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Fuel Focus

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

Volume 10, Issue 4

March 20, 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 3 Cents per Litre from Last Week

For the week ending March 17, 2015, Canadian average retail gasoline prices declined for the second straight week, by nearly 3 cents per litre from the previous week to \$1.06 per litre. This represents a decrease of 6.5 cents per litre 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 2.5 cents per litre to \$1.19 per litre, down 25 cents from the same period last year. Furnace oil prices decreased by 3 cents per litre, ending at \$1.17 per litre, a decrease of 13 cents per litre from a year ago.

Recent Developments

- Canadian Crude Oil Production:** Canadian production of crude oil and equivalent hydrocarbons increased by 7.5% to 217 million cubic metres in 2014 compared to the same period last year. Exports increased by 9% to 166 million cubic metres. Imports decreased 16% to 32 million cubic metres. About 76% of Canada's total domestic production went to the export market compared to 75% a year earlier. (NRCAN; Statistics Canada, CANSIM table 126-001)
- Québec Carbon Market Auction Results:** On February 25, 2015, the Quebec Government announced the results of the greenhouse gas emission allowances auction which was held jointly with the State of California. The auction generated a gross revenue of approximately 190 million Canadian dollars for Québec, making the cumulative total income since the first auction held by Québec in December 2013 more than 330 million Canadian dollars. (Source: Quebec Ministry of Sustainable Development, Environment and the Fight against Climate Change, <http://www.mddelcc.gouv.qc.ca/communiqués/en/2015/C20150225-results-2-qc-californie.htm>)
- Brent and WTI Price Spread:** In January 2015, global crude oil production continued to exceed demand, resulting in rising inventories and downward pressure on near-term prices for both WTI and Brent. Since then, changes in regional market dynamics, including planned and unplanned refinery maintenance in the United States and increased refinery utilization in Europe, have caused changes in the structure of futures price curves for WTI and Brent and in the spread between the spot prices of the two benchmark crudes. (Source: U.S. EIA, *This Week in Petroleum*, <http://www.eia.gov/petroleum/weekly/?src=email>)

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

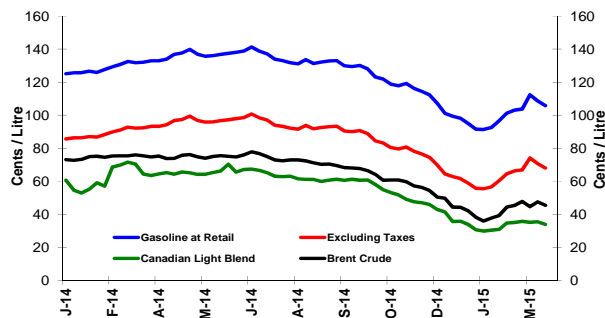
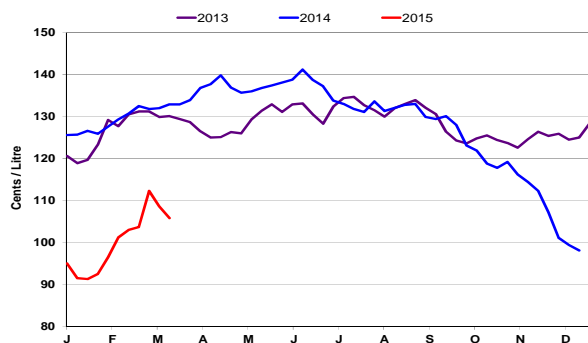


Figure 2: Weekly Regular Gasoline Prices



Changes in Fuel Prices

	Week of:	Change from:	
¢/L	2015-03-17	Previous Week	Last Year
Gasoline	105.8	-2.8	-26.2
Diesel	119.2	-2.5	-24.9
Furnace Oil	117.2	-2.6	-12.8
Natural Gas Prices in \$/GJ			
Alberta (NGX)	2.62	+0.19	-1.97
Ontario (Dawn)	3.70	+0.21	-2.40

Source: NRCAN, Bloomberg, NGX

Natural Gas Prices for Vehicles

2015-03-17	¢/kilogram	¢/L gasoline equivalent	¢/L diesel equivalent
Vancouver	114.5	75.5	78.3
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

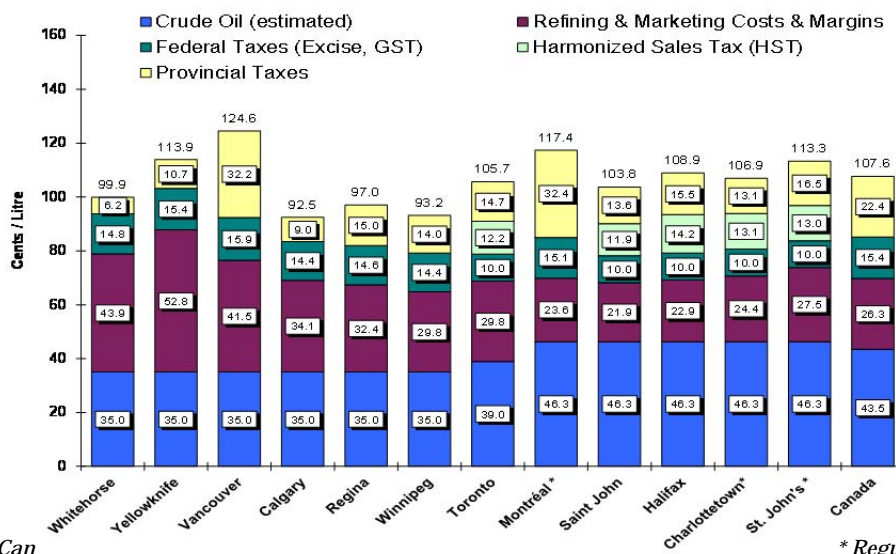
For the period ending March 17, 2015, the **four-week average** regular gasoline pump price in selected cities across Canada was \$1.08 per litre, an increase of 3 cents per litre compared to the previous report of March 6, 2015. Compared to the same period in 2014, the average Canadian pump price is 24 cents per litre lower.

The **four-week average** crude component increased slightly by 0.2 cent per litre to 44 cents per litre compared to two weeks ago. Compared to the same period in 2014, the crude oil price component of gasoline is 28 cents per litre lower.

Retail gasoline prices in most Western centres increased, on average, by 1.3 cents per litre compared to the previous report and ranged from 93 cents per litre to \$1.25 per litre. Prices in Eastern cities increased, on average, by 4 cents per litre and ranged from \$1.04 per litre to \$1.17 per litre.

At the national level, refining and marketing costs and margins registered an increase of 2 cents per litre to 26 cents per litre compared to the last report two weeks ago.

**Figure 3: Regular Gasoline Pump Prices in Selected Cities
Four-Week Average (February 24 to March 17, 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.

Petroleum Refining Outages and Market Price Reaction

On February 18, 2015, an explosion and fire occurred at ExxonMobil's refinery in Torrance, California. The Torrance refinery, the third-largest refinery in Southern California, has about 20% of the region's fluid catalytic cracking capacity and is an important source of gasoline and distillate fuel oil supply for Southern California. This closure, along with Shell's refinery in Washington State, has tightened supply in the Pacific Northwest, driving up prices particularly in British Columbia in the last two weeks (see Vancouver wholesale prices in Figure 4).

Unplanned refinery outages can have noticeable effects on liquid fuel markets, disrupting supplies of gasoline and distillate, particularly in regions that are tightly balanced, such as the West Coast. When refineries undergo planned maintenance, they make arrangements for alternative sources of supply to ensure that obligations are met.

However, the sudden loss of production during unplanned outages can sometimes take days or weeks for markets to adjust. As a result, unplanned outages often result in a reduction in supply that causes prices to increase, sometimes dramatically. The severity and duration of these price spikes depend on how quickly the refinery problem can be resolved and how soon supply from alternative sources can reach the affected market.

Source: U.S. EIA, NRCan.





Wholesale Gasoline Prices

For the **week ending March 12, 2015**, wholesale gasoline prices decreased in most Canadian and American centres compared to the previous week.

Wholesale gasoline price changes ranged from an increase of less than 2 cents per litre to a decrease of 5 cents per litre. Prices for the period ended in the 55 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, decreased in the range of less than 1 to almost 2 cents per litre. Prices for the period ended in the 55 to 63 cent-per-litre range.

Wholesale gasoline prices in western centres ranged between an increase of nearly 2 cents per litre to a decrease of 5 cents per litre and ended in the 58 to 66 cent-per-litre range.

In the **last four weeks**, wholesale price changes in all selected Canadian and American centres increased in the range of 2 to 7 cents per litre.

Figure 4: Wholesale Gasoline Prices
Rack Terminal Prices for Selected Canadian and American Cities Ending March 12, 2015
(CAN ¢/L)



Sources: NRCan, Bloomberg Oil Buyers Guide





Gasoline Refining and Marketing Margins

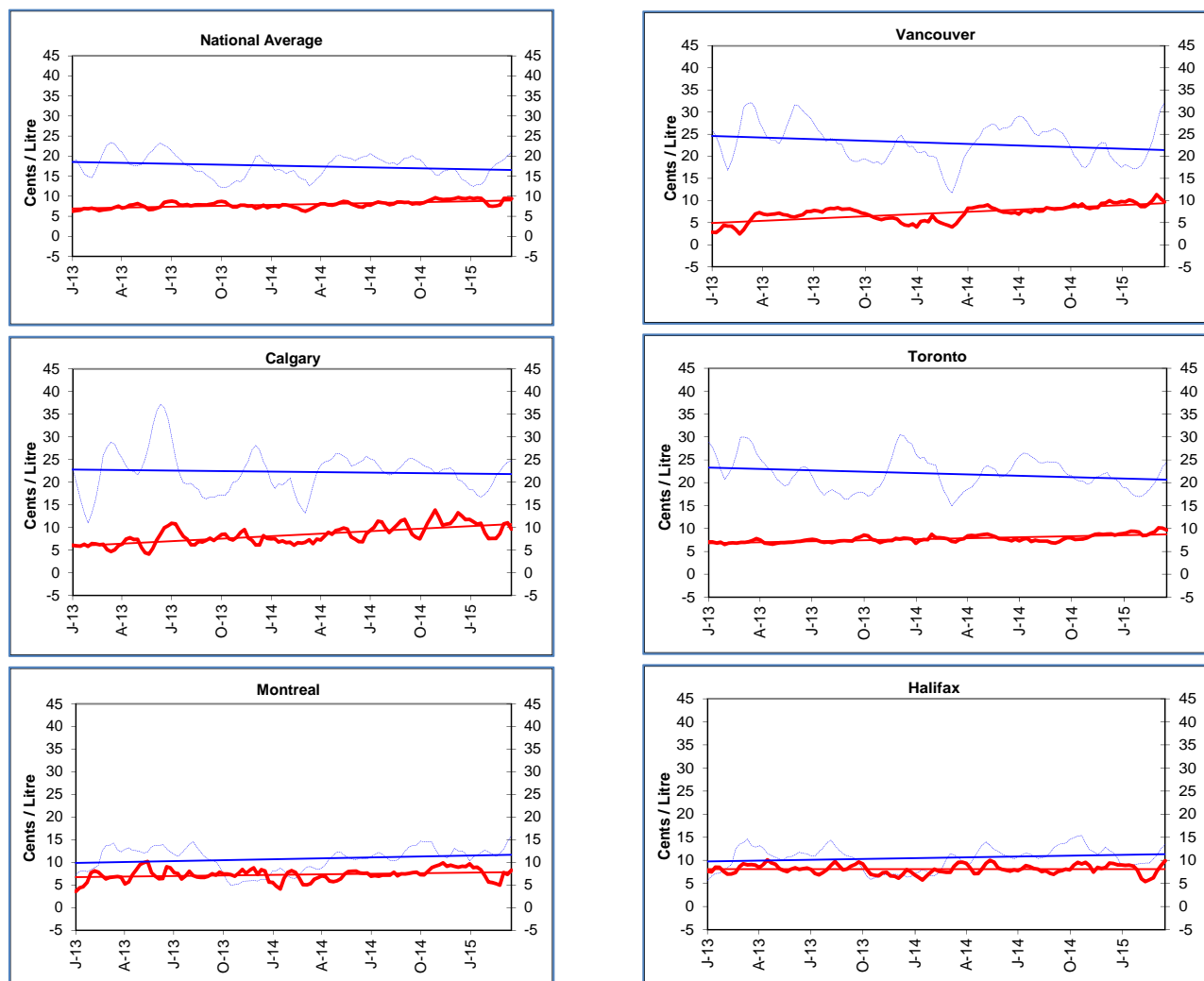
Four-week rolling averages are used for gasoline refining and marketing margins.

Gasoline refining margins have been trending upward since the beginning of the year. This reflects the fact that wholesale gasoline prices have been increasing faster than crude oil prices. With the arrival of summer, these margins tend to be volatile mainly due to seasonal fluctuations such as higher demand for gasoline for the summer driving season, or events that constrain

supplies such as weather-related incidents. Other types of constraints such as scheduled or unscheduled refinery shutdowns can also impact this margin.

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 17, 2015
----- Refining Margin — Marketing Margin



Source: NRCan





Crude Oil Overview

Crude Oil Prices Decline for the Second Consecutive Week

For the week ending March 13, 2015, prices for the three marker light crudes averaged between \$338/m³ and \$454/m³ (US\$42 and US\$57 per barrel).

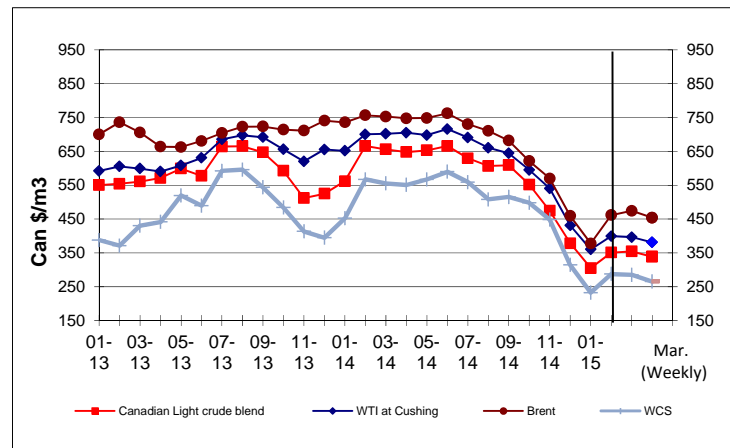
Compared to the previous week, all three light crude oil price benchmarks fell in the range of \$16/m³ and \$20/m³ (US\$2.67 and US\$3.42 per barrel). Canadian light crude oil prices at Edmonton dropped by nearly \$15.90/m³ (US\$2.67 per barrel) from the previous week, while WTI declined by \$15.75/m³ (US\$2.73 per barrel).

Canadian light crude oil prices remain significantly cheaper than imported global crudes. Currently, Canadian light is \$116/m³ (US\$14 per barrel) less than Brent.

The Western Canada Select crude oil price fell by almost \$20/m³ (US\$3 per barrel) from the previous week, and \$272/m³ (US\$44 per barrel) compared to last year.

According to the U.S. EIA, the WTI-Brent price differential widened since January 2015, as a result of planned and unplanned maintenance at U.S. refineries. In Europe, refineries are operating at their highest level in 18 months to increase production inventories in anticipation of refinery maintenance in March. The EIA expect that by the third quarter of 2015, increase crude oil demand by U.S. refineries will put upward pressure on WTI prices, which could lead to a narrowing of the Brent-WTI price spread.

Figure 6: Crude Oil Price Comparisons



Changes in Crude Oil Prices

Crude Oil Types	Week Ending: 2015-03-13		Change From:			
			Previous Week		Last Year	
	\$Can/ m ³	\$US/ bbl	\$Can/ m ³	\$US/ bbl	\$Can/ m ³	\$US/ bbl
Canadian Light	338.27	42.36	-15.90	-2.67	-304.57	-49.76
WTI	380.67	47.67	-15.75	-2.73	-311.83	-51.58
Brent	453.95	56.84	-20.05	-3.42	-299.98	-51.21
WCS	265.10	33.20	-19.62	-3.00	-271.56	-43.71

Source: NRCan

