

HISTORY OF PETROLEUM PRODUCTS PRICING REGULATION

2001 Petroleum Products Pricing Commission

Regulation of maximum prices for automotive fuels (gasoline and diesel fuels) and home heating fuels (furnace oil, stove oil and residential propane used for home heating) began in 2001 in Newfoundland and Labrador.¹ The stated objective for the implementation of pricing regulation was to restore consumer confidence and ensure price changes occur on a regular basis.

The Petroleum Products Pricing Commission (PPPC) was established in Grand-Falls Windsor and the first regulated prices were published in the fall of 2001. Maximum prices were set on the 15th of each month by averaging changes in the Platts New York Harbor benchmark prices for each regulated product during the previous 30-day period.

2002 Marine Tanker Study

A Marine Tanker Freight Cost Study was completed in 2002 which reviewed the costs associated with getting petroleum products to the province, which are transported primarily by marine tanker.

2003 Interruption Formula

Maximum prices continued to be adjusted monthly by the PPPC until early January 2003. At that time global oil prices were subject to sustained and dramatic increases over a short period, primarily due to the uncertainties surrounding the threat of war in the Middle East and massive general strikes in Venezuela, a global petroleum supplier. Dramatic increases over a two-week period resulted in the need for the PPPC to make an interim price adjustment in advance of the scheduled monthly adjustment on January 15th. At the time suppliers were refusing to supply various communities until prices were increased on the basis that they were not able to recover their costs to purchase product under the maximum price set on December 15, 2002.

As a result of the market instability in the winter of 2003 the PPPC commenced a review of several matters, including the timing of price changes, base prices, zone boundaries, and the legislation and regulations. As a result of the review the PPPC implemented an interruption formula as of March 15, 2003 to provide for unscheduled adjustments for all products based on certain criteria.² The base prices for gasoline and furnace oil were also increased to reflect new environmental regulations and rising costs and some zone boundary descriptions were changed.

¹ The **Petroleum Products Act**, Chapter P-10.1 was proclaimed on May 24, 2001.

² If the benchmark price of regular unleaded gasoline, diesel fuel, and/or heating fuel moved up or down and the resulting movement was sustained at an average of 3.5 cents per litre or more for five consecutive business days an adjustment would be made to maximum prices based on the average difference from the time the prices were previously adjusted. For residential propane the criteria was set at a sustained movement of 5 cents per litre or more, as averaged each week. The interruption formula would only be used five days after the last pricing adjustment, and as long as making the change did not interfere with the regular pricing schedule.

2003 Land Transportation Study

In June 2003 the PPPC initiated a land transportation study to review the costs associated with the storage and distribution of petroleum products throughout the province, including costs associated with trucking, bulk plant storage and distribution, and costs of terminal operations. The costs of supplying products to small marine depots and of distribution to isolated coastal communities in Labrador and on the island was also to be examined. The results of the study would be used to update zone costs and boundary descriptions initially established in 2001. An independent consultant was engaged with the work expected to be completed by the end of 2003.

2004 Public Utilities Board

On May 18, 2004 Government announced its decision to integrate the operations of the PPPC with the Board. The Grand-Falls office remained in place as the Petroleum Pricing Office (PPO) and maximum prices continued to be set using the established pricing model and schedule for maximum prices.

2005 Pricing Review and Pricing Policy Changes

The Board continued the review initiated in 2003 by the PPPC in relation to land transportation in the province. The consultant's report *Study of Storage and Distribution Costs throughout Newfoundland and Labrador* (S&D Study) was completed in May 2005. This report reviewed all supply chains and distribution networks in the province and the costs of moving regulated products from initial arrival by marine tanker through storage, handling and final delivery to the wholesale and retail points of sale. The study also looked at the existing pricing zone boundaries and differentials. The recommendations of the report recognized these costs and also depicted the unique supply and distribution network for some of these products. The S&D report as well as a discussion paper was provided to stakeholders and released publicly for input. Following submissions and discussions with stakeholders the report was updated to reflect the information and comments received. Changes to the existing allowed mark-up for gasoline and to the zone differentials for all products as well as to certain zone designations were implemented effective August 15, 2006.³

Further changes to the pricing model were made in November 2006, including i) moving to bi-weekly pricing adjustments (every second Thursday); ii) moving to a seven-day weekly average for market prices instead of Monday to Friday, with the last published market price remaining in effect until the next market price is published; iii) and changes to the notification schedule to wholesalers and retailers. The interruption formula was retained to be used every alternate Thursday between scheduled maximum price changes with new criteria for price changes set for gasoline, diesel or furnace/stove oil.⁴

³ The S&D Study and the Discussion Paper (Review of Petroleum Products Regulation – July 25, 2005) as well as related documentation can be found [here](#).

⁴ A change exceeding an average of +/-4.0 cents per litre over a seven-day period from the last regulated benchmark for each fuel would trigger an interruption in established maximum prices.

2009 Review of Labrador Maximum Price Freeze Policy

In February 2009 the Board initiated a review of the suspension of maximum price adjustments in certain areas of Labrador during the winter months. This review sought input from stakeholders as to whether the suspension policy continued to be appropriate and, if so, whether there should be any changes to policy in terms of the applicable zones, timing and pricing benchmark criteria.⁵

In September 2009 the Board determined that the traditional suspension of maximum price adjustments in winter in Zone 11 (Labrador South Lodge Bay/Cartwright) and Zone 11b (Coastal Labrador South – Drum Delivery) should not be implemented for the winter of 2009-2010. The Board's policy of suspending maximum price adjustments in Zone 14 (Coastal Labrador North) and Zone 11a (Coastal Labrador South – Tanker Supplied) continued.

2010 Pricing Policy Changes – Winter Blend for Diesel and Move to Weekly Adjustments

In the scheduled adjustment on January 28, 2010 the Board moved to weekly adjustments of maximum prices and discontinued the interruption formula. This change was made to give a pricing regime that is more predictable and responsive to the volatility of commodity markets. A weekly schedule was intended to be more transparent and understandable and aligned with price regulation across Atlantic Canada.

In January 2010 the Board also implemented a winter blend for diesel motor fuel, consistent with the existing policy in relation to the maximum pricing of furnace oil heating fuel. As of January 28, 2010 the maximum price of diesel motor fuel was based on a 25%/75% blend of ultra low sulphur diesel (ULSD) and ultra low sulphur kerosene (ULS Kero). This blend was intended to reflect the specifications of the product to meet the sulphur content requirements set out in federal regulations and must ensure pourability in cold temperatures.

2012-2013 Margin Review

The Board commenced a review in February 2012 of the maximum mark-up for price regulated petroleum products in the province and retained the services of a consultant to assist with the review. The review was conducted in two parts and included gathering cost information from wholesalers and retailers as well as other stakeholders. Part A, a review of the retail component of the total allowed mark-up for heating fuels, was completed in 2013. Following input from stakeholders the Board adjusted the retail portion of the total allowed mark-ups for heating fuels on May 16, 2013.⁶ Part B of the review included a review of the total allowed mark-ups on motor fuels, the wholesale mark-up for furnace and stove oil, and zone differentials for all products. On January 15, 2015 the Board ordered adjustments to the total allowed mark-ups and allowed wholesale mark-ups for motor fuels and heating fuels.⁷

⁵ Information on the 2009 Review of Labrador Maximum Price Freeze Policy can be found at [here](#).

⁶ [Order No. P.P. 20\(2013\)](#).

⁷ [Order No. P.P. 2\(2015\)](#).

2015 Pricing Methodology Changes – Benchmark Sources

On April 1, 2015 legislative changes were made to allow the use of Platts New York Harbor Barge product price assessments for calculating benchmark prices for diesel motor fuel and furnace oil and stove oil heating fuels. This change was necessitated by the discontinuance by Platts of the reporting of certain New York Harbor Cargo assessments as of that date.

On April 9, 2015, following a request from a retailer and subsequent review by the Board minor revisions were made to the pricing zone description for Zone 1 - Avalon Peninsula.

In October 2015 the benchmark products for heating fuel and diesel motor fuel were adjusted to reflect the specifications of the product supplied in the market. The benchmark base product for the determination of Island and Labrador heating fuel prices was changed from No. 2 Oil to ultra low sulphur diesel (ULSD) to reflect pricing based on the product being provided to consumers as heating fuel. The benchmark base product for the determination of Labrador diesel motor fuel prices was changed from the existing 75% ULS Kero/25% ULSD to 100% ULS Kero to reflect pricing based on the product being provided to consumers as diesel motor fuel.

2016 Propane Heating Fuel Pricing Differentials and Maximum Pricing

In March 2016 the Board established differentials for maximum pricing of propane heating fuel for a number of zones on the island and in Labrador where maximum prices for this product had not been previously set.⁸ The differentials were set based on the current heating fuel differentials in those zones. With this change a maximum price for propane heating fuel would be established weekly in all zones in the province.

2019 Regulation Change to Propane Heating Fuel Benchmark Data Source

In November 2019 Government amended the **Petroleum Products Regulations** to replace the Bloomberg Oil Buyer's Guide with the Oil Price Information Service as the data source for propane heating fuel benchmark prices. The transition to a new data source was necessitated by the discontinuance of Bloomberg Oil Buyer's Guide and certain associated price assessments.

2019-2020 Margin Review

In 2019 the Board commenced a review of the allowed wholesale mark-up and total allowed mark-up for price regulated petroleum products. This review included an update of the costing information from the 2012-2013 margin review by the Board's consultants. Based on the updated costing information and further information from wholesalers and retailers the Board approved further adjustments to the retail portion of the total allowed mark-up for price regulated heating fuels in October 2019 and to the allowed wholesale mark-up and total allowed mark-up for gasoline and diesel motor fuels in October 2020.⁹

⁸ [Order No. P.P. 11\(2016\)](#).

⁹ Order Nos. [P.P. 41\(2019\)](#) and [P.P. 46\(2020\)](#).

2020 Review of Maximum Pricing for Propane Heating Fuel

On April 21, 2020 Superior Propane requested the Board approve temporary increases, varying by pricing zone, in the maximum price it could charge for propane heating fuel on the basis that the suspension of operations at the North Atlantic Refinery required propane to be sourced from alternate supplies in North America with resulting higher transportation costs. As part of its review the Board requested additional information from Superior Propane to support the request. Similar requests were received from Irving Energy on May 14, 2020 and from North Atlantic on August 20, 2020.

Following a review of costing information received from Irving Energy the Board approved an interim increase in the total allowed mark-up for regulated propane for Irving Energy for zones on the Avalon Peninsula, to be effective August 20, 2020.¹⁰ Following a review of costing information provided by North Atlantic the Board approved interim increases in the total allowed mark-up for regulated propane for North Atlantic in various zones on the island, to be effective September 10, 2020.¹¹

On September 17, 2020 Superior Propane provided an amended request with updated costs. After review of the information and subsequent information requested, the Board approved interim increases in the total allowed mark-ups for regulated propane for Superior Propane in various zones in the province, to be effective October, 2020.¹²

On Thursday, May 6, 2021 the Board rescinded the Orders approving adjustments to the propane total allowed mark-ups on individual company bases and approved adjustments to the total allowed mark-ups for propane heating fuel for all suppliers in certain pricing zones.¹³

2020 Interim Wholesale Markup Increase - North Atlantic Refinery Shutdown

On October 5, 2020 North Atlantic applied for a review of the wholesale mark-ups for gasoline, diesel and furnace oil to reflect changes in the supply to the island caused by the transition of the North Atlantic Refinery into standby mode in March 2020. With no operating refinery in the province, North Atlantic advised that it was required to import refined products from New York Harbor and Europe. As a part of its review the Board received detailed cost, volumetric and supply information from North Atlantic and also sought information from two other primary suppliers of petroleum products in the province, Imperial Oil Limited and Irving Oil, related to each supplier's volumes and the impact of the transition of the refinery on their operations and costs.

Based on the information provided the Board found that there were incremental costs associated with the changes in the method of supply on the island associated with the refinery changes and that these costs were not reflected in the wholesale mark-ups. The Board determined that interim increases to the wholesale mark-ups were necessary to ensure the economic operation

¹⁰ [Order No. P.P. 38\(2020\)](#).

¹¹ [Order No. P.P. 42\(2020\)](#).

¹² [Order No. P.P. 48\(2020\)](#).

¹³ [Order No. P.P. 19\(2021\)](#).

of multiple suppliers on the island and continued supply. The Board approved interim increases of 5 cents per litre in the wholesale mark-up for gasoline motor fuel and 4 cents per litre for diesel motor fuel and furnace oil and stove oil heating fuel on the island, to be effective October 29, 2020.¹⁴ These increases were made on an interim basis for all wholesalers on the island portion of the province.

2020 Labrador Pricing Review

The dramatic drop in the world price of oil in the spring 2020 resulted in significant drops in the benchmarks used to set maximum prices for all products and led to cost pressures for existing inventories of wholesalers and retailers throughout the province. Suppliers in certain Labrador zones where maximum price adjustments were not suspended for the winter were particularly affected as the downward pressure in market prices were not reflective of the costs of product that was purchased in the fall of 2019 for the winter supply. The Board intervened to temporarily increase maximum prices for gasoline and diesel motor fuels and stove oil heating fuel in Zones 10, 11 and 12 until the zones were resupplied.¹⁵ As a result of the input from stakeholders in Labrador during this unprecedented time the Board determined that a review of the regulation of petroleum prices in Labrador was warranted. Following further stakeholder feedback the Board issued a consultation paper in October 2020 to provide background and information, including issues to be addressed, related to the regulation of the maximum price of regulated petroleum products in Labrador.¹⁶

Based on the input received in the review the Board implemented a number of changes and adjustments related to maximum pricing in Labrador zones effective November 26, 2020, including i) a winter suspension of maximum price adjustments in Zones 10, 11, 11b and 12, ii) interim increases for zone differentials for gasoline and diesel in Zones 10, 11, 11b and 12, iii) an interim increase in the zone differential for stove oil in Zone 10, and iv) a change in the benchmark for stove oil heating fuel to reflect 100% ULS Kero for all Labrador zones except 11a and 14.¹⁷

Further changes were implemented effective June 10, 2021 including i) the introduction of a spring suspension of maximum price adjustments for Zones 10, 11, 11a, 11b, 12 and 14 for all fuels except propane heating fuel, ii) a change to the benchmark for stove oil heating fuel in Zones 11a and 14 to reflect 100% ULS Kero, and iii) interim increases in various zone differentials for gasoline, diesel and stove oil and in the markups for propane heating fuel.¹⁸ On July 29, 2021 interim increases to zone differentials in Zones 13 and 13a were also implemented.¹⁹

¹⁴ [Order No. P.P. 52\(2020\)](#).

¹⁵ Order Nos. [P.P. 17\(2020\)](#) and [P.P. 24\(2020\)](#).

¹⁶ The Consultation Paper is available [here](#).

¹⁷ [Order No. P.P. 58\(2020\)](#).

¹⁸ [Order No. P.P. 25\(2021\)](#).

¹⁹ [Order No. P.P. 33\(2021\)](#).

2022 Petroleum Products Pricing Review

On June 7, 2022 Government directed the Board to review i) the suitability of the pricing mechanism for benchmark prices, and ii) the maximum markup between the wholesale price to the retailer and the retail price to the consumer for all regulated fuels. The Board was also directed to hold a hearing as part of this review to enable direct public input from residents throughout the province, through both in-person and written and electronic correspondence.²⁰

²⁰ The Minister's request can be found [here](#).