Natural Resources Canada
Ressources naturelles Canada

Fuel Focus

Understanding Gasoline Markets in Canada and Economic Drivers Influencing Prices

Issue 21, Volume 8

November 1, 2013

Canada

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National Overview

National Retail Pump Prices Decreased 1 Cent per Litre from Last Week

For the week ending October 29, 2013, Canadian average retail gasoline prices declined by 1 cent per litre to $1.24 per litre compared to the previous week. Compared to last year at this time, gasoline prices are 1 cent per litre higher.

Diesel fuel prices decreased by less than 1 cent per litre from last week to $1.30 per litre. Furnace oil prices declined by nearly 3 cents per litre from the previous week and averaged $1.17 per litre.

Average retail pump prices in Canada reflected lower crude oil prices, which in turn pushed down North American wholesale gasoline prices.

Recent Developments

- **Natural Gas Heating Season Outlook**: For the 2013 – 2014 winter heating season, consumers can expect natural gas prices to remain relatively low compared to levels from the 2000 – 2010 period. Factors contributing to moderate the price of natural gas are sustained high North American natural gas production levels; modest economic growth, stable natural gas supply and demand; and continuing high storage levels. For more information, please visit: http://www.nrcan.gc.ca/energy/sources/natural-gas/2409
- **Irving Oil Assessing Come By Chance Purchase**: According to the Daily Oil Bulletin, Irving Oil Ltd. is in talks to purchase the Come By Chance oil refinery in Newfoundland and Labrador. The refinery is owned by South Korea's state-run Korea National Oil Corp., which earlier this year disclosed that it was considering selling “non-core parts” of its loss-making Canadian energy subsidiary Harvest Operations and reviewing other overseas assets for potential sales. The refinery, which has a capacity of 115,000 barrels per day, was built back in the early 1970s and has had a troubled history. (Source: Daily Oil Bulletin)
- **Oil Market Report October 2013**: According to the International Energy Agency, the Organization of Petroleum Exporting Countries (OPEC) output dropped sharply in September, but non-OPEC supply growth is expected to approach a record high in 2014. OPEC crude supplies slipped below 30 mb/d for the first time in almost two years, led by steep drops in Libya and Iraq. Output fell by 645 kb/d, to 29.99 mb/d, despite Saudi output exceeding 10 mb/d for a third month running. (Source: IEA, http://www.iea.org/)

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

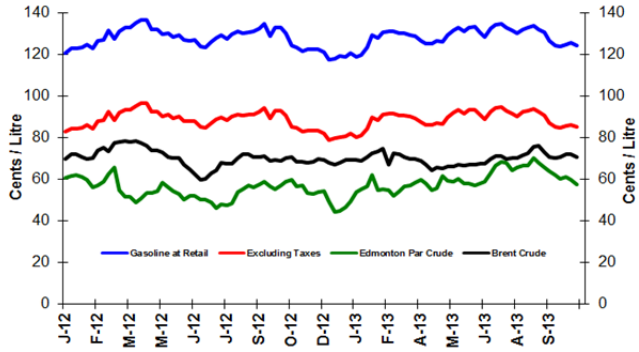
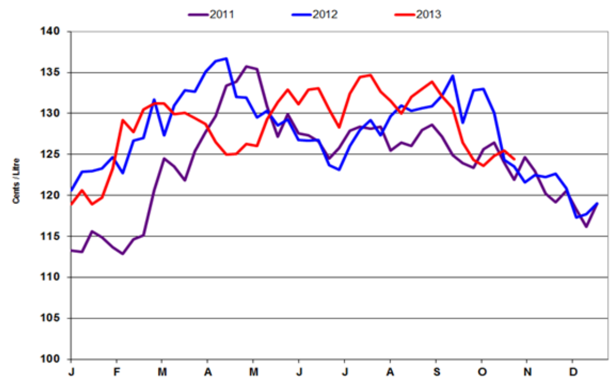


Figure 2: Weekly Regular Gasoline Prices



Changes in Fuel Prices

	Week of:	Change from:	
¢/L	2013-10-29	Previous Week	Last Year
Gasoline	124.4	-1.1	+0.9
Diesel	129.5	-0.4	+5.3
Furnace Oil	117.4	-2.6	-1.7

Source: NRCan

Natural Gas Prices for Vehicles

2013-10-29	¢/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

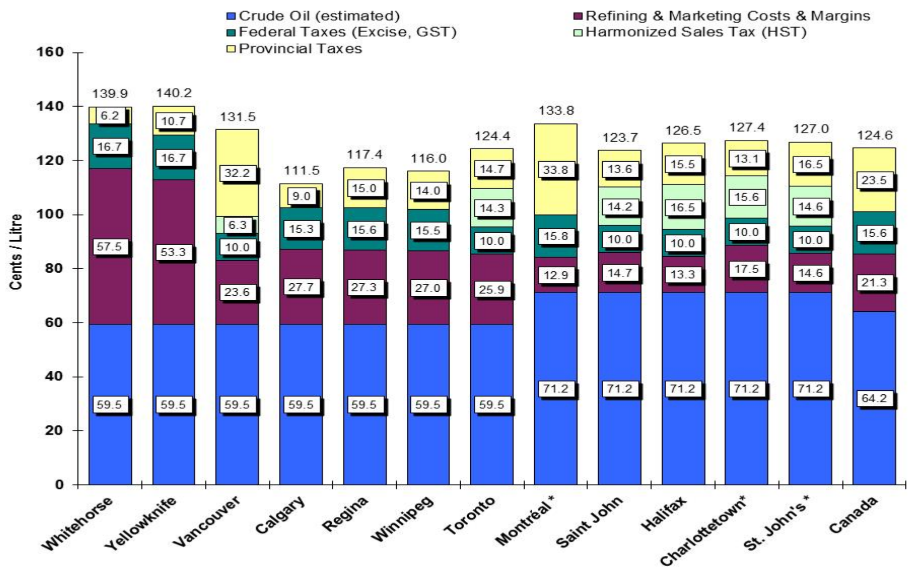
For the period ending October 29, 2013, the **four-week average** regular gasoline pump price in selected cities across Canada was $1.25 per litre, a decrease of 0.2 cent per litre compared to the previous report of October 18, 2013. Compared to the same period in 2012, the average Canadian pump price is 3 cents per litre lower.

The **four-week average** crude component was 64 cents per litre, a decrease of 1 cent per litre compared to two weeks ago.

Retail gasoline prices in most Western centres—Vancouver to Winnipeg—decreased by 1 cent per litre when compared to the previous report and ranged from $1.12 to $1.32 per litre. Prices in Eastern cities—Toronto to St. John's—increased by 0.1 cent per litre, and ranged from $1.24 per litre to $1.34 per litre.

At the national level, refining and marketing costs and margins increased by 1 cent per litre to 21 cents per litre from the previous report two weeks ago. This is 4 cents per litre lower than during the same period last year.

**Figure 3: Regular Gasoline Pump Prices in Selected Cities
Four-Week Average (October 8 to 29, 2013)**



Source: NRCan ** Regulated Markets*

Inflation Up 1.1% in September 2013

Statistics Canada's Consumer Price Index (CPI) report released October 18, 2013, indicates consumer prices rose 1.1% in the 12 months to September, matching the increase in August. Transportation costs increased 0.8% in the 12 months to September, after rising 1.3% in August.

Consumer prices rose in nine provinces in the 12 months to September. Manitoba recorded the largest increase while British Columbia was the lone province to post no change on a year-over-year basis in September. In Manitoba, consumer prices advanced 2.5% in the 12 months to September, after increasing 2.7% in August. Manitoba posted higher year-over-year price gains for cigarettes, gasoline and passenger vehicle registration fees compared with the national average.

Consumer prices in Saskatchewan increased 1.5% on a year-over-year basis in September, following a 1.2% rise in August. This larger gain in September was led by prices for the purchase of passenger vehicles, which advanced 2.8% in the 12 months to September, after declining 0.1% in the previous month.

Source: The Daily, http://www.statcan.gc.ca/daily-quotidien/131018/dq131018a-eng.htm

Wholesale Gasoline Prices

For the week **ending October 24, 2013**, wholesale gasoline prices decreased in all selected Canadian and American centres compared to the previous week. Overall, wholesale price changes ranged from decreases of less than 1 cent per litre to almost 4 cents per litre.

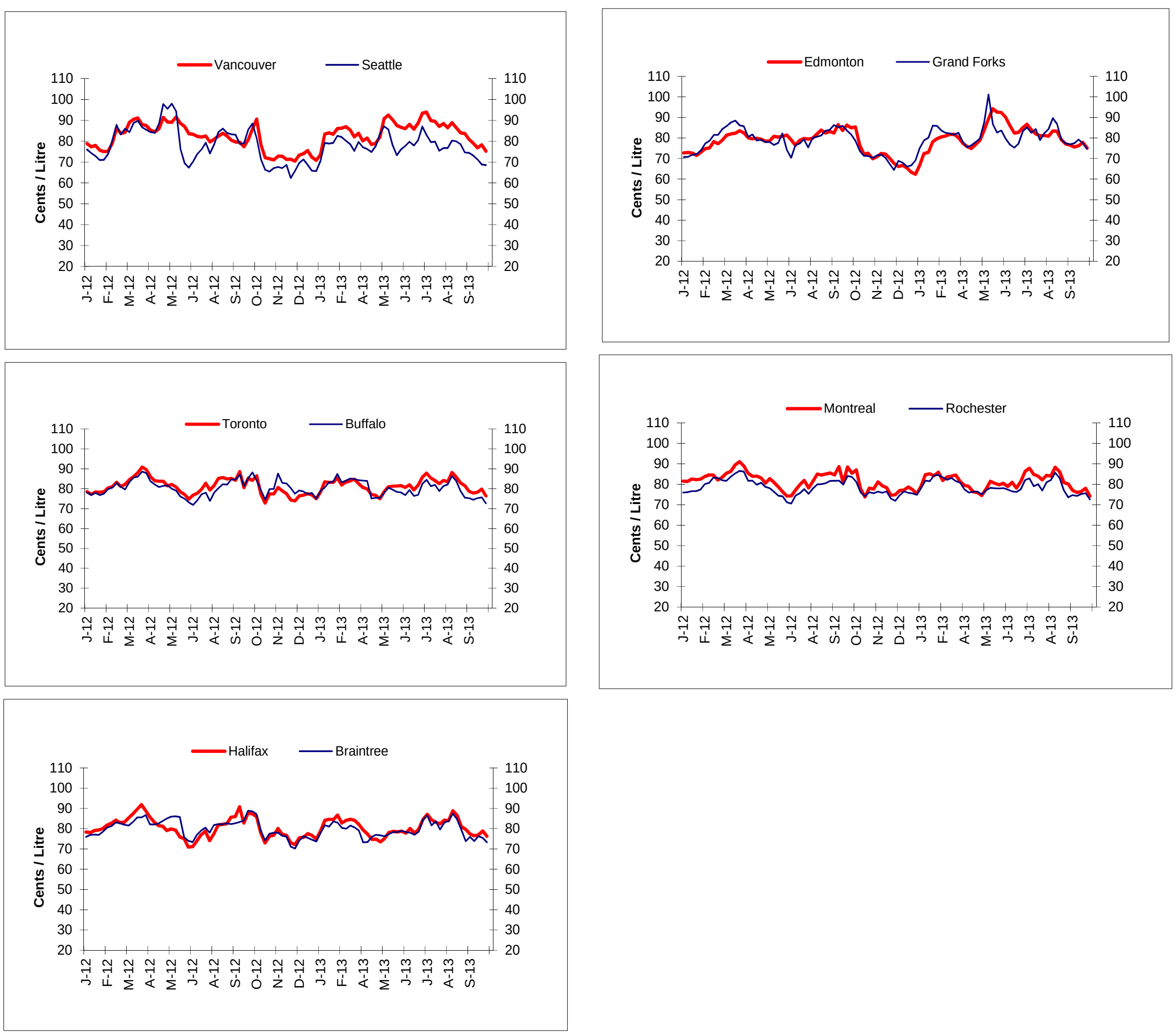
Wholesale gasoline price changes in the Eastern centres, for both Canadian and American centres, ranged from decreases of 2 to 4 cents per litre. Prices ended between 73 and 76 cents per litre.

In the Western centres, price decreases ranged from less than 1 to 3 cents per litre, with prices closing at 69 to 75 cents per litre.

In the last four weeks, wholesale prices in Canadian and American centres have declined in the range of 1 to 6 cents per litre.

Overall, wholesale price changes in the selected centres ranged between decreases of 2 cents per litre to increases of 4 cents per litre compared to last year at this time.

Figure 4: Wholesale Gasoline Prices
Rack Terminal Prices for Selected Canadian and American Cities Ending October 24, 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.

National average refining margins had been trending lower since their peak in June but have started to move upward in the last two weeks. This reflects the fact that wholesale gasoline prices have been increasing faster than crude oil prices. For the four-week period ending October 29, 2013, refiner margins were 14 cents per litre. This is 3 cents per litre below last year's level.

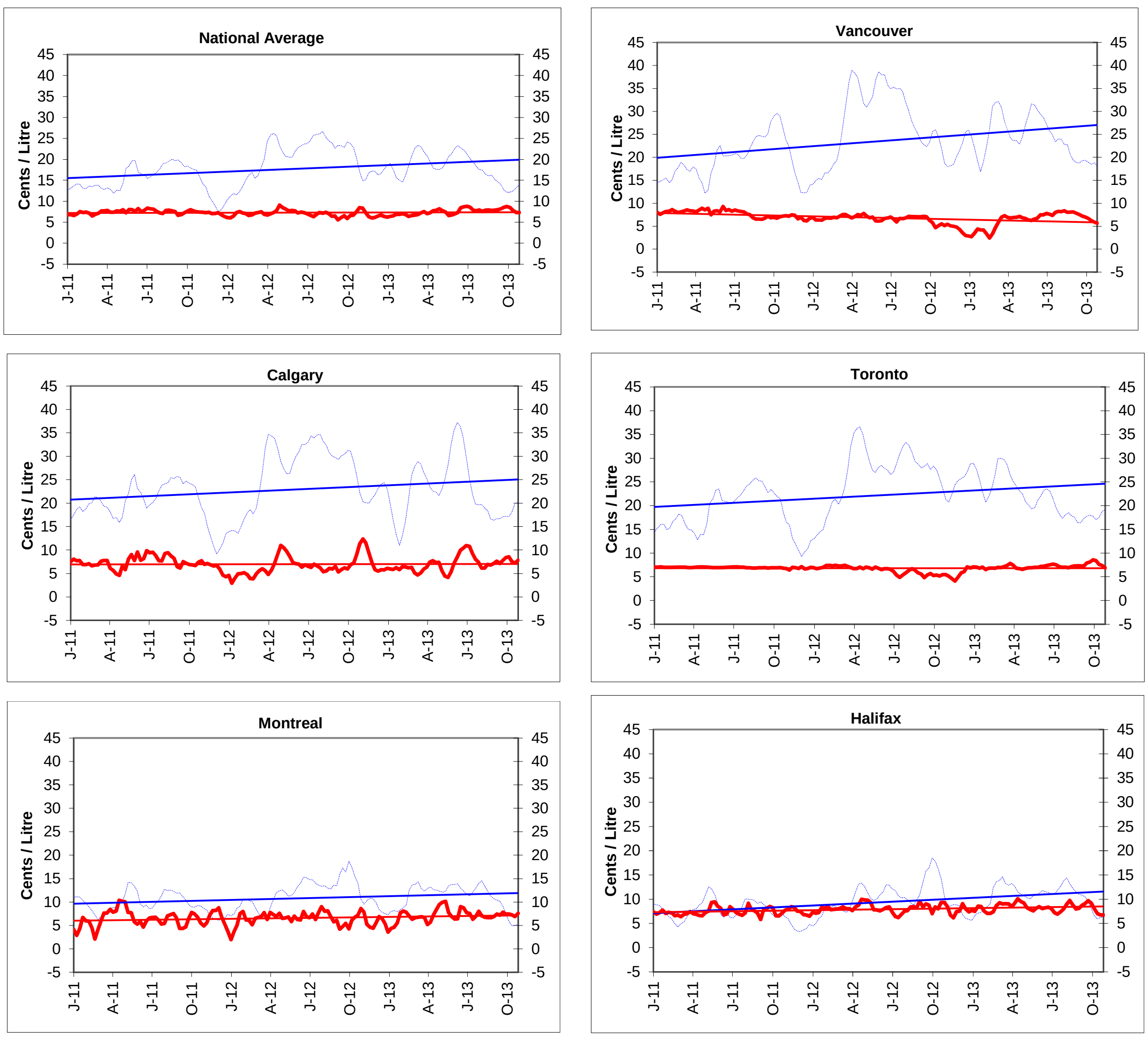
At the national level, marketing margins averaged about 7 cents per litre. These margins are expected to pay for the cost associated with the marketing of gasoline.

Part of the cost associated with retailing gasoline varies with the volume of gasoline sold, while other costs are fixed regardless of the volume of business.

Figure 5: Gasoline Refining and Marketing Margins

Four-Week Rolling Average Ending October 29, 2013

Refining Margin   Marketing Margin



Source: NRCan

Crude Oil Overview

Sluggish Economy, Growing Inventory Push Prices Downward

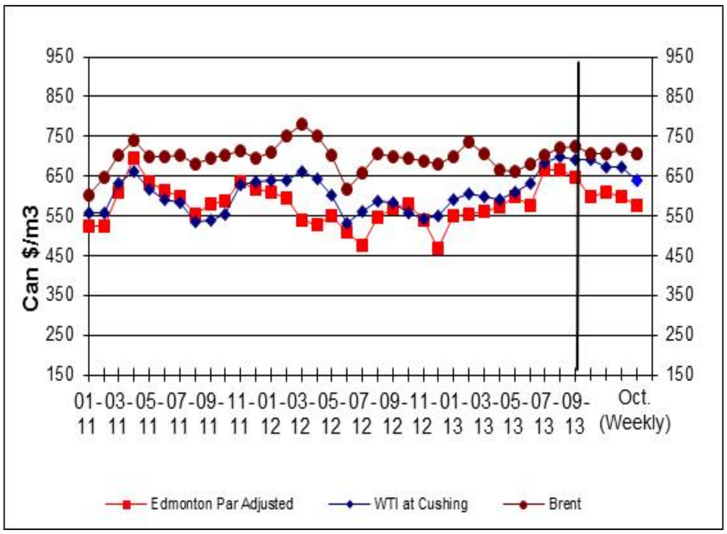
For the week ending October 25, 2013, prices for the three marker crudes averaged between $557/m³ and $706/m³ (US$89 to US$108 per barrel). Prices declined in the range of $11/m³ to $33/m³ (US$20 to US$5 per barrel) from the previous week. Edmonton Par traded lower by $148/m³ (US$20 per barrel) compared to Brent.

North American crude oil prices moved downward as a result of lackluster U.S. economic results. Energy market traders were concerned over the slow gasoline demand. Essentially, U.S crude oil and product inventories are increasing faster than the demand, putting downward pressure on prices.

Economic indicators in major world economies (U.S., Japan, and China) show sluggish recoveries, high unemployment or low job creation, all of which tend to pull down oil prices due to lower demand for oil products.

The Brent crude oil price was partly affected by the shutdown of the United Kingdom North Sea Forties pipeline as a result of a labour negotiation dispute at Scotland's Grangemouth refinery. The refinery is strategic as it provides steam power to run the pipeline system.

Figure 6: Crude Oil Price Comparisons



Changes in Crude Oil Prices

Crude Oil Types	Week Ending: 2013-10-25		Change From:			
			Previous Week		Last Year	
	$Can/m³	$US/bbl	$Can/m³	$US/bbl	$Can/m³	$US/bbl
Edmonton Par	557.51	88.57	-21.30	-3.55	+5.80	-2.78
WTI	638.19	97.87	-32.75	-5.34	+97.03	+11.40
Brent	705.97	108.27	-11.45	-2.10	+20.53	-1.25

Source: NRCan

Canadian Refineries

The last refinery built in Canada was the Shell Scotford refinery in Alberta in 1984. Over the past several decades, there has been a rationalization of the refining industry in Canada and in North America more broadly. However, overall refining capacity in Canada has increased as several Canadian refineries have increased their refining capacity through expansions to their refineries and increased production rates. The requirement for cleaner fuels and refineries that produce fewer emissions as well as the increased processing of heavier crudes has led to increasingly complex refineries.

Overall, Canadian refining capacity has more than doubled at its 14 refineries compared to when there were 44 refineries in the 1960s. From 2000 to 2006, refinery utilization rates were over 90%. Utilization rates dropped to 78% in 2009 and moved up to 85% in 2012.

Refineries in Atlantic Canada produce a surplus of petroleum products. In 2012, net exports from Atlantic Canada represented 54% of production and exports from Atlantic Canada make-up over 61% of Canada's total exports of petroleum products.

The Quebec and Ontario markets are increasingly integrated with significant Quebec production being transported to Toronto via the TransNorthern pipeline.

In Western Canada, refineries use domestic crude oil. Western Canadian refineries supply all product demand from Vancouver to Thunder Bay, Ontario, including the Territories.