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Fuel Focus

*Understanding Gasoline Markets in Canada
and Economic Drivers Influencing Prices*

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Canada 

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National Overview

Lowest Average Canadian Retail Gasoline Price in Four Years

For the week ending December 9, 2014, Canadian average retail gasoline prices decreased from the previous week by 5 cents per litre to \$1.07 per litre – the lowest price since November 23, 2010. Since the last report two weeks ago, average Canadian pump prices decreased by 7.2 cents per litre. Overall, pump prices are nearly 19 cents per litre lower than last year at this time.

Diesel fuel prices decreased by nearly 3 cents per litre to \$1.26 cents per litre compared to the previous week. Furnace oil prices declined by less than 1 cent per litre to \$1.18 per litre compared to last week, but are nearly 7 cents per litre lower than the previous year.

Recent Developments

- **Last Issue of Fuel Focus in 2014:** This is the last issue of Fuel Focus for this year. The 2014 Annual Review will be released on January 23, 2015 and the regular bi-weekly issues will resume on February 6, 2015.
- **North American Natural Gas Market:** Natural Resources Canada's *North American Natural Gas Market: 2014-2015 Heating Season Outlook* is available on the website at: <http://www.nrcan.gc.ca/sources/natural-gas/16781>.

The Supplement on page 6 highlights the heating season outlook.

- **U.S. Renewable Fuel Standard Regulation Deferred:** The U.S. Environmental Protection Agency is deferring a regulation on renewable fuel standard until next year due to ongoing consideration of issues. First established as part of a 2005 energy law and significantly expanded in another law in 2007, the renewable-fuel standard requires refineries to blend an increasingly large amount of biofuels into gasoline. The standard was created as a way to help reduce carbon emissions and wean the nation off foreign oil when the U.S. was importing two-thirds of its oil. Given the domestic oil boom and higher fuel-economy standards, the U.S. imports about a third of its oil and is consuming less gasoline than the 2005 and 2007 laws envisioned. Opponents to the biofuels mandate are the oil and refining companies, car manufacturers, livestock and some environmental interests groups. Proponents of the standard include the corn industry, which is the most common way ethanol is produced, and producers of ethanol. (Source: Wall Street Journal)

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

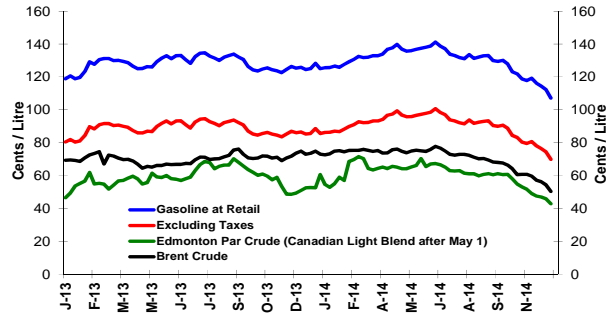
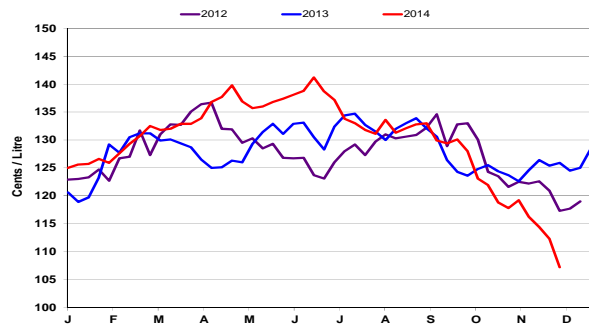


Figure 2: Weekly Regular Gasoline Prices



Changes in Fuel Prices

¢/L	Week of:		Change from:	
	2014-12-09	Previous Week	Previous Week	Last Year
Gasoline	107.2	-5.1	-5.1	-18.7
Diesel	125.8	-2.8	-2.8	-9.3
Furnace Oil	118.2	-0.4	-0.4	-6.6
Natural Gas Prices in \$/GJ				
Alberta (NGX)	3.21	-0.79	-0.79	-0.49
Ontario (Dawn)	4.26	-0.18	-0.18	-0.28

Source: NRCAN, Bloomberg, NGX

Natural Gas Prices for Vehicles

2014-12-09	¢/kilogram	¢/L gasoline equivalent	¢/L diesel equivalent
Vancouver	118.0	77.8	80.7
Edmonton	115.1	75.9	78.7
Toronto	128.4	84.7	87.8

Source: ¢/kg Kent Marketing Services Limited

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Retail Gasoline Overview

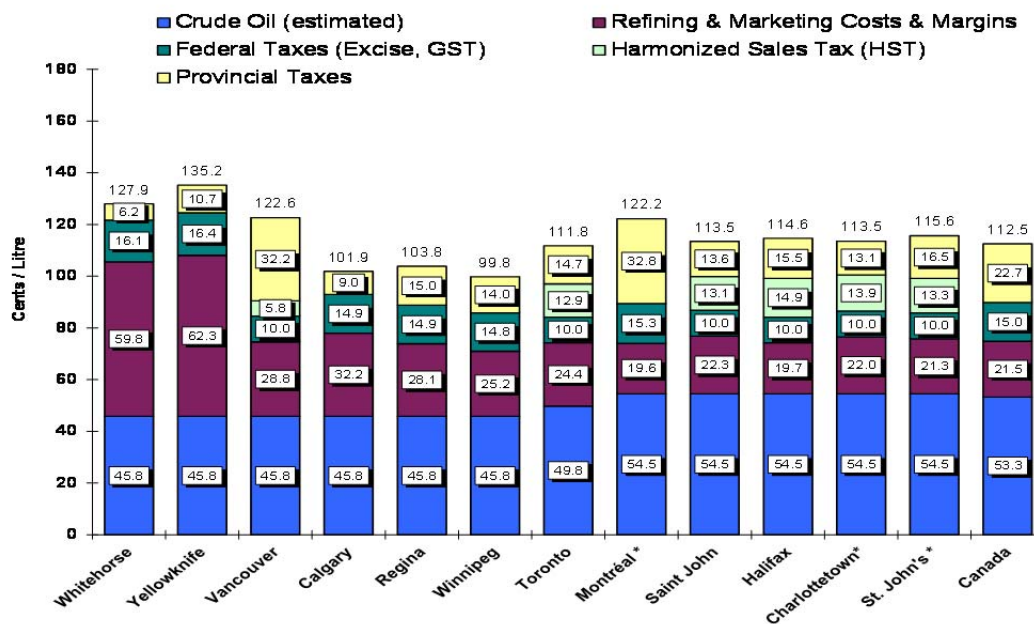
For the period ending December 9, 2014, the **four-week average** regular gasoline pump price in selected cities across Canada was \$1.12 per litre, a decrease of 4 cents per litre compared to the price in the previous report of November 28, 2014. Compared to the same period in 2013, the average Canadian pump price is 13 cents per litre lower.

The **four-week average** crude component was 53 cents per litre, a decrease of 3 cents compared to two weeks ago. Crude oil prices are 5 cents per litre lower compared to the same time last year.

Average retail gasoline prices in Western centres decreased by 5 cents per litre to \$1.07 per litre when compared to the previous report and ranged from \$1.00 to \$1.23 per litre. Average prices in Eastern cities rose by 3.5 cents per litre to \$1.15 per litre from the previous week and ranged from \$1.12 to \$1.22 per litre.

At the national level, refining and marketing costs and margins registered a decrease of less than 1 cent per litre to reach 22 cents per litre. This is a decrease of 6 cents per litre compared to the same time last year.

**Figure 3: Regular Gasoline Pump Prices in Selected Cities
Four-Week Average (November 18 to December 9, 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.

Inflation Up 2.4% in October 2014

According to Statistics Canada's Consumer Price Index (CPI) report, released November 21, 2014, inflation rose 2.4% in the 12 months to October, after increasing 2.0% in September.

Prices increased in all major components in the 12 months to October. Higher prices for shelter and food led the rise in the CPI. At the same time, larger year-over-year price increases for transportation and for clothing and footwear contributed the most to the acceleration in the CPI.

The transportation index increased 1.1% in the 12 months to October, after rising 0.5% in September. Despite posting four consecutive monthly decreases, gasoline prices were up 0.6% on a year-over-year basis in October, after falling 0.5% in September. Gasoline prices recorded a smaller monthly decline this October (-4.0%) compared with October 2013 (-5.1%). On a year-over-year basis, consumers also paid more for air transportation and for the purchase of passenger vehicles.

Source: The Daily, <http://www.statcan.gc.ca/daily-quotidien/141121/dq141121a-eng.htm>





Wholesale Gasoline Prices

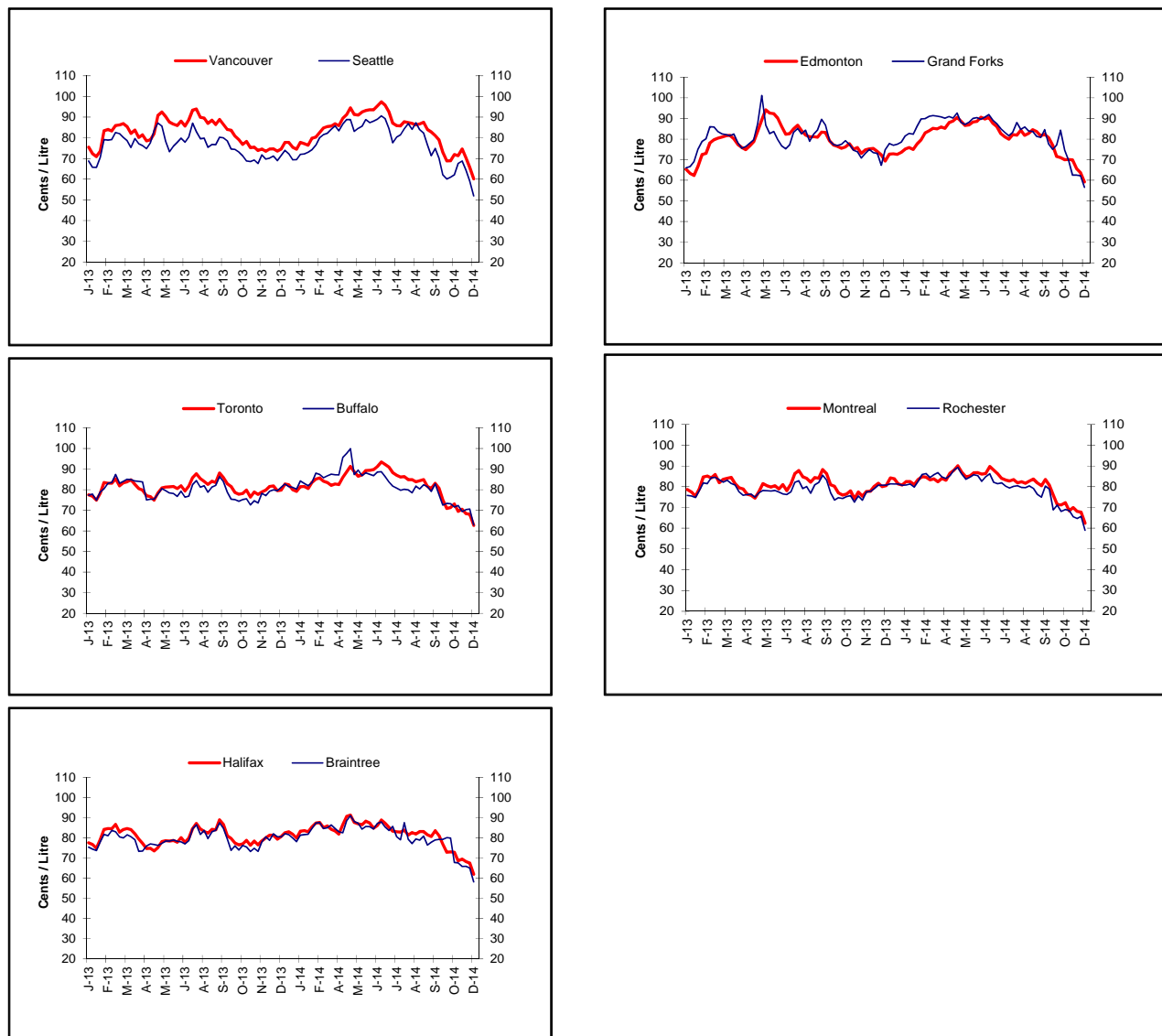
Wholesale gasoline price changes, compared to the previous week, declined in all centres in the range of 5 to nearly 8 cents per litre.

Wholesale gasoline price changes in Eastern markets, in both Canada and the United States, declined in the range of 5 to 8 cents per litre compared to the previous week, ending the period in the 58 to 63 cent-per-litre range.

Wholesale gasoline price changes in Western centres decreased in the range of less than 5 cents per litre to more than 7 cents per litre and ended the period between 57 and 60 cents per litre.

Compared to last year at the same time, wholesale prices in Canadian and American centres declined in the range of 15 to 24 cents per litre.

Figure 4: Wholesale Gasoline Prices
Rack Terminal Prices for Selected Canadian and American Cities Ending December 4, 2014
(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.

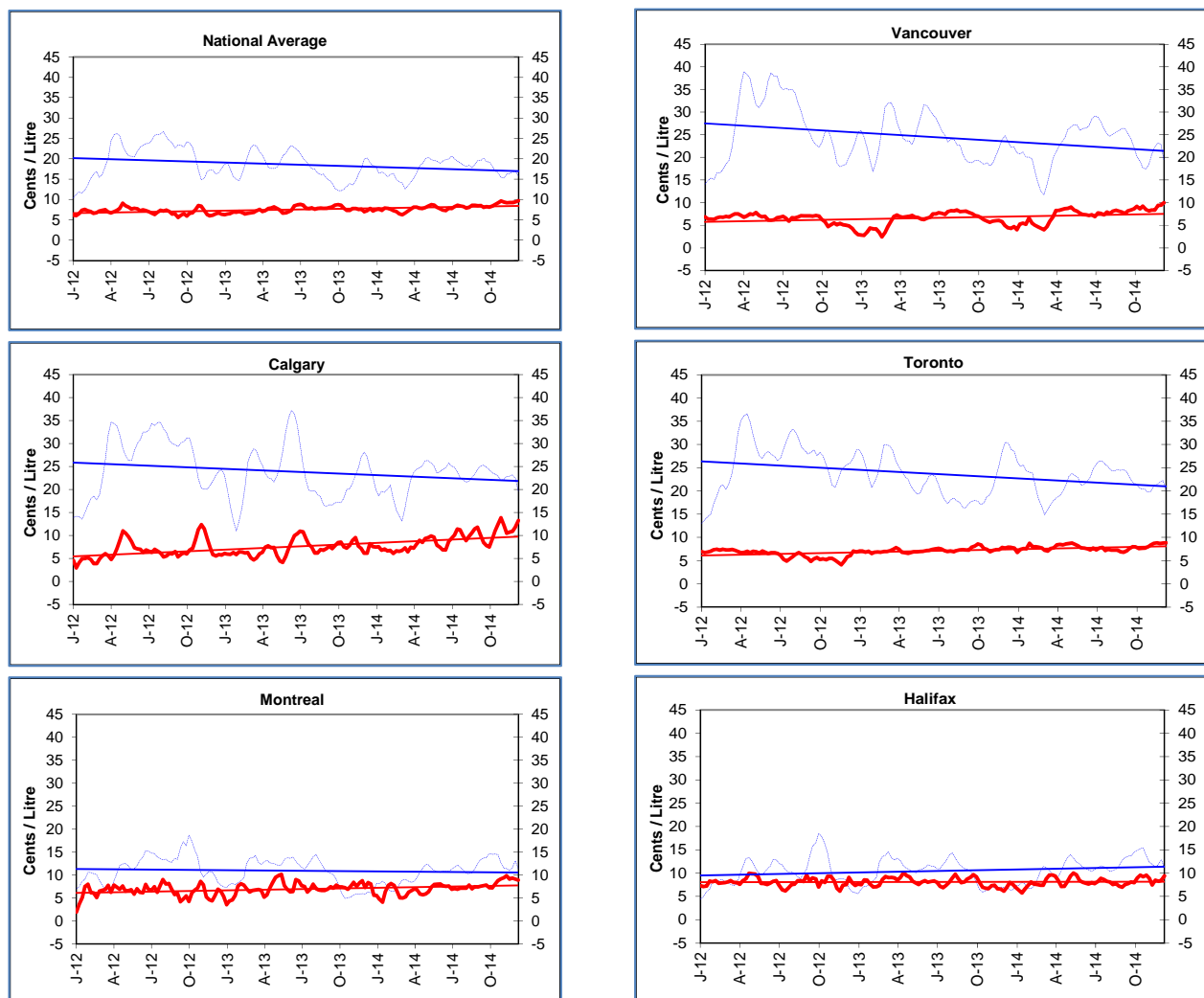
On average, refining margins this week decreased by 1 cent per litre to 16 cents per litre at the national level for the period ending on December 9, 2014.

In general, both refining and marketing margins are influenced by specific market conditions, mainly due to changes in product supply and demand balances.

Nationally, the marketing margin hovered at around 9.7 cents per litre, the highest on record, due to wholesale gasoline prices decreasing faster than retail pump prices.

This margin, which tends to fluctuate depending on local market conditions, represents the difference between the pump price and the price paid by the retailer to purchase the gasoline and also serves to pay for the costs associated with operating a service station.

Figure 5: Gasoline Refining and Marketing Margins
Four-Week Rolling Average Ending December 9, 2014
----- Refining Margin — Marketing Margin



Source: NRCan





Crude Oil Overview

Global Crude Oil Prices Continue to Push Downward

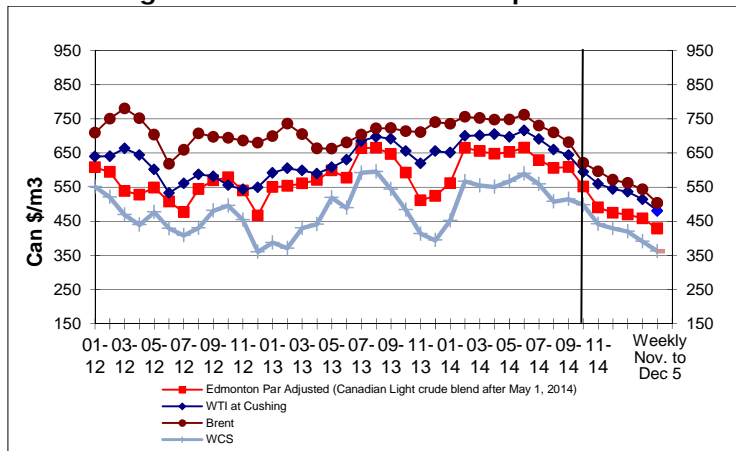
For the week ending **December 5, 2014**, light crude oil prices averaged between \$429/m³ and \$503/m³, (US\$60 to US\$70 per barrel). Prices for the light crude dropped, compared to last week, in the range of \$30/m³ to \$40/m³ (US\$4.62 to US\$6.14 per barrel).

Compared to last year at this time, Brent crude oil prices dropped by \$245/m³ (US\$41 per barrel), while WTI prices declined by \$166/m³ (US\$29 per barrel) and Canadian light crude oil decreased by \$74/m³ (US\$15 per barrel). Western Canadian Select prices averaged \$362/m³ (US\$51 per barrel), down \$29/m³ (US\$4 per barrel) from the previous week, and \$77/m³ (US\$15 per barrel) compared to last year.

According to Bloomberg news Saudi Arabia reduced its January prices for the U.S. by 10 to 90 US cents per barrel and in Asia by \$1.50 to \$1.90 US per barrel. The discount is the deepest in at least 14 years for Asia.

Analysts are speculating that this could mean lower oil prices for a longer period. In Canada, lower crude oil prices means Alberta's economy would suffer while central Canada will enjoy lower energy costs and the benefits of a currency sliding with the oil prices.

Figure 6: Crude Oil Price Comparisons



Growing Diesel Demand Forecast

According to the International Energy Agency's *2014 World Energy Outlook* world gasoline use in transportation will grow by 10% from 22-million barrels a day in 2014 to 24.2-million b/d in the early 2030s then fall back slightly through 2040, but diesel demand will jump by 37% from 18-million b/d to 24.6-million in 2040, becoming the world's dominant transportation oil product.

The shift from gasoline ascendancy to diesel ascendancy in transportation is due largely to the fact that gasoline is used almost exclusively in road transport, whereas diesel predominates in the fast-growing road freight sector and in rail and marine transportation.

Gasoline demand will be driven by a more than doubling of the passenger light-duty vehicle fleet to 1.9-billion in 2040, but demand growth will be restrained by the increasing application of fuel economy standards, not only in North America and Europe, but also in China, India, and other emerging markets concerned about oil dependence. Diesel demand will be propelled by strong growth in road freight transport, especially in developing countries.

Source: Ontario Ministry of Energy Fuel & Vehicle Report, Hart Energy Downstream Business

Changes in Crude Oil Prices

Crude Oil Types	Week Ending: 2014-12-05		Change From:			
			Previous Week		Last Year	
	\$Can/ m ³	\$US/ bbl	\$Can/ m ³	\$US/ bbl	\$Can/ m ³	\$US/ bbl
Canadian Light	428.91	59.92	-29.72	-4.62	-74.33	-15.14
WTI	480.87	67.18	-33.83	-5.25	-165.55	-29.24
Brent	503.49	70.34	-40.00	-6.14	-245.43	-41.37
WCS	362.34	50.62	-28.85	-4.43	-76.77	-14.87

Source: NRCan





North American Natural Gas Market 2014-2015 Heating Season Outlook

Every year, Natural Resources Canada produces an outlook for natural gas prices over the heating season.

For the current winter heating season, running from November 1, 2014 to March 31, 2015, consumers can expect relatively low natural gas prices compared to historical averages and also relative to competing heating fuels.

In Canada, natural gas is used by residential and commercial users as a source of space heating, water heating, clothes drying, and cooking. More than half of Canadian homes and 80% of Canadian businesses rely on natural gas as their space heating fuel.

An average of industry consultants' forecasts suggests Alberta wholesale natural gas prices (AECO) could average \$3.93 per Gigajoule (GJ) or \$0.15/m³ over the coming heating season. By comparison over the past decade, natural gas averaged \$5.32/GJ, auto propane averaged \$25.04/GJ and furnace oil averaged \$23.61/GJ. Note that natural gas prices are wholesale prices – prices at the retail level will be higher, reflecting distribution charges, taxes, and other costs.

Main factors affecting natural gas prices for the 2014-2015 heating season include:

- abundant supply,
- above average input to storage,
- cyclical demand,
- declining exports of natural gas to the U.S.,
- normal temperatures and,
- a modest economic growth.

The full North American Natural Gas Market 2014-2015 Heating Season Outlook is available at <http://www.nrcan.gc.ca/sources/natural-gas/16781>

