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Fuel Focus

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

Volume 10, Issue 5

April 8, 2015

Canada 

Copies of this publication may be obtained free of charge from:

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ISSN 1918-3321

Aussi offert en français sous le titre *Info-Carburant*



National Overview

Average National Pump Prices Decreased 0.1 Cent per Litre from Last Week

For the week ending March 31, 2015, Canadian average retail gasoline prices declined slightly by 0.1 cent per litre from the previous week to reach an average of \$1.07 per litre. This represents an increase of 1.3 cents from the last report two weeks ago. Prices are 26 cents per litre lower than last year at this time.

Diesel fuel prices declined by 1.2 cents per litre to \$1.15 per litre, down 27.2 cents from the same period last year. Furnace oil prices decreased by 1.2 cents per litre, ending at \$1.12 per litre, a decrease of 17 cents per litre from a year ago.

Recent Developments

- Canadian Gasoline Sales Up 2.6%:** Canadians consumed nearly 46 billion litres of gasoline in 2014, or roughly 1.1 billion litres more than last year, an increase of 2.6%. In the same period, diesel fuel sales increased by 2.6% to 30.5 billion litres, an increase of 790 million litres. Furnace oil sales rose by less than 1% to 2.6 billion litres. (Statistics Canada, Cansim Table 134-0004)
- U.S Crude Oil Storage:** The U.S. Energy Information Administration released its weekly petroleum data for the week of March 20, 2015. U.S. commercial crude oil inventories increased by 8.2 million barrels (2%) over the previous week. Overall crude inventories reached their highest levels in the last 80 years at 466.7 million barrels. At the same time, gasoline inventories decreased but remain in above their five-year average range. (Source: U.S. EIA Weekly Petroleum Status Report, <http://www.eia.gov/petroleum/weekly/>)
- American Export Ban:** A report by Baker Institute, titled "To Lift or Not to Lift? The U.S. Crude Oil Export Ban: Implications for Price and Energy Security," concludes that the spread between international and domestic crude prices will narrow if the U.S. were to lift its crude export ban; resulting in lower gasoline prices, and improved energy security in the U.S. Further, the report states that lifting the ban would allow U.S. refineries to compete more efficiently by removing the discount for valuable light crude, restoring the investment rationale for firms that poured cash into configurations that can handle heavy crude. However, according to industry analysts the political will for lifting the ban is low. They suggest that lifting the ban could be blamed if prices at the pump were to increase. (Source: <http://bakerinstitute.org/research/lift-or-not-lift-us-crude-oil-export-ban-implications-price-and-energy-security/>)

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

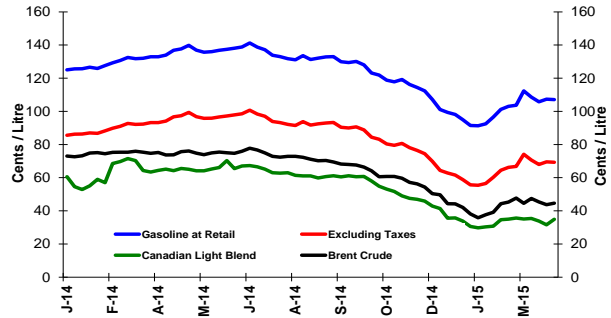
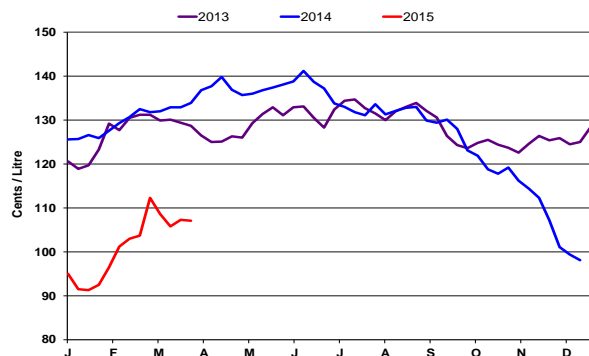


Figure 2: Weekly Regular Gasoline Prices



Changes in Fuel Prices

| ¢/L | Week of: | Change from: | |
|-----------------------------|------------|---------------|-----------|
| | 2015-03-31 | Previous Week | Last Year |
| Gasoline | 107.1 | +0.2 | -25.2 |
| Diesel | 115.1 | +1.2 | -27.2 |
| Furnace Oil | 112.7 | +0.8 | -16.6 |
| Natural Gas Prices in \$/GJ | | | |
| Alberta (NGX) | 2.52 | -0.11 | -1.97 |
| Ontario (Dawn) | 3.34 | -0.02 | -1.82 |

Source: NRCan, Bloomberg, NGX

Natural Gas Prices for Vehicles

| 2015-03-31 | ¢/kilogram | ¢/L gasoline equivalent | ¢/L diesel equivalent |
|------------|------------|-------------------------|-----------------------|
| Vancouver | 123.6 | 81.5 | 84.5 |
| Edmonton | 115.0 | 75.9 | 78.7 |
| Toronto | 128.4 | 84.7 | 87.8 |

Source: ¢/kg Kent Marketing Services Limited

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Retail Gasoline Overview

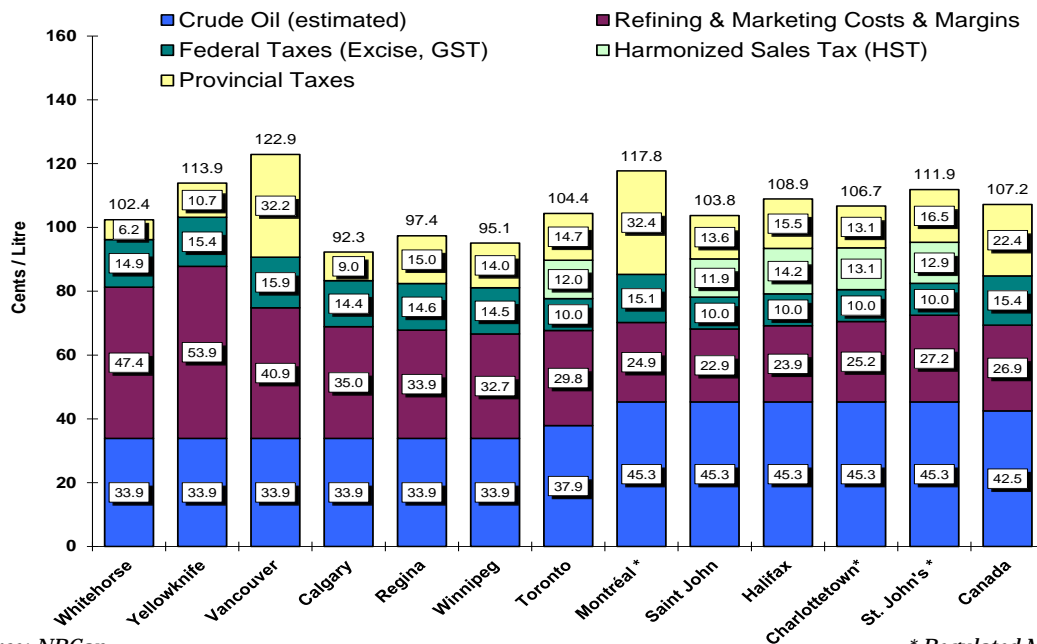
For the period ending March 31, 2015, the **four-week average** regular gasoline pump price in selected cities across Canada was \$1.07 per litre, a 0.4-cent per litre decrease compared to the previous report of March 20, 2015. Compared to the same period in 2014, the average Canadian pump price is 25 cents per litre lower.

The **four-week average** crude component decreased by 1 cent to 43 cents compared to two weeks ago. Compared to the same period in 2014 the crude oil price component of gasoline is 29 cents per litre lower.

Retail gasoline prices in most Western centres increased on average by 0.1 cent per litre compared to the previous report and ranged from 92 cents per litre to \$1.23 per litre. Prices in Eastern cities decreased slightly by 0.4 cent per litre and ranged from \$1.04 per litre to \$1.18 per litre.

At the national level, refining and marketing costs and margins registered an increase of 2.7 cents per litre to 29 cents per litre compared to the last report two weeks ago.

**Figure 3: Regular Gasoline Pump Prices in Selected Cities
Four-Week Average (March 10 to 31, 2015)**



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.

Summer Gasoline Transition

In gasoline, volatility is measured by Reid Vapor Pressure (RVP). The higher the RVP, the more volatile the gasoline and the higher level of evaporation. When combined with higher summer temperatures, gasoline with a high RVP can increase emissions of unhealthy ground-level ozone that contributes to smog.

In order to improve air quality and protect human health, governments regulate the maximum RVP in summer gasoline. As a result, there is a difference between gasoline sold in the summer and the winter. To reduce the RVP, refiners decrease the level of butane (which has a relatively high RVP) in gasoline and replace it with more expensive products. These increased manufacturing costs are reflected in increased wholesale and retail gasoline prices during the summer months.

In Canada, provincial governments regulate the availability of summer grade gasoline using technical standards set by the Canadian General Standards Board. The timing of the changeover depends on the region but usually occurs between April and May.

To ensure widespread availability at retail stations, refiners have to begin manufacturing summer-grade gasoline well in advance of the required date.

Source: EIA Petroleum Weekly, NRCan





Wholesale Gasoline Prices

For the **week ending March 26, 2015**, wholesale gasoline prices increased in most Canadian and American cities compared to the previous week.

Wholesale gasoline price changes ranged from an increase of 3.5 cents per litre to a decrease of 3 cents. Prices for the period ended in the 57- to 66-cent-per-litre range.

In the Eastern markets of Canada and the U.S., wholesale gasoline price changes, compared to the previous week, increased in the range of less than 1 to

almost 4 cents per litre. Prices for the period ended in the 58- to 62-cent-per-litre range.

Wholesale gasoline prices in Western centres ranged between a decrease of almost 3 cents to an increase of 3.5 cents per litre and ended in the 60- to 66-cent-per-litre range.

In the **last four weeks**, wholesale price changes in selected Canadian and American centres ranged from an increase of less than one cent to a decrease of almost 6 cents.

Figure 4: Wholesale Gasoline Prices
Rack Terminal Prices for Selected Canadian and American Cities Ending March 26, 2015
(CAN ¢/L)



Sources: NRCan, Bloomberg Oil Buyers Guide





Gasoline Refining and Marketing Margins

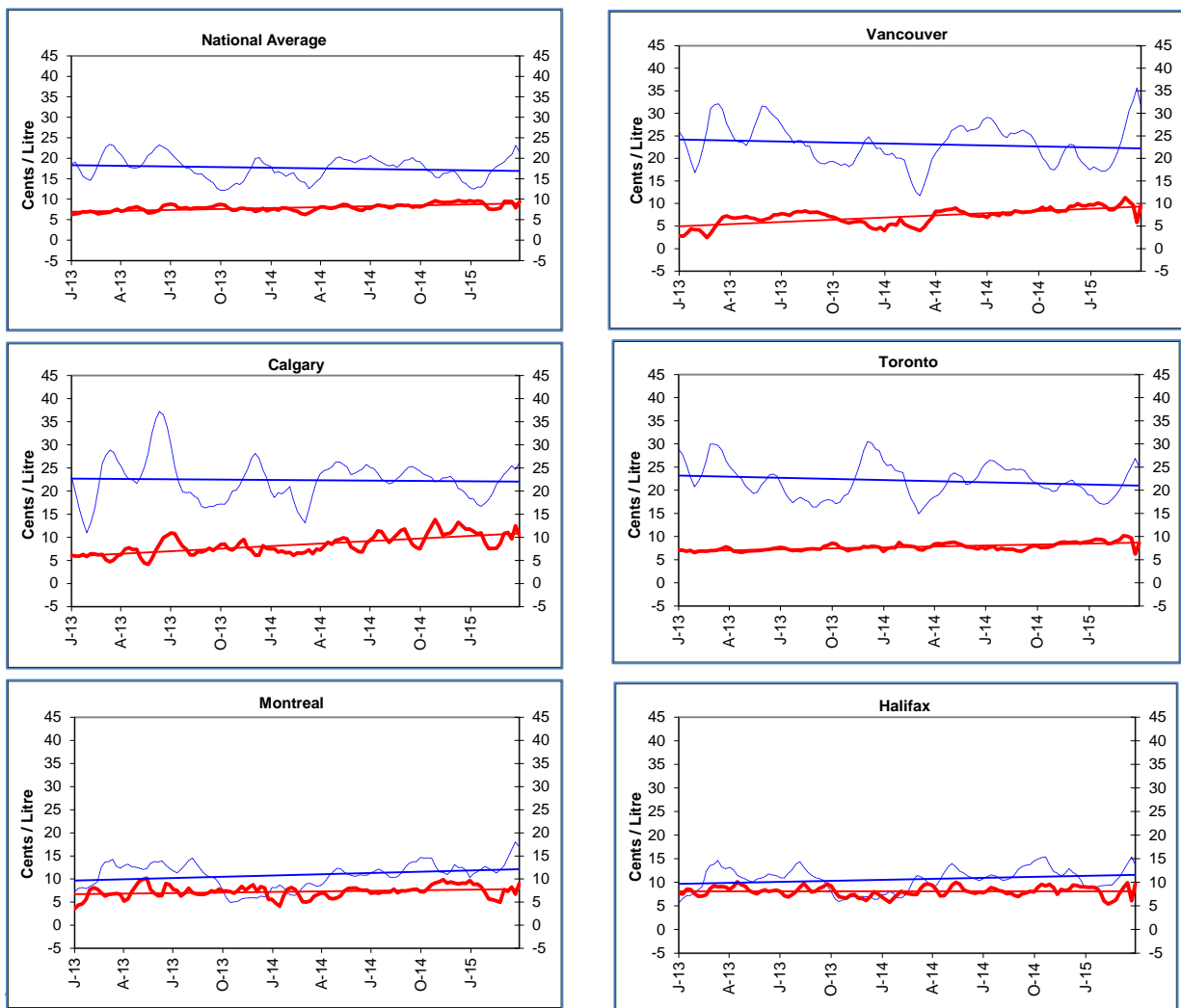
Four-week rolling averages are used for gasoline refining and marketing margins.

Refining margins have been increasing steadily since the beginning of the year. This is a reflection of the drawdown of gasoline inventories throughout North America which reflects increased demand in response to lower gasoline prices. Demand is expected to increase as we approach the summer driving season.

However, in response to the downward pressure on wholesale gasoline prices in recent weeks refining margins have recently started to show signs of a decline.

Nationally, marketing margins hovered around an average of 9 cents per litre. As outlets compete for market share, marketing margins can be volatile—as shown in the individual centres.

Figure 5: Gasoline Refining and Marketing Margins
Four-Week Rolling Average Ending March 31, 2015
----- Refining Margin — Marketing Margin





Crude Oil Overview

Prices remain relatively unchanged over previous four weeks

For the week ending March 27, 2015, prices for the three marker light crudes averaged between \$349.15/m³ and \$445.82/m³ (US\$44.13 and US\$56.41 per barrel).

Compared to the previous week, all three light crude oil price benchmarks increased in the range of \$9.31/m³ and \$33.46/m³ (US\$2.10 and US\$4.91 per barrel). Canadian light crude oil prices at Edmonton increased by \$33.46/m³ (US\$4.91 per barrel) from the previous week, while WTI increased by \$30.3/m³ (US\$4.56 per barrel).

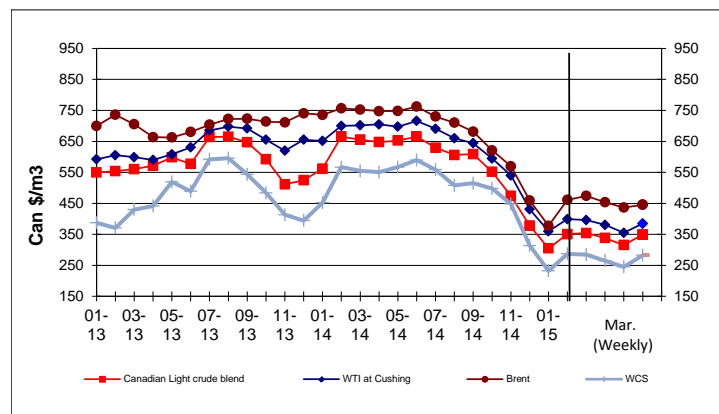
Canadian light crude oil prices remain significantly cheaper than imported global crudes. Currently, Canadian light is \$95.3/m³ (US \$9.26 per barrel) less than Brent.

The Western Canada Select crude oil price increased by \$37.60/m³ (US\$5.29 per barrel) from the previous week, and has decreased by over \$255/m³ (US\$41 per barrel) compared to last year.

According to the U.S. EIA, the WTI-Brent differential has been widening recently, as record U.S. crude inventories have put downward pressure on the WTI price. In the latest *Short Term Outlook*, the EIA projects that this differential will average \$7 per barrel for 2015.

This latest projection is much higher than the previous month's outlook and reflects the impact of strong inventory build-up including at the Cushing Oklahoma storage hub.

Figure 6: Crude Oil Price Comparisons



Changes in Crude Oil Prices

| Crude Oil Types | Week Ending: 2015-03-27 | | Change From: | | | |
|-----------------|----------------------------|--------------|--------------------------|--------------|--------------------------|--------------|
| | | | Previous Week | | Last Year | |
| | \$Can/ m ³ | \$US/ bbl | \$Can/ m ³ | \$US/ bbl | \$Can/ m ³ | \$US/ bbl |
| Canadian Light | 349.15 | 44.34 | +33.46 | +4.91 | -294.89 | -47.64 |
| WTI | 384.98 | 48.89 | +30.03 | +4.56 | -309.95 | -50.35 |
| Brent | 445.82 | 56.62 | +9.31 | +2.10 | -310.71 | -51.43 |
| WCS | 282.77 | 35.91 | +37.60 | +5.29 | -255.78 | -41.00 |

Source: NRCan

