



NEW BRUNSWICK  
ENERGY & UTILITIES BOARD

COMMISSION DE L'ÉNERGIE ET DES SERVICES PUBLICS  
NOUVEAU-BRUNSWICK

## DECISION

**IN THE MATTER OF** the establishment of the benchmark price for premium grade gasoline pursuant to Section 10 of the *Petroleum Products Pricing Act*, S.N.B. 2006, c. P-8.05.

(Matter No. 565)

March 7, 2024

**Matter 565 – Regulated Price Spread Between Premium and Regular Gasoline**

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**ORAL HEARING:** December 5, 2023

**NEW BRUNSWICK ENERGY AND UTILITIES BOARD:**

Presiding Chair	Christopher Stewart
Vice-Chairperson	Stephanie Wilson
Member	Heather Black

**PARTICIPANTS:**

Canadian Energy Marketers Association	Jennifer Stewart
Canadian Fuels Association	Carol Montreuil
Convenience Industry Council of Canada	David Knight
Imperial Oil	Elamin Sobair
The Scholten Group	Jerry Scholten

**PUBLIC INTERVENER:** Alain Chiasson

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## **1 Introduction and summary conclusion**

- [1] This decision arises out of a need for the Board to review the benchmark price for premium grade gasoline that is currently established using the weekly reference price for regular grade gasoline plus 6.00 cents per litre (cpl).
- [2] For the following reasons, the Board establishes the methodology outlined below to calculate the benchmark price for premium grade gasoline using a published reference price for premium grade gasoline and the average weekly differential between premium and regular grade gasoline.

## **2 Overview**

- [3] In accordance with Section 10 of the *Petroleum Products Pricing Act (Act)*, the benchmark price for premium grade gasoline shall be established by the Board using the weekly reference price for regular grade gasoline plus an amount per litre determined by the Board, using criteria and procedure as determined by the Board.
- [4] In the review of the pricing for premium grade gasoline, the Act requires that the Board consider the fact that consumers should benefit from the lowest price possible without jeopardizing the continuity of supply of the product. A fixed differential of 6.00 cpl between premium grade gasoline and the regular grade gasoline benchmark was set in 2006.
- [5] Recent global events impacting demand and supply have created volatility and upward pressure on the pricing of premium grade gasoline. If the actual differential between the premium grade gasoline and regular grade gasoline exceeds the fixed amount, suppliers and retailers are required to absorb the difference. Repeated or sustained differentials between market and regulated product prices pose a threat to the security of supply in the New Brunswick market.
- [6] R Cube Economic Consulting Inc. was retained by Board staff to examine historical data over the last several years and analyze how the price differential between premium and regular grade gasoline has behaved relative to the New Brunswick regulated price differential. Based on its analysis, R Cube was required to provide recommendations for establishing the premium benchmark differential that would reflect current and ongoing market conditions.

### 3 The fixed 6.00 cpl price differential does not reasonably reflect the market

- [7] R Cube evaluated the differential pricing data between premium grade gasoline and regular grade gasoline for the period 2018 to 2022. Regular gasoline and premium gasoline daily data for New York Harbour (NYH) reported by Argus and OPIS reporting agencies, as well as New Brunswick average monthly rack or wholesale price data reported by Kalibrate Canada, was used in the analysis. Pricing from the Platts reporting agency was not used as its premium grade gasoline price reporting service was discontinued in 2020.
- [8] R Cube observed that the price difference between regular and premium grade gasoline from both price reporting agencies, Argus and OPIS, was closely matched between 2018 and 2022, and that they deviated slightly, by roughly one cent per litre, in 2021 and 2022. R-Cube reported that the low variance of observed premium pricing between price reporting agencies suggests that the methodology used by both reporting agencies is substantially similar.
- [9] The R Cube report confirmed that the average price spread between premium grade and regular grade gasoline at NYH based on Argus reported information showed results close to 6.00 cpl for the years 2018 to 2021. However, in 2022, the average price spread using Argus and OPIS reported data was 15.43 and 14.45 cpl, respectively. R Cube confirmed that 2023 Argus data suggests that the widening price spread is still present.
- [10] R Cube observed that historically, Saint John rack regular grade gasoline prices followed similar trends and direction as NYH reported prices due to its relative proximity and logistical connections between the markets. Similarly, the rack price for premium grade gasoline at Saint John closely followed the NYH price and traded at a higher price compared to NYH due mainly to geographical factors. However, in 2022, the premium price in Saint John traded well below the NYH premium price.
- [11] Under cross-examination, R Cube's expert, Mr. Muralidharan, was asked if the difference in price for premium grade gasoline between Saint John and NYH could be attributed to differences in premium octane content. He indicated that transportation, storage, and regulatory pricing constraints are considered factors in the difference between premium reported prices for Saint John rack prices and NYH and that the situation is consistent with other Atlantic provinces that regulate the spread between regular grade gasoline and premium grade gasoline. He indicated that he did not have data to attribute octane levels as a factor in the differences in prices between Saint John and NYH.

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- [12] In response to written interrogatories, R Cube confirmed that premium grade gasoline in New Brunswick requires a minimum of 91 octane and that the price reporting agencies report premium grade gasoline with an octane content of 93 and not 91. R Cube further explained that refineries operating in Canada could sell their premium grade gasoline product in Canada or at NYH. If they choose to sell at NYH, they must meet the product specifications at NYH requiring an octane content of 93. Alternatively, if they choose to sell the product in Canada, then they may blend the high-octane gasoline with regular grade gasoline to meet the minimum premium grade specification of 91 octane.
- [13] R Cube specified that, as data for premium grade 91 octane blends was not available, any calculation to arrive at a premium octane 91 price would be an estimation and susceptible to errors. R Cube also noted that NYH reference price data reflects market dynamics with larger volumes in terms of transactions and an exchange-based pricing market. R Cube confirmed the validity of the Board using premium grade gasoline reference pricing as published by price reporting agencies at NYH similar to its use of NYH regular gasoline reference pricing for purposes of calculating benchmark prices.
- [14] In a written submission received by the Board prior to the hearing, the Convenience Industry Council of Canada and the Canadian Energy Marketers Association (CCIC / CEMA) provided Saint John rack differential information to illustrate their concerns regarding the widening gap between the products on price setting days. The submission noted that in 2021, of the 53 price-setting days, the reported Saint John rack spread between premium and regular grade gasoline, on the same day was above 6.00 cpl on 0 days, at 6.00cpl on 45 of the 53 price setting days, and in eight cases the spread was calculated to be below 6.00 cpl. In contrast, it submitted that in 2022, the spread was below 6.00 cpl on only three price-setting days, and in 2023 up to November 24, 2023, there were no price-setting days where the price spread was below 6.00 cpl.
- [15] R Cube stated in response to a question from Board Counsel that there is a fundamental shift in the market that is affecting price spread. Several reasons were noted for the change including the distortion of crude oil and petroleum product pricing due to the war in the Ukraine, the higher global demand for premium grade gasoline, and decreases in refining capacity.
- [16] R Cube concluded that the regulated fixed 6.00 cpl spread does not reflect or accommodate these market changes. It further noted that, as suppliers and retailers may be forced to absorb the increased costs, there may be a risk to the supply of premium grade gasoline in New Brunswick.

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[17] The Board agrees with R Cube’s findings that the current fixed regulated spread of 6.00 cpl above the reference price for regular gasoline does not reflect market changes and the widening gap between the market price for premium grade gasoline and the regulated price for premium grade gasoline may pose a risk to the supply of the product to New Brunswick.

### **4 The established methodology should reasonably reflect market conditions**

[18] The benchmark price for regulated petroleum products is the base component in the formula to set the maximum wholesale and retail prices in New Brunswick.

[19] Except for holidays, the Board sets the maximum wholesale and retail prices every Friday based on the identified benchmark price, which is effectively calculated from an average of the previous week’s NYH price for gasoline and diesel, running from Thursday to the following Wednesday. The benchmark price for gasoline is calculated as the higher of regular gasoline or E10 (90% CBOB and 10% ethanol), at NYH .

[20] The benchmark price is listed in US cents per gallon and converted to Canadian cpl using the daily currency exchange rate posted by the Bank of Canada.

[21] In accordance with the Act, the benchmark price for premium grade gasoline is established using the weekly reference price for regular grade gasoline plus an amount per litre determined by the Board, using criteria and procedure as determined by the Board.

[22] The methodology for determining the premium price differential should reflect market conditions because the regulatory framework described above contemplates that benchmark prices for all regulated petroleum products reflect market conditions. The section below describes the criteria and procedure recommended by R Cube.

### **5 Recommended approach reasonably reflects market conditions**

#### **5.1 Five-day moving average price differential minimizes volatility and reflects market changes.**

[23] In its evaluation of alternatives to establish a premium grade benchmark price based on using reference price for regular grade gasoline, R Cube calculated the coefficient of variation for five-day, fifteen-day, and thirty-day moving averages for the price

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differential between premium grade and regular grade gasoline as published by Argus and OPIS.

- [24] The coefficient of variation is a measure that shows the extent of variability from the mean population. The higher the coefficient of variation, the greater the dispersion. R-Cube noted that if low price volatility is a factor in establishing the premium benchmark, an option with the lowest coefficient of variation would be important. R Cube reported that the lowest coefficient of variation resulted from the thirty-day moving average analysis.
- [25] However, as the coefficient of variation for the five-day moving average was not significantly higher than that of the thirty-day moving average, R Cube recommended that the establishment of the benchmark price spread between premium and regular grade gasoline be based on a five-day moving average for the differential between premium grade gasoline and regular gasoline data, at NYH. R Cube viewed that this approach balances the accommodation of market changes without introducing significant additional price volatility.
- [26] The Board finds that using a five-day moving average for the spread between the premium grade gasoline as reported by Argus or OPIS is a reasonable approach to minimize volatility and reflect market changes.

### **5.2 6.00 cpl reasonably reflects a minimum differential**

- [27] In addition, R Cube recommended that the Board consider maintaining the 6.00 cpl set in 2006 as a minimum spread between premium and regular grade gasoline to allow a sufficient return for suppliers and retailers and to minimize the threat of disruption to the supply of the product. The establishment of the minimum spread of 6.00 cpl is also consistent with a recent Nova Scotia Utility and Review Board decision.
- [28] In their written submission to the Board, CCIC/CEMA also noted that a minimum 6.00 cpl spread would maintain a reasonable spread between the selling prices of the two products. They indicated that where the relative price of premium grade gasoline is close to that of regular gasoline, a significant number of regular motorists would purchase premium grade in the misguided belief that the premium product is better for their vehicle, thus also creating a threat to sufficient supplies to meet the New Brunswick market.



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[29] Consistent with the fixed spread set previously, the Board agrees that maintaining a minimum spread of 6.00 cpl would be a reasonable return for suppliers and retailers to support the security of supply to the New Brunswick market.

### **5.3 R Cube recommended methodology**

[30] Based on its analysis, R Cube recommended the following steps to determine the amount to be added to the regular gasoline benchmark price to establish the premium gasoline benchmark price, as required by the Act:

1. Calculate the premium grade gasoline price at NYH as published by Argus or OPIS as the premium gasoline price in the same manner as regular specific to NYH data.
2. Calculate the regular grade gasoline price using the current Board's formula to determine regular grade gasoline prices specific to NYH data.
3. Set the premium gasoline benchmark spread between regular and premium gasoline, and if necessary, use a minimum of 6.00 cpl for the price spread between premium and regular grade gasoline if the calculated spread is less than 6.00 cpl.
4. Calculate the regulated mid-grade gasoline price using a weighted average of 50 percent regular grade gasoline and 50% premium grade gasoline as set out in the regulations.

[31] Imperial Oil submitted that the methodology for calculating the premium grade gasoline benchmark price should reflect the higher of conventional premium NYH reference price and NYH ethanol blended premium gasoline at a 10 % ethanol blending ratio similar to the methodology used for setting the benchmark price for regular gasoline. Imperial Oil noted that the market presence of ethanol-blended premium grade gasoline will continue to increase in most markets in the Atlantic region, in several cases replacing conventional premium gasoline offers.

[32] Mr. Muralidharan testified that, as R Cube did not have data regarding Ethanol Blended (E10) Premium grade gasoline, it was not considered in its analysis, nor in its recommendation. If E10 Premium is considered in the methodology, Mr. Muralidharan expressed concern that the Board should ensure there is no double counting in the E10 premium product costs or in the cost of carbon adjuster.

[33] The Board agrees with Mr. Muralidharan that there is insufficient data to support using E10 premium in its methodology.

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- [34] The Canadian Fuels Association, CCIC and CEMA, Imperial Oil, and the Scholten Group supported R Cube’s recommendation with respect to the consistent approach with the methodology used for regular grade gasoline, the relevant reference price premium grade gasoline, and the calculation for the amount to be added to the weekly reference price for regular grade gasoline.
- [35] The Public Intervener acknowledged that the recommended methodology would impact prices for consumers of premium grade gasoline. However, he did recognize that there is a balance between reasonable prices in the face of a threat to the security of the supply of the product. The Public Intervener supported the approach proposed by R Cube.
- [36] The Board agrees with R Cube’s proposed methodology for determining the weekly reference price for premium grade gasoline, the differential amount between premium and regular grade gasoline, and the benchmark premium grade gasoline price. The Board finds that the proposal balances the price impacts on consumers of premium grade gasoline with the need to minimize risks to the security of supply of the product.

## **6 The Board adopts R Cube’s recommendation**

- [37] For these reasons, the Board accepts R Cube’s recommendation and selects the Argus Media reporting service as the Board’s source of published premium 93 gasoline product prices. The Board will adopt the following methodology for establishing the benchmark price for premium grade gasoline:
1. Establish the weekly premium 93 gasoline reference price at NYH as published by the reporting service in the same manner as the weekly regular grade gasoline reference price.
  2. Establish the weekly reference price for regular grade gasoline using the criteria and procedure prescribed by the regulation.
  3. Calculate the weekly premium grade gasoline reference price spread between the weekly premium 93 gasoline reference price and the weekly regular grade gasoline reference price.
  4. Establish the premium grade gasoline benchmark price using the weekly reference price for regular grade gasoline plus the following amount per litre:

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- a. if the weekly premium grade gasoline reference price spread is equal to or less than 6.00 cpl, add 6.00 cpl to the weekly reference price for regular grade gasoline
- b. if the weekly premium gasoline reference price spread is greater than 6.00 cpl, add the weekly premium gasoline reference price spread in cpl to the weekly reference price for regular grade gasoline

[38] The Board will set the premium benchmark price using the approved methodology commencing March 15, 2024.

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Dated at Saint John, New Brunswick, this 7<sup>th</sup> day of March, 2024.



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Stephanie Wilson  
Vice-Chairperson



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Christopher Stewart  
Member



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Heather Black  
Member