

Retail Price of Gasoline in the City of Greater Sudbury

Purpose

The purpose of this report is to respond to direction provided by City Council regarding gas prices in the City of Greater Sudbury. At the August 13, 2019 Council Meeting, the following motion was passed “*THEREFORE BE IT RESOLVED that the City of Greater Sudbury directs the Chief Administrative Officer to present a report for Council’s consideration, at the earliest possible time, which would set out the following: a) An explanation as to why the retail price level in Greater Sudbury is higher than the provincial average; b) Options designed to put downward pressure on the local retail price of gasoline; and c) The possibility of imposing some form of price control on retail gasoline establishments operating in the City of Greater Sudbury*”

Background

Recently there has been extensive inquiry into the retail gas prices throughout Canada with the rising prices of fuel. Multiple politicians across the north, including the Minister of Energy, Mines, Northern Development and Indigenous Affairs, Greg Rickford, have attempted to explain the retail pricing structure of the gasoline market and why the price varies by region. In order to provide a fulsome analysis of retail gasoline prices in the City of Greater Sudbury, a history on gasoline regulation within Canada is required.

Federal Regulation

For a brief period, the Federal government of Canada regulated crude oil and gas prices. From 1974 to 1985, federal legislation and agreements from the oil-producing provinces placed crude oil prices under government regulation. The results of this complex system of oil export controls, export taxes and oil import subsidies, was less incentive for new business investment in crude oil supplies and for consumers and businesses to consume fuels more efficiently. Although gasoline prices are not currently federally regulated in Canada, provincial governments have the authority to do so at their discretion.

Provincial Regulation

There are several provinces within Canada that have regulated the price of gasoline, diesel and other petroleum products. The following provinces have various regulations on gasoline, diesel, propane and heating fuels; Prince Edward Island, Québec, Newfoundland and Labrador, New Brunswick, and Nova Scotia. The regulations include a mix of price ceilings and price floors, which set a minimum and/or maximum retail price based on rack prices, wholesale margins, taxes and retail margins. The maximum and minimum prices, or price ceiling and floors are designed to reduce price volatility and to protect smaller independent retailers.

Currently, the Province of Ontario does not regulate the retail price of gasoline.

The effectiveness of price regulation in Canada is open to interpretation, as the controls were put in place for several reasons. Generally, the provincial governments identified specific issues that they intended to rectify, whether that was controlling price volatility or protecting smaller independent retailers. According to Jason Parent, Vice-President of the Kent Group Ltd., an independent data and analytics firm, gas prices in regulated and unregulated markets across Canada are generally the same. Price volatility in the market place is indicative of aggressive price competition, where retailers are willing to drop the retail margin on gasoline in order to draw customers into their convenience store, where higher retail margin products are sold.

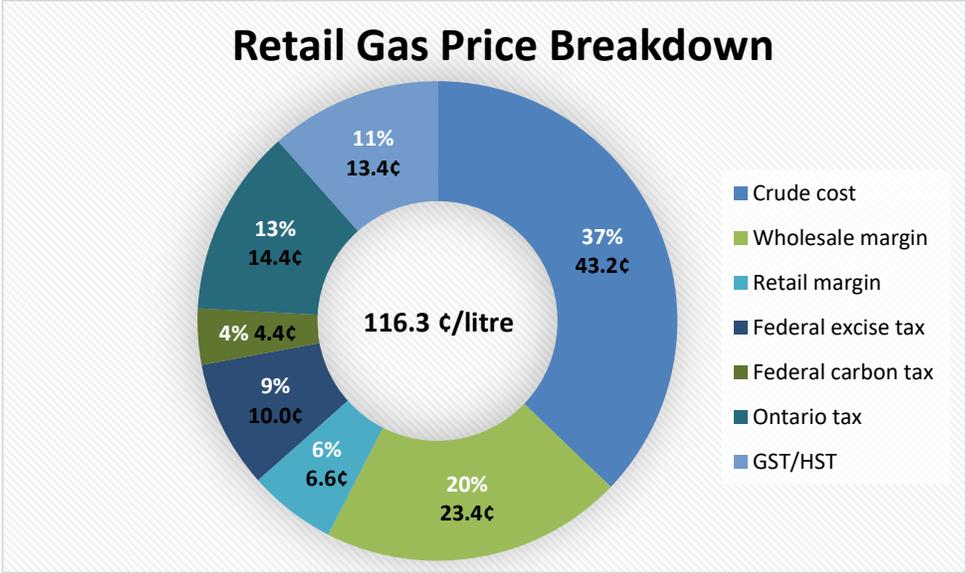
Competition Bureau

The Competition Bureau is an independent law enforcement agency that enforces Canada's competition laws as set out in the *Competition Act*. The Competition Bureau does not regulate the retail price of gasoline, however it does investigate any instances of price-fixing and other anti-competitive behaviours in any gasoline market. Investigations are divided into two categories; cartels, and mergers and acquisitions. When businesses act together instead of against one another, a cartel is formed. This cartel can behave in several ways including, price fixing, allocating markets, restricting outputs and rigging bids. Price fixing can be difficult to prove, as clear evidence that competitors have agreed with one another to set prices is required. In 2012 & 2013 the Bureau was successful in exposing two significant cartels in Quebec and Ontario, resulting in fines exceeding \$6 million and terms of imprisonment totaling 54 months. In 2018, Greg Rickford, the Minister of Energy, Mines, Northern Development and Indigenous Affairs, called on the Competition Bureau to review gasoline and diesel retail prices in northwestern Ontario. In April 2019, the Competition Bureau wrapped up this investigation in northwestern Ontario after conducting field interviews with 50 gas stations in the communities of Thunder Bay, Fort Frances, Dryden and Kenora, analyzing pricing data from multiple sources and examining the regional market characteristics. The Bureau did not uncover evidence of anticompetitive agreements, or price fixing, among competitors in the wholesale or retail gasoline markets.

Analysis

Historically there has been the belief that the retail price of gasoline has been consistently higher in the City of Greater Sudbury than other communities within Ontario. There are multiple factors that affect the retail price of gasoline.

The Ontario average retail gas price in November 2019 was 116.3 cents per litre. This price is made up of various components, including the cost of crude oil, the wholesale margin, the retail margin, federal excise and carbon taxes, provincial taxes and sales tax. Outlined in the chart below is the percentage distribution of each component reflective of the 116.3 cents per litre retail price.



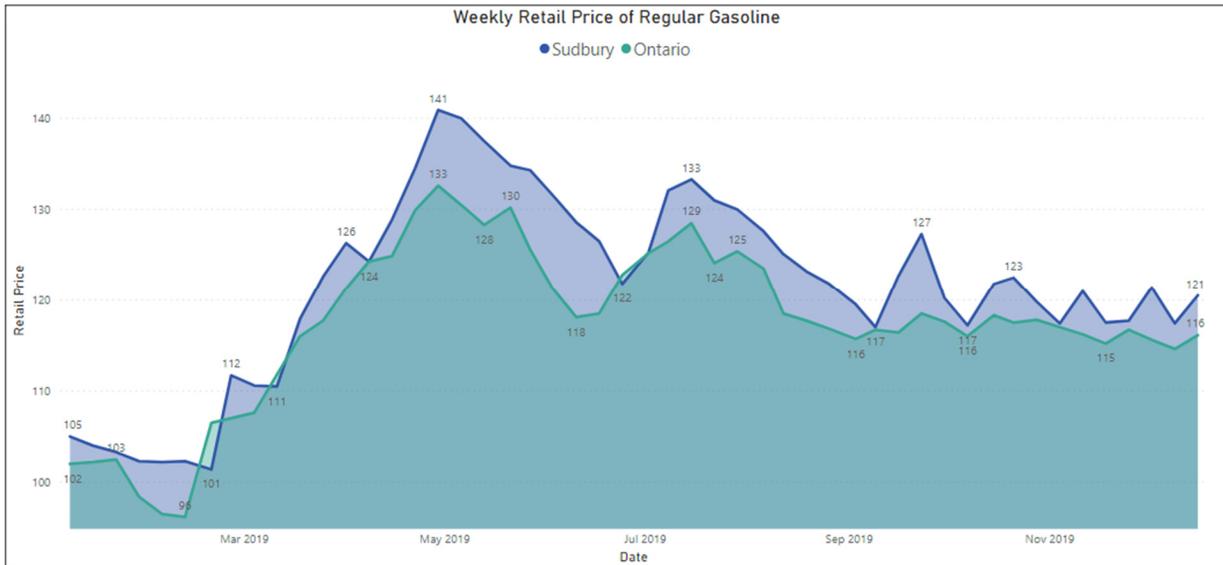
The components of retail gas prices are the same across the Province, however retail prices vary from region to region. There are several component prices that fluctuate depending on location within Ontario. For example the retail margin changes based on differences in competition throughout the Province. Generally speaking, retail margin will be lower in regions where there is strong competition, such as “gasoline alley”, located on 2 kilometer stretch of highway 11 just north of Barrie, where there are multiple gas stations in a limited geographical region. There is a common belief among City of Greater Sudbury resident that North Bay has consistently lower gas prices than the City of Greater Sudbury. Throughout 2019, North Bay on average was 2.5 ¢ lower than Sudbury. North Bay also appears to have much steeper peaks and valleys in the retail price of gasoline. This is indicative of increased competition in North Bay. One possible explanation is the proximity of First Nation on-reserve gas stations. First Nations individuals do not have to pay the Ontario gas tax when purchasing gasoline for their own use from an authorized on-reserve gasoline retailer. Therefore the posted retail price of gasoline at the on-reserve gas station is much lower than the off-reserve gas stations. This puts downward pressure on all gas stations looking to compete for business, therefore lowering the retail price throughout the City.

Retail margin is also affected by the sales volume at a site. Higher volume gas stations have lower operating costs per litre than lower volume or remote gas stations. Lower operating costs may result in high-volume gas stations offering reduced prices. Since the retail margin on the sale of gasoline is minimal, 6% as outlined above, many gas stations rely on the sale of higher margin products to subsidize the cost of wholesale gasoline. Therefore, if a gas station is operating a successful convenience store or mechanic shop, they have the ability to sell gas at a lower price to draw in customers.

The wholesale margin and crude oil costs also fluctuate based on the grade of crude oil, refinery utilization, and exchange rates. The grade and price of crude oil varies based on the refinery, therefore if a refinery in western Canada is supplying gas stations in northwestern Ontario, all else equal, the western refinery would charge more for its gasoline than the eastern refinery supplying the remaining regions of Ontario. When refineries are running at high capacity, higher prices typically result. As demand nears the limit of supply, the market price will increase as the commodity is now a limited resource. The U.S. dollar exchange rate has an impact on the market price of gasoline in Ontario as Canadian wholesalers compete for supply with U.S. wholesalers. Therefore if the Canadian dollar is worth less than the U.S. dollar, Canadian wholesalers will have to pay relatively more for gasoline than would their U.S. counterpart. A weaker currency means that the domestic price of gasoline rises. The most common factor cited for increased retail prices in northern Ontario is distribution costs. Typically, the greater the distance from the refinery or terminal to the gas station, the greater the distribution or transportation costs. The end users bear the brunt of this increase in costs, through higher retail gasoline prices.

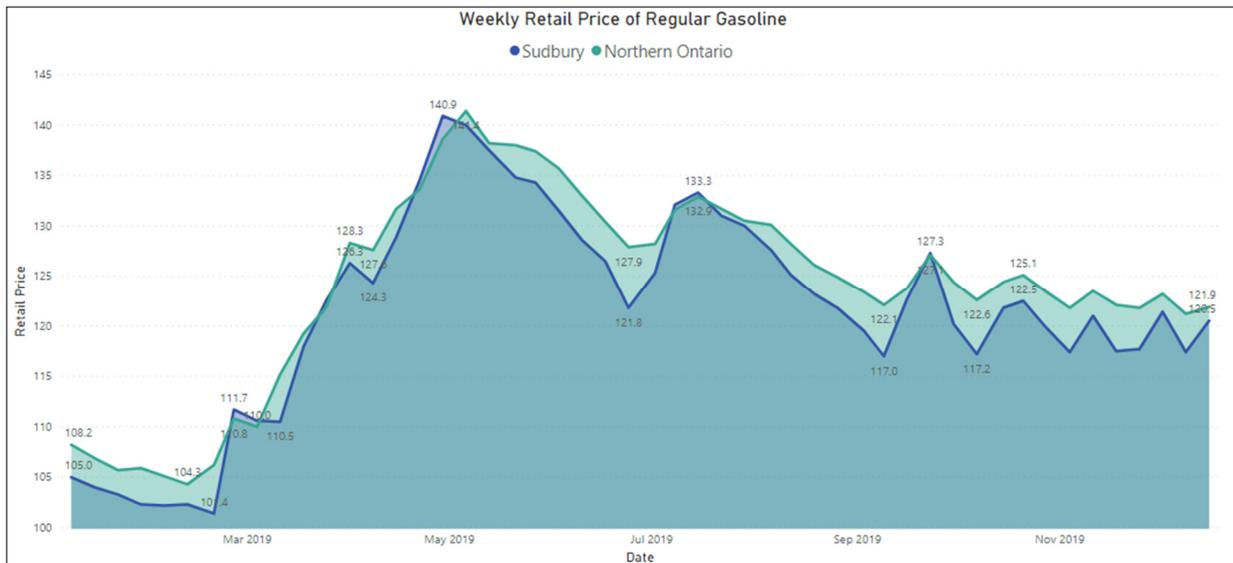
Historic weekly retail prices of three grades of gasoline, diesel, auto propane and compressed natural gas in 10 Ontario markets is maintained by the Provincial government in a public database. The 10 Ontario markets include Ottawa, Toronto West, Toronto East, Windsor, London, Sudbury, Sault Saint Marie, Thunder Bay, North Bay and Timmins. This database was utilized to analyze the City of Greater Sudbury's retail price of regular unleaded gasoline compared to the northern Ontario average and Ontario average.

The first graph outlines the difference in weekly retail price over the 2019 year as compare to the Ontario average.



The weekly retail price of regular unleaded gasoline in the City of Greater Sudbury was consistently higher than the Ontario average throughout 2019.

The second graph outlines the difference in weekly retail price over the 2019 year as compared to the northern Ontario average. The northern Ontario average includes, Sudbury, Sault Saint Marie, Thunder Bay, North Bay and Timmins.



The weekly retail price of regular unleaded gasoline in the City of Greater Sudbury was consistently lower than the northern Ontario average throughout 2019. When the City of Greater Sudbury is compared to Timmins & Thunder Bay solely, the weekly retail price is consistently lower throughout 2019. This analysis supports the belief that the one significant difference in retail price among northern Ontario is distribution or transportation costs. The southern Ontario markets included in the Ontario average, Ottawa, Toronto West, Toronto East, Windsor and London, are larger in population and closer to refineries/terminals. They not only reap the benefits of lower distribution costs due to their geographical location, but also benefit from a higher level of competition and higher volume sales potential per gas station.

Powers of the Municipality

There are significant limitations in regards to the ability of the City of Greater Sudbury to put downward pressure on the local retail price of gasoline. As outlined in section 10(4) & 10(5) of the *Municipal Act, 2001*, the powers of a municipality to pass a by-law respecting the matter set out in paragraph 7 of subsection (2) does not include the power to pass a by-law respecting services or things provided by a person other than the municipality or municipal service board of the municipality. In other words, the municipality cannot pass a by-law intended to put downward pressure on the retail price of gasoline in the City of Greater Sudbury.

There is no direct method for the City of Greater Sudbury to affect the retail gas prices, as the regulating power rests with the provincial government.

Conclusion / Next Steps

There are several options available to City Council in order to lobby the Provincial government for the regulation of retail gas prices across Ontario.

These options include, engaging peer municipalities through the various municipal associations to engage the Province in discussions regarding retail gas price regulations, requesting the Association of Municipalities of Ontario (AMO) to engage in further dialogue about the potential for change in the market and, sending a letter on behalf of Council to the Minister of Finance expressing concern with the retail gas price trends in Greater Sudbury and northern Ontario and requesting further review.

Resources Cited

Northern Ontario Pump Prices Explained – By Kent Group

<https://www.cipma.org/2019/03/27/northern-ontario-pump-prices-explained-by-kent-group/>

Natural Resources Canada - Why Canada Doesn't Regulate Crude Oil and Fuel Prices

<https://www.nrcan.gc.ca/energy/fuel-prices/4601>

Consumers Council of Canada – Price Regulation

<https://www.consumerscouncil.com/index.cfm?id=13904>

Government of Canada - A Guide to Retail Gasoline Pricing in Canada

<https://www.nrcan.gc.ca/energy/fuel-prices/4601>

British Columbia Utilities Commission – Inquiry into Gasoline and Diesel Prices in British Columbia

https://www.bcuc.com/Documents/Proceedings/2019/DOC_55251_BCUC-Inquiry-Gasoline-Diesel-Report-FINAL-web.pdf

Ontario – Motor Fuel Prices

<https://www.ontario.ca/page/motor-fuel-prices>

Competition Bureau – Factors that affect gas prices at the pumps

<https://www.competitionbureau.gc.ca/eic/site/cb-bc.nsf/eng/02926.html#sec03>

Municipal Act, 2001

<https://www.ontario.ca/laws/statute/01m25>

First Nation Purchases of Tax-Exempt Gas

https://www.ontario.ca/page/first-nation-purchases-tax-exempt-gas?_ga=2.162107836.1493644196.1577997338-1791120596.1573135141