

## **MEDIA RELEASE**

**November 25, 2020**

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*Embargo until 12:01 a.m. Thursday, November 26, 2020*

### **Weekly Adjustment of Maximum Prices of Regulated Petroleum Products**

#### **Changes to Labrador Pricing Model in Certain Zones**

Effective 12:01 a.m. Thursday, November 26, 2020, the Public Utilities Board set maximum prices for all regulated petroleum products in all areas of the province, except where maximum price adjustments have been suspended for the winter months.

For the Island the changes to maximum fuel prices are as follows:

- all types of gasoline motor fuel will increase by up to 1.5 cents per litre (cpl);
- diesel motor fuel will increase by up to 1.7 cpl;
- furnace oil heating fuel will increase by 2.39 cpl;
- stove oil heating fuel will increase by 2.68 cpl; and,
- propane heating fuel will see no change.

These maximum prices reflect the change in the average benchmark price of the products over the current pricing period. As an example, the average benchmark price for gasoline, as tracked on the New York Mercantile Exchange (NYMEX) and converted to Canadian dollars, increased over the period by 1.30 cpl, resulting in an increase of up to 1.5 cpl, accounting for taxation and rounding.

#### **Maximum Price Adjustments for Labrador**

Maximum price adjustments for Labrador incorporate the changes in the average benchmark prices over the current pricing period as well as various changes to the pricing model, as discussed in the attached Backgrounder, which include:

- a change to the stove oil benchmark in all zones except Zones 11a and 14 from 100% Ultra Low Sulphur Diesel to 100% Ultra Low Sulphur Kerosene;
- an interim increase in the zone differentials for gasoline and diesel motor fuels in Zones 10, 11, 11b and 12;
- an interim increase in the zone differential for stove oil in Zone 10; and
- a suspension of maximum price adjustments in Zones 10, 11, 11b and 12 for the winter season until resupply to these zones in the spring.

There will be no changes to maximum prices for Zone 11a (Coastal Labrador South - Tanker Supplied) and Zone 14 (Coastal Labrador - North), where a suspension of maximum price adjustments was implemented on November 5, 2020. There will also be no changes in maximum prices for propane in Labrador. The applicable changes to maximum prices for the remaining pricing zones in Labrador are outlined in the following table:

Zone	Product	Weekly Benchmark Change <sup>1</sup>	Interim Zone Differential Change	Change in Maximum Price (with HST, where applicable) <sup>2</sup>
Zone 10 (Labrador - the Straits to Red Bay)	Gasoline	1.30 cpl	8.0 cpl	10.7 cpl
	Diesel	0.98 cpl	8.0 cpl	10.3 cpl
	Stove Oil	5.82 cpl	8.0 cpl	13.82 cpl
Zone 11 (Labrador South - Lodge Bay/Cartwright)	Gasoline	1.30 cpl	4.0 cpl	6.1 cpl
	Diesel	0.98 cpl	5.0 cpl	6.9 cpl
	Stove Oil	5.82 cpl	n/a	5.82 cpl
Zone 11b (Coastal Labrador South - Drum Delivery)	Gasoline	1.30 cpl	4.0 cpl	6.1 cpl
	Diesel	0.98 cpl	5.0 cpl	6.9 cpl
	Stove Oil	5.82 cpl	n/a	5.82 cpl
Zone 12 (Central Labrador)	Gasoline	1.3 cpl	3.0 cpl	4.9 cpl
	Diesel	0.98 cpl	3.0 cpl	4.6 cpl
	Stove Oil	5.82 cpl	n/a	5.82 cpl
Zone 13 (Western Labrador)	Gasoline	1.3 cpl	n/a	1.5 cpl
	Diesel	0.98 cpl	n/a	1.1 cpl
	Stove Oil	5.82 cpl	n/a	5.82 cpl
Zone 13a (Churchill Falls)	Gasoline	1.3 cpl	n/a	1.5 cpl
	Diesel	0.98 cpl	n/a	1.1 cpl
	Stove Oil	5.82 cpl	n/a	5.82 cpl

The next scheduled price change is Thursday, December 3, 2020.

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Media contact: Cheryl Blundon, Director Corporate Services, Tel: 1-866-782-0006  
Email: [cblundon@pub.nl.ca](mailto:cblundon@pub.nl.ca) or visit the Board's website: [www.pub.nl.ca](http://www.pub.nl.ca).

<sup>1</sup> The indicated weekly benchmark changes noted for stove oil heating fuel include the change to the benchmark from 100% Ultra Low Sulphur Diesel to 100% Ultra Low Sulphur Kerosene.

<sup>2</sup> Actual changes may vary by +/- 0.1 cpl due to rounding.

## **BACKGROUND**

*Embargo until 12:01a.m., Thursday, November 26, 2020*

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### **Changes to the Pricing Model for Labrador Petroleum Products**

Effective with this maximum price adjustment the Board has approved changes to the pricing model for petroleum products in certain pricing zones in Labrador. These changes are being implemented at this time to address concerns with continued supply of motor and heating fuels in the region pending the completion of the Board's ongoing review of petroleum products pricing in Labrador. The Board has also implemented a suspension of maximum price adjustments for the winter period for Zones 10, 11, 11b and 12 so that maximum prices for the upcoming winter season reflect the costs of winter supply brought in by marine tanker in late fall.

#### ***2020 Labrador Petroleum Pricing Review***

The Board is currently undertaking a review of the pricing model for regulated petroleum products in Labrador. This review was initiated in May 2020 based on input received from stakeholders in the region following a significant drop in maximum prices for regulated fuels in Labrador in early March 2020. Stakeholder feedback was requested on the scope of the review and over the summer the Board gathered information from suppliers relating to the methods of supply and associated costs. A consultation paper was released on October 16, 2020 which set out the issues identified to be addressed, the views and information received and options to be considered. Stakeholders have since provided additional information and comments in relation to the issues and options identified.

While the review of the pricing model for petroleum products in Labrador is ongoing a number of significant issues have been raised by suppliers which should be addressed immediately in advance of the upcoming winter to ensure continued supply to some areas of Labrador. These issues primarily relate to increased supply costs which are not reflected in the current pricing model, the benchmark used for pricing stove oil heating fuel and the suspension of maximum price adjustments for the winter period to reflect the timing and costs of winter supply.

#### ***Supply Costs***

The two main suppliers of fuel products in Labrador are Woodward's Oil Limited and Harnois Energies Inc. In submissions and correspondence to the Board both spoke to the inadequacy of maximum wholesale prices for regulated fuels in Labrador, indicating that current prices do not provide for recovery of the actual costs incurred by wholesalers to supply fuels in tanker-supplied zones. Without an increase in the maximum wholesale price concerns were expressed by wholesalers with respect to the continued viability of supply in these zones, including whether sufficient fuels would be available in some zones for the upcoming winter and whether existing businesses in these zones would be able to continue

operations. Costing and volume information was provided to the Board on a confidential basis which confirmed that costs have increased in recent years and that these higher costs are not reflected in the existing maximum wholesale prices for the region. The Board has determined that increases in the zone differentials for gasoline, diesel and stove oil in Zone 10 and for gasoline and diesel in Zones 11, 11b and 12 are warranted to ensure that wholesalers are able to recover their costs to purchase and supply these products and that consumers would have access to adequate supplies for the upcoming winter. Increases in maximum wholesale prices to reflect these adjusted zone differentials have been approved in Order No. P.P. 58(2020) on an interim basis pending further review and may be updated as required. No changes are proposed for the zone differentials in Zones 13, 13a and Zone 14 at this time.

### ***Stove Oil Pricing Benchmark***

The Board has also changed the benchmark used for setting maximum prices for stove oil heating fuel to reflect the actual product that is supplied in Labrador. The current benchmark used for stove oil pricing is 100% ultra low sulfur diesel (ULSD). Information provided during the review indicates that the product supplied as stove oil in Labrador is 100% ultra low sulfur kerosene (ULSK), the same product sold as diesel. As a result the benchmark used by the Board for setting maximum prices for stove oil heating fuel in all zones in Labrador will now be 100% ULSK. This change will not be effective for Zone 14 until the suspension of price adjustments implemented on November 5, 2020 is lifted in the spring of 2021.

### ***Seasonal Suspension of Maximum Price Adjustments***

The Board has determined that the suspension of maximum price adjustments currently in place in Zones 11a and 14 should be implemented for Zones 10, 11, 11b and 12. Currently in Zones 11a and 14 the regular weekly adjustment of maximum prices is suspended for the winter months. This suspension is intended to ensure that the price of fuels sold through the winter reflects the cost of supply of those fuels which were supplied via marine tanker in the fall and which cannot be re-supplied until the spring due to ice conditions. As a result the maximum prices in these zones remain the same from the first pricing adjustment in November until the area is resupplied in the spring. Maximum prices in all other Labrador zones have continued to be adjusted weekly in accordance with the Board's normal process, even though Zones 10, 11, 11b and 12 are primarily tanker-supplied as well.

In submissions and presentations to the Board stakeholders generally supported the suspension of maximum price adjustments during the winter period in zones supplied by marine tanker. Suspending maximum price adjustments for the winter months when there is no supply provides for recovery of costs of suppliers for inventories purchased and supplied in the fall and ensures a better matching of maximum prices with costs. This could also avoid a situation as happened in the winter of 2020 when world market prices plunged and wholesalers and retailers in tanker-supplied zones with weekly price adjustments were faced with having to sell product at a significant loss. Based on available information it appears that most of the tanker-supplied zones will have all product delivered within the coming days. Maximum price adjustments for the upcoming winter period in Zones 10, 11, 11b and 12 will be suspended as of November 26, 2020. A decision as to when weekly maximum price adjustments will resume will depend on when these zones are resupplied in the spring.