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Dear Minister:

We are pleased to advise that the Board has completed the Island portion of the Petroleum Products Pricing Review (“the Review”), as directed by the Minister of Digital Government and Service NL in June 2022. A separate report addressing petroleum products pricing in Labrador will be released in the coming weeks.

In completing the Review, the Board engaged consultants to gather and analyze cost information from the industry to assist in the evaluation of the benchmark pricing mechanism, the mark-ups and the zone differentials. The consultants’ work took longer than expected primarily due to challenges in obtaining industry cost information. Following receipt of the consultants’ reports, the Board conducted an extensive consultation process with industry, consumers and community groups which involved written and in-person presentations. This consultation process continued into the fall of 2024 and included the release of three Board consultation documents setting out the issues and relevant information.

The attached report sets out the changes that will be implemented by the Board in the coming weeks as a result of this Review. These changes include increases in the gasoline, diesel and furnace oil retail mark-ups and zone differentials, which will be phased-in over six weeks so that the impacts on maximum prices will be no higher than 1.0 cent per litre per week. There will be no changes in the wholesale mark-ups for these fuels. The Board has also identified two potential changes to the Petroleum Products Regulations for the consideration of Government.

Respectfully submitted,

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Review of **PETROLEUM PRODUCTS PRICING ON THE ISLAND**

Final Report

January 27, 2025

EXECUTIVE SUMMARY

The Petroleum Products Pricing Review (the “Review”) was conducted by the Board of Commissioners of Public Utilities (the “Board”) in accordance with the direction of the Minister of Digital Government and Service NL, pursuant to Section 8.1(3) of the **Petroleum Products Act**.

This report relates to petroleum products pricing for the Island portion of the Province. A separate report addressing petroleum products pricing in Labrador will be subsequently issued.

As a result of the Review, the Board will make a number of changes to petroleum products pricing on the Island:

The Weekly Price Setting Process for the Island

- Weekly maximum price adjustments will be made on Friday rather than Thursday.
- The market reporting agency will be Argus Media for gasoline, diesel and furnace oil.
- 5 days of data will be used in the calculation of maximum prices.
- There will be no changes with respect to the extraordinary adjustment criteria.
- Minimum pricing will not be introduced.
- Government may wish to consider changes to the Regulations to give the Board additional discretion in the calculation of maximum prices.

Products and Blending on the Island

- There will be no changes to the products or blending reflected in maximum prices for gasoline, diesel and furnace oil on the Island.
- Maximum prices will no longer be set for stove oil on the Island.
- Government may wish to consider whether there should be changes to the Regulations to allow for market-based pricing for mid-grade and premium gasoline fuels.

Mark-Ups and Zone Differentials on the Island

- Current wholesale mark-ups will not change for gasoline, diesel and furnace oil on the Island.
- The zone differentials will increase for gasoline, diesel, and furnace oil on the Island.
- The retail mark-ups will increase for gasoline, diesel, and furnace oil on the Island.
- Zone 5b: Little Bay Islands will be eliminated.

The increases in the retail mark-ups and zone differentials will be phased-in over a six-week period to limit the weekly impact on maximum prices.

Propane Heating Fuel

- The combined total allowed mark-ups and zone differentials for propane on the Island will be increased.

Mark-Up and Zone Differential Reviews

- The Board will conduct annual reviews of the mark-ups and zone differentials beginning in 2026.

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1.0 - INTRODUCTION

1.1 - The Petroleum Products Pricing Review

The Petroleum Products Pricing Review (the “Review”) was conducted by the Board of Commissioners of Public Utilities (the “Board”) in accordance with the direction of the Minister of Digital Government and Service NL, pursuant to Section 8.1(3) of the **Petroleum Products Act**. The direction from the Minister can be found here: **Minister's Direction**.

1.2 - Review Process

The Board engaged Kalibrate Canada Inc. (“Kalibrate”), and subsequently R Cube Economic Consulting Inc. (“R Cube”), to assist the Board in the completion of the Review. The following reports were issued:

- **Kalibrate Preliminary and Background Market Review**
- **R Cube Supply Dynamics, Benchmarking, Wholesale Mark-Ups**
- **R Cube Retail Mark-Ups and Other Items**
- **Board Consultation Document - Issue Identification**
- **Board Island Consultation Document**
- **Board Labrador Consultation Document**

The Board advised industry and the public of the process and schedule of the Review as well as how to participate. The Board prepared a work plan and schedule, highlights documents, media releases and numerous notices.

In June 2024 the Board issued an **Island Consultation Document** which summarized the information gathered and outlined potential changes to petroleum products pricing on the Island based on the information received. Consultation with industry as well as with consumers, community groups and their representatives occurred throughout the summer and fall of 2024.

In October 2024 the Board issued a **Labrador Consultation Document** which summarized the information gathered and outlined potential changes to petroleum products pricing in Labrador. Consultation occurred throughout the fall of 2024 and into 2025.

The Board received presentations and written comments from members of the general public, community groups, Members of the House of Assembly, Members of Parliament, and the industry throughout the Review. The Board appreciates the participation of everyone who took the time to provide their views and additional information to the Board. This information and feedback proved to be very valuable in this Review. The Board extends its thanks to all participants that provided feedback and information.

Documentation associated with this Review, including letters of comment from the industry and the general public, can be found on the Board's website [here](#).

1.3 - Report Structure

This report sets out the changes to petroleum products pricing for the Island portion of the Province that will be implemented by the Board based on the information and commentary which has been provided. A separate report addressing petroleum products pricing in Labrador will be subsequently issued. This report is organized as follows:

- **Section 2:** The Weekly Price Setting Process
- **Section 3:** Products and Blending
- **Section 4:** Mark-Ups and Zoning
- **Section 5:** Propane Heating Fuel
- **Section 6:** Future Reviews
- **Section 7:** Summary

The report summarizes the information and commentary that was provided during the Review. More detailed information with respect to this Review and petroleum products pricing on the Island is set out in the Board's Island Consultation Document [here](#) and on the Board's website [here](#).

2.0 - ISLAND WEEKLY PRICE SETTING PROCESS

The Board evaluated the current price setting process. More specifically, the Board reviewed weekly pricing, the market reporting agency, the use of a 5-day average in benchmark prices, extraordinary adjustments, minimum pricing and Board discretion.

2.1 - Weekly Pricing, Effective Day, and Notifications

The Board currently adjusts maximum prices weekly on Thursdays. The Board provides notice to the industry the day before the adjustment at 2:00 p.m. to allow for proper preparation of pricing systems. The media receives advance notice at 8:00 p.m. the day before the adjustment to allow for adequate time to report on the morning prices are effective. Consumers receive notice of price adjustments via the Board's website when the maximum prices become effective.

New Brunswick, Nova Scotia and Prince Edward Island also set maximum prices on a weekly basis but make the adjustments on Fridays rather than Thursdays. While the notification processes vary somewhat by Atlantic Canadian jurisdiction, advance notice is generally issued to industry prior to the effective date. Advance notice is not provided to the media or the public in any other Atlantic province.

A majority of industry participants and the general public were supportive of weekly adjustments on Fridays instead of Thursdays to align with other Atlantic Canadian jurisdictions. Most industry participants were also comfortable with the Board's notification processes. One member of the general public suggested that consumers should receive advance notice of price adjustments.

The information provided supports the continuation of weekly pricing. Adjustments should be moved from Thursday to Friday, to be consistent with the other Atlantic provinces. While the Board acknowledges that consumers may prefer advance notice of price adjustments, such an approach would not be consistent with other Atlantic provinces and could influence consumer purchase behaviour and lead to cost recovery issues and supply concerns.

The effective day of weekly maximum price changes will move from Thursday to Friday, to be consistent with other Atlantic provinces.

2.2 - Market Reporting Agency

The Board currently uses daily market data published by Platts US Marketscan ("Platts") in the calculation of maximum prices. The Board examined whether a change from this market

reporting agency to another reporting agency, such as Argus Media (“Argus”)¹, was better reflective of industry pricing.

The Board’s consultant found that the majority of wholesalers operating in Nova Scotia have been using Argus instead of Platts as a basis for fuel transactions and that many wholesalers operating in Nova Scotia also operate in this Province.²

New Brunswick and Nova Scotia use Argus-reported market data for calculating benchmark prices³, whereas Prince Edward Island uses Charlottetown rack pricing.⁴

Industry was generally supportive of the transition from Platts to Argus. Specific commentary received from the general public was limited, but was also generally supportive of the transition.

Based on the information provided, Argus Media-reported market data is more reflective of industry pricing practice. Using Argus would bring consistency with the market reporting agency used in other Atlantic jurisdictions.

Argus-reported market data will replace Platts-reported market data in the calculation of maximum prices, to better reflect industry pricing practice and to be consistent with other Atlantic provinces.

2.3 - Benchmark Price Calculations: 5-Day Average

Benchmark prices for gasoline, diesel, furnace oil and stove oil are currently based on an average of 7 days of daily market data, with Friday data used as a proxy for Saturday and Sunday. The Board examined whether it was appropriate to use 5 days, rather than 7 days, in the average benchmark price calculation.

¹ In June 2023 the **Petroleum Products Regulations** were amended to allow the Board to use reports published by Argus Media for the purpose of establishing benchmark prices.

² R Cube Phase II Report, Page 34.

³ With the exception of propane in New Brunswick, which is based on a Sarnia, Ontario price published by the Oil Price Information Service.

⁴ The rack price is the price set by the supplier at bulk fuel terminals to reflect the cost of the product.

New Brunswick, Nova Scotia and Prince Edward Island use a 5-day average of weekday market data for benchmark price calculations.

While there were some conflicting opinions amongst industry participants, the majority of submissions received were supportive of a 5-day average benchmark price calculation. No information was filed by consumers with respect to this matter. Use of a 5-day average, rather than a 7-day average, would reflect the weekday market data and would bring consistency with other Atlantic jurisdictions.⁵

A 5-day average will be used in the calculation of benchmark prices to better reflect product pricing and to be consistent with other Atlantic provinces.

2.4 - Extraordinary Adjustment Criteria

An extraordinary adjustment of maximum prices may be made by the Board when there is a significant shift in the market prices such that the established maximum prices no longer reflect the cost of the product sold to wholesalers. In these circumstances, the Board considers an extraordinary adjustment when there is a variance of ± 6 cents per litre between the running average benchmark price and the established benchmark price. Other factors such as data trends and the timing of recent and upcoming price adjustments may also be considered.

Conflicting viewpoints on extraordinary adjustments were presented. Some participants supported an increase in the criteria used by the Board whereas others supported a decrease. Concerns were expressed with respect to the frequency of extraordinary adjustments as well as with the perceived lack of transparency regarding the metrics used by the Board. One member of the industry suggested that the criteria for extraordinary adjustments should be codified in legislation. Other commentary suggested extraordinary adjustments cause public confusion and anger and that the Board should consider mechanisms to reduce the impact on consumers.

In New Brunswick, Prince Edward Island and Nova Scotia the regulators have full discretion to determine whether to adjust prices in extraordinary circumstances. New Brunswick and Prince Edward Island do not currently publish extraordinary adjustment criteria. Nova Scotia has similar criteria to the Board's.

⁵ Prior data points may continue to be used as proxies for statutory holidays where necessary.

While extraordinary adjustments can be a concern, particularly during commodity market volatility, the Board believes the existing criteria for extraordinary adjustments appropriately balances pricing stability and cost recovery. In terms of codifying the criteria in legislation, the Board notes that prescriptive requirements in the legislation can lead to inefficiencies in reacting to a changing market environment. The Board notes that recent amendments to New Brunswick's legislation removed strict criteria outlining when the regulator must intervene and adjust maximum prices based on market conditions.⁶

The existing extraordinary adjustment criteria will be maintained to allow for maximum prices which reflect the cost of the product in times of market volatility and to be consistent with other Atlantic provinces.

2.5 - Minimum Pricing

The Board currently establishes maximum prices for regulated petroleum products.⁷ The Board assessed whether minimum pricing should also be implemented.

The Board's consultant commented that, while minimum and maximum regulated retail prices ensure that retailers' realized margins are relatively consistent over time, it limits competition and lower-cost retailers from operating in the Province. The consultant also noted that minimum pricing can ultimately lead to higher prices for consumers.⁸

Some retailers supported a switch to include both minimum and maximum price regulation, suggesting that it can moderate operating costs and result in economic stability. The Board notes the potential negative impacts of minimum pricing and that the information does not demonstrate that the potential benefits outweigh the potential negative impacts.

The implementation of minimum pricing is not supported at this time.

⁶ Prior to the amendments, the regulator in New Brunswick was required to intervene and adjust maximum prices for gasoline and diesel when the daily reference price varied ± 6 cents per litre or more from its value on the previous day. For furnace oil, the threshold was ± 5 cents per litre or more. These stringent legislative provisions were removed in **Bill 15** in New Brunswick in 2022.

⁷ New Brunswick only sets maximum prices; Nova Scotia and Prince Edward Island set both minimum and maximum prices.

⁸ R Cube Phase III Report, Pages 30 and 31.

2.6 - Board Discretion

Currently the Board does not have discretion as to how benchmark prices are calculated in determining maximum prices. The Board assessed whether changes to the **Petroleum Products Regulations** should be considered by Government to provide more discretion to the Board in determining price adjustments.

The Board's consultant found that volatility in maximum prices would be lower if forward averaging adjustments were incorporated and recommended that the Board implement forward averaging adjustments weekly, similar to other regulated markets.⁹

In New Brunswick and Prince Edward Island the regulators have full discretion to determine the manner in which benchmark prices are calculated and have additional mechanisms such as market adjustors and forward averaging corrections to allow for consideration of market shifts. Nova Scotia also uses forward averaging in an attempt to better reflect the product cost in the established prices.

Industry participants recommended that a market adjustor should be introduced to address market shifts and that the Board should be equipped with sufficient regulatory authority to deal with the complexities of the marketplace.

Government may wish to consider changes to the Regulations to allow the Board greater discretion and flexibility in the calculation of maximum prices, similar to other Atlantic provinces.

3.0 - ISLAND PRODUCTS AND BLENDING

The Board examined the products and product blends which are reflected in maximum prices for motor fuels and heating fuels for the Island portion of the Province.

⁹ R Cube Phase II Report, Page 39.

3.1 - Gasoline Motor Fuels

Regular Gasoline

The Board assessed whether it should continue using Unleaded 87 (Cargo) market data in the calculation of maximum prices for regular gasoline.

In New Brunswick regular gasoline benchmark prices are based on the higher of Unleaded 87 and a CBOB¹⁰/ethanol blend (“E10”).¹¹ In Nova Scotia, regular gasoline benchmark prices are calculated using a blend of CBOB and ethanol market prices.¹² Regular gasoline prices in Prince Edward Island are based on Charlottetown rack prices.¹³

Some industry participants recommended that the Board align with New Brunswick and consider the role of ethanol in gasoline benchmarking going forward.

Based on available information, gasoline motor fuel sold on the Island varies by supplier, with some product being conventional Unleaded 87 and some being a blend of ethanol and CBOB. As a result, it is not clear that there should be changes with respect to the product reflected in gasoline motor fuel maximum prices at this time. The Board acknowledges that this is a developing issue and will monitor the role of ethanol in gasoline fuels supplied to the Island portion of the Province going forward.

The continued use of 100% conventional Unleaded 87 market data in the calculation of regular gasoline maximum prices for the Island is supported at this time.

Mid-Grade and Premium Gasoline

The Regulations specify that mid-grade and premium gasoline maximum prices are to be calculated by adding 3 cents per litre and 6 cents per litre, respectively, to the regular gasoline benchmark price.

In New Brunswick and Nova Scotia mid-grade and premium gasoline prices are based on Argus-reported premium gasoline market data. The difference between premium and regular

¹⁰ CBOB means “Conventional Blendstock for Oxygenate Blending.” It is a gasoline blendstock that is intended for blending, often with ethanol, to produce E10 gasoline.

¹¹ 90% CBOB, New York Harbor / 10% ethanol, New York Harbor.

¹² 90% CBOB, New York Harbor / 10% ethanol, Chicago.

¹³ The rack price is the price set by the supplier at bulk fuel terminals to reflect the cost of the product.

gasoline must be no less than 6 cents per litre.¹⁴ In Prince Edward Island, local Charlottetown rack prices are used for premium gasoline, with mid-grade set at the mid-point between regular and premium.

The Board's consultant suggested that the legislated 6 cents per litre spread between premium and regular gasoline prices does not reflect market realities and may pose a threat to supply. It was recommended that premium and regular gasoline prices should be based on market data, subject to a minimum spread, with mid-grade set as the mid-point between the two.¹⁵

Industry was supportive of a transition from the fixed adders in the Regulations to a market-based price. Commentary from the general public was opposed to the transition, citing that the change would result in higher maximum prices.

The Board notes that a change to a market-based assessment for mid-grade and premium gasoline would be more reflective of product costs on the Island based on the information provided in the Review. Furthermore, this would bring more consistency with other Atlantic jurisdictions. As the current pricing for mid-grade and premium gasoline is based on the direction set out in the Regulations, Government may wish to review the Regulations to determine whether there should be changes.

Government may wish to consider changes to the Regulations to provide for the calculation of maximum prices for mid-grade and premium gasoline on the Island based on market data, to better reflect the cost of the product and to be consistent with other Atlantic provinces.

3.2 - Diesel Motor Fuel Products and Blending

During the winter months benchmark prices for diesel motor fuel on the Island are based on a blend of New York Harbor Ultra Low Sulphur Diesel and Ultra Low Sulphur Kerosene market

¹⁴ Effective March 15, 2024 New Brunswick transitioned to a reference price for premium-grade gasoline published by Argus (see **Matter 565** for more details). Prior to that time, it used 3 cents per litre and 6 cents per litre fixed adders. Nova Scotia calculates premium gasoline benchmark prices based on the following formula: 10% Ethanol Chicago + 90% (1/3 Reg CBOB NYH + 2/3 Prem CBOB NYH).

¹⁵ R Cube Phase III Report, Pages 38 to 42. No market reporting agencies report market data for mid-grade gasoline.

data.¹⁶ The Board reviewed whether there should be changes to how seasonal blending is reflected in benchmark price calculations for diesel motor fuel.

The majority of industry did not oppose the Board's current blending approach, but there was some suggestion that Ultra Low Sulphur Kerosene is used at higher percentages than those in the Board's blending schedule. Based on available information, the current blending approach reasonably reflects the product brought to market as diesel motor fuel.

The current blending schedule for diesel motor fuel on the Island will be continued as it reasonably reflects the product sold.

3.3 - Furnace Oil Heating Fuel Products and Blending

Until recently, benchmark prices for furnace oil on the Island were based on a blend of Ultra Low Sulphur Diesel and Jet during the winter months.

In October 2024 the Board determined that, based on information as to the product supplied, it was appropriate to reflect Ultra Low Sulphur Kerosene instead of Jet in furnace oil benchmark prices. To ensure that benchmark prices reflected the product sold, the change was made coincident with the implementation of the fall blend schedule. While some industry participants had suggested that higher percentages for Ultra Low Sulphur Kerosene should be used than those in the Board's blending schedule, no changes were made to the blend timing or product percentages reflected.

The products and blending for furnace oil heating fuel implemented in October 2024 to reflect Ultra Low Sulphur Kerosene will be continued, as it reflects the product sold. The furnace oil blend schedule is provided in [Appendix A](#).

3.4 - Stove Oil Heating Fuel Maximum Prices

The Board assessed whether it continues to be necessary to establish stove oil heating fuel prices on the Island.

¹⁶ In New Brunswick, diesel motor fuel benchmark prices are also subject to a blend schedule during the winter months, but with different timing and assigned percentages compared to the Island. Nova Scotia does not perform seasonal blending in the calculation of diesel motor fuel benchmark prices, but rather includes a cents per litre adder in its maximum prices calculation to account for the costs of winter blending.

Information received during the Review suggested that stove oil heating fuel is no longer sold on the Island portion of the Province. Major suppliers confirmed that stove oil is no longer supplied on the Island. No commentary on the elimination of stove oil heating fuel maximum prices was received from members of the public.

Stove oil heating fuel maximum prices will no longer be established for the Island as there is no longer supply of this product on the Island.

4.0 - ISLAND MARK-UPS AND ZONING

The wholesale and retail mark-ups, as well as the Board's zone differentials and boundaries, were examined as part of this Review.

4.1 - Wholesale Mark-Ups

The wholesale mark-ups included in maximum prices reflect wholesaler delivery, storage and other costs. The Board assessed whether it is appropriate to make changes to the wholesale mark-ups at this time.

During the Review significant efforts were made to gather data on wholesaler supply costs. Nevertheless, as discussed in the Board's Island Consultation Document, there were significant gaps in the information provided, including concerns related to the level of participation, claims of confidentiality, and the information being combined for all fuels, which inhibited the cost analysis.¹⁷ The Board's consultant concluded based on the information that was provided that wholesaler operating costs for gasoline, diesel and furnace oil had increased by approximately 1.71 cents per litre over the period 2019-2022.¹⁸ The Board notes that this conclusion does not account for a number of issues, including changes in wholesaler marine freight over the period 2006 to 2019, storage and transportation cost increases for furnace oil over the period 2012 to 2019, and 2023 and 2024 cost increases.

Wholesalers responded to the consultant's report and the Board's consultation document expressing concerns regarding potential decreases to the wholesale mark-ups.¹⁹ According to the wholesalers:

¹⁷ Board's Island Consultation Document, Pages 13 to 17.

¹⁸ R Cube Phase II Report, Page 27.

¹⁹ See Appendix E of the [Island Consultation Document](#).

- decreasing the wholesale mark-ups would not allow for cost recovery;
- the wholesale mark-ups should include a CPI adjustment for 2024;
- a simple CPI adjustment does not reflect the actual cost increases incurred; and
- the nature of reseller operating costs, if combined with supplier/wholesaler costs, may have skewed the consultant's analyses.

The wholesalers filed additional cost information to support their position that the wholesale mark-ups should be increased. Based on the information provided, it is clear that the consultant's findings do not fully reflect wholesale cost changes since they were last reviewed and would not provide for the recovery of supply costs, including operating, marine freight, marine terminal and transportation costs. In addition, other available metrics have indicated continued upward cost pressures for the industry in recent years which suggests that the consultant's findings are not reflective of current costs. At the same time the information which was provided by wholesalers was not sufficient to justify an increase in the current wholesale mark-ups. Based on the information provided in this Review, the Board is satisfied that the current wholesale mark-ups allow for reasonable wholesaler cost recovery.

The current wholesale mark-ups for gasoline and diesel motor fuels and furnace oil heating fuel on the Island will not be changed. The wholesale mark-ups are set out in Appendix B.

4.2 - Zone Boundaries and Differentials

The Province is divided into pricing zones with each zone assigned a zone differential to account for regional wholesaler cost differences. The Island is divided into 18 pricing zones for motor fuels and 21 pricing zones for heating fuels.

Zone Boundaries

The Board considered whether some zones on the Island should be combined or eliminated.²⁰

²⁰ See the Board's Island Consultation Document, Pages 18 and 19. Changes were considered for: Zone 3a: St. Brendan's (Island); Zone 3b: Fogo Island; Zone 3c: Change Islands; Zone 5a: Long Island; Zone 5b: Little Bay Islands; Zone 7W: Stephenville/Port au Port/Codroy Valley/Channel-Port aux Basques; Zone 7SE: Burgeo; Zone 7a: Ramea; and Zone 7b: Grey River/François/Grand Bruit/La Poile.

While there are fewer pricing zones in the other Atlantic provinces, it is noted that this Province has a much larger geography with more diverse supply dynamics.²¹

Numerous concerns were raised by members of the public in relation to the potential impact that combining certain pricing zones may have on supply dynamics and businesses in the regions. Based on available information, the only zone boundary change which is supported for the Island is the elimination of Zone 5b: Little Bay Islands to reflect the fact that the residents of this area are now relocated.

Zone boundary changes are not supported for the Island at this time, except that Zone 5b: Little Bay Islands will be eliminated as the residents have relocated. A new map of the pricing zones can be found in [Appendix C](#).

Zone Differentials

The Board's consultant recommended a 49 percent increase to the zone differentials for motor fuels.

Industry participants were generally supportive of the zone differential changes recommended by the Board's consultant for motor fuels and of the application of similar changes to the heating fuel zone differentials.

Significant commentary was received from the general public, particularly in the Gander and Fogo area of the Province, with respect to the impact of zone differential changes. While there are additional costs to deliver product to these remote areas, it was argued that the potential changes to the zone differentials overstate the differences in these costs. It was also argued that the cost differentials between some zones have had a negative impact on retail businesses and residents and that local businesses, particularly those in transportation, fishing and tourism, will face higher operating costs under the changes.

While the Board's consultant did not make specific recommendations with respect to zone differentials for heating fuels, it is reasonable to expect similar cost increases for heating fuels given increases in diesel costs for deliveries, annual wages and salaries, and storage and operating costs. The Board notes that the recommended 49% increase in the zone differentials for motor fuels is roughly equivalent to inflationary increases which may be expected to have

²¹ New Brunswick has 2 pricing zones; Nova Scotia has 6 pricing zones; Prince Edward Island has 1 pricing zone.

occurred since the zone differentials were last adjusted in 2006.²² It is clear that there have been significant increases in the costs to supply since that time which are not reflected in the zone differentials. The increase suggested by the Board’s consultant is likely to have a significant impact for consumers and businesses, particularly in certain zones given the percentage increases would magnify price differences between the zones. The Board accepts that the information provided supports zone differential changes for gasoline and diesel motor fuels and furnace oil heating fuel to provide for the recovery of reasonable costs, reflecting factors associated with inflation and price variances between adjacent zones.

The zone differentials for gasoline and diesel motor fuels and furnace oil heating fuel on the Island will be changed to reflect increases in the cost of supply since the differentials were last adjusted in 2006. The changes to zone differentials are set out in Appendix D.

4.3 - Retail Mark-Ups

The retail mark-ups reflect the costs for retailers to supply products, including, capital costs and depreciation, fuel and vehicle operating, insurance, office, administrative, rent, repairs and maintenance, transaction fees, utilities and communications, and wages and salaries. The Board assessed whether it is appropriate to make changes to the retail mark-ups at this time.

The Board’s consultant found that retailer operating costs had increased as summarized below:

Type of Cost	Type of Product(s)	Period	Change (cpl)
Operating	All Types of Gasoline, Diesel	2019-2022	Increase of 3.057
	Furnace Oil	2018-2022	Increase of 2.660

Industry commentary noted that the current retail mark-ups for motor fuels and heating fuels do not reflect increases in costs since the mark-ups were last adjusted, particularly increases in the minimum wage. For heating fuels in particular, industry commentary noted increased

²² With the exception of an increase of 7.105 cents per litre to the zone differential for Zone 7a - Ramea for gasoline motor fuel in 2015.

delivery costs and that electrification incentives are adding further pressures by way of volume decline. It was suggested that the changes to retail mark-ups should consider:

- that the potential increases to retail mark-ups do not cover minimum wage increases;
- a combination of CPI and minimum wage within the Board's calculation of its 2023 adjustment, rather than just CPI; and
- a 2024 adjustment based on additional CPI and minimum wage metrics.

Letters of comment received from the general public expressed concerns with respect to the impact that higher fuel prices can have on family budgets, fuel costs, the cost of living, and the cost of goods and services.

The Board notes that retailers participated fully in this Review and the information provided was sufficient to be considered representative.²³ It is clear based on the information provided that there have been significant increases to retailer costs since the mark-ups were last adjusted. The Board's consultant found that retailer costs had increased significantly up to 2022 and given the level of inflation, it is expected that costs would have increased further. In addition, it is accepted that electrification is placing additional pressure on retailers, particularly for heating fuels. At the same time the Board is aware of the impacts of significant increases in fuel prices on consumers and businesses. Considering this the Board has carefully scrutinized the information provided before determining the increases in the retail mark-ups necessary to provide retailers with reasonable recovery of the cost of supplying product.

The retail mark-ups for gasoline and diesel motor fuels and furnace oil heating fuels on the Island will be increased to reasonably reflect the cost increases experienced by retailers since the mark-ups were last changed. The changes to the retail mark-ups are set out in [Appendix E](#).

4.4 - Implementation

It is clear that the retail mark-ups and zone differentials should be increased to provide for the recovery of the cost of supplying product. At the same time, the Board acknowledges the impact on consumers and businesses of the combined increases, particularly for the less urban

²³ R Cube's data included a representative sample of approximately 150 retail stations and over half the throughput volume in the Province.

areas of the Island. To minimize the weekly impacts the Board will phase in the increases in maximum prices over a period of six weeks. The retail mark-up increases will be implemented over a period of four weeks beginning in the first week of February 2025 and the zone differential changes will be implemented in the following two weeks. This will mean that industry will begin to see improvements in cost recovery right away, while the weekly impact on consumers will be muted so that the increases in the retail mark-ups and zone differentials are no higher than 1.0 cents per litre per week.

The increases in the retail mark-ups and zone differentials for the Island will be implemented over a six-week period so that the resulting increases are limited to no more than 1.0 cents per litre per week. The retail mark-up increases will be implemented equally over the first four weeks and the zone differential increases implemented equally over the last two weeks. The combined impact of the changes to wholesale mark-ups, zone differentials and retail mark-ups is set out in [Appendix F](#).

5.0 - ISLAND PROPANE HEATING FUEL

Sales of propane are subject to maximum price regulation only when the fuel is delivered to a customer's residence and used primarily for space heating. Regulated maximum prices do not apply to sales of propane used for other purposes, such as barbeques, water heating, cooking, refrigeration, or where the propane is dispensed into a refillable container at a central filling station.

In this Review the Board assessed whether it is appropriate to make changes to the total allowed mark-ups or zone differentials for propane heating fuel.²⁴ No information was filed supporting changes to the calculation of benchmark prices for propane heating fuel.²⁵

The Board's consultant found that supply costs for propane heating fuel increased by approximately 18.5 cents per litre from 2019 to 2022.²⁶ This conclusion is based on collated

²⁴ Total allowed mark-ups and retail maximum prices are established for propane heating fuel. Wholesale mark-ups and wholesale maximum prices are not established.

²⁵ Propane benchmark prices are based on a weekly average Sarnia, Ontario price published by the Oil Price Information Service.

²⁶ R Cube Phase III Report, Page 16.

data for Island suppliers over this period and does not address the impacts of the changes to the method of supply that occurred in 2020.

In 2020 the Come By Chance refinery ceased operations and as a result propane is now trucked from areas in Ontario and Atlantic Canada to the west coast of the Island via ferry and subsequently trucked to other areas of the Island.²⁷ This change in the method of supply was, in part, reflected in the total allowed mark-ups which were established by the Board in 2021 based on information provided by suppliers as to the incremental costs associated with the transition of the refinery into standby mode.²⁸ Implementation of the consultant's recommendation to the established mark-ups would not reflect the new method of supply as it would increase costs in the west and decrease costs in the east.²⁹

Industry commentary raised significant concerns with respect to the implementation of the consultant's recommendations. It was suggested that the potential changes do not reflect the cost increases which have been experienced as a result of the change in the method of supply, particularly on the Avalon Peninsula where propane has to be trucked from the west coast of the Island. In addition, it was submitted that transportation costs for propane have increased significantly since the total allowed mark-ups were adjusted in 2021.

Based on the information provided with respect to the current storage and method of supply of propane heating fuel, a rebasing of the pricing model for the product is appropriate at this time. This will provide for a uniform total allowed mark-up across the Province to reflect the cost changes since 2019 and zone differentials which reasonably reflect the incremental zonal costs based on the current method of supply. Based on an analysis of the existing zone differentials and the most recent information available with respect to the storage and supply of the product, the Board has determined that Zone 6: Deer Lake / Corner Brook / Bay of Islands / Gros Morne, rather than Zone 2: Burin Peninsula / Bonavista Peninsula, should be established as the base zone.³⁰ Changes to the current zone differentials will be implemented to reflect the cost of the supply of product from this base zone to the other areas of the Island. Given the

²⁷ The refinery was subsequently renamed Braya Renewable Fuels and began refining biodiesel, rather than conventional products such as propane.

²⁸ **Order No. P.P. 38(2020), Order No. P.P. 42(2020), Order No. P.P. 48(2020), Order No. P.P. 1(2021), and Order No. P.P. 19(2021).**

²⁹ The changes would be -2.0 cents per litre for Zones 1ANE, 1ANW, 1AS, 1a and 2; +1.5 cents per litre for Zones 3, 3a, 3b and 3c; and +6.5 cents per litre for Zones 4, 4a, 5, 5a, 6, 7W, 7SE, 7a, 7b, 8, and 9.

³⁰ Maximum prices for propane will no longer be established for Zone 5b: Little Bay Islands, as the residents of this area are now relocated.

extensive nature of the changes required to implement the new uniform total allowed mark-up and zone differentials, it is not practical to phase-in the changes over a number of weeks. While the impacts will range from 0.5 cents per litre to 5.0 cents per litre, it is expected that the majority of propane heating fuel customers will experience increases of less than 2.0 cents per litre.

As a result of changes to the method of supply for propane heating fuel to the Island, Zone 6: Deer Lake / Corner Brook / Bay of Islands / Gros Morne will be the new base zone and the total allowed mark-ups and zone differentials will be changed. The changes to the total allowed mark-ups and zone differentials for propane heating fuel on the Island are set out in [Appendix G](#).

6.0 - FUTURE REVIEWS

The Board sought commentary with respect to the frequency of reviews of mark-ups and zone differentials.

The consultant found that intermittent reviews of mark-ups are not ideal and that more frequent reviews help industry capture changing costs.³¹ More frequent reviews of mark-ups and zone differentials would also provide for more regular adjustments, potentially mitigating large price changes.

Industry participants were supportive of more frequent reviews of mark-ups and zone differentials and expressed an interest in participating in necessary data collection processes. Limited commentary was received from members of the public on this matter.

More frequent, less complex, reviews better capture changing industry costs and would tend to result in more regular and less volatile price changes. As such, the Board will develop data collection and analysis procedures for the purpose of assessing mark-ups and zone differentials on an annual basis.

³¹ R Cube Phase III Report, Page 27.

Mark-ups and zone differentials will be reviewed annually, beginning in 2026, to provide for the orderly implementation of changes necessary to reasonably reflect the cost of supply.

7.0 - SUMMARY

In accordance with the direction of the Minister of Digital Government and Service NL, this Review examined the current benchmark pricing mechanism, mark-ups and zone differentials, as well as other pricing matters, associated with the Board's maximum pricing of regulated petroleum products.

During the Review, the Board examined a number of issues including the weekly price setting process, products and blending, and mark-ups and zoning. The following summarizes the changes which will be made as a result of the Review:

The Weekly Price Setting Process for the Island

- Weekly maximum price adjustments will be made on Friday rather than Thursday.
- The market reporting agency will be Argus Media for gasoline, diesel and furnace oil.
- 5 days of data will be used in the calculation of maximum prices.

Products and Blending for the Island

- Maximum prices will no longer be set for stove oil on the Island.

Mark-Ups and Zone Differentials for the Island

- Wholesale mark-ups for gasoline, diesel and furnace oil will not change.
- Zone differentials for gasoline, diesel, and furnace oil on the Island will be increased.
- Retail mark-ups for gasoline, diesel, and furnace oil on the Island will be increased.
- Zone 5b - Little Bay Islands will be eliminated.

To minimize the impact on weekly maximum prices, the changes to mark-ups and zone differentials for gasoline, diesel and furnace oil on the Island will be phased in over a period of six weeks, with the retail mark-up increases implemented in the first four weeks and the zone differential increases implemented in the last two weeks.

Propane Heating Fuel

- The combined total allowed mark-ups and zone differentials for propane on the Island will be increased.

Government Considerations

- Government may wish to consider whether there should be changes to the Regulations to give the Board additional discretion in the calculation of maximum prices.
- Government may wish to consider whether there should be changes to the Regulations to allow for market-based pricing for mid-grade and premium gasoline fuels.

Annual Reviews

- The Board will conduct annual reviews of the mark-ups and zone differentials beginning in 2026.

APPENDIX A: FURNACE OIL BLENDING SCHEDULE (ISLAND)

Furnace Oil Heating Fuel Blending Schedule Effective: October 3, 2024			
Season	Blending Period	Product Used	
		NYH ULSD	NYH ULSK
Summer	April End to September End ³²	100%	-
Fall Blend Transition	October (1 st Weekly Adjustment)	75%	25%
	October (2 nd Weekly Adjustment)	50%	50%
	October (3 rd Weekly Adjustment)	25%	75%
Winter	October End to March End ³²	25%	75%
Spring Blend Transition	April (1 st Weekly Adjustment)	50%	50%
	April (2 nd Weekly Adjustment)	75%	25%
	April (3 rd Weekly Adjustment)	100%	-

³² Includes the fourth week of the respective month.

APPENDIX B: WHOLESALE MARK-UPS (ISLAND)

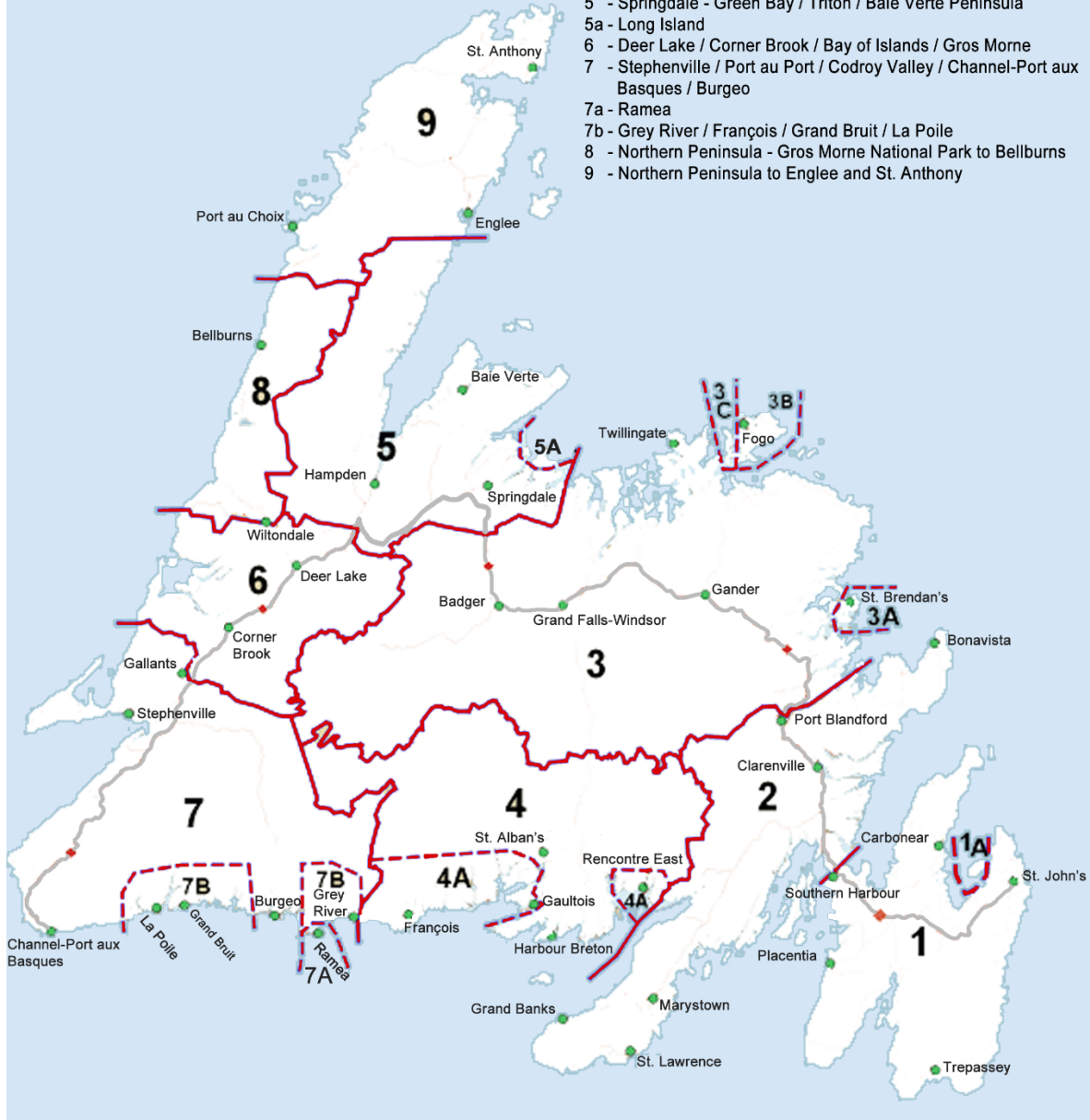
Wholesale Mark-Ups (cents per litre)			
Type of Product	Current	Change	New
Gasoline	15.65	0.0	15.65
Diesel	14.07	0.0	14.07
Furnace Oil	9.11 ³³	0.0	9.11

³³ Except Zone 4a - Gaultois/McCallum/Rencontre East and Zone 7b - Grey River/François/Grand Bruit/La Poile. The wholesale mark-up for furnace oil in these zones will decrease from the current 11.11 cents per litre to 9.11 cents per litre to align with all other Island pricing zones.

APPENDIX C: NEW ZONE MAPS (ISLAND)

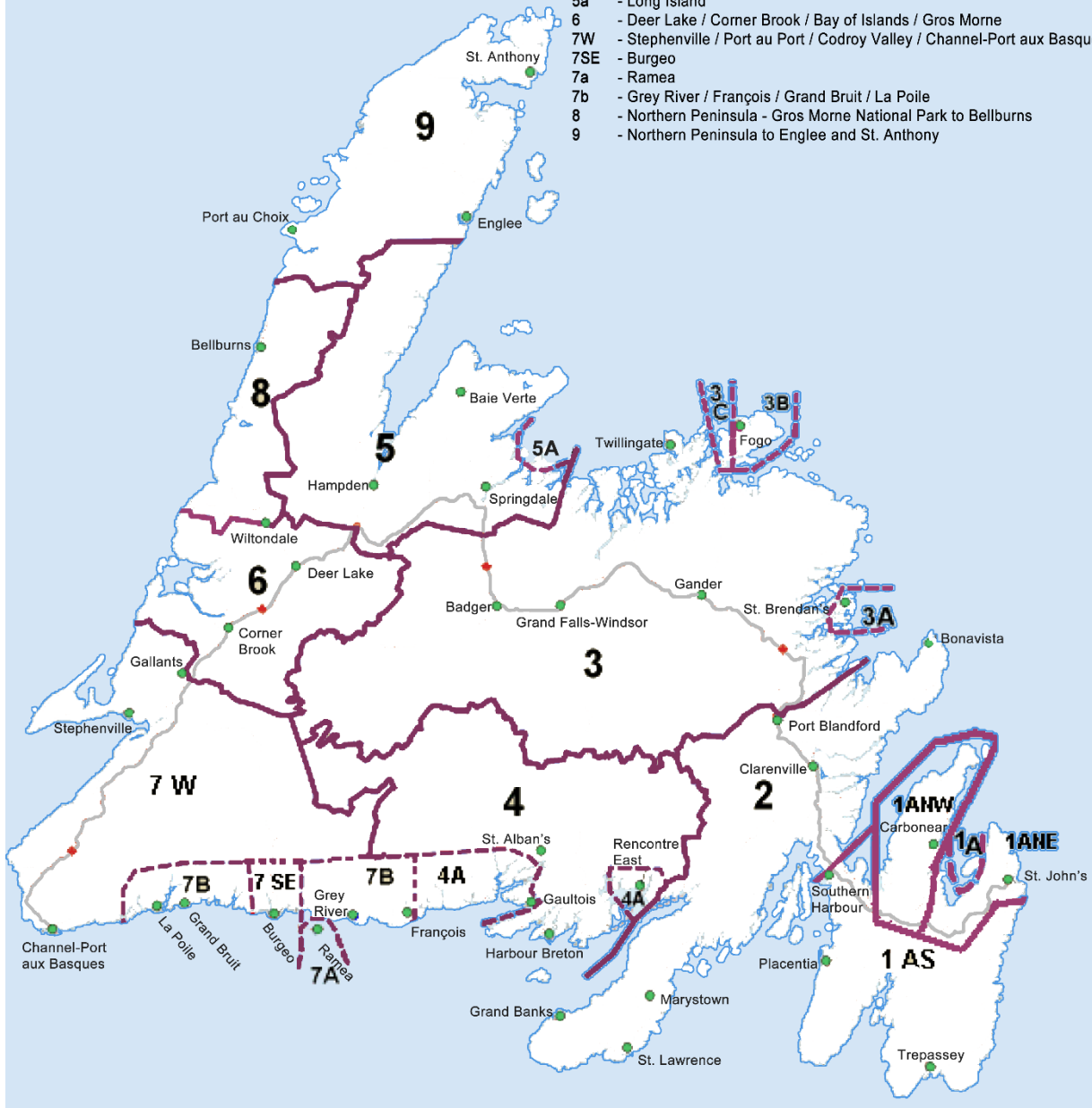
Newfoundland Pricing Zones Motor Fuels

- 1 - Avalon Peninsula
- 1a - Bell Island
- 2 - Burin Peninsula / Bonavista Peninsula
- 3 - Central Newfoundland / Notre Dame Bay East
- 3a - St. Brendan's (Island)
- 3b - Fogo Island
- 3c - Change Islands
- 4 - Connaigre Peninsula
- 4a - Gaultois / McCallum / Rencontre East
- 5 - Springdale - Green Bay / Triton / Baie Verte Peninsula
- 5a - Long Island
- 6 - Deer Lake / Corner Brook / Bay of Islands / Gros Morne
- 7 - Stephenville / Port au Port / Codroy Valley / Channel-Port aux Basques / Burgeo
- 7a - Ramea
- 7b - Grey River / François / Grand Bruit / La Poile
- 8 - Northern Peninsula - Gros Morne National Park to Bellburns
- 9 - Northern Peninsula to Englee and St. Anthony



Newfoundland Pricing Zones Heating Fuels

- 1ANE - Avalon Peninsula Northeast
- 1ANW - Avalon Peninsula Northwest
- 1AS - Avalon Peninsula South
- 1a - Bell Island
- 2 - Burin Peninsula / Bonavista Peninsula
- 3 - Central Newfoundland / Notre Dame Bay East
- 3a - St. Brendan's (Island)
- 3b - Fogo Island
- 3c - Change Islands
- 4 - Connaigre Peninsula
- 4a - Gaultois / McCallum / Rencontre East
- 5 - Springdale - Green Bay / Triton / Baie Verte Peninsula
- 5a - Long Island
- 6 - Deer Lake / Corner Brook / Bay of Islands / Gros Morne
- 7W - Stephenville / Port au Port / Codroy Valley / Channel-Port aux Basques
- 7SE - Burgeo
- 7a - Ramea
- 7b - Grey River / François / Grand Bruit / La Poile
- 8 - Northern Peninsula - Gros Morne National Park to Bellburns
- 9 - Northern Peninsula to Englee and St. Anthony



APPENDIX D: ZONE DIFFERENTIAL CHANGES (ISLAND)

Gasoline Motor Fuel Zone Differential Changes (cents per litre)			
Zone	Current	Change*	New
1	0.00	0.0	0.00
1a	0.48	0.2	0.68
2	1.61	0.8	2.41
3	2.18	1.1	3.28
3a	5.88	1.1	6.98
3b	6.32	1.1	7.42
3c	9.60	1.1	10.70
4	5.12	2.0	7.12
4a	8.09	2.0	10.09
5	3.42	1.2	4.62
5a	6.97	1.2	8.17
6	0.62	0.3	0.92
7	1.39	0.7	2.09
7a	10.785	0.7	11.49
7b	12.06	0.7	12.76
8	1.55	0.8	2.35
9	3.28	1.1	4.38

***Changes to zone differentials will be phased in over two weeks.**

Diesel Motor Fuel Zone Differential Changes (cents per litre)			
Zone	Current	Change*	New
1	0.00	0.0	0.00
1a	0.48	0.2	0.68
2	1.61	0.8	2.41
3	2.18	1.1	3.28
3a	5.88	1.1	6.98
3b	6.32	1.1	7.42
3c	9.60	1.1	10.70
4	5.12	2.0	7.12
4a	8.09	2.0	10.09
5	3.42	1.2	4.62
5a	6.97	1.2	8.17
6	0.62	0.3	0.92
7	1.39	0.7	2.09
7a	3.68	0.7	4.38
7b	9.6	0.7	10.30
8	1.55	0.8	2.35
9	3.28	1.1	4.38

***Changes to zone differentials will be phased in over two weeks.**

Furnace Oil Heating Fuel Zone Differential Changes (cents per litre)			
Zone	Current	Change*	New
1ANE	0.0	0.0	0.0
1ANW	3.0	1.5	4.5
1AS	4.3	1.5	5.8
1a	1.3	0.6	1.9
2	4.3	1.5	5.8
3	4.0	1.5	5.5
3a	7.0	1.5	8.5
3b	6.5	1.5	8.0
3c	8.4	1.5	9.9
4	7.2	2.0	9.2
4a	17.3	2.0	19.3
5	4.5	1.5	6.0
5a	5.0	1.5	6.5
6	0.9	0.4	1.3
7W	4.3	2.0	6.3
7SE	6.8	2.0	8.8
7a	10.4	2.0	12.4
7b	16.5	2.0	18.5
8	1.9	0.9	2.8
9	6.5	1.5	8.0

***Changes to zone differentials will be phased in over two weeks.**

APPENDIX E: RETAIL MARK-UP CHANGES (ISLAND)

Retail Mark-Ups (cents per litre)			
Type of Product	Current	Change*	New
Gasoline	10.28 ³⁴	+4.0	14.28
Diesel	14.03	+4.0	18.03
Furnace Oil	18.27 ³⁵	+4.0	22.27

***Changes to retail mark-ups will be phased in over four weeks.**

³⁴ Except Zone 4a - Gaultois/McCallum/Rencontre East and Zone 7b - Grey River/François/Grand Bruit/La Poile. The retail mark-up for gasoline in these zones will increase from the current 12.67 cents per litre to 14.28 cents per litre to align with all other Island pricing zones.

³⁵ Except Zone 4a - Gaultois/McCallum/Rencontre East and Zone 7b - Grey River/François/Grand Bruit/La Poile. The retail mark-up for furnace oil in these zones will increase from the current 16.27 cents per litre to 22.27 cents per litre to align with all other Island pricing zones.

APPENDIX F: MARK-UP AND ZONE DIFFERENTIAL CHANGES (ISLAND)

Mark-Up and Zone Differential Changes Gasoline Motor Fuel (cents per litre)					
Zone	Current Wholesale Mark-Up, Zone Differentials and Retail Mark-Up	Amount of Change			
		Wholesale Mark-Up	Zone Differential*	Retail Mark-Up**	Total Change
1	25.93	0.0	0.0	+4.0	+4.0
1a	26.41	0.0	+0.2	+4.0	+4.2
2	27.54	0.0	+0.8	+4.0	+4.8
3	28.11	0.0	+1.1	+4.0	+5.1
3a	31.81	0.0	+1.1	+4.0	+5.1
3b	32.25	0.0	+1.1	+4.0	+5.1
3c	35.53	0.0	+1.1	+4.0	+5.1
4	31.05	0.0	+2.0	+4.0	+6.0
4a	36.41	0.0	+2.0	+1.6	+3.6
5	29.35	0.0	+1.2	+4.0	+5.2
5a	32.90	0.0	+1.2	+4.0	+5.2
6	26.55	0.0	+0.3	+4.0	+4.3
7	27.32	0.0	+0.7	+4.0	+4.7
7a	36.72	0.0	+0.7	+4.0	+4.7
7b	40.38	0.0	+0.7	+1.6	+2.3
8	27.48	0.0	+0.8	+4.0	+4.8
9	29.21	0.0	+1.1	+4.0	+5.1

***Changes to zone differentials will be phased in over two weeks after the phase-in of the changes to retail mark-ups.**

****Changes to retail mark-ups will be phased in over four weeks.**

Mark-Up and Zone Differential Changes Diesel Motor Fuel (cents per litre)					
Zone	Current Wholesale Mark-Up, Zone Differentials and Retail Mark-Up	Amount of Change			
		Wholesale Mark-Up	Zone Differential*	Retail Mark-Up**	Total Change
1	28.10	0.00	0.0	+4.0	+4.0
1a	28.58	0.00	+0.2	+4.0	+4.2
2	29.71	0.00	+0.8	+4.0	+4.8
3	30.28	0.00	+1.1	+4.0	+5.1
3a	33.98	0.00	+1.1	+4.0	+5.1
3b	34.42	0.00	+1.1	+4.0	+5.1
3c	37.70	0.00	+1.1	+4.0	+5.1
4	33.22	0.00	+2.0	+4.0	+6.0
4a	36.19	0.00	+2.0	+4.0	+6.0
5	31.52	0.00	+1.2	+4.0	+5.2
5a	35.07	0.00	+1.2	+4.0	+5.2
6	28.72	0.00	+0.3	+4.0	+4.3
7	29.49	0.00	+0.7	+4.0	+4.7
7a	31.78	0.00	+0.7	+4.0	+4.7
7b	37.70	0.00	+0.7	+4.0	+4.7
8	29.65	0.00	+0.8	+4.0	+4.8
9	31.38	0.00	+1.1	+4.0	+5.1

***Changes to zone differentials will be phased in over two weeks after the phase-in of the changes to retail mark-ups.**

****Changes to retail mark-ups will be phased in over four weeks.**

Mark-Up and Zone Differential Changes Furnace Oil Heating Fuel (cents per litre)					
Zone	Current Wholesale Mark-Up, Zone Differentials and Retail Mark-Up	Amount of Change			
		Wholesale Mark-Up	Zone Differential*	Retail Mark-Up**	Total Change
1ANE	27.38	0.0	0.0	+4.0	+4.0
1ANW	30.38	0.0	+1.5	+4.0	+5.5
1AS	31.68	0.0	+1.5	+4.0	+5.5
1a	28.68	0.0	+0.6	+4.0	+4.6
2	31.68	0.0	+1.5	+4.0	+5.5
3	31.38	0.0	+1.5	+4.0	+5.5
3a	34.38	0.0	+1.5	+4.0	+5.5
3b	33.88	0.0	+1.5	+4.0	+5.5
3c	35.78	0.0	+1.5	+4.0	+5.5
4	34.58	0.0	+2.0	+4.0	+6.0
4a	44.68	(2.0)	+2.0	+6.0	+6.0
5	31.88	0.0	+1.5	+4.0	+5.5
5a	32.38	0.0	+1.5	+4.0	+5.5
6	28.28	0.0	+0.4	+4.0	+4.4
7W	31.68	0.0	+2.0	+4.0	+6.0
7SE	34.18	0.0	+2.0	+4.0	+6.0
7a	37.78	0.0	+2.0	+4.0	+6.0
7b	43.88	(2.0)	+2.0	+6.0	+6.0
8	29.28	0.0	+0.9	+4.0	+4.9
9	33.88	0.0	+1.5	+4.0	+5.5

***Changes to zone differentials will be phased in over two weeks after the phase-in of the changes to retail mark-ups.**

****Changes to retail mark-ups will be phased in over four weeks.**

APPENDIX G: PROPANE MARK-UPS AND DIFFERENTIALS (ISLAND)

Mark-Up and Zone Differential Changes Propane Heating Fuel (cents per litre)					
Zone	Current		New		Total Change
	Total Allowed Mark-Up	Zone Differential	Total Allowed Mark-Up	Zone Differential	
1ANE	71.59	2.0	69.6	5.5	1.5
1ANW	71.59	2.0	69.6	5.5	1.5
1AS	71.59	2.0	69.6	5.5	1.5
1a	71.59	3.0	69.6	7.0	2.0
2	71.59	0.0	69.6	4.6	2.6
3	68.09	2.9	69.6	1.9	0.5
3a	68.09	5.0	69.6	4.0	0.5
3b	68.09	4.5	69.6	3.5	0.5
3c	68.09	6.4	69.6	5.4	0.5
4	63.09	3.7	69.6	2.2	5.0
4a	63.09	15.3	69.6	13.8	5.0
5	63.09	3.5	69.6	1.4	4.4
5a	63.09	3.0	69.6	1.5	5.0
6	63.09	4.6	69.6	0.0	1.9
7W	63.09	5.9	69.6	0.8	1.4
7SE	63.09	5.9	69.6	0.8	1.4
7a	63.09	8.4	69.6	3.3	1.4
7b	63.09	14.5	69.6	9.4	1.4
8	63.09	5.7	69.6	0.8	1.6
9	63.09	7.7	69.6	3.6	2.4