

**Public Inquiry Into
Petroleum Fuel Pricing
In The Yukon Territory**

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Petroleum Fuel Pricing
In The Yukon Territory**

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oil prices since 1985, and that this “upstream” market is a very competitive and healthy one.

The Board has considered factors which affect the pricing of the following petroleum fuel products sold in the Yukon Territory: gasoline fuels, diesel fuels, home heating oil, propane, and aviation fuel.

1.4 Conduct of the Inquiry

The activities of the Board of Inquiry have been well publicized throughout the Yukon. In addition to press releases and numerous newspaper articles, there have been advertisements for hearings in **The Yukon News** and **The Whitehorse Star**, and on CBC, CKRW, and CHON FM radio. The Board has sought input from interested persons and organizations, and worked to have as much information as possible entered into the public record. In order to reach and accommodate members of the general public in all Yukon communities, the Board publicized the fact that it was prepared to travel to any community. Also, hearings have been held in the evening as required.

The Board identified persons in the Yukon who might have relevant information, and communicated directly with them. Personalized letters were written to elected politicians, including band chiefs; to community and business associations; and to persons engaged in the distribution or sale of petroleum fuel products. Inquiry staff developed rules of procedure with input from participants at a preliminary hearing. The Board then distributed the rules to all participants and interested parties.

Whenever substantial interest was expressed in a community outside Whitehorse, the Board travelled to hear from the people there. Hearings were held in Dawson City and Old Crow, as well as Whitehorse.

As the hearings progressed, documents from the public record — including transcripts, submissions, and reports — were filed in the Resource Centre in the Yukon Archives, where they have been available for public inspection.

Public attendance at hearings has been lower than expected; but given the season, the technical complexity of the subject matter, and extensive daily coverage by local news media, the attendance is understandable. Petro-Canada Inc., White Pass and Yukon Corporation Limited, Shell Canada Products Limited, ICG Liquid Gas Ltd., Esso Petroleum Canada and the Yukon Territorial

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Government have all appeared in the proceedings as ongoing participants, or “intervenors,” usually represented by counsel.

In order to expedite collection of relevant information, the Board sent questionnaires, “Returns of Information,” to all suppliers and retailers of petroleum products in the Territory, as well as major industrial users. Sample “Returns of Information” are included in Appendix II.

The Board is pleased with the responses received to the questionnaires. All major suppliers have given the Board the information requested, with the exception of The White Pass and Yukon Corporation Limited and Chevron Canada Ltd., the latter being White Pass’ supplier of petroleum products.

White Pass and Yukon Corporation Limited objected to making available significant portions of the information requested by the Board. In response to an application made by White Pass, the Supreme Court of the Yukon Territory, ruled that White Pass was not required to provide information that would disclose their acquisition costs for petroleum products from Chevron Canada Ltd. in Burnaby, British Columbia, or their transportation costs from Burnaby to Whitehorse, Yukon. In addition, the Court held that White Pass did not have to account publicly to a Territorial Commission for the management of its inter-provincial undertaking. As a result, White Pass has submitted no information relating to extra-territorial activities and only partial information on their transactions within the territory. White Pass has, however, provided complete and useful information with regard to their network of retail service stations and bulk stations in the Yukon.

None of the other major oil companies doing business in the Yukon Territory objected to providing the Board with information about the acquisition and transportation of petroleum products. In particular, Petro-Canada, Esso and Shell have given the Board full cooperation and made full disclosures. Indeed, the Board was given access to product exchange agreements, documents which are considered highly confidential in the industry. From the evidence received, it has been possible to reliably estimate some of the more important statistics withheld by White Pass. The lack of a full disclosure by White Pass and Chevron has detracted somewhat from the completeness of the Board’s report; but in the final result, the absence of this information has not had significant impact on the Board’s conclusions and recommendations.

The Board heard from more than forty witnesses over some four weeks of hearings. Most of those witnesses were involved in the

industry and their testimony complements the extensive information gained through the questionnaires. In addition, Inquiry staff have extensively canvassed relevant sources for data relating to the Yukon market, including studies and reports prepared in other jurisdictions. A list of reports reviewed by this Board is attached as Appendix 3. The information gathered by the Board has been analyzed and rationalized in the report which follows and forms the basis for the recommendations made.

Some of the information received by the Board is confidential, and that material has been protected from public disclosure. However, the Board has been able to work with the material and to take it into consideration while developing a picture of trends and practices in the industry. The Board also has been able to use confidential information to identify factors affecting fuel prices. As a result, even though it is not directly available to the general public, confidential material has contributed significantly to this Inquiry and helped form the basis for the Board's recommendations.

1.5 The Report

The Board of Inquiry has worked to produce a report which the average Yukoner can read and understand. Technical terms and industry jargon have been avoided as much as possible. In addition, a glossary of terms has been provided.

On the other hand, the Board has compiled a report that is as complete as possible. As such, the report is intended to be of assistance to those already involved with the petroleum business, also to those who may wish to become involved in it. Moreover, the data presented would be a valuable resource for those wanting to examine aspects of the Yukon petroleum products market in the future.

Glossary

Alberta Par Crude	A crude oil standardized and monitored by Energy, Mines, and Resources Canada for prices. Parcrude has a gravity or viscosity of 40o API and sulphur content of .5 %.
Alternate Fuels	Fuels or energy sources which can be used instead of traditional petroleum fuel products. An important alternate fuel in the Yukon is wood.
Aviation Fuel	A category of fuel which includes aviation gasoline used in propeller driven aircraft, and aviation turbo fuel used by jet planes.
Backhaul	The act of transporting goods from the transporter's destination back to the transporter's point of origin. Backhaul rates are generally lower than primary haul rates because the transporter must return to the point of origin whether or not freight is carried.
Bottle Neck Monopoly	A situation in which one company controls the only facility or service, thus controlling the flow of goods or services.
Branded Dealer	Any dealer who is supplied under contract by a refiner or jobber and displays the supplier's brand name; e.g. Esso, Petro-Canada, Chevron.
Branded Independent Dealer	A Branded Dealer who owns his own facilities.
Branded Lessee Dealer	A dealer who leases service station facilities from a refiner or jobber, displays that refiner's brand name, and signs an exclusive supply contract.
Bulk Dealer	A commissioned agent or company employee who delivers or sells bulk products to commercial and industrial accounts.
Class of Trade	The type of consumer purchasing a petroleum product — e.g., industrial/ commercial including mines, public utilities, hotels and other large business accounts; and retail consumers, who buy gasoline at the pump or have home heating fuel delivered.
Commissioned Agent	An individual responsible for distributing branded product to

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	<p>consumers. The agent receives a commission for each litre distributed, and does not receive a salary other than commission; see Bulk Dealer.</p>
Component Costs	<p>The costs which make up the price of petroleum products. These consist of retail share, transportation and distribution, taxes, crude cost and supplier share.</p>
Company Outlet	<p>Any retail outlet (e.g., service station selling gasoline or diesel fuel) that is under the direct control of the company, including (a) retail outlets being operated by salaried employees of the company and/or its subsidiaries and affiliates, and/or (b) outlets involving personnel services contracted by the company.</p>
Competition	<p>Effective functioning of markets that promotes and requires rivalry amongst competitors for the business of consumers. (See Appendix VII.)</p>
Compressed Natural Gas (CNG)	<p>Natural gas which has been pressurized for transport but remains in a gaseous form.</p>
Cross-lease	<p>A situation where a dealer leases his property to the supplier, who then sub-leases it back to the dealer, usually for a nominal amount.</p>
Crude Oil	<p>Naturally occurring mixture of liquid hydrocarbons extracted from underground reservoirs and refined to produce gasoline and other petroleum products.</p>
Dealer Price	<p>The wholesale price a retail dealer pays to the supplier; usually the price charged to all dealers supplied by that particular supplier in a particular region or market area. Esso dealers pay the Esso Dealer Price (EDP), and Petro-Canada dealers pay the Dealer Tank Wagon Price (DTWP).</p>
Diesel Fuel	<p>A heavier petroleum product than gasoline, used primarily in commercial vehicles and heavy equipment, and for power generation.</p>
Direct Delivery	<p>Delivery of petroleum products by truck from a refinery or</p>

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	<p>marine terminal to a customer's storage, with no rehandling on route.</p>
Evergreen Clause	<p>A clause in a dealer-supplier contract that results in automatic renewal of the contract, if the dealer has not cancelled the agreement in writing a certain number of days before the termination date of the agreement.</p>
Exchange Agreements	<p>Agreements made between major oil companies and refiners that enable their companies to exchange similar products at their refineries or terminals.</p>
Fuel Oil	<p>A petroleum product generally used for space heating, and boiler applications. Although similar to diesel, fuel oil is usually heavier.</p>
Guaranteed Retail Margins	<p>A minimum retail margin earned on sales of gasoline regardless of the market price. Retail margins are often guaranteed by suppliers during price wars, usually in the 3.0 cents per litre range.</p>
Home Heating Oil	<p>Any of several petroleum products such as stove oil or furnace oil used for space heating. Some grades of heating oil are similar to diesel fuel.</p>
Dealer Independent Non-Branded	<p>A dealer who usually owns his own station and who is not tied to a particular supplier and sells product under a name different from that of the supplier.</p>
Independent Suppliers	<p>A supplier who is not an integrated refiner or jobber and supplies unbranded retail outlets.</p>
Integrated Refiner	<p>National or regional companies that refine and market refined products, e.g., Shell Canada, Esso, Petro-Canada, and Husky Oil.</p>
Jobber	<p>Suppliers who purchase branded products in large quantities from refiners and distribute them to consumers. White Pass is a branded jobber for Chevron products.</p>
Liquified Natural Gas (LNG)	<p>Natural gas in a liquid state brought about by high pressure and low temperature. Natural gas is often liquified for</p>

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Margin	transportation by truck. A portion of the price returned to cover operating costs, rent for facilities, return on capital, income and/or profit.
Motive Fuels	Fuels used in internal combustion engines of transportation vehicles, boats, and airplanes.
Motor Gasoline	A complex mixture of hydrocarbons blended to form a fuel suitable for use in spark-ignition engines. Motor gasoline includes leaded gasoline, unleaded gasoline, and gasohol.
Non-Competition Covenants	Contract clauses that typically prohibit the dealer from engaging in the same general business in a particular region for a prescribed period of time.
Non-Petroleum Use Covenant	A restriction which is placed on land, which provides that the land cannot be used in the petroleum business unless the supplier consents, or unless the supplier's products are being sold.
Octane Ratings	A measure of the resistance of the fuel to premature ignition or combustibility. The higher the rating the greater the resistance.
Posted Dealer Price	See Dealer Price.
Posted Industrial Price	The industrial price established by the supplier and charged to industrial customers. Posted industrial prices vary by product, volume of purchase, and customer's storage; discounts can often be negotiated. Esso's term is Direct Delivered Price, Petro-Canada's is Industrial Tank Wagon Price.
Power Generation (diesel or thermal)	The production of electric power using hydrocarbon fuels, such as coal or diesel fuel.
Propane	Propane is a by-product of petroleum refining; also a liquid component of some natural gas reservoirs and a co-product with natural gas.
Public Inquiry	An investigation conducted by an independent board, established by government pursuant to legislation, to examine matters considered to be in the public interest.

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Rack Price	A price published and set by refiners for the sale of large volumes of product to wholesalers or resellers who pick up product at the refinery. In Canada, discounts can usually be negotiated from this price, depending on the volume purchased.
Refined Product	Any of a number of petroleum products derived from processing crude oil at a refinery, including gasoline, diesel and heavy/light fuel oil.
Rehandling	The movement of refined product through a bulk agency or terminal prior to its delivery to a final destination, at some point along the transportation route.
Reseller	A firm (other than a refiner) that carries on the trade or business of purchasing refined petroleum products and reselling them, without substantially changing their form, to purchasers other than final consumers.
Return of Information	Questionnaire prepared by the Board of Inquiry to obtain relevant information from retailers, bulk dealers, and suppliers of petroleum products operating in the Yukon. See Appendix II.
Retailer	A firm that carries on the trade or business of acquiring refined petroleum products and reselling them to consumers without substantially changing their form.
Retail Margin	The share of the retail price of refined products accruing to the retailer. The retail margin is the difference between the retailer's buying price from a supplier and selling price to the consumer. Retail margins cover the cost of retail operations.
Retail Share	See Retail Margin.
Right of First Refusal	A contract clause in dealer-supply agreements that typically provides that if the dealer receives an offer to purchase the property during the term of the agreement, then the dealer must inform the supplier of such an offer and give the supplier first right to purchase the property on the same terms.

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Supplier Share

The share of the retail price of refined products accruing to the supplier. The supplier share is the amount remaining after the retail margin, transport costs, taxes and crude cost have been deducted from the price. It is available to cover refining and wholesale marketing costs.

Terminalling Facility

A facility for receiving and distributing refined products, usually operated by company employees.

Weighted Average

Method of calculating averages that reflect different shares of the total (e.g. market shares). See Appendix VI.

Wholesale Margin

The portion of the supplier share available to cover the costs of wholesaling and administration.

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2.1 Market Overview

The Yukon market for petroleum fuel products is a relatively small one. In 1987, sales of petroleum products totalled 177,976,000 litres. An additional 9.5 million litres of petroleum products were imported, either for consumption by the importers themselves (e.g., Yukon Alaska Transport) or for export to other jurisdictions (e.g., Atlin, British Columbia). Petroleum products imported to the Yukon market include gasoline, diesel fuel, heating fuel, aviation fuels, and propane.

Based on conservative estimates, the total retail value of the Yukon petroleum products market exceeds \$80,000,000 for 1987. At this rate, Yukon consumption of petroleum products is comparatively very low: it represents .02% — one fifth of 1% — of all the consumption in Canada. Yet, this amount translates into an average per capita daily consumption rate which is nearly double that of the whole country: 10 litres per capita per day for Canada, 17.5 litres for the Yukon.

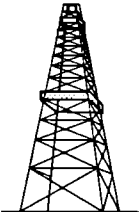

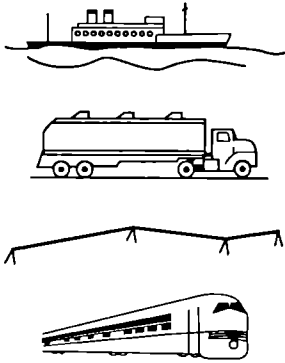
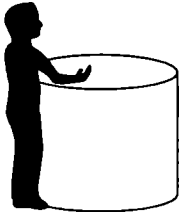
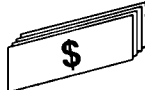
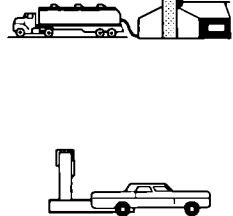
In the Yukon, as elsewhere, the methods of marketing petroleum fuel products are varied. Major suppliers sell directly to end-use-customers, such as mines or utility companies; to middlemen or jobbers; and to retail outlets, such as gasoline service stations or heating fuel distributors. Jobbers resell products to retail outlets or the public, while retail outlets sell to the public.

This marketing chain can be complex at times. For example, Esso acquires fuel products through exchange agreements with Chevron in Burnaby; Esso, in turn, sells the product to White Pass, who at the same time is a jobber for the Chevron product; when the fuel arrives in Whitehorse, Esso buys it back from White Pass; and finally, Esso competes directly with White Pass in the industrial, commercial and retail markets.

On the other hand, the marketing chain can be direct and simple. Petro-Canada sells product to a large customer who has bulk storage; deliveries are made directly from Haines or Taylor to that customer's tanks.

Whatever the marketing process, all petroleum products involve certain costs — cost of unrefined product (crude oil), supplier shares, taxes, transportation, and retailer shares (figure 1). Consumer prices are not determined simply by adding together those component costs. Rather, petroleum fuel prices for consumers are determined by the level of competition at three transaction levels: at the refiner; at point of sale to the retailer; and at point of sale to the consumer. At

**Figure 1
Where Costs Are Added to the Price of Fuel**

					
<p>Oil Well</p>	<p>Oil Refinery</p>	<p>Transportation</p>	<p>Middleperson</p>	<p>Taxes</p>	<p>Retail Outlets</p>
<p>Crude Oil Costs</p>	<p>Supplier Shares</p>	<p>Transportation Costs</p>	<p>Jobber: Market or Distribution Cost</p>	<p>Federal and Territorial Taxes</p>	<p>Retail Share Gasoline Station and Heating Fuel Distributors</p>

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each transaction level, participants seek to maximize their profit opportunity.

The evidence before the Board was overwhelming — at each transaction level, participants charge what the market will bear.

In general, the following factors influence the prices charged at each level:

- size of the market,
- impact of price on market share,
- type of and investment in facilities, and
- participants' market objectives.

The following factors exert downward pressures on prices:

- excess supply over demand,
- new efficiencies in acquisition, transportation or delivery of products,
- entry of aggressive price competitors, and
- price-sensitive purchasing practices by consumers.

Competition, while not the sole determinant, is a significant factor in the setting of petroleum prices in the Yukon. Steps taken to increase competition at each transaction level of the market will, in the long run, reduce prices to the consumer. Moreover, active competition at the point of sale to the consumer will have a direct impact on the level of competition at the other transaction levels.

For the average retail consumer, gasoline products are the most important. Consequently, the Board focussed much of its attention on gasoline. In the end, the Board was faced with one basic question: What could/should gasoline prices be in Whitehorse? After reviewing all the evidence, the Board concluded that prices could be between 6.3 and 6.8 cents per litre lower than they were in April 1988. However, these savings could only occur in an **efficient and competitive** marketplace.

To determine how retail prices were arrived at, the Board looked at regular unleaded gasoline at self-serve outlets and examined the components of actual prices in April 1988. The Board also investigated the most efficient supply systems to determine what the lowest costs, margins and prices would be.

Two situations were considered:

- product from Vancouver suppliers (integrated refiners), given average supplier shares for that market between January 1988 and April 1988;
- transportation through Skagway, at 5.1 cents per litre; and
- a retail share of 5 cents; or

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- (b) • product from Seattle refiners, given lowest average weekly rack prices during March 1988;
- jobber reselling the product with a wholesale margin of 3.5 cents per litre;
- transport through Skagway, at 5.5 cents (allowing for extra distance); and
- a retail share of 5 cents.

Working with this information, the Board concluded that Vancouver-supplied unleaded gasoline could be competitively priced at the pump at 48.3 cents per litre, and Seattle-supplied unleaded gasoline could be priced at 47.8 cents (figure 2). These optimum prices involve conservative estimates; for example, a retail margin of 5.0 cents per litre was assumed, although in Vancouver and other large centres, margins of 3.5 to 5.0 cents per litre are common.

The Board concluded that the wide gap between the actual pump price observed in April and its estimates of optimum prices are a measure of the lack of competition in the Whitehorse and Yukon marketplaces. This difference represents a cost to the consumer for the lack of competition among suppliers who serve the territory. Unlike many southern locations, the Yukon does not have an aggressive independent supplier and dealer network bringing in product from the cheapest available sources, such as Seattle.

2.1.1 Competition Issues in the Market

The Board has concluded that the absence of effective competition is the single most important factor affecting petroleum prices in the Yukon market. Some aspects of this market condition are highlighted early in the report in order to provide a basis for understanding the relatively detailed description and analysis of the market as a whole. These issues will be considered in greater detail later in the report. The Board adopts the definition of competition as set out in **Competition in the Canadian Petroleum Industry**, the report of the Restrictive Trade Practices Commission (pages 14 - 15, see Appendix VII).

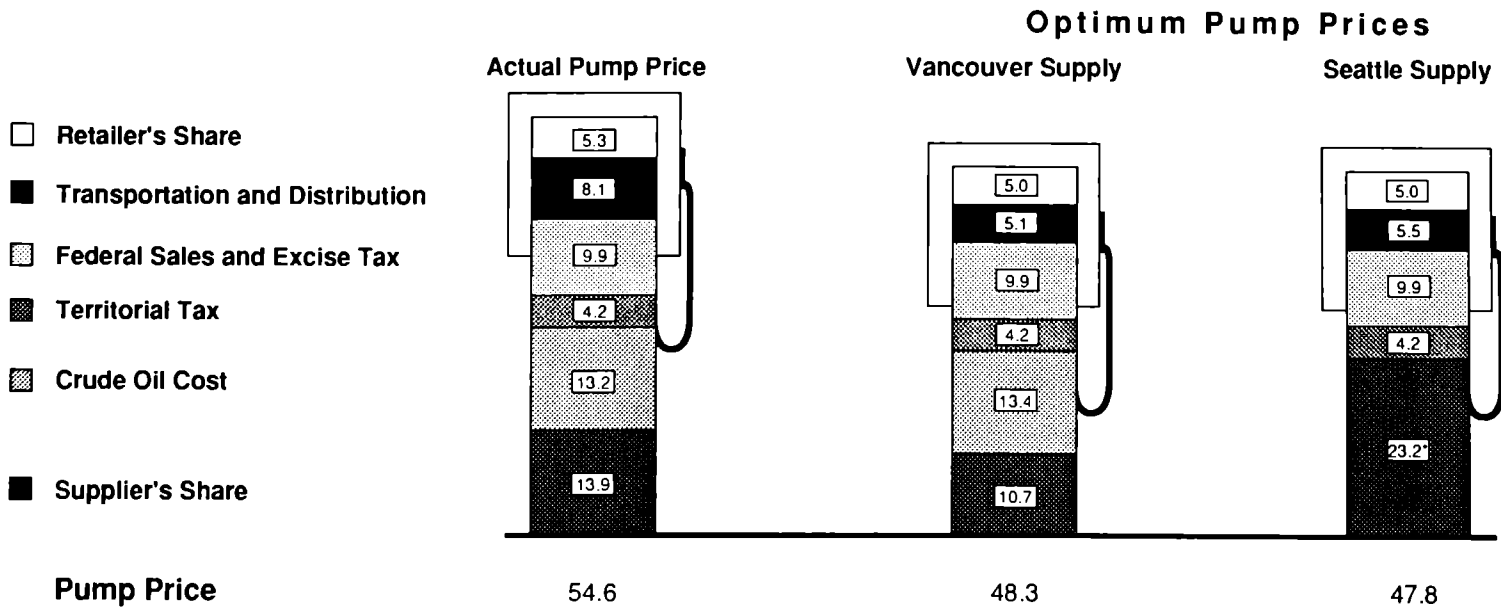
Consumers

Competition is limited by consumer market conditions: size and location of markets; a shortage of independent non-branded dealers; and lack of price sensitivity in consumer buying habits. Indeed, retail consumers are not well-informed about prices and generally do not shop around for the best prices.

On the other hand, a significant portion of the industrial market

Figure 2
Optimum Pump Prices, Actual Pump Price vs. Vancouver and Seattle Supply Routes
Regular Unleaded Gasoline, Self-Serve Outlets April 1988

(cents/liter)



* Supplier share includes crude oil cost; it is composed of an average rack price of 19.7 cents, and a wholesale margin of 3.5 cents per litre.

Source: Statistics Canada, Energy Mines and Resources Canada, Yukon Petroleum Fuel Pricing Inquiry, Oil Price Information Service (unpublished)

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is very competitive. Characteristically, industrial consumers are more informed, purchase in greater volumes, and are aware of alternate supply sources and buying processes. Still, many industrial consumer purchasers in the Yukon do not take full advantage of their buying power — that is, they do not obtain full discounts, do not use a tendering process, and do not explore alternate supply sources.

Retailers

Large suppliers control 97% of retail gasoline sales in the Yukon by

- (a) contracting with and franchising dealers,
- (b) owning the service stations, or
- (c) leasing from owners and sub-leasing back to them (cross-lease).

These contract arrangements usually contain further restrictive terms — rights of first refusal, supplier options to renew, and evergreen clauses — which tie dealers to their branded suppliers for excessive periods of time. As a result, only a small portion of retail business is renegotiated each year. Dealers are largely dependent on the goodwill of suppliers for reasonable wholesale prices, and retail competition is limited.

Transportation

Due to the Yukon's geographic location, transportation costs represent a significant portion of the price of all petroleum products. Access to the least expensive route — Vancouver/Seattle through Skagway to Whitehorse — is extremely limited. Skagway port facilities, including terminalling and bulk storage, are currently controlled by White Pass. As a result, Yukon transportation costs are determined by the more expensive Taylor-to-Yukon transportation route.

In fact, the only competitor of White Pass to use their Skagway facilities paid more to White Pass for that service than they would have paid for direct delivery from Taylor to Whitehorse. Open and competitive access to terminalling and bulk storage facilities in Skagway would have a significant effect on the price of fuel products in the Yukon.

Suppliers

The Yukon market is large enough to provide opportunities for a number of major suppliers. Four major western suppliers have

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taken an active interest in the Yukon: Petro-Canada, Esso, Shell and Husky. Another supplier, Chevron, participates through White Pass. Nevertheless, the market shows a high degree of concentration: in 1987, **two companies, White Pass (Chevron) and Petro-Canada, imported over 90% of all fuel products into the Yukon.** In economic and competitive terms, this high degree of market concentration is undesirable.

Non-integrated, independent suppliers have started to show an increasing interest in the Yukon market. Those independents include Mohawk, Totem Fuels (Haines, Alaska), Dawson Co-operative Union (Dawson Creek, British Columbia), and United Farmers Co-Op (Fort Nelson, British Columbia). In addition, small independent suppliers are beginning to acquire product from a refinery located in North Pole, near Fairbanks, Alaska.

In 1987, independents supplied less than 3% of the Yukon petroleum fuel market. Although their participation is modest at this time, independents are having a moderating impact on fuel prices in certain regions. Unless their level of participation increases, independents will not have a long-term significant impact on retail prices throughout the Yukon.

Until competition increases at every level of the petroleum products market, participants will continue to charge what the market will bear, and Yukon consumers will pay more than necessary for their fuel.

2.2 Products

In order to gain a full understanding of the petroleum products market, the Board began by investigating products sold in the Yukon. The Board focussed its inquiry on three categories of petroleum products: motive fuels, including leaded and unleaded gasoline, diesel fuel, and aviation fuels; heating fuels; and propane. The Board recognized the value of alternate fuels; however, such products are of concern only insofar as they can compete with petroleum fuels.

Total sales of petroleum fuel products increased steadily in the Yukon from 1985 to 1987, as table 1 demonstrates.

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Table 1

SALES OF PETROLEUM FUEL PRODUCTS
By Product Type, 1985 to 1987
(000's litres)

PRODUCTS	1985	1986	1987
Motive Fuels ¹	102,957	113,011	135,832
Heating Fuels	35,830	38,882	34,332
Propane	NRS	NRS	7,811
TOTAL BY YEAR	138,788	152,893	177,976
¹ Motive Fuels include:			
Motor Gasoline	52,005	53,056	62,503
Diesel Fuel	43,965	53,474	66,325
Aviation Fuels	6,987	6,481	7,004

[NRS indicates "no reliable source"]

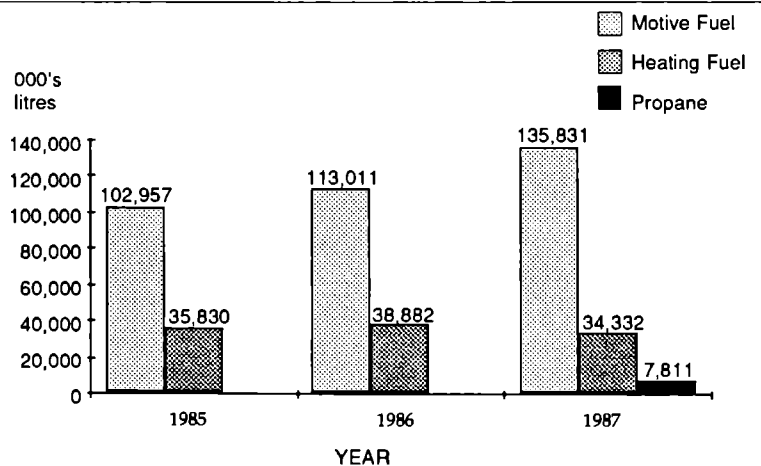
Source: Financial Operations and Revenue Services, Department of Finance, Government of the Yukon; Statistics Canada.

2.2.1 Motive Fuels

Motive fuels are those used in internal combustion engines of transportation vehicles, boats and airplanes — including **gasoline**, **diesel**, and **aviation** fuel products. Sales of motive fuels comprise the largest share of the petroleum products market. Of all petroleum products sold in 1987 in the Yukon, 77.6%, 135,833,000 litres, were motive fuels. Figure 3 compares the consumption of motive fuels and the other two fuel types considered.

Figure 3

COMPARISON OF FUEL CONSUMPTION
by Fuel Type and Year, 1985 to 1987



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There are three types of gasoline in the Yukon market: regular leaded, and regular unleaded, and premium unleaded. Sales of these gasoline products totalled 62,503,000 litres in 1987. As sales of premium gasoline were very limited, the Board considered regular leaded and regular unleaded gasoline.

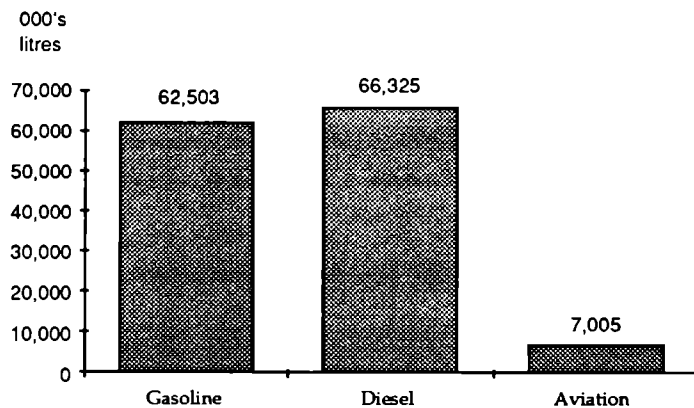
Diesel fuel, a heavier distillate than gasoline, is used primarily in commercial vehicles and heavy equipment. In 1987, sales of diesel fuel totalled 66,325,000 litres.

The **Aviation** fuel category involves two types of fuel: Avgas, used in propeller-driven aircraft; and Aviation Turbo Fuel, used by jet planes. Combined sales of these two products totalled 7,005,000 litres in 1987.

Figure 4 illustrates Yukon consumption of motive fuels in 1987.

Figure 4

CONSUMPTION OF MOTIVE FUELS IN THE YUKON
1987



Source: Financial Operations and Revenue Services Department of Finance, Government of the Yukon.

Gasoline and diesel fuels are readily available from refineries in southern Canada and the United States, including Seattle and Fairbanks. While volatility, vapour pressure and octane specifications are important to cold weather starting and engine performance, it is beyond the mandate of this Inquiry to investigate minimum readings necessary for the Yukon climate and geography. The Board is satisfied that enough petroleum products are available from Canadian and American refineries to meet Yukon needs.

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The Board heard one argument that octane ratings for fuel products from Seattle refineries are too low for use in the Yukon. However, gasoline used in Yukon conditions evidently requires a lower rating of octane than gasoline used in southern locations. Distillation specifications at southern refineries clearly are sufficient. In fact, the Board heard evidence that gasoline from Seattle refineries is used both on Vancouver Island and in the Yukon, without any apparent performance problems. Gasoline from Alaskan refineries also has been used in the Yukon without any indication of problems.

2.2.2 Heating Fuel

Heating fuel comes in a variety of grades and is used for many industrial applications, such as the generation of electrical power. Grades of heating fuel are determined by the viscosity or weight of the distillate. The lighter the weight of the heating fuel, the closer it is to diesel fuel. Heating fuel is exempt from some taxes when it is used for power generation or space heating. Diesel fuel is also exempt when used for off-road motive power. Consequently, one grade of fuel could be classified as diesel or heating fuel, depending upon its use. Heating fuel in many manufacturing applications is a process fuel: for example, fuels used for refining and smelting of ore, drying of lumber, or production of asphalt, all are process fuels. These fuels are not considered separately from heating fuels by this Board.

The Yukon heating fuel market is small compared to the gasoline market, or to home heating fuel markets in other major Canadian centres. In 1987, 34,332,000 litres of various grades of heating fuel were sold in the Yukon, representing 19.2% of the total sales of petroleum fuel products in the Yukon Territory.

The largest importer of heating fuel is White Pass, followed closely by Petro-Canada. White Pass supplied 48% of the heating oil consumed in the Yukon in 1987; Petro Canada, 40%; Esso, 10%; and independents, the remaining 2%.

2.2.3 Petroleum Gases

Propane was the only petroleum-related gas sold in the Yukon in 1987. Propane is a by-product of petroleum refining, but also occurs as a liquid component of some natural gas reservoirs. Propane is pressurized and sold for various uses throughout the territory. A versatile product, propane is used in other markets for industrial,

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commercial, recreational and automotive purposes, as well as electrical generation. In spite of the versatility of this product, the Yukon market is relatively small. The 7,811,000 litres imported and sold account for only 4% of all petroleum fuel product sales in 1987.

As a liquid gas product, propane is shipped, stored, and sold under pressure in either tanks or cylinders. These containers are built to rigid specifications and must be inspected prior to each fill in order to comply with the regulations of the American Society of Mechanical Engineers (ASME) and the Canadian Transport Commission (CTC). In addition, unlike gasoline sales, all propane sales require an attendant. Transportation, storage, and delivery of propane is therefore expensive.

Natural gas can be used in many of the applications that propane is used for. It too can be pressurized and liquified. In southern Canada, where an extensive distribution system exists, natural gas is widely used for heating, processing, cooling and cooking. There are several natural gas wells in the Yukon, but none are in production yet. It would be possible for a supplier to liquify natural gas and bring it to market in Dawson and Whitehorse, from existing wells in the Eagle Plains area of the Yukon.

2.2.4 Alternate Fuels

Escalating world prices for petroleum fuel products have spurred the development of alternate fuel technologies and the revival of old technologies. In the Yukon, wood is the most common form of alternate heating fuel. Coal, solar energy, and geothermal energy all are making modest headway in the alternate fuel market. One coal mining operation is active in the Yukon (Nadahinni), supplying process fuel at Curragh Mines. There is potential for a second coal mine, at a site north of Whitehorse; the Whitehorse Coal Corporation is now working to develop the operation.

Several Yukon homes and businesses have solar installations, primarily for heating domestic hot water. In the Stewart Valley, projects are underway to recover the heat reserves of ground water and use them for space heating. Very little progress has been made with alternate motive fuels.

2.3 The Consumer

As consumers — of electricity, commercial transportation, and Yukon-made products — Yukoners directly or indirectly consume petroleum products and are affected by petroleum product prices.

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The Yukon has a resident population of approximately 27,900 people. Nineteen thousand people are located in the Whitehorse area, sixteen hundred in Dawson City and sixteen hundred in Watson Lake. The remaining fifty-seven hundred people are scattered throughout the other fourteen communities and rural areas of the Territory.

The mining industry is the largest single purchaser of petroleum products in the Yukon. Retail trade, construction and manufacturing also rely heavily on petroleum products. Moreover, each year over 250,000 tourists visit or pass through the Yukon, with the vast majority travelling in their own vehicles, creating a sub-market for gasoline along the Alaska Highway.

The market for petroleum products can be defined by the type of consumer who buys the product, or the "class of trade." Only two divisions of class of trade will be used for the purpose of this report: Industrial/Commercial, including all customers who buy in volume; and Retail Consumers, those who buy gasoline at the pump or have home heating fuel delivered.

Table 2 shows the Board's estimate of product sales for 1986, by class of trade.

Table 2

**ESTIMATED SALES OF PETROLEUM PRODUCT
By Class of Trade, 1986**

	Volume (000's litres)	%
Industrial/Commercial	83,200	57%
Retail	64,000	43%
TOTAL	147,200	100%

Source: Esso Submission to the Yukon Petroleum Fuel Pricing Inquiry, and Statistics Canada.

It is difficult to calculate sales according to class of trade because the records of individual companies do not consistently differentiate the classes of trade. In addition, information from Statistics Canada combines data from the Yukon and the Northwest Territories, and therefore does not provide meaningful information. As a result, there is a slight discrepancy between the figures in Table 2 and those in Table 1, Sales of Petroleum Products by Product Type.

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2.3.1 Industrial/Commercial Consumers

The Industrial/Commercial market accounts for approximately 57% of all products sold. Industrial and commercial sales are handled primarily by only three suppliers in the Yukon market — White Pass, Esso and Petro-Canada. Curragh Resources is the largest single purchaser of petroleum products and is dealt with as a special case (see below). The next three largest industrial/commercial purchasers of petroleum fuel are Yukon Electric Corporation, Government of Yukon, and Government of Canada. The combined purchases of these three accounts exceeded 16.2 million litres in 1987. Purchase of fuel in the industrial/commercial market happens either through a tender/bidding process or by negotiation.

The Government of Yukon uses a tendering process. Annual requirements are estimated and put out to bid. Due to restrictions of the Business Incentive Policy, it is practical only for White Pass, Esso and Petro-Canada to participate in this bidding process. The tender is broken down according to community requirements, and companies are required to bid on a community or regional basis. Seldom do all three companies bid on supplying all communities. In some instances, only one bid is received — a reflection of the general lack of competition. Regional or community bulk storage facilities play a large part in who bids for which community. Contracts are awarded to companies whose community/regional bids were lowest. The system used by the Yukon Government generally results in all three bidders sharing in the supply of government needs.

Curragh Resources

Curragh Resources is a special case. Its annual volumes of fuel purchased far exceed any other industrial/commercial customer. Curragh purchases petroleum products from White Pass, and because of its size and unusual situation, has been able to negotiate a unique contract. Curragh seeks bids for supply of fuel to its operation in Faro. White Pass has the first right of refusal to provide the product at the lowest bid price. Curragh is able to shop annually for the best deal, whether in Vancouver or Seattle, and obtain very good supply offers. By shopping for alternate supply sources, Curragh pressures White Pass to supply products at very reasonable rates. In fact, for heating fuel delivered to Faro, Curragh pays several cents a litre less than the Yukon Government. Care should be taken not to extrapolate this observation too far as the differences in the requirements of Curragh and the Yukon Government are significant.

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2.3.2 Retail Consumers

The retail market accounts for the remaining 43% of sales and includes gasoline service station sales and delivered heating fuel sales. Retail consumers of petroleum products are divided into two groups: resident consumers and tourists.

Residents

The Board of Inquiry conducted a survey to obtain information on what is important to resident consumers when they purchase petroleum products. The survey had 117 respondents. From those responses the Board obtained the following information:

- in selecting a service station, four factors of equal importance were cited:
 - location;
 - type of service, full- or self-serve;
 - price of gasoline; and
 - quality of service (including hours of operation);
- 60% of respondents knew what the per litre cost of gasoline was from their last fill;
- 97% knew how much their last fill cost;
- 37% of respondents knew which station had the cheapest price of gasoline;
- 26% of respondents knew what the cheapest price was;
- when asked if they shopped around for the best gasoline prices, 42% of respondents indicated that they did; 58% responded that they “hardly ever” did;
- as would be expected 77% of those that “hardly ever shopped around” **did not know** what per litre price they last paid; and
- of the people that did shop around, 78% **did know** what the per litre charge was for their last purchase of gasoline.

Tourists

Information about tourist consumers has been compiled recently in the **Yukon Visitor Exit Survey, 1987**. The survey contains much information about tourists and their expenditures from June to September. Of the nearly 200,000 tourists surveyed, 94% were travelling by road. Their expenditures for gasoline, repairs, and related goods and services totalled over \$12 million. Tourists would be expected to purchase repairs, tires and maintenance only on an emergency basis. Therefore, the Board estimated that 70% of their expenditures were for gasoline. Based on this estimate tourists

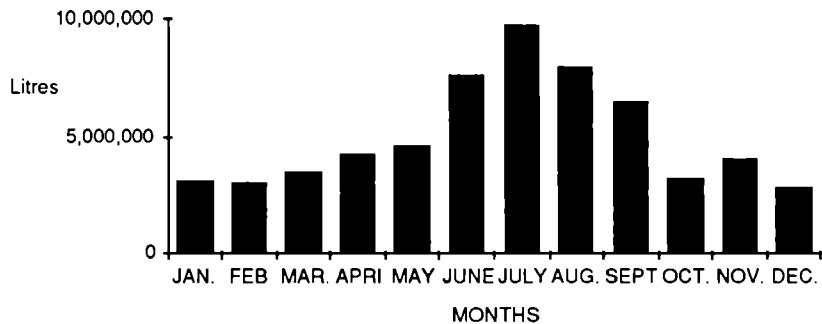
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purchased approximately 15 million litres of gasoline in the four summer months in 1987.

This 15-million-litre estimate is supported by data obtained by the Government of Yukon in their surveys of gasoline consumption. Figure 5 shows monthly consumption of gasoline products in 1987.

Figure 5

MONTHLY CONSUMPTION OF GASOLINE 1987



Source: Financial Operations and Revenue Services, Department of Finance, Government of the Yukon.

The four-month summer period shows increased consumption of approximately 17 million litres of gasoline. Yukon residents travel more by road in the summer, so the full 17 million litres cannot be attributed to tourists. But the estimate of 15 million litres, drawn from the visitor exit survey, seems reasonable in light of this second calculation. Tourism appears to account for over 20% of annual gasoline sales and over 50% of monthly sales during the summer months.

An unpublished portion of the **Visitor Exit Survey** compiles unprompted responses from tourist. Respondents commented on the high cost of gasoline, but also indicated that they were prepared for higher prices and attributed them to northern conditions. More critical comments were made, however, regarding the wide variations in gasoline prices.

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2.4. Retailers

2.4.1 Retail Outlets — Gasoline

Yukon gasoline is sold through a network of 70 service stations. Due to the size of local markets, location of individual stations, and other factors, wide variations exist in the volumes sold by each station (Table 3). Most stations have very low annual volumes. For example, thirty-eight stations average volumes below 950,000 litres per year, and account for just 25% of the total volume. In contrast, nine stations handle volumes over 1,850,000 litres per year; those nine account for 43% of total sales.

Table 3

COMPARISON OF SALES VOLUMES, 1987
For Service Stations in the Yukon

Volumes 000's Litres	Stations		Total Volume	
	Number	%	Litres	%
0 - 500	26	41.3	5,364	9.4
500 - 950	12	22.2	8,840	15.5
950 - 1,400	7	11.0	8,255	14.4
1,400 - 1,850	7	11.0	10,652	18.6
1,850 - 2,300	6	9.5	12,594	22.0
2,300 - 2,700	0	0.0	0	0.0
2,700 - 4,500	3	4.8	11,521	21.2
TOTALS	63	100	57,226	100

Source: Yukon Petroleum Fuel Pricing Inquiry

With data available from company returns to this Inquiry, the Board was able to compare average annual sales for stations in Whitehorse with those in other urban centres across Canada. The seventeen Whitehorse service stations averaged 1,950,000 litres in 1987. Whitehorse stations branded to major refiners, including Shell, Esso or Petro-Canada, sold 47% more fuel than stations branded to regional refiners, such as Chevron and Husky. Table 4 shows average gasoline sales for stations in selected communities across the country, according to their affiliation.

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Table 4

**AVERAGE SALES VOLUMES FOR RETAIL OUTLETS
In Selected Urban Centres,
By Refiner Type
1987
(000's litres)**

	Population 1986	1987 Sales	
		by Major Refiners	by Regional Refiners
Whitehorse	18,092	2,321	1,574
Corner Brook, Nfld	22,719		
Sudbury, Ont	152,476	1,935	438
Regina, Sask	186,521 *	2,446	328
Grande Prairie, Alta	26,471	1,643	1,789
Lethbridge, Alta	58,841	1,570	1,825
Kamloops, B.C.	61,773	1,935	2,081
Prince George, B.C.	67,621	1,643	2,008
Terrace, B.C.	10,532 **	1,195	2,075
Montreal, Que	2,921,367 *	2,081	1,351
Toronto, Ont	3,427,168 *	3,176	2,263
Vancouver, B.C.	1,380,729 *	2,665	2,702

* Census for metropolitan area
** Data available for August to December 1987 only, but prorated to an annual figure

Source: Energy Mines and Resources Canada and Yukon Petroleum Fuel Pricing Inquiry.

2.4.2 Service Station Ownership and Management

The Yukon network of service stations sold over 62 million litres of gasoline to the resident and tourist traffic in 1987. These sales, at retail, are conservatively valued to exceed \$34 million dollars. Sales occurred through several different types of service stations: self-serve, full-serve, stations with convenience stores, and stations with service bays.

Ownership of retail stations in the Yukon occurs in several forms. Forty-five stations are branded dealers, owned by independent dealers who contract with a supplier for petroleum products and use of the supplier's brand name; ten stations are branded lessees, owned by the company and operated by lessee dealers; four stations are company owned, owned by the supplying company, operated by employees of the company or commission agents. Finally eleven stations are owned by non branded

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independent dealers, who are not bound to suppliers by any contractual ties and can switch supply sources at will. Four of those are supplied by Esso or White Pass, on an unbranded basis; two are supplied by Petro-Canada; and five purchase fuel from independent suppliers in Alaska, Alberta or British Columbia. Seven of the independents are south of Whitehorse, with a major concentration in the Watson Lake area. Appendix III contains a full listing of all service stations.

Since 64% of the Yukon retailers under consideration were branded independent dealers, the Board examined the details of ownership and management for those outlets. The dealers are in some respects independent business persons; yet they are bound to their supplier in matters relating to product, hours of business and condition of the station. The branded dealer is obliged by the terms of the supply contract to sell only the supplier's gasoline. Frequently the dealer is not permitted to carry any oils or lubricants other than the supplier's. In some cases, even the purchase of tires, batteries and accessories is controlled by the supplier. A review of contracts in force between suppliers and dealers reveals a systematic series of restrictive clauses. Among those clauses, the following are most restrictive:

- if a dealer plans to sell his station, the supplier retains the right of first refusal to purchase it;
- the dealer cannot sell any other supplier's products for a 90-day period after contract termination;
- the contract (of five, ten, or more years) expires or renews automatically, without an option to renegotiate the contract before the date of expiry; and
- upon termination of the contract, the supplier has first right of refusal to match any other supplier's contract and price.

A detailed discussion of contracts and restrictive clauses is contained in Chapter IV, Section 4.2.

2.4.3 Service Station Costs

Information gained through the Board's retail survey, and information provided to the Board, augmented Statistics Canada data on the operation of retail service stations. Some general observations:

- The Yukon service station industry employs over 300 people.
- Yukon service stations average 4.15 employees, while average Canadian service stations average 5.75 employees.
- The average annual cost of a person-year of labour in a

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2.4.4 Retail Sales — Heating Fuel

service station is approximately \$5,400 higher in the Yukon than the Canadian average.

- Land costs for service stations are significantly lower in the Yukon than in southern Canada.
- In 1985 and 1986, average depreciation in the Yukon was 40%, 10% higher than the Canadian average. This could be explained by a combination of two factors: the cost of capital facilities in the Yukon is higher than in most of Canada, and the Yukon industry is in a building stage, with younger capital assets.
- Yukon occupancy expenses generally appear to be lower than the Canadian average, although heat and light are more expensive.

Retail sales and industrial are handled by a variety of bulk dealers and commissioned agents.

White Pass, the largest importer of home heating oil in the territory, operates two bulk plants in the Whitehorse area. The company purchases heating oil primarily at the Chevron refinery in Burnaby, B.C. White Pass and its subsidiaries transport the fuel to the Whitehorse tank farm. White Pass sells directly to commercial consumers in the Whitehorse area; but a retailer handles retail sales, buying fuel by the tanker load from White Pass.

White Pass Petroleum Division trucks home heating fuel to outlying communities and delivers it to bulk stations. In Mayo and Ross River, householders can purchase heating oil from commissioned agents. In both communities, White Pass owns the facilities and pays the agents a commission based on the number of litres sold to consumers. Residents in Faro, Dawson City and Watson Lake receive delivery from company-owned bulk plants operated by salaried employees. White Pass is currently in the process of upgrading the Dawson City bulk storage facilities and relocating to the Callison industrial area of Dawson.

Petro-Canada supplies heating oil to four bulk plants dispersed throughout the Yukon: Dawson City, Watson Lake, Faro and Whitehorse. The Whitehorse plant serves commercial/industrial customers. Petro-Canada heating oil is distributed and marketed by several quite different means: by a reseller in Whitehorse, a branded distributor in Dawson City, and a commissioned agent in Watson Lake. Only the branded distributor owns facilities. The other two distributors own only their delivery trucks.

Esso does not have a bulk plant outlet in the Yukon; most of

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Esso's heating oil is purchased from White Pass, at the Whitehorse terminal. The product originates at the Chevron refinery in Burnaby, B.C., under an exchange agreement between Esso and Chevron. White Pass brings the fuel to Whitehorse and stores it in their own tank farm until Esso buys it back to meet consumer demands. An Esso commissioned agent is located in Whitehorse. The agent receives commission for every litre delivered from Whitehorse.

A small number of Esso customers in the Watson Lake area are handled by the Esso agent in Fort Nelson, B.C. Heating oil for these customers is delivered directly by truck from the agent's bulk plant in Fort Nelson. The fuel originates at the Petro-Canada refinery in Taylor, B.C., again under an exchange agreement.

2.4.5 Retail Sales — Propane

Industrial and commercial sales represent 60% of total propane sales. The major market for commercial/industrial propane is the mining industry. In addition, propane is used for cooking, commercial and industrial heating, and auto fueling.

Auto propane sells for 31 cents per litre compared with Vancouver prices of between 20 and 23 cents per litre. The price difference can be attributed primarily to transportation costs and a less competitive marketplace than in the Vancouver area. Since the BTU rating is lower for propane than gasoline, a vehicle requires 1.2 litres of propane to run the same distance as with 1.0 litre of gasoline. Allowing for this difference, propane would cost an equivalent of 36 cents per litre, compared to 52.1 cents per litre for unleaded gasoline.

2.5 Suppliers

2.5.1 An Overview

Three types of suppliers of petroleum products exist in the Yukon: jobbers, major integrated refiners and independents. Jobbers purchase fuel from refiners in large quantities and distribute the branded products. Major integrated refiners are those national or regional companies that have refineries and that market refined products (e.g., Shell, Petro-Canada or Esso). Independent suppliers supply unbranded product to independent outlets.

2.5.2 White Pass

The White Pass and Yukon Corporation was incorporated in the fall of 1951 to purchase the assets of a British holding company, including a railway and coastal navigation system. Federal Industries

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of Winnipeg acquired control of White Pass in 1973. White Pass was and continues to be a company concerned with transportation. Motorways Transport, a national trucking concern and subsidiary of White Pass, accounts for over 79% of White Pass's asset base. White Pass has total assets of approximately \$150 million and earns annual revenues of \$226 million. In 1987, the company sold over 120 million litres of petroleum product a year, including 21 million litres to Esso.

White Pass is a jobber of Chevron petroleum products. The company purchases fuel from the Vancouver refinery, then transports the product by boat to Skagway, and by pipeline and road to the Yukon. White Pass recently purchased bulk storage and distribution facilities along the southeast coast of Alaska. Through this purchase, White Pass has made its coastal trading activities more cost efficient, and also increased its bulk fuel buying power.

White Pass has a system of 27 service stations and 6 bulk storage facilities throughout the Territory (Table 5). This system involves Chevron-branded dealers, branded lessee dealers and company-owned operations. There are three service stations that report themselves as independent, who are supplied by White Pass. They do not advertise their product as Chevron, but sell it as unbranded.

Table 5

**SUPPLY AND USE OF PRODUCTS
BY WHITE PASS
1987**

	Imported	Sold at Retail	Residual*
Gasoline	42,478	24,040	18,438
Diesel	35,073	35,073	0
Heating	43,504	16,730	26,774
Aviation	6,963	6,963	0
Propane	0	0	0
Totals	128,018	82,806	45,212

* Residual indicates the amount of product purchased from/by other suppliers, or additions to inventory.

Source: Financial Operations and Revenue Services, Department of Finance, Government of Yukon.

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2.5.3 Petro-Canada

Petro-Canada was formed by an Act of Parliament in 1975, and is wholly owned by the Government of Canada. Petro-Canada operates in a commercial fashion, competing with other integrated energy corporations. Petro-Canada has assets valued over \$8 billion dollars and annual revenues of \$5 billion. The company sells over 16.5 billion litres of refined petroleum product a year.

Petro-Canada operates five refineries and serves industrial and commercial customers through 38 terminals and 430 bulk plants. Petro-Canada also has a national network of 3,677 retail outlets, which accounts for approximately 20% of the Canadian retail market. In the Yukon, Petro-Canada has eleven service stations and three bulk storage facilities (Table6).

Table 6

SUPPLY AND USE OF PRODUCTS BY PETRO-CANADA

1987

(000's litres)

	Imported	Sold at Retail	Residual*
Gasoline	14,481	15,354	(873)
Diesel	23,269	23,269	0
Heating	12,092	13,785	(1,693)
Aviation	0	0	0
Propane	0	0	0
Totals	49,842	52,407	(2,565)

* Residual indicates the amount of product purchased by/from other suppliers, or taken from inventory.

Source: Financial Operations and Revenue Services, Department of Finance, Government of Yukon.

2.5.4 Esso

Esso, incorporated in Canada in 1880, is one of Canada's major integrated oil companies. Its total Canadian assets exceed \$9.3 billion, and it has annual revenues of about \$8.6 billion. The company sells 19.2 billion litres a year of refined petroleum products. Industrial and commercial customers are served by 540 Esso sales agents. Esso has a national network of approximately 3,000 retail dealers.

Esso has fourteen service stations and one agent in the Yukon (Table 7). They do not have bulk storage facilities in Yukon, but purchase approximately 21 million litres of fuel from White Pass.

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There is one service station that reports itself as independent, but carries the Esso product line. The product is not advertised as Esso, and is sold as unbranded.

Table 7

SUPPLY AND USE OF PRODUCTS BY ESSO, 1987
(000's litres)

	Imported	Sold at Retail	Residual*
Gasoline	1,141	13,197	(12,056)
Diesel	229	6,087	(6,386)
Heating	0	3,264	(3,264)
Aviation	0	7	(7)
propane	0	0	0
Totals	1,440	22,555	(21,115)

* Residual indicates the amount of product purchased by/from other suppliers.

Source: Financial Operations and Revenue Services, Department of Finance, Government of Yukon.

2.5.5 Husky Oil

Husky Oil was incorporated in 1953 and is primarily owned by Nova, an Alberta Corporation, and Hong Kong interests. Most of its operations are in western Canada. Husky has assets valued at about \$2 billion and annual sales of \$920 million. The company sells approximately 721 million litres of light oil products a year. These sales are accomplished through 311 branded petroleum outlets, including 26 wholesale outlets, 236 retail ones, and 49 car/truck and travel stops. In 1987, Husky had five service stations in the Yukon and no bulk facilities (Table 8).

Table 8

SUPPLY AND USE OF PRODUCTS BY HUSKY OIL, 1987
(000's Litres)

	Imported	Sold at Retail	Residual
Gasoline	7,110	7,110	0
Diesel	956	956	0
Heating	0	0	0
Aviation	0	0	0
Propane	0	0	0
Totals	8,065	8,065	0

Source: Financial Operations and Revenue Services, Department of Finance, Government of Yukon.

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2.5.6 Shell Oil

Shell Canada was incorporated in 1925. It has Canadian assets valued at \$5.5 billion and annual revenues of \$4.9 billion. The company owns 5 refineries and sells approximately 10.2 billion litres of refined petroleum product a year, through a network of 3,479 retail outlets. In the Yukon, Shell has four branded service stations and no bulk facilities (Table 9).

Table 9

SUPPLY AND USE OF PRODUCTS BY SHELL OIL 1987 (000'S Litres)

	Imported	Sold at Retail	Residual*
Gasoline	1,685	1,554	131
Diesel	680	680	0
Heating	124	39	85
Aviation	0	35	(35)
Propane	0	0	0
Totals	2,489	2,308	181

* Residual indicates the amount of product purchased by/from other suppliers

Source: Financial Operations and Revenue Services, Department of Finance, Government of Yukon.

2.5.7 Inter-City Gas Corporation

Yukon consumer demands for propane are supplied primarily by a subsidiary of InterCity Gas Corporation — ICG Liquid Gas Ltd. ICG has bulk facilities in Whitehorse, Dawson City, and Watson Lake, and offices in Watson Lake and Whitehorse. ICG also plans to open an office in Dawson City.

There are more than 20 depots, in 12 communities throughout the territory, where retailers purchase propane from ICG and resell it to consumers (Table 10). These depots operate as a sideline to other business operations or facilities, usually retail service stations.

One other supplier, Wye Tech Services, provides propane for a very small market area around Watson Lake. The Board of Inquiry received no information from Wye Tech Services during the course of its investigation.

Petroleum Products Market

Table 10

SUPPLY AND USE OF PRODUCTS BY ICG, 1987 (000's Litres)

	Imported	Sold at Retail	Residual
Gasoline	0	0	0
Diesel	0	0	0
Heating	0	0	0
Aviation	0	0	0
Propane	7,811	7,811	0
TOTALS	7,811	7,811	0

Source: Financial Operations and Revenue Services, Department of Finance, Government of Yukon.

2.5.8 Independent Suppliers

Several independent suppliers are active in the Yukon gasoline market (Table 11), including: Totem Oil Products Supply, Inc. of Haines, Alaska; the Dawson Co-operative Union; and the United Farmers of Alberta. The Mapco Refinery, in North Pole, Alaska is an independent source of supply for several independent retailers and small suppliers. It should be noted that a Mohawk station has recently been established in the Yukon. Most statistical information is based on 1987 results; and therefore, Mohawk data is absent from this report. To obtain their products, some Yukon dealers hire commercial transport, while others use their own tanker-trucks.

Totem Oil barges fuel from Seattle to Haines, unloading at the Lutak Dock. Totem has a bulk facility with a total capacity in excess of 650,000 litres. This capacity is divided equally between gasolines and diesel fuel. Compared to other suppliers in the Yukon market, Totem has a relatively small operation.

The **Dawson Co-operative Union**, in Dawson Creek, B.C., purchases fuel through the Canadian Co-operative Refinery in Regina, as do the **United Farmers** of Alberta. The Dawson Co-operative Union has approximately 360,000 litres of storage shared among 6 products. The storage capacity of the United Farmers of Alberta is not known. As with Totem this operation is relatively small.

The **Mapco Refinery** in North Pole, Alaska, sells to Yukon dealers at the refinery gate. The Board was not able to obtain any further information about this supplier.

In addition to purchasing fuel from White Pass, Curragh Resources imported a small amount of petroleum product in 1987. For the purposes of statistical reporting, they are considered an independent supplier.

Petroleum Products Market

Table 11

SUPPLY AND USE OF PRODUCTS
By Independent Suppliers, 1987
 (000's litres)

	Imported	Sold at Retail	Residual*
Gasoline	2,094	1,249	845
Diesel	678	678	0
Heating	1,837	97	1,740
Aviation	0	0	0
Propane	0	0	0
Totals	4,609	2,024	2,585

* Residual indicates the amount of product purchased from/by other suppliers.

Source: Financial Operations and Revenue Services, Department of Finance, Government of Yukon.

2.6 Special Case: Old Crow

Old Crow is the northernmost community in the Yukon Territory, accessible only by air transport. Gasoline and diesel fuel must be acquired at Inuvik, N.W.T. and flown into Old Crow. In 1987, domestic consumers were paying \$6.00 a gallon for regular gas, or \$1.32 per litre. In testimony before the Board of Inquiry, Chief Alice Frost of the Old Crow Band identified high fuel prices as a significant factor leading to a higher cost of living in Old Crow. The price of fuel is seen as an impediment to the traditional activities of hunting and trapping, especially since fuel delivery often must be made by air — at added cost — to remote camps outside of Old Crow.

As with any other location, there are three main components in the cost of fuel at Old Crow: acquisition, transportation, and distribution. Only regular leaded gasoline and diesel fuel are used in Old Crow, for vehicle operation and heating respectively. While fuel users in Old Crow include the Royal Canadian Mounted Police, the Yukon Electrical Corporation and the Yukon Territorial Government, this report is concerned primarily with use by the Old Crow Indian Band and Co-op.

The Board was informed that fuel purchasing, expediting and distribution for Band and Co-op needs is co-ordinated by North Yukon Air Limited, pursuant to an agreement between the Minister of Indian and Northern Affairs, the Old Crow Indian Band and North

Petroleum Products Market

Yukon Air Limited. Based on information provided by the Band, it is estimated that fuel needs for 1987 for the Co-op and Band were approximately 70,000 litres of #1 diesel P-50 and 50,000 litres of regular leaded gasoline. Storage facilities can accommodate only 52,268 litres of diesel, and 29,543 litres of gasoline.

Acquisition Costs

The closest supply point for Old Crow is Inuvik, N.W.T. Inuvik in turn is supplied by the Esso refinery at Norman Wells, a refinery developed pursuant to a joint venture agreement between the Canadian Government and Esso. The agreement guaranteed that northern residents could buy fuel products refined at Norman Wells at the same price that Esso sells to small commercial outlets in Edmonton, Alberta, plus barge costs from Norman Wells to Inuvik. Suppliers of Old Crow are able to benefit from that agreement and to acquire fuel products at Inuvik at very competitive prices. In 1987, Old Crow acquired regular gasoline and diesel fuel from Inuvik at approximately 41 cents per litre. In August 1988, Inuvik prices were 36.4 cents per litre for regular gasoline and 38.8 cents per litre for #1 diesel P-50, excluding taxes. Diesel fuel used for heating purposes is exempt from all federal and territorial taxes. Regular leaded gasoline used in Old Crow is exempt from all territorial taxes when used in vehicles for hunting and trapping purposes. It is also eligible for rebates or exemptions from federal taxes.

Distribution Costs

Fuel products are stored in tanks controlled by the Old Crow Co-op and North Yukon Air. They are distributed to the Band and individuals in Old Crow on an as-needed basis. These storage facilities are currently inadequate to accommodate a full year's supply and are often exhausted before resupply. The Co-op has established a procedure for borrowing fuel from government users, and replacing it on resupply.

Chapter Three

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3.1 Transportation Overview

As shown in Table 12 all petroleum products consumed in the Yukon are imported. The Board of Inquiry determined that two companies, Petro Canada and White Pass, dominate the fuel import market: together they import over 90% of all fuel to the Yukon. White Pass controls 65% of the imports — by far the largest share. Petro Canada imports 27% and the remaining 8% is imported by Husky, Shell, Esso and several independent suppliers.

Table 12

**IMPORT OF FUEL TO THE YUKON
for 1987 By Importer and Fuel Type
(000's litres)**

	Gasoline	Diesel & Heating Fuel	Total Imports*	%
White Pass	42,478	78,577	121,055	64.6
Petro-Canada	14,481	35,361	49,842	26.6
Husky	7,110	956	8,065	4.3
Independent Suppliers	2,094	2,515	4,609	2.5
Shell	1,685	804	2,489	1.3
Esso	1,141	299	1,440	0.7
Total Importsby Product	68,989	118,512	187,501	100

* does not include aviation fuel

Source: Financial Operations and Revenue Services, Department of Finance, Government of the Yukon.

The great majority of fuel imported into the Yukon originates at one of three refineries: the Petro Canada refinery at Taylor, British Columbia, and the two Vancouver refineries of Chevron and Petro Canada. These refineries are connected to the Yukon market by three main transportation routes: marine coastal routes to the ports of Haines and Skagway, which are in turn are connected to the Yukon by road and/or pipeline; and a road and rail route from Taylor, B.C. to the Yukon.

3.2 Import Transportation and Distribution Systems

There are two main companies plying coastal shipping routes between Vancouver/Seattle and Skagway/Haines — Alaska Marine Lines and White Pass. Alaska Marine Lines (AML) is a division of Lynden Transport, a Seattle-based company that also operates Yukon Alaska Transport. AML provides barge service to Alaskan coastal communities, including Skagway and Haines. It provides bulk movement of petroleum products, containerized movement of freight, and general freight services. White Pass operates two vessels that serve Alaskan communities — the Frank H. Brown and the Klondike. These vessels are modified to carry bulk petroleum products and containerized goods.

Detailed descriptions of port facilities are contained in A **Background Paper on the Water Transportation Services to and from the Yukon Territory, 1970 - 1986**. Physical descriptions of the fuel handling and storage facilities are given in this report, but no comment is made on whether the storage tanks are useable.

3.2.1 Skagway

Skagway, located about 1400 kilometers north of Vancouver in the Taiya Inlet, is the historic entrance to the Yukon. Traditionally, White Pass has served the Yukon through this port. Connected to the Yukon by an all-weather road, Skagway is 180 kilometers from Whitehorse.

The recently completed **Port of Skagway Pre-Feasibility Study**, prepared by Reid Crowther, concluded that “the foreshore or deep water access in the Port of Skagway is under the control of one company, the White Pass and Yukon Corporation and/or its subsidiaries”. The report indicated that exceptions to this are the small boat harbour and the Alaska State Ferry floating platform and transfer bridge. White Pass also controls the largest parcel of available upland. As a result, White Pass is virtually the sole dock and terminal operator in the Port of Skagway, a situation sometimes referred to as a “bottle neck monopoly”. At the same time, the company has made major investments in the port and is responsible for “most of the facility and land development which has taken place”.

In spite of the bottle neck monopoly, the study recommends several development options, one of which is independent of the White Pass land holdings.

Pipeline

The refined products pipeline stretches 170 kilometers above ground, through the White Pass, connecting Skagway and Whitehorse. Rather than moving product to the Alaskan coast as it did in 1944, it now transports refined product to Whitehorse for use in the Yukon.

White Pass started using the line in 1947, after they upgraded it and reversed the flow. For the ensuing fourteen years, White Pass used the pipeline, but had neither ownership nor direct control of it. In 1958, White Pass purchased the American portions of the pipeline, rights of way, tank farm and unloading facilities. The cost of this purchase is not known by the Board of Inquiry. In 1961, the company purchased the Canadian assets of the pipeline system for the sum of \$125,000. The complete pipeline system includes bulk storage facilities in Skagway and Whitehorse, as well as docking facilities in Skagway.

The Canadian portion of the pipeline system now operates under the terms and conditions of National Energy Board (NEB) tariff "GFO 867", issued April 1, 1982. This tariff sets terms and conditions which any purchaser of the pipeline transportation service must abide by. Price and minimum volumes to be shipped are the two most important conditions. The tariff charge is \$5.307 per cubic meter, or one half a cent a litre. A shipper must transport a minimum batch of 3,200 cubic meters or approximately 3,200,000 litres. This minimum volume is approximately twice the average annual sales volume for Whitehorse service stations. The tariff is not designed for independent fuel retailers, rather for major suppliers.

Recent information provided by the NEB indicates that the pipeline is in a poor state of repair, compromising public safety and the environment. The modifications and repairs needed to bring the pipeline up to a minimum standard involve only obvious public safety and environmental problems; they will not correct flaws inherent in the line's design and installation. The NEB does not expect the needed modifications and repairs to significantly decrease the rate of incidents occurring along the pipeline.

Design and installation flaws, as well as lack of prudent and timely maintenance, have resulted in an increase in the volume of spills, which in turn has significant environmental implications. This Board has been advised that over 165,000 litres of product have been spilled between the American border and Whitehorse in the past five years, over 350,000 litres during the past 25 years. The Board is not aware of any White Pass plans for the pipeline. There has been no

indication of their plans to respond to the NEB's concerns, nor of long-term prospects for the pipeline. The Board believes that the possibility of White Pass abandoning the line is real.

3.2.2 Haines

Haines is located about 25 kilometers south of Skagway, in Lutak Inlet at the northern end of the Lynn Canal. Lutak Inlet provides a safe and sheltered anchorage with nine docking areas. Petro-Canada owns the Northwest Terminal facility with seventeen storage tanks. Near this facility is the Chevron terminal owned by White Pass, with 6 storage tanks. The United States Army owns a facility which has a capacity of about 260 million litres. Totem Oil, an independent supplier, also owns a small facility. Haines is 415 kilometers from Whitehorse.

3.2.3 Taylor

Taylor is located near Fort St. John in British Columbia, approximately 1437 kilometers south of Whitehorse. There is a small refinery in Taylor, with a processing capacity of 2,860m³ of crude oil per day, about half that of most Vancouver refineries. Petroleum products are usually transported from Taylor by rail to Fort Nelson, then by truck to the Yukon. Small amounts are direct delivered.

ICG propane reaching the Yukon market originates at the Petro-Canada refinery in Taylor, B.C.; it is transported to the Yukon by pressurized tanker truck and delivered to bulk storage facilities in Watson Lake, Whitehorse, and Dawson City. Each facility has a capacity in excess of one hundred thousand litres.

3.3 Transportation Routes - Local

3.3.1 Roads

With the exception of Old Crow, which is dealt with elsewhere, distribution of petroleum products within the Territory is accomplished by road. The Haines Highway and the Alaska Highway were constructed during World War II for strategic defense reasons. The Klondike Highway South, connecting Skagway to the Yukon, was completed in 1978. Initially, the road operated on a summer basis only; but in 1986, it was opened on a year-round basis. The Top of the World Highway, connecting Dawson City with Eagle, Alaska, was completed in the early 1960's and is operated in the summer only.

Figure 6 shows major Yukon highways.

Figure 6



3.3.2 Air Transport

As mentioned earlier, Old Crow receives all of its petroleum fuel products by air transport, from Inuvik, NWT. Air transport is also important in supplying small quantities of fuel to isolated locations, for mineral exploration, and hunting and fishing camps. Due to the small quantities of fuels involved, this application will not be considered by this report.

3.4 Regulation

3.4.1 Truck Transport Regulation

Transportation of all commodities within and between jurisdictions is regulated by legislation and government agencies. The Yukon Motor Transport Board, the British Columbia Motor Carrier Commission, and the Interstate Commerce Commission (for the State of Alaska) are the government bodies that regulate most Yukon companies involved in transporting fuel products. They issue certificates commonly referred to as **operating authority**. Operating authority is required wherever a commodity is loaded or delivered within a given jurisdiction. Corridor authority is required when the carrier is merely travelling through a jurisdiction.

In the Yukon, operating authority and other permits are controlled by the Yukon Motor Transport Board, Department of Community and Transportation Services, Government of the Yukon. Applicants must comply with the minimum liability insurance requirements, as well vehicle and driver safety standards, including a comprehensive knowledge of the **Dangerous Goods Transportation Act** and the **Transportation of Dangerous Goods Regulations**.

Operating authority is required for all owners of motor vehicles used to transport petroleum products on Yukon highways, unless the vehicle owner has purchased the products for private use or resale. Yukon motor carriers moving petroleum products within the Yukon require only intra-territorial operating authority. Carriers transporting petroleum products across any of the Yukon's boundaries require a combination of extra-territorial operating authority, and either operating authority or corridor authority in the other jurisdictions involved.

In the province of British Columbia, the Motor Carrier Branch issues and controls operating authority. To be considered for operating authority in B.C., the applicant must be able to comply with minimum requirements for insurance and safety as set out by the Motor Carrier Branch.

The Interstate Commerce Commission (ICC) regulates surface transportation entry and rates in Alaska and the southern United States. The Commission also controls minimum service requirements, such as the number of motor carriers operating in a given area, cargo insurance, and recordkeeping requirements. Other regulations relating to motor carrier operations are governed not by the ICC but by the U.S. Department of Transportation (DOT) or the Utilities Commission of Alaska.

The DOT specifies minimum safety requirements to be met by both drivers and vehicles involved in interstate transportation, including driver qualifications and hours of service. DOT also governs minimum levels of financial responsibility for motor carriers including public liability, property damage, and environmental restoration, but not cargo insurance. Matters such as permits and licenses, fuel taxes and worker's compensation are regulated by the state of Alaska.

Application and review processes are different for each jurisdiction, and may involve advertising or publication of the authority being sought, as well as public hearings where objections to the granting of the authority can be made. In each jurisdiction, a board ultimately decides whether the authority is granted or denied.

The time required for any of these boards to process an application can vary from 60 to 180 days. All jurisdictions have authority to grant interim or temporary operating authority to bridge the gap between the time of application and completion of the review process. In the Yukon, interim operating authority can be granted in circumstances where there is an immediate need to transport goods anywhere within the Yukon. Interim authority is not available for extra-territorial operating authority. British Columbia grants interim operating authority on a similar basis. In the United States, the ICC can issue temporary or emergency operating authority in cases where there is an immediate need and that need cannot be met by existing motor carriers. The time needed to process an application for temporary or emergency authority can vary from three to thirty days.

Guidelines for the standardization of vehicle size and weight maximums across Canada have been proposed as part of the de-regulation occurring in the Canadian trucking industry. The Yukon is already operating on rules that meet or exceed the proposed guidelines. Adoption of the guidelines would simplify extra-territorial hauling but not affect intra-territorial hauling.

The movement of freight, including petroleum products, from Vancouver/Seattle to Skagway/Haines by coastal trading is regulated by both American and Canadian laws. Petroleum is generally shipped in conjunction with other items of freight; consequently, consolidation of freight is an important element in the economic transportation of refined petroleum products.

The Shipping Act of 1920, or Jones Act, as it is commonly known, is the principal instrument by which the United States Government regulates coastal traffic. The Jones Act requires United States ownership, construction and documentation of vessels used in

3.4.2 Marine Transport Regulations

coastal trade. Only ships that meet these three requirements may move between American ports. International trade between Canadian and American ports is unaffected by the Jones Act.

In Canadian legislation, the **Canada Shipping Act** covers registration, terms and conditions of operation, and pollution prevention. This act states:

No goods shall be transported by water or by land and water, from one place in Canada to another place in Canada, either directly or by way of a foreign port, or for any part of the transportation in any other ship than a British Ship.

In this legislation a British Ship is defined as one made in Canada or Great Britain.

The focus of the American and Canadian Acts is different, and the resulting lack of congruence causes difficulty with regard to the Yukon's access to non-Canadian sources of petroleum fuel products. American and Canadian legislations both require domestic traffic to be carried by domestic vessels. But both also view product travelling to the Yukon through Skagway/Haines to be domestic. The Jones Act checks the **ports** of origin and destination, not the origin or destination of the **freight**; as a result, this act considers Yukon traffic moving from Seattle to Skagway/Haines as domestic, despite its Canadian destination. Canadian law also considers this traffic domestic, because the **Canada Shipping Act** focuses on the destination of the freight.

The following summarizes the prohibitions on coastal trading. According to the Jones Act, British/Canadian (White Pass) ships cannot

- a) pick up freight originating in Seattle for delivery to Yukon via Alaska, nor
- b) pick up freight originating in Seattle for delivery to Alaska.

According to the **Canada Shipping Act**, American ships (Alaska Marine Lines) cannot

- a) pick up freight originating in Vancouver for delivery to Yukon via Alaska, nor
- b) pick up freight shipped from Vancouver to Seattle destined for Yukon through Alaska.

These two pieces of legislation have denied the Yukon the service and cost advantages gained by consolidating freight and petroleum product with the much greater Alaskan trade. Moreover, White Pass cannot enter the Seattle refined products market; and Alaska Marine Lines cannot access the Vancouver market, where most of the supply of Yukon refined products originates, nor can it bring Seattle product to the Yukon through Skagway.

It appears that the **Canada Shipping Act** is flexible; and in cases of public need and convenience, it can be varied. In 1985, a waiver was granted to Alaska Marine Lines, enabling them to ply the Seattle to Haines route, with Yukon traffic originating in Canada. AML did this in conjunction with Yukon Freight Lines which provided the Canadian expediting and consolidation functions. This waiver is no longer in effect.

3.5 Developments in the Petroleum Transportation System

As roads have become more numerous and of better quality, the transportation of petroleum fuel products in the Yukon has changed. For example, opening the Klondike Highway South on a year-round basis has had a profound effect on the transportation of fuel into the Yukon. Prior to that opening, the only means of bringing fuel through Skagway, acknowledged to be the cheapest route, involved either the train or the pipeline, both controlled by White Pass. Year-round operation of the highway made independent truck transport possible.

The train operation between Whitehorse and Skagway ceased in 1982, with the closure of the Cyprus Anvil mine. In addition to transporting ore products, the train used to backhaul refined petroleum products. The pipeline system has since assumed much of this product movement.

The economics of refineries are as much a factor in choosing a transportation route as the actual costs of the transportation route. Petro-Canada recently announced the abandonment of its Haines terminal in favour of an overland supply route from its Taylor refinery, an example where the combined economics of the Taylor and Vancouver refineries of Petro-Canada outweighed the advantages of the marine supply route. These kinds of developments have long-term, far-reaching effects on a small marketplace such as the Yukon.

Chapter Four

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4.1 Pricing Overview

In order to understand the pricing of petroleum products, and to determine whether or not Yukoners pay higher retail prices than necessary, the Board of Inquiry identified the various components of petroleum prices, and assigned dollar values to each component. Price components for Whitehorse are illustrated in Figure 7.

Final prices for petroleum products are not arrived at simply by adding together acquisition and transportation costs; rather they are determined by the following six main components:

- retailer's share,
- transportation and distribution,
- federal sales and excise taxes,
- territorial/provincial taxes,
- crude oil costs, and
- refiner's or suppliers share.

The board examined each of these components for Yukon prices in comparison with the same components for prices in other regions. For example, the Board looked at retailer shares in communities throughout the Yukon and across Canada.

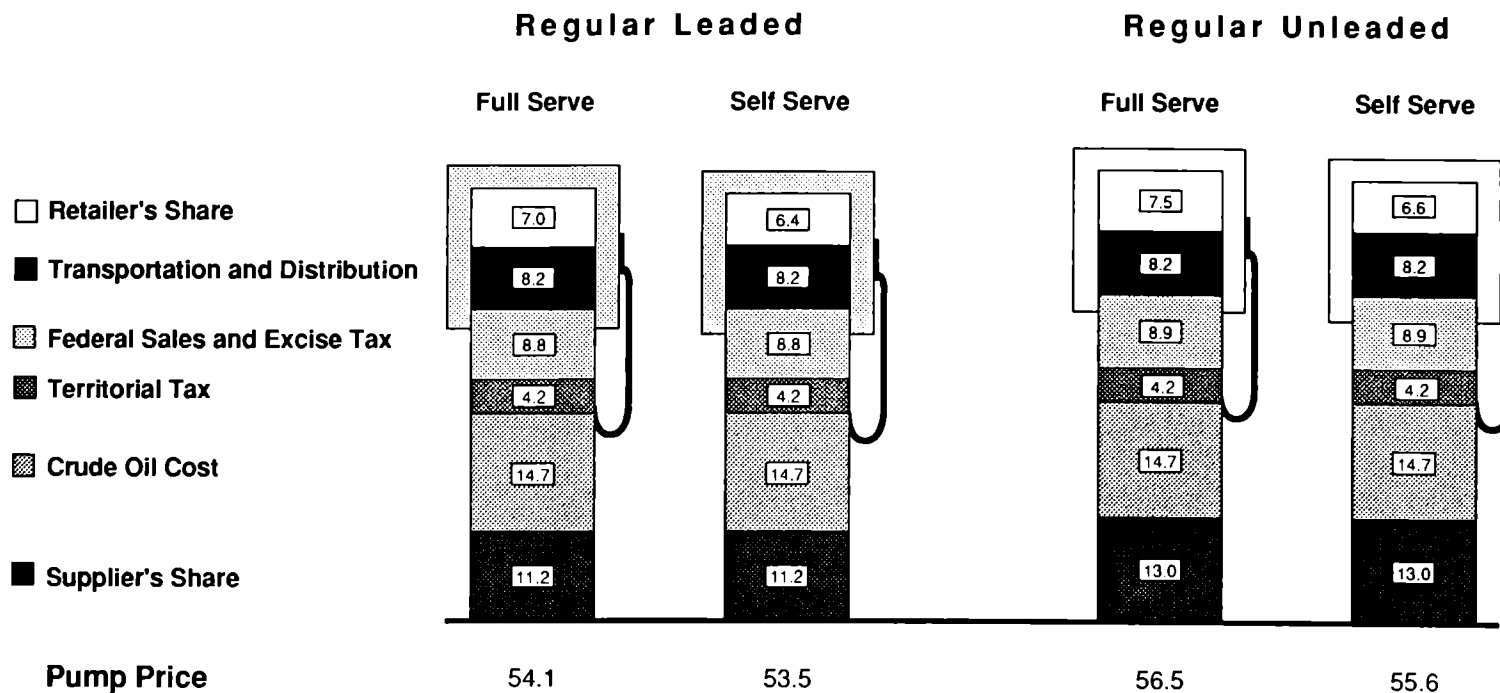
The Board began by comparing the final prices that consumers actually pay for petroleum products — that is, the final price including all costs and shares or margins. Comparisons are made between leaded gasoline and unleaded gasoline, with prices at both self-serve and full-serve stations. Heating fuels are also compared.

The Board examined data for the past three years and four months. There are two reasons for working with this period of time:

- (a) the statistical procedures used to collect the data nationally and territorially were consistent during this time; and
- (b) prices were distorted by the National Energy Policy prior to 1985, but market driven after, making comparisons impractical.

The component analysis in this report, however, is based only on financial information from January 1987 to April 1988. The Board has accounted for differences in reporting by Energy, Mines & Resources, Statistics Canada, and this Inquiry. For example, full detailed information was available for regular **leaded** gasoline but **not for unleaded**; however, when making comparisons, the Board was able to determine that price differences between these two grades of gasoline were consistent in the Yukon. Price analysis involving unleaded gasoline therefore would have produced similar results.

Figure 7
Price Components for Whitehorse, Self-Serve and Full Serve Outlets
Regular Leaded and Regular Unleaded Gasoline, January 1987 to April 1988



4.2 Consumer Pricing

4.2.1 Whitehorse Prices

Gasoline

Gasoline prices in Whitehorse are not driven by competitive market conditions; and they do not regularly reflect changes in crude oil prices. In fact, gasoline prices dropped to their lowest mark for the past three and a half years in April 1988, just after the Yukon Petroleum Fuel Pricing Inquiry began its investigation. In contrast, prices across the rest of Canada have risen and fallen in response to competitive factors and changes in crude oil prices.

Figures 8 and 9 illustrate price movement of unleaded gasoline for six representative Whitehorse service stations. Of these six stations, three are self-serve and three are full-serve. The combined sales of these stations account for 45% of all gasoline sold in Whitehorse.

4.2.2 Yukon Prices

Throughout Yukon communities, varying geographical and demographic conditions have a strong influence on the price of petroleum products. Distance from suppliers, population, road conditions and the amount of summer tourist traffic all play an important role in the pricing process.

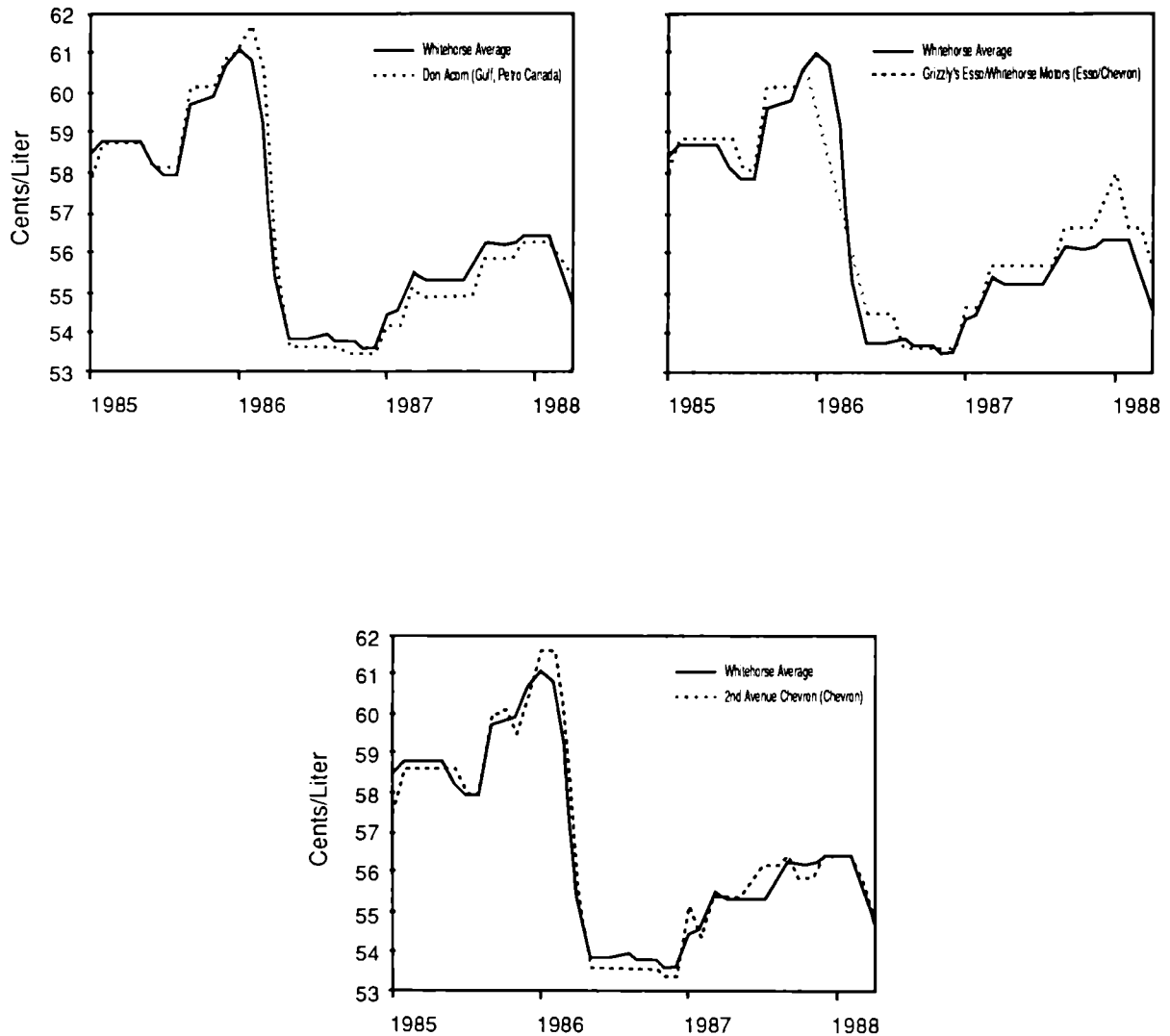
For comparison, eleven communities were selected. Five are on the Alaska Highway — two to the south of Whitehorse and three to the north. The remaining six communities are located on the Klondike, Campbell and Silver Trail highways. Given the tourist traffic, the Alaska Highway seems to have its own market for gasoline sales. Within each of these communities the prices of regular unleaded gasoline and heating fuel were determined from price survey data collected by the Department of Community and Transportation Services, and the Bureau of Statistics, Government of the Yukon.

Gasoline

The Board observed that Dawson gasoline prices have steadily increased over the past three years and have not reflected the general price reductions felt throughout the Yukon, and indeed North America. In fact, in Dawson the decline in the price of crude oil appears to have been associated not with expected lowering of prices, but with slight increases. In contrast, there has been a steady decline in prices in Beaver Creek over the past two years.

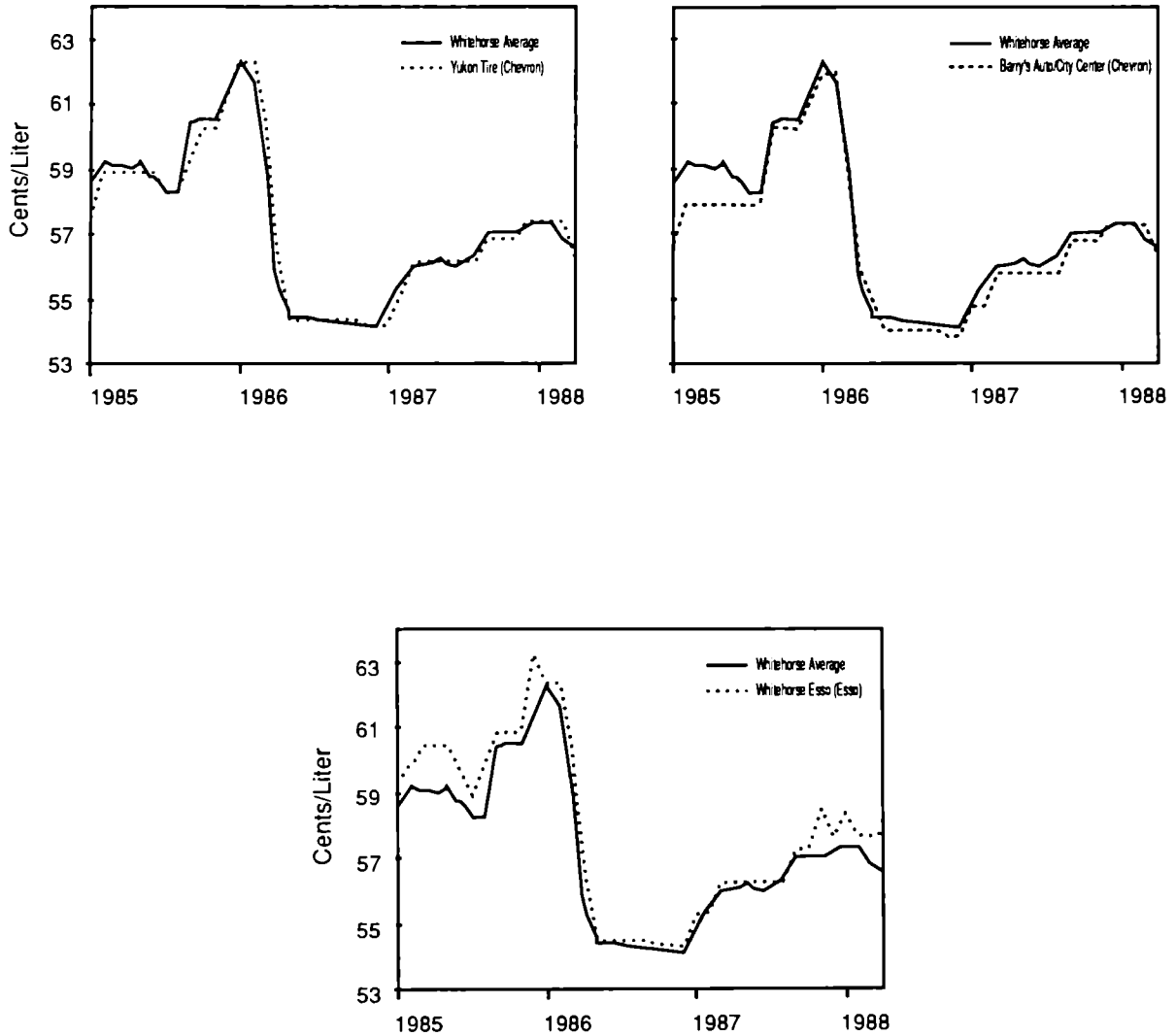
Figures 10 and 11 illustrate the price range of unleaded gasoline

Figure 8
SELF-SERVE RETAIL OUTLETS
Regular Unleaded Gasoline
Whitehorse, 1985-88



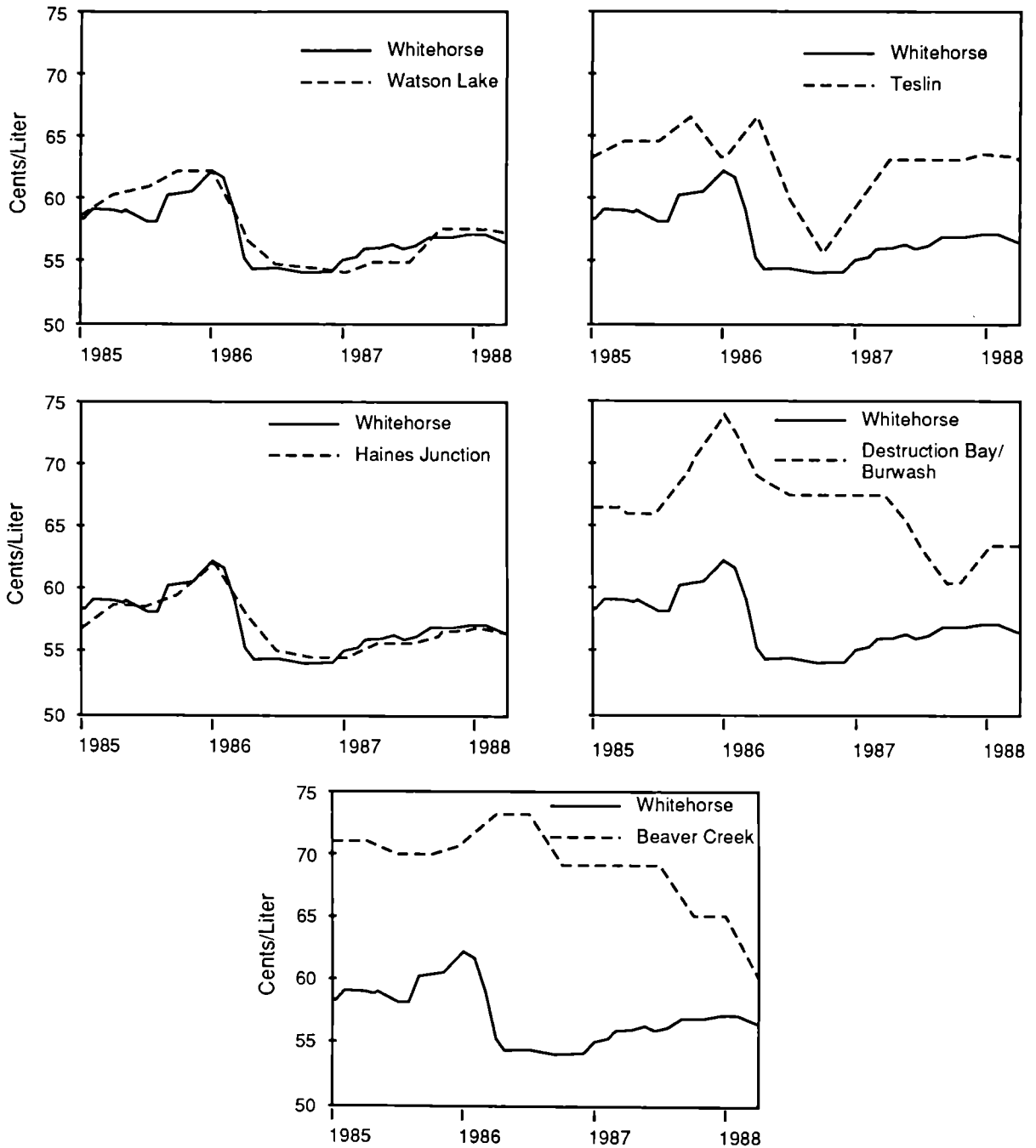
Source: Statistics Canada, Community and Transportation, Government of Yukon

Figure 9
FULL-SERVE RETAIL OUTLETS
Regular Unleaded Gasoline, Whitehorse, 1985-88



Source: Statistics Canada, Community and Transportation, Government of Yukon

Figure 10
PRICE OF REGULAR UNLEADED GASOLINE 1985-88
Alaska Highway Communities vs. Whitehorse, (Including Territorial Fuel Tax)

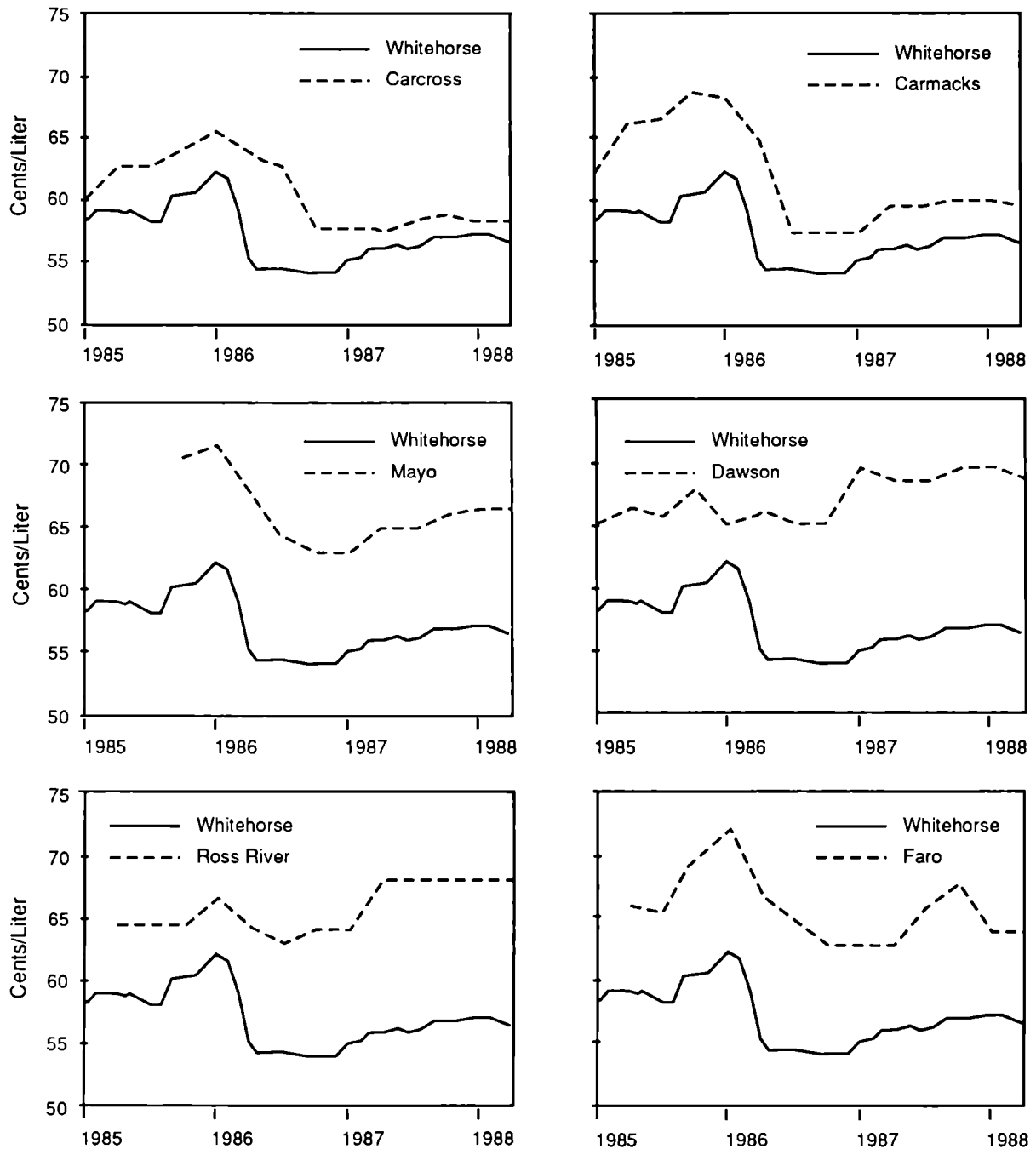


Source: Statistics Canada

Figure 11

PRICE OF REGULAR UNLEADED GASOLINE 1985-88

Yukon Communities off Alaska Highway vs. Whitehorse, (Including Territorial Fuel Tax)



Gasoline Prices in the Yukon versus Canada

4.2.3

for those eleven communities as compared to Whitehorse.

Yukon prices were compared to four centres: Vancouver, Edmonton, Prince George and Yellowknife. Vancouver, is the source of much of the Yukon's fuel. White Pass and Esso both get their product from Chevron's Burnaby refinery. Petro-Canada has obtained product through Burnaby, but in 1988 turned to Taylor, B.C. for refined product. Edmonton has an active refining industry and its prices affect those in Taylor, as well as others in the Yukon. Yellowknife is smaller than Whitehorse, but shares many of Yukon's constraints and limitations. Fuel originates in Taylor or Edmonton, and can be transported by a combination of truck, rail, barge and/or road. The transport route to Yellowknife is longer and more expensive than to Whitehorse.

Figures 12 and 13 compare the movement in the price of leaded and unleaded gasoline for these communities as compared to Whitehorse.

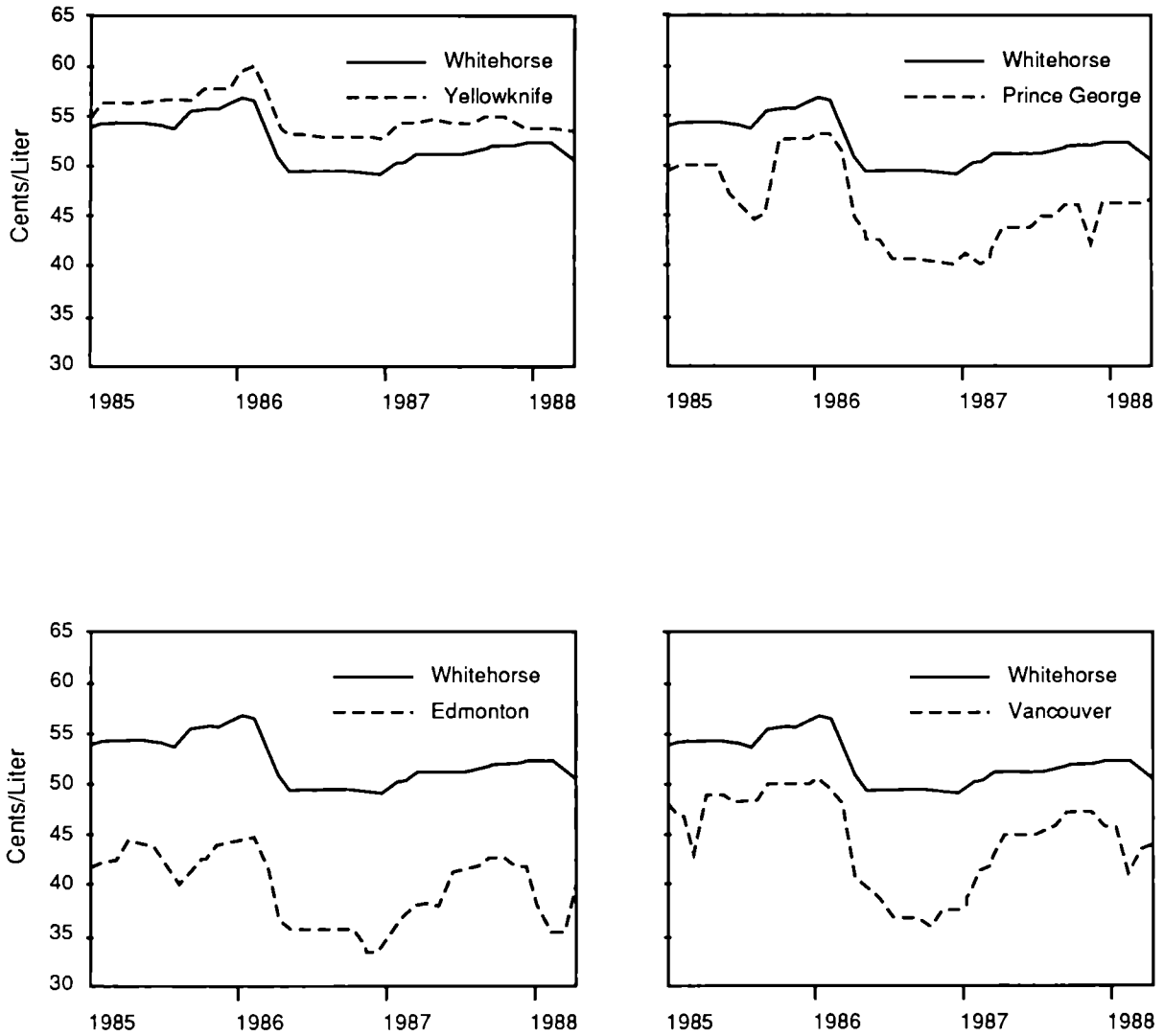
4.2.4 Heating Oil

Figure 14 and 15 illustrate the movement of heating oil prices in the communities over the past three years, compared to that in Whitehorse. Most of the communities have only one supplier of heating fuel, a natural type of monopoly which forms when markets are too small for more than one supplier. In six of the eleven communities, the price for heating oil has remained relatively constant since 1985, and has not declined as in Whitehorse, in spite of the significant drop in crude oil prices.

The average Whitehorse price of heating fuel dropped significantly from about 44 cents per litre to 36 cents per litre, between 1985 and 1987, but has since levelled off at about 37 cents per litre. Whitehorse prices have remained only a few cents higher than Vancouver (figure 16).

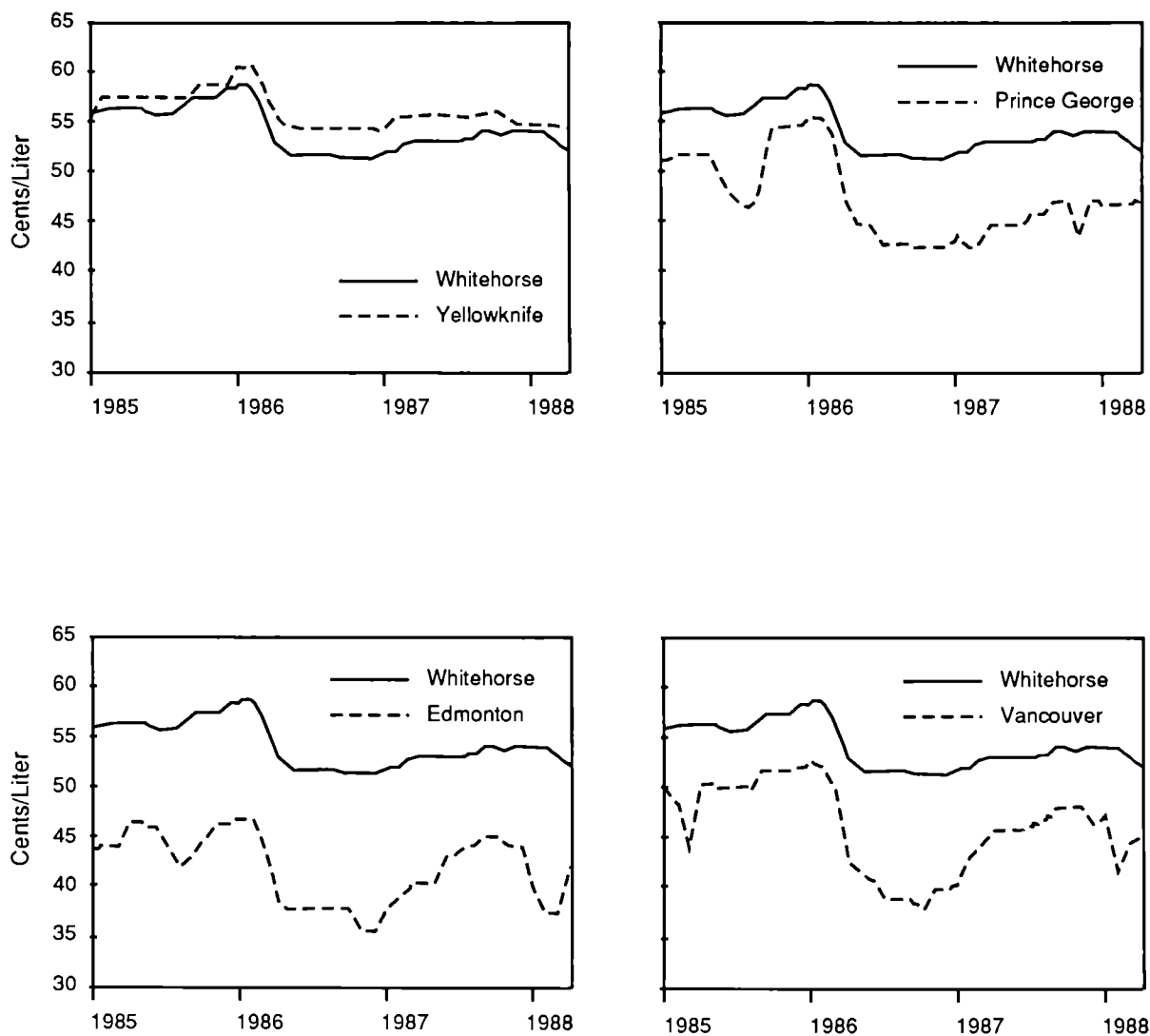
It is of interest that the Yellowknife price for heating oil has been even lower than the Whitehorse price, for all but a nine-month period since 1985. Yellowknife has a smaller population base and more complex transportation route, involving train, road and barge. Such conditions should result in higher prices.

Figure 12
PRICE OF REGULAR LEADED GASOLINE
Self-Serve Retail Outlets, Selected Cities, 1985-88
Excluding Provincial and Territorial Fuel Tax



Source: Statistics Canada

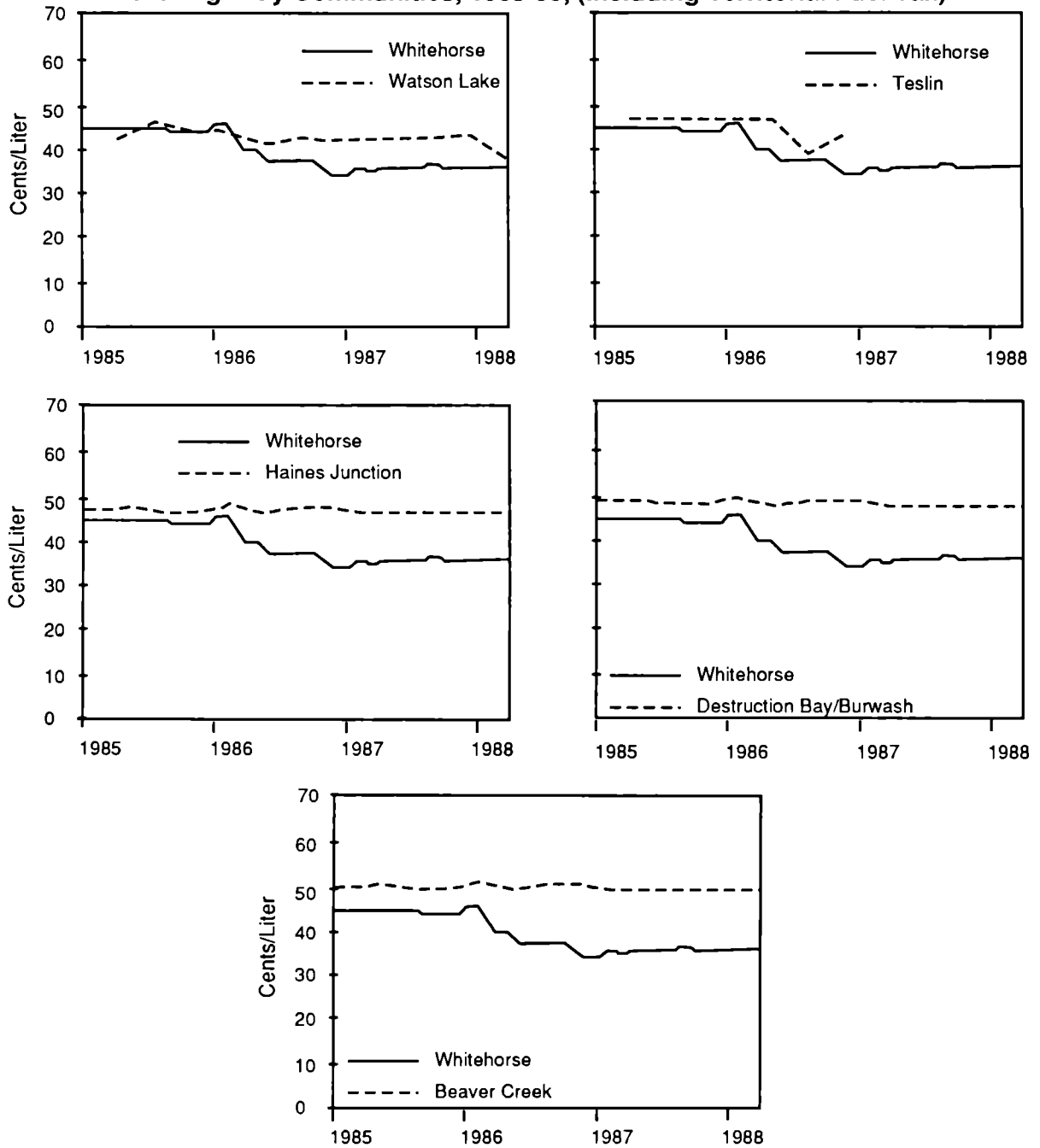
Figure 13
PRICE OF REGULAR LEADED GASOLINE
Self-Serve Retail Outlets, Selected Cities, 1985-88
Excluding Provincial and Territorial Fuel Tax



Source: Statistics Canada

Figure 14
PRICE OF FURNACE OIL

Alaska Highway Communities, 1985-88, (Including Territorial Fuel Tax)



Source: Statistics Canada

Figure 15
PRICE OF FURNACE OIL

Whitehorse vs. off Alaska Highway Yukon Communities, 1985-88, (Including Territorial Fuel Tax)

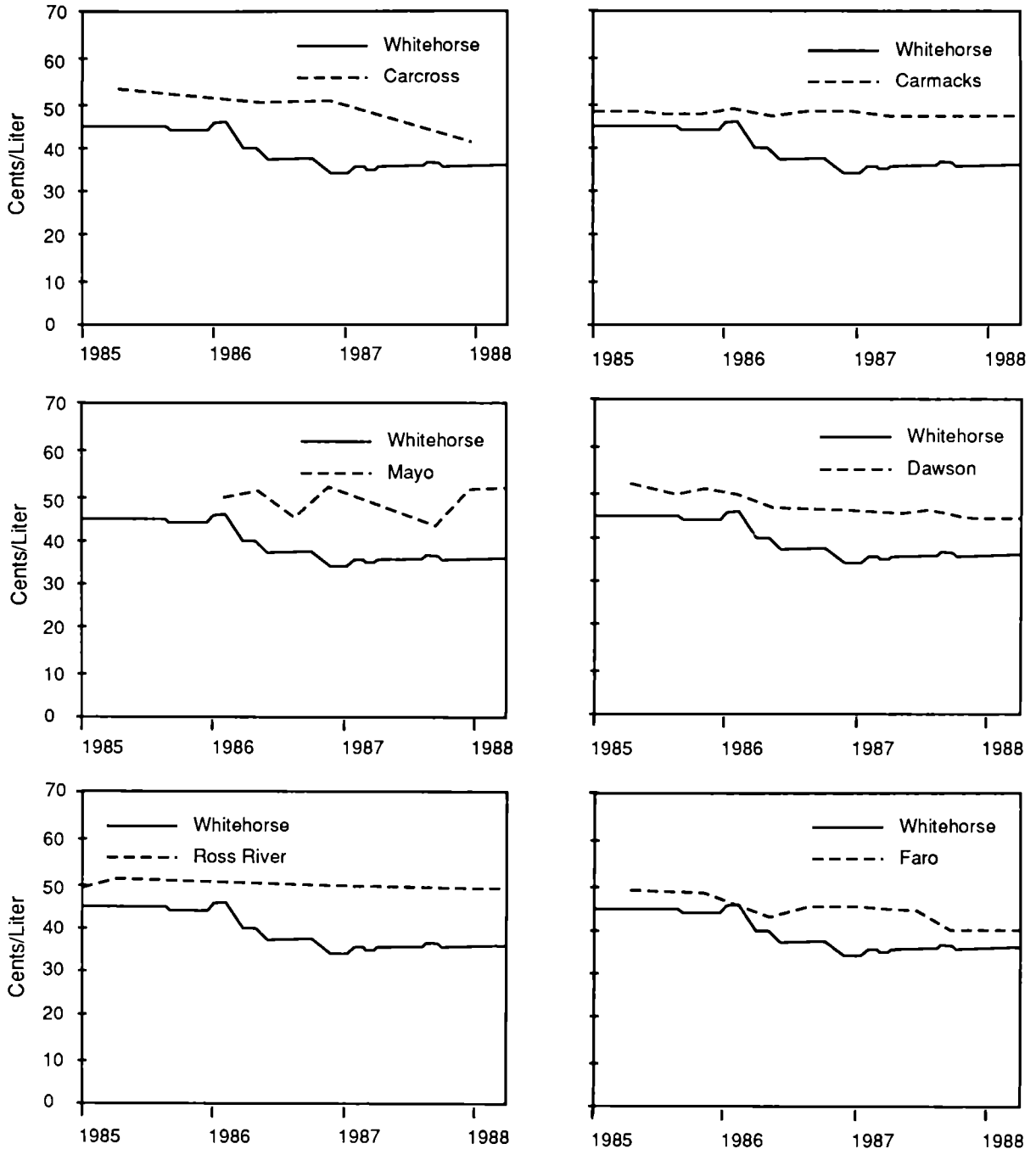
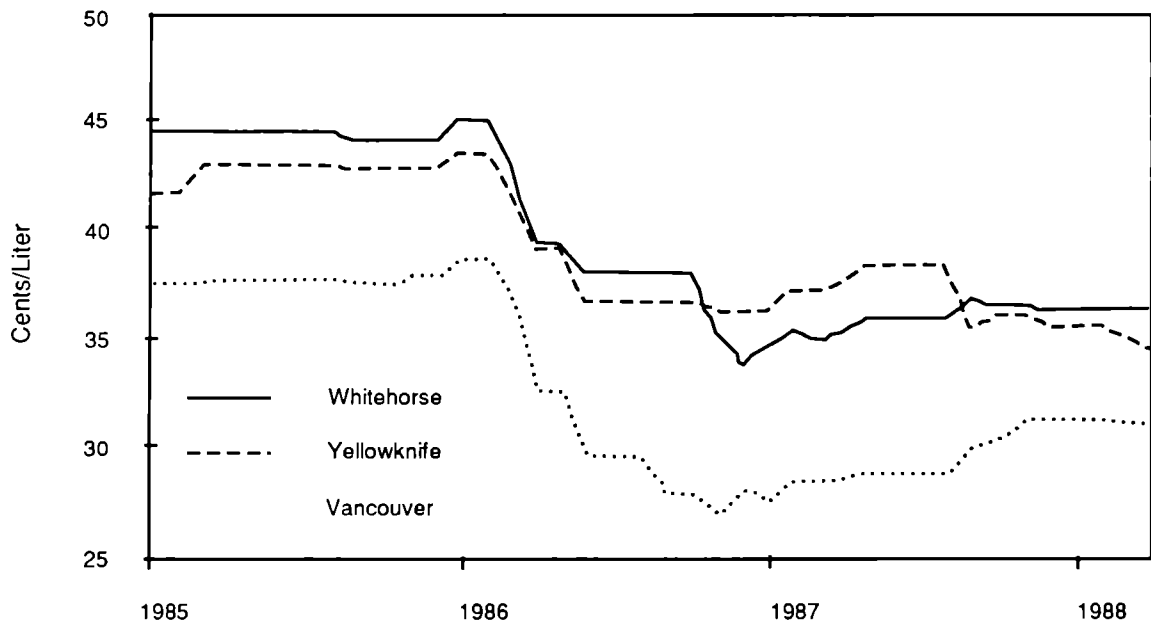


Figure 16
PRICE OF RESIDENTIAL FURNACE OIL
Selected Cities, 1985-88, (Excluding Provincial and Territorial Fuel Tax)



Source: Statistics Canada

4.3 Retailer Share

The retailer share of the price of petroleum products, or the **retail margin**, is the difference between the price that a retailer pays to the supplier, and the selling price to the consumer. This retail margin is used to cover retail costs, including rent, labour, utilities, other operating expenses, and repayment of investment costs. The retail margin is also used to provide a profit to the owner of the retail outlet.

Retail margins do not always match retail costs. The costs are determined by a variety of factors, such as labour-market conditions, age and make-up of the retail facilities, geographic location, efficiency of an operation, and interest rates. Consequently margins and costs may move in quite different directions over short periods.

Retail margins are often supplemented by special **concessions** from suppliers. Branded independent dealers — 64% of all dealers in the Yukon — often receive concessions from suppliers. Cross-lease arrangements, business development agreements, and volume discounts all can serve to increase a dealer's income. In a cross-lease arrangement, the dealer receives a rental payment for leasing his property to the supplier; the supplier then sub-leases the property back to the dealer for a minimal amount, allowing the dealer to retain most, if not all, of the original lease payment. Under business development agreements, loans are often interest free or forgivable; but to have a loan forgiven, the dealer must purchase minimum volumes set by the supplier over a period of time. Such loans can amount to over one hundred thousand dollars, representing a substantial benefit. Finally, dealers can obtain straight discounts tied to volume performance.

Many dealers indicated to the Board that they have contracted for one or more of the available concessions. In most instances, the concessions represented a value of 1 to 2 cents per litre on products sold, but in some cases they were as high as 3 to 4 cents per litre. While these contract arrangements allowed dealers to supplement their retail margin, they also usually involve restrictive clauses tying them to the supplier. The benefits and disadvantages of contracts are discussed in Chapter 5, Section 4.

4.3.1 Retail Margins for Whitehorse Service Stations

To calculate retail margins for gasoline stations, the Board used information on consumer pump prices from Statistics Canada, and dealer purchase prices as given in company returns submitted to the Inquiry. Between January 1987 and April 1988, Whitehorse retail margins on regular leaded gasoline averaged 6.4 cents and 7.0 cents per litre, at self- and full-serve outlets respectively (Table 13).

The Board received complete information for four self-serve and six full-serve outlets in Whitehorse. The margin on regular unleaded gasoline ranged from 5.6 cents per litre to 7.7 cents per litre at self-serve outlets, and from 6.4 cents to 8.5 cents per litre at full-serve outlets. At virtually all the stations, margins were significantly higher during 1987 and the first quarter of 1988 than they were during 1985 and 1986.

The Board noted with interest that there appeared to be little correlation between sales volumes and retailer margins (Table 14). In some instances, stations with high margins also have among the highest volumes, and vice versa.

Table 13

RETAIL MARGINS IN WHITEHORSE
January 1987 to April 1988
(cents per litre)

Simple Average Retail Margin cents/litre	
Regular Leaded — Self Serve	6.4
Regular Leaded — Full Serve	7.0
Regular Unleaded — Self Serve	6.6
Regular Unleaded — Full Serve	7.5
Residential Furnace Oil	4.4

Source: Yukon Petroleum Fuel Pricing Inquiry and Statistics Canada.

Table 14

RETAIL MARGIN & VOLUME SALES
Selected Whitehorse Service Stations

Total Sales Volume of all Products Jan 1987 to April 1988	Unleaded Gasoline Average Margin (cents/litre)	Range of Margins (cents/litre)	Number of Stations
less than 1,000,000	7.1	7.0 to 7.2	2
1,000,000 to 2,000,000	6.8	6.1 to 7.7	3
2,000,000 to 3,000,000	7.3	6.4 to 8.0	3
greater than 3,000,000	7.1	5.5 to 8.5	2

Source: Yukon Petroleum Fuel Pricing Inquiry, Price Survey, Community & Transportation Services, Government of Yukon.

4.3.2 Retail Margins for Stations in the Communities

In the communities, most stations are full-serve, and information about retail margins is available only for unleaded gasoline (tables 17 and 18). For equivalent products and types of station, retail margins were generally much higher in the communities than in Whitehorse. There are two exceptions: Watson Lake margins were only slightly higher, Haines Junction a little lower.

The highest retail margins in the communities generally are found at stations along the Alaska Highway (Table 15). Indeed the station with the highest margin — 16.5 cents per litre — is in Beaver Creek. On the other hand, the station with the lowest margin — 5.9 cents per litre — is also on the Alaska Highway, in Haines Junction. In other Alaska Highway communities, average retail margins ranged from 6.2 to 15.7 cents per litre.

While Alaska Highway communities are served by fuel products shipped on three transportation routes, communities off the Alaska Highway are served almost exclusively by fuel delivered along the Skagway route. In these communities, average retail margins ranged from 6.1 to 13.9 cents per litre. The Gas Shack in Dawson City had a volume comparable to stations in Whitehorse, nevertheless it had a margin of 13.4 cents a litre, about 6 cents per litre higher.

Table 15

RETAIL MARGINS IN SELECTED YUKON COMMUNITIES Regular Unleaded Gasoline, Full & Self-Serve Stations January 1987 to April 1988

	Average Volume per Outlet (Litres per Year)	Average Retail Margin for all Stations in Community (Cents/litre)
ON ALASKA HIGHWAY		
Watson Lake	A	8.6
Teslin	B	13.4
Haines Junction	B	6.2
Destruction Bay/ Burwash	C	12.2
Beaver Creek	C	15.7
OFF ALASKA HIGHWAY		
Dawson City	A	12.9
Carmacks	A	7.6
Faro	A	9.1
Ross River	B	13.9
Mayo	B	9.9
Carcross	C	6.1
A	over 1 million litres per year	
B	500,000 to 1 million litres per year	
C	less than 500,000 litres per year	

Source: Yukon Petroleum Fuel Pricing Inquiry.

Figure 17
Price Components for Yukon Communities, Whitehorse vs. On Alaska Highway
Regular Unleaded Gasoline, January 1987 to April 1988

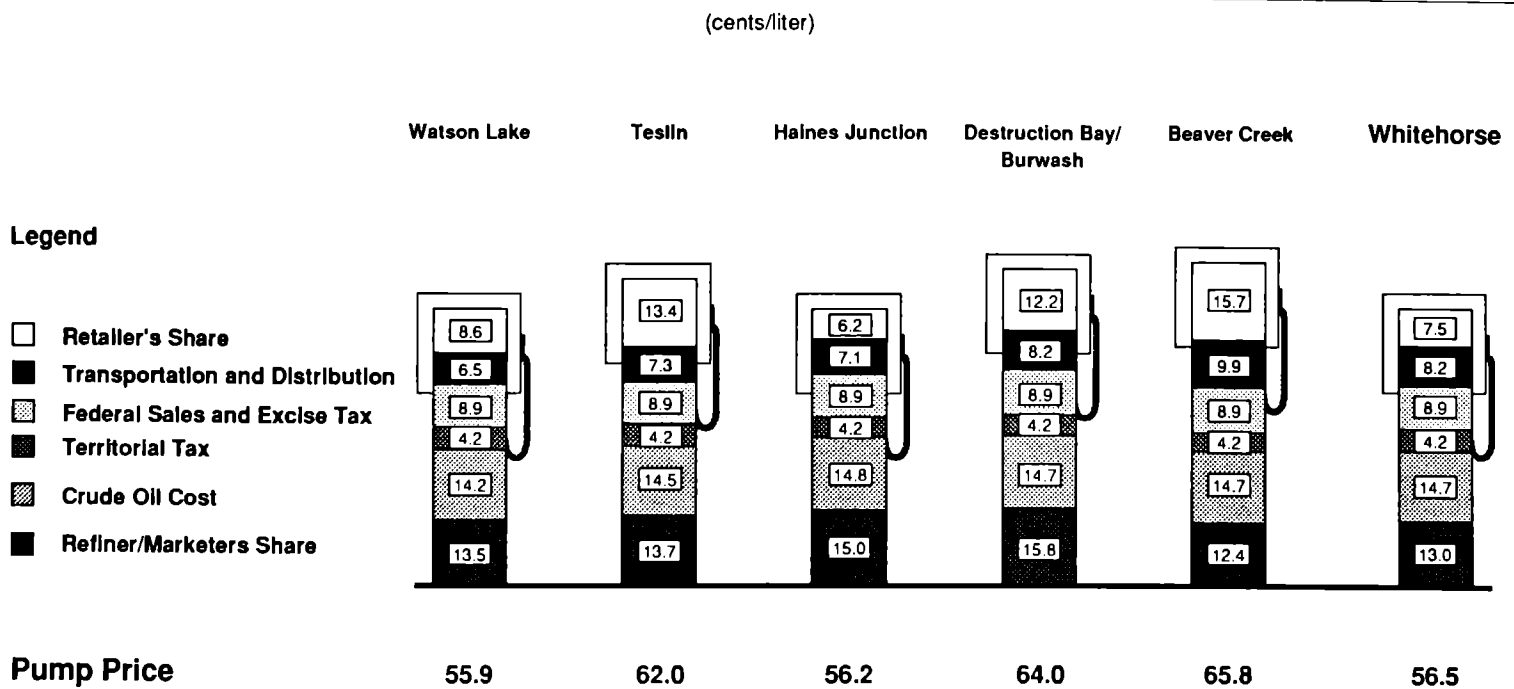
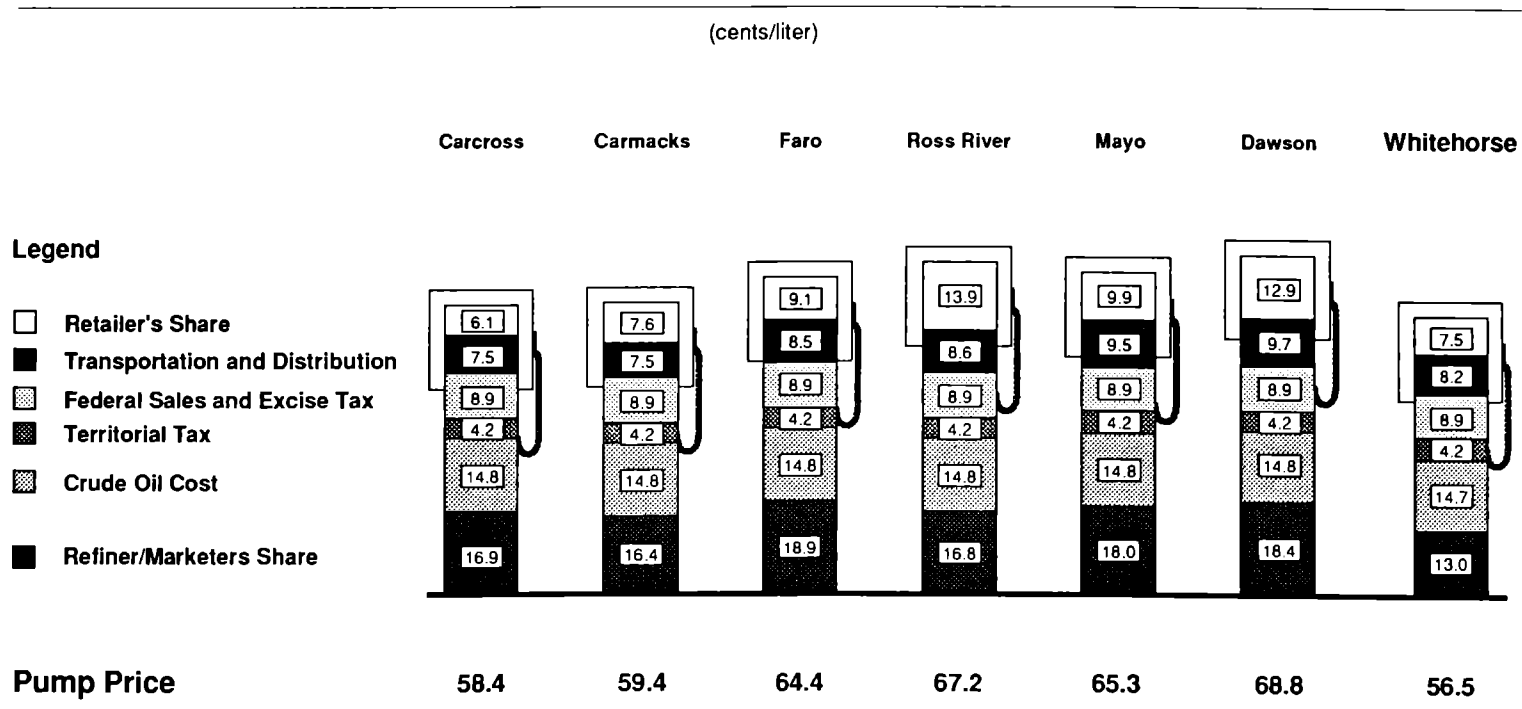


Figure 18
Price Components for Yukon Communities, Whitehorse vs. Off Alaska Highway
Regular Unleaded Gasoline, January 1987 to April 1988



Pricing

4.3.3 Retail Margins Across Canada

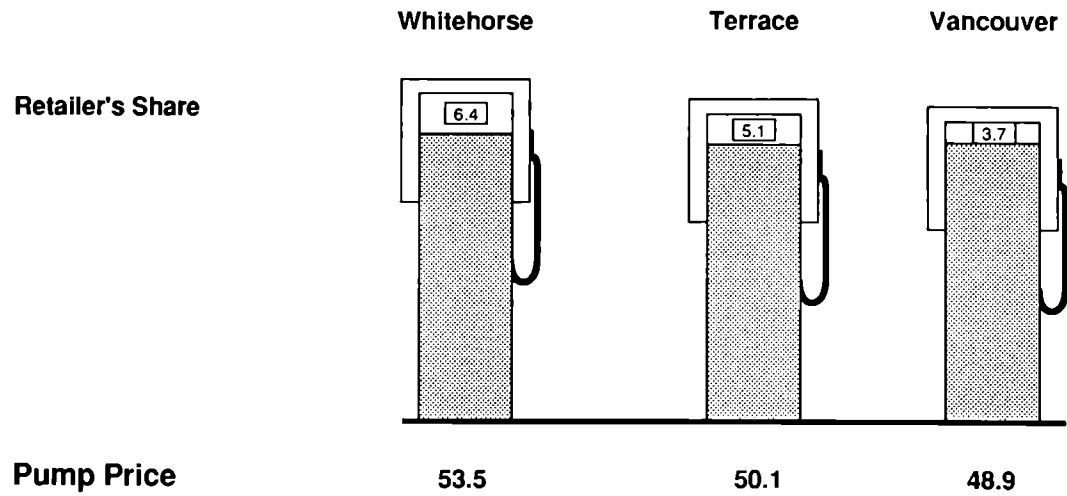
The Board received no evidence to account for the higher average retail margins in communities. Volumes were generally lower, which might be expected to contribute towards higher margins; but evidence indicates that there is little correlation between volumes and retailer margins. Operating costs may be somewhat higher in communities; but again, the Board found no evidence to indicate that any one cost factor caused the higher pump prices and higher margins. Prices generally appear to be driven by the market, with margins as high as the market allows.

Retail margins earned in the Yukon have been much larger than those earned at Vancouver and other major urban centers in Canada. At Vancouver, the margin on **self-serve** sales of regular leaded gasoline averaged 3.7 cents per litre between January 1987 and April 1988. In some other major urban centres, average retail margins were even lower.

Sales volumes may help explain the differences in some cases; however, several major centres actually show **lower** average volumes per outlet than Whitehorse. Intense price competition in most large centres serves to keep retail margins lower than in Whitehorse.

Retail margins were lower even in more northerly and rural communities, such as Terrace, B.C. (Figure 19). For two Terrace outlets, each with different supplier affiliations, the retail margin earned on **full-serve** sales of regular leaded gasoline was 5.1 cents per litre. This figure compares to average retail margins in Whitehorse of 6.4 cents per litre on self-serve sales and 7.0 cents per litre on full-serve sales.

Figure 19
Retail Margins, Whitehorse vs. Terrace and Vancouver
Regular Leaded Gasoline, January 1987 to April 1988



4.3.4 Retail Margins on Heating Fuel

The Board heard evidence that retail margins on heating fuel sales (and on bulk sales of other products) are determined in a more or less uniform fashion across the country. Selling conditions — such as difficulty of deliveries, average delivery sizes, and distances to the consumer — are all important in establishing margins. Other factors affecting margins include credit terms, storage, and carrying charges.

Of the three Whitehorse retailers of heating fuels, two purchase their supplies at a discount from the consumer price established by the supplier. On sales of heating fuel solicited by the retailer, retail margins range from about 2 to 6 cents per litre in Whitehorse. Like gasoline retailers, heating fuel retailers use their margins to cover operating expenses, investment costs, and profits. Consequently, a very small margin, in the order of 2 cents a litre, can occur only where a dealer has very few operating costs, as is the case for commission agents.

The Board calculated an average retail margin for heating fuel of 4.4 cents per litre. Figure 20 is based on retail information reported at the Inquiry, and it includes home delivery. Since margins are determined in a more or less uniform fashion across Canada, the Board used the same representative figure for Vancouver margins.

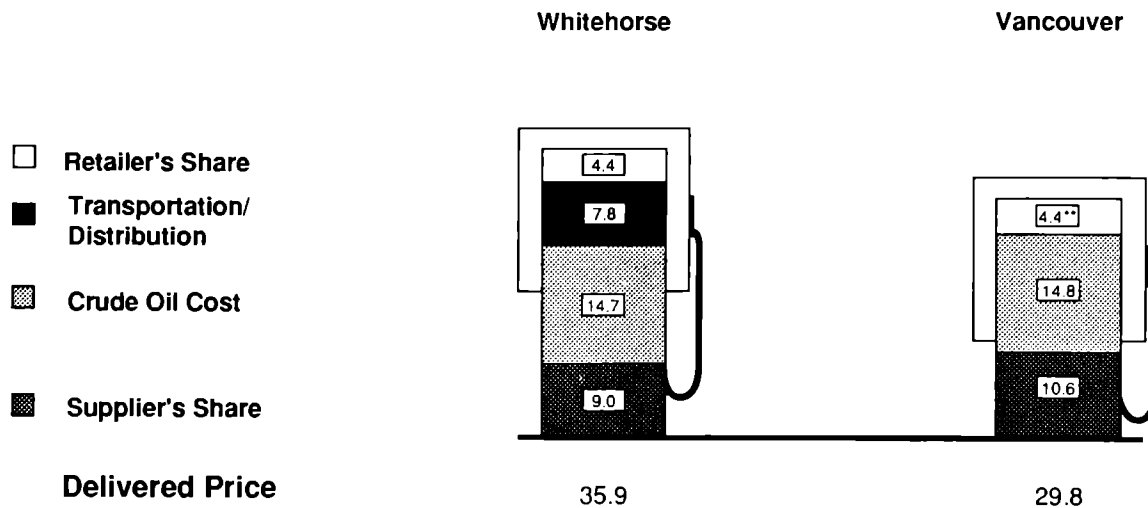
4.4 Transportation and Distribution Costs

4.4.1 Overview

Transportation and distribution costs account for approximately 10 to 15% of the pump price of gasoline, and 25% of the consumer price of heating fuel in Whitehorse. These percentages are even higher in the outlying communities.

A wide range of transportation and distribution cost information was provided to the Board in confidential company returns. Not all companies record their costs in the same way, so it was necessary to standardize the data. The Board calculated transportation costs for each major supplier, and used those figures to calculate a weighted average, based on each company's share of the market from January 1987 and to April 1988. This approach permitted the Board to maintain confidentiality of individual company data, yet produce consistent, representative cost figures.

Figure 20
Price Components for Whitehorse and Vancouver, Residential Furnace Oil (Home Delivered)
January 1987 to April 1988



** Retailer's Share also includes transportation and distribution

The Board considered the following items in establishing transportation and distribution costs for representative petroleum products:

- port charges and marine terminalling costs, for both the Haines and Skagway routes;
- inventory carrying costs, arising from lengthy storage and delivery periods required on coastal routes;
- trucking costs, applicable to all Yukon supply routes;
- trail costs, from Taylor to Fort Nelson, including rehandling charges;
- product loss and shrinkage, arising from differences in temperature and elevation at refinery locations and Yukon destinations; and
- terminalling or agency delivery at Whitehorse where applicable.

4.4.2 Actual Transportation Costs

Transportation Costs to Whitehorse

Information submitted to the Board indicates that the highest transportation costs are incurred on the route from **Taylor to Whitehorse**. Suppliers using this route, Husky and Shell, ship their product by train to Fort Nelson, then by tanker-truck to Whitehorse. Husky and Shell supply very little diesel or heating fuel to Whitehorse, so no transportation costs are available for these products on this particular route. Allowing for costs of the train, trucking, rehandling in Fort Nelson, and distribution in Whitehorse, total transportation costs for gasoline range from 8.5 to 9.0 cents per litre. According to returns, these costs reflect recent reductions in trucking costs along the Fort Nelson to Whitehorse portion of the route. Those costs apparently have dropped approximately 1.5 to 2.0 cents per litre between 1985 and 1988.

On the **Haines route**, fuel is shipped to Haines from Vancouver or Seattle, stored in Haines, and then trucked to Whitehorse. As Haines is 235 km further than Skagway from Whitehorse, trucking costs are higher. The Board calculated Petro-Canada's cost of supplying fuel products through Haines at 8.1 cents per litre for gasoline, 8.5 cents for industrial diesel, and 8.5 cents for furnace oil. During 1987, Petro-Canada was the only major company to use the Haines route. Petro-Canada's transportation and distribution costs include the costs of terminalling and storage in Haines, and a large terminal at Whitehorse.

The least expensive route is the **Skagway** one. White Pass provided no information to the Board with respect to transportation

costs from Vancouver through Skagway to Whitehorse. As a result, the Board had to rely on other confidential and published information, and had to solicit specific quotes for trucking from Skagway to Whitehorse. Using this material, the Board calculated shipping costs on this route at 5.1 cents per litre for gasoline, 5.3 cents for industrial diesel, and 5.8 cents for heating fuel. In calculating these costs, allowances were made for adequate returns on investment and all other costs. The Board believes these costs are comparable to the costs of the shipping and pipeline systems now in use by White Pass.

According to evidence presented to the Board, Esso arranges for the transport of their petroleum products on the route with the lowest actual costs. Esso contracts with White Pass to transport their products from Vancouver to Skagway, and pays fees which are substantially higher than the actual transportation and distribution costs incurred by White Pass. In fact, the fees are higher for gasoline than for distillates, despite lower actual costs. In addition to the fees, Esso incurs local distribution costs. Esso continues to pay high fees to White Pass because of the limited alternatives for supplying the Yukon market.

The Board calculated the **weighted average** for transporting gasoline to Whitehorse at 8.1 cents per litre, 6.8 cents for industrial sales, and 7.8 cents per litre for heating fuel (Table 16). Industrial diesel and heating fuels usually involve higher transportation costs because they are proportionally heavier than gasoline. But they are transported on the less expensive routes, so the weighted average on transport costs for these products are lower.

Table 16

**TRANSPORTATION AND DISTRIBUTION COSTS FOR WHITEHORSE
(cents/litre)**

	Gasoline	Industrial Diesel*	Residential Furnace Oil	Route
White Pass	5.1	5.3	5.8	Skagway
Esso	9.9	9.0	7.8	Skagway
Petro-Canada	8.1	8.5	8.5	Haines
Husky	8.5	n/a	n/a	Taylor
Shell	9.0	n/a	n/a	Taylor
Weighted Average	8.1	6.8	7.8	

*direct delivered to large volume customers with substantial storage

Source: Yukon Petroleum Fuel Pricing Inquiry.

4.4.3 Transportation to Communities

Transportation costs for most of the communities were higher than for Whitehorse, as might be expected. However, some communities south of Whitehorse have benefited from their proximity to southern or Alaskan markets, and incurred lower transportation costs.

For communities on the Alaska Highway, the cost of transporting gasoline ranged from 5.8 cents per litre at Watson Lake to 13.1 cents at Destruction Bay (Table 17).

For communities off the Alaska Highway, the cost of transporting gasoline ranged from 6.6 cents per litre to 11.2 cents per litre. These communities are usually supplied from Whitehorse by White Pass or Esso, so products are transported on the Skagway route.

Table 17

TRANSPORT COSTS TO SELECTED YUKON COMMUNITIES
Gasoline, January 1987 to April 1988
(cents per litre)

	Chevron/ White Pass	Esso	Petro	Husky	Shell	Weighted Average
ON ALASKA HIGHWAY						
Watson Lake*	5.8	6.1	5.8	7.1	6.4	6.5
Teslin	6.7	7.6	n/a	7.3	8.3	7.3
Haines Junction	6.7	11.2	6.5	n/a	n/a	7.1
Destruction/Burwash	7.2	13.1	n/a	10.3	n/a	8.2
Beaver Creek	9.7	n/a	9.8	11.0	n/a	9.9
OFF ALASKA HIGHWAY						
Carcross	6.6	10.3	n/a	n/a	n/a	7.5
Carmacks	6.6	11.2	n/a	n/a	n/a	7.5
Faro	8.5	n/a	n/a	n/a	n/a	8.5
Ross River	8.6	n/a	n/a	n/a	n/a	8.6
Mayo	9.5	n/a	n/a	n/a	n/a	9.5
Dawson	9.7	n/a	n/a	n/a	n/a	9.7

* Virtually all product sold in Watson Lake comes from Petro-Canada's Taylor refinery

Source: Yukon Petroleum Fuel Pricing Inquiry.

4.4.4 Transportation in other Regions

In addition to establishing the costs of transporting petroleum products to Whitehorse, the Board investigated similar costs for deliveries to other major centres and to Terrace, B.C. The major centers all have refineries nearby and local transportation costs varied according to the distance from the refinery. The Board estimated one half a cent per litre as a representative delivery charge. The most economical means of supplying petroleum products to Terrace is a marine transport and tanker-truck system, with terminalling at Prince Rupert. Based on information provided to the Board, 3.6 cents per litre was calculated as the cost of transporting petroleum products from Vancouver refineries to Terrace retail outlets. Some Terrace retailers receive product supply from local bulk dealers, in which case approximately one cent per litre is added to distribution costs.

4.5 Taxes

4.5.1 Federal Sales and Excise Taxes

Both the federal and territorial governments collect taxes on sales of refined petroleum products in the Yukon. At April 1, 1988, fuel taxes collected by both levels of government accounted for 18% of the pump price of regular gasoline at Whitehorse, and 12% of the price of automotive diesel fuel. Taxes on gasoline and diesel vary for commercial off-road uses because exemptions are available. Taxes are significantly lower on aviation fuels and propane than on automotive gasoline and diesel. Neither level of government collects any taxes on home heating oil or fuels used in power generation.

Federal taxes payable on motive fuels consist of a sales tax and an excise tax, both imposed at the manufacturing level. The sales tax is a flat rate based on the 12% manufacturing sales tax. The Industrial Product Price Index is used to make adjustments to the sales tax on a quarterly basis. The federal excise tax is fixed per litre and changes infrequently. This tax, placed on numerous items generally regarded as luxury consumer products, dates from the oil crisis of the early 1970s, when it was deemed that excess gasoline consumption should be discouraged.

Federal taxes vary for different petroleum products. At April 1, 1988, both regular grades of gasoline were subject to a 3.43 cent per litre sales tax and a 6.5 cent excise tax. Prior to April 1988, the sales tax rate applied to the two grades was different: on premium unleaded, in April 1988, sales tax was 3.53 cents — .10 cents higher

4.5.2 Territorial Taxes

than on leaded gasoline. Diesel fuel was subject to a 2.65 cent sales tax and a 4 cent excise tax.

On aviation gasoline, turbo (jet) fuel and propane, federal taxes are applied somewhat differently. Sales tax on aviation gasoline and turbo fuel is a straight 12% of the value at the manufacturing level. Propane is subject to the same 12% tax, but on only 17% of total production. The remaining 83% of propane production is assumed to be for tax-exempt use. At April 1, 1988, excise tax was collected at the rate of 6.5 cents per litre for aviation gasoline, and 4 cents per litre for turbo fuel. Propane is not subject to the excise tax.

All provincial and territorial governments collect taxes on automotive gasoline and diesel fuel (Table 18). These taxes were initiated in the early part of the century to generate funds for expansion and improvement of road networks.

The Yukon government collects a tax of 4.2 cents per litre on gasoline, 5.2 cents on diesel fuel, and .7 cents on fuels used in aircraft. These rates are the lowest of all the provinces and territories in Canada.

Table 18

**PROVINCIAL AND TERRITORIAL TAXES
On Automotive Gasoline and Diesel Fuel
April 1988
(cents/litre)**

	Regular Leaded	Regular Unleaded	Premium Unleaded	Diesel Fuel
Yukon	4.2	4.2	4.2	5.2
N.W.T.	8.4	8.4	8.4	7.1
B.C.	9.4	7.4	7.4	7.8
Alberta	5.0	5.0	5.0	5.0
Saskatchewan	7.0	7.0	7.0	7.0
Manitoba	8.9	8.0	8.0	9.9
Ontario	12.3	9.3	9.3	9.9
Quebec	14.4	14.4	14.4	12.5
New Brunswick	7.8	8.2	8.6	8.0
Nova Scotia	8.7	8.7	8.7	9.0
P.E.I.	8.5	8.5	8.5	10.1
Newfoundland	9.8	9.8	9.8	12.1
Average (excluding Yukon)	9.1	8.6	8.6	8.9

Source: Energy, Mines and Resources Canada.

At April 1, 1988, Yukon road taxes were from 4.4 cents to 4.9 cents per litre lower than average taxes on gasoline in other jurisdictions. On diesel fuel, the Yukon tax was 3.7 cents lower than the average.

The Quebec government applies the highest taxes of all provinces and territories. As a result of tax measures introduced in December 1985, motive fuel taxes in Quebec vary according to location. The lowest rates occurred in outlying regions; and in July 1988, they ranged from 2.4 to 4.8 cents per litre below the 14.4 cents per litre rate in the rest of Quebec.

In British Columbia, automotive fuel taxes are higher in Vancouver than in other regions. Vancouver imposes an urban tax on gasoline and diesel to help cover the costs of rapid transit development. In April 1988, the transit tax stood at 3 cents per litre. Thus, the average motorist in Vancouver at that time paid 13.1 cents per litre in taxes on regular leaded gasoline, excluding federal taxes. In spite of the much higher tax rate, gasoline pump prices are still much lower in Vancouver than in Whitehorse.

4.5.3 Tax Exemptions

Many fuel uses are wholly or partially exempted from federal and provincial or territorial taxation. At the federal level, a combined rebate of 5.0 cents per litre on sales and excise taxes is offered for off-road fuel use in the fishing, logging and mining industries. For diesel, this rebate amounts to 4.0 cents per litre. All commercial and business uses of fuel, as well as designated other uses, are eligible for a 1.5 cents per litre refund of the federal excise tax. Farmers receive a combined federal fuel tax rebate — 8.5 cents on gasoline and 7.5 cents on diesel.

Virtually all provinces and territories provide tax rebates and/or exemption of some form to off-road, commercial users of motive fuels. These generally apply to the farming, fishing, logging and mining industries. In the Yukon, rebates and exemptions extend to hunters, trappers and outfitters as well, provided they are engaged in commercial activity. Persons eligible for rebates or exemptions can obtain a registration number and receive a rebate of the full amount of Yukon fuel taxes. In 1987, the Yukon government rebated nearly \$2 million in fuel taxes.

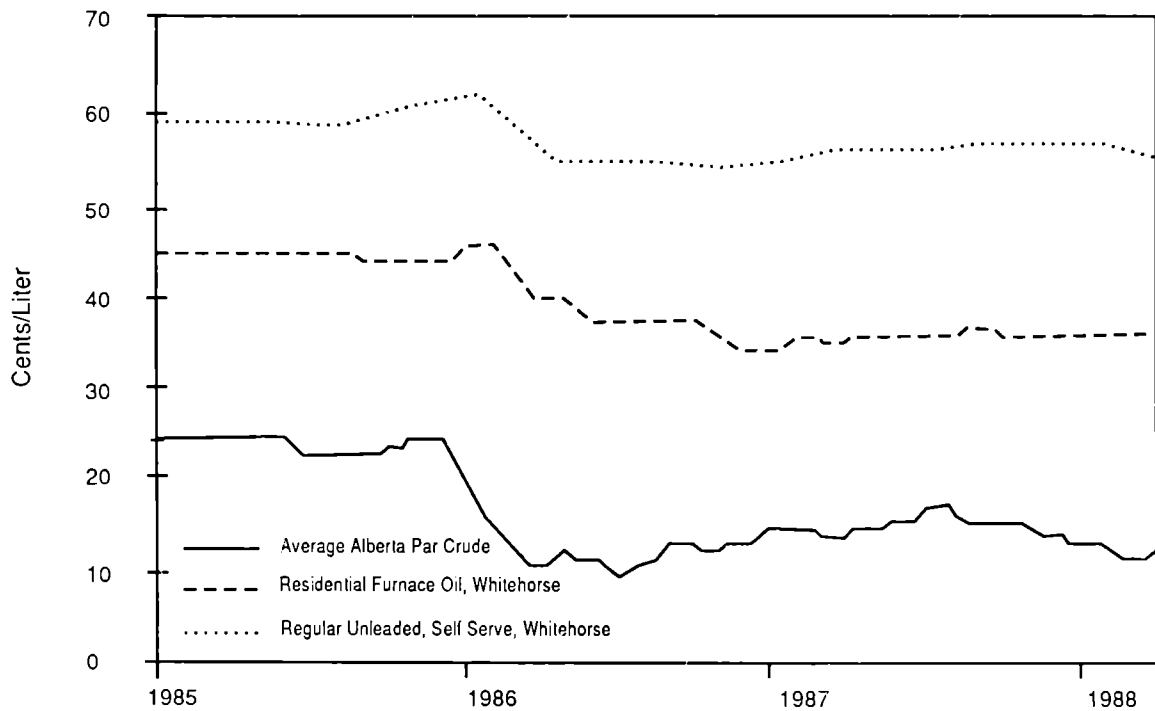
4.6 Crude Oil

Crude oil is the unrefined product from which all petroleum products are derived, and its cost is an important element in the pricing of petroleum products. Crude petroleum costs include all expenses involved in getting unrefined petroleum to the refinery. Crude costs averaged 14 to 15 cents per litre from January 1987 to April 1988. These costs were calculated as a weighted average of Taylor and Vancouver crude oil costs; they represent as little as 25% of the price of gasoline and as much as 40% of the price of furnace oil.

Crude prices have varied considerably in recent years. A major decline in price took place at the end of 1985 and during the first few months of 1986. Since mid-1987, prices have declined again. The drop has been more than five dollars per barrel for Alberta **par crude** (approximately 3.1 cents per litre), the benchmark product used to monitor Canadian domestic petroleum prices.

Changes in crude costs take time to translate to changes in pump prices. The lapsed time depends upon pipeline travel from wellhead, storage at the refinery, refining itself, and movement of the finished product through the distribution system to the end user. For fuel products from Vancouver refineries, the consumer can expect changes in Whitehorse gasoline prices approximately three and a half months after a change in crude oil prices. At Taylor, changes in crude oil prices affect gasoline prices much faster. Figure 21 illustrates the movement of Alberta par crude, along with Whitehorse prices for regular unleaded gasoline and heating fuels. Note that retail prices in Whitehorse do not drop as **often** nor as **far** as the crude costs do.

Figure 21
PRICE OF AVERAGE ALBERTA PAR CRUDE¹ VS. RESIDENTIAL FURNACE OIL AND
REGULAR UNLEADED, SELF SERVE,
Whitehorse, 1985-88



¹ 40° A.P.I., <.5% S

Source: Statistics Canada

4.7 Supplier Shares

The remaining share of petroleum product prices, once all other price components are deducted, goes to the supplier. The **supplier share** is similar to the **retail margin** in that it represents an amount available to cover capital and operating costs. Refiner-marketers also incur administrative costs related to their retail dealer and wholesaling networks, as well as costs for promotion, advertising, dealer acquisition/support, and head office overhead. All suppliers also seek a return on investment from their share of petroleum product prices. Because of the crucial role the supplier plays in the petroleum product market, the Board examined closely the share of prices available to these participants.

Refiner and marketer are the same supplier in the case of the integrated multinational, national and regional refiners. Refiner-marketers involved in the Yukon market include Imperial, Petro-Canada, Shell, and Husky. Since White Pass purchases product from Chevron at a contracted price, the two companies divide the supplier share into refiner and marketer shares. White Pass in this arrangement is a jobber, and their portion is known as the **wholesale margin**.

A number of factors influence the size of the supplier share, including product in question, cost of crude, transportation and distribution costs, and market factors. For example, suppliers incur higher costs for the sales of gasoline and heating fuel than for sales of industrial diesel.

Regular unleaded gasoline provided the highest return to refiners and marketers of all the products examined by the Board. Home heating fuel and industrial diesel sales both returned lower shares to suppliers (Table 19).

Chevron/White Pass with its low transportation costs, netted the highest shares on gasoline and industrial diesel. The savings of 3 to 4 cents per litre for transportation on the Skagway route far outweighed the modest savings available on crude prices at Taylor. Petro-Canada had the second highest shares, followed by Husky, Shell, and Esso. For home heating fuel, Esso had the highest supplier share. Esso was able to earn that high share because of its use of a commissioned agent.

Table 19

**SUPPLIER SHARES OF WHITEHORSE PETROLEUM PRODUCT PRICES
January 1987 to April 1988 (cents per litre)**

	Regular Leaded	Regular Unleaded	Premium Unleaded	Diesel Fuel
Chevron/ White Pass	14.1	16.0	10.3	9.1
Esso	8.9	10.6	6.3	9.9
Petro-Canada	11.8	13.7	7.4	6.7
Husky	11.3	12.9	n/a	n/a
Weighted Average	11.3	13.1	8.8	9.0

Source: Yukon Petroleum Fuel Pricing Inquiry.

4.7.1 Supplier Shares in Communities

Supplier shares in Yukon communities generally exceeded their shares in Whitehorse (Table 20). For unleaded gasoline, average shares in communities along the Alaska Highway ranged from 12.4 cents per litre to 15.8 cents per litre. For communities off the Alaska Highway, average shares were even higher.

Chevron/White Pass earned the highest supplier share in all communities, except Watson Lake. Among Alaska Highway communities, individual suppliers earned shares from 11.0 to 18.0 cents per litre. For communities off the Alaska Highway, where White Pass and Esso are the only suppliers, shares ranged from 10.6 to 18.4 cents per litre.

Table 20

**SUPPLIER SHARES FOR SELECTED COMMUNITIES
Regular Unleaded Gasoline, January 1987 to April 1988
(cents per litre)**

	Chevron/ White Pass	Esso	Petro-Canada	Husky	Shell
ON ALASKA HIGHWAY					
Watson Lake	13.9	11.0	15.2	13.1	14.7
Teslin	15.5	14.5	n/a	13.1	13.2
Haines Junction	15.5	10.6	n/a	n/a	n/a
Destruction Bay	17.0	10.6	n/a	13.1	n/a
Beaver Creek	18.0	n/a	12.0	14.1	
OFF ALASKA HIGHWAY					
Carcross	18.0	10.6			
Carmacks	18.0	10.6			
Faro	18.9	n/a			
Ross River	16.8	n/a			
Mayo	18.0	n/a			
Dawson City	18.4	n/a			
WHITEHORSE	16.0	10.6	13.7	12.9	12.7

Source: Yukon Petroleum Fuel Pricing Inquiry.

4.7.2 Supplier Shares across Canada

The Board was interested in how supplier shares in the Yukon market compared to their shares in other markets (Table 21). Shares were calculated for several centres across southern Canada, and for Terrace, B.C. From January 1987 to April 1988, average supplier shares were higher at Whitehorse than at the other centres, but not significantly. For regular leaded gasoline, shares ranged from .1 to 3.5 cents higher for Whitehorse than for other centres. Supplier shares were 2.4 cents per litre higher for Whitehorse than for Terrace, B.C.

The Board believes that low supplier shares in the Terrace market are the result of competitive conditions. Terrace is a small but highly competitive market where prices are virtually uniform at all stations, for both grades of regular gasoline. The Board learned that several independent suppliers are represented in the market, and that ownership of many stations changed recently (June 1988). The information available suggests that entry into and exit from the market is relatively easy in Terrace. All these factors would contribute to a competitive environment.

Table 21

SUPPLIER SHARES IN OTHER CENTRES IN CANADA Regular Leaded Gasoline, January 1987 to April 1988 (cents per litre)

Vancouver	10.1
Calgary	10.0
Regina	11.0
Toronto	7.8
Montreal	11.3
Average	10.0
Terrace, B.C.	8.9
Whitehorse	11.3

Source: Yukon Petroleum Fuel Pricing Inquiry, Energy Mines and Resources Canada.

Supplier shares on industrial diesel and residential furnace oil sales for Whitehorse were compared only to Vancouver because of data limitations. Assuming a similar direct-delivered basis for both markets, returns on diesel sales were 1.3 cents per litre higher in Whitehorse. In sharp contrast to both gasoline and diesel products, residential furnace oil returned lower supplier shares for Whitehorse than for Vancouver. Moreover, in Whitehorse supplier shares for furnace oil were almost the same as for industrial diesel; in Vancouver, those shares were several cents higher. Furnace oil was

the only product with this result.

Chevron/White Pass was the only supplier to receive a supplier share for Whitehorse that was significantly greater than those earned for locations outside the Yukon. Because of this, the Board was interested in calculating the **wholesale margin** earned by White Pass alone, and comparing this to wholesale margins elsewhere.

Data provided to the Board indicates an industry norm for wholesale margins in the range of 3.5 to 5 cents per litre on retail gasoline sales. Based on evidence presented, the Board believes that White Pass wholesale margins range from 4.2 to 5.7 cents per litre higher than the industry norm for Whitehorse, and from 7.3 to 8.8 cents per litre higher for Dawson (Table 23). White Pass can earn margins in excess of the industry norm because of its purchasing power at Vancouver and because it controls the lowest cost transportation route for petroleum products.

Table 22

**WHITE PASS'S WHOLESALE MARGIN AT WHITEHORSE AND
INDUSTRY NORMS
January 1987 to April 1988, (cents per litre)**

	White Pass Wholesale Margin	Industry Norm	Difference
Regular Leaded	9.1	3.5 - 5.0	4.1 - 5.6
Regular Unleaded	9.2	3.5 - 5.0	4.2 - 5.7
Industrial Diesel	n/a	.5 - 2.0	n/a
Residential Furnace Oil	5.5	3.5 - 5.0	.5 - 2.0

Sources: Yukon Petroleum Fuel Pricing Inquiry.

White Pass did not provide information on its product acquisition costs at Vancouver (and other locations). However, based on the volumes purchased by White Pass, and on other evidence received, the Board concluded that White Pass should be able to receive regular discounts of between 1 and 4 cents off the average rack prices in Vancouver. The Board has used a discount figure of 2 cents per litre, an estimate which it believes to be both reliable and conservative.

Using this 2-cent discount, the Board calculated White Pass' average wholesale margins for Whitehorse as 9.1 cents per litre for leaded gasoline and 9.2 cents per litre for unleaded gasoline. White Pass wholesale margins go as high as 11.2 and 13.4 cents per litre for unleaded gasoline in Dawson City. This figure equals or exceeds the combined refiner and marketer shares — total supplier shares — earned by integrated refiners in many other locations in the Yukon.

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5.1 Market Overview

After reviewing all the evidence presented to the Board of Inquiry, the Board has concluded that the retailing of Yukon petroleum products is not very competitive. All participants — consumers, retailers and suppliers — contribute to lack of competition in the market. Consumers generally are not informed about current prices, nor are they aware of the factors affecting prices. Retailers do not compete with each other through prices, and suppliers indirectly limit the ability of retailers to be competitive. Retailers view security of supply as the major reason for staying with their branded suppliers. Finally, suppliers seem reluctant to compete aggressively with each other.

RECOMMENDATION: The Yukon Territorial Government should establish a set of voluntary industry guidelines. Compliance with these guidelines should be monitored, and if companies fail to comply on a voluntary basis, the government should legislate the guidelines.

The Board recommends establishment of a set of voluntary industry guidelines.

- a) All retailers have a responsibility to provide the public with the opportunity to purchase petroleum products at reasonable and competitive prices; dealer and supplier margins must be reasonable and fair, particularly in small communities or rural areas where the level of competition is low.***
- b) Retailers have a duty to keep the public informed of retail prices.***
- c) All suppliers of motive petroleum fuels shall clearly identify actual transportation costs as a separate component of any billing for fuel.***
- d) Suppliers should provide retailers with the option of transporting fuel products themselves, from the supplier's storage facilities either in the Yukon or elsewhere.***
- e) All major suppliers of petroleum fuel products who hold more than 10% of the Yukon market have a duty to act reasonably, to ensure that adequate supplies are made***

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- available at competitive prices to non-branded independent dealers at the supplier's bulk plant facilities.*
- f) Non-petroleum use covenants should not be imposed on land sold by suppliers of petroleum products, and any such covenants already in existence should be declared unenforceable.*
 - g) An existing government department should be designated as responsible for receiving complaints regarding breaches of these voluntary guidelines.*

Yukon Business Incentive Policy

The residency qualifications of the Business Incentive Policy inhibit the entry of new competitors into an already concentrated market. In particular, the existing policy has the following limitations:

- the Government of the Yukon cannot use its buying power to encourage new suppliers to enter the market;
- outside suppliers cannot take advantage of efficient, inexpensive direct-delivery systems, from refineries and supply points in Alaska, Alberta and British Columbia; and
- suppliers active in the Yukon market who have no office in the territory are at a disadvantage when bidding on Government of the Yukon supply contracts.

***RECOMMENDATION:** The Yukon petroleum fuel market should be exempted from the residency qualification of the Business Incentive Policy.*

5.2 Petroleum Products

5.2.1 Motive Fuels

Leaded and Unleaded Gasoline

Retailers often charge different prices for leaded and unleaded regular gas. Yet there is no equivalent difference in the cost of refining the two products. There are some fixed refinery costs associated with changing over to unleaded gas production, to meet the requirements of government regulations. These costs explain some of the differences, but not the usual two-cent-per-litre difference seen in prices paid by retailers to suppliers.

Historically, the Canadian market has been able to bear higher prices for unleaded gas. Because some consumers will opt for the cheaper leaded fuel, the Board of Inquiry was asked to consider an

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equalization tax, similar to that seen in British Columbia, based on environmental concerns. Recently, however, there has been a trend towards equalizing these prices at pumps across Canada and more recently in the Whitehorse area. Recommendations intended to increase the level of competition in the Yukon should accelerate this process.

OBSERVATION: The Board is not recommending an equalization tax as the market appears to be driving an equalized price.

5.2.2 Heating Fuels

The three distributors of heating oil in Whitehorse do not appear to actively compete for market shares. Nevertheless, some classes of customers enjoy substantial discounts. The discounts may reflect the excess supply of heating oil in the western Canadian market. Moreover, in the Yukon market, wood is a competitive alternate heating fuel.

Heating fuel prices are even higher proportionally in other Yukon communities. Most communities have a single supplier of heating fuel and for them competition does not exist. The volume of heating fuel sold in these communities is so low that more than one dealer may not be viable. This localized monopoly situation results in static prices which are higher than they should be. However, armed with information about costs and prices in other communities, consumers could use moral suasion and affect a reduction in the price of heating oil. Price regulation should be treated as a last resort, if other solutions fail.

OBSERVATION: Consumers in communities should be made aware of:

- *actual transportation costs, as a component of the final heating oil price; and*
- *Whitehorse prices for heating oil.*

This information should be available on a current basis throughout the heating season. See also, Chapter 5, Section 3.3.

5.2.3 Petroleum Gases

Propane could play a significant role in lowering gasoline prices, if it were priced low enough to encourage consumers to convert to propane. The Board does not expect this to happen until propane is as readily available as gasoline and diesel throughout the territory, and until the propane market is more competitive. For now, it appears that ICG is content to supply niche markets and not compete aggressively for the auto propane market.

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OBSERVATION: The entry of new suppliers of propane should be encouraged and the resulting competition should serve to ameliorate prices to consumers.

The long-term economic health of the Yukon Territory will depend partly on the availability of alternate fuels, particularly natural gas. Significant deposits of natural gas are located in the Eagle Plains area. Natural gas could be a viable alternative for industrial/commercial heating if the necessary distribution system were established. However, it would require two to three years to establish a distribution infrastructure and to comply with regulatory requirements.

The Board has considered the report of Stone and Webster Canada Limited (1983) on the economic feasibility of distributing natural gas to three Yukon communities — Watson Lake, Whitehorse, and Haines Junction. The authors of the report concluded that natural gas use would only be feasible as an adjunct to the construction of the Foothills Natural Gas Pipeline along the Alaska Highway. The Board has been advised that recent technological advances in compressed natural gas (CNG) and liquified natural gas (LNG) transportation may make supply from Eagle Plains to Dawson, or even Whitehorse, economical even without a pipeline.

Natural gas represents an attractive alternative to oil because it is a relatively clean burning fuel. Also it allows for development of a Yukon resource. Moreover, the Board believes that the availability of natural gas as an alternative to oil would provide a competitive option which would lower the price of heating oil products.

OBSERVATION: The Yukon Territorial Government, in conjunction with interested communities, should review the feasibility of developing and distributing natural gas sources near Eagle Plains, in light of technological advances since publication of the Stone and Webster report. The government also should participate actively in promoting the construction of the Foothills Natural Gas Pipeline along the Alaska Highway.

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5.3 Consumers

5.3.1 Industrial/Commercial Class of Trade

Consumers in the industrial/commercial class of trade account for most of the petroleum product purchasing in the territory, yet do not take full advantage of their buying power. Industrial fuel products, usually diesel oil, are purchased in three ways:

- from bulk dealers or commission agents, at the posted industrial price, sometimes with negotiated **discounts**;
- directly from the supplier, through a **tender process**; and
- with **direct negotiations**, using an alternate supply system and pricing scheme.

Most industrial customers who buy from bulk dealers obtain **discounts** off the posted industrial price. However, the Board was advised that, for some suppliers, as many as 50% of industrial accounts pay the full posted price. The Board saw examples of relatively high-volume purchasers, such as trucking firms, who do not negotiate **any** discounts off posted prices.

Buying directly from the supplier, through a **tender process**, avoids costs associated with rehandling. Tender documents submitted to the Board show average prices of 24 to 29 cents per litre for diesel fuel, excluding taxes. These prices represent discounts of about 1 to 6 cents off the posted dealer prices. The wide range of discounts is explained primarily by volume differences.

The Yukon government routinely sends tender packages to three major suppliers, and the federal government has received bids from as many as four suppliers in the Whitehorse area. As a result, both federal and territorial government fuel needs in Whitehorse are met at very competitive prices. Unfortunately, those competitive prices have not extended to the communities. Generally government contracts in smaller communities attract only one or two bids. The Board compared bids for communities, such as Dawson and Ross River, with those for Whitehorse, and found differences that exceed transportation costs by several cents per litre.

Direct negotiations involving an alternate pricing scheme can produce even greater savings than tendering. By developing a low-cost yet viable alternate supply system for fuel needs, and requiring suppliers to meet the price of that alternative, an industrial purchaser can significantly reduce fuel costs.

Curragh Resources has been the major user of this approach. Curragh determined that the least expensive supply of fuel products available for their company would come from Seattle in containers, transported on barges to Skagway and then backhauled by truck to

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5.3.2 Retail Class of Trade

the mine at Faro. Curragh then required its regular supplier to match that price. Simply by having an alternate supply system available, with competitive fuel prices, Curragh Resources has been able to negotiate significant reductions in the cost of its fuel purchases.

OBSERVATION: The industrial/commercial consumer should have access to information about available discounts, alternate sources of supply, and the advantages of using either the tendering process or direct negotiation method.

Like industrial/commercial consumers, individual consumers do not take full advantage of their buying power. Nor do they attempt to find ways to increase their buying power. These considerations are especially important in the communities.

In Thompson, Manitoba, a cooperative gas bar was established, offering a no-frills yet inexpensive option to consumers. In two years of operation, this gas bar has been responsible for a decrease of approximately 10 cents per litre in the price of gasoline throughout the community.

RECOMMENDATION: Consumer groups, including trade and business groups, should organize themselves into buying groups and negotiate discounts based on their increased buying power.

Citizen groups should be encouraged to establish community-based cooperatives to supply petroleum fuel products to members, with assistance from the Government of the Yukon and the municipalities.

Consumer Survey/Consumer Awareness

A survey conducted by the Board suggests that most petroleum fuel consumers in Whitehorse do not shop actively for lower prices when they purchase motive fuels. The Board made the following observations:

- differences of 3 to 5 cents a litre are common for posted pump prices in Whitehorse, even with retail outlets only a few blocks apart;
- several of the Whitehorse outlets with the **highest prices** have been able to maintain the **largest sales volumes** in the Territory;
- there has been a notable absence of “price wars” in Whitehorse, with fuel prices remaining static over long periods of time; and
- dealers evidently do not compete in the market using prices.

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In addition, the Board learned that most retail stations post only their lowest priced product — regular leaded gasoline — on signage visible from the roadway. The price of regular unleaded gasoline may be as much as 2 cents per litre higher than leaded. As a result, the consumer may not be fully informed when deciding to make gasoline purchases.

The relatively large seasonal tourist trade also can be expected to be insensitive to prices. These consumers account for over 20% of gasoline sales in the Yukon. Yet the typical tourist has little opportunity to determine the location of the lowest priced retail outlets.

Finally, the Board found that consumers of home heating fuels were insensitive to prices. There was little evidence that they shopped around for the best prices before signing up for home delivery of heating oil. Moreover, consumers do not receive advance notice of price changes; they find out **after** the fuel is delivered to their home. Yet few consumers complain, perhaps because they are unaware of their options.

The Board has concluded that these factors contribute to the higher petroleum fuel prices and higher dealer margins observed in Whitehorse.

RECOMMENDATION: The Yukon Territorial Government should encourage competition and endeavour to keep consumers well informed about the price of petroleum products through the following information services:

- a) ***collecting and monitoring petroleum market information, for Whitehorse and representative Yukon communities, including the following items:***
 - *crude costs,*
 - *average pump prices,*
 - *posted dealer prices,*
 - *average retail margins,*
 - *transportation costs,*
 - *tax components, and*
 - *supplier shares;*
- b) ***making petroleum market information, including the names of independent suppliers, available to all interested parties on request, and publishing a summary of Yukon petroleum market information on a quarterly basis;***

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- c) ensuring that the lowest posted prices for fuel products, including home heating oil, in Whitehorse and representative communities, are reported through the media on a regular basis, preferably weekly, and that this information be available at all tourist reception centres;*
- d) ensuring that publication of lowest posted fuel prices emphasizes savings available on an average tank fill-up, an average season of driving, or an average heating season;*
- e) the Government of the Yukon should require, by legislation, that all retailers of petroleum motive fuels in the Yukon post the prices of all fuel products sold, using signage which is prominently displayed and readily visible at the point of entry to the service station; and*
- f) the government should also require, by legislation, that distributors of heating fuel provide customers with seven clear days advance notice of any price changes, either by letter or notice through the media.*

5.4 Retailers

5.4.1 Ownership

Dealer Contracts

Contracts between suppliers and dealers have a significant impact on the petroleum products market. To determine the extent and nature of that impact, the Board of Inquiry reviewed almost all contracts and agreements between suppliers and retailers operating in the Yukon Territory. The Board believes that some of the provisions of the contracts seriously limit competition in the territory. The Board learned that contracts are particularly restrictive for branded dealers, those who own their outlets and contract for the supply of branded product. Since most Yukon dealers are branded, the potential effects of these contracts are widespread.

Branded dealers seem to rely on the good faith of their suppliers and do not anticipate disagreements occurring during the term of their contract. The restrictiveness of a contract may not become apparent until a disagreement occurs and the dealer wishes to change suppliers.

Most dealers are resigned to the fact that suppliers unilaterally set posted dealer prices. While this practice is common in the trade, dealers should not have to give up their right to negotiate prices simply in order to obtain a secure supply source. Ultimately, the ability of retailers to offer competitive prices is largely restricted by

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posted dealer prices. In turn, negotiations for posted dealer prices are often limited by how closely the dealer is tied to the supplier through contractual commitments. Yet many dealers do not appreciate just how closely they are tied to the supplier. A number of branded dealers who gave evidence to the Board were not aware of the consequences of some important provisions of their contracts with the suppliers. This situation is not unique to the Yukon; but it is not justifiable on that basis, for the impact is far greater on the Yukon market than on other larger markets.

Two main types of agreements link branded-dealers to their suppliers. The first is a supply agreement, which guarantees the source of products to the dealer and typically contains concessions to individual dealers, such as discounts off the posted dealer prices. The second is a combination of leases whereby the dealer leases his property to the supplier, who then subleases it back to the dealer. In this arrangement, known as a cross-lease, the lease to the supplier mainly contains conditions to be complied with by the lessor (the dealer) while the sublease contains conditions to be complied with by the sublessee (also the dealer). These agreements give suppliers effective control of a property.

For the dealer, the benefits of entering a contract with a supplier often seem to outweigh or overshadow the disadvantages, particularly when the market is not price sensitive.

Indeed, there are many advantages to entering into an exclusive supply contract. The dealer obtains

- a) a secure supply of quality product for a lengthy period of time,
- b) a recognized brand name, and
- c) the expertise of his supplier.

Also, larger companies have their own credit cards which the dealer can accept. Sometimes suppliers will absorb inventory carrying charges. In addition, suppliers generally support dealers during price wars, although this is rarely provided for in contracts and depends upon the largesse of the supplier. Suppliers naturally will take steps to preserve their market share during price wars, usually by lowering prices.

All suppliers offer financial assistance for business development, such as construction and improvement of dealer facilities. This sort of financial assistance is very attractive to a dealer looking for a new supplier, since banks may be reluctant to advance money to a service station operator, especially one who does not already have a secure source of supply from a major supplier.

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An astute dealer should be able to negotiate other benefits from his supplier, such as reduced rent on the sublease, equipment loans, or volume incentives that would further reduce the price actually paid to the supplier.

During the hearings, dealers told the Board how they felt about the advantages mentioned above. Surprisingly, most dealers do not consider the use of the supplier's credit card and brand name to be very important. Inventory carrying charges do not amount to a great deal of money, so they were considered of little consequence.

Dealers did feel that discounts on posted dealer prices were important; however, if competitive dealer prices were offered at the outset, such measures would be unnecessary. Security of supply was considered very important. But, reliable product supply can also be obtained from independent suppliers, and should be available from major oil companies. Dealers indicated that financial assistance for business development was the most significant advantage to contracting with a major company.

Disadvantages of Exclusive Supply Contracts

Posted Dealer Prices

One of the disadvantages of being contractually tied to a supplier is that the supplier unilaterally sets the posted dealer price. While dealers can obtain price concessions, the starting point is always the posted dealer price. Most contracts provide for arbitration should a disagreement arise; however, such a process would not necessarily allow dealers to obtain prices competitive with those of an independent supplier. In any event, the arbitration process would be complicated and expensive, and few dealers would willingly take on a major company. The Board is not aware of any instance where dealer prices were the subject of such an arbitration process.

Essentially, major companies are able to set posted dealer prices on the basis of what the market will bear; the dealer has no choice but to accept that price. Moreover, the dealer is not free to seek out a less expensive source because the contract provides for exclusive supply. The difficulty raised by posted dealer prices is faced by operators across the country.

OBSERVATION: This problem does not admit of any simple legislative solution, but the Board believes that greater competition between suppliers will lead to lower dealer prices.

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Supplier Option to Renew

Cross-lease arrangements usually cover five-year periods and may include unilateral options for suppliers to renew their contracts for one or two successive five-year terms. Some agreements are for a fixed ten-year term, in which case the supplier may or may not have a unilateral right to renew the agreement. The Board believes that a five-year term is sufficient to provide the supplier with the necessary commitment from the dealers. Contractual provisions between dealers and suppliers do not need to extend beyond five years. The Board also believes that renewal options should not be unilateral, and that after five years both parties should have an opportunity to reconsider their positions.

Long contract terms, combined with unilateral renewal options, effectively prevent dealers from entertaining competitive supply offers on a regular basis.

RECOMMENDATION: The Government of the Yukon should, by legislation, limit contractual ties in dealer-supplier contracts to a five-year period and prohibit options that allow suppliers to renew agreements unilaterally without consent of the dealer.

Evergreen Clauses

Some of the contracts reviewed by the Board provide for the agreement to be automatically renewed, unless the dealer gives written notice to cancel the agreement a certain number of days before the termination date of the agreement (usually thirty to sixty days). This is known as an “Evergreen Clause”. Such clauses may bind a dealer who simply forgets that he must give written notice of his wish to cancel the agreement.

An evergreen clause serves no useful purpose, but may make it difficult for dealers to seek new offers of supply. A notice of cancellation could lead to strained relations with the original supplier for a month or two. “Evergreen clauses” restrict competition by suppliers, and make it difficult for dealers to receive competitive bids from all interested suppliers.

RECOMMENDATION: The Government of the Yukon should enact legislation which provides for a ninety-day renewal negotiation period preceding the termination date of the supply agreement, during which time the dealer would be free to negotiate with competing suppliers without fear of retaliation from the existing supplier.

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The Board believes that a “ninety-day window,” or renewal negotiation period, combined with the proposed five-year limited term, would create a competitive environment where dealers benefit from suppliers bidding for their business, and consumers benefit from the increased competition between suppliers. The Board also believes that this provision will result in more competitive dealer prices throughout the five-year term. However, suppliers may offer their dealers inducements prior to the ninety-day renewal period, to encourage early renewal.

OBSERVATION: Dealers should be made aware that inducements to renew a contract early may diminish the opportunity provided by the proposed legislation.

Rights of First Refusal

Most agreements between suppliers and branded dealers contain a clause which grants the supplier a **right of first refusal** to purchase the dealer’s property, even though the dealer is the owner of both property and outlet. If the dealer receives an offer to purchase the property during the contract term, then the dealer must inform the supplier and give them the first right to purchase the property on the same terms. A supplier is often granted up to ninety days to decide whether or not to make the purchase.

When an outlet is subject to right of first refusal, competitors are less likely to make a purchase offer. Companies would be hesitant to spend time, trouble and expense on a cost-benefit analysis, to make an offer, knowing that the original supplier could reap the rewards simply by matching the offer. Companies also would be reluctant to bid on another company’s outlet before all contractual relations have been terminated. They would be reluctant to be seen as “raiding” another supplier’s outlet, given that major suppliers work together on a number of fronts, through such things as exchange and production agreements.

Rights of first refusal clearly inhibit free-market bidding on existing outlets. As a result, dealers are less likely to receive competitive bids, less likely to get the best price for their outlets. In turn, existing suppliers are better able to monopolize their outlets. New suppliers would find it difficult to enter such a marketplace.

RECOMMENDATION: Legislation should be enacted which ensures that no right of first refusal be allowed to operate during the ninety-day renewal negotiation period preceding the termination of the supply agreement.

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Non-Competition Covenants

Some contracts between suppliers and dealers contain clauses known as non-competition covenants. These covenants typically prohibit a dealer from engaging in the same general business in the same general area for a period of time, in some cases for as long as two years after termination of contractual relations. These kinds of restrictive covenants are not unique to branded dealers; they are often found in agreements between suppliers and lessees or suppliers and agents. In fact, non-competition covenants are not limited to the petroleum industry. However, it is the Board's view that non-competition covenants are inappropriate in the case of dealer-supplier contracts.

In some transactions, a non-competition covenant is necessary to protect the purchaser of a business, such as a restaurant, where the purchaser pays for the associated goodwill and legitimately does not want the vendor to open another business across the street. Non-competition covenants also may be justified where an employee becomes privy to the employer's trade secrets. In the Board's view a non-competitive covenant is not justified where a company merely supplies products to another company. Such covenants discourage dealers from trying to change suppliers; dealers may fear not being able to work in the petroleum business for a period of time.

RECOMMENDATION: Non-competition covenants should not be permitted to extend beyond the terms of agreements between suppliers and dealers in the petroleum industry.

Non-Petroleum Use Covenants

The "non-petroleum use covenant" is another restrictive provision often seen in the petroleum industry. With this provision, land owned and sold by a supplier cannot be used in the petroleum business without the consent of the supplier. Alternately, it may provide that if the land is so used, supplies must be bought from that supplier. The covenant is placed on the title and binds subsequent purchasers. Several such non-petroleum use covenants have been imposed on land sold by White Pass. For example, the Carcross Indian Band purchased a service station outlet from a private Chevron dealer, then found that the land was encumbered by a non-petroleum use covenant. According to that covenant, anyone operating a service station on that land, until the year 1993, is required to purchase all their petroleum products exclusively from

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White Pass at White Pass's posted dealer prices. In **Competition in the Canadian Petroleum Industry**, the Restricted Trade Practices Commission makes this recommendation: Refiners should not impose non-petroleum use covenants upon land they sell, and should declare publicly that they will not enforce the covenants they hold on properties they have already sold [p. 472].

RECOMMENDATION: Voluntary industry guidelines should prevent companies from imposing non-petroleum use covenants on land, and should also declare existing covenants to be unenforceable (See Chapter 5, Section 1).

5.4.2 Costs

The Board of Inquiry chose not to examine retailers' non-petroleum costs. The information obtained through the Retail Questionnaire, indicated that service stations had far more operating differences than similarities. This wide divergence in operations results in extremely varied operating costs. There are also differences in accounting methods. For example, for one station, employee wages are shown as a cost of sale; for another, they are reported as wages, along with the manager's salary. Given all these differences, any cost information that the Board could have generated would not have been useful.

5.4.3 Independent Retailers

The presence of independents in southern markets has led to reductions in gasoline pump prices. Evidence presented to the Board of Inquiry substantiated this observation for Vancouver Island. Two instances in the Yukon highlight the role of independents.

Several gasoline stations are situated in the area around Mile 730 of the Alaska Highway, south of Whitehorse. Of four stations in that area, two are owned and operated by the same independent, and the other two are branded independent dealers for major suppliers. To establish a position in the market, the independent dealer reduced pump prices at one of the outlets to 49.9 cents a litre. The other two affiliated stations dropped their prices to match the independent. Although the independent did not intend to keep the price at this level indefinitely, low pump prices have persisted for the better part of a year. In this case significant savings to the motoring public have resulted from one independent entering the market and increasing competition.

A different type of situation has arisen in Dawson City. Shell recently established a station in competition with the existing station supplied by White Pass. The Shell station priced its product nearly

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the same as the station supplied by White Pass. It is evident, therefore, that these branded **retailers** are not using prices to compete with one another.

It is difficult to draw conclusions from two isolated situations; but they do seem to substantiate two themes that ran through the Inquiry's hearings:

- independents bring price competition into the market; and
- branded dealers tend to rely on service and location, rather than price, to attract customers.

Independent retailers are at an inherent disadvantage to the branded dealers. Simply, they do not receive concessions or financial support from suppliers.

RECOMMENDATION: The Government of the Yukon through existing small business programs should provide financial assistance to independent dealers, on similar terms that major suppliers do for their branded dealers. This support should apply not only to new stations, but to branded dealers who choose to become independent.

5.5 Suppliers

5.5.1 Branded Suppliers

The Board has found that dealer prices established by suppliers, for Whitehorse, generally return amounts equivalent to those for competitive centres in southern Canada. That is to say, companies such as Imperial Oil, Petro-Canada, and Husky earn approximately the same amount on a litre of fuel sold in the Yukon as on a litre sold in other centres in Canada. While this is an important finding, it does not provide a complete picture. Their shares are comparable in large part because suppliers now incur unnecessary costs for transportation to Whitehorse.

OBSERVATION: Once the market becomes more competitive, suppliers would be forced to eliminate unnecessary costs for transportation.

5.5.2 Independents Suppliers

The Yukon market demonstrates that small, independent suppliers can compete effectively with large integrated refiners. Totem Oil Products, of Alaska sells product to Jake's Corner, south of Whitehorse. This product originates in Seattle, is barged to Haines and then trucked directly to Jake's Corner. The price of fuel at Jake's Corner is one of the lowest in the Yukon. Evidence provided in

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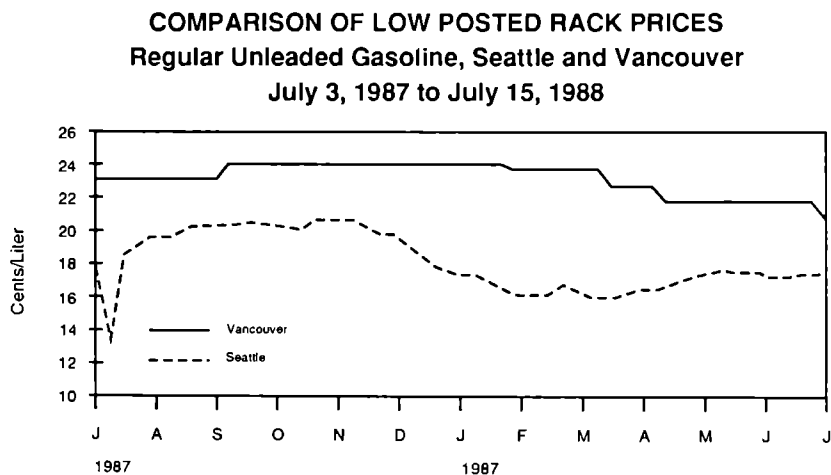
confidence to the Board of Inquiry indicates that the retailer share for Jake's Corner is within range of other Yukon retailer shares.

At this time the independents' market share is very small, about 3%. Until their participation in the Yukon marketplace is substantially increased, they will not have a significant impact.

The Board heard a number of representations concerning American refineries as an alternate source of product supply to Canadian refineries. Two American locations were suggested: Seattle and Alaska. Two refineries in Alaska were considered: the Mapco refinery at North Pole, Alaska, near Fairbanks; and the Tesoro refinery, on the Kenai Peninsula. Mapco supplies a small amount of product to the Beaver Creek area. Tesoro does not supply any product to the Yukon now, but could do so if adequate port and storage facilities were available. Information provided to the Board concerning selling prices and transportation costs were limited for Alaskan supply sources. It was evident, however, that product from the Fairbanks area could be delivered to dealers on the north Alaska Highway at a highly competitive price. Savings of as much as 10 cents per litre over the dealer prices of Yukon-based suppliers were indicated.

A much more comprehensive database was available for Seattle-based alternatives, and comparisons could be made to Vancouver, the current source of west coast supply to the Yukon, on the basis of posted rack prices (Figure 22). There are seven refineries in the Seattle/Puget Sound area, some of which are possible sources for rack purchases. Totem Oil of Haines, Alaska is the only supplier to the Yukon retail market that now obtains product from the Seattle area.

Figure 22



Conclusions and Recommendations: Market

Because of market differences, care must be taken when comparing posted rack prices at United States and Canadian locations. The Oil Pricing Information service had the following to say regarding the pitfalls:

while posted prices in Canada do not change very often, it would be wrong to assume that 'net' numbers (actual prices paid for product) do not change on a more regular basis. Discounting off postings is more the norm than the exception in Canada; in fact, virtually nobody pays posted prices in most Canadian markets. Yet even these 'net' numbers are typically not as volatile as U.S. rack numbers.

Little in terms of product quality, supply capacity, or marine regulations seems to limit independents from purchasing in the United States; however, other factors may constrain integrated refiners. Because these companies have investment and other ties to their own refineries in Canada, there is little incentive to look abroad. American sources of supply thus remain best suited to independents. However, by making cheaper purchases in Seattle and Alaska, independents can force integrated refiners to supply their products at prices equivalent to Seattle and Alaska supplies.

OBSERVATION: The government, communities and consumer groups should encourage and facilitate the entry of independent petroleum suppliers into the Yukon market.

5.6 Special Case: Old Crow

Acquisition

Under the **Special Agriculture Rural Development Agreement**, North Yukon Air is required to provide the Band Council and Minister with a set of financial statements related to purchasing, expediting and distribution of fuel products. These statements are required to be prepared within ninety days from the calendar year-end. However, when the Board of Inquiry requested financial statements for 1987, the Band was not able to provide any meaningful documentation (August 1988).

OBSERVATION: The Old Crow Indian Band should establish proper procedures for coordinating fuel product acquisition and to document those acquisitions.

Conclusions and Recommendations: Market

The Band was not able to provide any information to the Board with respect to prices paid for fuel products in 1987. The Band's best estimate was approximately 55 cents per litre for gasoline. If this was the price paid, then it may have included taxes imposed by the Northwest Territories, which should have been rebated. This price also probably included federal excise and sales taxes, most of which should have been rebated.

OBSERVATION: The Old Crow Indian Band should determine whether rebates are owing for past fuel purchases and whether exemptions from various taxes may be available for future purchases.

Transportation Costs

The Old Crow Indian Band was not able to provide sufficient documentation to itemize transportation charges for diesel fuel and regular gasoline for 1987. Based on information provided to the Inquiry by the Government of the Yukon, 42 cents per litre would be the maximum the Band would have had to pay for transportation of either product by Hercules Transport in 1987. Since North Yukon Air does not own a plane with fuel carrying capacity, they must hire Northwest Territories Air to bring in the fuel.

The Board of Inquiry received conflicting information regarding the distribution costs of gasoline products in 1987. The Inquiry was told distribution costs in 1987 were approximately 15 to 20 cents per litre. However, the Band later advised the Board that those costs were only 6 to 7 cents per litre. Even if the Band paid a price of approximately 55 cents per litre for regular gasoline in 1987, the price of \$1.32 per litre is not explained. With maximum transportation costs of 42 cents per litre, and maximum acquisition costs of 55 cents per litre, the total cost would have been 97 cents per litre. That leaves a difference of 35 cents between the landed cost and the selling cost, which has not been accounted for by the Band.

Whatever the reason, the historically high retail prices for fuel products in Old Crow do not appear to be justified. The more important consideration is to look at what **economies** may be realized in future supplying of fuel products.

Conclusions and Recommendations: Market

Alternate Supply Systems

Prices for fuel products in Old Crow can only be lowered by looking at less expensive transportation and distribution systems. The Board of Inquiry heard a number of transportation alternatives including a winter road, barging in the summer, acquisition by North Yukon Air of a DC-3 with fuel carrying capacity, and supply from a Fairbanks refinery by DC-6 through Everts Air Fuel, Inc., a cargo and bulk fuel delivery service.

The Elders in Old Crow advised that summer barging does not appear to be a reliable alternative because of fluctuating water levels. In light of the **Yukon Barging Study** (May 1987), prepared by Stanley Associates Engineering Ltd., the Board believes that savings using barge transport would not outweigh the costs of relocating barges and reliability. The cost of a winter road would appear to be prohibitive on an annual basis. The Board rejected any suggestion of a full-time road to Old Crow.

The Board was also urged to consider Eagle Plains as a staging point for fuel deliveries on a regular basis to Old Crow. But that alternative does not appear to be a viable one given the capital costs needed to establish Eagle Plains as a staging point, and the higher per litre cost of transporting small loads. The cost of fuel landed at Eagle Plains would also be very high whether trucked from Whitehorse or Inuvik.

One reasonable alternative would be supply from Fairbanks by Everts Air Fuel. This alternative is even more attractive since North West Territorial Air may not continue to operate the Hercules in the future. The bid offered by Everts Air Fuel for regular gasoline and diesel, **delivered at Old Crow** for August 1988, is \$1.90 per U.S. gallon of regular gas and \$1.80 per U.S. gallon of #1 diesel. Calculating exchange and volume differences, this is the equivalent of 61.8 cents per litre for regular gas, and 58.4 cents per litre for #1 diesel, excluding taxes. It is not possible to match these prices for product purchased in Inuvik and transported to Old Crow.

Canadian authorization from the federal Department of Transport and National Transportation Agency must be given before Everts Air Fuel would be able to land fuel products at Old Crow. The Board has been advised that the Department of Transport has granted a Canadian operating certificate to Everts Air Fuel. The National Transportation Agency has received a completed application from Everts and has indicated that approval is 99% complete.

Conclusions and Recommendations: Market

One apparent obstacle that might face Everts Air Fuel, and which might result in a higher fuel cost at Old Crow, is compliance with Canadian Customs requirements. Customs Canada has indicated to the Old Crow Band that Everts Air Fuel may be required to check in at a recognized Canadian port, such as Whitehorse or Inuvik, before being allowed to land at Old Crow.

OBSERVATION: The Old Crow Indian Band should seek an exemption from Canada Customs requirements for checking in at recognized ports.

A further complication might arise out of the need for payment of Canadian taxes on American products being brought into the country. Tax collection at Old Crow normally would be administered through the Royal Canadian Mounted Police. Only a minuscule portion of gasoline products used for vehicles operated within the built-up area of Old Crow would be required to pay federal excise and sales taxes.

OBSERVATION: The Old Crow Indian Band should seek an exemption from federal taxes for all fuel products used in Old Crow by residents who use gasoline for trucks, ski-doo's and boats, and diesel for heating purposes.

With administrative obstacles removed, fuel products should be available to the Old Crow Co-op at a landed price of approximately 60 cents per litre. With a reasonable distribution margin of 10 cents a litre, Old Crow residents should be able to buy gasoline for their ski-doo's and boats for about 70 cents a litre in 1988. This is almost half the price paid in 1987. If other users in Old Crow, such as the federal and territorial governments, were to take advantage of the Alaska supply source, there could be even greater discounts with larger volumes purchased. Everts Air Fuel operates all year round and access to more frequent supply should alleviate any storage problems which arise from the need to stockpile fuel for a full year.

RECOMMENDATION: The Old Crow Band, together with the federal and territorial governments, should explore supply and transportation alternatives, from Alaska and elsewhere, and use their joint purchasing power to obtain the least expensive fuel products.

Conclusions and Recommendations: Transportation

Chapter Six

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Conclusions and Recommendations: Transportation

6.1 Import Routes

6.1.1 Skagway

Constraints to competition at Skagway arise largely out of White Pass's control over dock, storage and pipeline facilities. The Board has concluded that White Pass has not made these facilities available to competitors on reasonable terms — that is, on terms that reflect the lower costs associated with the system. This problem is compounded because it would be extremely difficult to duplicate those facilities.

White Pass would not disclose their costs for transportation of fuel products from Vancouver to Whitehorse; however, on the basis of cost data provided by other companies, it can be reliably estimated that White Pass costs are approximately 5 cents per litre. This cost advantage is not passed on to companies who contract with White Pass for transportation of petroleum products. In fact, Esso pays White Pass more than they would if they shipped their product on the Taylor or Haines routes. The Board believes that Esso accepts this arrangement because they do not have dock and storage facilities at Skagway or Haines, and because they wish to use sources in the Vancouver area to supply the Yukon market. The non-competitive market in the Yukon allows Esso to continue this arrangement.

Skagway Dock

White Pass is the only private company operating terminalling facilities at Skagway. The company effectively controls all docks, and all land around the waterfront, except for the Alaska State Ferry dock and associated right of way. It is not possible to transfer goods from the docks without the approval of the State of Alaska or White Pass. The State of Alaska ferry dock cannot accommodate barges, although the City of Skagway has a floating dock which could be adapted for barge traffic.

Alaska Marine Lines uses the ferry dock to unload general freight on a regular basis. However, ferry traffic has priority on use of the dock and the right-of-way, which could impede or delay unloading of large barge loads of fuel. Alaska Marine Lines now uses ferry dock facilities only to transport container loads of fuel for one of their subsidiaries, Yukon Alaska Transport. The lack of dock facilities in the Skagway port, independent of White Pass, discourages competitors from entering the market. The cost of duplicating these facilities would be prohibitive for a single competitor, especially considering the size of the Yukon market.

Conclusions and Recommendations: Transportation

Curragh Resources could perhaps use the Alaska Marine Lines system to ship product, but now uses it only as a bargaining tool. Curragh gives White Pass a right-of-first refusal for supply of fuel products, in order to use White Pass terminalling facilities for ore concentrate exports. White Pass need only meet a competitor's bid. Normally such a right of first refusal would reduce the likelihood of competitive bidding. Competitors will tire of going to the trouble and expense of doing a cost-benefit analysis only to have the original supplier reap the benefit of those efforts simply by matching the offer. For example, White Pass has matched the competitive offer of Alaska Marine Lines for the fuel supply of Curragh Resources for three years. Not only has a competitor of White Pass been kept out of the Whitehorse market for at least three years, but also Alaska Marine Lines and other competitors may be discouraged from making further offers. To the Board's knowledge, there are no contracts between White Pass and their customers that do **not** require an interdependence of transportation services and fuel supply.

RECOMMENDATION: The Yukon Government should, in conjunction with the City of Skagway, State of Alaska and private industry, encourage and facilitate the development of additional ocean terminal and dock facilities at Skagway, independent of White Pass.

Skagway Storage Facility

Even if competitors to White Pass could have access to adequate dock and terminalling facilities in Skagway, a bottleneck would still exist. The port lacks independent storage facilities sufficient to accommodate large barge loads of four or five million litres. White Pass has the necessary storage capacity, but the Board has inferred that it is not made available to competitors on reasonable terms. Otherwise, companies would be able to bid for Curragh supply on the basis of barge costs rather than container costs, and Curragh would be able to obtain an even more favourable price from White Pass. As it stands, no competitors to White Pass use large barge delivery to Skagway for the supply of fuel products to the Yukon.

Little land is available in the Skagway area for the development of a tank farm with sufficient capacity to accommodate barge loads. Some privately owned land, about a mile from the waterfront, could be available for such development. However, land and construction costs for this sort of facility would be extremely high. The facility

Conclusions and Recommendations: Transportation

would also require an underground pipeline at least one-mile long.

RECOMMENDATION: In the event that White Pass storage facilities are not made available to competitors at a reasonable cost, the Government of the Yukon should encourage the development of additional storage facilities at or near Skagway, which independent users could utilize.

Without additional facilities for independent suppliers to use, competition through Skagway will not improve. Yet the market must justify such development. Alaska Marine Lines has a small tank farm with a capacity of approximately 380,000 litres, about a mile from the waterfront, with waterfront service by truck through the State of Alaska right-of-way. This facility could be expanded if contractual opportunities were available to justify such expansion. The Business Incentive Policy precludes the Government of the Yukon from using its buying power to stimulate such expansion.

Pipeline

The Skagway - Whitehorse pipeline was used to import approximately 55% of all fuel products used in the Territory in 1987. There is a possibility that the pipeline could offer suppliers a more economical method of shipping; however, White Pass did not provide any information to substantiate that possibility. Moreover, the pipeline system is not used as a common carrier. While the Canadian portion of the pipeline is classified as a common carrier, and regulated by the National Energy Board, minimum volume conditions and storage requirements at either end effectively preclude open access to this facility. In any event, the American portion of the pipeline appears to be unregulated, so a prospective user does not have access to the entire system on a common carrier basis.

The current tariff of .5 cents per litre for the Canadian portion of the line may be reasonable, but there is no tariff for use of the entire system. The pipeline certainly does not represent a practical alternative for independent suppliers or new entrants to the Yukon market. This is demonstrated by the high price that Esso pays to White Pass for transportation of petroleum products to the Yukon from Vancouver, including use of the pipeline.

The economic and environmental implications of the pipeline could not be evaluated due to the inherent constitutional limitations of the Board and the unwillingness of White Pass to volunteer the information.

Conclusions and Recommendations: Transportation

RECOMMENDATION: *The Yukon Territorial Government should request that the National Energy Board (NEB — Canada) and the Federal Energy Regulatory Commission (FERC — USA) initiate reviews of the White Pass pipeline system, including associated facilities, with a view to*

- a) defining the scope of both the NEB and FERC, over the pipeline, and associated storage and terminalling facilities;*
- b) determining the condition and state of repair of facilities under regulatory board jurisdiction;*
- c) establishing the future viability of the pipeline system;*
- d) prescribing integrated tariffs and conditions of access which are reasonable, practicable and in the public interest; and*
- e) ensuring open access to the pipeline system by potential users.*

Backhaul

There is a possibility that suppliers could use the backhaul capabilities of Yukon Alaska Transport trucks returning empty to the Faro mine, for transporting fuel products. Use of this method by competitors would provide an alternative to White Pass, which the Board expects would create downward pressure on White Pass prices.

OBSERVATION: *Commercial and industrial users of petroleum products should explore the backhaul capabilities of Yukon Alaska Transport trucks for transporting fuel products.*

Competition

Skagway is not a free and open port functioning in a way consistent with the public interest. In **Competition in the Canadian Petroleum Industry**, the Restrictive Trade Practices Commission analyzed the options to remedy perceived deficiencies in the market, in context of the **duty** of a supplier to provide services. With respect to scarce facilities, the Commission stated as follows:

The courts in the United States have developed a set of principles in connection with section 2 of the **Sherman Act**, known as the “essential facilities” or “bottleneck” doctrine, which define more precisely the duty to supply on the part of one or more firms who control a scarce facility, access to the benefits or output of which is necessary to compete effectively. The doctrine imposes on firms the obligation to make a facility

Conclusions and Recommendations: Transportation

reasonably available to others on non-discriminatory terms where four elements are established:

- (1) control of an essential facility by a monopolist;
- (2) a competitor's inability practically or reasonably to duplicate the essential facility;
- (3) the denial of the use of the facility to a competitor; and
- (4) the feasibility of providing the facility.

Any limitations on timely, non-discriminatory access must be justified by those who control the facility. Further, the duty to supply is independent of proof of any intent to monopolize.

In the Canadian petroleum industry, refineries and large terminals are essential facilities very much in the sense of the above principles [p. 452].

The four elements referred to by the Commission are all found at Skagway:

- (1) White Pass controls the terminalling and storage facilities necessary for barge shipping of fuel products;
- (2) these facilities cannot be practically or reasonably duplicated by a single competitor, given the congestion at that port and the size of the Yukon market;
- (3) the Board believes that White Pass does deny use of the facilities to competitors on reasonable and competitive terms, as evident from the absence of such use, the high prices paid by Esso, and the inability of Alaska Marine Lines to offer Curragh Resources a price for fuel products based on barge loads; and
- (4) the Board believes it would be feasible for White Pass to provide reasonable access to the facilities by others.

The Board believes that White Pass, as the "firm who controls a scarce facility", is not fulfilling its duty to make the "facility reasonably available to others on non-discriminatory terms". The Board is of the view that the public interest would be best served by requiring White Pass to provide competitors with access to the Skagway facilities, including the pipeline, on reasonable terms that reflect the lower costs associated with the Skagway route.

RECOMMENDATION: The Government of the Yukon should request that the Department of Consumer and Corporate Affairs, Canada, through its Bureau of Competition Policy, intervene in any NEB review, with a view to identifying whether the apparent "bottleneck monopoly" exists and whether it can be remedied under the provisions of the Competition Act.

Conclusions and Recommendations: Transportation

6.1.2 Import Routes-Haines

Haines represents the next best alternative to the Skagway route. Constraints to use of the Haines route include

- a) a longer distance to Whitehorse;
- b) poor road conditions; and
- c) limited access to adequate terminalling and storage facilities.

Access to Haines storage and terminalling facilities may become more restricted in the future. Petro-Canada has announced the intention to abandon their Haines facility. Petro-Canada has no interest in maintaining the facility because their Taylor refinery is under-used. In addition, they are restructuring their Port Moody/Vancouver refinery in a way that reduces the amount of product available to the Yukon from that source. By eliminating the Haines terminal, Petro-Canada will reduce direct operating costs and improve its refinery economics; but these savings will not necessarily translate into price reductions for the consumer. With the closing of the Haines facility one of the few forces exerting competitive pressure on Yukon prices will be lost. The importance of maintaining the Petro-Canada tank farm and terminal at Haines cannot be over emphasized.

The Haines route offers a competitive alternative which can serve to drive down prices for products transported through Skagway and from Taylor. In the view of the Board, White Pass and Petro-Canada would therefore prefer to have the Haines facility eliminated from the market. When Petro-Canada sells the facility, it is necessary to ensure that the facility is not dismantled and that White Pass does not acquire control of it. One way to achieve these objectives is for the Government of the Yukon to acquire the Petro-Canada tank farm.

In the Board's view, if companies such as Esso could have access to terminal and storage facilities at Haines, they could obtain lower prices from White Pass. Even if companies did **not** use the facility at Haines, it would provide competition. In other words, if the Government of the Yukon acquired the Petro-Canada facility at Haines and never used it, Yukon consumers would **still** benefit.

The importance of Haines as a competitive alternative to Skagway is clearly demonstrated by Totem Oil. Totem operates a small dock facility designed for local fuel supply. The company transports fuel products from the south in small barges, and stores the products temporarily at the Haines dock. Totem then supplies fuel products to the Jake's Corner outlet operated by Dave Gilbert; this outlet has one of the lowest pump prices in the Yukon. Jake's Corner has thus enjoyed an increase in volume even though it is in a relatively remote highway location.

Conclusions and Recommendations: Transportation

Prices are much lower when competitive alternatives exist, and Haines is a clear alternative to Skagway. Until Skagway is made accessible and competitive in a manner that reflects the real cost of the Skagway system, the Petro-Canada tank farm should be kept intact.

RECOMMENDATION: *To ensure that competitive access to petroleum fuel supply sources in Vancouver/Seattle is not limited further, the Government of the Yukon should take immediate steps to*

- a) *prevent Petro-Canada from dismantling their tank farm in Haines, and*
- b) *ensure that White Pass does not obtain effective control of land, or terminalling and storage facilities in Haines.*

6.1.3 Top of the World Highway

This highway, which provides access to a refinery in Fairbanks, is open only during summer months. As the quality of road systems improves, the costs of road transport will decrease, and there will be a resultant impact on the price of petroleum products. If, for example, the Top of the World Highway was better maintained and operated on a year-round basis, petroleum prices in Dawson City could be expected to decline.

RECOMMENDATION: *The Government of the Yukon should explore the feasibility of maintaining the Top of the World Highway on a year-round basis, and should lobby the Canadian Government to encourage the United States to provide year-round customs and immigration services.*

6.2 Regulations

6.2.1 Truck Transport Regulations

The Board of Inquiry concluded that existing regulations governing the transport of petroleum fuels into and within the Yukon do not present barriers to entry by independent suppliers. Existing suppliers are generally not hindered by these regulations. However, the time required to comply with all regulations may slow the entrance of new independents in the Yukon market.

Companies will need to replace older equipment that does not comply with forthcoming national regulations. This could result in additional transportation costs to pass on to the consumer.

Conclusions and Recommendations: Transportation

6.2.2 Marine Transport Regulations

Both the Jones Act of 1920 and the Canada Shipping Act of 1936 were designed to protect American and Canadian shipping industries. The effect of these legislative enactments is to reduce competition along the west coast marine transportation corridor with the result that Yukon and Alaska communities pay higher prices for a wide range of commodities, including petroleum fuel products. The Free Trade Agreement would preserve these protectionist policies.

The Canada Shipping Act precludes Alaskan Marine Lines from consolidating its Vancouver and Seattle freight and delivery to Skagway for transit to the Yukon. As a consequence, there is no real alternative to White Pass' marine division.

RECOMMENDATION: The Yukon Government should support Alaska Marine Lines in any effort to obtain an exemption to the Canada Shipping Act in the short term; and for the long term, the government should lobby for the repeal of the restrictive provisions, in either the Canada Shipping Act or the The Shipping Act of 1920 which directly affect the Yukon.

Conclusions and Recommendations: Pricing

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Conclusions and Recommendations: Pricing

7.1 Pricing Overview

Prices for gasoline, diesel and heating oil are collected throughout the territory, but the public does not have ready access to this information. The Department of Community and Transportation Services, Government of the Yukon, collects data on the pump prices of regular unleaded gasoline and diesel fuel, on a monthly basis, from 30 of the Yukon's approximately 70 service stations. In addition, the Bureau of Statistics collects quarterly information on the price of gasolines, diesel and heating fuel. This information is collected from fifty-seven dealers across the Yukon, and includes most heating oil distributors.

With little additional effort the Government of the Yukon could provide the public with this information, have the data analyzed to provide a basis for comparative studies, and monitor the effectiveness of the marketplace.

RECOMMENDATION: The Yukon Government should periodically commission or undertake a component analysis of petroleum products sold in the Yukon and make that information available to the public.

7.2 Consumer Pricing

7.2.1 Whitehorse, Yukon and Canada

Pricing data for the Yukon indicates that:

- regular unleaded prices are higher than regular leaded prices at most stations, and equal at only a few;
- there can be wide differences in prices at stations only a few blocks apart in Whitehorse, or a few miles apart on the highways;
- signs often list only the price of the cheapest product; and
- heating fuel dealers do not advise customers of price changes until after delivery. The consumer, therefore, is not well-informed about price differences for different products or different retailers.

RECOMMENDATION: See Chapter 7 Section 3.2, to encourage competition.

Conclusions and Recommendations: Pricing

7.2.2 Heating Fuels

Since the early part of 1986, particularly during the last half of 1987 and first quarter of 1988, heating oil prices have been rising slowly in Yukon communities, while crude prices have been declining consistently. Generally, the difference between crude oil costs and heating fuel prices have increased steadily since 1986.

RECOMMENDATION: *The Yukon government should monitor the difference between crude oil prices and heating fuel prices in Yukon communities. See also Chapter 7, Section 7.1.*

7.3 Retailer Share

7.3.1 Retailer Shares in Whitehorse

Retailers and suppliers argued that market conditions are the prime factor in setting prices. Where a marketplace lacks competition, shares/margins can be expected to be high.

Evidence before the Board indicated that retail margins in Whitehorse are much larger than those in major centres in southern Canada. It was suggested to the Board that lower volumes and higher operating costs in northern locations would help explain higher margins. The Board did not examine financial aspects of retail costs in great detail. However, while operating costs, such as labour and utilities, may be higher than in southern locations, other costs, such as land acquisition, usually are lower. Moreover, volumes are not dramatically lower at stations in the Whitehorse area than at stations elsewhere in Canada.

In the Board's view, the higher margins in Whitehorse cannot be fully explained by differences in operating costs or volumes. The Board believes that higher margins in Whitehorse are the result of limited competition.

Retail margins in excess of 5 cents per litre result from a lack of active price competition in Whitehorse. If the market were competitive, average margins in the range of 4 to 5 cents per litre would be expected.

RECOMMENDATION: *See Recommendation Chapter 5, Section 3.2.*

7.3.2 Retail Shares in Yukon Communities

Retail margins in Yukon communities were substantially higher than at Whitehorse, with some as high as 16.5 cents per liter. The Board recognizes, however, that conditions at stations in the communities are quite different than in Whitehorse. Volumes are generally lower, and operating costs, in some instances, higher.

Conclusions and Recommendations: Pricing

Stations usually offer additional services, with gasoline sales supplemented by repairs, convenience stores, restaurants or highway lodges.

The Board concluded that market conditions in Yukon communities are even less competitive than in Whitehorse. In smaller communities, the basic elements of competition are absent and play little or no role in moderating retail prices.

RECOMMENDATION: In small communities which can support only one or two stations, retailers should be encouraged and assisted to maximize revenue from ancillary or diversified operations.

7.4. Transportation Costs

7.4.1 Whitehorse

Suppliers often do not or cannot use the most economical and efficient shipping routes or methods. As a result, fuel prices include transportation costs that are higher than necessary. In a highly competitive market, inefficient methods or expensive transport costs would not persist; suppliers would be forced to find better systems in order to compete effectively.

The Board found that the lowest cost transport system for serving Whitehorse would be a system involving barges from Vancouver to Skagway, and direct delivery from a terminal at Skagway to Whitehorse. The Board estimates the cost of this system to be 5.1 cents per liter for gasoline, as much as 4.8 cents per litre lower than actual costs now incurred by some suppliers. White Pass, because it controls the Skagway port facilities, is the only company now able to take advantage of these lower transportation costs. Although Esso products are transported through Skagway, the company pays a high fee for the service. The price charged by White Pass is approximately equal to transportation costs from Taylor to Whitehorse, by train and truck. This second route is seen as the company's alternative for supplying Whitehorse.

The Board also found that suppliers were not transporting fuel by the most economical means on other routes. Petro Canada transportation and distribution costs along the Haines route include the cost of maintaining a large and unnecessary terminal at Whitehorse. Even where no terminalling is involved, Petro Canada still attributes terminal costs of nearly 1 cent per litre to the sales. In the Board's view, the terminal is unnecessary for a significant portion of Petro-Canada's business in the Yukon.

Conclusions and Recommendations: Pricing

The cost of transporting fuel from Haines with fully loaded B-train trucks would be approximately 3 cents per litre. Petro-Canada has abandoned this route. However, the Board believes, should another supplier use this route, trucking costs would be significantly lower in the future.

In the Board's view, transport costs from Taylor also were higher than necessary. Both Shell and Husky make use of a comparatively expensive rail link between Taylor and Fort Nelson, with terminalling at Fort Nelson, and truck to Whitehorse stations. While costs have fallen dramatically for direct-delivery trucking from Taylor, these companies have not changed systems because of their commitments to the rail companies and bulk dealers. Based on the lowest cost estimated for direct delivery — 7.2 cents per litre — the Board estimates that costs are 1.3 to 1.8 cents per litre higher than necessary on this route.

The table below compares actual transport costs to the lowest available costs for each company supplying Whitehorse.

Table 23

**TRANSPORTATION COSTS
Actual Costs Compared to Lowest Available**

Company	Actual Cost	Lowest on Route	Difference
White Pass	5.1	5.1	0
Esso	9.9	5.1	4.8
Petro Canada	8.1	7.2	.9
Husky	8.5	7.2	1.3
Shell	9.0	7.2	1.8

Source: Yukon Petroleum Fuel Pricing Inquiry.

7.4.2 Yukon Communities

While the Skagway route may be less expensive for fuel shipped to Whitehorse, it is not always less expensive for fuel products delivered to communities outside Whitehorse. This is evident at Watson Lake, for example, where all companies deliver from the Taylor refinery.

From company submissions, the Board learned that transport costs to some communities varied widely. Trucking from Fort Nelson to Watson Lake ranged from 3.2 cents per liter to 4.6 cents. In many instances, differences between prices charged to dealers in outlying communities and prices charged to Whitehorse dealers exceeded actual transportation costs from Whitehorse.

Conclusions and Recommendations: Pricing

Some independent stations in the communities arrange for their own transport, either through contract carriers or with their own vehicle. This is one means by which retailers can ensure competitive transport costs.

RECOMMENDATION: *Suppliers should indicate trucking charges on dealer purchase invoices and allow retailers the option of providing their own transport.*

7.5 Yukon Taxes

Comparisons of pump prices in the Yukon and across Canada can be misleading, because of the differences in taxes. Yukon territorial taxes on motive fuel products are the lowest of any jurisdiction in Canada. On retail gasoline, taxes collected by other provincial and territorial governments are from .8 cents to 10.2 cents per litre higher than taxes in the Yukon.

In Quebec, outlying communities receive a reduction from the high tax rates applied in major centers. In the Yukon, only Old Crow receives an exemption because of its location. The Board believes that because of the already low rates, the Yukon tax should not be adjusted for other communities. In the absence of a competitive environment, the Board is not confident that such reductions would be passed on to the consumer.

7.6 Crude Oil

The price of petroleum products should mirror changes in crude oil prices. In the Yukon, generally, this does not occur. The problem is particularly acute in some Yukon communities, especially Dawson City. The Board believes that absence of competition among suppliers and localized supplier monopolies in some communities are the prime factors contributing to this condition.

RECOMMENDATION: *See Chapter 7, Section 2.4*

Conclusions and Recommendations: Pricing

7.7 Supplier Shares

7.7.1 Supplier Shares for Whitehorse

If suppliers used less expensive direct-delivery systems on existing routes, and rationalized handling facilities at Whitehorse, their shares for Whitehorse would actually be much higher than those earned in southern markets. Indeed, if they minimized operating and transportation costs, their shares could be as much as 1 to 5 cents higher. Furthermore, if these savings were passed on to consumers, the prices at the pump would be correspondingly lower.

Table 24

SUPPLIER SHARES FOR REGULAR LEADED GASOLINE
Shares Available and Actually Earned
Integrated Refiners Supplying Whitehorse
January 1987 to April 1988

Integrated Refiner	Actual Refiner-Marketer Share (cents/litre)	Available Refiner-Marketer Share
Imperial Oil	8.9	13.7
Petro-Canada	11.8	12.7
Husky	11.3	12.6
Shell	10.9	12.7
Average	10.7	12.9

Source: Yukon Petroleum Fuel Pricing Inquiry.

White Pass, as a jobber for Chevron, earns only the marketer's portion of the supplier share, known as the wholesale margin. Based on evidence received by the Board, reasonable wholesale margins would range from 3.5 to 5 cents per litre. The Board estimates that this margin is 9.1 to 9.2 cents per litre on White Pass gasoline sales. White Pass is able to earn this higher wholesale margin because it can transport fuel products on the route with the lowest costs, yet charge prices which reflect the higher costs associated with other more expensive transportation routes.

The economic regulation of dysfunctional markets is an established practice in the Canadian economy. There are many approaches to economic regulation of prices; however, they all create some problems. Price regulation involves perceived infringement of individual freedom, and substantial costs to the government and the industry being regulated. Also, such regulation

Conclusions and Recommendations: Pricing

disturbs the operation of the marketplace and can detract from economic efficiency.

The following concerns about price regulation of petroleum products have been identified in the literature reviewed by the Board and by witnesses who appeared before it:

- a) in a regulatory regime, efficiency is not encouraged and prices tend toward the maximum permitted by regulation;
- b) in Prince Edward Island and Nova Scotia, two provinces where gasoline distribution and prices are regulated by government, prices tend to be consistently higher (excluding taxes) than in other provinces;
- c) regulation represents a barrier to entry by new market entrants, thus restricting or limiting competition;
- d) price regulation necessarily requires the commitment of significant resources by both government and industry;
- e) regulatory boards tend to be slow moving and incapable of responding quickly to market conditions which often change rapidly;
- f) it is difficult for a regulatory regime to take into account local market conditions, so inequities often arise; and
- g) in Italy, where price uniformity has been imposed by regulation, the private sector has withdrawn from outlying smaller centres and concentrated in larger urban centres characterized by high volumes and low cost markets.

RECOMMENDATION: The Board does not recommend regulation of dealer purchase prices. This has not been shown to be an efficient means of controlling shares in other jurisdictions. See Chapter 5, Section 1.

ORDER-IN-COUNCIL 1988/01

PUBLIC INQUIRIES ACT

Pursuant to the Public Inquiries Act, the Commissioner in Executive Council orders as follows:

PUBLIC INQUIRY RESPECTING FUEL PRICING IN THE YUKON REGULATIONS

Definitions

1.(1) In these regulations:

“Board” means the Board of Inquiry Respecting Fuel Pricing in the Yukon, established pursuant to the Act and these regulations.

Board Mandate

2.(1) The Board shall inquire into factors contributing to the setting of retail prices for motor and home heating fuel products in the Territory and shall provide a report by September 1, 1988 and recommendations in connection therewith.

(2) Specifically, but not so as to limit subsection (1), the Board shall investigate and report upon:

- (a) refinery gate pricing practices;
- (b) transportation and supply systems and costs;
- (c) wholesale pricing practices;
- (d) retail pricing practices generally and in respect of major industrial sales.

Procedure

3.(1) Subject to the Act and these regulations the conduct of and the procedure to be followed in the inquiry shall be under the control and direction of the Board.

Engagement of Services

- 4.(1) The Board may engage the services of:
- (a) counsel, clerks, reporters and assistants; and
 - (b) persons having special technical or other knowledge or expertise.

Open Hearings, Exceptions

- 5.(1) Hearings in the inquiry shall ordinarily be open to the public but the Board may exclude the public where the Board is satisfied that,
- (a) matters involving public security may be disclosed at the hearing, or
 - (b) financial or personal matters or other matters may be disclosed at the hearing that are of such a nature, having regard to the circumstances, that the desirability of avoiding disclosure thereof in the interest of any person affected or in the public interest outweighs the desirability of adhering to the principle that hearings be open to the public.

Rights of Persons Interested

- 6.(1) The Board shall accord to any person who has a substantial direct interest in the subject matter of its inquiry an opportunity during the inquiry to give evidence and to call and examine or to cross-examine witnesses on evidence relevant to that person's interest.

Attendance of Witness, Compelling of Evidence, Production of Documents

- 7.(1) The Board may exercise its powers under sections 4 and 5 of the Act by using the procedures established by the Rules of the Supreme Court.

Evidence under Oath

- 8.(1) The Board has the power to administer oaths and affirmations for the purpose of the inquiry and may require evidence before it to be given under oath or affirmation.

- (2) The Board may admit evidence not given under oath or affirmation.

Right to Counsel

- 9.(1) Any person appearing before the Board may be represented by counsel.

Release of Documents, Photocopy Evidence

- 10.(1) Documents and things produced in evidence at the inquiry shall, upon request of the person who produced them or the person entitled thereto, be released to such person by the Board within a reasonable time.
 - (2) Where a document has been produced in evidence before the Board, the Board or with the leave of the Board, the person producing it, may cause the document to be photocopied and the photocopy may be filed in evidence in the place of the document produced, and a document purporting to be a copy of a document produced in evidence, certified to be a true copy thereof by the Board, is admissible as evidence in the proceedings in which the document produced is admissible, as evidence of the document produced.

DATED at Whitehorse, in the Yukon Territory, this 5th day of January, A.D., 1988.

Signed J.K. McKinnon
Commissioner of the Yukon

ORDER-IN-COUNCIL 1988/26

PUBLIC INQUIRIES ACT

Pursuant to section 3 of the Public Inquiries Act the Commissioner in Executive Council is pleased hereby to make the following order:

1. Heino Lilles is appointed a board which may be called the Board of Inquiry Respecting Fuel Pricing in the Yukon and which shall conduct in accordance with the Public Inquiry Respecting Fuel Pricing in the Yukon Regulations the inquiry described in those regulations.

DATED at Whitehorse, in the Yukon Territory this 1st day of February, A.D. 1988.

Signed by J.K. McKinnon
Commissioner of the Yukon

RETURN OF INFORMATION SENT TO COMPANIES

Further to the Discovery provisions of the proposed Rules of the Board of Inquiry contained in the submission on Procedure dated April 7, 1988 please provide the information requested in the following questions. A list of all documents referred to or relied upon in answering these questions must be included with a short description of each document. Where it is claimed that a document is confidential, the claim must be made in the list of documents with a statement of grounds for confidentiality. Confidentiality will be respected in accordance with Rules 25, 26, 47, and 48. All source documents must be made available for inspection and copying on request by Inquiry Counsel. To ensure confidentiality of the information taken from confidential documents please underline in red or otherwise highlight those parts of the answers provided which you wish to keep confidential. The Board of Inquiry will rule on all claims of confidentiality prior to the admission of such documents or information in evidence. The answers, information, and list of documents requested herein must be returned within 21 days. Please have the responsible officer of the corporation sign the Return of Information verifying its accuracy.

A. SUPPLY OF REFINED OIL PRODUCTS

1. With respect to your acquisition of petroleum fuel products (that is gasoline, diesel, propane, aviation, home heating fuel) for resale in the Yukon Territory please provide the cost of your refinery purchase for each grade of fuel with the location of the refinery where the purchase was made and the name of the refiner for the first working day of each quarter from January 1, 1985 to April 1, 1988. If no actual purchase was made, please provide your rack prices for each grade of fuel and any exchange differential with refinery names and locations for the first working day of each quarter from January 1, 1985 to April 1, 1988.

B. DISTRIBUTION

1. Please describe in general terms, the distribution alternatives for the Yukon Territory with all alternative transportation routes considered by your company and component costs.

C. RETAIL OUTLETS

With respect to each and every retail outlet directly or indirectly controlled or supplied by your company including airport dealers please provide the following information with a separate return of information prepared for each outlet. If actual figures are not available please use your best estimate and indicate that it is an estimate.

1. Location of outlet
2. Registered owner of the property
3. Kind of facility (eg: self-serve, two bay station) and related services (eg: mechanical repair, restaurant, grocery store).
4. Method of operation (eg: company operated, leased, independent dealer, etc)
5. Name of present operator and in chronological order previous operators to January 1, 1985
6. A list of petroleum fuel products sold (eg: regular, regular and premium unleaded, diesel, propane, and aviation fuel but excluding lubricating oils and greases) and the volume sold of each product for 1985, 1986, 1987, and the first quarter of 1988.
7. Retail pump prices by product on the first working day of each quarter since January 1, 1985.
8. Prices paid by the retailer or that would have been charged for deliveries made for each product on the first working day of each quarter since January 1, 1985.
9. Rental payments made by the operator for 1985, 1986, 1987 and the first quarter 1988.
10. The amount of cross-lease payments and/or discounts made to the owner and/or operator for 1985, 1986, 1987, and the first quarter of 1988.
11. The amount of price support payments paid to the retailer for 1985, 1986, 1987 and the first quarter of 1988.
12. Please provide copies of all contractual documents that establish the relationship between the product supplier, the property owner and the retail outlet operator (including, but not limited to leases, equipment purchases, maintenance, credit, product supply, price support, termination and promotional and credit card programs).
13. Describe the chain of distribution that is used to supply this outlet starting at the refinery and indicate the components costs for January 1, 1985 and April 1, 1988
 (eg: refinery to port
 port to port
 port to terminal
 terminal to bulk plant
 bulk plant handling
 trucking to retailer).

14. Transit time from refinery to retailer.
15. What other services are provided by your company to the retailer and what is the cost to the retailer of these services (eg: credit cards, signs, etc)

D. BULK PLANT OUTLETS

With respect to each and every bulk plant outlet directly or indirectly controlled or supplied by your company please provide the following information with a separate return of information prepared for each outlet. If actual figures are not available please use your best estimate and indicate that it is an estimate.

1. Location of outlet.
2. Registered owner of the property
3. Description of the facility including bulk tankage by product.
4. Marine, rail, pipeline or truck supplied.
5. Method of operation (salaried employee, commissioned agent, etc).
6. A list of petroleum fuel products sold directly to
 - a) consumers
 - b) commercial and industrial accounts
 - c) jobbers, home heating fuel distributors and other re-sellers and the volume sold for each product for 1985, 1986, 1987 and the first quarter of 1988 (including all gasolines, diesel, propane, aviation and home heating fuels, and excluding lubricating oils and greases).
7. Posted (or benchmark) prices to each class of trade including heating fuel consumers supplied from this plant on the first working day of each quarter since January 1, 1985 and any discount schedule.
8. Prices paid by the bulk plant operator or that would have been charged for deliveries made for each product on the first working day of each quarter since January 1, 1985. If the bulk plant is a commissioned operation what rates of commission were paid to the agent on the first working day of each quarter since January 1, 1985.
9. Rental payments made by the operator for 1985, 1986, 1987, and the first quarter of 1988.
10. The amount of cross-lease payments and/or discounts made to the owner and/or operator for 1985, 1986, 1987 and the first quarter of 1988.
11. Please provide copies of all contractual documents that establish the relationship between the product supplier, the property owner and the bulk plant operator (including but not limited to leases, equipment purchases, maintenance, credit, product supply, price support, termination, promotional and credit card programs).

12. Describe the chain of distribution that is used to supply this outlet starting at the refinery and indicate the component costs for January 1, 1985 and April 1, 1988 (eg: refinery to port port to port port to terminal terminal to bulk plant bulk planthandling).
13. Transit time from refinery to bulk plant outlet.
14. What other services are provided by your company to the bulk plant operator and what is the cost to the operator of these services?

E. COMMERCIAL AND INDUSTRIAL TRADE

1. Please provide a summary of your relationship with Curragh Resources Ltd and provide a copy of all contracts and written documents pertaining to your dealings with Curragh Resources Ltd.
2. Please provide a summary of your relationship with Yukon Electrical Company Limited and provide a copy of all contracts and written documents pertaining to your dealings with Yukon Electrical Company Limited.
3. Please provide a summary of your relationship with Yukon Energy Corporation and provide a copy of all contracts and written documents pertaining to your dealings with Yukon Energy Corporation.
4. Please provide copies of the supply contracts for your next five largest commercial/industrial customers in the Yukon.
5. What was the volume supplied for each of the above customers for 1987 and your estimate of the 1988 volumes?
6. Do you loan any product handling facilities or equipment to these customers (give details)?

F. COMPETITION

1. What is your policy with respect to supplying independent dealers in the Yukon? Does that policy differ from your policies in other parts of Canada?
2. How do you establish the prices you will charge the various classes of trade and how do you justify differences between them?
3. What are the companies practices and procedures with respect to competing in the Yukon market including how your company responds to price reductions and measures your company employs to maintain or improve its market share?

G. FINANCIAL REPORTING

1. Provide a detailed accounting of the financial position of your company (P&L, Balance Sheet), including but not limited to;
 - a) S.E.C. 10K reports for the past three years;
 - b) last three annual reports for the company;
 - c) if not given in the Annual Reports, consolidated financial statements for the past three years;
 - d) for companies whose petroleum related activities extend beyond Yukon, provide financial statements for the Yukon operations based on actual or estimated figures, for the past three years, including the methodology of how allocations were made to arrive at these actual or estimated figures; and
 - e) for companies whose activities extend beyond the petroleum business, provide consolidated statements showing a breakdown of the petroleum related divisions and other divisions based on actual or estimated figures, for the past three years including a methodology of how allocations were made to arrive at these actual or estimated figures.

It will expedite the Inquiry if all documents referred to in answering this questionnaire are listed with a short description of each document. You are also requested to provide copies of all memos, studies, reports, or cost-benefit analyses in your possession or power relating to any matter in question in this Inquiry. Thank you very much for your assistance in providing a complete return to this request for information.

REPORTS REVIEWED BY THE BOARD

A Background Paper on the Water Transportation Service To and From the Yukon Territory, David Berendt and Trevor D. Heaver, March 1986.

Alternative Means of Transporting Petroleum Products Into the Yukon Territory, Northern Policy and Program Planning Branch, Department of Indian Affairs and Northern Development, 1974.

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In the Matter of the Prices charged by Wholesalers and Retailers for Petroleum Products in the Province of Prince Edward Island, Robert O'Rourke and Anna C. Carr, Public Utilities Commission, March 31, 1988.

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Old Crow Transportation Study, Community and Transportation Services, Government of Yukon, Stanley Associates Engineering Ltd, November 1987.

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Port of Skagway Pre-Feasibility Study, Reid Crowther, October 1987.

Preliminary Report on Fuel Prices, R. Raghunathan, Statistical & Planning Adviser, July 30, 1974.

Pricing of Refined Petroleum Products in the Yukon, Marvin Shaffer and Associates, March 1987.

Quarterly Petroleum Review, BC Ministry of Energy, Mines and Petroleum Resources, 1987.

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Yukon Barging Study, Stanley Associates Engineering Ltd, May 15, 1987.

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Yukon Fuel Products Marketing Study, Path Economics Ltd., Marvin Shaffer & Associates Ltd., March 31, 1987.

Yukon Transportation Study, Swan Wooster Engineering Co. Ltd, October 1978.

APPEARANCES

COMPANY REPRESENTED	COUNSEL OR SPOKESPERSON
Alaska Marine Lines	William E. Troy President
Arrow Transportation Systems Ltd.	George Rix Manager Whitehorse Office
Canadian Freightways Limited	G.W. Naydiuk Supervisor, Cost Accounting
Chevron Canada	A.W. Carpenter Counsel
City of Dawson	Mayor Peter Jenkins
City of Whitehorse	Mayor Don Branigan
Curragh Resources	Marvin P. Pelly Vice-President
Dawson City Chamber of Commerce	Gerald McCully President
Dawson Co-operative Union	Glen Girard Petroleum Manager
Don Acorn's Petro-Canada	Don Acorn
Esso Bulk Plant Whitehorse	Gerald Mitchell
Esso Petroleum Canada	Wayne Jeffrey Manager, Pricing Coordination
	Dave Takata Automotive Sales Manager B.C. and Yukon Region
The Gas Shack	Peter Horsnell
Government of Canada Dep't of Supply and Services	Pierre Beaudry

APPENDIX IV

Government of the Yukon	Jack Westerberg Counsel
	Tom Ullyett Solicitor
	Gordon Michner, Q.C. Director of Legal Services
Husky Oil	Michael Black Solicitor
Inter-City Gas Ltd.	Murray Carey Counsel
	Stan Pledge Branch Manager
	Ron Shoemaker District Manager
J. Kreitzer Fuel Sales	Jack Kreitzer
Marvin Shaffer & Associates	Brent Friedenber Gary Hollman
Mohawk Husky Oil	Paul Mitchell
Murdoch's Fuel Services Ltd	Robert E. Mitchell
North Yukon Air	Craig Unterschute
Old Crow Indian Band	Chief Alice Frost Stanley Njootli Alfred Charlie Roger Kay Stephen Frost Charlie Charlie Hanno Netro Roy Moses Norma Kassi, MLA
Payless Fuels	Allen Vandekerkhove

Petro-Canada

Maureen Bell
Senior Counsel

Nigel Hill
Manager, Distribution

Erik Mamen
Industrial Sales Representative

W. Alf Peneycad
Counsel

Barry Stewart
Senior Vice-President
Western Region

Ronald S. Veale
Counsel

Private Citizen

Donald W. Scott

Rancheria Hotel Ltd.

Art Semler

Shell Canada Products

Gordon M. Holland
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C.D. Pegg
Business Advisor

Mike Ross
Manager, Marketing Services

**Yukon Corporation
White Pass and**

Marvin P. Taylor
Executive Vice-President

Bill Wray
Vice-President Marketing

A.G. Henderson
Counsel

David Hossie
Solicitor

B. Landry

APPENDIX IV

Whitehorse Esso	
Grizzly Esso	Greg Kent
Yukon Tire	Les Murdoch

The following Business responded to a questionnaire prepared by the staff of the Inquiry:

Acorn Service Ltd	Bear Flats Lodge
Camp-Ground Services Ltd.	Canadian Freightways Ltd.
Canamax Resources Inc.	Tatchun Centre
F & K Holdings	Gas Shack Ltd.
Iron Creek Lodge	J. Kreitzer Fuel Services Ltd.
Jake's Corner	Johnson's Crossing Lodge
Kathleen Lake Lodge Ltd	Kopper King Services Ltd.
L & L Services	Liard River Resort
Mayo Caselot & Expediting Services Ltd.	North Star Petroleum
Pine Valley Motel	Porter Creek Service
Rancheria Hotel Ltd.	Ross River Service Centre Ltd.
Sunrise Service Center	Tags Food & Gas
Talbot Arm Motel Ltd.	Teri-Tori Campsite
Trails North Truck Auto Stop	Whitehorse Transit
Yukon Energy Corporation	Yukon Tire Centre Ltd.

SERVICE STATIONS

Name of Station	Supplier	Location	Services	Designation
White River Lodge	Chevron	A-H 1169		
Westmark Inn	Chevron	Beaver Creek	SS/CS/H/RV	BD
Carcross Valley	Chevron	Carcross	FS/R	BD
Sunrise Service	Chevron	Carmacks	FS/2B/R	BD
Gas Shack	Chevron	Dawson City	FS/2B	BL
Talbot Arm	Chevron	Destruction Bay	FS	BD
McNevin Construction	Chevron	Eagle Plains	FS	BD
L & L services	Chevron	Faro	FS/2B	BL
Kathleen Lake Lodge	Chevron	Haines Junction	FS	BD
Mountain View Inn	Chevron	Haines Junction	FS/1B/R/M	BD
Johnson's Crossing	Chevron	Johnson's Crossing	FS/R/CS/LO/RV	
Stewart Crossing	Chevron	K-H 212	FS/1B/R	BD
Mayo Caselot	Chevron	Mayo	FS/CS	BD
Pelly River Invest.	Chevron	Ross River	FS/R	BD
Teslin Lake Motors	Chevron	Teslin	BD	
Rainbow's Inn	Chevron	Watson Lake	FS/1B/R/M/RV	BD
Junction 37 Services	Chevron	Watson Lake	SS	BL
Watson Lake Chevron	Chevron	Watson lake	FS/2B	BL
Barry's Auto Centre	Chevron	Whitehorse	FS/2B	BD
Whitehorse Dodge	Chevron	Whitehorse	FS/2B/CW	BD
Second Avenue Chevron	Chevron	Whitehorse	FS/SS/4B/CW	CO
McCrae Chevron	Chevron	Whitehorse	SS	CO
Porter Creek Motors	Chevron	Whitehorse	FS/2B	
Yukon Tire	Chevron	Whitehorse	FS/TS	
Midway Lodge	Chevron			
	Unbranded	K-H 142	FS/R	UBD
Braeburn Lodge	Chevron			
	Unbranded	K-H 55	FS/R	UBD
Ross River Services	Chevron	Ross River	BD	
Bayshore Motel	Esso	A-H 1064	FS/R/M	BD
Koidern River Lodge	Esso	A-H-1164	FS/CS/FL	BD
Spirit Lake Lodge	Esso	Carcross	FS/R/LO	BD
Carmacks Hotel	Esso	Carmacks	SS/CS/M	BD
Klondike River Lodge	Esso	Dawson	FS/2B/R/M	BD
Kluane Lake Tours	Esso	Destruction Bay	FS/R/RV	BD
Hotte's Service	Esso	Haines Junction	FS/2B	BD

APPENDIX V

Stardust Motel	Esso	Haines Junction	FS/2B/M	BD
Yukon Motel	Esso	Teslin	FS/R/L/M	BD
Yukon Esso	Esso	Watson Lake	FS/2B/CW/L	BD
Airport Chalet	Esso	Whitehorse	SS	BD
Trails North	Esso	Whitehorse	FS/TB/R/M	BD
Whitehorse Esso	Esso	Whitehorse	FS/4B	BL
Grizzle Esso	Esso	Whitehorse	SS/CS/CW	XL
Camp-Ground Services	Husky	A-H 632	SS/3B/CS/CG/L	BD
Teri-Tori Campsite	Husky	A-H 797	FS/1B/R/CG	BD
Ida's Motel & Cafe	Husky	Beaver Creek	FS/M	
Burwash Resort	Husky	Burwash Landing	FS/R/M	BD
Carcross Corner	Husky	Whitehorse	FS/1B/R	BD
Porter Creek IGA	Husky	Whitehorse	FS/SS/CS	BD
Tags Food & Gas	Husky	Whitehorse	SS/CS	BD
Pine Valley Motel	Indep	A-H 1147	FS/R/LO	UBD
Liard River Resort	Indep	A-H 642	FS/SS/CS/R/M	UBD
Crystal Palace	Indep	A-H 866	FS/R/H	UBD
Rancheria	Indep	A-H 710		UBD
Swift River	Indep	Swift River		UBD
Grunow Motors	Indep	Watson Lake		UBD
Contact Creek Lodge	Indep	Watson Lake		UBD
McIntosh Lodge	Petro-Can	A-H 1022	FS	BD
M.G. Williams	Petro-Can	A-H 1055	FS/2B	BD
Kluane Wilderness	Petro-Can	A-H 1118	FS/2B/R	BD
Nolan Halman	Petro-Can	A-H 1167	FS/1B	BD
Far West Holdings	Petro-Can	Beaver Creek	FS/1B	BD
Junction Service	Petro-Can	Watson Lake	FS/1B/R	BD
Wye Tech	Petro-Can	Watson Lake	SS/2B	BD
Watson Lake Services	Petro-Can	Watson Lake	FS/1B	BL
Northland Services	Petro-Can	Whitehorse	FS/1B	BD
Kopper King	Petro-Can	Whitehorse	SS/CS	BD
Don Acorn	Petro-Can	Whitehorse	SS/6B/SS/CS	BL
Teslin Lake Resort	Shell	Teslin	SS/CS/L/CG	BD
Watson Lake Motors	Shell	Watson Lake	FS/3B	BD
Iron Creek Lodge	Shell	Watson Lake	FS/R/CS	BD
Whitehorse Shell	Shell	Whitehorse	SS/CS	CO

KEY

BD	Branded Dealer	BL	Branded Lessee
CO	Company Owned	UBD	Unbranded Dealer
A-H	Alaska Highway	K-H	Klondike Highway
SS	Self Serve	FS	Full Serve
CS	Convenience Store	H	Hotel
R	Restaurant	M	Motel
L	Laundromat	CW	Car Wash
CL	Cardlock	LO	Lodge
TS	Tire Shop		
1B	indicates the number of service bays		
RV	Recreational Vehicle Parking/Camping		
XL	Branded Lessee with Cross Lease		

These service stations are listed by supplier, by location, and finally by relationship to the supplier.

METHODOLOGY FOR PRICE COMPONENT ANALYSIS

Prices Used

For component analysis, representative petroleum products were selected from each of the retail gasoline, industrial, and home heating oil markets. Prices for these products — and all other data as well — were averaged over the period January 1987 to April 1988.

Retail Shares

Retail shares for gasoline were calculated as the difference between the pump prices used and average dealer purchase prices. The average Whitehorse margin on self-serve sales of regular leaded was 6.4 cents per litre:

average pump price of 53.5 cents per litre,
less average dealer price of 47.1 cents per litre.

The same approach was used to calculate shares for residential furnace oil. However, there are several different kinds of distributors for heating fuel, each with different costs and margins. One retailer is a commissioned agent, while the others actually purchase and resell the product. Credit and other conditions vary as well. As a result, margins ranged from 2.0 to 6.0 cents per litre, but averaged 4.1 cents. Because margins range in a similar manner elsewhere, such as in Vancouver, the same average margin was used in making comparisons. Industrial diesel sales do not include a retail margin.

To illustrate the method of calculating transportation costs, two sets of sample calculations are shown below. One calculates costs of transportation from Vancouver to Whitehorse via Skagway. The second example shows Shell's transportation costs from the Taylor refinery to Whitehorse. These figures were provided in Shell's non-confidential return to the Inquiry. For Shell, only gasoline transport costs were calculated, since they import very little diesel or heating fuel.

**Sample Calculations for Transportation Costs to Whitehorse
(cents/litre)**

	Shell		White Pass	
	gasoline	gasoline	diesel	furnace oil
1. marine transport	-	1.8	1.8	1.8
2. marine terminal	-	1.0	1.0	1.0
3. rail	2.7	-	-	-
4. Fort Nelson agency	.3	-	-	-
5. truck	5.9	1.6	1.8	1.8
6. Whitehorse terminal	-	-	-	.5
7. inventory carrying	-	.5	.5	.5
8. loss/shrinkage	.1	.2	.2	.2
Total:	9.0	5.1	5.3	5.8

1. **Marine Transport** — to Skagway/Haines. This figure, derived from confidential information, is consistent with information from non-confidential sources.
2. **Marine Terminalling** — Skagway/Haines. Based on confidential information, a figure of 1.0 cent per litre is reasonable; the figure is intended to include port charges as well.
3. **Rail Transport** — All major suppliers using the Taylor refinery use the railway. Shell incurs a cost of 2.7 cents per litre for rail transport from Taylor to Fort Nelson. This is high in relation to other companies, but it is understood Shell has recently renegotiated their contract with B.C. Rail.
4. **Fort Nelson Agency** — Shell indicated a charge of .3 cents per litre for agency handling associated with the transfer of refined products from rail to truck at Fort Nelson. Other companies indicated figures both higher and lower than this amount.
5. **Trucking** — For Skagway trucking, a quote was obtained from Frontier Freightlines. Other trucking costs were reported in company returns.
6. **Whitehorse Terminal** — This figure applies only to heating fuel. A terminal charge of .5 cents was derived from confidential information. It is intended to cover handling of heating fuel, not delivery. The cost of delivery is included in the retail margin for heating fuel sales.

7. **Inventory Carrying** — Product transported through Skagway/Haines can take up to one month to reach point of sale, resulting in inventory carrying charges. The Board estimates .5 cents per litre for inventory carrying, based on Esso's submission. Product supplied from Taylor requires as little as 18 hours for delivery, so inventory carrying was not included for fuel transported on that route.
8. **Loss/Shrinkage** — Shrinkage occurs while transferring product from one transport mode to another when temperatures and elevation change in comparison to refinery locations. Figures used for loss/shrinkage were derived from confidential information. To standardize calculations, all companies using coastal routes were allowed a .2 cents per litre loss/shrinkage cost (except Esso which has a special arrangement with White Pass). Companies using Taylor were allowed .1 cents per litre since there is less handling required on that route.

Once transportation and distribution costs were calculated for each company, in each community, they were combined with market shares to give a **weighted average**. Using **hypothetical** figures, weighted averages are calculated as follows:

Cost		Market Share		
.10	X	10%	=	+.01
.20	X	30%	=	+.06
.30	X	60%	=	+.18
				= weighted average .25

In contrast, a simple average is calculated as follows:

		Number		
Cost		of Companies		
.10				
.20				
.30				
.60	÷	3	=	simple average .20

Using a weighted average produces lower transport costs for industrial diesel and furnace oil in comparison to gasoline. This occurs because weighted averages for these products reflect only suppliers using Skagway and Haines, the lower cost routes. Suppliers using the more expensive Alaska Highway route generally do not supply diesel and home heating oil to Whitehorse.

pump prices in rural communities. Typically with only two or three stations, simple averaging would introduce an unnecessary distortion into the calculations of component prices, especially if one station held a very large percentage of the market.

As the number of stations in the sample increases, the weighted average and simple average converge on the same value. For Whitehorse, the relatively large number of stations permitted simple averaging to be used. In Toronto for example, the simple and weighted averages of pump prices would be virtually identical, since hundreds of stations comprise the sample.

Federal and Territorial/Provincial Taxes

Tax data was taken from Energy, Mines and Resources publications. Additional information was obtained from the Government of the Yukon, Department of Finance.

Crude Oil Cost

Crude costs for Vancouver and other major centers are published by Energy Mines and Resources Canada on a monthly basis. Petro-Canada provided average crude costs for its Taylor refinery. To establish crude costs for each community, Vancouver and Taylor costs were weighted according to the percentage of fuel products originating from each refinery location.

Supplier Shares

The supplier share is the amount remaining after transport, taxes, retail margin and crude oil costs have been deducted from the retail **price**. For individual companies, transportation and crude costs were calculated as actual costs. Individual supplier shares were adjusted for differences in dealer purchase prices. Petro-Canada, for example, charged its dealers a higher price than other suppliers. This is reflected in its supplier share.

Calculation of wholesale margins accruing to White Pass involved a different approach. Based on evidence before the Board, White Pass acquisition costs from Chevron were estimated at a 2 cents per litre below the average rack price in Vancouver. The rack price is the contract price at which jobbers purchase large quantities of product from a refiner. Discounting is known to take place from rack prices according to volumes purchased. Rack price data was obtained from the **Oil Buyer's Guide**. The White Pass wholesale margin is the difference between the supplier share plus crude costs and the purchase price at Vancouver. This calculation is shown below for regular leaded gasoline.

**Sample Calculation of White Pass Wholesale Margin
Regular Leaded Gasoline
(cents/litre)**

	Chevron/White Pass Supplier Share	14.1	
plus:	Crude Oil Cost	14.8	
equals:	Supplier Share plus Crude Cost		28.9
	Average Vancouver Rack Price	21.8	
minus:	Discount from Rack Price	(2.0)	
equals:	Purchase Price at Vancouver		(19.8)
	Wholesale Margin		9.1

The following excerpt is taken from **Competition in the Canadian Petroleum Industry**, Restrictive Trade Practices Commission, May 16, 1986.

Competition may mean very different things to different people, and unless care is taken to use the word precisely, it can frustrate communication and obscure analysis. Price competition, in the sense in which it is something in the public interest, represents a process by which prices are set. The actions by business rivals place an upper limit on the prices a firm can charge for its products. More importantly, such actions by rivals continuously pressure a firm to lower its costs in order that the highest prices the market will permit it to charge enable it to earn a sufficient return on investment to attract investors. This market condition requires that competitors continuously seek to attract business away from each other by price and other means and in turn, this usually requires a reasonable number of competitors. In competitive markets the prices of the various competitors inevitably tend toward the same levels because all available cost-savings techniques will be adopted by all the (surviving) competitors.

This is very different from saying that if prices of the firms in the market are approximately the same they are therefore, for that reason, "competitive" prices, and yet, on many occasions throughout the inquiry witnesses used the characteristic of persons satisfied with "established" market shares, means only that the company prices at a level that prevents others from taking away its business. There is little or no striving for improvement in this concept of "competition"; it characterizes stagnant behavior by someone who merely wishes to preserve an established position, and implies a power and ability to set one's own prices with less regard for pressures from others than would be in the public interest. There are no, or at least insufficient, downward price pressures on costs.

Competition means therefore an effective functioning of markets which promotes and requires rivalry amongst competitors for the the business of consumers. An effective functioning of markets also permits smaller competitors to expand if they meet the test, and the entry of new competitors and new ideas. Technological change and innovation are the large levers of competition in industry. They are sources of creative destruction by which monopolies or inefficiencies are destroyed and new entrants and greater efficiency are encouraged.

Nor does the proper meaning of “competition” leave room for notion about “fair” price levels. Businesses are not entitled to “fair” prices or to “satisfactory” profits. If they are relatively innovative, or reduce costs sufficiently, there will be a sufficient margin between the highest price the market will permit them to charge and their own costs that they will deservedly earn large and even very attractive profits. They are entitled to those prices and profits until others enter, perform as well or better and compete those profits to lower levels. Those who cannot make the grade on a continuing basis leave the industry. Consumers do not owe them a sinecure. This is the basic function of prices and profits and the way in which they allocate resources in a market economy. **It is, of course, dependent upon the elimination of unjustifiable barriers to entry** [emphasis added].

Similarly, consumers are not entitled to “fair” price levels, but only to prices set by a competitive process. The latter clearly are in the best interest of consumers.

