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Fuel Focus

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

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Copies of this publication may be obtained free of charge from:
Natural Resources Canada
Petroleum Resources Branch
Oil Division
580 Booth Street, 17th Floor
Ottawa, Ontario K1A 0E4
Phone: (613) 992-8742
TTY Service: (613) 996-4397 (Teletype for the hearing-impaired)
Fax (613) 992-0614
Email: erb.dre@nrcan-rncan.gc.ca
Web site: http://www.fuelfocus.nrcan.gc.ca/index_e.cfm

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National Overview

Canadian Retail Gasoline Prices Drop to a Five-Month Low

After reaching highs of \$1.38 the previous week, for the week ending September 23, 2008, overall Canadian retail gasoline prices dropped by 16 cents per litre to \$1.22 per litre, their lowest level since April.

Diesel fuel prices declined by nearly 2 cents per litre to \$1.28 per litre compared to last week. This represents an increase of 27 cents per litre from the same period last year. Furnace oil decreased 4 cents per litre to \$1.14 per litre from the previous week.

The temporary price spike observed in the previous week was driven by fears of prolonged reductions in both crude oil supplies and refinery production, first from Hurricane Gustav and then exacerbated by Hurricane Ike, at a time when U.S. gasoline inventories were low.

However, wholesale and retail gasoline prices dropped quickly as the storm inflicted much less damage than expected on the oil and gas operations in the Gulf of Mexico.

Recent Developments

- No Crude Oil Stocks Release:** On September 19, 2008, after a thorough joint assessment of the impact of hurricanes Gustav and Ike, the International Energy Agency (IEA) and the U.S. government have decided that a collective action to release oil to the market from strategic reserves is not necessary at this time. In general, producing platforms and other infrastructure in the U.S. Gulf Coast seem to have fared well. Not all refiners are ready to produce yet, but the assessment of the U.S. government and the IEA on balance is that, despite a significant loss of crude oil and product due to the shut-ins, there remains adequate flexibility in the system to offset this supply disruption.
- Decline in Passenger Car Sales:** July passenger car sales decreased 2.9% to 77,122 units due to a 7.1% decline in sales of overseas-built passenger cars. Overseas-built cars account for about 36% of new passenger car sales. Sales of new trucks increased 1.8% to 64,696 units. Truck sales have been declining since December 2007. Preliminary industry data for August indicate a further decline in the number of new motor vehicles sold, mainly as a result of weak sales of North American-built passenger cars. (The Daily, <http://www.statcan.ca/Daily/English/080915/do80915b.htm>)

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

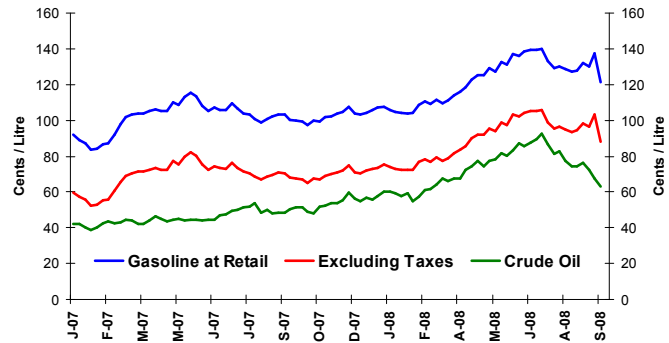
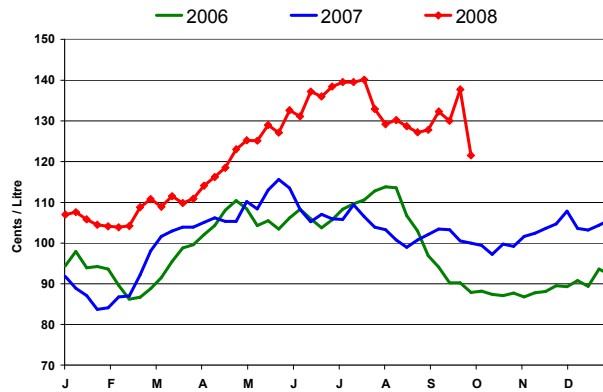


Figure 2: Weekly Regular Gasoline Prices



Changes in Fuel Prices

¢/L	Week of:	Change from:	
	2008-09-23	Previous Week	Last Year
Gasoline	121.5	-16.2	+21.5
Diesel	127.9	-1.4	+27.4
Furnace Oil	113.8	-4.0	+28.6

Source: NRCan

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Retail Gasoline Overview

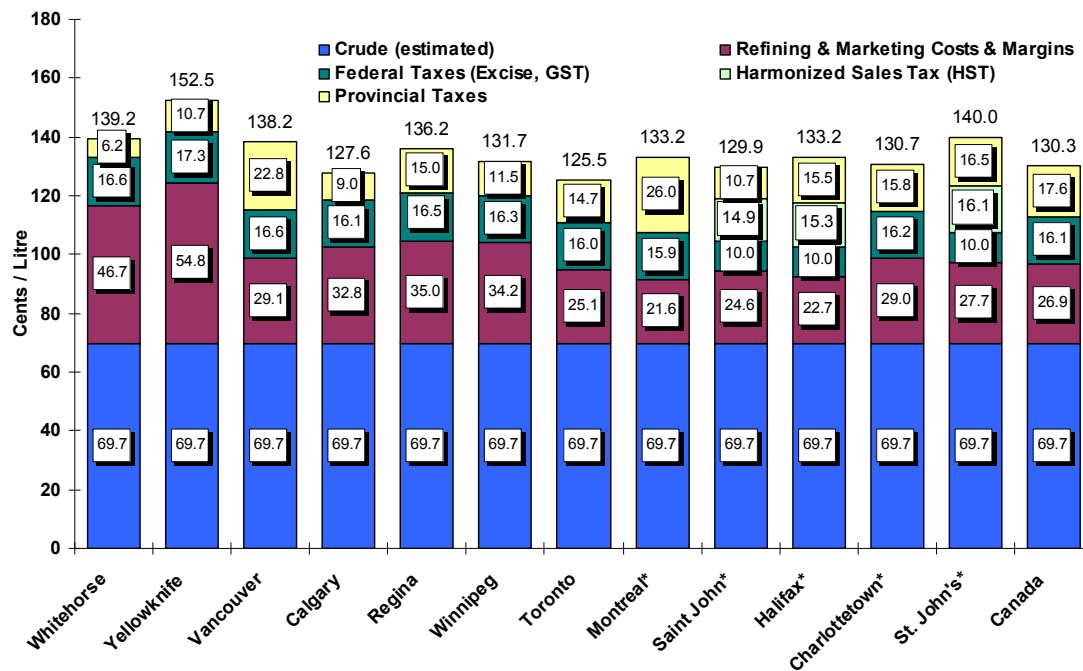
The **four-week average** regular gasoline pump price in selected cities across Canada was \$1.30 per litre for the period ending **September 23, 2008**. This is an increase of 1 cent per litre since the last report on September 12, 2008. Average four-week retail pump prices are 28 cents per litre higher than those recorded at the same time last year.

The **four-week average** crude oil price component of gasoline declined by almost 5 cents per litre to 70 cents per litre compared to two weeks ago. However, the crude oil price component of gasoline has increased by 20 cents per litre over this same period in 2007.

The crude oil component of gasoline accounts for over 53% of the retail price of gasoline, while federal and provincial taxes on gasoline, which once accounted for almost 40% of the retail price, now account for 26% of the consumer price.

At the national level, refining and marketing costs and margins have increased by 6 cents per litre to 27 cents per litre since the last report, which is 7 cents per litre higher than last year at the same period.

**Figure 3: Regular Gasoline Pump Prices in Selected Cities
Four-Week Average (September 2 to 23, 2008)**



Source: NRCan

* Regulated Markets

Will Using High-Octane Gasoline Improve My Fuel Economy?

Motorists often equate higher octane with higher fuel economy or more power. This is not necessarily the case. Unless the engine has been designed for higher octane fuel, its use may be unnecessary. The octane rating is a measure of the resistance of gasoline and other fuels to detonation (engine knocking) in spark-ignition internal combustion engines. Because high-performance engines typically have higher compression ratios—and are therefore more prone to detonation—they require higher octane fuel. Generally, a lower-performance engine will not perform better with high-octane fuel because the compression ratio is fixed by the engine design.

Using higher octane gasoline will not be harmful and may be beneficial under certain circumstances. For example, if the vehicle is to be driven with a heavy load or a knock is detected in the engine. Usually, however, high-octane fuel is not required. Make sure to use the fuel type(s) recommended in your owner's manual.





Wholesale Gasoline Prices

Wholesale gasoline prices ranged from 75 to 86 cents per litre in selected centres for the **week of September 18, 2008**. Overall, compared to the previous week, Canadian and American centres recorded price decreases ranging from 1 to 11 cents per litre.

Compared to two weeks ago, wholesale prices in all the selected centres are lower on average by 7 cents in Canada and by 5 cents per litre in the U.S.

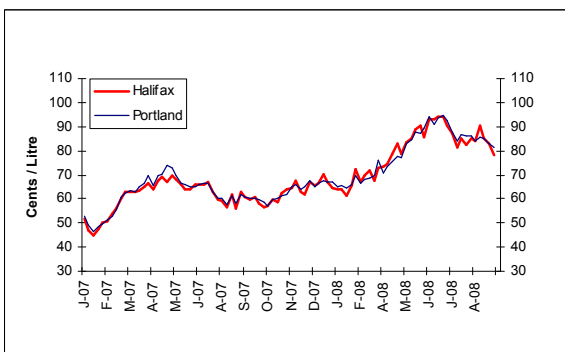
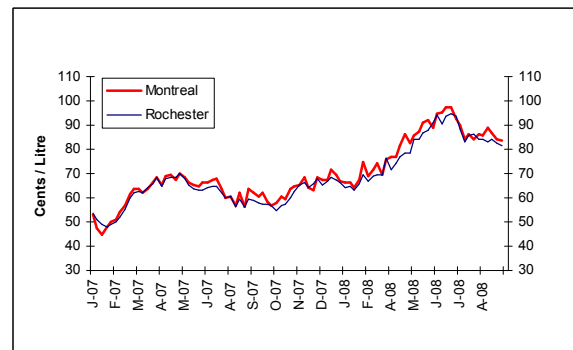
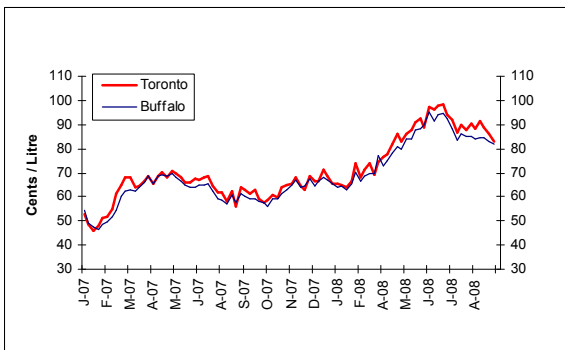
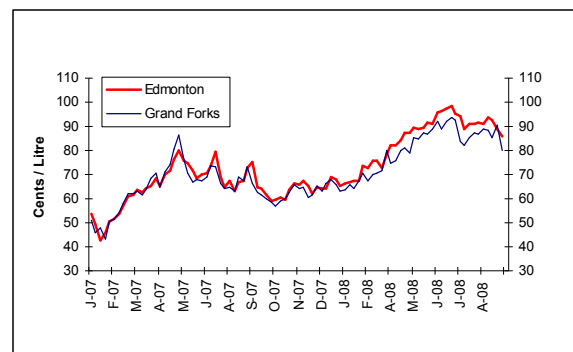
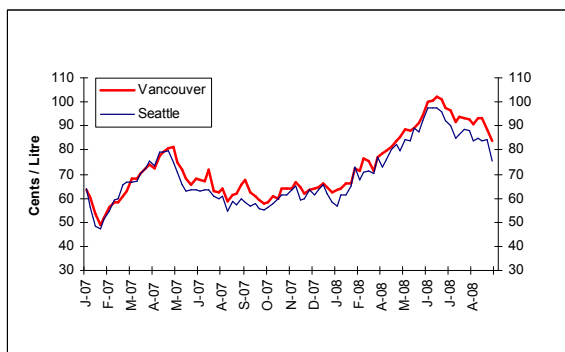
In the last four weeks, wholesale prices in both Canadian and American selected centres have declined on average about 5 cents per litre.

Mainly due to gasoline production problems at the Petro Canada Edmonton refinery causing supply tightness as far as Western Ontario, wholesale gasoline prices in Canadian Western centres did not decline as much as their American counterparts.

Overall, prices in most selected centres are well above last year's level with increases ranging from 18 to 24 cents per litre, compared to the same period last year.

Figure 4: Wholesale Gasoline Prices

Rack Terminals Prices for Selected Canadian and American Cities Ending September 18, 2008
(Can ¢/L)



Sources: NRCan, Bloomberg Oil Buyers Guide

Get Pumped

Seventy percent of vehicles on the road have at least one tire with an inflation problem. Could your car be one? In fact, driving your vehicle with just one tire under-inflated by eight pounds per square inch will increase your vehicle's fuel consumption by four percent and can reduce the life of your tires by a whopping 15,000 kilometres.

To properly maintain and inflate your vehicle's tires, measure your vehicle's tire pressure once a month when your tires are cold, meaning your tires need to be stationary for at least three hours or driven fewer than two kilometres.





Refining and Marketing Margins

Four-week rolling averages are used for the refining and marketing margins for gasoline. See Figure 5 for the period ending September 23, 2008.

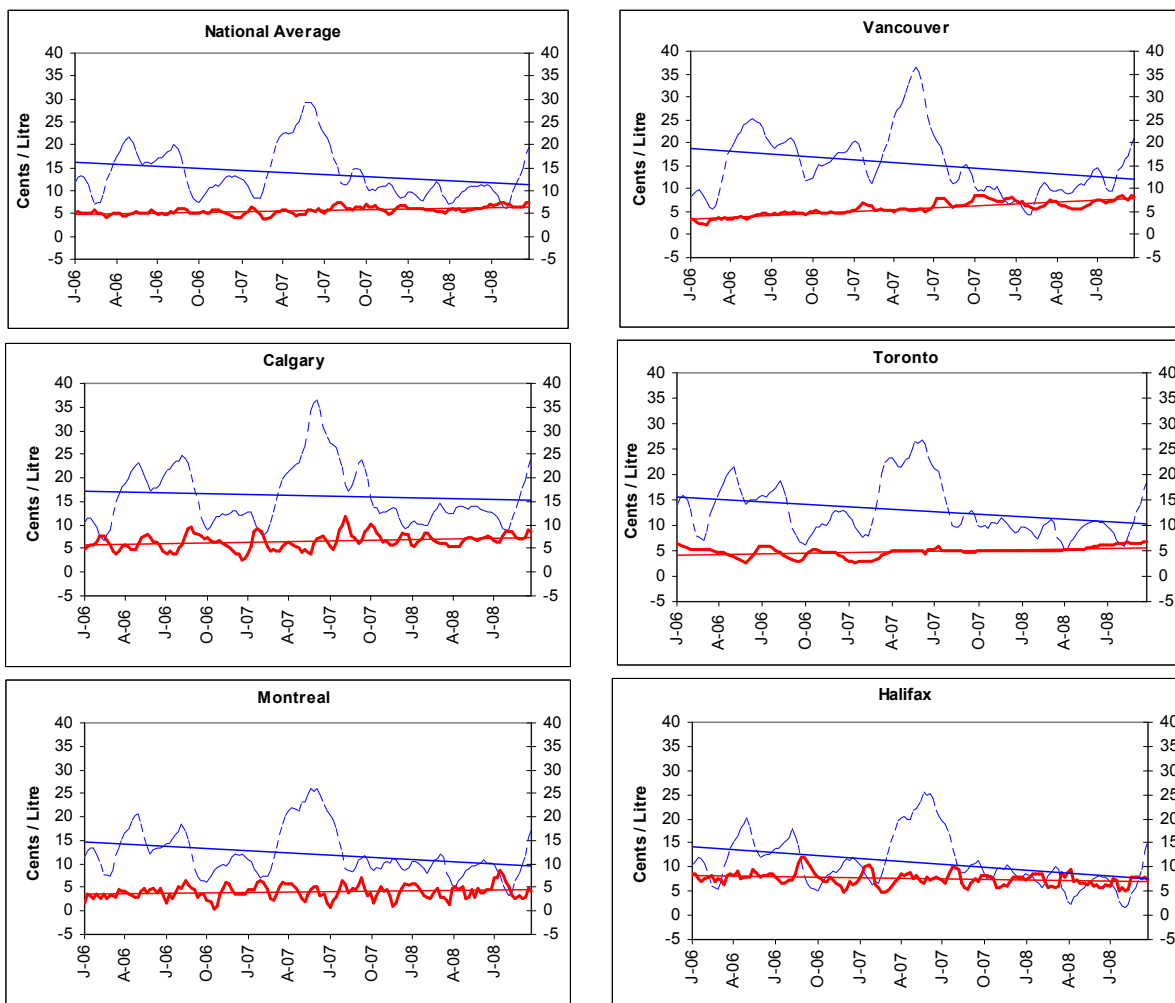
These refining margins refer to the difference between the cost of the crude oil and the wholesale price at which a refiner can sell gasoline. The margin includes the costs associated with refining the product as well as a profit for the refiner. Refining margins generally rise when supply of gasoline is tight, for instance during temporary refinery outages as seen in Western Canada, or due to the impact of

weather events such as with hurricanes Gustav and Ike, which caused refinery closures in the Gulf of Mexico.

Nationally, the marketing margins remained constant at 6 cents per litre, comparable to the same period last year. Marketing margins for the five centres registered between 4 and 9 cents per litre.

Although it represents a small portion of the total pump price, the marketing margin can vary significantly from city to city and region to region.

Figure 5: Refining and Marketing Margins
Four-Week Rolling Average Ending September 23, 2008
----- Refining Margin — Marketing Margin



Source: NRCan





Crude Oil Overview

Despite Production Loss, Hurricane Ike has Little Effect on Crude Oil Prices

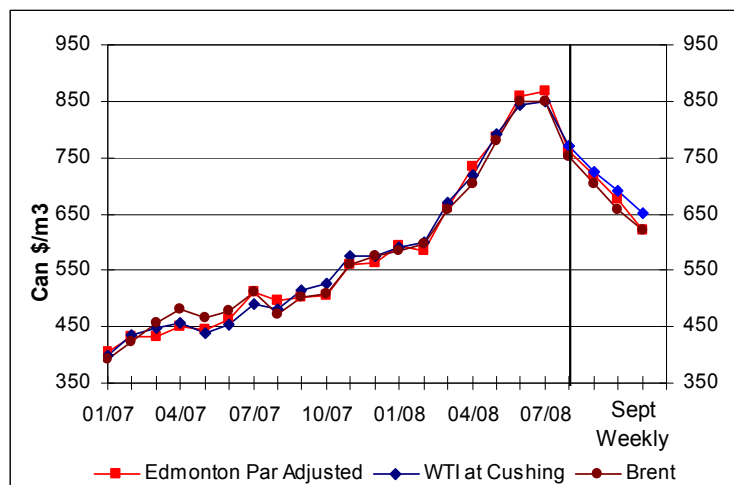
For the week ending September 19, 2008, crude oil prices averaged between \$620/m³ and \$653/m³ (\$US99 to \$US104 per barrel). All crude prices dropped over week, with the NYMEX closing the week at levels experienced in early April. Though prices dropped on average, they rebounded slightly later in the week.

Although there is still significant refinery and crude oil production shut-in in the southern United States as a result of hurricanes Ike and Gustav, crude oil prices have not increased substantially. Hurricane Ike is reported to have destroyed 28 of the 3,800 offshore production platforms in the Gulf.

As of Friday, September 19, close to 90% of crude oil production in the Gulf of Mexico remained shut-in. With the majority of refineries in the region still unable to produce products due to power outages, the demand for crude oil should remain relatively low.

Following the U.S. government's announcement of a \$700 billion bailout plan, NYMEX crude oil for October delivery registered the biggest one-day gain ever on Monday, September 22, 2008, leaping more than \$US25 per barrel before receding to settle at \$US121, up \$US16.

Figure 6: Crude Oil Price Comparisons



Changes in Crude Oil Prices

Crude Oil Types	Week Ending: 2008-09-19		Change From:			
			Previous Week		Last Year	
	\$Can/ m ³	\$US/ bbl	\$Can/ m ³	\$US/ bbl	\$Can/ m ³	\$US/ bbl
Edmonton Par	620.38	92.44	-54.90	-7.87	+107.03	+10.98
WTI	652.91	97.29	-39.14	-5.50	+128.86	+15.14
Brent	622.44	92.74	-35.40	-4.97	+123.80	+14.58

Source: NRCan

Canadian Pipeline Capacity

Efficient and inexpensive transportation of energy is crucial for Canada's energy sector. Pipelines provide the most reliable and efficient means of transporting large amounts of crude oil.

There are about 23,000 kilometres of main trunk lines transporting crude oil from the Western Canada Sedimentary Basin to Canadian refineries and international border crossing points, and from the United States into Canadian refineries.

There are also over 12,000 kilometres of gathering lines transporting crude oil from producers' fields to the main trunk lines, and over 5,000 kilometres of pipeline dedicated to the transport of refined petroleum products.

The National Energy Board (NEB) is an independent federal agency which regulates international and interprovincial pipelines. For more information, visit: <http://www.neb.gc.ca/>

Source: NRCan and NEB

