LEGISLATIVE ASSEMBLY OF THE NORTHWEST TERRITORIES

5TH COUNCIL, 34TH SESSION

SESSIONAL PAPER NO. 17-34

TABLED ON MARCH 9, 1967

Seasional Paper 17·34
Tabled on March 9, 1967

February 15, 1967

Confidential - Not for release before tabling during the 34th Session of Council.

NORTHWEST TERRITORIES

SESSIONAL PAPER NO. 17
(First Session, 1967)

FUEL OIL COSTS AND FUEL ENTERPRISES

DISPOSITION

Tabled	To Committee	Accepted as Read	Accepted as Amended	Deferred (to Session)	Rejected	Noted not Considered

FUEL OIL COSTS AND FUEL ENTERPRISES
Re: Item for Action Nos. 2, 10 and 26

The 33rd Session of Council adopted motions requesting an explanation for the reluctance of private enterprise to enter the fuel oil business and for a study of heating oil costs in the Northwest Territories. The motions called for an inquiry by the Department of Indian Affairs and Northern Development into the fuel oil situation and to seek means of encouraging oil companies to move into the Territories.

Oil in Northern Canada was at first transported in drums. This was a costly method of moving and storing oil since drums are difficult to handle and store; high oil wastage is inevitable; freight must be paid on the drums both ways; loss due to damaged drums is incurred, and the interest on the capital deposit on the drums must be taken into account.

As the consumption of fuel oil for heating and diesel-electric power generation steadily increased, particularly in the last few years, it became evident that a more economical method for the transportation and storage of oil had to be evolved. In the late 1950's the Department of Indian Affairs and Northern Development began investigations to determine what savings could be realized by storing fuel in bulk.

Before the Department began the installation of bulk storage facilities, the oil companies were approached to determine if they would undertake the installation of tanks and equipment and supply service personnel for communities in the Northwest Territories. The oil companies were not willing to expand their businesses to settlements other than the larger communities, such as Yellowknife, Fort Smith, Hay River and Frobisher Bay, in which they were established and the volume of sales were of sufficient size to return an assured profit.

There are locations where the companies have an agent handling fuel oil and other petroleum products. One example is Cambridge Bay, where Fred H. Ross and Associates has purchased the tanks and delivery equipment from the Department and is acting as the agent for Imperial Oil. The Ross organization also supplies the water, sewage and garbage services and has other interests. The fuel oil requirement at Cambridge Bay is approximately 300,000 gallons annually. Shell Oil has an agent at Fort Chimo, Quebec, who supplies the aviation requirements at the airport in addition to the petroleum requirements of other customers. In Southern Canada facilities are established in communities where the annual consumption is 350,000 gallons or more.

Several companies have made economic studies of supplying petroleum products to various areas in the North. At the present time one of the large oil companies is reviewing the opportunities in the Hudson Bay basin. This study has not been completed; however, the greatest difficulty encountered is the small volume of oil consumed at each settlement. Another company made a study of the market in the Eastern Arctic; however, the small oil market which could be expected and the high cost of transporting the oil to the settlements prevented the company from establishing an outlet. The oil companies may

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be expected to establish outlets in Northern Canada as the market for oil expands sufficiently to ensure a reasonable profit.

In the Eastern Arctic the total fuel oil requirements of all Federal Government Departments are combined for procurement purposes A tanker, of four or five million gallons capacity, makes one trip annually delivering oil to the tank farm at Churchill, which was installed by the Department of National Defence. Large capacity installations are required to handle the tanker cargo. Distribution to the various settlements on Hudson Bay is made by smaller tankers, equipped with landing craft for shore deliveries, chartered by the Department of Transport. That Department's transportation charges are reasonable in comparison to those which would be charged by oil companies.

Where bulk oil storage tanks were built, the Department was approached by private agencies such as Missions and others with a request for the supply of their heating oil requirements To encourage the growth of northern communities, it was considered that savings made possible by bulk storage facilities should be made available to the private agencies. The price charged to these agencies had to be large enough to cover the complete cost of the service but not interfere with or discourage private enterprise.

After discussion of the matter between representatives of the Department, Treasury Board,and the Hudson's Bay Company, the present heating oil regional price agreement was made. This agreement covered groups of settlements - each group called a region. There were a number of settlements having tanks, in which the Hudson's Bay Company had stores. Oil is sold to the Hudson's Bay Co. at cost. The cost includes refinery price, transportation, amortization of tank and handling facilities, shrinkage, other losses, and operating costs. The Hudson's Bay Company purchases oil from the Department at all locations where tanks are installed and arranges supply at those places where there are no tanks but the Company has stores. An estimate of the amount of oil to be sold at each location and the costs are calculated, to which the Hudson's Bay Company markup is added to set the selling price to private consumers.

Originally there were two regions - the Western Arctic coast and the west coast of Hudson Bay. Later two more were added - the east coast of Hudson Bay and Hudson Strait and the east, northeast and north coasts of Baffin Island. It is expected that as tanks are erected at other settlements, the Regional Price Agreement will be extended to include more settlements and form additional regions.

The price of oil at Norman Wells, Churchill and Montreal has been consistent for the past few years. Costs of transportation to northern locations are higher due to the greater distance over which the oil must be transported. The Northern Transportation Company Limited has reduced its transportation charges on bulk oil for the Western Arctic, which was reflected in a reduction of oil prices in 1966.

The cost of bulk oil in any settlement may be divided into three basic parts; price at refinery FOB tanker; cost of transportation from refinery to storage tank; and service charges for cost of storage tanks, losses, distribution and overhead.

The price for oil at the refinery, or the tank farm at Churchill, appears to be as low as can be expected. The cost of transportation might be reduced slowly by more efficient handling and the installation of tanks at satellite settlements. The service charges may be reduced as the tanks are paid for through amortization and distribution becomes more efficient. Reduction of fuel oil costs will continue as a slow process. Artificial methods of attempting to lower consumer costs by subsidization may be considered, but such will not alter the actual cost.

The costs of subsidization would be prohibitive and beyond the limits of Territorial revenue producing resources.