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Fuel Focus

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

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National Overview

National Retail Pump Prices Up Nearly 2 Cents per Litre from Last Week

For the week ending March 4, 2014, Canadian average retail gasoline prices increased by nearly 2 cents per litre from the previous week to \$1.33 per litre—a six-month high. Since the last report two weeks ago, retail pump prices are 3 cents per litre higher. Prices are following the trend of the past two years and are above last year's level by 1 cent per litre.

Average retail pump prices across Canada moved upward on higher wholesale gasoline prices, which reflected higher crude oil prices. Oil prices remained firm while the price differential narrowed between the Brent and North American crudes.

Diesel fuel prices declined by less than 1 cent per litre from the previous week to \$1.46 per litre, while furnace oil prices decreased by 1 cent per litre, ending at \$1.33 per litre. Compared to a year ago, prices for diesel and furnace oil are 12 and 8 cents per litre higher, respectively.

Recent Developments

- **Higher Alberta Revenues:** The Alberta government reported higher-than-forecast non-renewable resource revenue for the first nine months of fiscal year 2013/2014 of \$6.67 billion compared to the original nine-month estimate of \$5.23 billion. However, natural gas and by-product royalties plunged for the first nine months of the year to \$295 million compared to a nine-month estimate of \$731 million. (Source: Daily Oil Bulletin)
- **Decline in Automobile Propane Prices:** Canadian automobile propane prices, for the week ending March 4, 2014, declined by 2 cents per litre to \$1.07 per litre. This represents a decline of nearly 5 cents per litre from two weeks ago. The propane supply situation is gradually improving. U.S. residential propane prices, after rising sharply in January, are now moving lower.
- **Outlook for Refinery Outages in the First Half of 2014:** This Energy Information Administration report reviews the potential implications of refinery outages during the first half of 2014 on the supply of gasoline and middle distillate fuel oil (diesel, jet fuel, and heating oil). (Source: U.S. Energy Information Administration, <http://www.eia.gov/petroleum/refinery/outage/>)

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

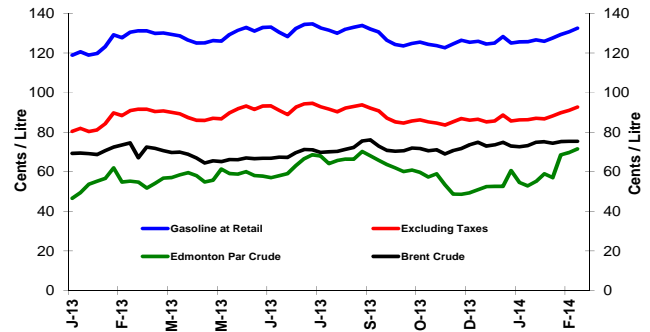
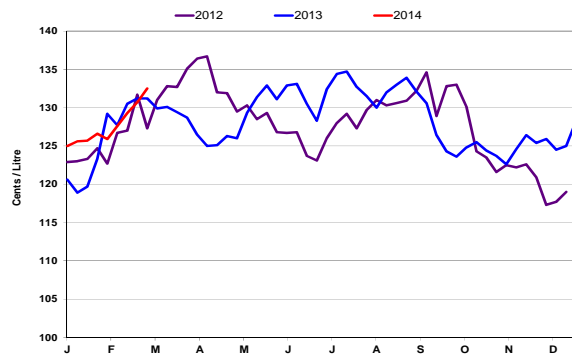


Figure 2: Weekly Regular Gasoline Prices



Changes in Fuel Prices

¢/L	Week of:	Change from:	
	2014-03-04	Previous Week	Last Year
Gasoline	132.5	+1.8	+1.3
Diesel	145.5	-0.3	+12.3
Furnace Oil	133.2	-0.9	+7.8

Source: NRCan

Natural Gas Prices for Vehicles

2014-03-04	¢/kilogram	¢/L gasoline equivalent	¢/L diesel equivalent
Vancouver	114.6	75.6	78.4
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

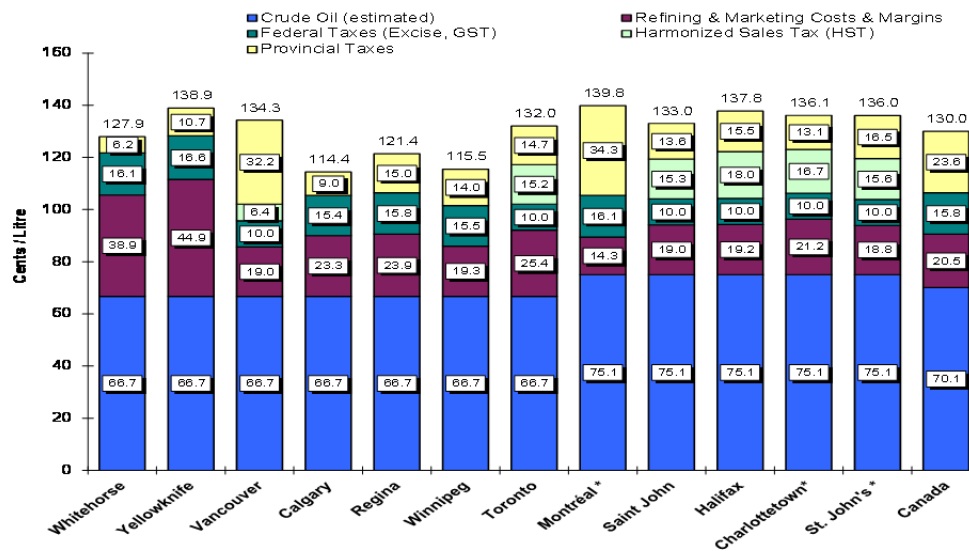
The **four-week average** regular gasoline pump price in selected cities across Canada was \$1.30 per litre for the period ending **March 4, 2014**. This is almost at the same level as the price recorded at this time last year.

The **four-week average** crude oil price component of gasoline registered at 70 cents per litre, up 3 cents per litre from two weeks ago. Compared to the same period in 2013, the crude oil price component of gasoline is 9 cents per litre higher.

Ranging from \$1.14 per litre to \$1.34 per litre, retail gasoline prices in most Western centres increased, on average, by 4 cents per litre when compared to two weeks ago. Prices in Eastern centres increased on average by 3 cents per litre, and ranged from \$1.32 per litre to \$1.40 per litre.

At the national level, refining and marketing costs and margins decreased by nearly 2 cents per litre from two weeks ago, and are 9 cents per litre lower than last year at this time.

**Figure 3: Regular Gasoline Pump Prices in Selected Cities
Four-Week Average (February 11 to March 4, 2014)**



Source: NRCan

* Regulated Markets

Factors that Influence Diesel Fuel Prices

Since 2005, world crude oil prices have nearly doubled from \$352/m³ to 642/m³ (\$56 to \$102 per barrel) resulting in some significant higher-based costs for all petroleum products. For the period ending March 4, 2014, the average Canadian diesel fuel price was \$1.46 per litre, an increase of 12 cents per litre from last year at the same time. However, oil prices are only one factor in the complex chain that can affect the price of petroleum products such as diesel fuel or gasoline.

Marketing costs can add a significant premium to an already small retail diesel market. In fact, diesel fuel sales account for only 15% of total sales volume of diesel sales while gasoline sold at retail level accounts for 85% of the total sales volume. This means that retail diesel sales have a lower priority than the higher volume commercial customers. Suppliers will sometimes raise the price for retail customers in an effort to curb demand. This ensures that there is enough supply for their larger industrial customers (trucks, trains, and marine use). Furthermore, the retail diesel market is less competitive than the gasoline market. Fewer stations sell diesel and they are competing for lower volumes so potential gains from price wars are more limited.

Other factors can impact diesel fuel prices, such as: disruptions caused by weather patterns affecting North America; refinery capacity and production facilities; growth in diesel fuel demand (up 5% in the first nine months of 2013 compared to the same period in 2012)¹; economic growth affecting the transportation sector; and environmental regulations requiring low sulphur diesel content.

¹ Statistics Canada Domestic Sales of Refined Products





Wholesale Gasoline Prices

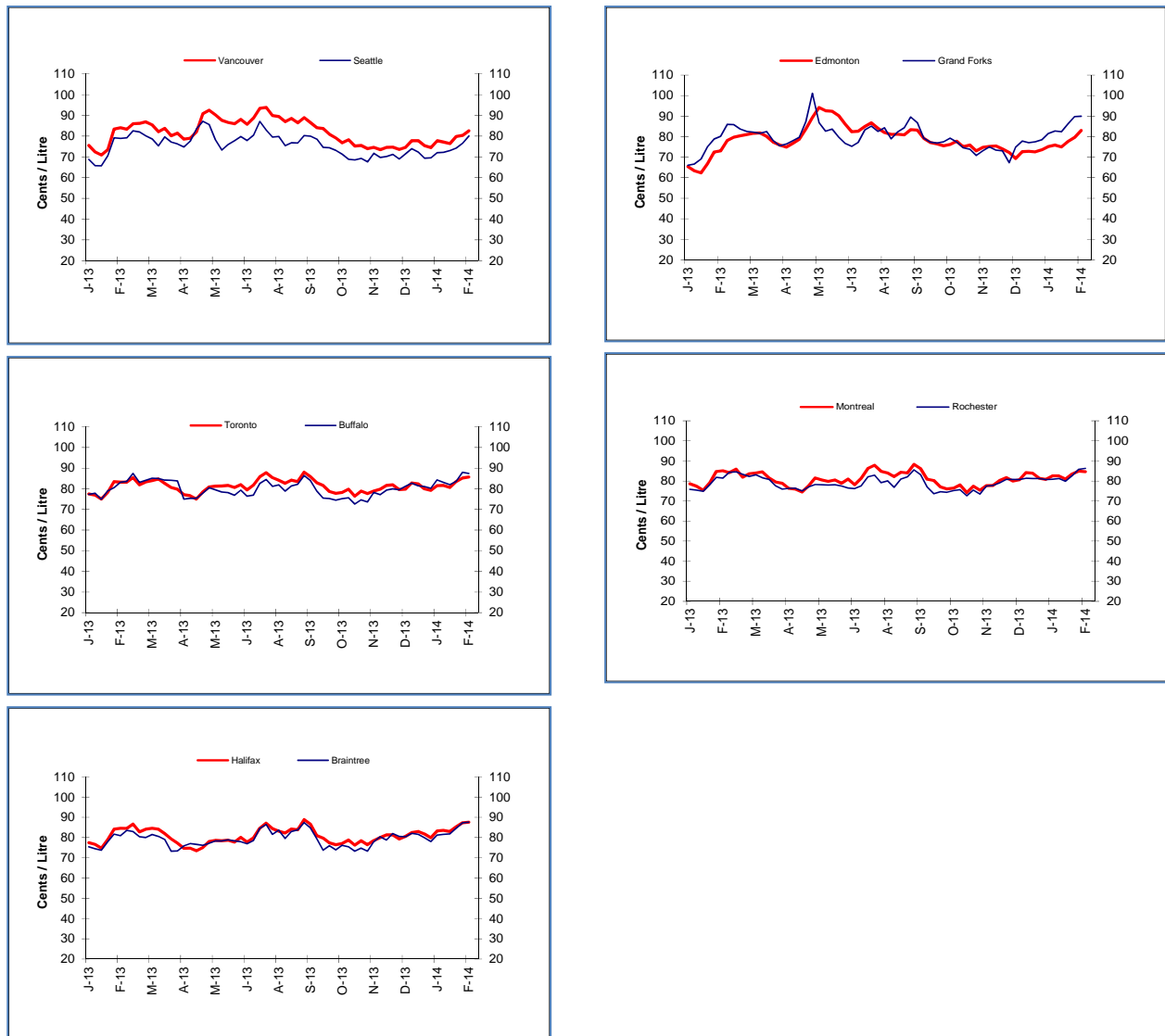
Wholesale gasoline prices increased in most centres for the **week of February 27, 2014**, compared to the previous week. Price changes ranged from an increase of nearly 4 cents per litre to a decrease of 1 cent per litre.

For the Eastern markets in Canada and the United States, wholesale gasoline price changes ranged from an increase of 1 cent per litre to a decrease of 1 cent per litre when compared to the previous week, with prices ending the period in the 85 to 88 cent-per-litre range.

Wholesale prices in Canadian and U.S. Western centres increased in the range of less than 1 to nearly 4 cents per litre, ending the period in the 80 to 90 cent-per-litre range.

In the last **four weeks**, wholesale prices in selected Canadian and American centres have increased in the range of 2 to 8 cents per litre.

Figure 4: Wholesale Gasoline Prices
Rack Terminal Prices for Selected Canadian and American Cities Ending February 27, 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.

The refining margin is defined as the difference between the wholesale price of gasoline and the crude oil price. However, this margin is very much a function of the gasoline supply situation and local market conditions. In turn, local market conditions can have a considerable impact on short-term wholesale gasoline prices.

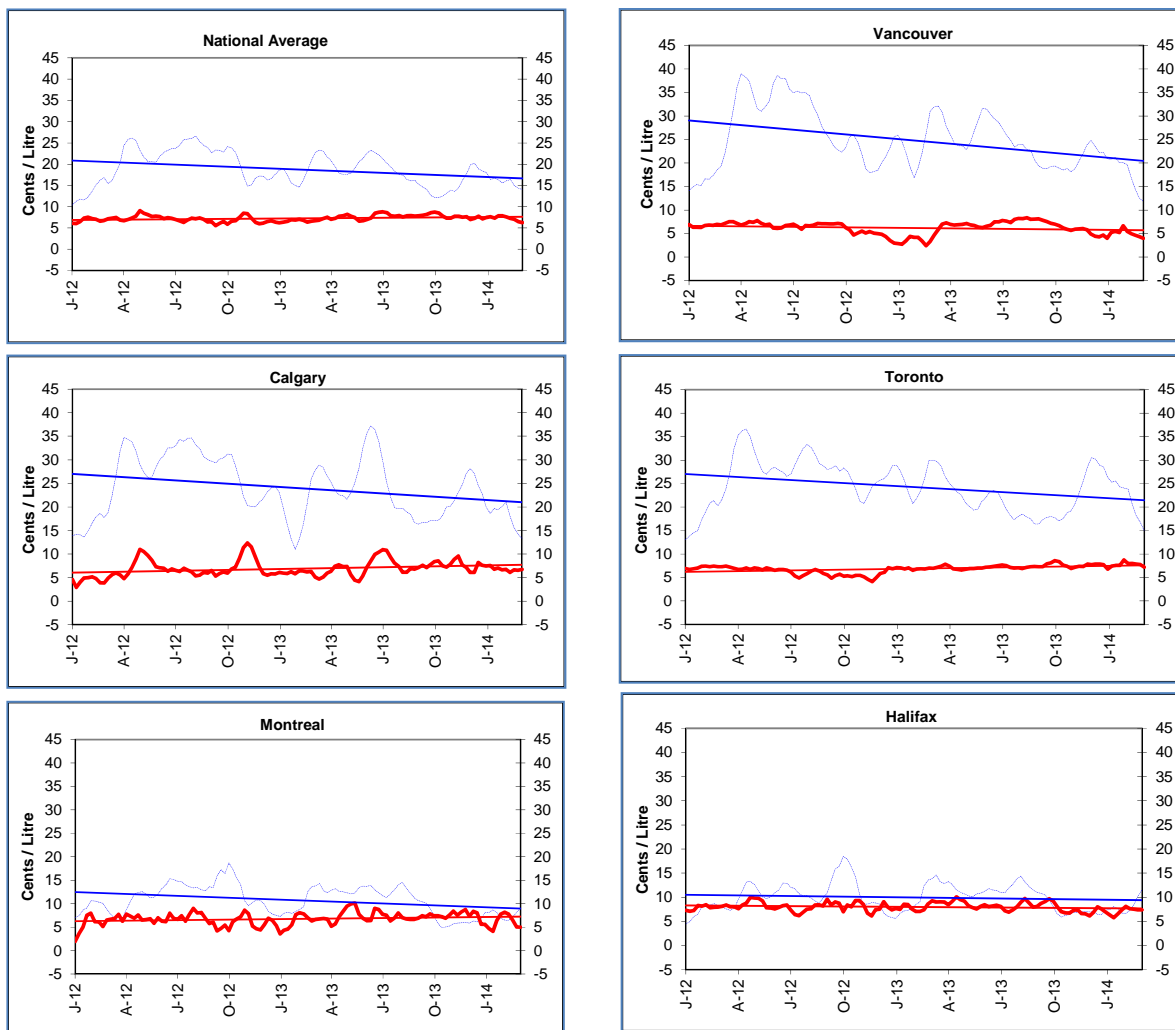
Marketing margins can differ significantly from city to city and region to region. These margins must cover

the costs associated with transporting product through the distribution system.

Some of the distribution challenges arise from the fact that petroleum products are refined in only a few geographic regions but are consumed all across Canada.

Overall, this margin can be fairly volatile as shown in the Montreal, Calgary and Vancouver markets, as outlets compete for market share. Conversely, they seem to be much less volatile in Toronto and Halifax.

Figure 5: Gasoline Refining and Marketing Margins
Four-Week Rolling Average Ending March 4, 2014
----- Refining Margin — Marketing Margin



Source: NRCan





Crude Oil Overview

Firm Global Crude Oil Prices

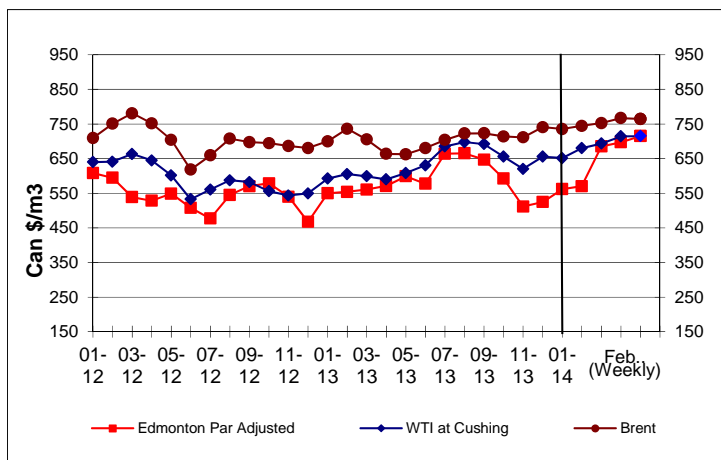
For the week ending February 28, 2014, prices for the three marker crudes averaged between \$715/m³ and \$764/m³ (US\$102 to US\$110 per barrel). Edmonton Par rose by \$18/m³ (US\$2 per barrel) compared to the previous week—slightly above WTI. Brent decreased by over \$2/m³ (US\$1 per barrel).

For the week ending February 28, 2014, Brent crude oil prices traded at a narrowing premium to Edmonton Par by a margin of \$49/m³ (US\$7 per barrel). The Ukrainian situation and the fact that Russia is a major oil supply country were factors tending to force oil prices higher.

U.S. crude oil inventories hovered in their upper five-year average range, helping to moderate the rise in crude oil prices. The growth in U.S. domestic oil shale production continues to dominate the future perspective for the U.S. energy sector.

U.S. oil imports continue to decline while uncertainties in major oil-producing regions of the world persist due to political turmoil in Iraq and Libya, the negotiations on Iran's nuclear program and unrest in Venezuela and Syria.

Figure 6: Crude Oil Price Comparisons



Changes in Crude Oil Prices

Crude Oil Types	Week Ending: 2014-02-28		Change From:			
			Previous Week		Last Year	
	\$Can/ m ³	\$US/ bbl	\$Can/ m ³	\$US/ bbl	\$Can/ m ³	\$US/ bbl
Edmonton Par	715.04	102.46	+17.80	+2.21	+193.53	+21.75
WTI	714.93	102.45	+0.83	-0.23	+118.32	+10.12
Brent	764.43	109.54	-2.51	-0.73	+39.73	-2.61

Source: NRCan

Canadian Crude to the U.S. Gulf Coast

TransCanada Corp. is moving crude on its southern leg of the Keystone XL pipeline, opening up a pathway for more Canadian oil to reach U.S. refineries. The pipeline was initially flowing at 288,000 barrels per day (b/d) on January 22, 2014, and transporting entirely U.S. light, sweet oil to Nederland, Texas, from Cushing, Oklahoma. It will ramp up over the course of the year toward its 700,000-barrel capacity and carry more heavy crude from Canadian oil sands formations.

According to TransCanada Corp. the Gulf Coast pipeline should begin to shrink the wide discount to global benchmarks that Canadian producers receive for their crude, while simultaneously reducing costs for refineries that currently rely on more expensive oil imports from overseas.

Canada is the largest supplier of crude to the U.S., with oil sands-derived oil from Alberta making up the largest and fastest-growing share of those imports. Canadian oil sands production grew by an estimated 10.5% last year to 1.99 million b/d, according to the Canadian Association of Petroleum Producers. The Gulf Coast pipeline, which is projected to average 520,000 b/d during its first year, will eventually be expanded to 830,000 b/d.

Source: Global Refining & Fuels Report, February 4, 2014.

