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Fuel Focus

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

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National Overview

Retail Pump Prices Decline 45 Cents Per Litre in the Last Eight Weeks

Overall Canadian retail pump prices declined 45 cents per litre in the last eight weeks ending at 93 cents per litre on November 4, 2008. Prices dropped by 6 cents per litre compared to the previous week.

Diesel fuel decreased 2 cents per litre to \$1.18 per litre compared to last week. Furnace oil prices also decreased 2 cents per litre from the previous week and averaged 97 cents per litre.

For the period ending November 4, 2008, the **four-week average** Canadian gasoline pump price in selected cities was \$1.01 per litre—a decrease of 10 cents per litre from the last report on October 24, 2008.

The retail gasoline price decline has been driven by softer wholesale gasoline prices, a slowing economy, and a reduced demand for petroleum products which, in turn, were influenced by lower world crude oil prices.

Recent Developments

- **P.E.I Gasoline Tax Reduction:** Effective Saturday, November 1, 2008, the Prince Edward Island tax on gasoline dropped by 0.4 cents per litre to 15.4 cents per litre. (Government of Prince Edward Island, www.taxandland.pe.ca)
- **Canadian Crude Oil Production:** Production of crude oil and equivalent hydrocarbons decreased 5% to 14 million cubic metres in August 2008, compared to the same period last year. Meanwhile, exports rose 2% to 9.5 million cubic metres, while imports decreased 28% to reach 3.8 million cubic metres. (Statistics Canada, The Daily, <http://www.statcan.ca/Daily/English/081030/do81030b.htm>)
- **OPEC Meeting:** Members of the Organization of the Petroleum Exporting Countries (OPEC) convened at OPEC Headquarters, Vienna, Austria, on October 24, 2008, and decided to decrease the current OPEC-11 production ceiling of 29 million barrels a day by 1.5 million barrels a day, effective November 1, 2008. (OPEC, <http://www.opec.org/opecna/Press%20Releases/2008/pr152008.htm>)

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

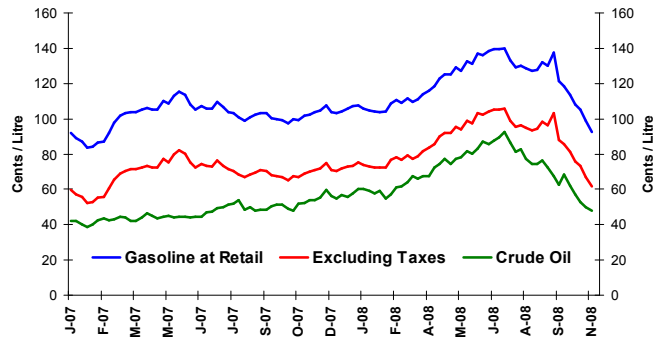
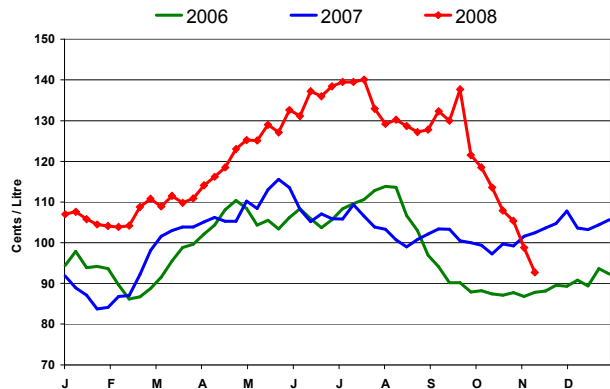


Figure 2: Weekly Regular Gasoline Prices



Changes in Fuel Prices

¢/L	Week of:	Change from:	
	2008-11-04	Previous Week	Last Year
Gasoline	92.7	-6.1	-9.7
Diesel	117.5	-1.9	+12.8
Furnace Oil	96.6	-2.1	+8.7

Source: NRCan

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Retail Gasoline Overview

The **four-week average** regular gasoline pump price in selected cities across Canada was \$1.01 per litre for the period ending **November 4, 2008**—a decrease of 10 cents per litre from the last report on October 24, 2008. Gasoline prices are less than 1 cent per litre higher than those recorded at the same period last year.

The **four-week average** crude oil price component of gasoline registered 52 cents per litre, down 8 cents from two weeks ago and is comparable to levels of a year ago.

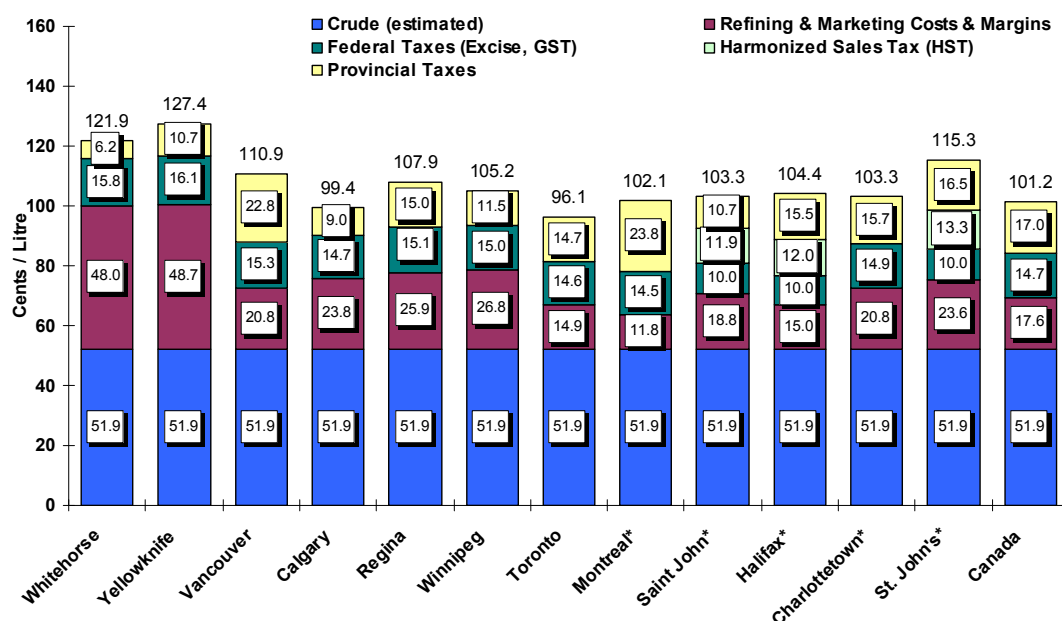
The impact of the recent decline in lower world crude

oil prices was partly diminished by the depreciation in the Canadian dollar.

While Canadian consumers were insulated from the rise in world crude oil prices by the increase in the value of the Canadian dollar in the early part of the year, the recent decline in the Canadian dollar compared to the U.S. dollar, effectively reduced some of the gains from lower crude oil price.

Overall, refining and marketing costs and margins declined more than 1 cent per litre since the last report and are less than 1 cent per litre above those of last year at the same time.

**Figure 3: Regular Gasoline Pump Prices in Selected Cities
Four-Week Average (October 14 to November 4, 2008)**



Source: NRCan

* Regulated Markets

Inflation Rises 3.4% in September 2008

Consumer prices rose 3.4% in the 12 months to September, due largely to higher energy and food prices. Shelter costs remained the primary contributor to the 12-month increase in consumer prices in September. Transportation costs continued to be buoyed by higher gasoline prices, although lower prices for vehicles have had a moderating effect.

Prices at the pump rose 26% in September and varied considerably during the month. Mid-September, gasoline prices rose by over 10 cents a litre in many regions of the country as Hurricane Ike loomed over the Gulf Coast and caused a significant reduction in crude oil production. Consumers, however, received some relief as pump prices retreated towards the end of the month.

Helping to mitigate the increase in costs for transportation was a 9% decline in prices to purchase and lease passenger vehicles. This was the largest drop since February 1956. Overall, transportation costs rose 5%, a slowdown from the 6% rate of growth posted in August.

Source: The Daily, <http://www.statcan.ca/Daily/English/081024/do81024a.htm>





Wholesale Gasoline Prices

Wholesale gasoline prices, continued to decline in all centres for the **week of October 30, 2008**, compared to the previous week. Overall, prices dropped by 4 to 8 cents per litre.

Compared to the previous week, decreases in wholesale gasoline prices in the Eastern markets of both Canada and the United States ranged from 5 to 7 cents per litre and ended the period in the 54 to 59 cents per litre range.

Wholesale gasoline price declines in Western centres ranged from 4 to 8 cents per litre and ended the period between 51 and 71 cents per litre.

In the last four weeks, wholesale prices in both Canadian and American selected centres have fallen in the range of 5 and 23 cents per litre.

Overall, wholesale gasoline prices in most markets are now below last year's level for the first time in 12 months.

Figure 4: Wholesale Gasoline Prices
Rack Terminals Prices for Selected Canadian and American Cities Ending October 30, 2008
(Can ¢/L)



Sources: NRCan, Bloomberg Oil Buyers Guide

Questions and Concerns

Whether gasoline, diesel fuel, or heating oil prices are increasing or decreasing, Natural Resources Canada (NRCan) receives hundreds of emails and letters each year looking for answers to consumer questions about these complex markets.

While the Government of Canada does not have control over market prices, NRCan can suggest ways to reduce energy costs at home or on the road. For answers to frequently asked questions or tips on energy saving measures, please visit our website at: http://www.fuelfocus.nrcan.gc.ca/faq_e.cfm





Refining and Marketing Margins

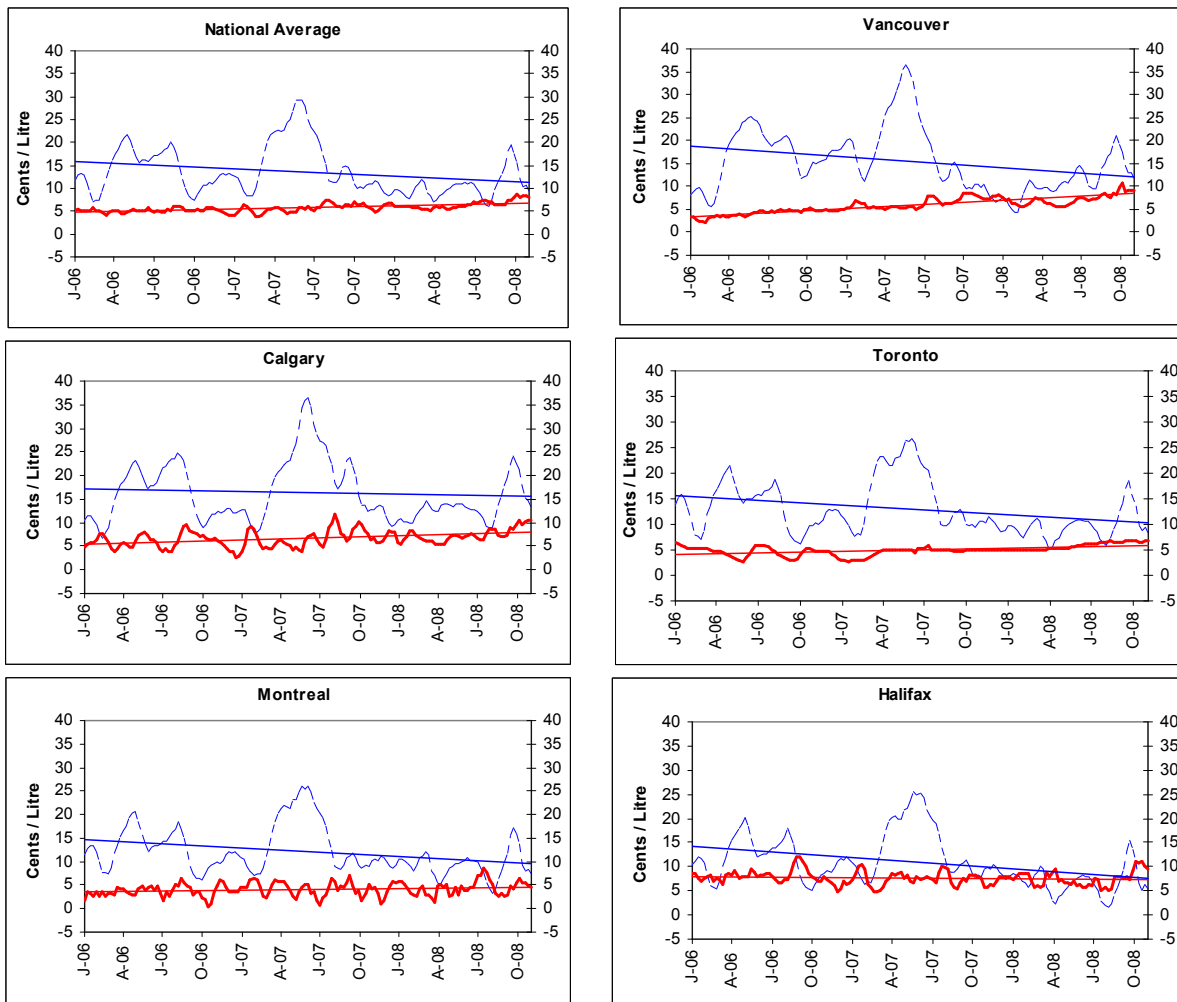
Four-week rolling averages are used for the gasoline refining and marketing margins. See Figure 5 for the period ending November 4, 2008.

Refining margins continue to move downward in all selected centres. This downward trend reflects the decrease in demand for gasoline with adequate supply in the distribution system. As seen in the past, temporary supply bottlenecks can result in higher margins. Currently, strong U.S. gasoline and crude oil inventories create a downward pressure on prices which, in turn, lower refining margins.

Overall, marketing margins hovered around 6 cents per litre. Marketing margins for the five centres ranged from a low of 4 cents per litre in Montreal to a high of 11 cents per litre in Calgary.

Marketing margins have to cover the costs associated with operating an outlet and generate a profit for the station owner. These margins can vary significantly depending on the region, volume sold, and availability of other product offerings. Most of the costs of operating an outlet are fixed and do not decline with lower gasoline prices.

Figure 5: Refining and Marketing Margins
Four-Week Rolling Average Ending November 4, 2008
----- Refining Margin — Marketing Margin



Source: NRCan





Crude Oil Overview

Crude Oil Prices Continue Descent from Record Highs

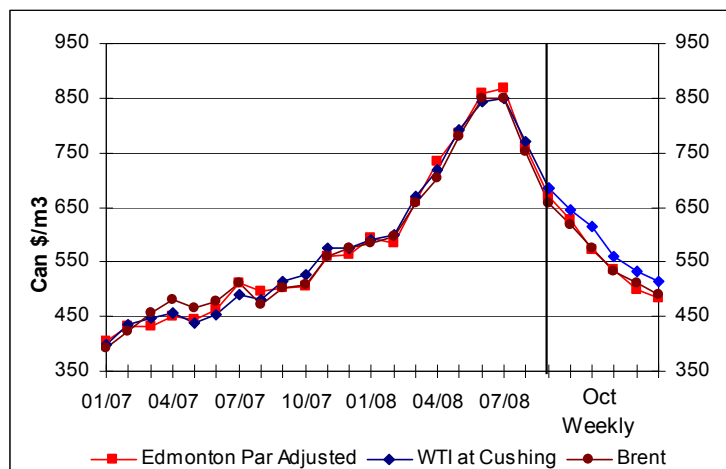
For the week ending November 2, 2008, crude oil prices averaged between \$483/m³ and \$515/m³ (\$US61 to \$US65 per barrel). All crude prices dropped week over week and are now lower than they were at this time last year.

As prices continue to fall in response to lower demand caused by a slowing world economy, many analysts have severely cut their forecasted average crude oil prices for 2009. While only a few months ago some analysts were predicting prices could exceed \$US200 per barrel, some institutions are now predicting oil prices will average under \$US70 in the coming year.

At the recent emergency meeting of the Organization of Petroleum Exporting Countries (OPEC), the organization announced that it would reduce its production quota by 1.5 million barrels per day, effective November 1, 2008. While this had no immediate effect on markets, it remains to be seen what the price impact will be as the reduction is higher than what analysts predicted was needed to balance the market.

In addition to a slowing economy and the end of the official hurricane season, tensions appear to have subsided somewhat in oil producing countries.

Figure 6: Crude Oil Price Comparisons



National Energy Board 2008-2009 Winter Energy Outlook

In its recent *2008-2009 Winter Energy Outlook*, the National Energy Board reports that the current global economic situation has created a particularly volatile and uncertain environment for energy markets. Crude prices are expected to average in the range of US\$50 to US\$75 per barrel over the winter. Although global inventory levels are low and OPEC has recently committed to production cuts, the market is primarily concerned with the current economic downturn and falling demand.

Heating oil prices have been rising over the past number of years, largely in response to higher crude oil prices. With crude oil prices ranging from US\$50 to US\$75 per barrel, average Canadian heating oil prices this winter are expected to be lower than prices seen last year. Crude oil prices are highly uncertain, however, and could move higher or lower depending on key market factors.

Heating oil supplies in Canada will likely be adequate to meet consumer needs this winter. However, U.S. inventories are at the bottom of the five-year range, providing some support to prices.

Source: NEB, *2008-2009 Winter Energy Outlook*, <http://www.neb-one.gc.ca/clf-nsi/rthnb/nwsrls/2008/ftsht35-eng.html>

Changes in Crude Oil Prices

Crude Oil Types	Week Ending: 2008-10-31		Change From:			
			Previous Week		Last Year	
	\$Can/ m ³	\$US/ bbl	\$Can/ m ³	\$US/ bbl	\$Can/ m ³	\$US/ bbl
Edmonton Par	482.98	61.39	-17.15	-2.81	-49.92	-26.32
WTI	514.67	65.44	-17.01	-2.83	-43.71	-28.13
Brent	488.84	62.15	-21.45	-3.36	-49.02	-27.98

Source: NRCan





Residential Heating Oil Ways to Reduce Your Heating Bill

As we enter the winter heating season, heating fuel costs come to the top of the mind for many residential homeowners. Since the average capacity of a household tank is about 1,000 litres, even half a tank can cost more than \$500 per delivery. Although these expenses are only incurred for a few months, some homeowners can find it difficult to make the payments.

To ease some of this burden, consumers can talk to their heating oil dealer about participating in a budget plan that would stabilize their monthly bill. Most heating oil suppliers offer a number of payment options and capped or fixed price protection programs to help manage heating costs.

Many suppliers offer a fixed price contract for the duration of the heating season. There may be an up-front fee of about \$25-\$75 for this option. This feature allows the consumer to lock in heating costs at a set price. Locked-in prices are usually slightly higher than the variable price at the beginning of the heating season. This is because heating oil prices normally increase as the demand rises in the coldest months of the season and decline as the temperatures get warmer.

Another option available to many customers is a capped price. This option offers the consumer a variable price that can change according to market conditions but guarantees that the price will never exceed a certain maximum. By using this option, the user can benefit from lower prices but be protected from unexpected price spikes beyond the capped price. An up-front fee also applies to this option and the capped price can be expected to be higher than the fixed price option.

Finally, for qualified customers, a third option is an equal billing plan. Based on average temperatures and historical use, the supplier will estimate the annual consumption of oil for the household and spread the costs out over 10 or 12 months of equal monthly payments. This allows the homeowner to anticipate the monthly heating bill and have more certainty in monthly expenses.

A home energy audit will ensure that the furnace and appliances are running efficiently before the season begins. Conservation gains can also be achieved by weatherizing a home. NRCan offers information on home improvements and grants for residential property owners at: <http://oee.nrcan.gc.ca/residential/personal/home-improvement.cfm?attr=0>

Impact of Rising Fuel Oil Prices on Annual Heating Costs

Heating Oil Price	Average Fuel Consumption (litres)	Heating Cost	Estimated Impact of Average Heating Costs (08/09 Season)		
		2007/2008 \$1.03/l	\$1.10/l	\$1.20/l	\$1.30/l
Townhouse					
Low-efficiency furnace	1530	\$1,576	\$1,683	\$1,836	\$1,989
Mid-efficiency furnace	1320	\$1,360	\$1,452	\$1,584	\$1,716
Old Detached					
Low-efficiency furnace	3900	\$4,017	\$4,290	\$4,680	\$5,070
Mid-efficiency furnace	3360	\$3,461	\$3,696	\$4,032	\$4,368
New Detached					
Low-efficiency furnace	2790	\$2,874	\$3,069	\$3,348	\$3,627
Mid-efficiency furnace	2400	\$2,472	\$2,640	\$2,880	\$3,120

Find out the price of heating oil in your region by visiting the petroleum product prices portion of our website: http://www.fuelfocus.nrcan.gc.ca/petroleum_prices_e.cfm

