products is exacerbated by demand growth in BC relative to other provinces. Vehicle registrations in BC increased 8.0 percent between 2015 and 2018, while vehicle registrations increased only 2.1 percent, 2.2 percent, and 5.5 percent in Saskatchewan, Alberta, and Manitoba respectively, over the same time period. Kahwaty Report, Figure 36; Road Motor Vehicle Registrations, by Type of Vehicle,” Statistics Canada, available at <https://www150.statcan.gc.ca/t1/tbl1/en/tv.action?pid=2310006701>.