



NEWFOUNDLAND AND LABRADOR

BOARD OF COMMISSIONERS OF PUBLIC UTILITIES

HEAD OFFICE

120 Torbay Road
P.O. Box 21040
St. John's
Newfoundland and Labrador
Canada
A1A 5B2

Chair and Chief Executive Officer

Robert Noseworthy
Tel. No: (709) 726-1133
Fax. No: (709) 726-9604
Email: rnoseworthy@pub.nl.ca

VIA E-MAIL

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**TO: ALL HOME HEAT RETAILERS
IN NEWFOUNDLAND AND LABRADOR**

Reference is made to the recent paper 'Review of Petroleum Pricing Regulation Issues Discussion Document' dated July 25, 2005, which was distributed by the Board to all stakeholders in the Province. The document is also available on-line at www.pub.nl.ca (click the link entitled "PUB Discussion Paper – July 2005").

At this time we bring your attention in particular to page 5 of the document (Section 3.2) wherein it was stated that:

"With respect to the base prices of home heat fuels (furnace and stove oils), the Board will request specific information from home heat wholesalers and retailers to permit a more immediate comprehensive review of this issue, with a view to making a decision in advance of the 2005- 2006 home heat season."

Section 3.2 also spells out the reasons why the Board did not grant the same 1.5 cents per litre (cpl) increase to all other retailers that was approved for Harvey's Oil in February 2005. Although a number of submissions were received, the Board did not approve this increase for all retailers because inconsistencies in the type and detail of the information provided did not permit a realistic comparative review of costs or suggested cost increases.

Accordingly, to make an informed decision on any general adjustment in the base price of distillate heating fuels, be it the 1.5 cpl increase previously granted to Harvey's Oil or another amount, the Board wishes to clarify the specific information requested from all retailers in order to complete an objective review.

The starting point for submissions must first identify the fuel sales volumes involved. Costs and cost increases on their own do not reflect what adjustments might be justified on a cents-per-litre (cpl) basis. It is recognized that retailing of home heating fuels to individual household consumers covers a wide spectrum; from large operators in urban areas, who maintain 'Home Heat Centres' with many ancillary products for sale, to single delivery truck operators in remote rural areas.

It is hoped that the information¹ being requested from all retailers will be provided in a format that will delineate and clearly identify the costs involved in the sale and delivery of home heat fuels to household customers. Such costs would exclude sales of heating fuels to other customers and any sales of other products and services to householders. This format will, to the extent possible, allow a comparative analysis of both large and small home heat fuel operations and the change in costs on a cents-per-litre basis over a reasonable time frame. The longer the period for which information is available will assist greatly in tracking costs and quantifying any price adjustments.

Given that the data can be supplied with reasonable effort, the Board would like to receive the following information from each retailer by September 21, 2005. To assist retailers in compiling the information, basic forms are attached to guide the process. *(Note: Retailers who need addition blank forms should contact the Board at 726-8600 or toll-free 1-866-782-0006 or access the appropriate form at the Board's website at www.pub.nl.ca.)*

Section 1: Area serviced by each retailer and type(s) of delivery operation in each area

- 1) Geographic area(s) covered by the home heat retailer. These areas may or may not align with the current pricing zones used for distillate heating fuels. However, separate sets of information should be provided where a company has operations in separately self-defined geographic areas. In addition, in cases where the same retailer operates in an area of relative low population density as well as in area of relative higher population density, separate information sets should be submitted particularly with respect to volumes delivered and tank wagon operating costs in each of these cases. The type or types of delivery operation should be indicated by checking the applicable box(es).

Section 2: Volume and delivery related information by area

- 1) Total annual volumes of **furnace oil** sold by month for the six-year period from July 1999 through June 2005 in litres (this includes all volumes to all customers).
- 2) Furnace oil volumes for the same periods sold to single households only (exclude any commercial accounts, apartment buildings and other multi-unit buildings).
- 3) Heating degree days by month for the six-year period (using 18°C as base).
- 4) Average annual furnace² oil volume per household in litres.
- 5) Total monthly volumes of **stove oil** sold to all customers in litres.
- 6) Total monthly volumes of **stove oil** sold to household customers only in litres.
- 7) Number of households using stove oil only (average per year).

¹Due to the nature of the information requested all information provided by home heat retailers will be considered confidential and privileged and will not be made available to any other retailers nor any other party without the express written permission of the retailer providing the information.

²For all Labrador areas where stove oil is used for furnace oil, tabulate the figures for stove oil as if it were furnace oil and ignore items 5, 6 and 7 concerning stove oil only.

- 8) Number of households using stove oil or kerosene for supplementary heating (average per year).
- 9) Average number of households serviced for the year (furnace oil).
- 10) Average furnace oil volume delivered per household per drop.
- 11) Average number of households on automatic fill.
- 12) Average annual volume for household accounts on automatic fill.
- 13) Percentage or number of households on a 'will-call' drop basis.
- 14) Average annual volume for household accounts on 'will-call' basis.
- 15) Number of full-time tank wagons used each year of the six years (during the heating season).
- 16) Number of part-time tank wagons used each year of the six years during the heating season (use fractions of a vehicle if applicable).
- 17) Tank wagons by unit number, tank capacity, temperature compensated meters, percentage use for household deliveries and number of helpers used each heating season.

Section 3: Tank wagon vehicle operating costs (\$ per year)

- 1) Average driver wages per vehicle.
- 2) Average driver wage overhead and benefits (including workers compensation, CPP and EI premiums, plus any company contributions to other benefits).
- 3) Average helper wages per vehicle.
- 4) Average helper wage overhead and benefits.
- 5) Average annual maintenance costs per vehicle (excluding tires and fluids).
- 6) Average annual costs per vehicle (tires and fluids).
- 7) Average annual fuel consumed per tank wagon (type).
- 8) Average annual fuel consumed per tank wagon (volume-litres).
- 9) Average fuel cost per vehicle per year.
- 10) Average mileage per vehicle per year.
- 11) Average insurance cost per vehicle per year.
- 12) License cost per tank wagon per year.
- 13) Vehicle-mounted meters and computerized equipment (cost per year per vehicle).
- 14) Estimated annual cost of maintaining a spare vehicle for home heat deliveries where applicable.
- 15) Tank wagon painting costs prorated on an annual basis.
- 16) Annual cost of communication equipment for each truck (i.e. radios and cell phones).
- 17) Annual costs of uniforms and personal protective equipment (i.e. safety glasses, gloves etc.) for drivers.
- 18) Estimated annual depreciation per vehicle per year.
- 19) Miscellaneous and/ or other costs per vehicle per year.

Note: Where tank wagon vehicles are used for fuel delivery operations other than to household home heat customers, the retailer should proportion costs by time used for each of the above line items.

Section 4: Office support staff, environmental and other costs

- 1) Number of permanent office staff employed.
- 2) Number of extra office staff employed during the heating season.
- 3) Number of household customers paying on account.
- 4) Percentage of household customers paying on account.

- 5) Percentage of office staff time dedicated to household heating fuel sale and deliveries (exclude staff time associated with burner service or other activities).
- 6) Average number of household accounts per dedicated office staff person.
- 7) Percentage of managers' / supervisors' time taken by household accounts versus other type of accounts or activities.
- 8) Annual workers compensation premium rates for all office staff.
- 9) Annual workers compensation dollar amounts for all office staff.
- 10) Annual rent or office space cost per year and estimated percentage reasonably allocated for home heating fuel accounts only.
- 11) Office expenses (rent, insurance, depreciation) used for furniture, computers, printers, copiers, fax machines and estimated percentage reasonably allocated for home heat accounts only.
- 12) Office expenses including heat, light, machine maintenance, insurance, etc. and estimated percentage reasonably allocated for home heating accounts only.
- 13) Other office expenses and consumables including paper, delivery tickets, etc. and estimated percentage reasonably allocated for home heat accounts only.
- 14) Other administrative costs and estimated percentage reasonably allocated for home heat accounts only (i.e.: employee training, head office allocations, etc.).
- 15) Interest and bank service costs and estimated percentage reasonably allocated for home heat accounts only.
- 16) Administration costs incurred to comply with the Heating Oil Storage Tank Systems regulations.
- 17) Annual costs incurred for environmental protection measures and expenses incurred particularly because of regulatory decree. (Includes costs of disposing of waste oil).
- 18) Estimated annual inventory carrying costs where applicable (provide details).
- 19) Other costs (Identify).

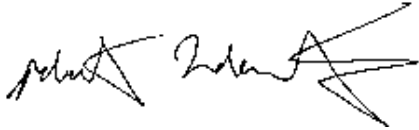
It is also recognized that some retailers, such as agents, are paid a commission (usually on a cents-per-litre basis) to deliver product on behalf of a supplier. In these cases, the agent should assemble all the information that it controls, such as tank wagon volumes, delivery costs and vehicle expenses, office administration costs, etc. The supplying company would be expected to provide information on the volumes per home heat customer, cpl cost of delivering product by area, etc.

This exercise will be a concentrated effort by the Board to review and address alleged inequities in the base prices of furnace oil and stove oil prior to the coming heating season. The co-operation of all retailers in providing the above information is required to ensure that any base price increases are properly quantified and fair to all stakeholders.

It is recognized that some retailers may have problems assembling all the requested data. If this should occur, they should inform the Board as soon as possible in order that a reasonable compromise can be worked out based on their individual circumstances.

If you have any questions or require clarification of any aspect of this information request please contact David Hillier at the Board's Petroleum Pricing Office in Grand Falls-Windsor at 489-8877 or toll-free at 1-866-489-8800 or via e-mail at dhillier@pub.nl.ca.

Yours truly,

A handwritten signature in black ink, appearing to read "Robert Noseworthy". The signature is stylized with a large, sweeping initial "R" and "N".

Robert Noseworthy,
Chairperson and Chief Executive Officer

Attachments