



NEWFOUNDLAND AND LABRADOR

BOARD OF COMMISSIONERS OF PUBLIC UTILITIES

120 Torbay Road, P.O. Box 21040, St. John's, Newfoundland and Labrador, Canada, A1A 5B2

E-mail: SarahStoodley@gov.nl.ca

2023-03-17

The Honourable Sarah Stoodley
Minister, Digital Government and Service NL
Government of Newfoundland and Labrador
2nd Floor, West Block, Confederation Building
St. John's, NL A1B 4J6

Dear Minister Stoodley:

Re: 2022-2023 Petroleum Products Pricing Review – Updated Work Plan and Issues List

This is further to correspondence from the Board dated March 6, 2023 advising that R Cube Economic Consulting Inc. has been engaged as the Board's consultant for Phases II and III of the 2022-2023 Petroleum Products Pricing Review.

Following the engagement of R Cube Economic Consulting Inc. the work plan for Phases II and III was reviewed and it was determined that it is not necessary to make changes with the exception of minimal changes to some of the timelines. Completion of Phase II continues to be planned for the fall of 2023 and Phase III continues to be scheduled to conclude in February 2024. The updated work plan is attached for your reference and will be posted on the Board's website.

For your information the Board has now finalized the issues to be addressed in the review. A copy of the Issues List is attached for your reference. This list will be released and posted on the Board's website in the coming days which will conclude Phase I of the review.

The Board will keep you advised as the review progresses. Please let me know if you have any questions.

Sincerely,

A handwritten signature in blue ink, appearing to read 'C. Blundon', written over a horizontal line.

Cheryl Blundon
Board Secretary

CB/cj

ecc. Sean Dutton, Deputy Minister of Digital Government and Service NL, E-mail: sdutton@gov.nl.ca

**Newfoundland and Labrador Public Utilities Board
2022 – 2023 Petroleum Products Pricing Review – Work Plan
Updated March 2023**

| PHASE II - SUPPLY DYNAMICS, BENCHMARKING AND WHOLESALE MARK-UPS (ALL REGULATED PRODUCTS) | | | | |
|-----------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------|---------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------|
| Review Component | | Responsibility | Actions/Deliverables | Completion Date |
| II-1 | R Cube Report on the Benchmark Pricing Mechanism and Wholesale Mark-ups/Zone Differentials | R Cube Economic Consulting Inc. | <ul style="list-style-type: none"> • R Cube report on the benchmark pricing mechanism and wholesale mark-ups/zone differentials completed and released. • R Cube will review i) the current supply dynamics and changes since the last full storage and distribution study; ii) the benchmark pricing mechanism, including the data sources, the calculation, blending, adjustment frequency, and extraordinary price adjustments; iii) the geographic pricing zones; iv) the wholesale mark-ups/zone differentials; and v) the method for updating wholesale mark-ups/zone differentials. | May 2023 |
| II-2 | Stakeholder Input Process | Board | <ul style="list-style-type: none"> • The Board will issue notice and an invitation to participate in Phase II. • A process will be established to receive input from stakeholders in writing and in-person. | July 2023 |

**Newfoundland and Labrador Public Utilities Board
2022 – 2023 Petroleum Products Pricing Review – Work Plan
Updated March 2023**

| PHASE II - SUPPLY DYNAMICS, BENCHMARKING AND WHOLESALE MARK-UPS (ALL REGULATED PRODUCTS) | | | | |
|-----------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------|-----------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------|
| Review Component | | Responsibility | Actions/Deliverables | Completion Date |
| II-3 | Changes to the Benchmark Pricing Mechanism and Wholesale Mark-ups/Zone Differentials | Board | <ul style="list-style-type: none"> The Board may implement changes to the benchmark pricing mechanism and the wholesale mark-ups/zone differentials. The Board will consider the information filed and determine whether there are changes within its jurisdiction which should be implemented. | Mid-November 2023 |
| II-4 | Board Report on the Benchmark Pricing Mechanism and Wholesale Mark-ups/Zone Differentials | Board | <ul style="list-style-type: none"> The Board's report on the benchmark pricing mechanism and wholesale mark-ups/zone differentials will be completed. | Mid-November 2023 |

**Newfoundland and Labrador Public Utilities Board
2022 – 2023 Petroleum Products Pricing Review – Work Plan
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| PHASE III - REVIEW OF RETAIL MARK-UPS (ALL REGULATED PRODUCTS) | | | | |
|---------------------------------------------------------------------------|----------------------------------|---------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------|
| Review Component | | Responsibility | Actions/Deliverables | Completion Date |
| III-1 | R Cube Report on Retail Mark-ups | R Cube Economic Consulting Inc. | <ul style="list-style-type: none"> • R Cube report on the retail mark-ups to be completed and released. • R Cube will review the retail mark-ups for all zones in the Province, including the timing and process for the changes to the mark-ups. | Mid-September 2023 |
| III-2 | Stakeholder Input Process | Board | <ul style="list-style-type: none"> • The Board will issue notice and an invitation to participate in Phase III. • A process will be established to receive input from stakeholders in writing and in-person. | Mid-December 2023 |
| III-3 | Changes to the Retail Mark-ups | Board | <ul style="list-style-type: none"> • The Board may implement changes to the retail mark-ups. The Board will consider the information filed and determine whether there are changes within its jurisdiction which should be implemented. | February 2024 |
| III-4 | Board Report on Retail Mark-ups | Board | <ul style="list-style-type: none"> • The Board’s report on retail mark-ups will be completed. | February 2024 |

2022-2023 Petroleum Products Pricing Review

Issues List

March 2023

Preamble

This list sets out the issues to be addressed in the 2022-2023 Petroleum Products Pricing Review and reflects the relevant issues raised in the comments and submissions filed with the Board as part of Phase I of the review. Other issues may be added to this list as the review progresses based on the information and commentary which is gathered by the Board. Detailed discussion of the various topics referred to below can be found in the Board's [Consultation Document](#).

Benchmark Data Sources

- (1) Should there be changes to the benchmark data sources prescribed by the regulations (See Appendix A) to be used in the calculation of benchmark prices?
- (2) Are there other benchmark data sources which may be more reflective of product costs, more transparent, and more in line with the approach taken in other Atlantic provinces? For example, Argus Media; the Oil Price Information Service, local supplier rack prices, etc.?
- (3) Are there particular zones where the prescribed benchmark data sources do not reasonably reflect product cost?

Benchmark Prices and Seasonal Blending

- (1) Should there be changes to the specific product prices or product blending methodologies (see Appendix B) used by the Board to calculate benchmark prices? In particular:

Gasoline Motor Fuel:

- i) Should gasoline motor fuel benchmark prices reflect RBOB, Unleaded 87, E10, some other product, or a combination of these?
- ii) Should there be changes to the benchmark prices for gasoline motor fuel or to the 3 cents per litre and the 6 cents per litre grade differentials for mid-grade and premium-grade gasoline, respectively, prescribed by the regulations to better reflect product costs and differences between the different grades of gasoline?

Diesel Motor Fuel:

- iii) Should diesel motor fuel benchmark prices on the Island reflect 25% ULSD and 75% ULSK in the winter?
- iv) Should diesel motor fuel benchmark prices in Labrador reflect 100% ULSK year round?

- v) What should be the basis for diesel motor fuel benchmark prices in Zones 13 and 13a?

Furnace Oil Heating Fuel:

- vi) Should furnace oil benchmark prices reflect 25% ULSD and 75% Jet in the winter?

Stove Oil Heating Fuel:

- vii) Should stove oil heating fuel benchmark prices on the Island reflect 100% ULSD year round?
viii) Should stove oil heating fuel benchmark prices in Labrador reflect 100% ULSK year round?

- (2) Are there particular zones where the benchmark product prices used by the Board to calculate benchmark prices do not reasonably reflect product cost?
- (3) Should there be changes to the Board's blending methodology and approach to reflect the seasonal changes in the product brought to market? In particular should there be changes for any regulated product in any zone with respect to the:
- i) timing of the implementation and lifting of the blend; and
 - ii) manner of the phase-in of the blend.

Benchmark Price Calculations

- (1) Should benchmark prices continue to be calculated using a 7-day average with Friday as a proxy for Saturday and Sunday, or should a 5-day average be used similar to Nova Scotia and New Brunswick?
- (2) Should the Board have the authority to implement forward averaging or another market adjuster in the calculation of benchmark prices similar to Nova Scotia and New Brunswick?

Mark-Ups

- (1) Should wholesale and retail mark-ups be adjusted to better reflect the cost of supplying the product? In particular, should there be changes to:
- i) better reflect the cost of petroleum products relative to the prescribed benchmark prices?
 - ii) reflect changes in the cost of fuel necessary to transport petroleum products, hedging costs, interest rates, insurance, equipment costs and maintenance, wages, etc.?
 - iii) provide for necessary capital investment, overhead and return on investment?
 - iv) the interim wholesale mark-up increases on the island of 5.0 cents per litre for gasoline and 4.0 cents per litre for diesel, furnace oil and stove oil that was implemented in 2020 related to the closure of the refinery in Come By Chance?

- v) the additional retail mark-up of 2.39 cents per litre for gasoline motor fuel in Zones 4a, 7b, 11a, 11b and 14 to provide for the viability of retailers in these zones?
 - vi) reflect different business models?
 - vii) account for decreasing volumes which may be associated with government climate action policy?
- (2) What should the mark-ups be for mid-grade and premium-grade gasoline? Should there be changes to how the wholesale and retail mark-ups are calculated considering the application of the grade differentials to the Unleaded 87 benchmark price as prescribed by the regulations?
 - (3) Should the Board implement an adjuster to the retail mark-up to reflect the variable costs to retailers associated with credit card fees similar to Nova Scotia?
 - (4) Should there be changes with respect to the full-service differential?
 - (5) Should minimum wholesale and/or retail mark-ups be implemented?
 - (6) What processes should be established for the periodic review of mark-ups?

Zone Boundaries and Zone Differentials

- (1) Should there be changes to the number of zones and/or the zone boundaries (see Appendix C)?
- (2) Should there be changes to the zone differentials for any regulated product in any zone? In particular, should there be changes to reflect costs associated with storage and transportation, capital investment, trucks, parts and labour and fuel costs including fuel surcharges implemented by bulk haulers?
- (3) What processes should be established for the periodic review of zone differentials?

Weekly Adjustments

- (1) Should regular weekly price adjustments be moved from a Thursday effective date to a Friday effective date to be consistent with the other Atlantic Provinces?
- (2) Should price adjustments continue to be made on a weekly basis?
- (3) Should price adjustments be made more than once a week?

Extraordinary Adjustments

- (1) Should there be extraordinary price adjustments outside of regular weekly price adjustments?
- (2) What should the criteria be for extraordinary price adjustments? Are the current thresholds for an extraordinary price adjustment appropriate?
- (3) Should the criteria for an extraordinary price adjustment be prescribed by the legislation?
- (4) Are there any measures which can be implemented to reduce the number of extraordinary price adjustments, especially in the case of commodity market volatility? Would a market adjuster reduce the number of extraordinary adjustments?

Notice of Adjustments

- (1) Should there be advance notice of maximum price adjustments to the media and the public?
- (2) Should there be advance notice that there will be an extraordinary price adjustment the following day without releasing the amount or direction of the change?

Seasonal Suspension of Adjustments

- (1) Should there be changes to the policy with respect to the seasonal suspension of adjustments? In particular should:
 - i) the same approach be taken for the suspension of adjustments in all zones subject to the suspension?
 - ii) a suspension continue to be implemented in both the winter and the summer?
 - iii) the timing of the implementation and lifting of the suspension be changed for any zone?
 - iv) there be a suspension in any other zones?
 - v) the suspension be discontinued for any zone?

Appendix A
2022-2023 Petroleum Products Pricing Review
Benchmark Data Sources

Schedule

Platts New York Barge No. 2

Platts New York Barge ULSD

Platts New York Barge ULSKero

Platts New York Barge Jet

Platts New York Cargo Unl 87

Platts New York Cargo LSD

Platts New York Cargo LS Jet

Bloomberg Oil Buyers Guide US Propane Contract Postings Sarnia

Oil Price Information Service price report

Appendix B
2022-2023 Petroleum Products Pricing Review
Benchmark Sources and Blending Methodology

| Benchmark Sources and Blending Methodology | | | | |
|-------------------------------------------------------|-------------------------------|--------------------------------------------------------------|---------------------------------|--------------|
| Product | Reporting Data Source | Product Price Assessment | Blend Methodology | |
| | | | Winter Blend | Spring Blend |
| Regular Gasoline | Platts US MarketScan | New York Harbor UNL 87 (Cargo) | 100% UNL 87 Year Round | |
| Mid-Grade Gasoline | Platts US MarketScan | New York Harbor UNL 87 (Cargo) | 100% UNL 87 Year Round | |
| Premium Gasoline | Platts US MarketScan | New York Harbor UNL 87 (Cargo) | 100% UNL 87 Year Round | |
| Diesel Motor Fuel (Island) | Platts US MarketScan | New York Harbor ULSD (Barge) New York Harbor ULSK (Barge) | 25% ULSD 75% ULSK | 100% ULSD |
| Diesel Motor Fuel (Labrador, except zones 13 and 13a) | Platts US MarketScan | New York Harbor ULSK (Barge) | 100% ULSK Year Round | |
| Furnace Oil Heating Fuel | Platts US MarketScan | New York Harbor ULSD (Barge) New York Harbor Jet (Barge) | 25% ULSD 75% Jet | 100% ULSD |
| Stove Oil Heating Fuel (Island) | Platts US MarketScan | New York Harbor ULSD (Barge) | 100% ULSD Year Round | |
| Stove Oil Heating Fuel (Labrador) | Platts US MarketScan | New York Harbor ULSK (Barge) | 100% ULSK Year Round | |
| Propane Heating Fuel | Oil Price Information Service | Sarnia Propane (Weekly Average) | Sarnia Propane Price Year Round | |

Appendix C
2022-2023 Petroleum Products Pricing Review
Pricing Zone Maps



Appendix C
2022-2023 Petroleum Products Pricing Review
Pricing Zone Maps

