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Chair

Mr. Leon Benoit

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• (1100)

[English]

The Chair (Mr. Leon Benoit (Vegreville—Wainwright, CPC)): Good morning, everyone. We're here to continue our study of the propane market of last year. As we heard last week, the market was filled with supply shortages and high prices. Last week we had presentations by witnesses from the department and from the Competition Bureau and from the National Energy Board. There won't be any presentations to start today. We'll get directly into questions and comments from members.

The first part of the meeting will be questions and comments for those three groups. During the second part, we'll have new witnesses for an hour, and then we've agreed to leave 15 minutes at the end to see what we want to do with this at that time.

We will start by getting directly to questions for officials from either the Department of Natural Resources or the Competition Bureau or the National Energy Board. I will just quickly introduce you again. From the Department of Natural Resources, Terence Hubbard is the director general of the petroleum resources branch of the energy sector area; Douglas Heath is the director of the oil sands and energy security division of the energy sector area; and Ruth Talbot is the deputy director of fuels and refining in the oil sands and energy security division.

From the Competition Bureau, we have Martine Dagenais, who is the associate deputy commissioner of economic policy and enforcement, and Greg Lang, who is the senior competition officer. Again by video conference from Calgary, we have Shelley Milutinovic, who is the chief economist; and Darren Christie, who is the director of the energy markets team and acting director of the energy trade team.

Thank you all very much for being here again. Unfortunately we had an interruption last week. I haven't heard of anything this week, so let's hope for the best.

We'll go straight to Ms. Block for questions to the witnesses.

Mrs. Kelly Block (Saskatoon—Rosetown—Biggar, CPC): Thank you very much, Mr. Chair. I join you in welcoming our witnesses back.

Thank you so much for being willing and taking the time to come back for us to ask you some questions. I did review the material we have, and I want to just put back into context the fact that both the bureau and the NEB identified four factors that were part of the reasons we had a propane shortage last winter. I was glad to hear that

in the study you did you were consistent in your findings. I appreciate that.

I guess one of the things that need to be very clear in the minds of members of Parliament is what the federal responsibilities and provincial responsibilities are. I wanted to give you an opportunity to speak to that just a little bit more and to refresh our memories in terms of our responsibilities with regard to regulating propane in Canada. I know there are some shared responsibilities federally and provincially when it comes to natural resources, so you may want to touch on those and then speak specifically to propane.

Mr. Terence Hubbard (Director General, Petroleum Resources Branch, Energy Sector, Department of Natural Resources): Thank you for the question.

The management of energy resources in Canada is indeed a shared responsibility between the federal and provincial governments.

The provincial governments are the owners of resources within their provincial boundaries. They have the primary responsibility for regulating their development, including the exploration, production, gathering, and transmission of energy within their borders, as well as the downstream use of that energy within their market: the local distribution, storage, and marketing, as well as energy prices within provincial boundaries.

For the most part provincial governments have followed market-based approaches to establishing energy prices within their jurisdictions. Some jurisdictions have chosen to regulate markets in some manner, including Prince Edward Island, Newfoundland and Labrador, New Brunswick, Manitoba, and B.C. The methods in which they do this vary across jurisdictions.

In terms of the federal role, with respect to energy resource development, the Government of Canada regulates the interprovincial and international movement of energy through the National Energy Board, regulating movement across provincial borders or across international borders. The federal government also has specific responsibilities for energy development in Canada's frontier areas, in the north, or Canada's offshore. In Atlantic Canada we share the management of oil and gas development with our provincial colleagues in Newfoundland and Labrador, and Nova Scotia.

Outside of a national emergency the federal government has no responsibility or ability to intervene in energy markets. The provincial governments have this responsibility. In the event of a severe energy supply disruption, the federal government does have emergency powers in place where it could, following the request of a province, intervene directly in energy markets and implement these emergency powers to direct the movement of energy.

In the case of propane markets last winter we saw—and experiences were localized—temporary disruptions in energy markets. At the federal level we never received a formal request from provincial governments to directly intervene in energy markets. At the federal level we continued to monitor energy markets very closely. We work with our colleagues at the Competition Bureau and at the National Energy Board, as well as within provincial governments and within industry, to monitor very closely developments that were happening so that we had the best advice and information available to inform policy discussions in terms of any appropriate steps that may have been needed.

• (1105)

Mrs. Kelly Block: Outside of a state of emergency the federal government has no responsibility to deal with a propane shortage other than to monitor the situation and perhaps step in when a province, or a number of provinces, asks the federal government to do so. Is that what I heard you say?

Mr. Terence Hubbard: That is correct, with the exception of energy transportation across provincial or international borders where our National Energy Board colleagues issue export licences for the export of propane or other commodities. In an emergency situation, or in a period of temporary market disruption, it is the provincial governments that have the primary responsibility. Federal authorities are limited to an emergency situation.

Mrs. Kelly Block: Okay, thank you.

I'd like to ask a question of the Competition Bureau, if I may.

I know your report concluded that there was not enough evidence to show that any anti-competitive activities took place. What I'm wondering is—and this may not be directly related to what happened last winter—what specifically is it that you're looking for when you are trying to assess whether or not any anti-competitive activities have taken place?

Ms. Martine Dagenais (Associate Deputy Commissioner, Economic Policy and Enforcement, Competition Bureau): In order for the bureau to commence a formal investigation under the Competition Act, we need evidence that a specific section or provision of the act may have been violated.

Where the propane industry is concerned, anti-competitive conduct would likely arise from probably three different types of conduct under the act. One could be having two or more people agreeing to fix prices or allocate markets. In that situation we would need evidence that two or more people have engaged in an explicit agreement to engage in this conduct.

A second one could be a firm abusing a dominant position in a marketplace. For this we would need to have a three-part test: first, a firm, or a group of firms, has a dominant position in a market; second, they have engaged in a practice of anti-competitive acts; and

finally, that practice would have a negative effect on competition in the marketplace.

A third one could also be having an agreement between competitors that would have an impact on competition as well.

Those are the kinds of evidence that we would need to commence a formal investigation under the act.

The Chair: Thank you, Ms. Block.

Mr. Rafferty, go ahead, please. You have up to seven minutes.

Mr. John Rafferty (Thunder Bay—Rainy River, NDP): Thank you for being here.

I've had a number of conversations with the Canadian Propane Association over this past year. I guess the gist of it is that there's plenty of propane, there was plenty to be transported, and it wasn't really an issue. I'll look at these things and I'll reference them again, as Ms. Block did. I've heard all of these in the past.

I just want to get your thoughts on this, and also the thoughts of the other group. We had an interesting situation in my part of northwestern Ontario. Propane, as you might know, is a single supplier in many areas—one company supplying in many areas. I happen to live in a part of northwestern Ontario where we have two suppliers, and I'll just briefly tell you what happened this past winter. I don't mind naming them; they're Cal-Gas and Superior Propane.

I happen to be a Cal-Gas customer for heating my home. What was interesting was that they had lots of propane priced exactly the same all winter. The complaints that I heard as a representative were all from Superior Propane customers about a shortage, only being able to fill half the tank, going up 80% to 90% per litre in price, and so on. As I look at this explanation and remember last week what everybody had to say, the only thing that I can come up with—and I'd like your comments on this—is that it clearly wasn't anti-competitive but a retail miscalculation. One supplier miscalculated the amount that they would need in northwestern Ontario. Because there are two companies there, one clearly did not miscalculate and the other one did.

Can I get your comments on that?

• (1110)

The Chair: Go ahead, Mr. Lang.

Mr. Greg Lang (Senior Competition Officer, Competition Bureau): Thank you.

Mr. John Rafferty: I don't want to pick on any companies. That's the situation as it was.

Mr. Greg Lang: Yes, and I should start off by saying that we're required under the Competition Act to conduct our investigations confidentially, so I can't speak to specifics of specific companies in specific areas. We did survey a very large range of retail propane companies across Ontario and Quebec, but the specifics of those conversations I have to keep confidential.

First, I think it's fair to say that the increased demand for propane this winter, both for home heating purposes and for U.S. agricultural demand, was unexpected. It exceeded the forecasts of people who we spoke to.

With specific regard to northwestern Ontario, it was a unique situation. What we observed was that the biggest issues with shortages and high prices occurred in western Quebec and eastern Ontario. For northwestern Ontario, the evidence we heard was that the prices rising so high this winter made it economical for supplies to be trucked in from a hub or a propane terminal near Winnipeg. Generally propane retailers in northwestern Ontario had better access, there were fewer shortages, and prices did not rise as high as in some other areas like eastern Ontario and western Quebec where retail suppliers tend to source from underground storage at Sarnia instead.

Mr. John Rafferty: Mr. Hubbard.

Mr. Terence Hubbard: To add a few more comments to what Greg outlined below, it's important to note that individual retailers of propane base their contracts with their suppliers on historical demand. They sign up either for variable-price contracts, or in some cases fixed-price contracts, based on what they estimate the demand from their customers will be for the season.

Last winter was an abnormal winter in terms of extreme cold temperatures. We saw across the country, as well as in the U.S., that there were a number of instances where retailers misjudged the amount of supply that they would need in terms of meeting their customers' demand for the winter. This led to, in some cases where suppliers didn't have fixed-price contracts with their wholesalers, paying escalated costs to ensure supply going forward.

Mr. John Rafferty: Thank you very much.

The Chair: Do you want the National Energy Board to respond as well by video conference?

Mr. John Rafferty: Oh, I'm sorry.

Ms. Milutinovic and Mr. Christie, go ahead if you have something to add.

Mr. Darren Christie (Director, Energy Markets Team and Acting Director, Energy Trade Team, National Energy Board): Sure. I would just add two things.

We tend to look more at the macro-picture as opposed to the individual retailer level. Two things suggest to me that it was more than just an isolated retailer perhaps making a miscalculation. We did see very large inventory draws across significant areas, and that suggests that it was a substantial increase in demand that was affecting more than just an individual retailer. Similarly the price increases that we spoke to in our introductory comments last week, which are cited in the report, are wholesale prices. It wasn't as though it was something that was isolated for a couple of retailers.

Mr. John Rafferty: Let me ask you one quick question while we're still talking.

Did the amount that North America exported over this past winter have any influence on supply at all? As supply was needed domestically, did the exports drop? Did they stay the same? Were they increased?

I wonder if you have some comments on that.

Ms. Shelley Milutinovic (Chief Economist, National Energy Board): Exports from the last quarter of 2013 to the first quarter when the shortages were mostly happening, particularly in the U.S., fell almost 70,000 barrels a day. Flows that were going to be exported offshore were called back into the North American market in response to price.

Mr. John Rafferty: Okay.

Thank you very much.

Ms. Shelley Milutinovic: Then for the next quarter they increased again.

Mr. John Rafferty: Right. Thank you very much.

Do I still have time?

The Chair: You have time for a very short question.

Mr. John Rafferty: Very quickly, for the Competition Bureau, is there in any merit in suggesting that there be a federal oil and gas ombudsman who would work with each of the provinces' ombudsmen—perhaps appointed in those provinces—on the competition aspect, not just with propane but with oil and gas generally?

Is there any merit in that conversation?

•(1115)

Ms. Martine Dagenais: In the Competition Bureau's view, we always advocate that regulators and policy-makers rely as much as possible on market forces to achieve the benefits of competition. Usually when market forces are insufficient to achieve certain strategic objectives, we try to work with them closely. We are willing to work closely to assist them in implementing strategic policy objectives that may address a strategic issue, but it usually has to be in the least intrusive way.

The Chair: Thank you, Mr. Rafferty.

Mr. Regan, go ahead, please, for up to seven minutes.

Hon. Geoff Regan (Halifax West, Lib.): Thank you very much, Mr. Chairman.

Thanks to the witnesses for coming back this week. I'm sorry we didn't have more time last week.

Last week, we seemed to hear from everybody, "It's not us. It wasn't our responsibility. The situation was unique. Things are all better now. Don't worry. There's nothing to see here. Move along." That doesn't give me a lot of confidence going forward. No one is taking responsibility for this, and that's worrisome.

First of all, my question is to Mr. Hubbard and to Ms. Milutinovic.

In your testimony last week, you both talked about the responsibility that your agencies or departments have to monitor what's going on. Well, what happened? If you're supposed to monitor this, why didn't you see it coming and why didn't you do anything about it?

The Chair: Mr. Hubbard.

Mr. Terence Hubbard: Natural Resources Canada regularly monitors energy markets: oil, gas, and other commodities. We track market developments, and we're in regular contact with our provincial counterparts, as well as with our industry colleagues, in terms of identifying potential market issues going forward.

I think everybody was caught a little off guard last winter, in terms of low inventories heading into the winter as a result of the huge crop demand in the U.S. Then we were caught again by unexpected big demand for propane for home heating purposes, given the abnormally cold temperatures.

In terms of federal responsibilities and the marketplace, the price increases essentially provided the signals that the market required that the commodity be moved around to where it was most needed. We saw last winter that those market forces worked, in terms of moving supplies away from export markets in the U.S. gulf coast back into the northeast and Canadian markets to ensure that adequate supply was available.

Moving forward into this winter season, we see that industry has taken a number of steps in response to last year's developments to ensure that we're better positioned in terms of meeting their market demands going forward. In terms of the—

Hon. Geoff Regan: Thank you. Sorry, I have a very short time.

Ms. Milutinovic, you answered this question about your monitoring responsibility and what happened. My understanding was that the NEB in fact gave the green light, or in other words gave export orders leading into this period.

Now last week when you testified, you didn't talk at all about the timing, how many export orders there were, or that they were any different than normal. You said what the normal range was, but clearly there must have been some export orders issued.

What concerns me is that NEB didn't seem to make sure that there was a cushion. It looked at the weather forecast and said, "Well, it's going to be a mild winter. Let's relax and allow exports to go out." However, it didn't have the kind of cushion that ensured there would be sufficient supplies to make sure there wasn't the kind of spike in prices that consumers experienced. Why not?

Ms. Shelley Milutinovic: When we issue export orders, those are issued for a term of up to one year. So we don't look at them on a day-by-day basis and look at the weather and see what's going to happen.

What happened last year was very much a response to weather. It wasn't an issue of insufficient supply. There was lots of supply in North America, but the supply wasn't where it was needed.

Parties throughout the supply chain have taken all kinds of steps over the last year to make sure there isn't the same kind of response—weather is always an unknown—and to ensure that supply is where it's needed. They've done things like expanding underground

storage in Alberta, in Sarnia; adding above ground storage all over the Midwest and in market areas; additional rail-loading facilities are being added in North America in Alberta, in the Midwest; distributors are adding trucks to their facilities; and encouraging customers to stock up early. They're doing all kinds of things to make sure that the propane is where it's needed if weather strikes again this coming winter.

• (1120)

Hon. Geoff Regan: So would you say that none of the agencies or departments here before us really has a responsibility to prevent this kind of thing from happening in the future?

Consider the fact that, as we've heard, this is a cross-border market. It's a matter of international trade, which of course falls within the responsibility of the Government of Canada, yet there's nobody here saying to us, "We're going to make sure this doesn't happen again." "We're going to leave it to the market", is what it sounds like, and that doesn't seem to me like a very satisfactory response.

Does anybody want to raise their hand and take responsibility for preventing this next time? I don't see any hands up.

Let me ask you this then. I want to talk to—was there a hand up?

Mr. Hubbard's hand is up.

Mr. Terence Hubbard: I have a brief comment on that. As I mentioned earlier, the management of resources is a shared responsibility. The Government of Canada has taken a number of steps over the last number of years to support new investment in Canada's resource sector. We've taken steps through Natural Resources Canada to modernize the regulatory system at the federal level for project reviews. We're investing in new safety systems to support the safe and reliable transportation of our energy infrastructure. We're working closely with the provincial governments to ensure that we have a framework in place across Canada to support new investment going forward.

But the reality is that we have an integrated North American marketplace for commodities such as propane, and this marketplace, and the movement of commodities north and south across these borders, has served both Canada and the U.S. quite well. Going forward, as I think our colleagues at the National Energy Board indicated last week, we're seeing a huge increase in the production of natural gas supplies in the U.S. and related propane increases as well. Just over the last two years, we've seen an increase in propane supplies from our U.S. colleagues greater than Canada's total propane production. So the supply is available. The industry continues to make investments to support the infrastructure in place and the Government of Canada is taking steps to support the development of this infrastructure.

Hon. Geoff Regan: We heard from Mr. Rafferty that the price didn't rise in northwestern Ontario, or not much.

Mr. John Rafferty: There were two companies. One didn't rise; the other one did.

Hon. Geoff Regan: I wasn't meaning to ask you a question. But thank you, I appreciate that.

Mr. John Rafferty: That's just for clarification.

Hon. Geoff Regan: That's a clarification, I appreciate that.

But it was more of a local phenomenon. So what it sounds like is that the cost to those suppliers of propane did not go up, yet, because they could, they were charging more.

[Translation]

Ms. Dagenais, I am not saying that it is anti-competitive behaviour, but is raising prices really just for the benefit of consumers?

[English]

Is it gouging? Is gouging different—I think it is—from anti-competitive behaviour? Can you have gouging without it being anti-competitive? Was there gouging here or am I looking at it the wrong way?

The Chair: I need a very short response, please.

Ms. Martine Dagenais: Let me stress at the outset that we fully understand that this could impact Canadian consumers. But high prices under the Competition Act are not in and of themselves illegal because they need to be linked to an anti-competitive act.

It doesn't mean that the bureau doesn't care about, or is not interested in, the broader public policy surrounding the movement of prices in this sector and other sectors, and we advocate, most of the time anyway, for healthier and competitive markets because in many ways they constitute the best protection against high prices. I would say at the end of the day, if the consumer feels they're being gouged and if this is the result of an anti-competitive act, they should just provide us with the evidence and we will not hesitate to investigate and to enforce the Competition Act.

The Chair: Thank you.

Thank you, Mr. Regan.

We'll start the five-minute rounds with Ms. Crockatt, followed by Mr. Trost and then Mr. Bevington.

Ms. Joan Crockatt (Calgary Centre, CPC): Thank you very much to the witnesses.

I found it interesting that apparently my Liberal friend over there doesn't believe in free markets and may not understand that the federal government doesn't set the price of commodities like oil, gas, and propane, or else we probably wouldn't have \$63 oil today.

I wanted to talk about basically some of the fundamentals here. Being from Alberta, I'm interested that 85% of propane comes from natural gas production, and that most of Canada's propane comes from Alberta and B.C., which I hadn't fully appreciated before.

So I'd like to know in light of that, can you sort of talk about...and I think I'll put this to the National Energy Board, to Shelley

Milutinovic. In a way we're fighting the last war, because this is history and not what you're forecasting going into the future. The situation that we had of high prices last year, briefly if you could just consolidate, why did we have that and why do we not have it this year?

• (1125)

Ms. Shelley Milutinovic: We had high prices last year because going into a very cold spell, we had very low stocks. Part of the reason we had low stocks was that people were expecting.... The weather forecasts weren't anything like what had transpired, but we also had very low inventories because of a very late, wet, high, large corn harvest in the U.S., which kind of in November just sucked the inventories down, and propane was going offshore. So when winter hit, there was kind of a confluence of factors and prices rose because there wasn't enough supply where it was needed. In some cases, the inability of rail because of severe weather and the inability of trucks to get to market caused a problem.

Fast-forwarding to this year, the stock situation looks very different from last year. In Canada our stocks are 50% higher than they were last year. In eastern Canada they're 60% higher. In the U.S. they're 40% higher. We have an entirely different stock picture. Then the corn crop in the United States was a very large crop this year, but it didn't have anywhere near the crop drying requirements, and that's pretty much behind us. Those are the two things.

Exports, while they were pulled back, are now continuing to increase. There is that flexibility. They'll go in response to price. So if in response to weather over this coming winter the price rises, we'll see some pulling back from the export market. But we have such a high propane supply in the United States. In the last year the United States has added another almost equivalent of Canada in terms of propane production, so propane suppliers in western Canada and in the United States are trying to find markets for their product, which is why they're looking offshore.

Ms. Joan Crockatt: Some Canadians may have feared that we would have shortages in the future, and that this was due to sort of a shortage of supply and production. You're essentially telling us that's not the case. Do you think most Canadians appreciate that the U.S. production of propane has boomed in the same way their oil and gas production has boomed?

Ms. Shelley Milutinovic: I'm not sure that consumers know that or not. That depends on the communications between the distributors and their suppliers, I think.

Ms. Joan Crockatt: Can you just explain for me again—I'm just looking to lay down fundamentals here.... Since two of the huge gas suppliers that were mentioned, Cal-Gas and Superior, are both located in Calgary, I'm interested in knowing where the consumers are in Canada, the bulk of the consumers, and how do they get their product?

Ms. Shelley Milutinovic: There's propane consumption across Canada. Only 9% of propane consumption is actually residential, but of those residential markets, Ontario is the highest and it has about 2% of its consumers. There is a 1% average across the country, 2% in Ontario.

To get to market, it can flow on pipelines. There are a number of pipelines that can move the propane. Rail tends to be the predominant one, and trucking is another possibility but it's more expensive, so it tends to be used for shorter distances. But rail is the major one.

The Chair: We'll now go to Mr. Trost.

Before doing so, I would like to ask for some clarification on a question that Ms. Crockatt asked. You gave a general answer saying that usage was higher due to crop drying in the United States and a cold winter, but what percentage did usage go up over the final quarter of 2013 and first quarter of 2014 compared to the average for those same periods?

• (1130)

Ms. Shelley Milutinovic: I don't have that number off the top of my head. I think for both—and Darren might be able to correct me on this—the total consumption that winter went up 20% to 25% above the previous winter.

Mr. Darren Christie: I have a couple of points. The agricultural demand in the U.S., during 2013, was estimated to be as much as five times greater than it was in 2012, so that was a significant factor. Going by memory, I believe that in the propane report, it was noted that some suppliers saw a demand increase of as much as 50% for home heating.

The Chair: Mr. Trost, you have five minutes.

Mr. Brad Trost (Saskatoon—Humboldt, CPC): Thank you, Mr. Chair.

One of the things I am wondering about, listening to this, is people talking about how rare the event was last winter as far as price spikes and so forth. Can someone tell me—I guess Natural Resources Canada will take the first crack at it—how rare this was? Have we seen price spikes like this before?

Someone said 1% of Canadians use propane for heating. I suspect my constituency is well below that average. Is there something comparable to this? Is this, in real dollar values, the highest the price of propane has been? Has it been higher than this in the past? How rare is “rare”? When have we had something similar to this?

Mr. Hubbard.

Mr. Terence Hubbard: I'll begin, and maybe I'll defer a little bit to my colleagues at the National Energy Board with regard to some of their research on the markets as well.

Propane markets are typically volatile, given the seasonal demand for propane and given the kind of constant production levels that we see. Because propane is linked to natural gas production, it is produced at a steady rate year-round. When we do see big demand increases, especially unanticipated demand increases, we're going to see price responses in terms of ensuring that adequate supplies are available to consumers.

A key balancing factor in all of this is inventory levels.

Mr. Brad Trost: I get that, but I'm asking how often. Has it ever been this high? If you don't have the numbers, maybe we can get them later. Maybe the National Energy Board.... Has it ever, in real dollars or any dollar value, been this high before, or has it spiked past this?

Mr. Terence Hubbard: In real terms, prices last winter were the highest prices that we have ever experienced for propane markets. But in terms of percentage increases, we have seen increases in propane prices in comparable levels in previous years. In 2000-01 there was a significant increase.

Mr. Brad Trost: Does anyone else wish to answer? My time is burning away here.

The Chair: Mr. Christie.

Mr. Darren Christie: Yes, there's table 4.1 in the report. As Mr. Hubbard alluded to, we saw similar per cent increases, actually slightly higher, in prior years.

In terms of actual cents per litre, looking at Sarnia prices, these were the highest that we've seen. If you adjust to current dollars, we did get probably about 60¢ back in 2000 if you account for inflation, but these were higher.

Mr. Brad Trost: It's maybe once in every 10 or 15 years based on past history, if we account for inflation.

It's been said that supply is constantly growing with natural gas production growing in the U.S., but what about demand? Someone said earlier that only 9% of propane consumed in Canada is for home heating.

What is the demand for propane? Is it going up, is it fairly steady? Every supply and demand curve does have those two sides. Could someone tell me if the demand for propane is going up? If so, why? If not, why not?

The Chair: Who would like to answer that?

Mr. Hubbard. No?

Mr. Terence Hubbard: I have the statistics in front of me, but maybe....

Darren, do you have this?

• (1135)

Mr. Brad Trost: We had a hand waved by the National Energy Board.

The Chair: Yes.

Go ahead, Ms. Milutinovic, please.

Ms. Shelley Milutinovic: Every couple of years we do our forecast out to 2035. When we looked at our last one, which was in 2013, we were projecting steady growth in propane demand in Canada over time—

Mr. Brad Trost: Why?

Ms. Shelley Milutinovic: —as population and economic activity expanded growth in propane markets. It's not a rapid thing; it's just a slow and steady growth.

Mr. Brad Trost: To give a quick, final wrap-up, 9% is used by consumers. Who tend to be the other major consumers in Canada, if not residential homes? What industries tend to be the most dominant users of this fuel?

Ms. Shelley Milutinovic: We have a graph in the report that shows who the consumers are. Darren is just flipping to it. It's agricultural use, industrial use....

Mr. Darren Christie: Historically, industrial use, including petrochemicals, has been a significant source of Canadian demand.

A significant factor in the market is that petrochemical producers have a decent amount of flexibility in what feedstock they use, and lately, just because of relative prices of different NGLs, they have been shifting away from propane a little bit.

The numbers show that industrial demand is about 40%, commercial about 20%. Then, when they break out petrochemical non-energy demand, it is about one-fifth of Canadian demand. Of course, one factor is residential. Although about 9%, it is heavily weighted to the wintertime, so it would be a larger share during the cold periods.

Ms. Shelley Milutinovic: Agricultural is at 4% and transportation is at 6%, so transportation is another reasonably sizeable sector.

The Chair: Thank you, Mr. Trost.

We go now to Mr. Bevington for up to five minutes.

Go ahead, please.

Mr. Dennis Bevington (Northwest Territories, NDP): Thank you, Mr. Chair.

Thanks to the witnesses for coming back here again today.

Is propane considered a manufactured product in Canada? Does it fall under the designation of manufactured product?

Mr. Terence Hubbard: Do you mean for tax purposes and treatment? I'm not 100%—

Mr. Dennis Bevington: Well, the federal government has a role with manufactured products; is that not correct? The federal government has a larger role with manufactured products than with primary products. Is that not the division of authority within Canada?

Mr. Terence Hubbard: At least from the perspective of Natural Resources Canada, whether we go through an industrial process such as refining or through these gas fractionation plants in which propane would be produced, the federal role is the same as it would be in the upstream production drilling of propane.

Mr. Dennis Bevington: Okay.

You talked last week about issuing 55-plus permits for export last year. Was that correct?

Ms. Shelley Milutinovic: I think I said 64 to 72 or 76—something like that—averaged over each of the last five years, so it's around 70 to 80.

Mr. Dennis Bevington: When were they issued? Were they issued over the course of the winter? You say they were for one year, but what were the issue dates of these permits? Were they spread out through the year, or were they focused in one area? Were there some that were issued in January of 2014? That's my question.

Ms. Shelley Milutinovic: I think they're spread out through the year as the applications come in, and people can decide when they want to submit an application.

Mr. Dennis Bevington: So you would have had an opportunity to influence export permits after you knew there was a problem with the supply of propane in Canada. You would have been still issuing export permits.

Ms. Shelley Milutinovic: That's right.

Any restriction on exports would have to go through Governor in Council, and it has to be subject to the free trade agreement.

Mr. Dennis Bevington: I've looked at the law governing you, and yes, it doesn't give you much latitude to refuse a permit. Perhaps the environmental effects of the proposed exportation and any social effects that might come from that, but that's a pretty limited field when it comes to supply of this product. To claim an environmental impact, I suppose, would be interesting.

In the north, with this propane price jumping up and down, I guess one of the reasons that it's so critical—it's only 1% of consumers who use propane—is that propane is very expensive. It has an equivalency, a BTU cost that's much higher than natural gas, for instance, and in many cases it comes up to the level of fuel oil, which in northern Canada is a destructive force in our cost of living.

So you can understand that people who are on propane as a residential heating product have great concerns when the price goes up. Wouldn't you say that? Because they're not dealing with the difference between \$4 a gig and \$5 a gig for natural gas, they're dealing with a cost that might run up to \$1,000 a month to heat their home.

• (1140)

Ms. Shelley Milutinovic: Well, there are a couple of points. On a per BTU basis or equivalent, propane is sort of half...lately, and it changes over time, depending on what has happened. But in recent times propane is somewhere between oil prices and natural gas. It's about halfway between that, but it adjusts.

To go back for a minute to your point on export authorization, we get very little information in those applications and we process them within 48 hours. So we're not looking at environmental and all kinds of other factors when we process those forms.

Mr. Dennis Bevington: Fair enough. You can look at it within the provisions of the act that governs you.

Where was the gas plentiful when we had the shortages in other areas? Where was the oversupply of gas in Canada when, in January, we had these shortfalls in certain areas?

Ms. Shelley Milutinovic: Well, it's an integrated North American market for that. Where the supply was plentiful was down in the gulf coast region, so product eventually was moved into the Midwest and into the Ontario market in response to prices.

Mr. Dennis Bevington: Was it the same kind of 48-hour response by the U.S. to export permits to Canada? If it was plentiful in the U.S., then obviously some of it must have been moving northward into the areas where it wasn't so plentiful. Is there an equivalency in the U.S. to the way that we handle export permits for propane to the U.S.? Is it the same way coming back into Canada, where they'd be doing it in 48 hours, no problem, nobody holds up export permits?

Ms. Shelley Milutinovic: Propane moves across the border very easily and it moved at that time. What the specifics are of those orders, I'm not aware of.

Mr. Darren Christie: Yes, and we did see it took a little time for the market to move the propane to where it was needed. But the movement of propane out of the caverns in the gulf coast up into the Midwest, which then connects up into the problem areas that we were experiencing in central Canada, or Ontario and Quebec, was a big part of what actually provided the relief that was a little slow in coming, but did ultimately come to the places where the propane was really needed.

The Chair: Thank you.

Thank you, Mr. Bevington.

Thank you to all our witnesses for coming again today.

We will suspend the meeting for a couple of minutes as we have the other witnesses come to the table.

I want to thank all of the witnesses from the department, from the Competition Bureau, and from the National Energy Board, for coming again. We appreciate it very much, and I think the questioning has brought out some good information that's helpful to our study,

So I will suspend the meeting, and I will ask people if they want to chat with the witnesses to just move outside so we can have the new witnesses come to the table.

• (1140) _____ (Pause) _____

• (1145)

The Chair: We resume the meeting for an hour with our new witnesses.

First of all, we have from the Canadian Propane Association, Andrea Labelle, general manager; and we have Guy Marchand, chair of the board of directors, and president and chief executive officer of Budget Propane 1998 Incorporated. Welcome to you.

From the Association québécoise du propane is Michel Deslauriers, director general. Welcome to you, sir.

We will go ahead with presentations of up to seven minutes, starting with the Canadian Propane Association. You can split your time as you choose.

Go ahead, please, Monsieur Marchand.

Mr. Guy Marchand (President and Chief Executive Officer, Budget Propane 1998 Inc., and Chair of the Board of Directors, Canadian Propane Association): Good morning. Thank you, Mr. Chair and members of the committee, for the opportunity to appear today to discuss the propane market in Canada. My name is Guy

Marchand, and I'm here with Andrea Labelle, who's the general manager.

[*Translation*]

We look forward to making a short presentation on the propane industry in Canada and answering your questions afterwards.

[*English*]

In order to be respectful of the time we have today, I'll be briefly covering what the Canadian Propane Association is, the propane industry in Canada, and propane's benefits and uses, which will allow for more time to cover the 2013-14 winter, the winter ahead, and then finally, questions and answers at the end.

The Canadian Propane Association offices are headquartered here in Ottawa, and we have a presence in each region of the country. We have over 400 members representing producers to retailers, and everything in between. Notably, in 2014 alone, the CPA has trained and will have trained, through our Propane Training Institute, nearly 35,000 students on the safe handling of propane. We also have a wholly owned subsidiary, which is also operating as a non-profit, that handles emergency response activities for LPGs by rail and road, as well as for newly formed flammable liquids by rail. In addition the CPA is an industry advocacy organization working with government regulators nationwide.

Canada produces approximately 11 billion litres of propane per year. Our economic contribution is approximately \$16 billion, \$1 billion of which goes to taxes and royalties, and we employ more than 20,000 Canadians. The propane industry is regulated by a number of federal, provincial, and municipal codes: the Transportation of Dangerous Goods Act, better known as TDG; environmental emergency regulations; CSA codes adopted into provincial regulations; and finally, municipal zoning bylaws.

Propane is primarily transported by rail, pipeline, and trucks. Prices are influenced by many factors, primarily supply and demand, and crude and natural gas prices. As with other commodities, prices are not set by individual companies. Mont Belvieu, Texas, is where the price reference point is in North America. Propane is then purchased on the wholesale market by distributors and retailers. We are part of an integrated North American market that determines the price, and are part of a well-developed infrastructure across Canada and the U.S.

As far as exports go, the U.S. is Canada's only export market, and in turn the U.S. exports overseas. Over the last few years Canadian exports accounted for 40% to 50% of demand, and they are shipped primarily by rail.

Propane is a safe, clean, abundant, cost-effective, and portable energy source. It's a Canadian story. Some current uses of propane include industrial use in mining; use in construction, including as temporary heat source and for forklifts; residential use for heating, cooking, outdoor living, and lawn care; transportation for government and private fleets, as well as school buses; agricultural use for barn heating and crop drying; and use as a petrochemical feedstock.

•(1150)

Ms. Andrea Labelle (General Manager, Canadian Propane Association): I'll take over from here.

Now for the reason we're here today to discuss what happened this past winter. It was not only the access to supply, but the price increases. Our industry did dub last year "the perfect storm". It felt as if every day we were waking up to a new issue obstructing our access, but these issues were not isolated to the propane industry in Canada. Other industries felt the same: natural gas, hydro. Everyone really felt the pinch last year.

Factors included the longest and coldest winter in recent history, maintenance related to pipelines, rail, and truck terminals, issues related to road transportation due to the weather, record demand for crop drying, and even fractionation plants being offline due to prolonged power outages, particularly in Newfoundland and Labrador. There were even two train derailments in New Brunswick, which could have affected supply and price.

It is important to note, specifically to your question earlier, we don't want this to happen again. It's not in anybody's best interest. This is our industry's business and we're not in the business to not have one, so I want to ensure that's clear.

What happened? It's important to note that before the winter began, the National Energy Board predicted below average propane demand for the winter, and Environment Canada predicted a milder winter. The NEB also reported that in October 2013 inventories were slightly below the five-year average, adequate to cover the heating season. Then the crop drying demand late in the fall depleted supply, and on top of that we had an earlier winter. The result was lower-than-average inventories entering the high-demand heating season, with distributors having ordered supplies based on the forecast of a milder winter.

During the winter of 2013-14, there was record sustained cold, logistical transportation issues, facility and pipeline maintenance, power outages, and train derailments. It's also worth noting that the federal government imposed a prioritization of grain order over other commodities on CN and CP toward the end of the winter. This did not impact us last year, but it remains a concern for us because that is still in effect. We can talk more about that later.

The result of this was that there were delivery delays, for example, railcars covered in snow, inaccessible roads due to snow in some regions; and extremely high demand resulting in rapid and continual depletion of supplies with little opportunity to build inventories back up. The diminished supplies across North America caused prices to climb.

What did the Canadian propane industry do? We issued four press releases to update the public on this situation. We were transparent, open, and cooperative during the NEB and Competition Bureau market propane review, which found no evidence of anti-competitive activities and that the long-term outlook for supply is predicted to be stable. We provided information in interviews to all media, including print, radio, and TV. We met with government at all levels to help keep them informed, and we developed consumer-pricing resources for our members to distribute to their customers to help them better understand how pricing works.

How will this winter be different? Wholesale prices have fallen dramatically, just like oil. We match that. Storage levels are the highest in 11 years, and there are record highs in the U.S. Industry has implemented an increased use of technology in delivery routing systems and remote storage monitoring. Industry has invested heavily in additional primary on-site storage, and new rail terminals will be online in the first quarter of 2015.

What can the federal government do? We have three asks that we think would help: collect and report more detailed propane industry statistics; consider the impact of rail volume requirements, and that's a big one for us; and finally, include the propane industry in the development of energy policy.

•(1155)

The Chair: Thank you very much for your presentation.

Just before we get to the next presenter, is there any association between your two associations?

Ms. Andrea Labelle: We share some members.

The Chair: You share some members, okay, very good.

We go now to the Association québécoise du propane. Michel Deslauriers, go ahead, please, with your presentation.

[*Translation*]

Mr. Michel Deslauriers (Director General, Association québécoise du propane): Thank you, Mr. Chair.

As you may have guessed, I will be giving my presentation in French, which is my mother tongue. If you have any questions, I will be able to provide you with more details.

Our presentation is somewhat similar to that of the Canadian Propane Association. We have experienced the same problems. We live in the north and heating is extremely important for the Association québécoise du propane.

I will start by telling you about the propane industry in Quebec and explaining why propane is the proper solution. I will quickly go over winter 2013-2014 in retrospect and tell you how the Association québécoise du propane responded to the mini crisis. I will then provide you with our forecast for winter 2014-2015. Finally, I will quickly conclude with a few recommendations on use.

The Association québécoise du propane includes producers, wholesalers, 60 gas retailers, transporters, manufacturers of appliances, cylinders and truck tanks, equipment distributors and a few associates.

Our association's mission is to promote the development of propane while assisting its members in improving legislation, regulations, codes and standards. We also work closely with the Régie du bâtiment du Québec.

We have three main committees that help us operate in this industry.

Our mutual aid committee's goal is to train counsellors in emergency response and to support the emergency response plan. Transport Canada requires that we have an emergency response plan, and the mutual aid plan helps us in that sense. Our technical and training committee revises, updates and circulates information about codes, standards and regulations. Our team of trainers manages the training in propane handling for more than 2,000 students a year.

Propane use in Quebec is approximately 600 million litres a year. Propane generates \$650 million for the Quebec economy and over \$50 million in tax rebate. Some 2,000 jobs are directly related to our industry.

As the Canadian Propane Association mentioned, the propane industry is safe and regulated. We use the Canadian Standard Association (CSA) codes. The Régie du bâtiment du Québec and municipal regulations govern our industry.

In Quebec, 90% of propane comes from natural gas extraction. As mentioned a number of times, propane is transported by trains and tanker trucks. The remaining 10% comes from Suncor and Valero Energy refineries. It is delivered to most wholesalers by train and distributed to residential consumers by tanker trucks.

We are a North American integrated market, as the folks from the Canadian Propane Association said.

The factors that influence propane prices are: supply and demand, which are very elastic, as they say in marketing; the prices in Sarnia and Mont Belvieu, Texas, affect quotes; the wholesalers internal market versus retailers, transporters and the carbon tax in Quebec.

Propane is the preferred solution because it is safe, abundant, clean and flexible. In addition to being profitable, its quality-price ratio is outstanding.

Propane is used in households for heating, in agriculture, in the mining industry, in construction, in transportation, for vehicle fleets, and in petrochemical plants that make plastic materials.

Quebec will be using more and more propane as alternative fuel because it meets the objectives of the Quebec government in terms of new policies and energy challenges. Propane is less polluting and makes vehicle motors run silently. It generates 20% less greenhouse gas emissions. There are filling stations available everywhere in Quebec. Vehicle conversion techniques have been proven, and propane is economical fuel.

I will now explain what caused the mini crisis in Quebec last winter.

As was mentioned a number of times, the mini crisis was caused by very cold temperatures and the logistics of the railway cars. As Andrea mentioned earlier, in western Canada, the cars were stuck in the snow. There were technical problems with the refineries and the pipeline. There was a strong demand in autumn for grain drying. Another major factor was that a cold winter started while the grain drying season was hardly over, creating an overdemand.

As the Canadian Propane Association mentioned, the industry was misled by inaccurate weather and stock forecasts.

● (1200)

The industry relied on statistics. The prices were set, but there were some miscalculations.

The National Energy Board said that the stocks were to be sufficient for the year. At the end of the day, there were miscalculations because of the higher demand.

Let's look at the results, because there is always a cause and effect relationship. The heating season suddenly created a stronger demand, which reduced available stocks. Distributors order according to forecasts and statistics, as I just said. Restricted supply ensued.

Some distributors worried about the difficult situation and reacted without delay towards their clients. In other words, they started informing their clients that there might be some problems.

Temperatures remained very cold in much of North America. In fact, 26 American states were affected. President Obama declared a state of emergency in some states. Problems remained and added up: train derailment, pipeline maintenance, refinery reduced production due to technical problems.

Furthermore, railways deliver grains first. Priority was given to grain delivery by rail last winter.

Let's go back to the beginning of 2014 and look at the causes and results. There were delivery delays, a very strong demand, which lowered the stocks that could not be restocked. Provisions were low while the prices stabilized. Consumers in Quebec started worrying and news reports were very negative.

What was our response to the crisis? We met at three extraordinary meetings. We sent two releases to our members. We properly informed the media. We organized a press conference on December 27, 2013. We sent a press release to TV media. We met with print media. We answered to journalists from every conceivable media outlet. We also did several radio interviews for Radio-Canada and CTV.

Our plan for 2014-2015 is to: manage stocks better, improve equipment—as Ms. Labelle indicated earlier—invest in stocks, put in place crisis units, define everyone's roles in the event of such situations, improve communication with consumers and increase communication with our government officials.

The joint report by the National Energy Board and the Competition Bureau indicated that no evidence was found to suggest anti-competitive conduct. There was a unique confluence of events, known as the “cocktail”: unusual cold, very high demand from the U.S. and Canadian agricultural sectors, lower than normal stocks, and overseas U.S. exports rapidly growing. The conclusions drawn by the Competition Bureau were the same as the ones observed by the Association québécoise du propane.

We recommend that the government maintain minimum permanent propane stocks and that priority be given to rail transportation for propane supplies.

Thank you.

• (1205)

The Chair: Thank you, Mr. Deslauriers.

[English]

We go now directly to questions and comments.

We'll start with Mr. Trost followed by Mr. Rafferty and then Mr. Regan.

Go ahead, please, Mr. Trost. You have up to seven minutes.

Mr. Brad Trost: I have a question, and maybe it's because I'm in a western Canadian grain farming riding, Ms. Labelle.

You mentioned that the prioritization of grain is a concern. At the same time you said it wasn't an issue last year. If it wasn't an issue last year why is that a concern now? Everything from what we've been hearing from the other witnesses has been that there were some pretty extraordinary events put together last year to cause a bit of a spike, which pressured some consumers. If it wasn't a concern last year when things were going wrong everywhere, why would it be this year?

Ms. Andrea Labelle: It's because that order came through at the end of the winter, around March. We were already through the tough part of the winter, December, January, and February, so it didn't.

The reason it's a concern is because 50% of our product is transported by rail. Also, they move fewer cars in the winter due to safety and what have you. I'm not saying don't prioritize grain. I'm asking, don't prioritize anything. I hope that CN and CP can work it out. I'm not asking for propane to be prioritized. I'm—

Mr. Brad Trost: You do realize, though, why that might not go over so well with the western Canadian grain industry, being fairly cyclical and not quite able to store...many small players in it. It might not go over so well with a bunch of western Canadian grain-growing MPs—

Ms. Andrea Labelle: Yes. I understand.

Mr. Brad Trost: —when it wasn't a problem in the year that it was fairly tough. Just a remark....

As far as the regionalization of issues and problems and things like that go, there are various demand levels. One of our earlier witnesses said 2% of Ontario uses propane. Regionally where it tends to be the distribution of propane, how is it distributed throughout Canada? Does there tend to be more greater residential usage in some areas—I'm assuming so in eastern Canada—and more commercial usage in areas where there's more petrochemical plants?

Could you expand on this? I think that would then give us some idea of where the problems could be and how you can deal with them in the future.

Ms. Andrea Labelle: It's produced in the west, transported primarily by rail to the east, stored in Sarnia for this part of the country, and then transported typically by truck within Ontario and Quebec.

It's primarily rural home heating so if you're not on a natural gas pipeline then you would use oil, hydro, or propane to heat your home.

Mr. Brad Trost: But only 9% of consumption is residential.

Ms. Andrea Labelle: That's correct.

Mr. Brad Trost: So where in the rest of the country does it tend to be used? Petrochemical plants, that's one thing.

Then with places like Pennsylvania and other areas that weren't that many years ago big natural gas producing areas and the U.S. producing more propane, is propane going to start to be shipped in from rail from the U.S. and not from western Canada into places like Sarnia? Are we going to see that begin to change the market going forward?

Ms. Andrea Labelle: I'm not in a position to answer that question.

Mr. Brad Trost: Would either Mr. Marchand or...?

Ms. Andrea Labelle: That would be speculation.

• (1210)

Mr. Brad Trost: So no idea of where future propane shipments are likely to come from...?

Ms. Andrea Labelle: We make enough for our own demand and enough for export. I can't imagine why we would buy from—

Mr. Brad Trost: Well, it's because we do that with other products too. Electricity is exported and shipped north-south.

Ms. Andrea Labelle: I know, but again I'm not in a position to speculate.

Mr. Brad Trost: Okay. That's not yours.

Now with pricing...as you go forward, do a lot of the commercial clients tend to do price hedging and things like that? Is that a potential in the market for ways to deal with costs going forward? Should maybe companies or consumers engage in some form of price hedging to protect themselves against spikes like this in the future?

Mr. Guy Marchand: The association does not engage in commercial activities so we could not recommend or know what the market forces will be. We only do lobbying, training, and emergency response. So as far as the market forces go, that is way beyond our scope there.

Mr. Brad Trost: Okay, and that would go for the witness on the other side as well.

I guess, Mr. Chair, at that point if it's mostly about safety and training, I'll pass on the rest of my question time.

The Chair: Does anyone on that side want to take the last two minutes of Mr. Trost's time.

Ms. Crockatt, go ahead, please.

Ms. Joan Crockatt: I just had one question. I'm wondering whether or not the industry allows consumers to basically hedge their bets as a follow up on where Mr. Trost was going. In the electricity industry in several provinces, you can sort of buy essentially futures. You can sign up at a certain price or you can go with the fluctuations in the market.

Monsieur Deslauriers, is that correct?

[Translation]

Mr. Michel Deslauriers: Let me give you an answer that echoes what Mr. Marchand said earlier.

We know how our distributors work. They sign contracts with one, two or several clients so that prices and volume are guaranteed for the year, the way they must also deal with their suppliers.

Let me give you an example. They may have signed contracts with Sarnia and will make sure the amount is adequate. They do the same thing with consumers directly.

However, the association's role is not to check the economic commitments of distributors and wholesalers.

[English]

Ms. Joan Crockatt: May I just ask you then how confident you are in percentage terms that we are not going to face a situation where we will have a repeat of the very high prices last year.

[Translation]

Mr. Michel Deslauriers: Right now, oil prices are dropping and our distributors have been stocking up. We don't think we will have to go through that again. Actually, as I said earlier, it would be very surprising if this "cocktail", this set of circumstances, occurred again at the same time.

[English]

Ms. Joan Crockatt: Can you give me a percentage for your view on that?

[Translation]

Mr. Michel Deslauriers: I am estimating that there is an 80% probability that it will not happen again this year, but I'm not a good psychic.

Let's say that everything has been looking very good for the winter to date.

Ms. Joan Crockatt: Thank you.

Mr. Michel Deslauriers: It is my pleasure, madam.

[English]

The Chair: Thank you, Ms. Crockatt.

We go now to Mr. Rafferty for up to seven minutes.

Go ahead, please.

Mr. John Rafferty: Thank you very much, Mr. Chair.

Thank you for being here and thank you for sitting in on the previous session because one of my questions will eventually be about what I was talking about in the previous session, as you can probably smile and imagine I'm going to ask you.

I take it from the conversation I just heard that rail is the cheapest way to transport propane and about 50% of propane is shipped by rail. You're concerned about increased shipments of grain. Are you also concerned about increased shipments of oil last year and this year? There are lots of fingers in the railway pie here.

Ms. Andrea Labelle: It hasn't been an issue in the past and we hope it's not going to be an issue in the future.

I'm not meaning to pick on grain, because grain is a customer that uses propane to dry its corn and grain, so I didn't mean for it to sound that way.

• (1215)

Mr. John Rafferty: Let me put it another way.

If you have to ship by road instead of rail when you would have preferred rail but there are no cars available, what sort of percentage increase in the wholesale cost would that be? Or would the cost be for retailers?

Mr. Guy Marchand: Probably the trucking industry and the rail industry are both aware of each other's cost factors so I'm sure they're competitive enough. On the short distance it's probably easier to do trucking than rail. On the longer runs, it's probably less expensive to do rail. Whatever it is, it is competitive enough otherwise one wouldn't exist compared to the other.

What Andrea was saying also earlier is that we do not recommend that the government favour or support one industry over the other, but rather that the hands in the pie figure out their own way to slot their product at different times.

Mr. John Rafferty: Thank you very much.

Correct me if I'm wrong, but we heard last week that about 15% of propane comes from oil directly in terms of that process of refining. I know you don't necessarily want to speculate, but with the falling price of oil others have speculated that the price of oil will in fact continue to fall and will for the whole winter season be quite low. Is that going to affect the price of propane?

Ms. Andrea Labelle: Absolutely. It's probably the lowest it's ever been right now. The wholesale market price is 17¢ in Sarnia and 10¢ cents in the west.

Mr. John Rafferty: So it could in fact go lower.

Ms. Andrea Labelle: Absolutely. They're aligned and it's going down.

Mr. John Rafferty: Thank you very much.

That leads me to my next question. You heard me earlier in the first session talking about northwestern Ontario, which is in an unusual situation. Many people who use propane for home heating only have one supplier. There's not a real competitive edge by anyone. We had a very unusual situation in my part of northwestern Ontario and I'll just briefly relate it again. We had one supplier that kept its price the same throughout the heating season and the supply was fine. The other one had real supply issues and the price went almost to 100% more for many of its customers in northwestern Ontario. I was wondering if you had any thoughts.

Perhaps you, Mr. Deslauriers, in particular could respond because you deal more with retailers. Did some retailers just simply make a mistake last year?

[*Translation*]

Mr. Michel Deslauriers: Without actually saying that they made mistakes, I think we can say that they miscalculated their forecasts.

It is also a question of stocks. Major distributors can have an abundance of stocks, negotiate prices and maintain their prices, whereas smaller distributors usually have a harder time stockpiling. As a result, they have to fill orders as they come.

However, as I mentioned earlier, we have about 60 gas distributors in Quebec. Our situation is slightly different from the situation in northwestern or northern Ontario, where there are only two distributors. In Quebec, since there are 60 distributors, consumers have a choice and can negotiate prices. They can go from one distributor to another.

[*English*]

Mr. John Rafferty: Thank you very much. I appreciate that answer.

We have a situation now, at least in northwestern Ontario, where suppliers have...They've let the price fluctuate throughout the heating season and during the year. It has not been a fixed price. They've signed everybody up on fixed contracts, including my supplier. It's about 10% more than it was in the previous year.

My concern is this. If we're going to see the wholesale price go down, how are consumers going to ever realize that price? We've seen fixed prices before in the natural gas market in the past and various things. They're not very workable.

Do you have any influence on retailers at all, to say to them, "Listen, we don't want to get into these fixed price contracts because what it looks like is that you're taking advantage of a crisis". Certainly, they will this year because the price will continue to go down. I don't mind telling you what I paid on my new contract. I think it's 76¢ a litre.

Years and years ago, I worked in propane at a co-op and know that propane was, at that time, sort of a throwaway thing. It was not really seen as a serious gas product, which it is now.

I'm just curious as to what you think about retailers. I know you don't have any say in what retailers do. Do you find that might hurtful to the industry?

• (1220)

Ms. Andrea Labelle: Part of the challenge in our industry is that we are made up of private companies for the most part, the retailers for example. I have absolutely no right to tell them how to run their businesses and they'd probably slam the door in my face if I did try.

As an industry association, I'm not really allowed to even get into those discussions about price.

Mr. John Rafferty: Fair enough, I didn't know if you would feel comfortable answering it or not.

My concern is that we only have one supplier, unlike Quebec. We only have one supplier in many areas. You're always concerned

about gouging with no flexibility to have a lower price if the price continues to drop. It's not really a competitive thing as much as it is propane suppliers taking advantage of consumers.

The Chair: Thank you, Mr. Rafferty, your time is up.

Mr. Regan, you have seven minutes.

Hon. Geoff Regan: Thank you, Mr. Chair.

[*Translation*]

My thanks also go to the witnesses.

Mr. Deslauriers, we heard that, in Canada, about 1% of people use propane to heat their homes; in Ontario, the number is 2%. Is it true that people who live in remote places, on an island or in a very rural community, for example, use propane to heat their homes because they have no alternative?

Mr. Michel Deslauriers: I cannot agree with what you are saying because I use propane to heat the home that I have just built. I live next to a distributor.

Using propane furnaces is a wise choice. It is an economical and good quality heating method. In Quebec, the carbon market is developing very quickly. With the exception of electricity, propane generates significantly fewer emissions than oil.

We are increasingly educating consumers on the benefits of using propane. Natural gas is also an option, but it is not offered in some regions whereas propane is available.

Hon. Geoff Regan: You must agree that people don't have an alternative in a number of cases.

Mr. Michel Deslauriers: I completely agree.

[*English*]

Hon. Geoff Regan: Ms. Labelle, I understand that the increase in the cost of propane this past winter at Sarnia was 109%. What was it at Texas? What was the increase?

Ms. Andrea Labelle: I think it went up almost 400% at one point.

Hon. Geoff Regan: I guess the question is this. What differences were there in terms of the price changes in the North American price versus local prices in Canada? Are you telling us there were no differences?

Ms. Andrea Labelle: Oh yes, we had an increase in price.

Hon. Geoff Regan: No, that's not the question.

To be clear, was there a difference in how much it increased North America-wide versus how the increase was locally, in different markets in Canada?

Ms. Andrea Labelle: No, it matched.

Hon. Geoff Regan: There was no difference. Okay.

We had a situation, of course, where in the dead of winter, some people had no supply or they had a huge spike—I mean, 100% or more. A spike of 400% is an enormous spike in cost if you're trying to heat your home with this. I don't think those consumers would have felt that there was a well-functioning market at that point.

We heard a lot from the departments and agencies about how they try to ensure there is a well-functioning market, and I appreciate their efforts in that regard. However, certainly I don't think that consumers felt it was there last year, or that there was a level playing field in terms of the way that the market was functioning.

I understood what you said about how you can't say to your members, "Let's talk about the price." I appreciate that. I can also understand how you would want to say to your members in certain cases, "We don't want to get a bad rap for our industry".

Let's go back to the suggestions you had about what the Government of Canada should be doing. You seem to be suggesting that the government is not collecting and reporting detailed enough statistics, or accurate or up-to-date enough statistics, on what's happening with propane supplies. How should that be changed?

• (1225)

Ms. Andrea Labelle: We just finished a market study of our own in response to this, and there are a lot of statistics that aren't followed. Natural Resources Canada monitors vehicle propane for vehicle pricing, and that's it.

Hon. Geoff Regan: That's all?

Ms. Andrea Labelle: That's it.

Hon. Geoff Regan: They don't monitor it?

I thought they would—

Ms. Andrea Labelle: Well, they don't share that data publicly, if they do.

Hon. Geoff Regan: Let's talk about the development of energy policy.

The suggestion is that your industry is not included by the Government of Canada in the development of energy policies.

Is that accurate?

Ms. Andrea Labelle: I haven't been invited, so at this point, no; we don't feel like we are being involved.

Hon. Geoff Regan: So the answer is "yes, it is accurate".

What can the Government of Canada do to prevent this situation?

No, let me go back to this question first of all.

[*Translation*]

Mr. Deslauriers, I think you said that the National Energy Board had no reason to claim that stocks were adequate to meet demand last winter. If we had had an adequate margin of error or cushion, could we have avoided the problem?

Mr. Michel Deslauriers: I think the forecast was one of the factors, but it was not the most significant factor. It was just one factor.

Clearly, the inaccurate forecasts per se did not cause a shortage of stocks to meet demand. However, factors such as inaccurate forecasts, snowstorms, cold temperatures, demand, technical problems and pipelines made it impossible to keep up with the demand.

Hon. Geoff Regan: In addition to the three aspects mentioned by Ms. Labelle, is there anything else the Government of Canada should

do in the future to prevent such a problem from happening again in, say, 10 years or so?

Mr. Michel Deslauriers: I think Ms. Labelle said that the government should plan for having a minimum amount of stocks in relation to imports, exports and production, so that they are maintained at a certain level should a combination of factors likely to affect the supply occur, like last year.

Hon. Geoff Regan: Thank you.

[*English*]

The Chair: Thank you, Mr. Regan.

We will go now to the five-minute round. We'll have time for three questioners, and maybe a short fourth.

We will start with Mr. Leef, followed by Monsieur Lauzon and then Monsieur Gravelle.

Go ahead please, Mr. Leef.

Mr. Ryan Leef (Yukon, CPC): Thank you, Mr. Chair.

Today I get five minutes. He normally gives me three.

The Chair: You're down to four now.

Mr. Ryan Leef: Great, see how quick that goes by?

Thanks for your testimony today. I appreciate the recommendations that you put forward, Ms. Labelle. It's good to have witnesses provide recommendations for us to consider.

I'm from the Yukon Territory, so I heat my home with propane and barbecue my moose steaks with it. The latter is the most important use of the propane.

I'm wondering if you could give us a sense of the distribution centres in Canada. What's the lay of the land, so we have a picture of where you're centred? That might give us a better idea of the infrastructure challenges.

Mr. Guy Marchand: As you know, we get propane from two sources. First is the barrel; 15% is from refineries across Canada in nine provinces. One of those provinces does not have refineries. But 85% of the production comes from natural gas. It's extracted from Alberta. Edmonton has one fractionation centre. The next one is Sarnia. Probably most of the fractionating is done in Edmonton, and then it is railed into Sarnia, where it's stored. There is some fractionating done in Sarnia also. Then it's railed or trucked into the provinces for most of the distribution.

• (1230)

Mr. Ryan Leef: From that standpoint, what is the greatest consumer of propane in Canada right now—or what are the top two or three?

Mr. Guy Marchand: Petrochemicals are probably the greatest, and then after that it's industry. If you go into industry, then agriculture is probably number one.

Mr. Ryan Leef: Okay. So if those are your categories, do you have a breakdown now by region, in a general sense? I don't need exact figures. You probably didn't come prepared to deal with this exact point, but I think it's important for the committee to have a decent lay of the land. What regions would be your greatest consumers?

Ms. Andrea Labelle: Alberta is the highest, and then probably Ontario, Quebec, and B.C.

Mr. Ryan Leef: Going back now to your recommendations, with that in mind, your consumer base from a high level and your consumer regions from a specific standpoint, what recommendations would you have, in light of the three you provided—collecting stats, determining the rail volume and the impact, and including your group in the development of energy policy—that would help isolate the consumer base in that consumer region to at least limit a future impact, if we can't outright avoid one?

Mr. Guy Marchand: All I can say is that probably we are seeing across Canada this year an extreme increase in tertiary storage, both at the distribution level and at the consumer level. It's happening in the U.S. also, as tank manufacturers on both sides are saying the same thing. It's a banner year for them. They're making storage tanks for consumers and distributors more than ever.

I guess industry has learned the lesson all over North America. Probably the impact will have served to let people learn, not only the distributors but also the consumers who didn't have enough storage or didn't want too much storage outside their homes because there is a lot of money tied in. They've realized that whether they use oil, electric, or propane, they need that extra storage.

Mr. Ryan Leef: So you're seeing a bit of this issue already being resolved at a bunch of different levels, and now your ultimate recommendation is for the government to support this so that we can complement the work that's being done by consumers and industry and associations.

One part was to collect statistics. Mr. Regan touched on this a bit. Could you expand now on the gaps in the statistics that you have identified? What exactly are you recommending here that you can expand on for us, in terms of what the statistics would do for you?

The Chair: Make a very brief answer, please.

Ms. Andrea Labelle: It will be.

I'd have to get back to you. I'd have to do a complete comparison and have my research person take a look at that. It's always challenging, when I'm asking for a number for a presentation, that we can't get it, we don't have it, it's not available.

The Chair: Thank you, Mr. Leef.

Monsieur Lauzon, go ahead, please.

Mr. Guy Lauzon (Stormont—Dundas—South Glengarry, CPC): Thank you, Mr. Chair.

[Translation]

My thanks to our guests for participating in this morning's meeting.

I have several questions.

Mr. Deslauriers, you said that propane combustion was cleaner than that of natural gas. Is that correct?

Mr. Michel Deslauriers: No. However, its combustion is cleaner than that of oil, heating oil, and it emits less methane into the air than natural gas.

Mr. Guy Lauzon: Okay. Is the difference significant?

Mr. Michel Deslauriers: In terms of methane, it is; the difference is significant in terms of greenhouse gas emissions.

Mr. Guy Lauzon: Mr. Marchand, I think you said that propane is sold internationally, in Texas.

[English]

Mr. Guy Marchand: Yes.

Mr. Guy Lauzon: This is like any other commodity?

Mr. Guy Marchand: It is a commodity, yes.

• (1235)

Mr. Guy Lauzon: Okay. So what is the difference between the price market spot today and what it was last year at this time?

Mr. Guy Marchand: I could not speculate on this. All I can tell you is that the commodity is traded at Mont Belvieu, as there's a gasoline hub in New York, as there's a natural gas hub down in.... So from there, there's a number of factors such as transportation to the outskirts and then the distribution network.

Mr. Guy Lauzon: Do you think there was maybe some money made in speculation last year?

Mr. Guy Marchand: This is very hypothetical. I could not speculate on any of this at all.

Mr. Guy Lauzon: Somebody mentioned the drying of the crops. Everybody knows it was a wet fall last year in Canada and in the United States. That was expected. To say that was a shock that there was going to be a lot of drying, I'm not so sure that I would agree with that. I'm a layman and I understood that it was a wet fall.

Mr. Guy Marchand: Probably I can tell you that the U.S. have got a strange way every year to report their agricultural.... In the summer of 2013, the U.S. reported a large crop, very humid, very everything, and, yes indeed, it was. We get into the summer of 2014 and again, we got the same message: even larger acreage, more acreage, probably more humid. Then we go through the season, and nothing at all. The U.S. has been known historically to do that kind of funny reporting, so it plays tricks on us.

Mr. Guy Lauzon: I'm going to keep going here quickly.

For the last quarter of 2013 and the first quarter of 2014, what kind of profits did the industry report?

Mr. Guy Marchand: There are only three companies that are publicly traded, to my knowledge: Superior Propane, Canwest, and Parkland. All of the other ones are privately held, so I could not tell you.

Mr. Guy Lauzon: You don't know if they're substantial or not, those three that you mentioned?

Mr. Guy Marchand: Exactly. They're the only ones, those three.

Mr. Guy Lauzon: Because of the price, were the profits elevated considerably?

Mr. Guy Marchand: I only read my own. I don't play a lot into shares.

Mr. Guy Lauzon: Okay. Is it possible to produce more propane here in Canada?

Ms. Andrea Labelle: As long as natural gas is produced, it's produced with it.

Mr. Guy Lauzon: So that's the only way you can increase the percentage of propane.

Why is propane so much more expensive than natural gas?

Mr. Guy Marchand: Propane is a byproduct of natural gas. In order to produce the propane, there's more commercial activity at the refinery level; therefore, there's a cost attached to it. The same is true with the butane that goes into your gasoline and even the petroleum side of it.

Mr. Guy Lauzon: I just think you have such a potential market there, you wonder why....

If you could produce more propane, you could obviously bring your costs down and you could be competitive.

Where are you with oil now?

Mr. Guy Marchand: The maximum you can get out of a barrel of oil is 3%. You can never get more.

Mr. Guy Lauzon: But I'm saying—

Mr. Guy Marchand: In a relationship?

Mr. Guy Lauzon: Yes.

Mr. Guy Marchand: Over the years it averages between 35% to 70%. It has been, historically, in the last 30 years, 70% of the price of crude. Now it's hovering around the 30% to 50% mark in the last three years, depending on the value of oil.

Mr. Guy Lauzon: So there's potential here?

Mr. Guy Marchand: Oh, yes.

Mr. Guy Lauzon: Is the industry doing anything about that?

Mr. Guy Marchand: We only get what the producers give us. Yes, they could give us some more if industry were willing to do some more marketing. That's where we say we don't want government to isolate a winner or select a winner, but to let the market forces....

Mr. Guy Lauzon: So if we can develop some world markets here, you guys are going to make a tonne of money.

Mr. Guy Marchand: We don't export; the producers export.

Mr. Guy Lauzon: No, I realize that—

The Chair: Thank you.

Mr. Guy Lauzon: But if we produce more natural gas, you're going to be in heaven here because you're going to have all this extra propane, and your prices are going to come way down, aren't they?

Mr. Guy Marchand: The consumer in general will benefit.

The Chair: Thank you, Mr. Lauzon.

We go now to Mr. Gravelle for up to five minutes. Go ahead, please.

Mr. Claude Gravelle (Nickel Belt, NDP): Thank you, Mr. Chair.

I heard you say that because of the cold winter last winter there was a shortage of propane. The only older person in this room is probably the co-chair, and he's quite a bit older than me by several

decades. I've seen a lot of winters colder than last winter, and this has not been a problem before.

I got a phone call from a lady by the name of Mrs. Couture in Hanmer, and her propane had gone up 120% last winter. Can I expect more phone calls like that next winter? If no, why? If yes, why?

•(1240)

Mr. Guy Marchand: We cannot speculate on what the retailers will do. We have said to you that we don't expect prices to be high. We don't expect to have shortages because of that extra storage capacity by the industry. But as far as the marketing side of it goes, I'd probably recommend that Mrs. Hannon—

Mr. Claude Gravelle: Mrs. Couture.

Mr. Guy Marchand: —look in the Yellow Pages to see if there are other suppliers to find out about that.

Mr. Claude Gravelle: That's an easy solution. I wish it worked like that, but it doesn't.

[*Translation*]

TransCanada wants to convert to oil 3,000 kilometres of pipes carrying natural gas between North Bay and Ottawa.

We are talking about a 20% reduction in natural gas.

How will that affect the price of propane?

Mr. Guy Marchand: I cannot really tell you what impact that will have. We feel that the distance is not huge. I don't think it will have a financial impact.

Mr. Claude Gravelle: I am not talking about the financial impact, but the impact on clients.

Will clients experience a shortage of propane because of that situation?

Mr. Guy Marchand: No.

Mr. Claude Gravelle: No?

Mr. Guy Marchand: Absolutely not.

[*English*]

Mr. Claude Gravelle: Okay, I'm going to pass the rest of my time to Mr. Bevington.

The Chair: Go ahead, Mr. Bevington. You have two and a half minutes.

Mr. Dennis Bevington: Thank you, Mr. Chair.

If 9% of the propane market is residential, and that's used for thermal heating, is there some commercial use for thermal heating from propane as well?

Ms. Andrea Labelle: Yes, there's a lot in the construction industry as a temporary heat source when building a building.

Mr. Dennis Bevington: Would that be a percentage?

Ms. Andrea Labelle: It's a separate percentage.

Mr. Dennis Bevington: Would it be very small?

Ms. Andrea Labelle: No, it's significant, I believe. I don't have my graph in front of me.

Mr. Dennis Bevington: So you might say that 15% of the propane in Canada is used for heating. If you have a cold winter and the heat days go up by 10%, you're going to see a 10% increase in the heating load. You weren't able to adjust to a 10% increase in the heating load caused by a colder winter? What's the number we're talking about? Did last winter increase the use of propane for heating by 10%, 15%, or 20%?

Mr. Guy Marchand: I cannot tell you, unfortunately. That is market retailers' information that we do not have. We can only speculate on the percentage, and as far as the activities they have, I can't—

Mr. Dennis Bevington: But the cold winter could only have affected about 15% of your product use. You could do a calculation based on winter heat days to determine how much that should have impacted your product. You might have only impacted your product by 3% or 4% by the amount of extra propane required to heat Canadian homes. Is my math working here?

Ms. Andrea Labelle: Again, the issue wasn't necessarily the abundance of the product in general. It was where it was located. Because of the cold, weather logistics made it harder to access homes. If it's a long driveway in a rural community and that driveway's not plowed, it delays the delivery times from residence to residence.

Mr. Dennis Bevington: So even though there wasn't a problem with supply, the price went up. You know, honestly, I have a little trouble with this. If you didn't have a supply problem, why did the price go up?

• (1245)

Ms. Andrea Labelle: It was certainly down, but there were more logistical problems.

Mr. Dennis Bevington: So say you were delivering a thousand dollars' worth of propane to somebody's house and you had to go up a driveway and it took you an extra 15 minutes. Did that mean the price of your propane had to go up by 100%? I'm having trouble with this. Once again, why did this price go up so much if you didn't have a supply problem for residential heating?

Residential heating customers were probably the bulk of the customers for that particular retailer, right? There are going to be people who are providing propane for residential heating. That's all they're going to be doing. So if their supply wasn't the issue, and you say that actually it was more the fact that they had trouble driving up the driveway, that doesn't give you a 100% increase in the price of propane.

The Chair: You have to wrap it up, please, Mr. Bevington.

Is there any response?

Mr. Guy Marchand: We don't determine the prices. The prices are imposed on us. Retailers at the end get the producers' price, the posted price. It's a commodity, and that's how it is. So at the end, if the commodity goes up because there's a big demand somewhere, we unfortunately inherit that problem.

The Chair: Thank you.

Thank you, Mr. Bevington.

Ms. Crockatt, do you want one question or not?

Ms. Joan Crockatt: No, I'm fine.

The Chair: Okay, great.

Thank you very much to the witnesses who've been here for the second part of the meeting.

From the Canadian Propane Association, we've had Andrea Labelle, general manager; and Guy Marchand, CPA's chair of the board of directors, and president and CEO of Budget Propane 1998 Inc. Thank you, both.

From the Association québécoise du propane, we've had Michel Deslauriers, the director general. Thank you very much.

We will suspend the meeting to go in camera and to give the witnesses a chance to leave the table.

[Proceedings continue in camera]

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