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Fuel Focus

Understanding Gasoline Markets in Canada and Economic Drivers Influencing Prices

Issue 14, Volume 9

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Canada

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Natural Resources Canada
Petroleum Resources Branch
580 Booth Street, 17th Floor
Ottawa, Ontario K1A 0E4
Phone: (613) 992-9612
TTY Service: (613) 996-4397 (Teletype for the hearing-impaired)
Fax (613) 992-0614
Web site: http://nrcan.gc.ca/eneene/focinf-eng.php

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National Overview

Average National Retail Gasoline Prices Decreased 1 Cent per Litre from Last Week

The Canadian retail gasoline price declined for the sixth consecutive week, by 1 cent to $1.31 per litre, a five-month low. This represents a decrease of 1.6 cent per litre compared to a year ago.

Retail pump prices continue to fluctuate downward, despite higher wholesale gasoline prices. Pump prices are now at similar levels as of August 2013 and August 2012.

Diesel prices rose marginally by 0.2 cent per litre from the previous week at $1.30 per litre. This represents an increase of 4 cents per litre compared to the same period last year.

Recent Developments

- **Promoting Responsible Energy Pricing**: According to an International Monetary Fund's (IMF) new book *Getting Energy Prices Right: From Principle to Practice,* countries' fiscal policies must make sure that crude oil prices reflect not only the costs of supplying energy, but also the environmental side effects. The IMF advocates re-calibrating tax systems, increasing fuel taxes while lowering other taxes. Canada has one of the lowest gasoline taxes of the OECD countries. (Source: IMF, http://www.imf.org/external/np/speeches/2014/073114.htm)
- **U.S. Petroleum Refineries Running at Record Levels**: U.S. refineries have been processing record volumes of oil recently. Refinery inputs hit a record-high 16.8 million barrels per day in each of the past two weeks, exceeding the previous record from summer 2005. Refineries in the Midwest and Gulf Coast in particular pushed the total U.S. input volume upward, as these refiners' access to lower-cost crude oil, expansions of refining capacity, and increases in both domestic demand and exports contributed to higher refinery runs. (Source: EIA, http://www.eia.gov/todayinenergy/detail.cfm?id=17251)
- **Western Canadian Crude Oil to Montreal**: Suncor Energy Inc. anticipates being able to eliminate oil imports for its 137,000-barrel-per-day refinery in Montreal, Quebec, by early 2015. New rail unloading capacity of approximately 36,000 barrels per day at the refinery and the expected reversal on Enbridge Inc's 300,000 bpd Line 9 to Montreal by the end of the year means that Suncor should be able to rely on its own crude as a feedstock instead of importing crude oil from the U.S. and internationally. (Source: Suncor Company News)

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

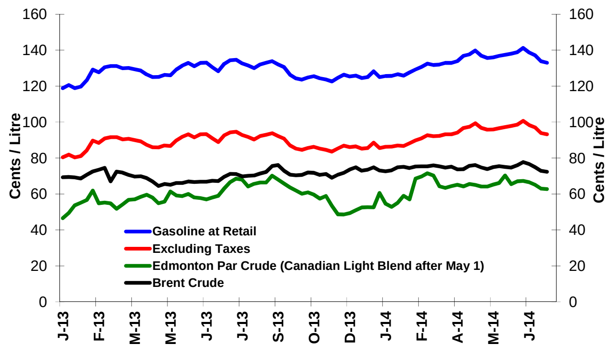
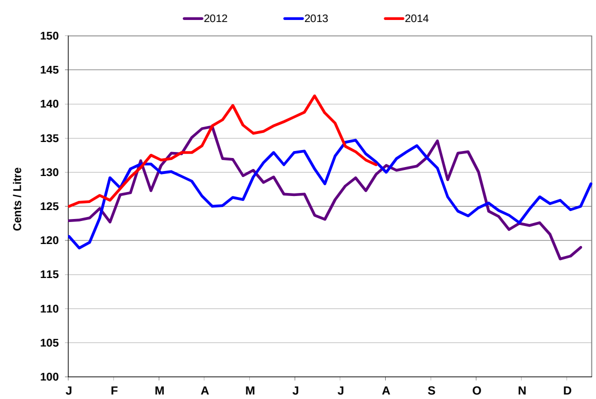


Figure 2: Weekly Regular Gasoline Prices



Changes in Fuel Prices

	Week of:	Change from:	
¢/L	2014-08-05	Previous Week	Last Year
Gasoline	131.1	-0.7	-1.6
Diesel	129.8	+0.2	+3.8
Furnace Oil	124.1	0.0	+4.9

Source: NRCan

Natural Gas Prices for Vehicles

2014-08-05	¢/kilogram	¢/L gasoline equivalent	¢/L diesel equivalent
Vancouver	118.3	78.0	80.9
Edmonton	115.1	75.9	78.7
Toronto	128.3	84.6	87.8

Source: ¢/kg *Kent Marketing Services Limited*

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Retail Gasoline Overview

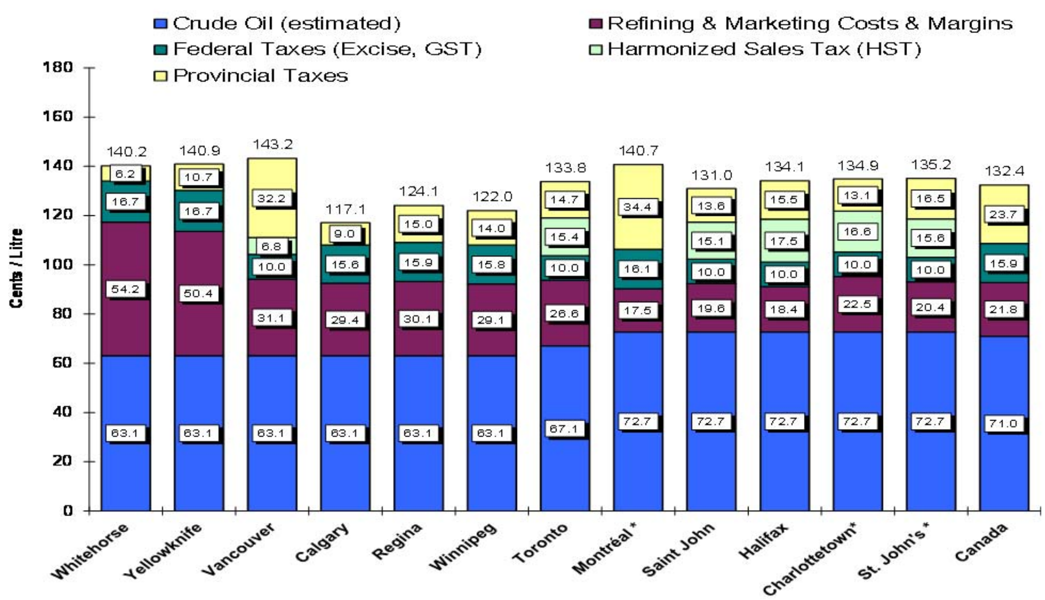
The **four-week average** Canadian pump price in selected cities across Canada was $1.32 per litre for the period ending August 5, 2014. This represents a decrease of 3 cents per litre from the last report on July 25, 2014, and a decrease of 1 cent per litre compared to the same period in 2013.

For the period ending August 5, 2014, the **four-week average** crude oil price component of gasoline registered 71 cents per litre. That represents a 1-cent-per-litre decrease compared to the same period in 2013.

Retail prices in eastern centres decreased, on average, by 2 cents per litre compared to the last report two weeks ago and ranged from $1.31 to $1.41 per litre. Prices in western centres decreased, on average, by 4 cents per litre and ranged from $1.17 to $1.43 per litre.

At the national level, refining and marketing costs decreased by nearly 2 cents per litre from the previous report of two weeks ago to 22 cents per litre. This is 3 cents per litre lower from this time last year.

Figure 3: Regular Gasoline Pump Prices in Selected Cities
Four-Week Average (July 15 to August 5, 2014)



Source: NRCan ** Regulated Markets*

Note: Toronto crude oil cost includes pipeline tolls of $4 per barrel for light crude oil from Edmonton to Sarnia, Ontario.

Crude Proportion Higher while Tax Component Lower

The proportion of each of the pump price components has changed over time. Crude costs, which are about four times higher than they were 20 years ago, now make up 53 per cent of the pump price. In February 1992, they accounted for 25 per cent of the pump price, which was 52.6 cents per litre at the time.

Fluctuations in the price of crude oil are the most important determinant of long-term fluctuations in the price of gasoline. In February 1992, taxes represented 49 per cent of the pump price while in February 2012, the share was down to 31 per cent. The increase in the average tax on a litre of gasoline in Canada is 13.2 cents per litre over the past 20 years.

The two margin components accounted for 26 per cent of the pump price in February 1992 and 17 per cent in February 2012, rising from 14 cents per litre in 1992 to 22 cents per litre in February 2012. Despite these fluctuations, the general upward trend of prices in recent years and the predictable griping from consumers, some studies have shown that increases in prices at the pump don't actually affect spending habits that much.

Source: Excerpts CBC News, July 11, 2014, http://www.cbc.ca/news/canada/gas-prices-here-s-how-they-determine-what-you-pay-at-the-pump-1.1159639

Wholesale Gasoline Prices

Compared to the previous week, wholesale gasoline prices for the week **ending July 31, 2014** increased in all of the selected Canadian and American centres.

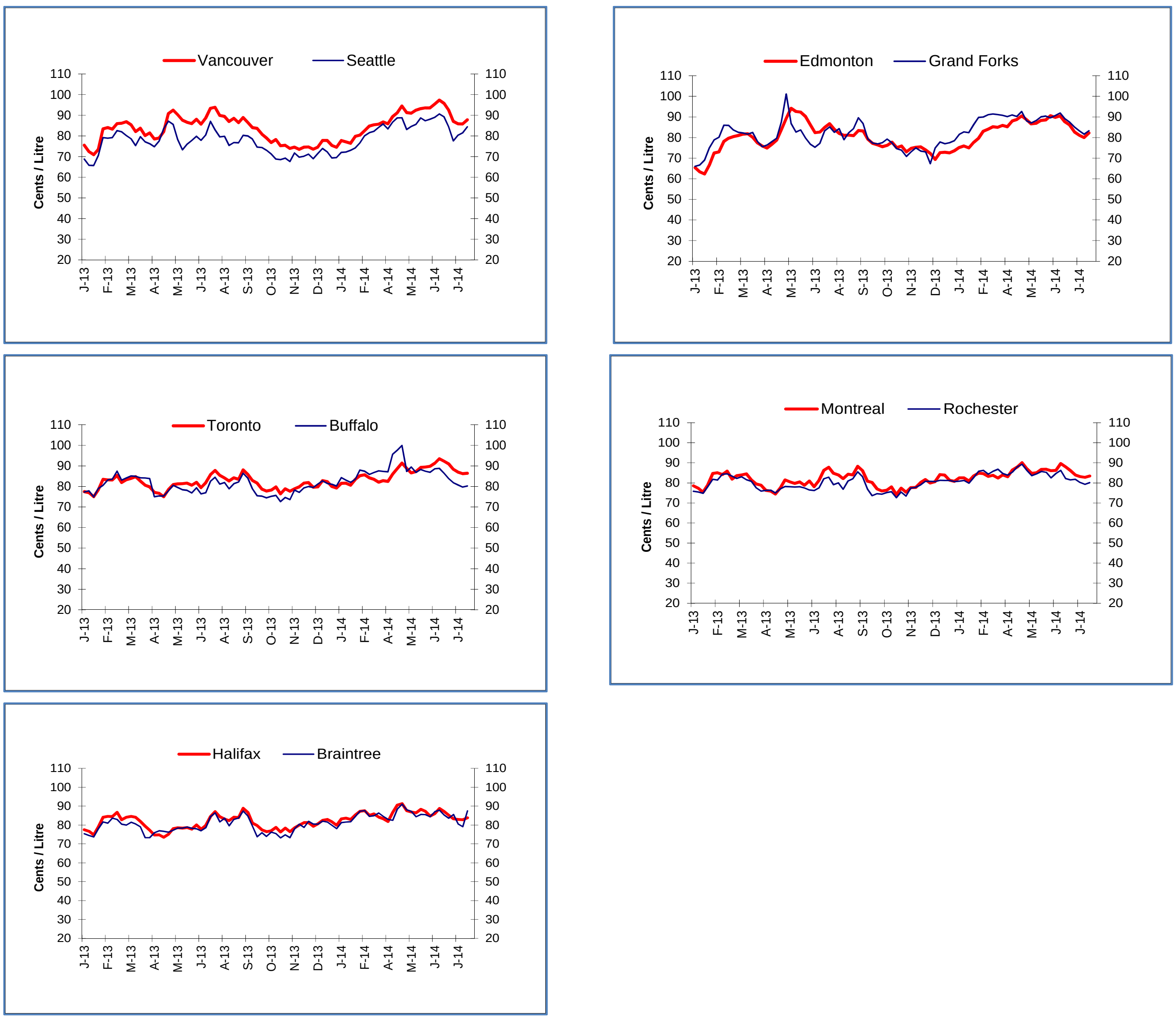
Wholesale gasoline price changes ranged from an increase of less than 1 cent per litre to more than 8 cents per litre. Prices finished the period in the 80- to 88-cent-per-litre range.

In the Eastern markets of Canada and the United States, wholesale gasoline prices, compared to the previous week, registered increases ranging from less than 1 to 8 cents per litre. Prices for the period ended in the 80- to 87-cent-per-litre range.

Western wholesale gasoline prices ended in the range of 82 to 88 cents per litre, with prices increasing in the range of 2 to 3 cents per litre.

Compared to the same time last year, price changes in the American and Canadian centres ranged from a decrease of less than 2 cents per litre to an increase of nearly 5 cents per litre compared to the same period in 2013.

Figure 4: Wholesale Gasoline Prices
Rack Terminal Prices for Selected Canadian and American Cities Ending July 31, 2014
(CAN ¢/L)



Sources: NRCan, Bloomberg Oil Buyers Guide

Gasoline Refining and Marketing Margins

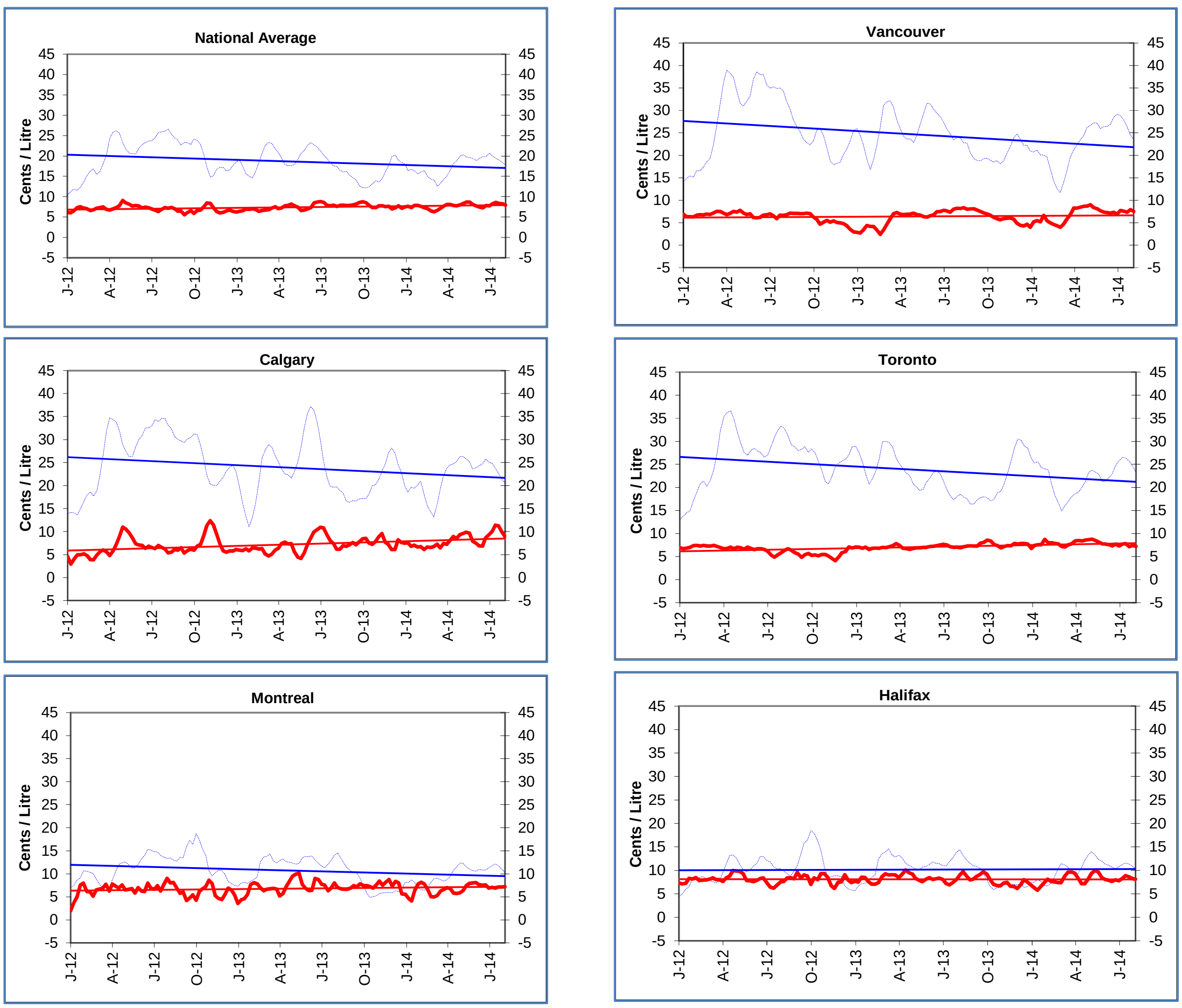
Four-week rolling averages are used for the gasoline refining and marketing margins. Figure 5 shows the trends for the period ending August 5, 2014.

Gasoline refining margins have been trending lower in the last five weeks from a high of 21 cents per litre on July 1, 2014, to a low of 18 cents per litre for the week ending August 5, 2014. This indicates an adequate gasoline supply in North America which contributes to the lower refining margins.

Nationally, the marketing margins continue to hover around an average of 8 cents a litre. However, as outlets compete for market share, the marketing margins can be volatile—as shown in the individual centres.

For the five centres, the marketing margins ranged from a low of 7 cents to a high of 9 cents. The marketing margins have to cover all costs associated with operating a service station.

Figure 5: Gasoline Refining and Marketing Margins
Four-Week Rolling Average Ending August 5, 2014
Refining Margin   Marketing Margin



Source: NRCan

Crude Oil Overview

Crude Oil Prices Move Downward

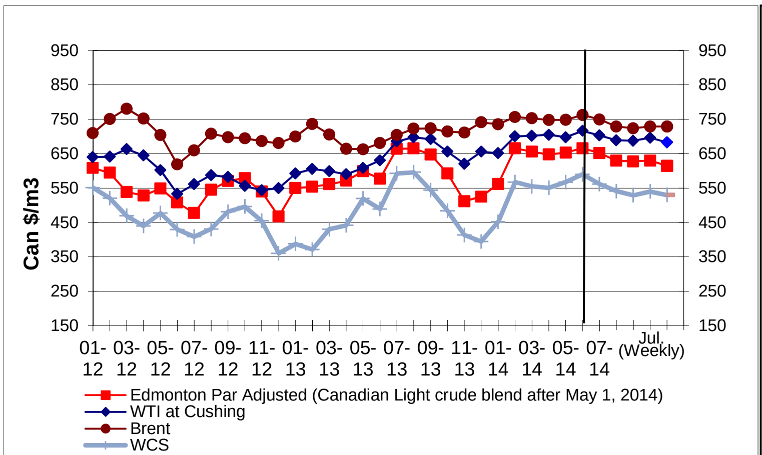
For the week ending August 1, 2014, prices for the three marker light crudes averaged between $614/m³ and $729/m³, (US$90 to US$107 per barrel). This is a decrease of less than $1 to $16/m³ (US$1 to US$3 per barrel) compared to the previous week.

From February to July 2014, the average monthly light crude oil prices have shown low volatility ranging from $700/m³ to $714/m³ (US$100 to US$105 per barrel).

The differential between the light crudes continue to hover in a narrow range with a price spread between Brent and WTI ranging from $40/m³ to $57/m³ (US$6 to US$8 per barrel) while the price spread between WTI and the Canadian Light Sweet crude ranged from $35/m³ to $61/m³ (US$5 to US$9 per barrel).

In the last six months, increased pipeline capacity between Cushing and the U.S. Gulf Coast, the reversal of the Seaway pipeline, and the subsequent Seaway crude oil pipeline expansion have all contributed to reduce the Brent vs. WTI price differential.

Figure 6: Crude Oil Price Comparisons



Changes in Crude Oil Prices

Crude Oil Types	Week Ending: 2014-08-01		Change From:			
			Previous Week		Last Year	
	$Can/m³	$US/bbl	$Can/m³	$US/bbl	$Can/m³	$US/bbl
Canadian Light	614.31	89.82	-15.52	-3.28	-26.07	-8.91
WTI	682.52	99.79	-13.31	-3.06	-1.81	-5.71
Brent	728.63	106.53	-0.01	-1.17	+27.59	-1.54
WCS	529.33	77.39	-10.25	-2.37	-21.13	-7.46

Source: NRCan

Canadian Regional Crude Oil and Petroleum Product Movements

The Canadian downstream petroleum industry is divided into three distinct regions: Western Canada, Ontario and Quebec/Atlantic Canada. The industry is often divided this way because of the differences in the feedstock available to the refiners in each of these areas. In Atlantic Canada and Quebec, refiners rely almost exclusively on foreign crude to meet their requirements. On the other hand, Western Canada is dependent on domestic production to satisfy its crude requirements. Ontario refiners have access to both foreign and domestically produced crude oils.

The availability of both crude oil and petroleum product imports in every region hinges on geographic constraints. Some regions are better suited than others to import products. Because of their connection via major waterways, Atlantic Canada and Quebec have good access to supplies from the northeastern United States and Europe. Ontario also has access to supplies from large U.S. markets and can also bring in products via Quebec.

Most of Western Canada is landlocked, and as such, has very limited access to supplies from other regions. The prairies supply a substantial volume of gasoline into the Vancouver market and refiners have the ability to balance supply and demand by importing gasoline into Vancouver from Washington State. This frees up additional product from Edmonton area refiners to be distributed to prairie markets.