



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,



Cheryl Blundon
Board Secretary