

## **QUESTION AND ANSWERS (Q&A) RELATING TO IMPLEMENTATION OF THE STORAGE AND DISTRIBUTION STUDY**

### ***1. What is the regulatory role of the Public Utilities Board?***

The Public Utilities Board is a quasi-judicial administrative tribunal with responsibilities under the *Public Utilities Act* and other legislation to regulate, among other things, electric utility rates, automobile insurance rates and petroleum products pricing. The role of the Board is to balance the interests of consumers and the supplying companies of these products to ensure a just and equitable return on the company's investment, while striving to enable a fair and reasonable price to the consumer for the products regulated by the Board. The Board assumed responsibility for the former Petroleum Products Pricing Commission (PPPC) in June 2004.

### ***2. What is the Storage and Distribution Study and why was it necessary?***

a. The "*Study of Storage and Distribution Costs throughout Newfoundland and Labrador*" (the "S&D Study") is a continuation of the Marine Tanker Freight Cost Study that was completed in 2002. The first study reviewed the costs associated with getting petroleum products to the Province which are transported primarily via marine shipment. With few exceptions, this initial study largely confirmed the allowable regulated costs to ship petroleum products into the Province.

b. The follow-up S&D Study was also commissioned by the PPPC and was completed in 2005 under the auspices of the Board. Its purpose was to review all supply chains and distribution networks in the Province in order to estimate the costs of moving regulated products from initial arrival by marine tanker through storage, handling and final delivery to the consumer.

c. The study also looked at the existing pricing zone boundaries and differentials and made several recommendations, which the Board reviewed and many of which it is prepared to implement at this time.

### ***3. Who completed this study and how much did it cost?***

a. The study was carried out by an independent consultant, David M. French & Associates of St. John's, at a total cost of approximately \$100,000.

### ***4. When will the changes from this study become effective?***

a. The decisions stemming from this study become effective during the Board's scheduled mid-monthly price change on August 15, 2006. It should be noted that the changes listed in the tables related to this announcement for each fuel will *not* be the final adjustments made to maximum fuel prices on August 15. Instead, these figures will be incorporated with the numbers related to the Board's regular pricing adjustment at that time.

### ***5. What were some of the findings in the S&D Study?***

a. The S&D Study was a comprehensive review which examined the supply network and in certain circumstances the vast geography and unique characteristics required for delivery of separate fuel products in all regions of the Province.

b. One major consideration for this study was the cost associated with distributing the fuel from the marine terminals and depots to the end retail and wholesale destinations. In some cases, these costs have been tremendous for some smaller operations, in particular, to absorb. Since there have been few changes to maximum fuel prices outside of those that resulted from market movements on NYMEX (New York Mercantile Exchange) as a result of global market conditions, this study examined the most current costs associated with storage and distribution in the Province.

c. Some adjustments in zone boundary designations have also been made to better show how supply and distribution networks operate in these areas. As well changes were made to the total allowed mark-up for gasoline and to the zone differentials for several zones.

**6. *What are the changes being made, and how will they affect me?***

a. First of all, the maximum price for gasoline in the Avalon Peninsula base zone (Zone 1) will be raised by 0.08 cents per litre (cpl) to account for increased transportation costs relating to higher diesel fuel prices. This increase will also be reflected in each of the other zones.

b. There have been also some changes to the zone differentials for automotive (gasoline and diesel) fuels and distillate heating fuels (furnace/stove oil) and residential propane used for home heating purposes. If you would like a detailed view of these changes, please visit the Board's website at [www.pub.nl.ca](http://www.pub.nl.ca).

c. There have been some changes made to the zone boundary designations throughout the Province which can also be viewed on the Board's website at [www.pub.nl.ca](http://www.pub.nl.ca).

d. *The public is reminded that the listed adjustments are not the final changes to prices that will occur August 15, 2006. These figures, however, will be incorporated with those for the regular mid-monthly price change. The end result may be different than those seen in these tables.*

**7. *What would happen if the Board didn't implement these changes?***

a. Since fuel-price regulation was implemented in 2001, there have been minimal changes to maximum fuel prices outside of those that resulted from market movements on NYMEX (New York Mercantile Exchange) as prescribed by the petroleum pricing methodology. (See Backgrounder)

b. The implementation of this report represents changes in fuel-price regulation to reflect updated storage and distribution costs, as well as costs to handle and deliver product within each separate zone.

c. These adjustments are necessary to bring fuel prices in line with the costs incurred by industry to transport fuel from one place to another, be it to someone's home, a storage facility or a retail site, throughout this vast Province. There are many unique geographic features and ways of doing business throughout the Province, and current prices need to reflect that. While the Board is aware this will mean increased fuel costs for many areas of NL, the implementation of this report is pertinent to maintaining the integrity of the fuel-supply network in this Province.

d. The reality is if nothing were done to adapt petroleum-pricing regulation so that the ever-increasing costs of transportation, storage, delivery and operations are addressed, there could be areas of this Province that may have to go without fuel-delivery service. If the opportunity to recover costs is not incorporated into the regulatory pricing model, the viability of many operations in the Province, smaller ones in particular, would be challenged.

e. Finally, if these subsequent changes were not made, many small operations in the Province, which have picked up where larger enterprises have left off, may not be viable in the long run. In some areas of this Province, if the local supplier left, it may be extremely difficult to fill the market void and maintain an adequate and continuous supply of each petroleum product to every community.

**8. *Was there much feedback related to this study and its recommendations?***

**a.** The Board issued a public notice in July 2005 for feedback from all stakeholders, including consumers, for not only this study and its recommendations, but also a discussion paper related to the overall review of petroleum-pricing regulation in NL. All information on these matters continues to be displayed in the Board's website at [www.pub.nl.ca](http://www.pub.nl.ca).

**b.** The Board received numerous submissions from industry and consumers relating to their individual circumstances when it comes to the cost of fuel.

**c.** Most of the feedback on the consumer side related to affordability and asked for taxation relief and rebates. Decisions related to these matters are outside of the Board's mandate.

**d.** Only a small number of people outside of industry actually spoke to the study itself.

**e.** Follow-up meetings were held in May and June 2006 with a good cross-section of groups, and the Board is satisfied that solid feedback was gathered in order to make informed decisions regarding this study.

**9. *Is the Board going to be making any more changes to fuel-price regulation in the near future?***

**a.** The decisions stemming from this study represent another phase of the ongoing review process that was committed to by the provincial government in 2004 when the former PPPC was integrated with the Board.

**b.** At that time, the provincial government stated the purpose of the integration was to streamline the regulatory process, improve efficiencies, as well as reduce costs charged to the industry, and ultimately consumers, and furthermore, the Board would conduct an operational review to assist in achieving these objectives. The Board has completed this Phase I of its review.

**c.** The S&D Study represents a portion of Phase II of the operational review. The report consists of a detailed analysis of the supply chains and storage/distribution networks for petroleum products in the Province, along with a updating and refinement in the related allowable mark-ups used in setting the regulated maximum price for each fuel product.

**d.** In addition to the S&D Study recommendations that are now being implemented, the second phase also incorporates consideration of a number of other issues concerning the pricing adjustment methodology, processes employed by the Board and regulatory reporting requirements. The Board will conclude discussions with stakeholders and finalize implementation of the remainder of the review in the early fall.