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Fuel Focus

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

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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

National Retail Gasoline Prices Drop 3 Cents per Litre from Last Week

After a fourth straight week decline, the Canadian average retail gasoline prices for the week ending October 28, 2014, settled at \$1.19 per litre. This represents a decrease of 3 cents per litre from the previous week, due to lower wholesale gasoline and crude oil prices. Prices are below last year's level by nearly 6 cents per litre.

Average Canadian retail gasoline prices have fallen from a peak of \$1.41 per litre on June 24, 2014, to \$1.19 per litre on October 28, 2014, a decline of 22 cents per litre, or 16%. Average crude oil prices declined by 16 cents per litre for the same time period.

Diesel fuel and furnace oil prices declined by nearly 1 cent per litre to \$1.24 and \$1.20 per litre, respectively, compared to the previous week. Compared to a year ago, prices for diesel fuel are 5 cents per litre lower, while furnace oil prices are almost 3 cents per litre higher.

Recent Developments

- Diesel Fuel vs. Gasoline Prices:** From January to October 2014, the average weekly Canadian retail diesel fuel prices rose to a high of \$1.44 per litre on February 11, 2014, compared to \$1.28 per litre for gasoline. However, diesel prices soon declined to reach \$1.24 per litre on October 28, 2014. The main reasons for the disparity between diesel and gasoline prices are winter heating demand for heating oil as diesel and heating fuel oil are essentially the same except that diesel fuel contains less sulphur. Demand for diesel fuel in North America is growing more quickly than for gasoline. According to the Association for Convenience & Fuel Retailing, in the U.S., gasoline demand has decreased since peaking in 2007, while demand for diesel fuel has remained strong with more diesel powered equipment and an increasing number of passenger vehicles. Refineries are shifting production to increase diesel output but there is a limit as to how much can be made from a barrel of crude oil. (Sources: Association for Convenience & Fuel Retailing, Kent Marketing, Ontario Energy Ministry)

- Canada Main Source of U.S. Energy Imports:** Canada is a net exporter of most energy commodities and is an especially significant producer of conventional and unconventional oil, natural gas, and hydroelectricity. It stands out as the largest foreign supplier of energy to the United States, one of the world's largest consumers of energy. Just as the United States depends on Canada for much of its energy needs, so is Canada dependent on the United States as an export market. However, economic and political considerations are leading Canada to consider ways to diversify its trading partners, especially by expanding ties with emerging markets in Asia. (Source: Energy Information Administration)

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

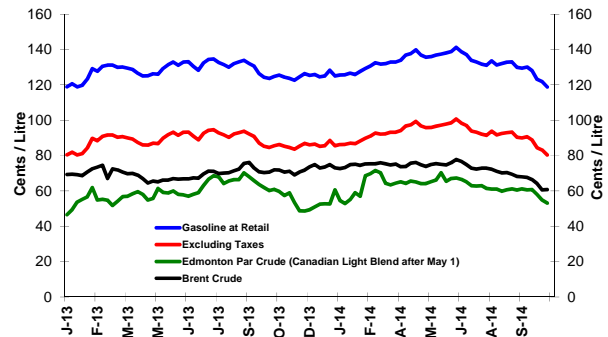
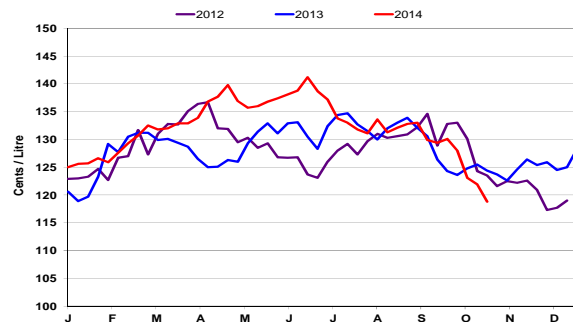


Figure 2: Weekly Regular Gasoline Prices



Changes in Fuel Prices

¢/L	Week of:	Change from:	
	2014-10-28	Previous Week	Last Year
Gasoline	118.8	-3.2	-5.6
Diesel	124.1	-0.8	-5.4
Furnace Oil	120.1	-0.5	+2.7

Source: NRCan

Natural Gas Prices for Vehicles

2014-10-28	¢/kilogram	¢/L gasoline equivalent	¢/L diesel equivalent
Vancouver	119.9	79.1	82.0
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

We show four week average data on this page. For the period ending October 28, 2014, the **four-week average** regular gasoline pump price in selected cities across Canada was \$1.23 per litre. Note that the one week average is lower at \$1.19 per litre. The price in Edmonton was the lowest in Canada at \$1.014 per litre.

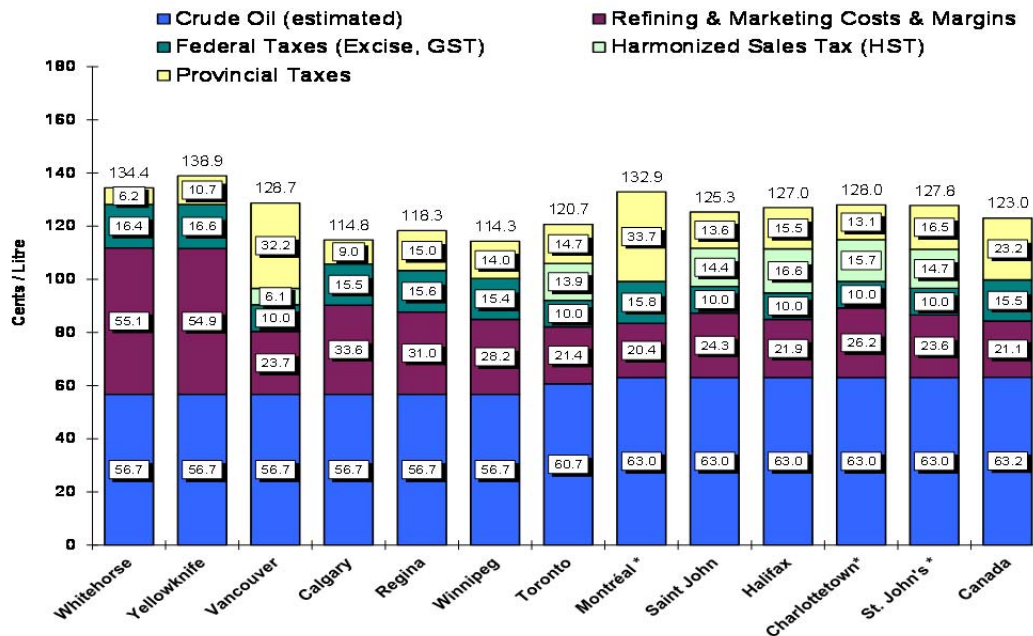
The **four-week average** crude component was 63 cents per litre, a decrease of 3.5 cents compared to two weeks ago.

Retail gasoline prices in most Western centres decreased by 5 cents per litre when compared to the previous report and ranged from \$1.14 to \$1.29 per litre. Prices in Eastern cities decreased by 5 cents per litre and ranged from \$1.21 to \$1.33 per litre.

At the national level, refining and marketing costs and margins registered a decrease of 1 cent per litre to 21 cents per litre compared to the previous report.

Current weekly gasoline prices by cities can be obtained on our Fuel Focus website at: <http://www.nrcan.gc.ca/energy/fuel-prices/4593>

**Figure 3: Regular Gasoline Pump Prices in Selected Cities
Four-Week Average (October 7 to 28, 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% in September 2014

According to Statistics Canada's Consumer Price Index (CPI) report, released October 17, 2014, inflation rose 2.0% in the 12 months to September, after increasing 2.1% in August.

Prices increased in all major components in the 12 months to September. Higher prices for shelter and food contributed most to the rise in the CPI, while the transportation index posted the smallest increase. Shelter costs rose 2.7% in the 12 months to September, led by a 16.2% increase in natural gas prices.

The transportation index increased 0.5% in the 12 months to September, after advancing 1.2% in August. Prices for the purchase of passenger vehicles recorded a 0.5% year-over-year rise in September, following a 2.9% increase the previous month. In addition, consumers paid 0.5% less for gasoline on a year-over-year basis in September.

Source: Statistics Canada, The Daily.





Wholesale Gasoline Prices

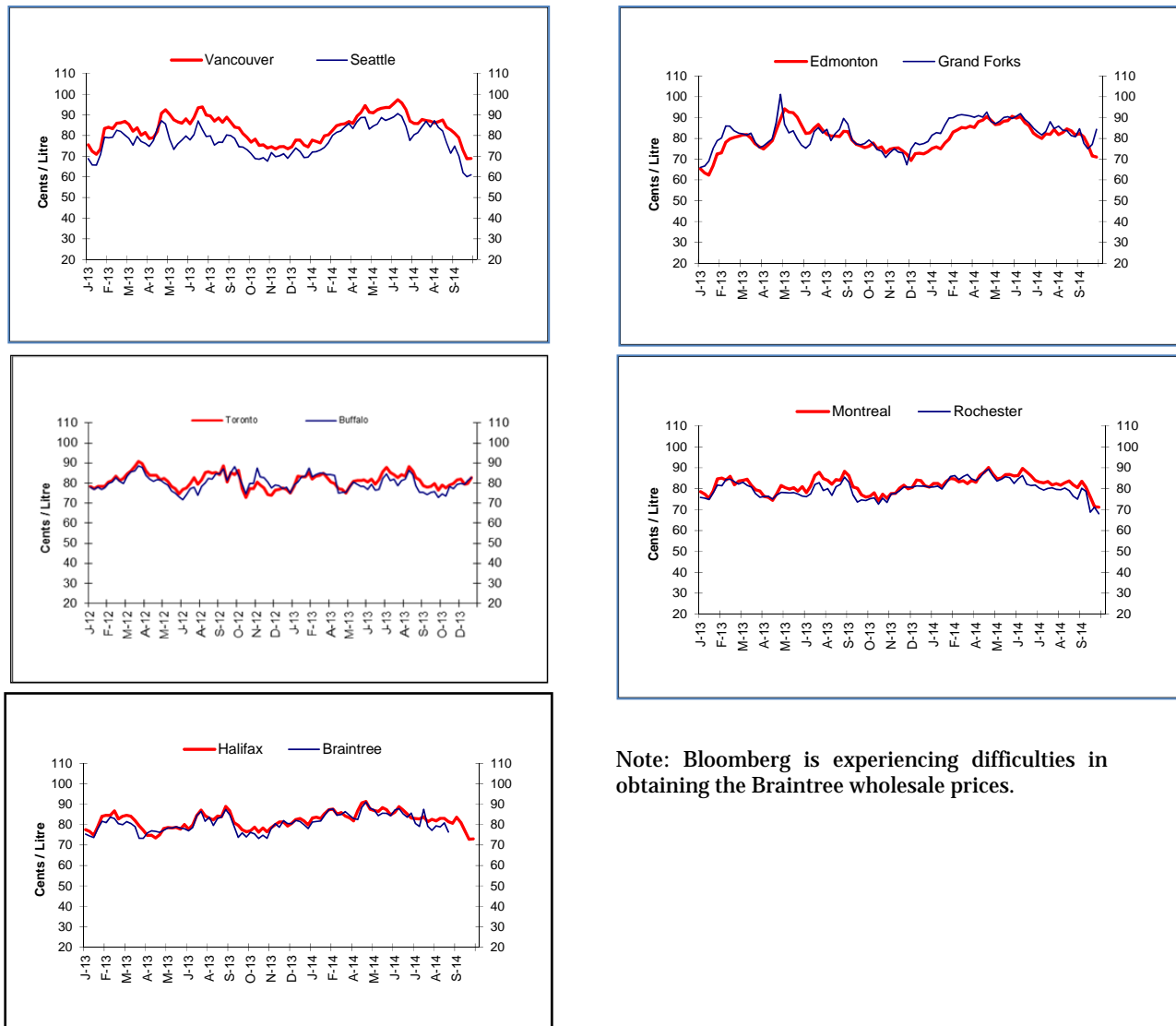
Compared to the previous week, wholesale gasoline prices for the week ending **October 23, 2014** ranged between decreases of less than 1 cent per litre to increases of 7 cents per litre. Prices ended in the 61 to 84 cent-per-litre range.

In the Eastern markets of Canada and the United States, wholesale gasoline prices, compared to the previous week, ranged between increases from less than 1 cent per litre to a decrease of 3 cents per litre. Prices ended in the 68 to 80 cent-per-litre range.

Wholesale gasoline price changes in Western centres ranged from a decrease of 1 cent per litre to an increase of 7 cents per litre. Prices ended in the 61 to 84 cent-per-litre range.

Compared to last year at this time, price changes ranged between increases of 10 cent per litre to decreases of 8 cents per litre.

Figure 4: Wholesale Gasoline Prices
Rack Terminal Prices for Selected Canadian and American Cities Ending October 23, 2014
(CAN ¢/L)



Note: Bloomberg is experiencing difficulties in obtaining the Braintree wholesale prices.

Sources: NRCan, Bloomberg Oil Buyers Guide





Gasoline Refining and Marketing Margins

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

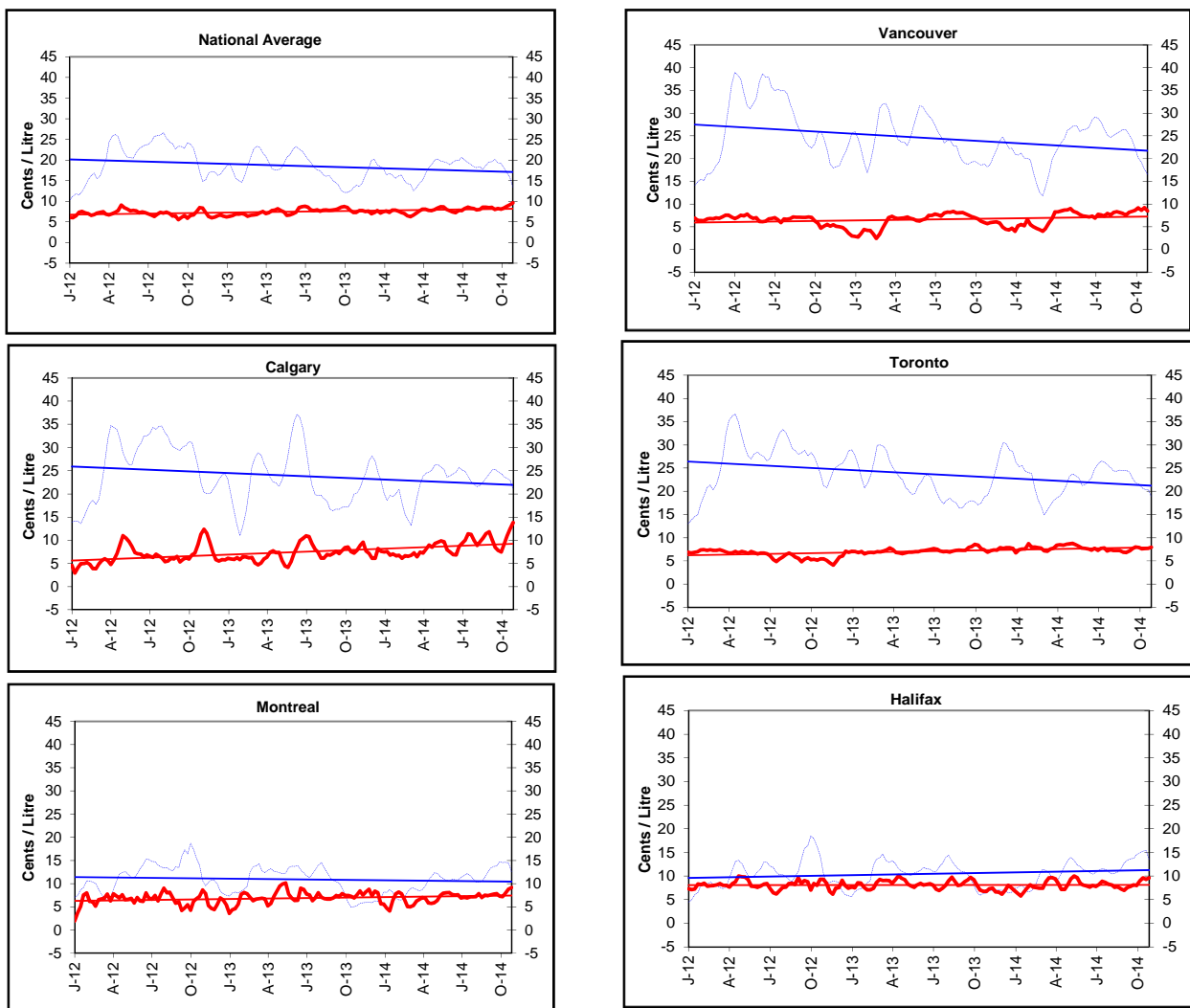
Overall, refining margins declined by 3.6 cents per litre to 13 cents per litre from two weeks ago. Declining refining margins in the last six weeks reflect the decrease in North American demand for gasoline and a well-supplied market.

The refining margins shown here are calculated as the difference between the estimated crude oil feedstock

price and the wholesale price of gasoline at a point in time.

Nationally, marketing margins increased by 2 cents per litre compared to the same period last year. Marketing margins represent the difference between the wholesale and retail price of gasoline. This margin pays for the costs associated with operating a service station.

Figure 5: Gasoline Refining and Marketing Margins
Four-Week Rolling Average Ending October 28, 2014
----- Refining Margin — Marketing Margin



Source: NRCan





Crude Oil Overview

Steady Decline in Global Crude Oil Prices since June

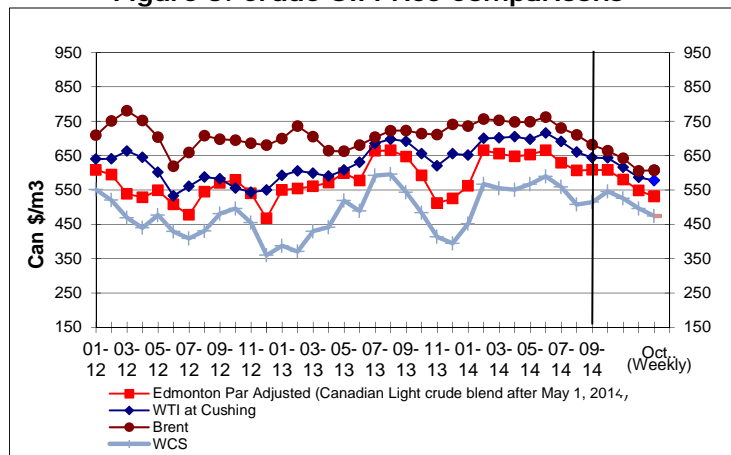
For the week ending **October 24, 2014**, prices for the three light marker crudes averaged between \$531/m³ and \$608/m³, (US\$86 to US\$75 per barrel). Compared to the previous week, the price for Canadian Light and WTI crude oil declined by \$17/m³ (US\$2 per barrel) and \$9/m³ (US\$1 per barrel), respectively while Brent increased marginally by \$2/m³ (US\$0.38 per barrel).

Canadian heavy oil price (Western Canada Select) differential to WTI for the week ending October 24, 2014, averaged \$104/m³ (US\$15 per barrel)

According to the International Energy Agency, global supply rose by almost 910 thousand barrels per day in September to 94 million barrels per day, on higher OPEC and non-OPEC oil production.

OPEC crude oil output surged to a 13-month high in September up 415 thousand barrels per day to 31 million barrels per day. OPEC's increase in crude oil spare capacity in turn put downward pressure on global crude oil prices.

Figure 6: Crude Oil Price Comparisons



Changes in Crude Oil Prices

Crude Oil Types	Week Ending: 2014-10-24		Change From:			
			Previous Week		Last Year	
	\$Can/ m ³	\$US/ bbl	\$Can/ m ³	\$US/ bbl	\$Can/ m ³	\$US/ bbl
Canadian Light	531.26	75.19	-17.18	-2.37	-46.25	-13.38
WTI	577.72	81.76	-8.90	-1.19	-60.48	-16.10
Brent	607.62	86.00	+2.20	+0.38	-98.35	-22.27
WCS	474.17	67.11	-21.91	-3.04	+42.95	+0.98

Source: NRCan

Canadian Oil Supply

Canada's total liquids production averaged almost 4 million barrels per day in September, about 100 thousand barrels per day lower than the previous month, mainly because of lower synthetic crude output. Production of crude oil and condensate, including bitumen, averaged slightly higher during the month at 2.5 million barrels per day. The lower September production figure was due to maintenance that affected numerous projects during the month.

The Foster Creek project was undergoing maintenance for two weeks during the month, which took out roughly 55 thousand barrels per day of production. Conoco's Surmont project is also undergoing a five-week turnaround, affecting another 30 thousand barrels per day of production during the month. Furthermore, the upgrader at the Horizon Oil Sands project in Fort McMurray in Alberta continued to undergo maintenance for most of the month while the Long Lake upgrader was also offline. Finally, the Hibernia crude oil platform was offline for two days.

Overall production for 2014 is expected to average 4.1 million barrels per day in 2014 and 4.3 million barrels per day in 2015. The year-over-year increase will be boosted by additional in-situ capacity, including steam-assisted gravity drainage projects.

Source: International Oil Agency, Oil Market Report.

