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Fuel Focus

Understanding Gasoline Markets in Canada and Economic Drivers Influencing Prices

Issue 13, Volume 8

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Canada

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National Overview

Canadian Retail Gasoline Prices Increased 4 Cents per Litre from Last Week

Overall national retail gasoline prices increased by 4 cents per litre for the week ending on July 9, 2013, bringing the average Canadian retail gasoline price to $1.32 per litre compared to the previous week. This is a three-week high and prices are 6 cents per litre higher compared to the same time last year.

Diesel fuel prices increased by 1 cent per litre to $1.24 per litre from the previous week. Prices are 6 cents per litre higher compared to the same period last year.

The rising gasoline pump prices reflect higher North American wholesale gasoline prices which, in turn, are pushed upward by underlying world crude oil prices.

Recent Developments

- **Proposed Energy East Pipeline Project**: The Alberta government has signed up for 100,000 barrels per day of firm transportation capacity on TransCanada Corporation's proposed Energy East Pipeline Project to the Irving Oil refinery in Saint John, New Brunswick. TransCanada is proposing to convert a portion of its TransCanada natural gas mainline to crude service and to build a 1,400-kilometre extension to Saint John. The project would transport up to 850,000 barrels per day to refineries in Montreal, Quebec and Saint John. TransCanada intends to proceed with the necessary regulatory applications for approvals to construct and operate the Energy East pipeline system with a potential in-service date for deliveries to Quebec in late 2017 and deliveries to New Brunswick in 2018. (Source: Daily Oil Bulletin)
- **Oil Market Report**: Global supplies edged lower to 91.2 million barrels per day (mb/d) in May on Canadian maintenance, but rose by 180 thousand barrels per day year over year, led by OPEC NGLs and non-OPEC supply. Maintenance will cut North Sea supplies from 3 mb/d in 1Q13 to 2.6 mb/d in 3Q13. Non-OPEC supply growth is forecast at 1.1 mb/d for 2013, unchanged since last month. (Source: International Energy Agency)

Figure 1: Crude Oil and Regular Gasoline Price Comparison (National Average)

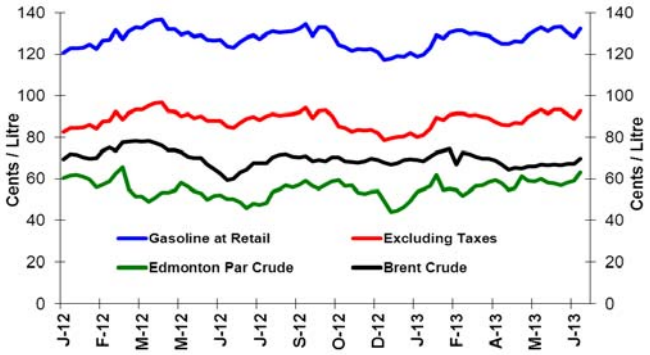
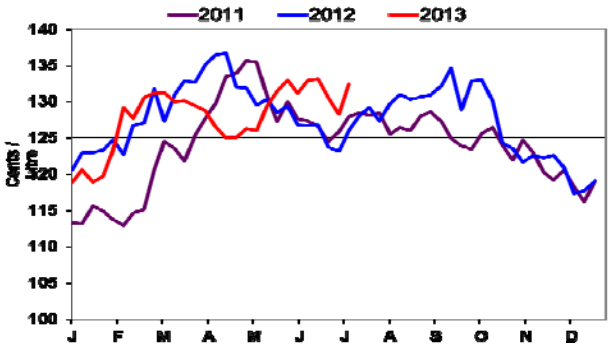


Figure 2: Weekly Regular Gasoline Prices



Changes in Fuel Prices

	Week of:	Change from:	
¢/L	2013-07-09	Previous Week	Last Year
Gasoline	132.4	4.2	+6.4
Diesel	124.4	0.9	+6.1
Furnace Oil	117.3	-0.1	+17.2

Source: NRCan

Natural Gas Prices for Vehicles

2013-07-09	¢/kilogram	¢/L gasoline equivalent	¢/L diesel equivalent
Vancouver	119.4	78.8	81.7
Edmonton	115.1	75.9	78.7
Toronto	110.6	73.0	75.6

Source: ¢/kg Kent Marketing Services Limited

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Retail Gasoline Overview

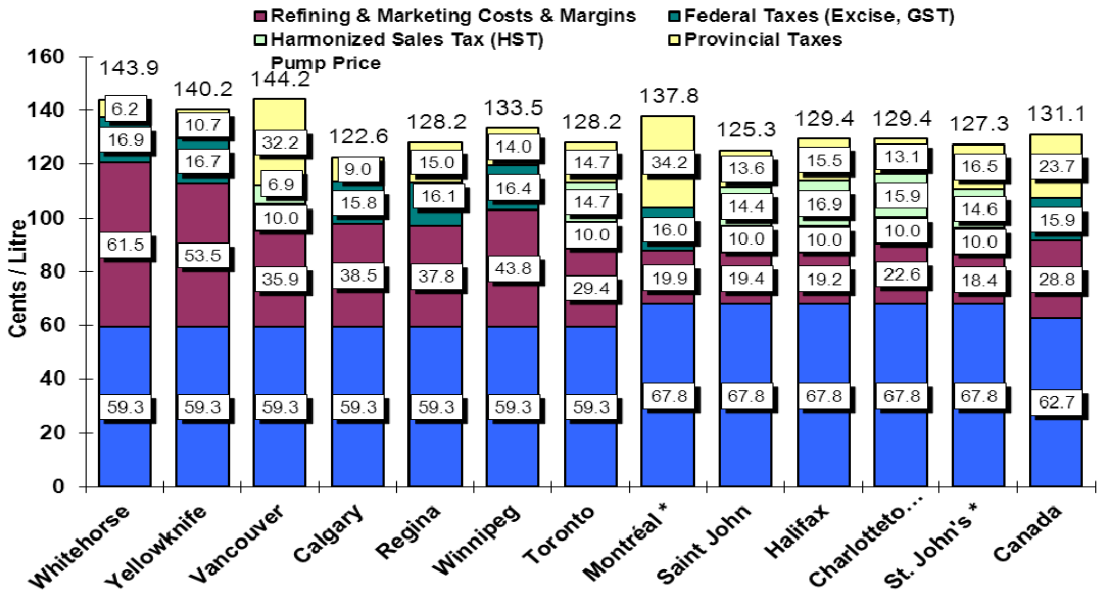
The average Canadian pump price in selected cities for the **four-week average** ending July 9, 2013 was $1.31 per litre, a decrease of 1 cent per litre from the last report on June 28, 2013. This represents a 6-cent-per-litre increase compared to the same period in 2012.

The **four-week average** crude oil price increased by 1 cent per litre to 63 cents per litre compared to two weeks ago. This is 7 cents per litre higher compared to the same period in 2012.

Retail gasoline prices in most western centres (Vancouver to Winnipeg) decreased by 2 cents per litre when compared to the previous report and ranged from $1.23 per litre to $1.44 per litre. Prices in eastern cities (Toronto to St. John's) remained unchanged from the last report two weeks ago and ranged from $1.27 per litre to $1.38 per litre.

At the national level, refining and marketing costs and margins registered a decrease of 2 cents per litre to 29 cents per litre. This represents a decrease of 3 cents per litre compared to the same time last year.

Figure 3: Regular Gasoline Pump Prices in Selected Cities
Four-Week Average (June 17 to July 9, 2013)



Source: NRCan

** Regulated Markets*

Automatic Temperature Compensation

When purchasing gasoline or diesel fuel at a service station, you may have noticed a sticker on the pump with the words "Volume Corrected to 15°C". This is a fuel temperature adjustment mechanism. As gasoline warms, it expands by volume but not weight or energy content and, conversely, when gasoline cools it shrinks by volume but not weight or energy content. In order to ensure that consumers get the right amount of energy for what they pay for, a standard measurement is used to adjust for volume corrections.

To compensate for the volume change in petroleum products as the temperature changes, most pump stations are equipped with an automatic temperature compensator (ATC). This is an electronic device that measures the temperature of petroleum products during delivery and automatically calculates the amount of product as though it had been delivered at 15°C. This means that the consumer is paying for a 15°C litre at a 15°C price, no matter what the temperature of the product. The reference temperature of 15°C is a long-standing international standard used in most countries for the purchase and sale of petroleum products. It has been used in Canada for other fuels (e.g., natural gas and propane) for decades.

Wholesale Gasoline Prices

For the **week ending July 4, 2013,** wholesale gasoline prices increased in all selected centres compared to the previous week.

In both Canadian and comparable U.S. markets, compared to two weeks ago, prices increased from less than 1 to 3 cents per litre. Prices for the period ended in the 77- and 89-cent-per-litre range.

Eastern centres registered price increases in the range of 1 cent per litre to more than 3 cents per litre, while wholesale prices in western centres ranged from increases of less than 1 cent per litre to 3 cents per litre.

Overall, wholesale prices in most selected centres remained between 1 and nearly 7 cents per litre higher than they were at this time last year.

Figure 4: Wholesale Gasoline Prices
Rack Terminal Prices for Selected Canadian and American Cities Ending July 4, 2013
(CAN ¢/L)

Sources: NRCan, Bloomberg Oil Buyers Guide

Gasoline Refining and Marketing Margins

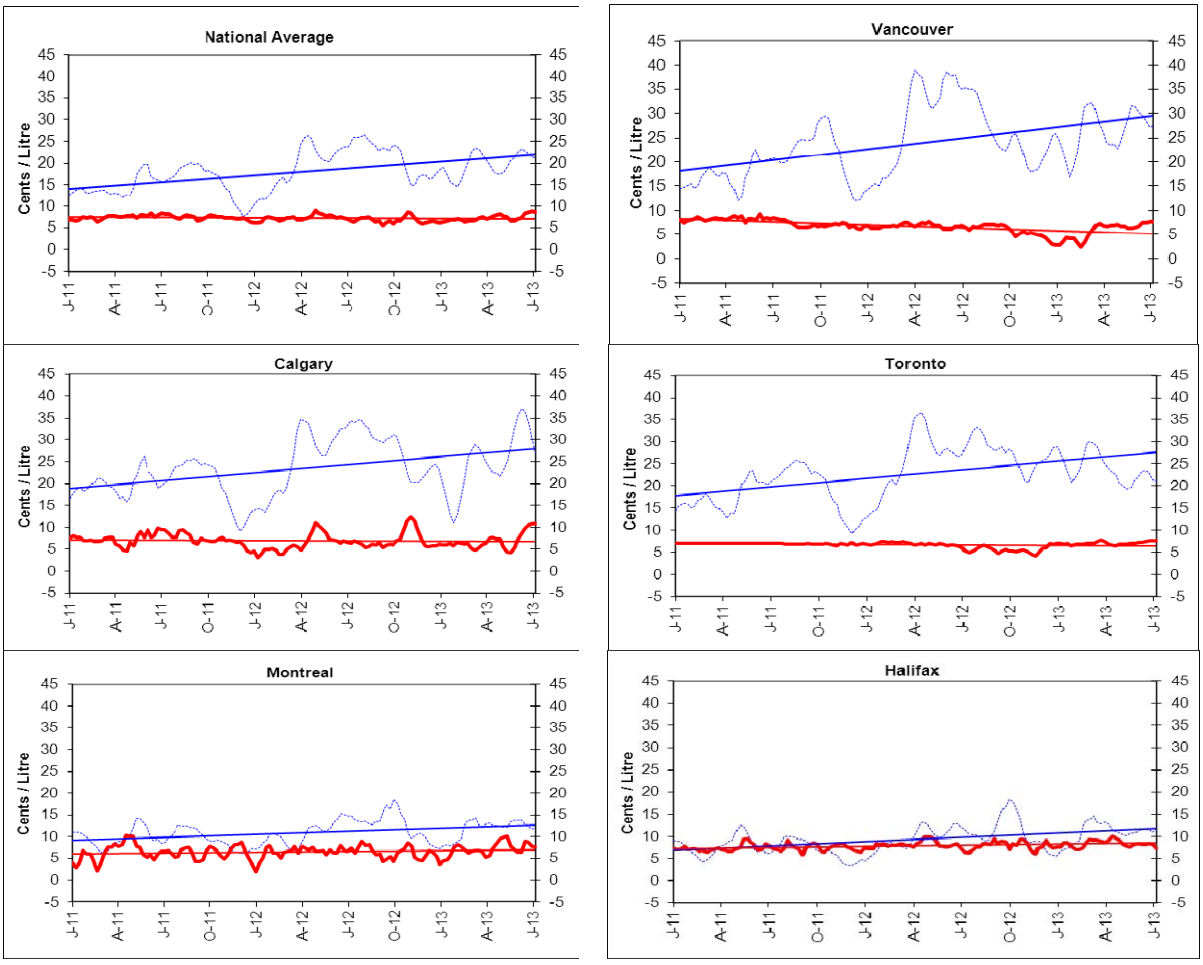
Four-week rolling averages are used for gasoline refining and marketing margins.

The downward slope in the refining margins corresponds to sufficient gasoline supplies and the relative stability in world crude oil markets. While the summer driving season is fully underway, traditionally a high demand season for gasoline, refiners believe they have enough gasoline to meet the remaining seasonal demand.

Refining margins are 3 cents per litre lower at the national level, compared to the same period last year.

Nationally, marketing margins hovered around 8 cents per litre. Some individual centres show more fluctuations depending on the region, volume sold and availability of other product offerings such as convenience stores and car washes.

Figure 5: Gasoline Refining and Marketing Margins
Four-Week Rolling Average Ending July 9, 2013
Refining Margin — Marketing Margin



Source: NRCan

Crude Oil Overview

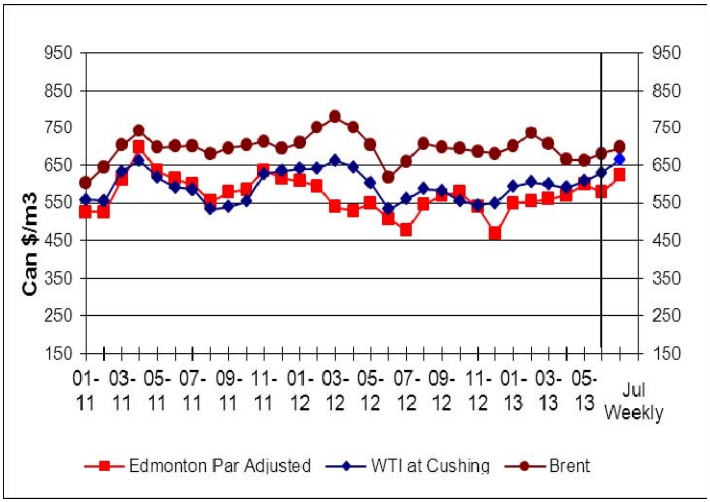
Global Crude Prices on the Rise

For the week ending **July 5, 2013**, prices for the three marker crudes averaged between $622/m^3$ and $696/m^3$, (US$94 to US$105 per barrel). Compared to the previous week, the price for the three benchmark crudes increased in the range of $24/m^3$ to $32/m^3$ (US$3 to US$5 per barrel).

For the week ending July 5, 2013, Brent crude oil prices continued to trade at a premium to WTI by a margin of $31/m^3$ (US$5 per barrel). Edmonton Par, although rising rapidly, was trading lower than WTI by $44/m^3$ (US$7 per barrel).

Unrest in Egypt, the most populous country in the Middle East, and improving economic indicators in the United States contributed to the firmness in global crude oil prices. Although U.S. crude oil inventories fell in the last few weeks, it remains above the five-year average range partly moderating the rise in the WTI crude oil prices.

Figure 6: Crude Oil Price Comparisons



Changes in Crude Oil Prices

Crude Oil Types	Week Ending: 2013-07-05		Change From:			
			Previous Week		Last Year	
	$Can/$ m^3	$US/ bbl	$Can/$ m^3	$US/ bbl	$Can/$ m^3	$US/ bbl
Edmonton Par	622.41	93.98	+32.43	+4.66	+126.47	+16.32
WTI	665.96	100.51	+32.37	+4.59	+117.82	+14.74
Brent	696.48	105.12	+24.00	+3.31	+65.98	+6.47

Source: NRCan

Brent and WTI Crude Oil Prices Narrowing

The Brent-WTI spread, the difference between the prices of Brent and West Texas Intermediate (WTI) crude oils, has narrowed considerably over the past several months.

The narrowing of the spread is supported by several factors that have: 1) lowered Brent (North Sea) prices because Brent-quality crude imports into North America have been displaced by increased U.S. light sweet crude production, reducing Brent-quality crude demand and 2) raised WTI (Cushing, Oklahoma) prices because the infrastructure limitations that had lowered WTI prices are lessening.

More recently, expansions in U.S. crude oil infrastructure have eased the downward pressure on the price of WTI. Since mid-2012, significant pipeline takeaway capacity has been added at Cushing, enabling crude oil to flow to and from the trading hub more easily. Other pipeline and rail projects have also been completed, making it possible to move barrels from production areas, such as Texas and North Dakota, to refinery centres without passing through the hub. Even U.S. East Coast refineries, which historically have relied on Brent crude oil and Brent-like crudes, can now access U.S. light sweet crude oil. U.S. crude that moves by rail is replacing Brent crude oil and Brent-like crude oil imports into the U.S. East Coast, putting downward pressure on the price of Brent crude oil and narrowing the differential versus WTI crude oil.

Source: U.S. EIA, http://www.eia.gov/todayinenergy/detail.cfm?id=11891