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August 26, 2020

Dear Commissioners:

On July 15, 2020 the Newfoundland and Labrador Board of Commissioners of Public Utilities (the "PUB") sent a letter to Grant Thornton LLP ("GT") pertaining to our work on the *"2020 Review of the Costs of Supply and Distribution of Maximum Price Regulated Petroleum Products in the Province of Newfoundland and Labrador – Part B"* (the "2020 Study"). A copy of this letter can be found in Appendix C. Based on this correspondence we understand that the 2020 Study was distributed to relevant stakeholders and that responses were received from sixteen (16) stakeholders. We understand that some of the stakeholders expressed concerns with the assumptions used in the 2020 Study. We very much appreciate this feedback and welcome the opportunity to respond to these comments below. The scope of the 2020 review did not involve formal stakeholder consultations on the assumptions.

We recognize that using a percentage-based model with a series of assumptions may not adequately reflect the costing for each individual stakeholder. Such is the nature of a model which relies on general assumptions. We have reviewed the stakeholder suggestions for alternative assumptions and have provided commentary throughout the following responses.

Appendix C - Q.1:

"*GT's assumption that the general allocation of cost categories determined in the 2012 study remain unchanged. As an example, some filed commentary suggests that stakeholders feel the percentage allocation to Wages and Salaries is understated with 2018 industry Canada Financial Performance Data (FPD) for businesses in Newfoundland and Labrador operating under NAICS 44711: Gasoline Stations with Convenience Stores offered as support."*

GT Response – Appendix C – Q.1:

In section 1.3 Assumptions of the 2020 Study we state "*While the dollar values of cost categories could have changed for the industry participants, the general allocation of cost categories determined in the 2012 Study remain unchanged. As a result, the percent allocation of each cost category has been held consistent with the 2012 Study*".

The cost allocations included in the 2012 report were based on the results of survey data from Newfoundland and Labrador participants at the time of the study. The 2020 Study did not include refreshing the survey process. Therefore, absent evidence to suggest that the allocations were inappropriate we assumed that they remained unchanged. However, given that some stakeholders have provided alternative evidence we have considered this information and the potential impact it could have on our conclusion.

We reviewed the correspondence outlined in Appendix D and have found that the following three stakeholders provided alternative assumptions for our consideration.

1) Atlantic Convenience Stores Association ("ACSA");
2) North Atlantic, and
3) C-Gas Management Inc. ("C-Gas")

We understand that the comments provided by ACSA and C-Gas pertain to the retailer margin only and that comments provided by North Atlantic pertain to matters impacting the wholesaler and the retailers.

A summary of the various proposed cost allocations has been included below.

Cost Category	% of Total Cost (Automotive Fuel Retailer)			
	2020 Study *(Note 1)*	ACSA *(Note 2)*	North Atlantic *(Note 3)*	C-Gas *(Note 4)*
Capital costs and depreciation	9.39%	6.34%	6.34%	6.80%
Fuel and vehicle operating	0.23%	Nil	Nil	Nil
Insurance	1.07%	3.52%	3.52%	3.70%
Office, administrative and other costs	19.95%	26.76%	26.76%	15.20%
Rent	6.77%	3.52%	3.52%	3.60%
Repairs and maintenance	8.48%	Nil	Nil	4.70%
Utilities and communications	8.00%	4.93%	4.93%	5.30%
Wages and salaries	46.11%	54.93%	54.93%	54.20%
Interest and bank charges	Nil	Nil	Nil	2.5%
Professional and business fees	Nil	Nil	Nil	2.8%
Advertising and promotion	Nil	Nil	Nil	1.2%
Total	**100.00%**	**100.00%**	**100.00%**	**100.00%**

Note 1 - From pdf page 20 of the 2020 Study.

Note 2 – From page 4 of 9 in letter from ACSA as included in Appendix D. We understand that this information was based on the Government of Canada "NAICS 44711 - Gasoline stations with convenience stores – Financial Performance Data 2018 Industry Canada Financial Performance Data" measurement of total revenue valued in percentages including all sources of salaries and wages, for companies located in Newfoundland and Labrador. ACSA provided the following reference for a supporting report. https://drive.google.com/file/d/1wLp2B3cde7oh_T2o6EaxPZhyOrJSvKaA/view.

Note 3 – From page 3 of 7 in letter from North Atlantic as included in Appendix D. We understand that this information was based on the Government of Canada "NAICS 44711 - Gasoline stations with convenience stores – Financial Performance Data 2018 Industry Canada Financial Performance Data" measurement of total revenue valued in percentages including all sources of salaries and wages, for companies located in Newfoundland and Labrador. North Atlantic provided the following reference for a supporting report.https://drive.google.com/file/d/1wLp2B3cde7oh_T2o6EaxPZhyOrJSvKaA/view?usp=sharing.

Note 4 - From page 3 of 14 in letter from C-Gas as included in Appendix D. We understand that this information was based on the Government of Canada "NAICS 44711 - Gasoline stations with convenience stores – Financial Performance Data 2018 Industry Canada Financial Performance Data" measurement of total revenue valued in thousands of dollars, excluding salaries and wages related to cost of goods sold, for companies located in Newfoundland and Labrador. The information provided by C-Gas agreed to the report generated on the Government of Canada website for NAICS 44711 https://www.ic.gc.ca/app/sme-pme/bnchmrkngtl/rprt-flw.pub?execution=e2s2.

Based on our review of the support provided by these stakeholders we have the following comments:

1) The support provided is reflective of 2018 data and we were unable to obtain the comparable data from 2012. Therefore, we are unable to determine if the 2018 data reflects a change in cost allocation that has arisen from 2012 to 2018 or if historically, there would have been a difference between the results of the surveys GT prepared and the publicly available industry data.
2) ACSA, North Atlantic, and C-Gas have each presented information which is reflective of gas stations with convenience stores. However, the assessment of automotive fuel pricing has not historically factored in costs associated with convenience store operations as automotive fuel pricing and the associated margins is not intended to have any linkage to the convenience store part of the business.
3) We recalculated the amounts put forward by each of the stakeholders that presented alternative cost allocation information and found:
    a. ACSA has grouped repairs and maintenance expenses with office, administrative and other costs, when it could have been broken out separately (4.93%) to be comparable to the cost categories in the 2020 Study. ACSA's calculation also included wages and salaries associated with cost of goods sold.
    b. North Atlantic has grouped repairs and maintenance expenses with office, administrative and other costs, when it could have been broken out separately (4.93%) to be comparable to the cost categories in the 2020 Study. The calculation included wages and salaries associated with cost of goods sold.
    c. C-Gas information did not include wages and salaries associated with cost of goods sold.

During our review we noted that industry sector code 447 gasoline stations includes groupings for gasoline stations with convenience stores (NAICS 44711) and other gasoline stations (NAICS 44719). The percentage cost allocation for all sources reviewed has been outlined below.

Cost category	2012 Study Results	NAICS 447 Gasoline stations	NAICS 44711 Gasoline stations with convenience stores	NAICS 44719 Other gasoline stations
Capital costs and depreciation	9.39%	6.57%	6.34%	5.83%
Fuel and vehicle operating	0.23%	0.00%	0.00%	0.00%
Insurance	1.07%	3.67%	3.52%	3.57%
Office, administrative and other costs	19.95%	22.63%	26.76%	23.86%
Rent	6.77%	3.56%	3.52%	3.38%
Repairs and maintenance	8.48%	4.76%	0.00%	4.60%
Utilities and communications	8.00%	5.41%	4.93%	5.28%
Wages and salaries	46.11%	53.40%	54.93%	53.48%
Total	**100.00%**	**100.00%**	**100.00%**	**100.00%**

Conclusion – We have reviewed the information provided by the retailer stakeholders regarding the cost category allocations. We have concluded that this recommendation pertains to retailers only and should not be applied to wholesaler margin calculations. While we continue to believe that the actual data collected from the 2012 survey's is reliable, we accept that the publicly available industry reported cost allocations could be more reflective of changes in allocations since 2012. Should the PUB decide to continue using the percentage-based model ("PBM") to adjust margins into the future accepting the industry data establishes a process to update the cost allocations consistently. However, we recommend that the industry code NAICS 447 be used. The impact of changing from the 2012 Study results to NAICS 447 cost allocations in NL has been incorporated into the calculations presented in Appendix A.

Appendix C - Q.2:

"GT's use of national data instead of Newfoundland and Labrador ("NL") specific data provided by Statistics Canada to determine the rate of change for various cost categories."

GT Response – Appendix C – Q.2:

The use of national data is consistent with the methodology and assumptions that were adopted in this jurisdiction including Grant Thornton's Petroleum Pricing Part A Study in 2012 and 2019. While those reports are related to home heating they were reviewed by stakeholders in Newfoundland and Labrador and the use of national data was accepted. Furthermore, areas of the 2012 part B study referred back to the reliance on assumptions put forward in the part A study as a reasonable proxy when there were gaps in the information that was available. Given that this methodology was already reviewed and accepted in the Newfoundland and Labrador jurisdiction, and the scope of our report, we did not consider a change in the basis of our assumptions or the model was warranted. Throughout this letter we provide specific commentary on the various assumptions where stakeholders have presented alternative Newfoundland and Labrador specific data. In general, while we do not find the suggestion of relying on Newfoundland and Labrador data to be unreasonable, it would be a deviation from basis of assumptions in previous studies. However, we can find no reason why the use of NL specific data could not be used in the PBM and would consider it more reliable, thus we would support the use of NL specific data over national data.

Conclusion – We have reviewed the information presented by the stakeholders and accept that NL specific data provided by Statistics Canada is more reliable when evaluating the price rate of change impacts on wholesalers and retailers in Newfoundland and Labrador. The impact of changing from assumptions based on national statistics to provincial statistics has been incorporated into the calculations presented in Appendix A.

Appendix C - Q.3:

"The following assumptions and issues related to Wages and Salaries:

a. *The appropriateness of GT's selected National Occupational Classification ("NOC"). Some filed commentary provided alternative NOC data sources.*

b. *GT's use of Canadian data rather than NL-specific data.*

c. *"The appropriateness and applicability of using an annual average analysis to determine the rate of change in the hourly labour cost rather than the December 2012 to December 2019 comparison conducted by GT."*

GT Response – Appendix C – Q.3 - Part A:

In the 2020 Study we presented the following assumption for the percent rate of change for wages and salaries based on an annual average analysis using national data.

Wage Category	December 2012 ($ wages / hr)	December 2019 ($ wages / hr)	Rate of Change 2012 - 2019
Office support occupations	19.36[1]	22.11[2]	14.20%
Trades, transport and equipment operators and related occupations	23.38[3]	27.25[4]	16.55%
Average	**21.37**	**24.68**	**15.49%**

Note – differences noted in the totals versus the addition of components in the table above are due to rounding as the underlying analysis included four decimal places.

Based on our review of the stakeholder comments in Appendix D we understand that this question specifically pertains to the percent price rate change for retailers only. In particular, North Atlantic's comments and supporting calculations demonstrate that they accept our proposed 15.49% as it relates to wages and salaries for their wholesale line of business. All other commentary regarding the appropriateness of the national occupational classification appear to relate to retailers. The stakeholders presented the following commentary regarding the appropriate NOC codes:

- ACSA recommended: *"Changing the wage and salary occupation benchmark Trades, transport and equipment operators and related occupations to Sales representatives and salespersons - wholesale and retail trade, resulting in an overall price rate of change of 19.63% instead of 15.49%".*
- North Atlantic recommended: *"Adjust the salaries and wage increase to 19.85% to be reflective of staff in the retail industry" [*Sales representatives and salespersons - wholesale and retail trade].
- C-Gas recommended: *"Use the NOC code 64 "Sales Representatives and Salespersons – Wholesale and Retail Trade table" for NL for the annual average of 2012 vs 2019 to update the cost of Salaries and Benefits".*

Conclusion - We acknowledge that considering the NOC for Sales representatives and salespersons - wholesale and retail trade could be more reflective of the staffing compliment for the retailers. However, we disagree with the recommendation that this NOC category is the only one that is relevant to retailers. An assumption which combines

[1] Statistics Canada - Table: 14-10-0306-01 (formerly CANSIM 282-0151)
[2] Statistics Canada - Table: 14-10-0306-01 (formerly CANSIM 282-0151)
[3] Statistics Canada - Table: 14-10-0306-01 (formerly CANSIM 282-0151)
[4] Statistics Canada - Table: 14-10-0306-01 (formerly CANSIM 282-0151)

office support and occupations and sales representatives and salespersons appears more reflective of the full staffing compliment as it is likely that retailers have some element of administrative support.

GT Response – Appendix C – Q.3 - Part B:

In the 2020 Study we assumed that the use of national data would be acceptable, as discussed in the GT Response – Appendix C – Q.2, and demonstrated in GT Response – Appendix C – Q.3 – Part A.

In response to our chosen methodology the stakeholders ACSA, North Atlantic, and C-Gas all recommended the alternative methodology of using provincial data in our calculation of the rate of change for wages and salaries as opposed to national data. As previously stated, while we do not find the suggestion of relying on Newfoundland and Labrador data to be unreasonable, it would be a deviation from the basis of assumptions in previous studies. However, we can find no reason why the use of NL specific data provided by Statistics Canada could not be used in the PBM and would consider it more reliable, thus we support the use of NL specific data over national data for Wages and Salaries.

Conclusion – We have reviewed the information presented by the stakeholders and accept that NL specific data provided by Statistics Canada is more reliable when evaluating the rate of change for wages and salaries in Newfoundland and Labrador. The impact of changing from national to provincial assumptions has been incorporated into the calculations presented in Appendix A.

GT Response – Appendix C – Q.3 - Part C:

We have reviewed the comments regarding the appropriateness and applicability of using an annual average analysis to determine the rate of change in the hourly labour cost rather than a December 2012 to December 2019 comparison. While we do not believe that either approach necessarily arrives at a more accurate representation of the rate of change as it would fluctuate depending on the particulars of the data set, we do wish to clarify the interpretation of the analysis presented in the 2020 Study.

In the 2020 Study we presented the following table:

Wage Category	December 2012 ($ wages / hr)	December 2019 ($ wages / hr)	Rate of Change 2012 - 2019
Office support occupations	19.36[5]	22.11[6]	14.20%
Trades, transport and equipment operators and related occupations	23.38[7]	27.25[8]	16.55%
Average	**21.37**	**24.68**	**15.49%**

[5] Statistics Canada - Table: 14-10-0306-01 (formerly CANSIM 282-0151)
[6] Statistics Canada - Table: 14-10-0306-01 (formerly CANSIM 282-0151)
[7] Statistics Canada - Table: 14-10-0306-01 (formerly CANSIM 282-0151)
[8] Statistics Canada - Table: 14-10-0306-01 (formerly CANSIM 282-0151)

The underlying calculation for the data contained in this table is as follows:

	January	February	March	April	May	June	July	August	September	October	November	December	Average
2012 Wages													
Office support	19.34	19.20	19.25	19.38	19.27	19.37	18.99	19.29	19.53	19.62	19.53	19.56	**19.36**
Trades, transport and equipment	23.14	23.37	23.29	23.30	23.12	23.30	23.31	23.49	23.30	23.52	23.68	23.76	**23.38**
2019 Wages													
Office support	22.03	22.11	22.15	22.17	22.38	22.09	22.02	22.09	22.11	22.12	22.12	21.92	**22.11**
Trades, transport and equipment	27.00	27.20	27.09	27.00	26.97	27.25	26.94	26.88	27.55	27.68	27.77	27.61	**27.25**

We believe that the C-Gas commentary is based on a misinterpretation of the analysis that we prepared. Specifically, they state *"…there is significant variation in hourly labour cost in the Statistics Canada data by month. It would be more accurate to take an average labour cost vs. just picking one month of the year. Gas stations do not operate just in December so why just use December data? It is much more accurate to take annual average wage for each of 2012 and 2019 as this eliminates seasonal variation in the data and provides a much more stable and indicative indicator."* The analysis that we presented in the 2020 Study was based on an annual average labour rate for the NOC categories that were used.

Conclusion – We have reviewed the information provided by the stakeholders. We confirm that for wholesalers reviewing average wage increases for employee categories including: 1) Office support, and 2) Trades, transport and equipment is reasonable. We accept the stakeholder's position that this may not be the staffing mix for retailers in the industry. Based on this we recommend that the price rate of change for salary and wages for retailers include 1) office support, and 2) sales representatives and salespersons - wholesale and retail trade. Furthermore, we accept that provincial wage data for these employee classifications may be more reflective of actual costs experienced by industry participants. Therefore, we have quantified the impact of these revised assumptions in the calculations presented in Appendix A. For clarity, we confirm that the revised calculation is based on using the annual average approach that was used in the 2020 Study. This is a different methodology than what was presented by some stakeholders. We have chosen to keep the methodology consistent with the 2020 Study as it captures wage rate fluctuations throughout a period of time rather than just at the calendar year end.

Appendix C - Q.4:

The following assumptions and issues in relation to GT's inflation/Consumer Price Index ("CPI ") rate:

a. *"GT's use of a national inflation/Consumer Price Index ("CPI") when NL - specific inflation/CPI data is available."*

b. *"The accuracy of GT's selected national inflation/CPI rate of 10.97% assigned to all cost categories with the exception of Fuel and Vehicle Operating, Rent, and Wages and Salaries. Some filed commentary suggested that the 10.97% is inaccurate."*

GT Response – Appendix C – Q.4 – Part A:

We have provided commentary on our rationale for selecting national data over Newfoundland specific data in **GT Response – Appendix C – Q.2.** However, should the PUB determine that NL specific assumptions are preferred we have provided the following as our calculation of the appropriate provincial inflation rate for the period. The inflation / CPI data outlined below is based on provincial data – Government of Newfoundland and Labrador Department of Finance.

	National Inflation/CPI	Provincial Inflation/CPI
2012	100.00[9]	123.9
2019	110.97[10]	139.3
Change	**10.97%**	**12.42%**

Conclusion – We have reviewed the information presented by the stakeholders and accept that NL specific data is more reliable when assessing inflationary tendencies on costs incurred in Newfoundland and Labrador. The impact of changing from national to provincial assumptions has been incorporated into the calculations presented in Appendix A. Additionally, as of the date of this letter we acknowledge that there are various predictions of the future downward pressures on inflation/CPI due to the impact of the COVID-19 pandemic. Given the nature of our response to the specific questions from the stakeholders we have not considered what the impacts of the pandemic might have on the appropriateness of costing and margins recommended in the 2020 Study. In particular, the Government of Newfoundland and Labrador fiscal update 2020-2021[11] from July 24, 2020 reflect a reduction in both CPI and inflation. The PUB should consider how potential pressures on costs as a result of the pandemic may be factored into wholesaler and retailer margins in future years when determining the frequency of performance of the reviews.

[9] Bank of Canada – Inflation Calculator - https://www.bankofcanada.ca/rates/related/inflation-calculator/
[10] Bank of Canada – Inflation Calculator - https://www.bankofcanada.ca/rates/related/inflation-calculator/
[11] https://www.gov.nl.ca/fin/files/Fiscal-Update-20-21-Presentation-July-24-2020.pdf

GT Response – Appendix C – Q.4 – Part B:

When preparing the calculation of national inflation/CPI rate, we assumed that the following cost categories increased based on inflation:

1. Capital costs and depreciation,
2. Office, administration and other costs,
3. Repairs and maintenance,
4. Insurance, and
5. Utilities and communication.

For the following cost categories 1) Capital costs and depreciation, 2) Office, administration and other costs, and 3) Repairs and maintenance we confirm that we reviewed all stakeholder comments. We considered the reasonability of the information that was put forward and assert that inflation is a reasonable assumption for those cost categories absent actual costing data being provided by the stakeholders for the period of review. The application of inflation to these cost categories is consistent with historical studies in this jurisdiction which have been adopted by the relevant stakeholders in the matter.

Regarding the accuracy of the 10.97% in the 2020 Study we have supplied a copy of the results of the BOC inflation calculator in Appendix E. This image was taken when we were executing our work on this project. You will note that this calculator is dynamic in nature and adjusts the time period selected. As noted at the bottom of the screen capture, the 10.97% was based on CPI for the first year beginning in the period using a starting point of February 2012 and CPI from the final year in the period using a starting point of February 2019.

For cost categories 4) insurance and 5) utilities and communication we assumed that inflation was a reasonable proxy for the cost increase throughout the period of review. Insurance and utilities and communication categories have been addressed in our response to question five and seven respectively below. As previously noted, the application of inflation to these cost categories is consistent with historical studies in this jurisdiction which have been adopted by the relevant stakeholders in the matter.

Appendix C - Q.5:

"The following assumptions and issues specifically related to Utilities and Commissions [Communications]*:*

a. *GT's use of a national inflation/CPI rate rather than the Statistics Canada Electric Power Selling Price Index to determine the rate of change to Utilities and Commissions* [Communication]*.*

b. *The appropriateness and applicability of using average indicators in the calculation of the rate of change for Utilities and Commissions* [Communication]. *For example, the appropriateness and applicability of using actual annual July 1 electricity rates to determine the rate of change to Utilities and Commissions over the period 2012-2019."*

GT Response – Appendix C – Q.5 – Part A:

We acknowledge that applying an inflationary adjustment may not result in a direct proxy for the increase in electricity during the period of review. We have reviewed the information submitted by the stakeholders pertaining to the Statistics Canada Electric Power Selling Price Index and have found the following to be an accurate representation of this data source:

Electric power selling price index, monthly Newfoundland and Labrador			
	2012-12	**2019-12**	**% rate of change**
Electric power selling price over 5,000kw	83.9	129.8	55%
Electric power selling price under 5,000kw	112.0	110.6	-1%

Source: Statistics Canada. Table 18-10-0204-01 Electric power selling price index, monthly

However, prior to adopting this as a proxy for actual cost increase experienced by automotive fuel wholesalers and retailers, we would ask the PUB to consider the following:

- ACSA notes that *"electric power rates in Newfoundland and Labrador were 54.7% higher in December 2019 than in December 2012 (Exhibit6). This applies to monthly users of more than 5,000kw, which would include the vast majority of vehicle fuel retailers in the province."*
- North Atlantic notes that *"Electricity is the largest component of the Utilities and Communications cost bucket and there has been a significant increase in electricity rates during the time period in review. As publicised from Statistics Canada's Electricity Power Selling Price Index of commercial and industrial users, electrical power rates in Newfoundland and Labrador were 54.7% higher in December 2019 than in December 2012. This is applicable for monthly users of more than 5,000 kw, which includes terminals, bulk plants and retail gas and diesel locations."*
- Based on the information presented we are unable to determine the portion of the monthly usage that relates solely to the business of the wholesale and retail distribution of regulated automotive fuels and the portion of the utility usage that pertains to other business at the site i.e. retailers operating a convenience store, on site food services etc.
- Given that the 2020 Study was based on the review of Zone 1 – Avalon Peninsula (the "base zone"), the following comments are limited to the rates and information applicable to Newfoundland Power's commercial classes of customers. We acknowledge that this is not reflective of the rates which may be applicable to all stakeholders in this process. However, we have assumed that the zone differentials would account for deviations from costing in the base zone.
- When considering the actual electricity impact on the stakeholders actual costing data would be the best judge as a variety of factors impact the applicable rates. For example, the Statistics Canada information only includes two categories 1) power selling price over 5,000kw and 2) power selling under 5,000kw.

However, in the base zone industrial and commercial customers are separate categories and rates vary within these customers. Furthermore, within the commercial customer grouping they could fall within three different rate classes as outlined in the Newfoundland Power Inc ("Newfoundland Power") rates and regulations for the time period. As an example, Newfoundland Power currently has three commercial classes of customers: Class 2.1, Class 2.3 and Class 2.4. These customer classifications are based on maximum demand that do not reflect the over and under 5,000 kilowatt classification that Statistics Canada presents. Furthermore, within the customer class, rates charged varies based on the volume of electricity consumed i.e. the first block of "x" kilowatt hours are charged at a higher rate and electricity in excess of this first block is charged at a lower rate. The actual electricity cost may also be impacted by customer credits in a given year.

- Given that the proposed rate of change is significant at the quoted 54.7% increase we would recommend that additional investigation of actual utilities and communication costs should be considered and that stakeholders should be required to break out the portion of the electrical usage that pertains to their rate regulated sale of automotive fuels versus other related business activity.

GT Response – Appendix C – Q.5 – Part B:

The appropriateness and applicability of using actual electricity rates to determine the rate of change over the period 2012 to 2019 for utilities and communications does not appear to be an unreasonable approach to quantifying the increase. Given that electricity rates vary throughout the period, we would recommend that careful consideration of the change in rate throughout the period from 2012 to 2019 might provide a more accurate result.

Given that we are unable to determine the portion of the electricity usage that would pertain to the operation of the retailer gas station absent other onsite business such as the operation of a convenience store or on-site dining, we are unable to reliably conclude on the appropriate customer class for this analysis. Additionally, given Newfoundland's electricity rates fluctuation year over year mainly due to the rate stabilization plan impact, the percentage increase varies when comparing rates over the period 2012-2019 depending on what data points are selected. However, to support the PUB in their decision-making process we have provided the following summary of the rate of change in Newfoundland Power's commercial class rates throughout the period from 2012 to 2019.

	Effective date of Rates (cents per kWh)			
	1-Jul-2011	1-Jul-2012	1-Jul-2018	1-Oct-2019
Rate 2.1(0-110kVA)*				
First	0.09672	0.10438	0.11283	0.12062
All excess	0.07303	0.08075	0.08449	0.09074
Rate 2.3 (110-1000kVA)				
First	0.09642	0.10409	0.09610	0.10270
All excess	0.07227	0.07999	0.07729	0.08292
Rate 2.4 (> 1000kVA)				
First	0.08278	0.09048	0.09265	0.09905
All excess	0.07162	0.07934	0.07654	0.08211

	2019-2012		2019-2011		2018-2012		2018-2011	
	Change ¢ per kWh	% Change	Change ¢ per kWh	% Change	Change ¢ per kWh	% Change	Change ¢ per kWh	% Change
Rate 2.1 (0-110kVA)*								
First	0.01624	15.6%	0.02390	24.7%	0.00845	8.1%	0.01611	16.7%
All excess	0.00999	12.4%	0.01771	24.3%	0.00374	4.6%	0.01146	15.7%
Rate 2.3 (110-1000kVA)								
First	-0.00139	-1.3%	0.00628	6.5%	-0.00799	-7.7%	-0.00032	-0.3%
All excess	0.00293	3.7%	0.01065	14.7%	-0.00270	-3.4%	0.00502	6.9%
Rate 2.4 (> 1000kVA)								
First	0.00857	9.5%	0.01627	19.7%	0.00217	2.4%	0.00987	11.9%
All excess	0.00277	3.5%	0.01049	14.6%	-0.00280	-3.5%	0.00492	6.9%

Conclusion – We have reviewed the information presented by the stakeholders and a variety of electricity rates in place from 2012 to 2019. We have concluded that the 55% rate of change put forward by some stakeholders is unreasonable. We cannot definitively conclude on the actual rate increase based on our review of electricity rates due to our inability to quantify average usage for a gas station, the variant percentage changes on the rate classes between data points, and what the appropriate rate classification for a gas station would be. However, the percent rate of changes illustrated in our table appear to support the 2020 Study which suggests that an inflationary increase is a reasonable comparator absent real stakeholder costs for the period. We have revised the calculations presented in Appendix A for utilities and communication to reflect the NL inflation rate, but no further revision was required.

Appendix C - Q.6:

"GT's use of the Board's maximum retail diesel price effective December 28, 2012 and December 31, 2019 to determine the rate of change for Fuel and Vehicle Operating Costs rather than use of the Transportation component of CPI."

GT Response – Appendix C – Q.6:

We have reviewed the stakeholder comments specific to this matter and it is difficult to determine which assumption would be the most reflective of the actual escalation in this cost category. The stakeholders have a valid point that costs in this category are not holistically based on fuel and that there would be other components to the analysis. However, absent stakeholder actual costing data we are unable to comment on which assumption would provide the most accurate result. We did note that the proposed change to the assumption would result in an inflationary increase only which does not appear unreasonable.

Conclusion – We have reviewed the information presented by the stakeholders and accept that an inflationary adjustment is not unreasonable due to the passage of time and the fact that this cost category includes expenses other than fuel. Given that this cost category reflects a relatively minor percent of the total cost to both wholesalers and retailers we recommend that the PUB accepts the 12.4% increase proposed by the stakeholders. The impact of revising this assumption has been incorporated into the calculations presented in Appendix A. Should the PUB decide to solicit actual cost data from the stakeholders as part of their analysis, we encourage stakeholder to present such information in a format which splits transportation costs between shipments that relate to the business of wholesale and/or retail automotive fuels and other related business (i.e., the transportation costs associated with shipment of goods for resale should not be included in the assessment of the escalation of transportation costs during this study).

Appendix C - Q.7:

"Does GT's national inflation/CPI rate used in the calculation of the rate of change for the Insurance category capture actual NL inflation and tax rates?"

GT Response – Appendix C – Q.7:

The use of national inflation/CPI rate does not implicitly include the Newfoundland and Labrador specific inflation in this industry or the changes in the retail sales tax[12] treatment of this category of expense during the period from 2012 to 2019. The 2020 Study did not account for non-refundable insurance taxes when calculating the inflation/CPI rate used for the insurance category. It would not be unreasonable to explicitly factor the current tax treatment into the calculation. However, the PUB should consider how margins will be adjusted should the tax treatment change throughout the rate setting period. During the 2012 to 2020 period there were increases in taxes in the insurance industry which have been reversed for automotive policies. Therefore, it is possible another increase or decrease to the tax could occur at a future date. As a result, we have determined that the price rate of change for insurance should have been based on the provincial inflation rate (12.4%) plus the non-refundable tax on insurance (15%) for a total rate of change of 27.4% as outlined in Appendix A.

Conclusion – We have reviewed the information presented by the stakeholders and accept an adjustment to insurance to specifically address the non-refundable insurance taxes should be included in the PBM analysis. This results in a percent rate of change on insurance of 27.4%. However, given that taxes on insurance for automotive policies have been removed in recent years, we recommend that this item is reviewed again if the tax treatment were to change prior to the next period of review.

[12] https://www.gov.nl.ca/fin/faq/faq-retail-sales-tax-on-inspremiums/

Overall conclusions and recommendations

- We would like to take this opportunity to thank all the stakeholders for actively participating in the review and commentary on the 2020 Study. Industry participation is always welcomed and encouraged.
- We have not commented on the feedback regarding issues pertaining to zoning differentials as this was not within the scope of the 2020 Study.
- Should the PUB wish to consider using the PBM approach with assumptions based on publicly available data for petroleum pricing reviews, we encourage the PUB to set parameters for data sources. We caution that changing data sources between evaluation periods could inadvertently introduce bias into the analysis as parties could potentially review a variety of sources and put forward the source that would yield the highest increase.
- We caution that updating margins based on provincial or statistical data sets without a defined frequency, or process for routinely testing cost categories to actual stakeholder data, could produce an inaccurate result over time. Therefore, we recommend that the PUB consider outlining a process whereby actual cost data is collected on a sample and rotating basis for review to determine if the assumptions in the margin setting process is in fact reflective of actual costs experienced during the period. The PUB could define a PBM update frequency that is supplemented by routine testing of assumptions for specific cost categories. If the PUB is to adopt the PBM margin update process with a defined frequency, we would recommend that this process include the specific review of certain cost categories on a routine basis. For example, the staffing composition and wage rates are reviewed to ensure the cost increase during the period of review was not materially misstated. Following a period where wages and salaries are reviewed the PUB could rotate to a different cost category such as utilities and communication to consider the accuracy of the assumption applied on a sample basis.

Once the PUB has determined the most appropriate assumptions for margin setting during this review, we are willing to provide our updated calculation and conclusion.

Yours sincerely,
Grant Thornton LLP

Chris Brake, CPA, CA Partner – Assurance Services	Barry Griffiths, CPA, CA Principal – Assurance Services	Angie Brown, CPA, CA, CIA Director – Advisory Services

Appendix A – Revised Calculations

Original GT 2020 Study - Wholesale				
Cost category	**% of Total Cost (Marine Terminal)**	**2012 Cost (cpl)**	**% rate of change**	**2019 Cost (cpl)**
Capital costs and depreciation	58.73%	0.49	10.97%	0.54
Fuel and vehicle operating	1.07%	0.01	0.50%	0.01
Insurance	-	-	-	-
Office administrative and other costs	14.03%	0.12	10.97%	0.13
Rent	-	-	-	-
Repairs and maintenance	11.51%	0.10	10.97%	0.11
Utilities and communications	0.81%	0.01	10.97%	0.01
Wages and salaries	13.85%	0.11	15.47%	0.13
Total	**100.00%**	**0.83**		**0.94**
% change 2012 cost to 2019 cost				**12.78%**
Marine opening markup				**3.42**
Proposed cpl margin increase				**0.44**
Revised GT 2020 Study - Wholesale				
Cost category	**% of Total Cost (Marine Terminal)**	**2012 Cost (cpl)**	**% rate of change**	**2019 Cost (cpl)**
Capital costs and depreciation	58.73%	0.49	12.40%	0.55
Fuel and vehicle operating	1.07%	0.01	12.40%	0.01
Insurance	-	-	27.40%	-
Office administrative and other costs	14.03%	0.12	12.40%	0.13
Rent	-	-	-	-
Repairs and maintenance	11.51%	0.10	12.40%	0.11
Utilities and communications	0.81%	0.01	12.40%	0.01
Wages and salaries	13.85%	0.11	19.67%	0.13
Total	**100.00%**	**0.83**		**0.95**
% change 2012 cost to 2019 cost				**14.72%**
Marine opening markup				**3.42**
Revised cpl margin increase				**0.50**
Difference proposed cpl margin increase vs revised cpl margin increase				**0.07**

Note – differences noted in the totals versus the addition of components in the table above are due to rounding as the underlying analysis included four decimal places.

Original GT 2020 Study - Wholesale (cpl)						
Model inputs	**% of total cost**	**Price rate of change**	**Marine freight (Marine Terminals - Primary/Secondary/ Depot)**	**Marine Terminals Operating Costs (Primary/Secondary/ Depots)**	**Tractor Trailer Freight (Marine Terminals to Bulk Plants)**	**Total**
Opening mark-up (excluding transaction fee park-up)			3.01	3.42	3.31	9.74
						-
Marine terminal % input	100%	12.78%		0.44		0.44
Tractor trailer freight % input	100%	10.97%			0.36	0.36
Original - 2020 Mark-up Adjustment - Wholesale				**0.44**	**0.36**	**0.80**
Revised GT 2020 Study - Wholesale (cpl)						
Model inputs	**% of total cost**	**Price rate of change**	**Marine freight (Marine Terminals - Primary/Secondary/ Depot)**	**Marine Terminals Operating Costs (Primary/Secondary/ Depots)**	**Tractor Trailer Freight (Marine Terminals to Bulk Plants)**	**Total**
Opening mark-up (excluding transaction fee park-up)			3.01	3.42	3.31	9.74
						-
Marine terminal % input	100%	14.72%		0.50		0.50
Tractor trailer freight % input	100%	12.40%			0.41	0.41
Revised 2020 Mark-up Adjustment - Wholesale				**0.50**	**0.41**	**0.91**
Difference original vs revised						**0.11**

Original GT 2020 Study - Retailers			
Model inputs	**% of Total Cost**	**% rate of change**	**Total**
Opening Mark-up (excluding transaction fee mark-up)			8.73
Automotive Fuel Retailer % Inputs			
Capital costs and depreciation	9.39%	10.97%	0.09
Fuel and vehicle operating	0.23%	0.50%	0.00
Insurance	1.07%	10.97%	0.01
Office administrative and other costs	19.95%	10.97%	0.19
Rent	6.77%	8.77%	0.05
Repairs and maintenance	8.48%	10.97%	0.08
Utilities and communications	8.00%	10.97%	0.08
Wages and salaries	46.11%	15.49%	0.62
Total	**100.00%**		**1.12**
Revised GT 2020 Study - Retailers			
Model inputs	**% of Total Cost**	**% rate of change**	**Total**
Opening Mark-up (excluding transaction fee mark-up)			8.73
Automotive Fuel Retailer % Inputs			
Capital costs and depreciation	6.57%	12.40%	0.07
Fuel and vehicle operating	0.00%	12.40%	-
Insurance	3.67%	27.40%	0.09
Office administrative and other costs	22.63%	12.40%	0.24
Rent	3.56%	8.77%	0.03
Repairs and maintenance	4.76%	12.40%	0.05
Utilities and communications	5.41%	12.40%	0.06
Wages and salaries	53.40%	21.71%	1.01
Total	**100.00%**		**1.55**
Difference original vs revised			**0.43**

The following table represents a revised version of our final conclusions and recommendations. We have concluded that the PUB could consider applying the revised proposed mark up for wholesale and retail margins for all regulated automotive fuels in Newfoundland and Labrador.

Original - Gasoline Markup Summary (cpl)			
	Wholesale	**Retail**	**Total**
Opening markup (2012)	9.74	8.73	18.47
Increase (decrease) for the period (2012 - 2020)	0.80	1.12	1.92
2020 Mark-Up	**10.54**	**9.85**	**20.39**
Original - Diesel Markup summary (cpl)			
	Wholesale	**Retail**	**Total**
Opening markup (2012)	9.16	12.48	21.64
Increase (decrease) for the period (2012 - 2020)	0.80	1.12	1.92
2020 Mark-Up	**9.96**	**13.60**	**23.56**
Revised - Gasoline Markup Summary (cpl)			
	Wholesale	**Retail**	**Total**
Opening markup (2012)	9.74	8.73	18.47
Increase (decrease) for the period (2012 - 2020)	0.91	1.55	2.47
2020 Mark-Up	**10.65**	**10.28**	**20.94**
Revised - Diesel Markup summary (cpl)			
	Wholesale	**Retail**	**Total**
Opening markup (2012)	9.16	12.48	21.64
Increase (decrease) for the period (2012 - 2020)	0.91	1.55	2.47
2020 Mark-Up	**10.07**	**14.03**	**24.11**

Note – differences noted in the totals versus the addition of components in the table above are due to rounding as the underlying analysis included four decimal places.

Appendix B – Summary of PBM Inputs / Assumptions

The following table summarizes the assumptions in the 2020 report by source and the revised assumptions for the wholesale margin calculation.

Wholesale		
Cost categories – based on results of 2012 surveys		
	2020 Study - Original	**2020 Study - Revised**
Capital costs and depreciation	Inflation based on national data – Bank of Canada Inflation Data	Inflation based on provincial data – Government of Newfoundland and Labrador Department of Finance
Fuel and vehicle operating	Point in time diesel price per liter comparison	Transportation Component of Consumer Price Index as published by Government of Newfoundland and Labrador Department of Finance
Insurance	Cost category allocation was zero therefore assumption has no impact	Cost category allocation was zero therefore assumption has no impact
Office administrative and other costs	Inflation based on national data – Bank of Canada Inflation Calculator	Inflation based on provincial data – Government of Newfoundland and Labrador Department of Finance
Rent	Cost category allocation was zero therefore assumption has no impact	Cost category allocation was zero therefore assumption has no impact
Repairs and maintenance	Inflation based on national data – Bank of Canada Inflation Calculator	Inflation based on provincial data – Government of Newfoundland and Labrador Department of Finance
Utilities and communications	Inflation based on national data – Bank of Canada Inflation Calculator	Inflation based on provincial data – Government of Newfoundland and Labrador Department of Finance
Wages and salaries	Annual average hourly wage change in the period from 2012-2019 based on national data – occupation codes for 1) office support occupations and 2) trades, transport and equipment operators – Statistics Canada	Annual average hourly wage change in the period from 2012-2019 based on provincial data – occupation codes for 1) office support occupations and 2) trades, transport and equipment operators – Statistics Canada

Note – in the above table "provincial" refers to Newfoundland and Labrador

Retail		
	2020 Study - Original	**2020 Study - Revised**
Cost categories based on	Results of 2012 surveys	Cost allocation for NAICS 447 – Gasoline station with annual revenues $30,000 to $5,000,000 – based on provincial data– Statistics Canada
Capital costs and depreciation	Inflation based on national data – Statistics Canada	Inflation based on provincial data – Government of Newfoundland and Labrador Department of Finance
Fuel and vehicle operating	Point in time diesel price per liter comparison	Transportation Component of Consumer Price Index as published by Government of Newfoundland and Labrador Department of Finance
Insurance	Inflation based on national data – Statistics Canada	Inflation based on provincial data – Government of Newfoundland and Labrador Department of Finance plus 15% for nonrefundable tax on commercial insurance
Office administrative and other costs	Inflation based on national data – Statistics Canada	Inflation based on provincial data – Government of Newfoundland and Labrador Department of Finance
Rent	Rate of change based on Cushman & Wakefield, a global commercial real estate services firm, - St. John's published data regarding the rental rates per square foot change from 2012 to 2019.	Rate of change based on Cushman & Wakefield, a global commercial real estate services firm, - St. John's published data regarding the rental rates per square foot change from 2012 to 2019.
Repairs and maintenance	Inflation based on national data – Statistics Canada	Inflation based on provincial data – Government of Newfoundland and Labrador Department of Finance
Utilities and communications	Inflation based on national data – Statistics Canada	Inflation based on provincial data – Government of Newfoundland and Labrador Department of Finance
Wages and salaries	Annual average hourly wage change in the period from 2012-2019 based on national data – occupation codes for 1) office support occupations and 2) trades, transport and equipment operators	Annual average hourly wage change in the period from 2012-2019 based on provincial data – occupation codes for 1) office support occupations and 2) trades, transport and equipment operators

Note – in the above table "provincial" refers to Newfoundland and Labrador

Appendix C – Letter from the Board of Commissioners of Public Utilities

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

July 15, 2020

Mr. Barry Griffiths
Principal
Grant Thornton LLP
Suite 300, 15 International Place
St. John's, NL A1A 0L4

Dear Mr. Griffiths:

RE: PPO Part B Retail Margin Review – Reply to Stakeholder Comments

As part of the Board's review of the current mark-up adjustments of regulated automotive fuels stakeholders were invited to provide comments on the Grant Thornton ("GT") report "*2020 Review of the Costs of Supply and Distribution of Maximum Price Regulated Petroleum Products in the Province of Newfoundland and Labrador – Part B*". Comments were received from 16 stakeholders with several raising concerns with some of the assumptions used by GT in the development of the proposed wholesale and retail margin increases.

To assist in its review and final decision the Board requests that GT comment on the following issues raised, identify the rationale for the data selected by GT and discuss any reasonable options or alternatives that may be available.

1. GT's assumption that the general allocation of cost categories determined in the 2012 study remain unchanged. As an example some filed commentary suggests that stakeholders feel the percentage allocation to Wages and Salaries is understated with 2018 Industry Canada Financial Performance Data (FPD) for businesses in Newfoundland and Labrador operating under NAICS 44711: Gasoline Stations with Convenience Stores offered as support.
2. GT's use of national data instead of Newfoundland and Labrador ("NL") specific data provided by Statistics Canada to determine the rate of change for various cost categories.
3. The following assumptions and issues related to Wages and Salaries:
    a. The appropriateness of GT's selected National Occupational Classification ("NOC"). Some filed commentary provided alternative NOC data sources.
    b. GT's use of Canadian data rather than NL-specific data.
    c. The appropriateness and applicability of using an annual average analysis to determine the rate of change in the hourly labour cost rather than the December 2012 to December 2019 comparison conducted by GT.

4. The following assumptions and issues in relation to GT's inflation/Consumer Price Index ("CPI") rate:
    a. GT's use of a national inflation/Consumer Price Index ("CPI") when NL-specific inflation/CPI data is available.
    b. The accuracy of GT's selected national inflation/CPI rate of 10.97% assigned to all cost categories with the exception of Fuel and Vehicle Operating, Rent, and Wages and Salaries. Some filed commentary suggested that the 10.97% is inaccurate.
5. The following assumptions and issues specifically related to Utilities and Commissions:
    a. GT's use of a national inflation/CPI rate rather than the Statistics Canada Electric Power Selling Price Index to determine the rate of change to Utilities and Commissions.
    b. The appropriateness and applicability of using average indicators in the calculation of the rate of change for Utilities and Commissions. For example, the appropriateness and applicability of using actual annual July 1 electricity rates to determine the rate of change to Utilities and Commissions over the period 2012-2019.
6. GT's use of the Board's maximum retail diesel price effective December 28, 2012 and December 31, 2019 to determine the rate of change for Fuel and Vehicle Operating Costs rather than use of the Transportation component of CPI.
7. Does GT's national inflation/CPI rate used in the calculation of the rate of change for the Insurance category capture actual NL inflation and tax rates?

To assist in the timely review process by the Board a prompt reply would be greatly appreciated.

If you have any questions or require further information, please do not hesitate to contact Mike McNiven, by email mmcniven@pub.nl.ca or by telephone 709-726-1158.

Yours truly,

C Blundon

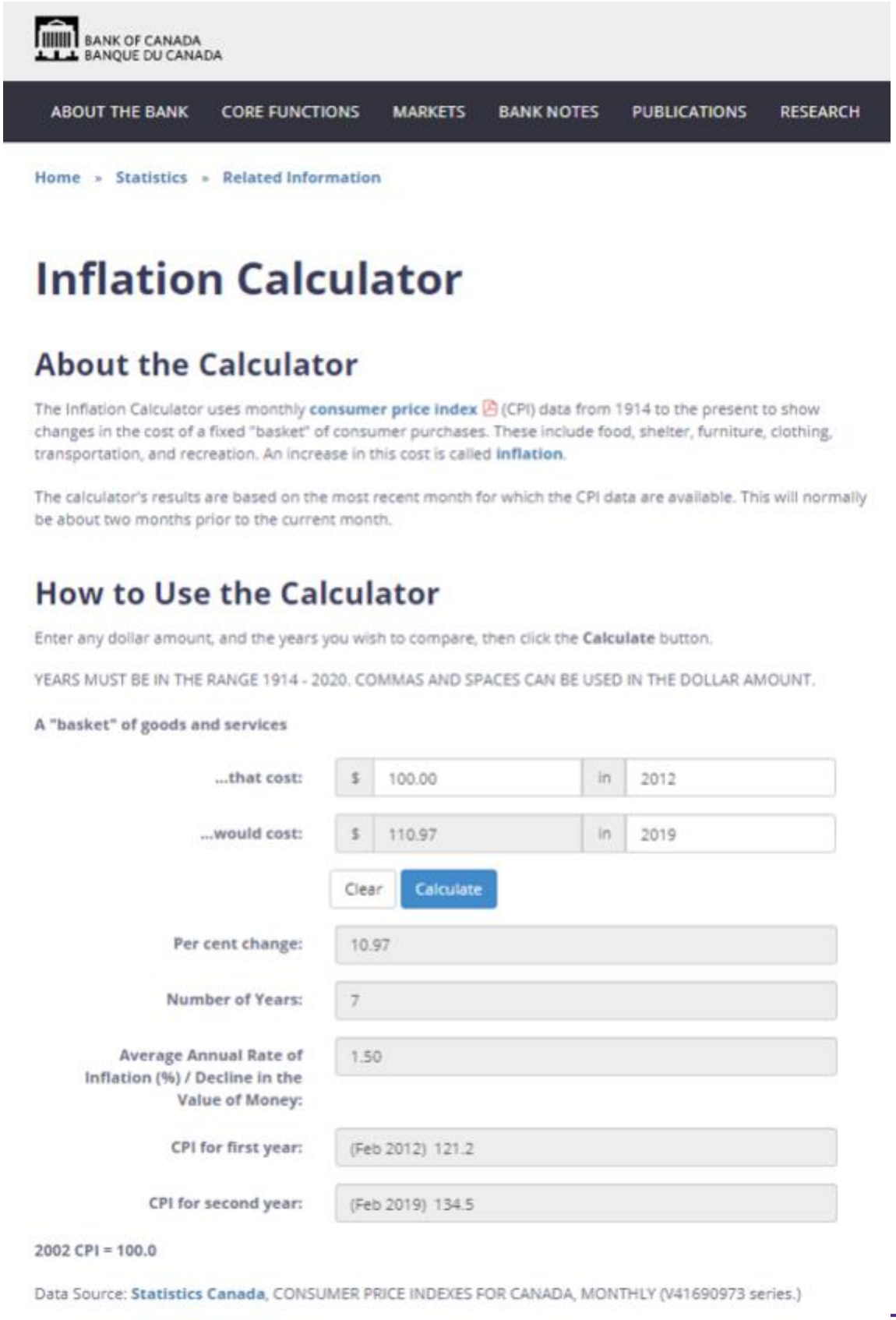
Cheryl Blundon
Board Secretary

Appendix D – Stakeholder Responses

This Appendix may contain information of a personal and/or confidential nature.

Please contact the Board Secretary at (709)726-8600 or toll-free at 1-800-782-0006 for additional information.

Appendix E – Bank of Canada Inflation Calculator Results



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Inflation Calculator

About the Calculator

The Inflation Calculator uses monthly **consumer price index** (CPI) data from 1914 to the present to show changes in the cost of a fixed "basket" of consumer purchases. These include food, shelter, furniture, clothing, transportation, and recreation. An increase in this cost is called **inflation**.

The calculator's results are based on the most recent month for which the CPI data are available. This will normally be about two months prior to the current month.

How to Use the Calculator

Enter any dollar amount, and the years you wish to compare, then click the **Calculate** button.

YEARS MUST BE IN THE RANGE 1914 - 2020. COMMAS AND SPACES CAN BE USED IN THE DOLLAR AMOUNT.

A "basket" of goods and services

...that cost:	$	100.00	in	2012
...would cost:	$	110.97	in	2019

Clear | Calculate

Per cent change:	10.97
Number of Years:	7
Average Annual Rate of Inflation (%) / Decline in the Value of Money:	1.50
CPI for first year:	(Feb 2012) 121.2
CPI for second year:	(Feb 2019) 134.5

2002 CPI = 100.0

Data Source: **Statistics Canada**, CONSUMER PRICE INDEXES FOR CANADA, MONTHLY (V41690973 series.)

