

PRINCE EDWARD ISLAND LEGISLATIVE ASSEMBLY



Speaker: Hon. Kathleen M. Casey

Published by Order of the Legislature

Standing Committee on Social Development

DATE OF HEARING: 17 JANUARY 2008

MEETING STATUS: PUBLIC

LOCATION: POPE ROOM, COLES BUILDING, CHARLOTTETOWN

SUBJECT: PRESENTATIONS ON FUEL COSTS AND FUEL TANKS

COMMITTEE:

Janice Sherry, MLA Summerside-Wilmot (Chair)
Jim Bagnall, MLA Montague-Kilmuir
Paula Biggar, MLA Tyne Valley-Linkletter
Michael Currie, MLA Georgetown-St. Peters
Cynthia Dunsford, MLA Stratford-Kinlock
Sonny Gallant, MLA Evangeline-Miscouche
Robert Henderson, MLA O'Leary-Inverness
Pat Murphy, MLA Alberton-Roseville, replaces Neil LeClair, Minister of Agriculture

COMMITTEE MEMBERS ABSENT:

Neil LeClair, Minister of Agriculture

GUESTS:

IRAC (Allison MacEwen, Maurice Rodgerson); Danny McInnis (Field Supervisor, Environmental Protection)

STAFF:

Melissa Keefe, Committee Clerk

The Committee met at 1:30 p.m.

Chair (Sherry): Good afternoon, everybody, and welcome to our Standing Committee on Social Development.

I would like to welcome the gentlemen from IRAC and ask them to introduce themselves for the purpose of Hansard. If you'd like to go around the table, if you feel it's necessary, to introduce the members about the table, we can do that as well.

Maurice Rodgerson: Thank you very much, Madam Chair.

I'm Maurice Rodgerson and I'm the chair and chief executive officer of the Prince Edward Island Regulatory and Appeals Commission, and with me is Allison MacEwen, who is our assistant director for petroleum. I think everyone has a name tag so we should be okay in terms of introductions.

Chair: Great.

The other thing I'd like to do is just to adopt the agenda for today's meeting. Everybody fine with the agenda?

Some Hon. Members: Agreed.

Chair: Great.

Okay, I guess we've allowed about 20 minutes for you gentlemen to go ahead and make your presentation. I would certainly request that all the committee members wait until the end of their presentation to ask any questions. I'm sure there's a potential that there may be many, so I would like us to keep order, and be respectful of each other, and give everybody the opportunity to ask the questions they would like to ask.

So, gentlemen.

Maurice Rodgerson: Thank you very much.

Thank you for the invitation to appear before the committee and to discuss some of the challenges faced by Islanders in dealing with the rising price of petroleum products, and in particular, for today's purposes, to talk about the high cost of home heating fuel. I hope that our discussion about some of the dynamics of the industry will assist you in your task, and we do have a number of slides that we hope may be helpful as well.

It's understandable that this discussion is taking place given the rapid rise in recent years of the price of heating fuel and the obvious impact that that has on household budgets. It is especially true given the very high reliance on furnace fuel as a primary heating source in our province. The information we have would suggest that about 85% of Island homes use furnace oil for at least part of their heating requirements. It is also widely used for domestic hot water.

This chart demonstrates that for many the cost of heating their homes has increased dramatically in the past five years. This was tempered somewhat by recent mild winters, which resulted in actual reduced consumption. Last year, for example, the volumes were down by about 20% from traditional levels. Given that the winter this year started a little earlier the trend may well, in fact, be reversed, and already we have indications that demand is up by about 10%.

As you can see from the graph, the average price for home heating fuel in our province increased by 5.6 cents a litre between 2002 and 2003; a further 5.4 cents between 2003 and 2004; a significant jump of 14.7 cents between 2004 and 2005; a further 3.2 cents in 2006; and another 2.9 cents per litre into 2007.

The impact is felt most directly by consumers, but it also has implications for the overall economy as rising prices erode spending power.

The total consumption of heating fuel in December of 2006 was 18,472,000 litres, which are the actual sales numbers reported to the Commission. The Commission approved price at that time was 70.2 cents per litre, resulting in a total cost to Island consumers of \$12,967,505. Using those same volumes for this past December, the total cost to consumers would be \$16,366,395.

While the price and the actual level of household consumption fluctuates with a number of factors, the overall direction is very evident. This graph shows the average cost of 500 litres of fuel over the past five years. The solid bars represent the PEI price, and the line above that the average regional price.

Now, various factors influence the direction, but a key one is the fact that world demand continues to grow and we are taxing the present world supply system. While Canada is an energy exporter, we are also an importer, and all sales are based on US dollars. We are also very heavily influenced by demand in the US, which remains the leading consumer of petroleum products.

For comparison purposes, the commission's approved price of home heating fuel in the month of December 2002 was 45.8 cents per litre. Therefore, the ex-tax price of a typical residential delivery of 500 litres, at the posted price at that time, would have been \$229. This past December the commission's approved price was set at 88.6 cents per litre. That same 500 litre residential delivery would cost the homeowner \$443 ex-tax, an increase from 229 to 443.

In recent years, and in particular over the past five, the Commission, consumers and

the world market witnessed a steady upward movement in prices as expected ceilings of crude and commodity prices were met and then surpassed. The impact on local prices, as you can see, has been dramatic. Now, I cannot give you any comfort that the situation will improve as most market analysts expect prices to remain in the general range of where they are now for the foreseeable future. In fact, we are just now in the midst of the heavy heating months.

The commission's volumetric data indicates that January and February are consistently the highest heating fuel consumption months on Prince Edward Island. Over that two month period consumers will use more than 50 million litres of furnace fuel, or almost one-third of the total yearly consumption.

The price was increased one cent a litre earlier this week and will average 89.1 cents per litre for the month of January. I'll more fully discuss the pricing system in a few minutes, but our indications are that prices, while they may fluctuate up and down somewhat, will remain relatively high for the remainder of the heating season.

Now there may be some minor comfort in the fact that industry data suggests that the heating fuel prices on Prince Edward Island are often lower than in other jurisdictions. This graph compares the average Prince Edward Island price to the average Canadian price, taxes included. A review of the data approved by M J Irvin, and compared to the commission's approved price, indicates that on an ex-tax basis Island consumers pay 3 to 5 cents a litre less for heating fuel than consumers in our sister provinces of Nova Scotia or New Brunswick.

The commission regularly uses the M J Irvin data to compare prices on the Island with those in four centres in Nova Scotia and four in New Brunswick. That data for 2006 indicates Islanders would have paid, ex-tax, \$5.3 million more for heating fuel if Island

prices had matched those in Nova Scotia and New Brunswick. The difference becomes even more dramatic when the tax situation is factored in.

For comparison purposes here today there's also a downside to this fact. It means that the industry on the Island is operating with lower margins, and therefore, while on an ongoing direct benefit to consumers, it does result in the industry having less flexibility to respond to some of the suggestions that have come forward for special circumstances. Anything that results in higher operating costs has to, therefore, be carefully considered.

I know that many people are of the view that they are being ripped off by the big oil companies and their record profits, and let me just address a couple of the points on that contention.

It must be remembered that oil prices reflect commodity prices, and those prices are set in an open marketplace with many more people than oil companies buying and selling the product. Many pension fund managers, for example, are involved in the commodity markets as part of the rounding out of their investment strategies. When the stock market fluctuates down or there are cuts in interest rates, investment may flow to the commodity market. A market that is active attracts even more investors and becomes even more sensitive to international events. These factors and these investors are not in the business of producing nor are they in the business of consuming fuel. Rather, they're entering the marketplace because they see it as an investment opportunity. But they do have an impact on the price that buyers are willing to pay, and the end result is higher cost to consumers.

Consumers are also sometimes confused by the fact that fuel prices may go up when world crude prices are going down, or

vice-versa. This is due to the fact that the petroleum products - specifically heating fuel, gasoline and diesel - are separately traded commodities and subject to their own impacts, as well as to the cost of crude.

For example, a drop in the temperature in the large New England market increases demand for heating fuel, which may result in a reduction in inventories, thereby triggering demand and a spike in prices. That spike may occur even while crude prices are dropping. Crude is the base, and the price of crude is a major factor, but it is not the only factor.

The commission is well aware that the high cost of heating fuel is hurting many consumers and there are some who are of the opinion that the commission is not doing enough to lessen that impact. For your information, I'd like to take you through a review of the commission's pricing methodology.

The determining factor for fuel prices in this entire region, throughout eastern Canada, is what is called the New York Harbour Spot Market price taken from the New York Commodity Exchange. As you're aware, that exchange is not run by the petroleum industry, so the prices are independently set by the world market and very much influenced by supply and demand. While it may seem strange that an event half-way around the world impacts the Island consumer, the reality, it does. Because it impacts the market, and if it impacts the market, it sooner or later impacts consumers. The commission tracks that New York Harbour price daily. The price is then converted into Canadian dollars.

I might just say here that we also hear suggestions that the higher Canadian dollar should offset rising prices. While it is true that the higher Canadian dollar has been a benefit in terms of fuel prices, that benefit is somewhat offset by the lower value of the

US dollar driving prices upwards on the world markets, as well as the other significant increases in commodity prices.

The petroleum industry uses the New York price in setting what is called the Halifax Rack price, and that price is set daily, usually overnight. This price is a key factor for Island petroleum businesses because it is the base for pricing products sold into the Prince Edward Island market. The commission, it must be pointed out, does not control the Halifax Rack price. That is set in an unregulated market.

This graph shows the daily changes in both the New York Harbour price and the Halifax Rack price over a specific commission data-collecting period for pricing purposes. In particular, this one from November 29 to December 13 of 2007. The average change in the New York Harbour price over the commission pricing period determines what we refer to as the model indicated price adjustment for that pricing period. In other words, if the price went up an average of 2 cents over that period, that indicated price adjustment would be 2 cents. The commission utilizes this and other related data in then making a pricing determination on a go-forward basis.

One key that I would like you to note from this information is the daily changes in prices. While the price set by the commission is usually in effect for half the month, the market price actually changes every day. Of course, those selling fuel into the Island market are buying product on a daily basis so that daily Rack prices have an impact on their bottom line. There are days when Rack prices reduced costs to Island resellers and there are days when Rack prices increased costs to Island resellers. A significant change in the industry is the fact that prices have become more volatile and the daily changes can be significant.

It may also be helpful to you to have a brief

snapshot of the local supply market. Many of the people involved in the delivery of fuel to Island homes are, in reality, businesses that have to buy fuel in an unregulated marketplace and sell that fuel in a regulated marketplace. They are not big business as much as they are local companies with local employees operating on a regulated margin.

These operators, whom we refer to as resellers, live or die solely on the margin approved by the commission. They are presently dealing with margins that represent less than 17% of the total cost of home heating fuel. Rising prices do not automatically increase their margins because the commission controls those margins. Five years ago, for example, the local margin would have represented almost 34% of the total cost of home heating fuel.

It's also true that over that period costs of operation for them have increased. Wages, equipment, environmental requirements, credit card costs, insurance and other costs of doing business, have impacted those companies as much as any other, and it's somewhat ironic that rising prices for gasoline and diesel fuel result in higher operating costs for those who are using them in delivery vehicles.

There are seven companies licensed by the commission that we class as resellers and they are responsible for the delivery of about half the heating fuel consumed in our province. A second class of companies we refer to as corporate. These are companies that sell heating fuel directly through their own corporate offices rather than through a reseller and they usually have access to their own refinery. However, the focus of the industry has changed to the point where all aspects of operations, both refining and marketing, are expected to produce returns, and they consistently tell us that margins on Prince Edward Island are too low.

Specifically on the current public issue of

minimum deliveries, the commission considers that to be a business practice best determined by those who are directly in the business of supplying heating fuel to Island consumers. There are numerous factors which impact the decisions they make. The heating season follows a typical winter curve with maximum demand in January and February, minimum demand, obviously, in June, July and August. But the equipment required to serve the peak demand is actually maintained year round. Therefore, equipment is at maximum use this time of the year, with many companies operating on 12-hour shifts.

Weather conditions also impact schedules. They can slow deliveries and they can put added pressure on operators. Companies do try to promote automatic delivery so they can more effectively and efficiently plan routes and delivery schedules. These factors then make it more difficult to respond to demands for immediate services or immediate deliveries, especially if it is a small order. The average delivery, as I indicated, is about 500 litres, and out of the total cost paid by the consumer the local company will get somewhere between \$62 and \$76 for that delivery. Out of that cost they pay all their overheads.

Companies negotiate their own supply contracts with suppliers and there's often a delivery charge associated with the delivery of the fuel to Prince Edward Island. The local companies, the resellers, absorb that cost from their margin. They also have to cover the carrying charges for the fuel they supply to the consumer if the consumer pays over time or is slow or late in making their payment. If that delivery, for example, were 200 litres, the cost to the consumer, with taxes included, would drop to about \$188. The margin for the delivery company would, in turn, drop to between \$30 and \$32. The consistent information we receive from the industry - all companies involved in the business - is that a delivery of at least 500

litres is the most cost effective.

It would be unfair of me to suggest that the industry is not concerned about rising prices and the impact on their customers. In commission discussions with the industry we hear consistently about carrying charges rising from credit card accounts and the cancellation of automatic delivery by individuals who are hoping to save money by ordering their fuel based on whether they believe the commission-approved price is likely to go up or go down. All of this adds to the demands on the system.

But the companies do know their customers. They know their own operations and they are probably in the best position to address, on an individual basis, the delivery issues that may arise. The commission's experience in dealing with the companies is that they make every effort to accommodate their customers, and on those rare occasions when deliveries have been refused, the commission is satisfied there is a good reason. The number of specific complaints about delivery issues that the commission has received is surprisingly low, and it is our experience that most operators in the industry make an effort to deal fairly with their customers, especially those dealing with difficulties. While they have been signalled out for some criticism, I think they also deserve some praise for the efforts they are making to deal with an issue that is not of their making.

It would be great if I were able to sit here today and offer you a perfect solution to this situation that is caused by the record high prices of home heating fuel as a result of events around the world, but I don't have such a solution. If the Commission were to order a blanket policy on low volume orders, there would be a variety of administrative factors involved and the local operators would have to be compensated for the added costs involved.

In fact, I'm not sure that the solution is to be found in the business side of the equation. That may be a social issue that can only be addressed through other means. I would reiterate that one of the greatest concerns that we hear from consumers is not so much about delivery, but it's the overall high cost and the fact that it's risen so dramatically.

Thank you, and I would be pleased if we could answer any questions that you may have.

Chair: Okay. Thank you, gentlemen.

I guess we'll open up the floor and see if there's anybody who has any questions.

Mr. Murphy.

Mr. Murphy: I was just wondering. I know we regulate fuel prices here on Prince Edward Island. Would there be any benefit if the federal government was to regulate fuel prices, on a national level, right across the province? I know, like Venezuela, for instance, a big oil producing country, and the oil companies there have to satisfy the domestic market before they sell on the world market. I wonder if that's something that could possibly work here in Canada. It might be (Indistinct).

Maurice Rodgeron: Allison may be better answering that because he's had direct experience in the industry.

Allison MacEwen: I suppose, Pat, it does present an interesting concept. I suspect that it may get mired down in terms of the inter-provincial jurisdiction and the overlap of the federal - what abilities they have to control that. Not saying that if the political will was there that it couldn't be, but you are getting involved with a cross-jurisdictional challenge right off the bat.

The other issue that might come to fruition there is that if you get into a situation where

you're on a national basis - it's one thing where we have essentially a regional regulation of the industry. If you get into it on a national basis that could remove incentive for some of the players to be here. There's no requirement for them to stay here or to sell here, other than the natural motivation for a return on their investment. They can sell their product overseas or on the open market or perhaps in terms of more closer proximity, to the US very easily, and at perhaps higher profit margins than they can here.

While it may have it have some merit, I think it's probably not a quick solution to the problem and may present some interesting challenges in terms of motivating the industry to stay as entrenched in the Canadian economy as they are, and in terms of trying to get all the premiers and the federal government together on the issue.

Maurice Rodgeron: I just point out that over the last number of years, actually, Nova Scotia and New Brunswick, started off by Newfoundland, sort of adopted a similar model to ours and moved in. Nova Scotia opted not to regulate home heating fuel. I'm not sure if all of the complications associated with that - but there seems to be - usually when prices are high we get questions and enquiries from other jurisdictions about regulating prices, but in a lot of jurisdictions it doesn't appear to be something that there's enough political will, I guess, to move forward with.

Mr. Murphy: You said that Canada is an importer and exporter. Do we not have enough - and I don't know whether you can answer this or not - but do we not have enough energy to be self-sufficient here in Canada?

Maurice Rodgeron: I guess what I'm referring to is a lot of, for example, the oil from Alberta flows into the US market. On the east coast we tend to buy from other

jurisdictions. So you may get some from Hibernia but it may come in from Venezuela, in particular, and other jurisdictions. So you get to get flow in and out. I think I'm correct overall that we are actually a net exporter, but unfortunately that tends to be - well, maybe now with Newfoundland coming on - but it tends to be focussed in the western part of the country.

Chair: Anyone else?

Mr. M. Currie: Do all of the companies, the resellers and the corporates, do they offer automatic delivery and budget plans?

Allison MacEwen: Yeah, to our knowledge they do. They have some form of it, whether it's a local credit carrying or through their national offices.

Mr. M. Currie: Most of the resellers, they carry their own accounts, that's what the 17% margin is for? That's their own receivable.

Allison MacEwen: Yes, I'm sorry. Yes, yes. You're absolutely right. They would be their own local customers. That's right.

Mr. M. Currie: It's been my understanding that they are very flexible on budget plans. If you at least communicate with them and tell them your situation and what you can afford, they try to adjust to accommodate.

Allison MacEwen: It's certainly been our experience and, more particularly, my experience - because I handle those types of calls - that to the degree that we get complaints on this issue, it's surprisingly refreshing how the companies have attempted to deal with local customers.

I mean, I suppose it builds from the premise that none of them want to have bad public relations on the issue, but I think it goes a little further than that, too, in that none of them really want to turn down a fellow

Islander in terms of what is, for all intents and purposes, an essential commodity and a necessity.

So in situations that we have had complaints given to us, when we've taken the time to investigate them, we've found that there has been a lot of flexibility and a lot of accommodation on the part of local companies to deal with that customer. Usually where the wheels come off the rails is because of a credit issue or because of some extenuating circumstances that the relationship breaks down.

I had, a few years ago, a lady that called and had a very compassionate story, and I took her word for it and investigated the situation. She was being turned down by a company for a delivery. It turned out that she had already gone through six of the seven and had issued bad cheques and left bad debts behind and she was working on the final one, the seventh one in the selection. They were trying to make arrangements for her, albeit it on a C.O.D. basis and such.

Now, I don't mean to suggest that all are of that extreme, but to speak to your point, we have been pleasantly surprised by the degree of flexibility and accommodation that local companies have shown.

Mr. M. Currie: I think from talking to some people, even though some of them are probably not set up on budgets, but they do have - companies will take so much cash and, I guess, trust you on a cheque for the remaining balance. But I think most of them try to get them on budget plans so that then they're never in that need, late at night, out of oil, with cold weather. They want them to be looked after. I think that if most of them go in that most of the companies will be very flexible and even carry some of that forward to the summer period, when you're not consuming but you will pay. Because they don't to lose the account, certainly, and

they want to have a good relationship. But it is very expensive.

In your experience has there been anything - some of the other provinces are offering rebates. Have you guys been tracking that? For low income families.

Allison MacEwen: I don't want to speak authoritatively on the subject. We are aware of some programs. In Nova Scotia, for instance, there's a rebate on provincial sales tax. My understanding - and again I can't speak with a great degree of confidence here - but my understanding is there are income sensitive rebate programs that are being discussed or have been in place in Newfoundland and Nova Scotia. But I must confess I can't answer that exactly.

Mr. M. Currie: Is it just the provincial sales tax? We don't charge provincial sales tax here.

Allison MacEwen: No, we don't.

Mr. M. Currie: It's just the provincial sales tax that's being rebated.

Allison MacEwen: To my understanding, in Nova Scotia, that's the way it works, yes.

Mr. M. Currie: Wouldn't they get that back anyway with the HST over there?

Maurice Rodgeron: No. I think the situation for residents - this is for residential customers only - and I think it's only on one residence. What I believe the Government of Nova Scotia does is take the - it's 8%, I guess - the provincial share, and an amount equivalent to that they rebate back. But I'm not sure what the threshold is in terms of whether there's an income test associated with it.

Chair: Mr. Henderson.

Mr. Henderson: Yeah. Thanks, Madam

Chair.

I guess my question would be is there anything that could be done, maybe pertaining to the price as far a little more advance notice? Right now you give, what, four, five, six hours before when the price might be going up? Maybe even something during certain times of the year, like through the wintertime.

I think that's the big issue is that sticker shock. All of sudden the price jumps significantly and people don't have, necessarily, the time to prepare, so if they had maybe a week's notice that it might be going up then they can maybe try to come up with some money or prioritize their incomes to meet that need and get the heat.

Maurice Rodgeron: I guess my comment on that would be twofold. First, the industry would lobby us to provide no notice, and our sister jurisdictions adopted that policy. So Nova Scotia and New Brunswick don't announce, they just change.

The difficulty in the area of home heating fuel is that you get into a situation where then, as I explained, they have a plan for delivery. If the commission were, for example, to give two days' notice, then all of us might quickly call up our supplier and say: It's going up 3 cents a litre, I want a truckload, and I want it this afternoon. They physically can't respond to that and it causes them some difficulty. They will tell you that they do get comments from time to time from people who are even on automatic delivery that: Hey, I want fuel delivered today because I know it's going up 2 cents tomorrow.

That said, if you pay a little bit of attention to the market you get a pretty good indication of generally where prices would be going. It's not, if you'll forgive me, rocket science that the commission is utilizing. We're really looking at the

marketplace as it exists and, certainly, the New York Harbour price.

I don't, Allison, if there's anything you'd add to that.

Allison MacEwen: It's certainly something that we get a lot of calls on and, of course, the dilemma that you're in there is that you could put some of the - in the case of furnace oil distributors, and as much and perhaps even more so, more dramatically, in the case of service station operators - you could end up putting some of them at some considerable financial risk. Because, of course, if people had the chance to plan their purchases they would clean the guy out, knowing that the price is going up and that he, in turn, has to pay the next day the higher amount.

Alternatively, oil runs out and runs the risk of disaffecting his customers. Alternatively, if the price is higher, everybody will it and then he's stuck with the higher price fuel that he sells at a lower price.

I suspect it's for those reasons that our sister jurisdictions have decided not to give any notice at all.

The commission has historically tried to be, you know, somewhat sensitive to that by giving at least a few hours notice, which at least in the area of service station sales does give people a chance to protect themselves, somewhat. But the difficulty becomes in terms of, as Moe has indicated, scheduling. Furnace oil distributors just wouldn't be able to react to it because their loads are made up about 48 hours in advance in terms of scheduling. So if you and I inundated them with phone calls they'd just throw their hands up and say: Look, we can't, we just can't get to you.

So you'd run the risk of jeopardizing the automatic customers, people that are on budget plans and they're trying to plan this

thing out as best they can. You'd run the risk of while they're scurrying around trying to look after last minute calls, those people being at risk of not being delivered and it would - it's a very unmanageable situation to deal with, that's for sure.

Mr. Henderson: But it is, to a certain degree, one way or the other, somebody's going to - there's always an unmanageable situation no matter which way you go with it. I mean, it's unmanageable if you fill up an oil tank and they don't pay you either. There's a cost to somebody in that regard, too. So it's just a matter - would this be a way during certain times of the year they might be able to alleviate the problem? That's all I was suggesting, you know.

Allison MacEwen: Sure.

Chair: Ms. Dunsford's next.

Ms. Dunsford: Just a question about pricing, I guess, and the sense that obviously there's no feeling that there's a plateau taking place as far as the prices on a barrel of oil. But is there a sense that that might occur in a time frame that we can actually make plans for, as opposed to reacting? Is there a sense out there, from your research in the industry, that - I mean, it was only a couple of years ago that everybody said: Can you believe, imagine if it ever became \$100? What would we do? It'd be catastrophic. Well, here we are.

Do you have a sense of where that might stop?

Maurice Rodgeron: I guess my view would be it'll stop when something happens in terms of consumption. What's happening is that the world market continues to consume, consume, consume. The demand for gasoline continues to increase year over year, even in the US market.

People said that when prices got where they

are today that that would curb demand. If we had an economic downturn, then you might see prices drop, and drop dramatically and rather quickly. But I'd hazard - it'd be a real hazard to make a guess. Allison may have more insight because he watches the markets on a daily basis.

Ms. Dunsford: Yes, and it seems too that what you said is exactly what I was hoping you would say. Because I'm thinking the way we react to this isn't necessarily that we change the way we do things, even though there's a lot of talk about it. Some of us have wood stoves, some of us are trying to come up with alternative ways to heat our homes, but it just doesn't seem to be enough to make that difference.

There does seem to be activity, but what's it going to take for there to be a change enough that we can start to see the downward?

Maurice Rodgeron: I suppose if there's some silver lining in the process, if you go back to the 1970s, when there's a spike in prices it does encourage people to look at alternatives. Now we are talking -

Ms. Dunsford: That's true.

Maurice Rodgeron: - about things like solar and the deep-well heating and that type of thing.

Ms. Dunsford: Yes. Why did it take -

Maurice Rodgeron: Maybe that will come along and improve but it also seems that we're very married to petroleum products. We use them in a whole variety of types of equipment. We use them to heat our homes, drive our vehicles, and a lot of our recreational vehicles are major consumers as well. So I'm not sure that as long as we keep demanding there's going to be any signal that will drop that price.

Ms. Dunsford: I can't think of any more clearer message to the consumer than that, as far as making changes in the way we consume and how much. Yes.

Maurice Rodgeron: Did you want to add something, Allison?

Allison MacEwen: We have been here before, I suppose, as Moe has indicated, back in the 1980s when we went through the

-

Ms. Dunsford: That's right.

Allison MacEwen: - world embargoes of oil and such. Prices went through the roof then, and I suppose if you adjust for inflation you'd come close to where we are now. Indeed a lot of us, if we can reflect back on that, made changes and such. I know I invested in a wood stove. Near burnt the house down. I still can feel what the eight-foot log felt like when it crushed my hand there when I was cutting wood. But we did, we made conscious and significant changes in our lifestyle in order to accommodate that. The auto companies made cars smaller in 1978-1979.

Ms. Dunsford: Here we are again.

Allison MacEwen: Well, yes, exactly.

Ms. Dunsford: So we've got better technology with wood and we've got hybrid and electric cars.

Allison MacEwen: That's right. To a degree, because of that global - shouldn't say global - particularly North American consumer reaction, there was an impact on demand, and correspondingly oil, and also because of some other events too in terms of some political solutions there. But to a degree prices did come down, and the urgency or the sense of panic went away, and here we are, as you've indicated, back again.

Now the only thing is the world is a little more complicated now, unfortunately, and things such as geopolitical events, the dramatic and exponential rise in global demand - primarily in areas such as China and India where an awful lot of goods are now produced and are reflective of indeed the exportation of our manufacturing capacity to these countries and such - the insatiable, essentially, appetite that they have for fuel has created this current tight supply scenario which underlines the reason for the prices.

Then you throw into the situation various geopolitical issues, whether it be Nigeria or Iraq or Iran. These areas - or at times, even in Venezuela - in key supply points when political situations get upset that creates a tension in the marketplace as well. Now we were affected two or three years ago with the hurricanes in the Gulf of Mexico and such, and that created significant issues of capacity limitations and such. Then throw on top of that the falling value of the US dollar as it relates to other international currencies.

The demand situation will, indeed, address the problem but it's just going to be a more complicated wind down this time around, I think, because of some issues that are totally beyond our control.

Maurice Rodgerson: I think that there's some speculation that one of the reasons we don't see a huge rush to invest in some infrastructure such as refineries, which are atrociously expensive, is that the industry itself isn't certain how long this period of higher prices may last and they may invest huge quantities of money and, as a result, lose if the price drops. So there just seems to be a very high degree of uncertainty as to where it's going and when it will get there.

I've spoken to analysts who told me that oil would never hit \$100 a barrel and I've spoken to ones who said it was guaranteed

to hit \$100 a barrel. Some said it would drop back to 40. As soon as it hit 60 it would drop almost immediately to 40. Obviously, nobody's quite sure.

But I think, going back to your original point, the consumers are ultimately in the driving seat, and I don't just mean here on Prince Edward Island, but generally around the world. Because as long there's a continued demand and continued consumption at higher prices, I'm not sure that there'll be a lot of relief.

Chair: Okay. Mr. Currie, you're up next.

Mr. M. Currie: I believe that in your comments, Allison, you mentioned that the inventories, I think, in one way is a factor. Because there's been no more refineries built in North America for 15 years and the inventories that we used to have, the tanks have been reduced, and so now our inventories are even travelling on a ship or travelling on rubber to the customer. Anything that will break that chain sends a factor into the price of oil.

Now, it's my understanding that there's \$20 a barrel factored in for these geopolitical upheavals and disruptions. Is that your understanding?

Allison MacEwen: Well, there is what we call a risk premium, and it's not a term that we came up with. It's a term that industry -

Mr. M. Currie: National.

Allison MacEwen: - and global markets have come up with. But it does reflect the fact that there is the risk at any point in time that there could be violence in Nigeria which could shut down the production of crude there, that there could be an interruption in the Strait of Hormuz and shipments from Iran, which produces four million barrels a day, could be taken off the market overnight.

You're absolutely right, the inventory situation is such that it's not just in time, but in many respects it's certainly more streamlined and efficient than what it was, partly because the carrying value of the inventories are so high that it would be detrimental to carry too much unless you're in the speculative business.

Where the risk factor is exaggerated or taken advantage of more than any, Mike, is in terms of the speculative activity in the marketplace. There is a lot of activity on New York Harbour that's purely speculative in nature alone. It has nothing to do with the industrial supply, if you will. It's just as various currencies have lost value, hedge fund managers and speculators have deemed that a means of topping up their investment portfolios is to invest in commodities - those commodities, whether they be copper or gold, or oil in this case, too. So they quite often buy large blocks of crude oil futures in the hopes that it'll go higher so they can sell and make a profit. When they study and become aware that there's a geopolitical tension, that factors into their analysis of: Yeah, we could probably sell this at a higher rate going down the road.

So that has, in itself, added - and I don't know, it changes. I read it every day, but at one time it was five dollars, I've heard it as high as \$20. There's no known formula that will calculate that exact number, but there is a relatively significant factor or element of the world trading price of oil that relates to what is essentially a risk factor.

Mr. M. Currie: Does Montreal rack and Halifax Rack prices, are they reflected by the FIFO system, first in, first out?

Allison MacEwen: Yes.

Mr. M. Currie: That's how they do that.

Allison MacEwen: It's essentially all that way now or actually last in, first out. They

operate off the top of the tanks now, essentially, in terms of inventory management, if you will.

The rack prices though, Mike, would probably, as is New York Harbour prices, are more influenced now by supply and demand and what the market will bear as opposed to a factoring in of: What is our exact cost of inventory and what can we get out? The fact that oil touched and slightly exceeded \$100 back on January 2 but is now - well, last night it was slightly below 90 for a little while, it's back up over 90 today - is purely because of what the market has done.

The industry, to a large part, are no longer price setters. They take the price that the market will give them. There's times that they can make money - and I speak of the refining side of it, if you will, more so than what we're dealing with here locally on PEI - there are times that they can take advantage of that, and there's times that they take quite a beating on it, depending on the price that they buy crude at the wellhead and the time that they refine it and then they get it back on the market, which typically is maybe a 60- or 90-day delay, depending on where it's sourced.

Mr. M. Currie: Thank you.

Chair: Mr. Murphy.

Mr. Murphy: Just from being in the gas business, gas retailer, I notice that there's quite a few now, retailers, getting rid of their supreme gas and selling furnace oils at the pump. Is that a big trend or is that something that's happening right across the province?

Allison MacEwen: We've had - I can be specific - we've had three requests for that type for that type of service. You're quite right, Pat. I'll address the first issue. Premium gas does not sell as much as it used to. It relates to certain people that have to have it and for certain types of engines,

but for the most part the majority of fuel sold would be regular unleaded, primarily because it's the cheapest, if you will, and it seems to fit most cars.

We have had some requests to convert tanks over to furnace oil and the commission has approved each and every one of those requests. They typically are in situations where the retailer has the facilities already available. The one in Wellington, the gentleman had an extra tank. The one in Summerside, the gentleman wanted to switch out of premium gasoline because his turnover just wasn't there to make it as economically viable as he'd like to have it. So he, for his own reasons, wanted to switch into furnace oil. We've had one other dealer ask it and was approved, but he's decided against it for economic reasons and such.

So the option is there. It becomes an issue of viability, I think, on the part of the retailers. Typically, if they're small purchases, the margin would be lower. They may have to carry that inventory for some period of time, given that it's small (Indistinct).

Mr. Murphy: Is there much of a demand for it, though? Like, are people buying their furnace oil that way or is it just (Indistinct)?

Allison MacEwen: I can only answer that anecdotally, I guess, just from comments I get from the retailers. They said that there has been an increase in the frequency of people coming to get five-gallon quantities of furnace oil. Anecdotally, again, my understanding is that some of this is related to the purchase price. They can only afford to get so much, or maybe they might want to buy just enough to get them over until they can afford to get an amount from their oil company, if you will.

There may also be - and perhaps the gentleman who'll be in a little later today might be able to answer this a little better - there may also be some cases where people

are getting around the environmental regulations by purchasing it at the service station as opposed to the industry. Because they're under mandate, by virtue of the Department of Environment, not to sell to unapproved tanks, if you will.

Mr. Murphy: Go ahead. I'm done.

Chair: Okay. Mr. Gallant.

Mr. Gallant: Is that a regulated price on that furnace oil as well? Is it regulated the same as the price of diesel?

Allison MacEwen: It's regulated in that you can't exceed the maximum. So we regulate the maximum amount in that situation. Typically, because of the low margins, that's where the dealers would go with it.

Now the alternative, Sonny, of course as you know, is diesel, right? Which would be more expensive. So it is an economic benefit for people to go and purchase the furnace oil as opposed to diesel, which are essentially interchangeable in that capacity.

Chair: Mr. Murphy.

Mr. Murphy: I just want to bring up another point. It probably (Indistinct) doesn't have a whole to do with you guys, but Sonny brought it up at an earlier meeting today. That was a letter to the editor in the *Journal Pioneer* and it was more or less a suggestion to the oil companies that, something like Waste Watch, where they have a schedule where they're going to be in a certain area on a certain date, and then people that wanted to get less than the minimum allowable, well, the truck is already there, it's already in that neighbourhood, and if they want to get a hundred bucks worth of oil then maybe it would be feasible for the oil company to deliver that since they're already in the neighbourhood.

Maurice Rodgerson: I think a lot, in essence, do that on a company basis now. What they will say is: I'm sorry, we can't deliver \$100 worth of fuel today, but if it's okay, we'll be in your area on Monday, and we'd deliver it at that time.

So I think that's one of the tools that's being used by the individual companies as opposed to them altogether. I'm not sure whether it's viable in terms of advertising: This company is going to be in this area that particular day. Allison may want to comment further.

Allison MacEwen: Like you said, that is the issue in terms of - it works well if there was just one company, if it was a monopoly. Where you had various market entrants, I'm not quite sure, practically speaking, how you'd implement it in the marketplace as such.

But Moe is quite correct that the companies, that's quite often a mechanism they will use themselves to help people: Look, if you can wait - if this is Monday when you call in - if you can wait till Wednesday when we're in Hunter River, we can probably look after you at that point. So I think it is already being used to a degree.

Mr. Murphy: Thank you.

Chair: Any other questions?

Mr. M. Currie: Just one thing. Could we have a copy of that?

Maurice Rodgerson: Yes. There's a copy provided.

Mr. M. Currie: Thank you.

Chair: No more questions from the floor?

I just have one. It's really a question of plain language, I guess, for people who are interested in the topic. There's many times

you hear people say that as soon as the heating oil, or oil, goes up, it's reflected in the consumer's price immediately. But sometimes when the cost of oil goes down it takes a while before it kind of resonates to dropping the price for consumers.

Can either one of you gentlemen explain that for people?

Maurice Rodgerson: Allison can.

Allison MacEwen: The two don't necessarily track together, although over the course of time you would see a correlation between the rising cost of crude and the rising price of the refined products.

But you have various circumstances that might cause them to go in different directions. Obviously, at this point in time, when there's a greater demand for furnace oil and supply at times is limited, the price would be higher because there's more demand, more need for it, whereas we see crude falling. So that would be a disconnect.

Beyond that, you could also get other circumstances or situations that are totally unexplainable, if you will. Back last spring for a while there, actually early summer, we had a situation where furnace oil was starting to rise in price. Now that defied all logic because it should fall in - now, when I say the furnace oil price, the New York Harbour Spot Market price, which is international or the area that we look at to determine the going market price, if you will - it was going up while demand typically would indicate that it should go down.

It turned out that there was - because of environmental regulations introduced in the US and in Canada as well, whereby we made a lower sulphur product, a lower sulphur furnace oil and diesel, loads of old furnace oil was being bought up, or furnace oil, in general, if you will. Because those regulations at that time didn't apply to

furnace oil.

I apologize if I'm making this sound confusing, but the regulations came into play on highway diesel before they came in on furnace oil. Furnace oil went up in value. It turned out that a number of South American countries were buying up furnace oil to use to facilitate and satisfy their domestic transportation needs and such. In other words, they were using furnace oil as diesel in those countries. It created an artificial demand which didn't seem to make a lot of sense.

That may be a poor example, but the point being, supply and demand of the particular product is sometimes season related or circumstantial related as opposed to crude. In general, the two should track together over a long period of time, but you can see a difference.

We often see that in gasoline, too, where people will be calling up saying: Why didn't you lower the price of gasoline because crude dropped? But it may be that it's a summer weekend, or not necessarily a weekend, but a summer period when demand is high on gasoline and the supply of refined gasoline may be less than the supply of actual crude at that point in time.

Maurice Rodgeron: The US Department of Energy produces a weekly report which looks at the inventory levels and it does have a market impact. So the price of crude may be going down but the inventories, for example, on home heating fuel may be classed as being low, or gasoline. That will have a market impact, as well. So there's often a number of factors that offset.

It's interesting. People tend to - I've had situations where people would say: You always put the price on an unscheduled adjustment. You've never put it down. In fact, we've put it down more than we've put it up but people don't always notice when

it's going down as much as when it's going in the other direction.

Chair: Any other questions, comments?

Mr. Gallant: I have one question. May not be a very good question, but with the rising dollar, if our dollar wasn't where it was sitting, what could you see, what would our gas prices be at present? Any idea?

Allison MacEwen: Approximately 3.5 to 4 cents a litre.

Mr. Gallant: Pardon me?

Allison MacEwen: Approximately 3.5 to 4 cents a litre.

Mr. Gallant: Higher?

Maurice Rodgeron: Higher.

Ms. Biggar: I just have a little question there around biofuels. What kind of an impact do you think, you know, down the road?

Maurice Rodgeron: A lot is going to depend on the ability of the system to integrate them into the existing infrastructure and those types of things. You know, the ultra-low sulphur diesel has had an impact in that it's forced people to segregate product more than they did in the past because they can't use the same equipment for a couple of different things.

But there's debate over what the price implications will - it's certainly being used in some areas. It's being mandated in some areas of the US. There are a variety of initiatives underway in the US in terms of various blends and requirements that are being implemented into the system. It has the potential to have impact but I'm not sure how much.

Allison MacEwen: Well, for sure, it has a

variety of motivations associated with it, too. Some of it is to get our dependence on offshore oil, or to reduce that, at least. There's also because it stimulates the farming community as well, which is a legitimate need in its own right. The economics of it yet totally aren't proven and the impact it will have on the marketplace, at this point in time, is somewhat unknown. But it is an initiative that's being looked at and may have some hope.

Chair: Are you done?

Gentlemen, thank you very much for taking the time to come in and present to us. You've been most helpful and informative. We thank you.

Maurice Rodgerson: Thank you.

[There was a short recess]

Chair: Okay, is everybody ready to get started again?

We have our next presenter here with us, Danny McInnis from Environmental Protection. We'd like to say welcome to Danny, and the floor is yours. I ask people to listen to Mr. McInnis' presentation. At his completion we'll open the floor for any questions or comments for Mr. McInnis.

Danny McInnis Field Supervisor: Thank you.

What I'd like to say, I'm assuming that you want an update on the program. I'm free to be quite open with this. So what we're in the middle of is the home heat tank program. The Department of Environment has had an issue with home heating oil tanks for quite a few years, basically because of the number of spills and the damage it was causing to the environment, and also the cost to homeowners. We initially started in the late 1990s on an educational program. We had some successes with the educational

program and what we found in the end of this educational program was we weren't getting all the work done that we needed to get done.

I'll give you an example. In 1999, we talked about the issues in regards to, like, old tanks and the tanks rust from the inside out and please change your tanks before they leak. So we had quite a bit of success with that. We were doing these random surveys across the Island to try to see how this was working. In 2000, when we came back we found: Wow, we got a lot of tanks between one and five years. We're starting to get the message out. But we were finding that the percentage of tanks poorly installed was going up. So they were changing tanks but poorly installing them.

So that was where we said - and then we had the winter of 2001 where we had a lot of snow, even more than this winter, and the next thing there was all kinds of spills and a lot of damage. A lot of this was attributed to the quality of the installation and this is where the regulations were brought in in 2001. What we ended up doing is that we first of all had licensed contractors. We set out the minimum standards that was largely focused around fire code requirements. Then we gave them a phased-in period to get this work all done. The deadline for this was September 2007. In between the start of the program and 2007 we advertised the deadline coming, and what we ended up having at the end of this is that we had a lot of people that still didn't have their tanks tagged.

So I guess that's where we got into the December issue is that we were into - winter set in early. People started to realize: This September deadline is a deadline, they're not going to change it. The next thing the phone calls were going into the contractors to get their tanks inspected, but there were waiting lists. Then: What were we going to do if they run out of oil because we're after

the September deadline? Because the regulations stated that an oil supplier could not deliver to an untagged tank after September 1st, 2007.

So the regulations go like this: The contractor, a home heat contractor, inspects the tank. If he finds the tank is in compliance with the regulation, he fixes a brass medal tag on the vent pipe. If after September 1st, 2007 there's no metal tag there, there's an issue of delivery. So what ended up, we put an amendment through on December 22nd, where we were allowing the delivery to untagged systems provided the oil supplier looked the system over and said it didn't cause an immediate hazard.

Then what the oil supplier has to do is that the driver has to go back to his company, let his company know: I was at such-and-such an address, I looked the tank over, it looked like a good tank, I put oil in it. Then the company has to let us know that they made this delivery.

Our response to that was that we had to let all companies know that on December 27th company A made a delivery to Danny McInnis. The next thing, so then we said: Here's the deadline: 120 days from December 27th on. After the 120 days, no more oil.

So that's what the present situation is, and I hope that kind of maybe intrigues some questions, or if I've explained it well enough or not.

Chair: Okay, Paul Biggar and Mike Currie, I see their hands up. Anybody?

Ms. Biggar: I have a question, I guess, which results from a call that I got from a person who had somebody in to check out their tank, do renovations, and based on the date of the tank it had to be so high off the ground, the legs. But they were told that they were using different regulation dates.

So therefore they were told they had to take the whole thing out.

I guess what I'm asking you is what relationship do we, or what guidelines do the private, the people that are doing the changes to the tanks, how can we - or what regulations are they bound under to ensure that they're not doing, I guess, extra work that the person doesn't need done on their tanks to get it up to code?

Danny McInnis Field Supervisor: First of all, we always have an open door policy. If anybody questions or wants to question what certain contractors are asking or saying that it is a requirement, they can certainly feel free to call. If you want to pass that on, I'll -

Ms. Biggar: I was able to correct it, but I guess it is concern that that was what was told the person when it was actually contrary to the regulations.

Danny McInnis Field Supervisor: Yeah, and there is - it is somewhat confusing. I've got to say that because, I mean, what we do is, first of all, we set the minimum standards. But what also is out there are insurance companies and some policy holders for homeowners' insurance, they have other criteria. For instance, we'll say a tank is good for 15 years. They'll say: Uh-uh, it's only going to be good for 10 years, if you're going to continue to have insurance with us. So that's out there. There's others like people that are setting rules, I guess I can say it that way, that kind of confuses this thing.

The regulations too, that we have, we have to abide by other regulations and codes that are constantly being changed. Like, the fire code went through a revision in 2000. It went through another revision in 2005. Every time this revision takes place, what we have to accommodate is those changes so that we have to say is that, that 2002 tank

has to meet the code of the day. So if CSA B139 - which is the fire code requirement -, if they say this tank has to be like this in 2002, that 2006 tank could have a different set of rules because the fire codes were changed.

Chair: Mike Currie.

Mr. M. Currie: The amendments, Danny, you made to the regulations in December and you asked for 120 days, was that in communication with the contractors to indicate that the list that's built up will be achievable by then?

Danny McInnis Field Supervisor: We had consultation with the oil suppliers. We presented this draft to them. What we looked at, Mike, is we looked at this 120 days, looking at the fact - number one is that we looked at, we're getting into April. That way there, you can get that delivery in April. That will kind of give you oil until the construction season, until it get you into the summer months. So that all of a sudden, now we're starting to get into something where you've got almost a year to get this done.

Mr. M. Currie: That's the reason I asked, because the 120 days is taking us to April and there's still frost in the ground. So if you're going to replace an outside tank, most of them want it done on ground that doesn't have frost in it so you can put new pads in or dig out the old one and put in gravel and then set the tank up on something that you know is not going to move.

So that's why I asked about the 120 days, it should have been maybe until the end of June or something. Contractors or owners would have a legitimate chance to install a tank properly instead of just throwing it on top of the ground that you couldn't scrape it with a sharp pointed shovel or something.

Danny McInnis Field Supervisor: Yeah,

and I guess the other thing too, that I may not have mentioned is like we will be contacting these homeowners. Like right now, excuse me -

Mr. M. Currie: How many's left, Danny? A couple of thousand?

Danny McInnis Field Supervisor: I don't think there's that many. Okay, what we have is that we have six different oil companies that have made 38 deliveries under this provision of 128 days. Now what we have, right now we have 45,000 inspection reports in our office. We have another 5,500 tags that are out with contractors. Statistically, we kind of look at this is that between 30 and 40% of those are normally already on a system. We just haven't got the paperwork back in. We figure we've got between 46,000 and 47,000 tanks tagged right now. We're cornering this thing.

Ms. Biggar: So you're saying there's only 38 that -

Danny McInnis Field Supervisor: Thirty-eight people have gotten delivery on its 120-day extension.

Chair: Okay, Cynthia Dunsford, you're next.

Ms. Dunsford: This incongruent kind of figure with the insurance company seems to be an issue in making things not very clear and inconsistent to people. Is there any kind of - like, where does the insurance company get their information to base their policies on insurance for this if not from governmental agencies? Where do they get their information and why is it not congruent with the province?

Danny McInnis Field Supervisor: I've been around this for - we started this issue back in 1993. We went to the Insurance Bureau of Canada and tried to work through them and say: Why don't we work together

here? What we ended up finding with the Insurance Bureau of Canada is all they ever do is that they put out recommendations. There's nothing standardized. Okay? Like, they put in recommendations of what should be in the policy.

Insurance companies are all over the map and there's nothing that says that - we had one company that wouldn't allow - like, most tanks are vertical. There's the odd insulation where you can buy tanks that are horizontal, that lay on their side. This one person, it was under a stairwell. That's how the tank was, that's how the tank was replaced, but he couldn't get insurance because they don't insure horizontal tanks. I'm using that as an example - they're all over the map.

Ms. Dunsford: But yet you are saying that, that's okay, that that would be okay to do as far as (Indistinct).

Danny McInnis Field Supervisor: As a regulator, what we do is that we set the minimum requirements and everybody has to meet the minimum requirements. If somebody wants to say that, like, our 15 years isn't good enough, we want to go to 12 years, we can't stop them from doing that.

Ms. Dunsford: Okay.

Chair: Jim, and then Sonny.

Mr. Bagnall: I guess, Danny, when we were talking here last week, one of the concerns that came up - and I think it was maybe Alan MacIsaac that was sitting in on the committee meeting - had mentioned about the cost of installing the new oil tanks now that the government had stepped in and put in the regulations and the area of what had to be done to make a tank safe.

What he was saying, and his experience, was that the cost had skyrocketed to - now

it's about \$1,200 or \$1,300 to replace an oil tank where before this was ever brought in the costs were much less. Have you heard much from the public saying that since you've got in these regulations that hardware companies have used this as a haven to make exorbitant profits on the tanks?

Danny McInnis Field Supervisor: Okay, yeah, first of all, I haven't heard so much about wholesalers. I've heard complaints about contractors and the costs. This is a free market, and one of the things that we kept telling everybody every chance we ever had is: Please get your tank inspected before this deadline reaches. Because you know that if there's a tremendous stress on the market, and there's not enough hunger out there for business, you're going to pay top dollars when it comes down near this deadline. So that's the reality of buying a snow blower now and buying a snow blower in August.

So one of the things - and there's some other factors, too, that have yet - okay. What I had done is I had checked with three contractors. We had the price in 2001 for a 14-gauge tank and we said: What's the cost? So they're cost in the 2001 estimate that we had was that for the tank and labour it was between \$635 and 660. That cost today is 870 and \$920. The biggest change is in the price of the tanks. The cost of steel has gone up. The wholesale price for that 14-gauge tank in 2001 was \$185. It's now \$370.

So the cost of the system has gone up. Also, too, is double the cost for copper. The price of copper went a way up. But we looked at this thing in regards to their labour cost between now and 2008. Their labour costs were running between 450, 475. It's now running between 500 and 550. They're making about \$50 to \$75 more.

Chair: Okay, Pat Murphy.

Mr. Murphy: I was just wondering, the earlier presenter, I was asking questions about furnace oil being available at service stations. I notice here it's to protect the environment and that, but there's going to be a certain percentage of people that are not going to get their tanks done and not going to get them tagged, but they're still going to be able to continue to buy diesel fuel and put in the tank or go to the service station and buy furnace oil and put in their tank. What's going to be done to deal with this issue? I know like you have to -

Danny McInnis Field Supervisor: It's a challenge.

Mr. Murphy: I know like you have the delivery - you can stop deliveries from the oil trucks, but -

Danny McInnis Field Supervisor: Basically, that is a real challenge for us and what we have in the system is like these regulations are self regulated. I mean, we have licensed contractors and we have contractors putting tags on tanks and that's how this is working. Then we also say to the oil suppliers: You can't deliver unless you see a tag on the tank. There's nothing in this system that's going to pick up the person that is going to the local service station to buy the furnace oil.

The same way we know that we've heard rumours that - maybe IRAC could have answered it more - but there was a huge jump in sales in August where furnace oil was bought. A lot of people that use oil for their supplementary heat, it could be a couple of years before they're looking for oil again. Some people mainly burn wood, but there's still a full tank of oil in an old tank system that can cause the same damage.

Mr. Murphy: Thank you.

Chair: Rob Henderson.

Mr. Henderson: (Indistinct) segue, and I was just wondering how spills, how much they've declined in the last while. Do you have any kind of numbers on the amount of spills recently? The other question, I guess I'd ask, too, while I'm at it, is: Many indications of tags being stolen off existing homeowner's tanks and then put on somebody else? Or is there any policing of that?

Danny McInnis Field Supervisor: Yes. We actually had people come home and the vent pipe was gone too. So they didn't even take time to take the brass tag off. They took the vent pipe and all.

Yes, we do. What we end up doing is we get reports where the tag is stolen. I think probably I can - the number that I heard recently here in the last six months is that we've had 12 tags stolen, okay? What happens is that serial - like, each one of these tags are sequentially numbered. The suppliers are notified that if they come across this number it's invalid, and let us know.

Now, what was the second question?

Mr. Henderson: Spills, what's the number fined. That was the first question.

Danny McInnis Field Supervisor: Okay, yeah, to answer your question, thank you, yes.

We've seen quite a reduction in the number of spills. I guess what I'm looking for here is 2001 was a year that we kind of looked at and said: Oh boy, this is really bad. So in 2001 we had 217 spills and they were significant spills, yeah. In 2006 we had 88, and 33 of them were less than 55. So what we're looking at here is probably - we're looking at like 50, 55 spills that are significant in 2006. So yes, we're seeing quite a reduction in spills.

Ms. Biggar: Any data for this year (Indistinct)?

Danny McInnis Field Supervisor: Not yet, no.

Mr. Henderson: I know it happened up in a church up in my riding awhile back there where somebody went and stole some fuel and let the rest of it drain out onto the ground and stuff. It was quite costly for the church itself to come up with the expenses and that. Is there anything that we can do there as far as - is it always the landowner's responsibility even though it's a theft?

Danny McInnis Field Supervisor: Unfortunately, yes. We've had two in the last week. These were houses that were vacant but still the heat was left on. They broke into the houses and stole the oil and weren't very tidy when they were leaving.

Mr. Henderson: So is that something that we should be trying to get that message out to - not to steal it obviously, but to protect your - like, sort of a steal-proof facilities or whatever. Put your oil tanks in basements.

An Hon. Member: (Indistinct).

Mr. Henderson: Well, my riding.

Danny McInnis Field Supervisor: Yeah, and your point is well taken. I think what we need, we could, yes, do more advertising of trying to - especially for people that aren't there all the time.

Mr. Henderson: Should be a factor, I think, when they're installing a new system, that -

Danny McInnis Field Supervisor: Yeah, that's right.

Mr. Henderson: - because as the commodity becomes more and more valuable, it becomes more of a - other people want to take advantage of it.

Ms. Dunsford: (Indistinct) glue to those parts of the tank that when people handle it that shouldn't be -

Chair: Okay, Mike Currie.

Mr. M. Currie: I don't think what some people realize when you're changing a tank in a basement, you have to dismantle all the pipes, if there are pipes. You have to transfer the remaining oil out into other containers or barrels. People that come, contractors, they usually come - there's more than one person and you have to bring a tank down into a house and take an oil tank up with still a little bit amount of oil in it. You got to put new legs on it and most of the new legs now that come don't fit the pads that were there before. So there's all kinds of things that add to the cost that homeowners don't understand.

Then the new line that's required by insurance, via the old copper line, and if the new tank is lower, it doesn't fit, you have to go back to the shop and you have to cut new pipe and thread it and run it out through the same holes so it meets the insurance standards. All those things add up. That's how some of these installations can be very expensive and people think that they're being - they thought they were just getting a tank replaced and it's X amount of dollars. It might be \$400 more. All of those things factor into it, I guess, and if they don't communicate with each other, they'll agree to have a disagreement over the price.

Danny McInnis Field Supervisor: Yes, that's correct.

Chair: Okay, Sonny, you're next.

Mr. Gallant: In light of what Mr. Currie said, so what you're saying, you set the minimum standards, so a 14-gauge tank is a minimum standard?

Danny McInnis Field Supervisor: Yes.

Mr. Gallant: So if I'm installing 20-gauge tanks, and Paula's installing 14-gauge tanks, my price is naturally going to be more expensive, right? The tank is more expensive to buy. So there's no regulation there -

Danny McInnis Field Supervisor: No, that's right.

Mr. Gallant: - in installations.

Danny McInnis Field Supervisor: That's right. What the regulations come back is that they do reflect the quality of the tank. Each one of these tanks are installed and then they're tagged and then there's an expiry date that's put on that tag. So that, like the 14-gauge tank, like if the tank was installed in 2000, we're only allowing that tank to be used under regulations to 2015, if it was a 14-gauge. If Paula put in a 20-gauge then you're allowed 20 years and it was put in, in the year 2000, it's good to 2020 before they have to change it again under our regulations.

Mr. M. Currie: Isn't the higher the gauge thinner -

Mr. Henderson: Yeah, I think it's the lower gauge -

Mr. M. Currie: - the lower the gauge -

Danny McInnis Field Supervisor: I'm sorry, I'm sorry, you're right. Yeah, I'm sorry. Thank you.

Mr. Gallant: The next question is, Mr. Currie made mention about basements, a clay basement. Is there any regulations like right now, if someone's tank is sitting on two pads and the rest is all clay, is that the way they're allowed to install it?

Danny McInnis Field Supervisor: They are, yes.

Mr. Gallant: They wouldn't have to put a tray underneath the tank?

Danny McInnis Field Supervisor: No, no.

Mr. Gallant: Do you not think that it might have been one step further to take the regulation? Everybody goes to their basement at least once a week or they'd smell it through the floor if it leaked. It would just save them a considerable amount of expense. The fire marshal was on television not that long ago stating these tanks and I know a couple of suppliers that are supplying them, like, people that are doing the oil tanks. Wouldn't that be a conservation measure to protect?

Danny McInnis Field Supervisor: I agree, okay, and what we do is we recommend. But what we have to be very careful about is how we set the minimum standards in that we don't give out a false sense of security, number one. So that what we see - like, we allow and we have exceptions, like for instance, non-corrosive tanks. Now they're on the market as double-bottom metal tanks. Those tanks, you never have to - there's no expiry on those tanks. We realize that they're a good product. So that all of a sudden now, as far as corrosion and losing product in the basement, these are the best thing that's out there right now on the market and we recognize that.

The tray is something we'd recommend but we'd never regulate because the fact is that it only holds a small proportion of what the tanks hold. We've seen some very significant spills happen right after a delivery. I'm one of those people that's on automatic fill up. My wife and I both work. The only thing I ever know when I get oil is that the slip's in the door, and that can be two hours, it can be eight hours, after they were there. When you're pumping in - Mike, you'd know this - what, at 330 litres a minute, is that what's out of them trucks? I think it is. That number comes to mind.

Mr. M. Currie: A fridge magnet and a vacuum cleaner will stop an oil tank leak.

Danny McInnis Field Supervisor: Yeah, but I guess what I'm trying to say is that - a fridge magnet.

Mr. M. Currie: You stick the fridge magnet on and put the vacuum cleaner on the drum. It brings down pressure.

Danny McInnis Field Supervisor: But I guess what I'm trying to say is that people that are like me that would be on automatic delivery, the next thing I get oil - they're pumping it at a high rate. What happens is that in a delivery - that's when most corrosion problems start is right after delivery, because all of a sudden, it's like a rush of fluid into this tank. It's stirring everything up. If there's a small penetration ready to let go, it's going to happen right then. I've got an inside tank and he walks away. I get home six to eight hours later - I've got a problem. That tray -

Mr. Gallant: But you're talking your old tank.

Danny McInnis Field Supervisor: I'm talking my old tank.

Mr. Gallant: An old tank, that could rust.

Mr. M. Currie: That could happen to a new tank too.

Mr. Gallant: Okay, if you install a new tank, well, why aren't there regulations that you or the guy that installed it is there on your first delivery? That's not that hard to coordinate.

Danny McInnis Field Supervisor: Yes, but I guess what - yes, and that's there.

Mr. Gallant: That's not very hard to coordinate.

Danny McInnis Field Supervisor: Yes, that's at first delivery, but I'm talking, like, the 2002 tank, the 2003 tank, those tanks can let go too, and the tray will not hold all the contents.

Mr. Gallant: True, but the tray is only a precautionary measure after you install a new tank. Your filter could leak after everything's installed. Like Mr. Currie said, you'd have to replace the lines. You got to replace the filter. If that was to leak on a clay basement, then where - you have to dig all the basement out.

Mr. M. Currie: Most trays will catch it.

Mr. Gallant: You can't, we can't tell people they have to cement their basement when they install a new tank.

Danny McInnis Field Supervisor: No.

Mr. Gallant: But if you bought a tray it would prevent a lot of grief down the road. Do you know what I'm saying? I know when I had my tank installed, my people that installed it were there when I got my first delivery.

Danny McInnis Field Supervisor: Yeah.

Mr. Gallant: I called to ask when they were coming and I was told and they were there. Because I, like you, was not home and neither was my wife.

Danny McInnis Field Supervisor: Yeah. I guess, I don't want to be argumentative in this, but what we look at is that if we're going to require something it's got to do the job. Like we see, like, there's tanks out there that, like, I want to give you an example. Secondary containment ain't worth nothing if you don't have proper leak detection systems that are going to tell you you got a problem before something gets out in the environment.

So what I just said is, like, we had a significant spill last winter in West Prince from an underground tank, state-of-the-art, everything doubled walled. But somebody didn't maintain the leak protection system.

Mr. M. Currie: Was it doubled walled, like, with vacuum?

Danny McInnis Field Supervisor: It was double walls with everything going back to a sump. It was the piping secondary containment system that failed.

Mr. M. Currie: The detection system never picked it up.

Danny McInnis Field Supervisor: It was disconnected.

Chair: Okay, Mr. Bagnall.

Mr. Bagnall: Just one question on those installation of oil tanks, getting back to that again.

Wasn't there a course that your department put on for anybody that wanted to install their own, that they could go in for a day and do a course on installation of oil tanks? Is that still in place?

Danny McInnis Field Supervisor: Okay, when we brought in the regulations, there was - there still is two levels of licensing. You can become an inspector and you can become a contractor, and that's still available. What the inspector allows you do is you can only inspect and tag tanks. You can't - but a contractor can inspect, install, and alter and tag it and everything.

Now whenever the regulations came in, we were permitting homeowners to take the installer's course if he took the training at Holland College. And he -

Mr. Bagnall: That was a day course, right?

Danny McInnis Field Supervisor: Yes, and they would get one tag and they could install their own tank. That was discontinued, I believe, in 2004, and it was Holland College. Like, we don't put the course on. Holland College puts the course on for us. They changed their prerequisite for applicants to get into the course. It was based on another similar trade's college that was sued for negligence and they said: We could no longer offer this to homeowners.

Chair: Okay, any other questions?

Mr. Murphy: I just wanted to - is it best to have an oil tank in the basement or outside? Where is the best location?

Danny McInnis Field Supervisor: In the basement, by far. Number one is, like, we're talking about it being more secure. The other issue, too, is that it's less exposed to the weather, whether it be falling ice or snow buildup. The other issue is condensation. Condensation is the killer with these tanks for internal corrosion, and the more that the product temperature changes in the tank, the more condensation, the more problems you have with internal corrosion.

Chair: Okay. Thank you very much, Mr. McInnis, for your time. Very informative.

That concludes our presenters.

I just have one issue that I'd like to put forth before the committee in regards to when you're reviewing the upcoming meetings and the presenters who are listed. If there are any presenters who you do not see on the list that you may want to add to the list, maybe next week we can look at that as well.

Anybody move to adjourn?

Mr. Bagnall: I move.

Chair: Thank you, everybody.

Meeting adjourned.

The Committee adjourned