

used between certain zones and /or sub-zones. The Avalon Peninsula, which includes the capital city of St. John's and encompasses close to half of the province's population, was designated as Zone 1. In the main, differentials established for other areas were referenced to that Zone. Since that time, some consumers have argued that differentials between certain zones are too high while conversely some suppliers maintain they are not sufficient to cover the additional costs involved, particularly in servicing the more remote areas of the province.

3.0 A Study of Storage and Distribution Costs for Petroleum Products

3.1 Study Impetus

The Petroleum Products Pricing Commission has to date undertaken considerable affirmative action and measures to understand the dynamics of the market place, and to quantify factors affecting maximum prices established for regulated products in the province. Detailed implementation work has been undertaken to give effect to the legislation as prescribed.

In past dialogue with the PPPC, oil companies have made representations that the market for regulated products was competitive prior to regulation and the relatively high consumer prices were attributable to the higher costs of doing business in the province. Companies have pointed to factors such as high marine freight rates, expensive storage facilities (with increased operation costs due in large part to more stringent environmental requirements and insurance costs), and high distribution costs exacerbated by low volume throughputs in many areas due to a widely dispersed population.

Oil companies have continued to argue that the regulation process and high operating costs are having significant negative impacts on the level of financial returns that would sustain long term viability of their operations. As a result, and in a effort to be fair to all stakeholders, the PPPC determined that its affirmative action agenda required a closer examination of identified cost factors that are involved in transporting, storing and distributing regulated products to consumers. These costs include marine tanker freight; marine terminal storage and handling; distance truck haulage; bulk plant storage and handling; tank-wagon delivery and other direct costs associated with getting product to the point of sale for the end consumer.

Pricing zones and the relative pricing differentials between them are an integral part of the regulatory process and their re-examination built on sound and detailed cost analyses provided the impetus for this Study.

3.2 Study - Request for Proposals

The PPPC released a *Request for Proposals*, which outlined the purpose and scope of the Study as follows:

(1) Review of Number of Zones and Zone Boundaries:

Using the information collected for this study, the consultant will review, analyze and confirm existing pricing zone boundaries or recommend revised boundaries for existing, additional, or fewer zones that more accurately reflect the current mode(s) of supplying regulated petroleum products to each area.

(2) Review of Zone Price Differentials:

Using the information collected for this study, the consultant will review, analyze and confirm the existing zone pricing differentials or recommend revised differentials that more accurately reflect the current cost differences in providing products to different zones or areas as defined and recommended in (1) above

While completing (1) and (2), the consultant should be cognizant of natural geographical separations between areas and the desire to keep the number of pricing zones as low as reasonably and realistically possible.

(3) Information for Storage and Distribution Database:

The work will include the gathering of physical and product 'thruput' information on all marine terminals, bulk plants, and other storage depots that are operated throughout the province for holding petroleum products for sale to wholesalers or retailers. This would include those in active operation as well as those that have been "mothballed" but that are still standing and could be re-commissioned in the future.

3.3 Consultant's Undertakings

In its proposal submission, the consultant undertook to provide the following information:

1. Costs of Shipping Products to Marine Terminals and Depots

Estimates of the direct cost of delivering 'clean' petroleum products via marine tanker into secondary marine terminals operating in the province from normal supply sources. These costs will include the cost of supplying product to small marine depots along the Labrador Coast and possibly to some depots along the south coast of the Island portion of the province. The costs of delivering products to primary marine terminals were addressed in a study undertaken in 2002, and although referenced, their determination will not be part of this Study.

2. Costs of Product Storage and Terminal Operations

Estimates of the costs associated with operating primary and secondary marine terminals and marine depots expressed in annual dollar amounts as well as on a cent per litre throughput basis of all products through each terminal.

3. Costs of Land Transportation

Estimates of costs to transport regulated petroleum products to retail outlets, bulk storage plants, and the direct delivery of product to customer storage tanks on an area averaged basis.

4. Costs of Operating Bulk Storage Plants

Identify each Bulk Plant in the province and determine estimated total costs of operation expressed in annual dollar amounts as well as on a cent per litre throughput basis.

5. Costs of Delivery from Bulk Storage Plants

Estimates of average costs to deliver regulated products from each bulk plant to retailers and consumers.

6. Identification of Storage Terminals, Bulk plants and Depots

Identify each active bulk storage facility in the province and where possible provide a physical description of each with digital pictures, plan layout sketches with approximate tank sizes / capacities, with total product throughput volumes. Inactive or mothballed bulk storage facilities will also be identified as may be evident during the consultant's visitation process throughout the province.

Study Conclusions and Recommendations

1. Recommendations on Zone Boundaries

The consulting team will use all information collected to draw conclusions and make recommendations for potential changes to existing pricing zone boundaries. Included will be commentary as to the appropriateness of continuing with the same zone structure for both retail automotive fuels and home heating products with recommendations, as the consultant may feel necessary.

2. Recommendations on Zone Pricing Differentials

The consulting team will use all cost information collected to draw conclusions and make recommendations for potential changes to existing pricing zone price differentials. The cost of providing products will be compiled individually by zone and sub-zone and will reflect as accurately as possible the cost of the current methods of supply in each case.

3. Identification of Bulk Storage Facilities

The consulting team will identify and provide information on all bulk storage facilities around the province, noting those facilities that are currently inactive or mothballed.