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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
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

Retail Pump Prices at \$1.00 per Litre

The average Canadian gasoline price for the week of June 2, 2009, remained unchanged at \$1.00 per litre compared to the previous week when prices rose to a seven-month high.

Retail gasoline prices reflected the upward pressure from wholesale gasoline prices which, in turn, were firmed up by higher world crude oil prices. However, prices were moderated somewhat by a stronger Canadian dollar partly shielding consumers from the impact of rising world crude oil prices.

Retail pump prices in both Canada and the U.S. are also affected by the expected increase in demand for transportation fuels that traditionally occurs around the start of the summer driving season which is signaled by the U.S. Memorial Day Weekend.

Recent Developments

- Kearl Oil Sands Project Goes Ahead:** Imperial Oil Limited announced on May 25, 2009, the first phase of the Kearl oil sands project, a surface mining operation northeast of Fort McMurray, Alberta. The Kearl project is envisioned to be developed in three phases and could ultimately produce more than 300,000 barrels of bitumen a day. The first phase of the project, expected to begin production in late 2012 with total production to average 110,000 barrels per day, is anticipated to cost about \$8 billion or approximately \$4.50 per barrel to construct. Initially, most of the early production from the project will be going to Imperial's two Ontario refineries for processing and a smaller portion will go to the Strathcona refinery near Edmonton.
- U.S. Gasoline Demand Projected to Fall 8% by 2020:** According to a report from Hart Energy Consulting, the projected U.S. gasoline demand will decline by nearly 8% between 2008 through 2020, versus the prior projections of a 4% fall in demand. What's more, should fuel economy standards become stricter past 2016, which is when the new standards will have to be made for model years 2017 to 2021, U.S. gasoline demand may shrink by 10% between 2008 and 2020.

- American Clean Energy and Security Act:** The U.S. Energy and Commerce Committee approved The *American Clean Energy and Security Act*, on May 21, 2009. The *American Clean Energy Act* promotes renewable sources of energy, carbon capture and sequestration technologies, clean electric vehicles, and the smart grid and electricity transmission. The legislation will attempt to reduce global warming pollution in 2020 by 17% from 2005 levels, by 42% in 2030, and by 83% in 2050. http://energycommerce.house.gov/index.php?option=com_content&view=frontpage&Itemid=59

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

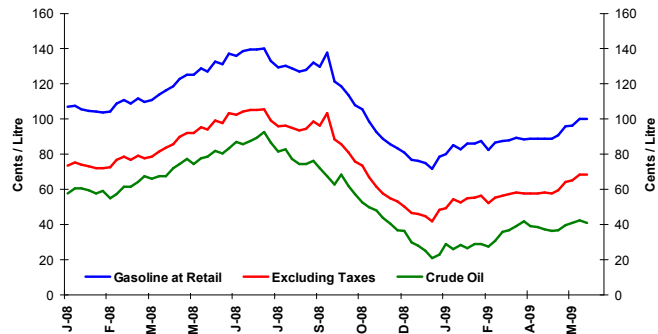
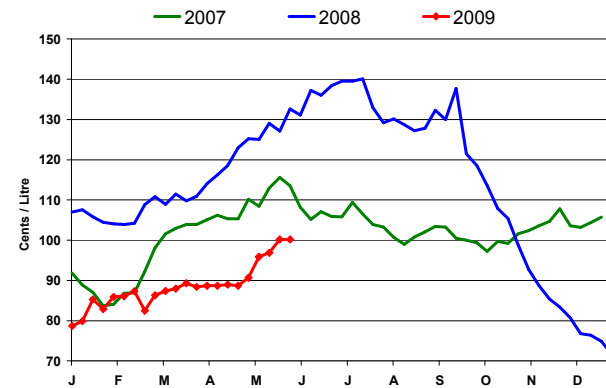


Figure 2: Weekly Regular Gasoline Prices



Changes in Fuel Prices

¢/L	Week of:	Change from:	
	2009-06-02	Previous Week	Last Year
Gasoline	100.2	0.0	-30.9
Diesel	83.6	+1.2	-59.6
Furnace Oil	73.3	-0.3	-61.6

Source: NRCan

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Retail Gasoline Overview

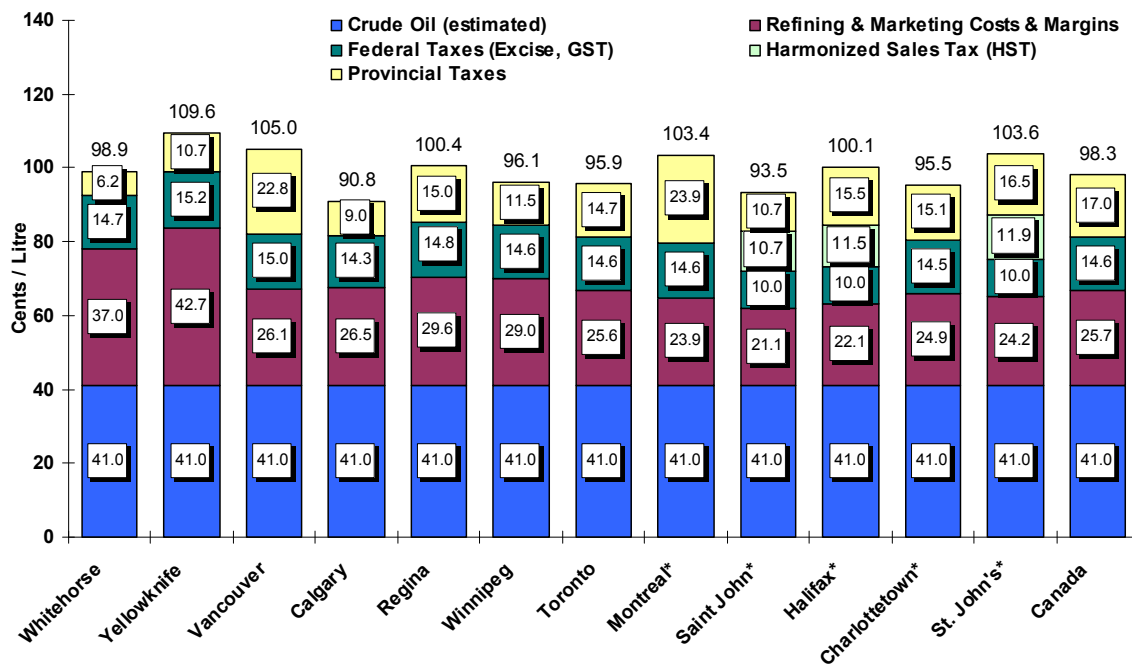
The average Canadian pump price in selected cities for the **four-week average** ending June 5, 2009, was 98 cents per litre, an increase of 5 cents per litre from the last report on May 22, 2009. However, this represents a 31 cent per litre decrease compared to the same period in 2008.

The **four-week average** crude oil price increased by 3 cents per litre to 41 cents per litre compared to two weeks ago. Crude oil is now 42% of the cost component of the total pump price, compared to 61% at the same period last year.

Retail gasoline prices in most Western centres—Vancouver to Winnipeg—increased about 5 cents per litre when compared to the previous report and ranged from 91 cents per litre to \$1.05 per litre. Price increases in Eastern cities—Toronto to St. John’s—also rose by 5 cents per litre, and ranged from 94 cents per litre to \$1.04 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.

**Figure 3: Regular Gasoline Pump Prices in Selected Cities
Four-Week Average (May 12 to June 2, 2009)**



Source: NRCan

* Regulated Markets

Inflation Up Slightly in April 2009

Consumer prices rose 0.4% in the 12 months to April 2009, down from the 1.2% increase in March. While upward pressure on the Consumer Price Index came primarily from food, the slowdown was due mainly to price declines for energy and reduced upward pressure from non-energy shelter components.

Transportation costs fell 8.0% in the wake of year-over-year declines in prices for both gasoline and passenger vehicles. Gasoline prices fell 24.7% from April 2008 to April 2009 following a 12-month decline of 21.0% in March. The 12-month decline in April was due more to high prices in 2008 than to recent developments. On a month-to-month basis, gasoline prices rose 1.0% from March to April.

Source: The Daily, <http://www.statcan.gc.ca/daily-quotidien/090520/dq090520a-eng.htm>





Wholesale Gasoline Prices

Wholesale gasoline prices increased in most selected centres for the **week of May 28, 2009**, compared to the previous week. Overall, price changes ranged from a decline of 1 cent per litre to an increase of 3 cents per litre.

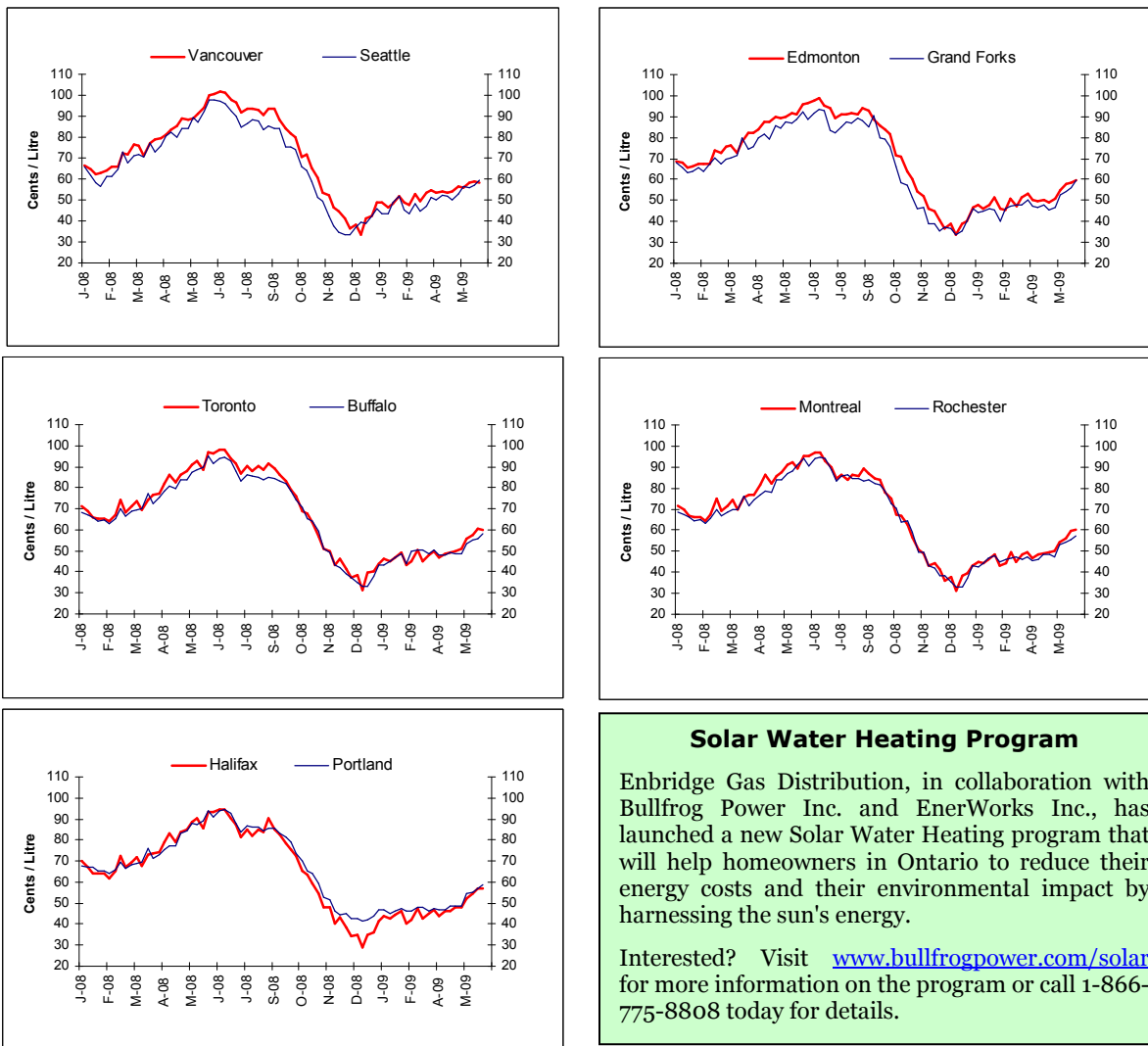
Wholesale gasoline prices in Eastern markets in both Canada and the United States ranged from a decrease of 1 cent per litre to an increase of 2 cents per litre compared to the previous week and ended the period in the 57 to 60 cents per litre range.

In comparison, Western wholesale gasoline price changes ranged from a drop of less than 1 cent per litre to an increase of more than 3 cents per litre and ended in the range of 59 to 60 cents per litre.

Overall, prices in all selected centres are below last year's level with decreases ranging from 27 cents per litre to 33 cents per litre when compared to the same period last year.

Figure 4: Wholesale Gasoline Prices

Rack Terminal Prices for Selected Canadian and American Cities Ending May 28, 2009
(Can ¢/L)



Sources: NRCan, Bloomberg Oil Buyers Guide

Solar Water Heating Program

Enbridge Gas Distribution, in collaboration with Bullfrog Power Inc. and EnerWorks Inc., has launched a new Solar Water Heating program that will help homeowners in Ontario to reduce their energy costs and their environmental impact by harnessing the sun's energy.

Interested? Visit www.bullfrogpower.com/solar for more information on the program or call 1-866-775-8808 today for details.





Gasoline Refining and Marketing Margins

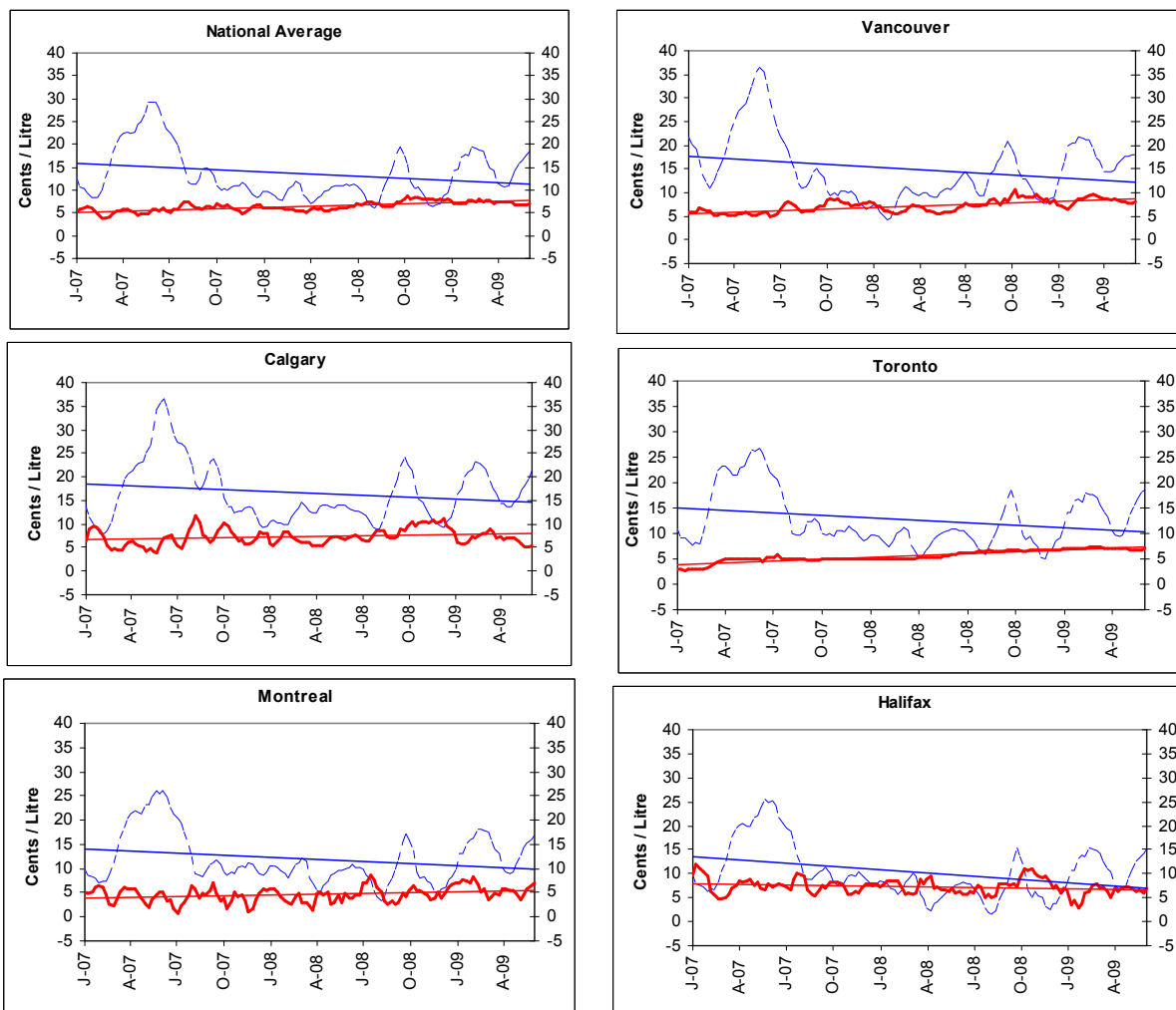
Four-week rolling averages are used for the refining and marketing margins for gasoline. See Figure 5 for the period ending June 2, 2009.

Refining margins for gasoline continue to firm-up. The upward movement is indicative of a tightening in supplies related to an expected increase in demand. Heading into the driving season, refiners, to meet the demand, are now producing more gasoline to increase their inventories.

Higher than normal U.S. gasoline inventories in the last few months helped to moderate the increase in gasoline prices. However, U.S. inventories are now declining quickly in anticipation of the summer demand for gasoline and are now below the five year range.

This, in turn, creates an upward pressure on wholesale gasoline prices that is ultimately reflected on the retail pump prices.

Figure 5: Gasoline Refining and Marketing Margins
Four-Week Rolling Average Ending June 2, 2009
----- Refining Margin — Marketing Margin



Source: NRCan





Crude Oil Overview

World Crude Oil Prices Sustained by Expected Increase in Demand

For the week ending May 29, 2009, prices for the three marker crudes averaged between \$ 415/m³ and \$ 443/m³, (\$US59 to \$US63 per barrel). This is an increase of \$4 to 8/m³ (\$US1 to \$US3 per barrel) compared to the previous week.

Despite the U.S. crude oil inventories being above the five-year range, world crude oil prices remained buoyed, in part, by the expected increase in demand for transportation fuels—traditionally around the U.S. Memorial Weekend—and the prospect of a global economic turnaround.

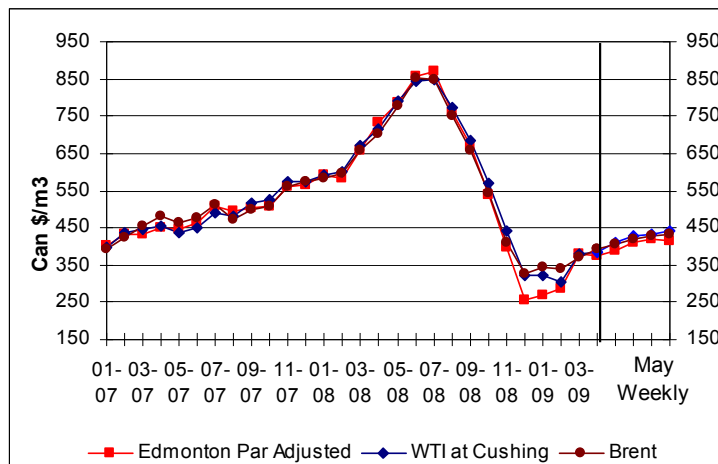
However, the driving factor behind current world crude oil prices seems to be less affected by fundamental

supply and demand factors and more by the speculative capital flowing back into oil commodities and equities. Prices are moving upward in anticipation of an economic recovery that might still be many months away.

On the other hand, should investors become frustrated with the pace of economic revival and start focusing instead on the large current supply, they might pull their money out of the oil market and push prices back down.

Meanwhile, the appreciation of the Canadian dollar against that of the U.S., means that the impact of rising world crude oil prices is not fully felt in Canada. The Fuel Focus Supplement of February 27, 2009, provides more information on this topic.

Figure 6: Crude Oil Price Comparisons



Changes in Crude Oil Prices

Crude Oil Types	Week Ending: 2009-05-29		Change From:			
	\$Can/ m ³	\$US/ bbl	Previous Week		Last Year	
	\$Can/ m ³	\$US/ bbl	\$Can/ m ³	\$US/ bbl	\$Can/ m ³	\$US/ bbl
Edmonton Par	415.11	59.28	-3.48	+1.30	-385.12	-68.53
WTI	443.23	63.31	+8.24	+3.07	-361.54	-65.77
Brent	434.30	62.04	+7.38	+2.92	-365.16	-66.20

Source: NRCan

World Oil Consumption

The world's demand for oil increased sharply in recent years, rising from 78 million barrels per day in 2002 to 86 million barrels per day in 2008. However, according to the U.S. Energy Information Administration the decline of 1.4 million per day in 2009 marks the first time in nearly three decades that world consumption declined due to the global economic slowdown.

Oil refineries are the primary users of oil. They convert crude oil into useable petroleum products such as gasoline, diesel, jet fuel and home heating oil. The refining industry's need for crude oil is driven by the demand for these products.

Until 2008, the main consumers of oil were the industrialized countries of the Organization for Economic Cooperation and Development, particularly the United States, Europe and Japan, which together consume about half of the world's annual oil output. The transportation sector accounts for about two-thirds of the oil used in the world and for about half of the oil consumed in the United States.

However, consumption in emerging market regions is expanding at a faster pace—especially in China—as these markets grow rapidly and their use of energy in transportation, industry and residential sectors expand. This year's decline is partially offset by gains in non-OECD countries.

Source: NRCan and Energy API,
www.api.org/aboutoilgas





Cost of Operating a Vehicle

Each year, the Canadian Automobile Association (CAA) publishes a *Driving Costs* brochure intended to help Canadians understand what factors affect the cost of driving their vehicle. According to surveys conducted for the CAA, the total cost of driving a car has more than doubled in the last 23 years from 20.1 cents per kilometre driven in 1985 to 38.5 cents per kilometre in 2008.

Even with the average price of gasoline going from 54.3 cents per litre in 1985 to 81.2 cents per litre in December 2008—as determined by the CAA—the fuel component of the total operating cost dropped from 28% to 18%.

Variable costs, which include fuel maintenance and tires, still account for about one third of the total operating cost. However, while the fuel portion made up 81% of the variable costs in 1985, in 2008, fuel was only 63% because maintenance and tire costs increased more quickly.

Cost of Operating a Vehicle (Compact car driven 24,000 km per year)

	<u>1985</u>	<u>1995</u>	<u>2005</u>	<u>2008</u>
Average Price of Gasoline ¹ (cents per litre)	54.3	52.4	86.9	81.2
Variable Costs (cents per km driven)				
Fuel	5.66	5.59	8.58	6.79
Maintenance	0.76	1.95	2.48	2.36
Tires	0.57	0.86	1.79	1.55
Total	6.99	8.40	12.85	10.70
Fixed Costs (dollars per year)				
Insurance	716	1102	1777	1780
Licence & Registration	52	106	117	111
Depreciation	1733	3287	5086	4001
Financing	643	831	809	768
Total	3144	5326	7789	6660
Annual Total (cents per km driven)	20.1	30.6	45.3	38.5
Fuel as a Percentage of Total	28%	18%	19%	18%

Source: NRCan, and the Canadian Automobile Association, <http://www.caa.ca/documents/DrivingCostsBrochure-jan09-eng-v3.pdf>

¹ Prices as determined by the CAA.

