Natural Resources Canada
Ressources naturelles Canada

Fuel Focus

Understanding Gasoline Markets in Canada and Economic Drivers Influencing Prices

Volume 4, Issue 14

July 31, 2009

Canada

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) 992-9612
TTY Service: (613) 996-4397 (Teletype for the hearing-impaired)
Fax (613) 995-1913
Email: prb.drp@nrcan-rncan.gc.ca
Web site: http://www.fuelfocus.nrcan.gc.ca/index_e.cfm

ISSN 1918-3321

Aussi offert en français sous le titre *Info-Carburant*

Fuel Focus

Volume 4, Issue 14
July 31, 2009

National Overview

Canadian Retail Gasoline Prices Increased 1 Cent per Litre from Last Week

For the week ending July 28, 2009, Canadian average retail gasoline prices increased 1 cent a litre from the previous week to 98 cents a litre. After four straight weeks of price decreases, for the second week in a row prices have increased. Compared to a year ago, the average price is 31 cents a litre lower.

Diesel fuel prices increased slightly to 88 cents a litre and furnace increased by almost 2 cents a litre to 76 cents a litre. Compared to last year, prices for diesel and furnace oil are 54 and 57 cents a litre lower, respectively.

Crude prices have rallied on indications that the global economy is continuing to show signs of strengthening.

Overall, retail prices reflected the upward pressure from higher crude oil and North American wholesale prices.

Recent Developments

- **Suncor and Petro-Canada merger approved**: On July 21, the Competition Bureau approved the merger of Suncor and Petro-Canada. Under the consent agreement, the merged company must divest 104 retail gas stations in southern Ontario and sell storage and distribution network capacity in the Greater Toronto Area for 10 years (1.1 billion litres annually). The merged company must also supply 98 million litres of gasoline each year, for 10 years, to independent gasoline marketers. All Sunoco retail stations will be converted to the Petro-Canada brand. Suncor and Petro-Canada intend to make the merger effective August 1, 2009.
Source: Competition Bureau ,http://www.competitionbureau.gc.ca/eic/site/cb-bc.nsf/eng/03103.html
- **Irving Oil's planned refinery cancelled:** Citing poor global economic and industry conditions, Irving Oil and BP announced on July 24, 2009, they will not be moving forward with the proposed second 300,000 barrel per day refinery in Saint John, N.B. Irving Oil will, however, continue with the environmental permitting processes already underway in order to preserve future options in the event that market conditions return to previous levels. Irving Oil currently operates the largest refinery in Canada—a 300,000 barrels per day refinery in Saint John.
Source: Irving Oil http://www.irvingoil.ca/

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

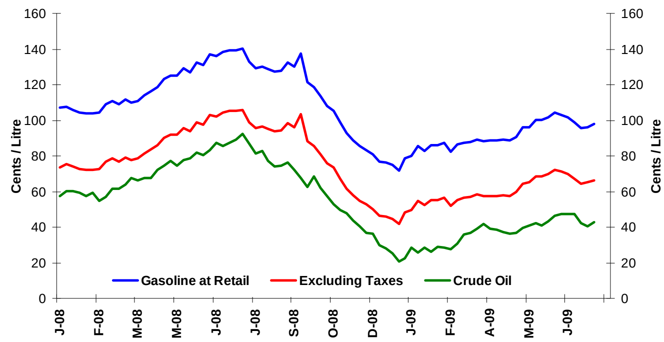
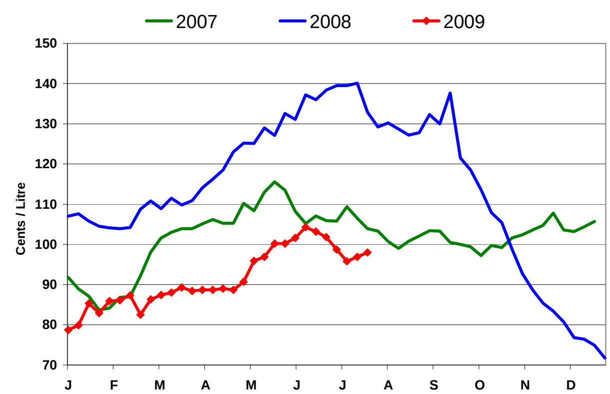


Figure 2: Weekly Regular Gasoline Prices



Changes in Fuel Prices

	Week of:	Change from:	
¢/L	2009-07-28	Previous Week	Last Year
Gasoline	98.0	+1.1	-31.2
Diesel	88.0	+0.2	-54.3
Furnace Oil	75.6	+1.5	-57.3

Source: NRCan

In this Issue

page

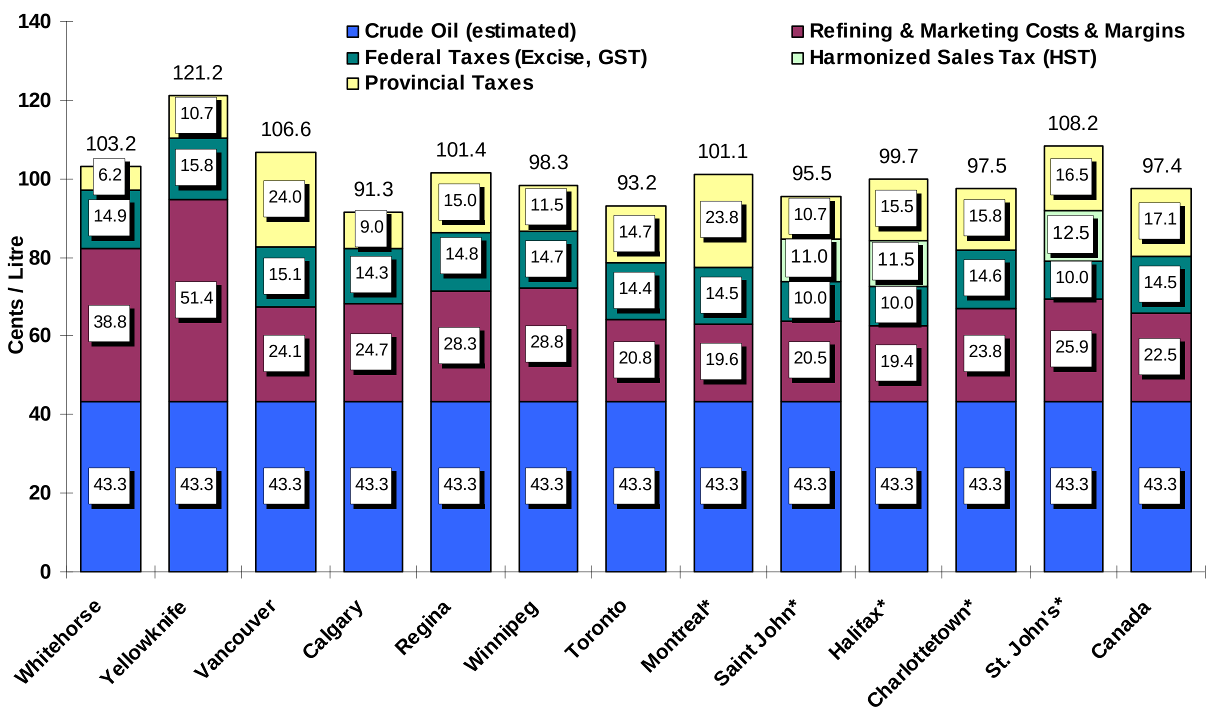
Retail Gasoline Overview

For the period ending **July 28, 2009**, the **four-week average** regular gasoline pump price in selected cities across Canada was 97 cents per litre—almost 4 cents a litre lower since the previous report of July 17, 2009. At that time, prices had started to drop from their peak in June. Prices are now 38 cents a litre lower than a year ago.

Although crude prices have increased this past week, the **four-week average** crude oil price component of gasoline dropped by 3 cents a litre compared to two weeks ago to 43 cents a litre. At this time last year, crude oil accounted for 88 cents of the price of a litre of gasoline at the pumps.

Overall, compared to two weeks ago, the refining and marketing costs and margins component increased marginally to 23 cents a litre. They are about 8 cents a litre higher than last year at this time when industry margins were severely depressed, despite record high crude prices.

Figure 3: Regular Gasoline Pump Prices in Selected Cities
Four-Week Average (July 7 to 28, 2009)



Source: NRCan ** Regulated Markets*

Inflation Falls 0.3% in June

Following a 0.1% increase in May, Consumer prices fell 0.3% in June compared with June 2008. It was the first 12-month decline in the all-items Consumer Price Index (CPI) since November 1994. The decrease was primarily due to a 12-month decline of 19.0% in prices for energy products, particularly gasoline. Excluding energy, the CPI rose 2.1% in June.

Following a 12-month decline of 25.1% in May, gasoline prices fell 24.3% between June 2008 and June 2009. The most significant downward contributor was transportation, which includes lower prices for gasoline and purchases of passenger vehicles. The primary upward contributor on the CPI in June continued to come from higher food prices.

Source: Statistics Canada http://www.statcan.gc.ca/bsolc/olc-cel/olc-cel?catno=62-001-X&lang=eng

Wholesale Gasoline Prices

Compared to the previous week, wholesale gasoline prices for the week of **July 23, 2009,** rose in nine of ten selected Canadian and U.S. centres. Overall, the price changes ranged from a drop of 1 cent a litre to an increase of 5 cents a litre. Wholesale prices in these markets were in the range of 55 to 58 cents a litre.

In the past three weeks, wholesale prices in the Eastern markets have been dropping significantly. However, this week, prices increased in the range of 3 to 5 cents a litre—an indication that crude oil price increases are being reflected in the wholesale prices.

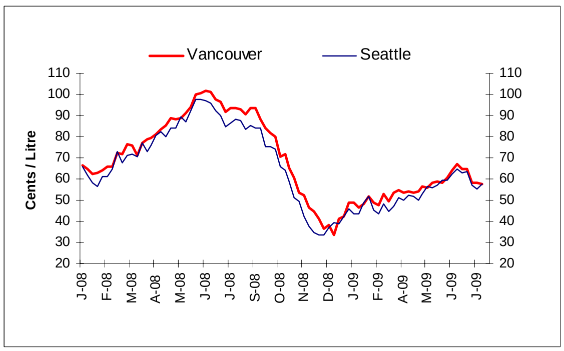
With the exception of Vancouver where prices continue to drop and are currently 10 cents a litre lower than their peak five weeks ago, wholesale prices in the Western markets also rose this week.

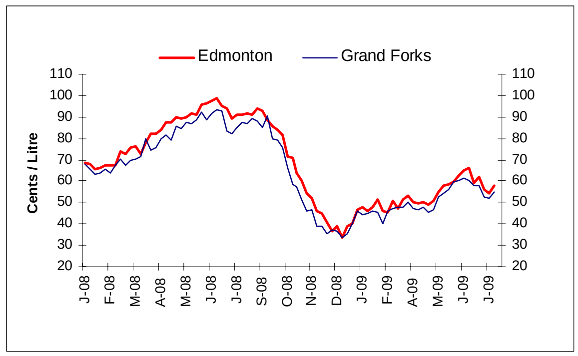
Overall, wholesale prices in all selected centres are well below last year's level when crude oil started to drop dramatically. This week's prices are 26 to 34 cents a litre lower than a year ago.

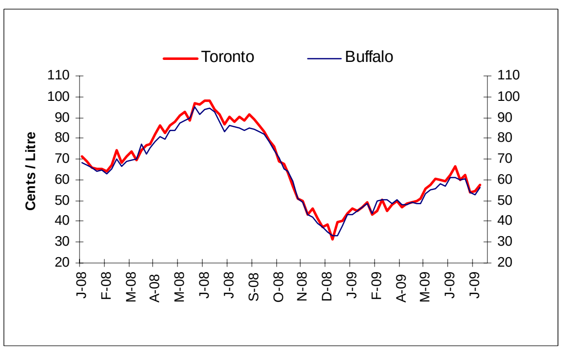
Figure 4: Wholesale Gasoline Prices

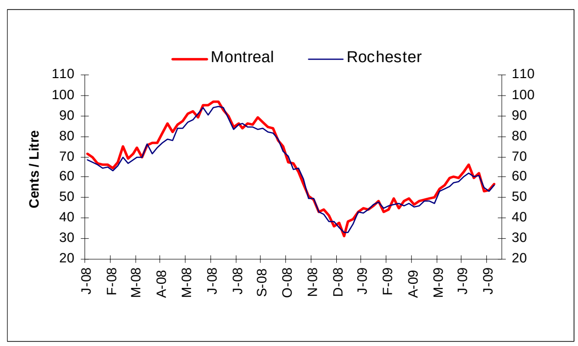
Rack Terminal Prices for Selected Canadian and American Cities Ending July 23, 2009

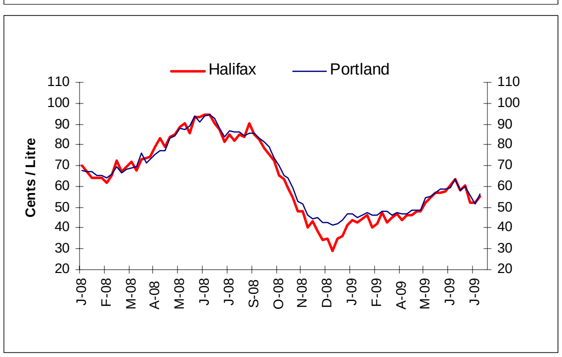
(Can ¢/L)











Sources: NRCan, Bloomberg Oil Buyers Guide

Keep cool with a ceiling fan!

Ceiling fans circulate room air by drawing warm air off the ceiling and pushing it towards the floor. A 60-watt ceiling fan costs between 10¢ and $2 to operate monthly, while an air conditioner can cost between $7.50 and $41 a month. ENERGY STAR® qualified ceiling fans move air up to 20 percent more efficiently than standard models. Fans don't actually cool a room; they **cool you** by circulating air.

http://oee.nrcan.gc.ca/residential/energystar-portal.cfm

Gasoline Refining and Marketing Margins

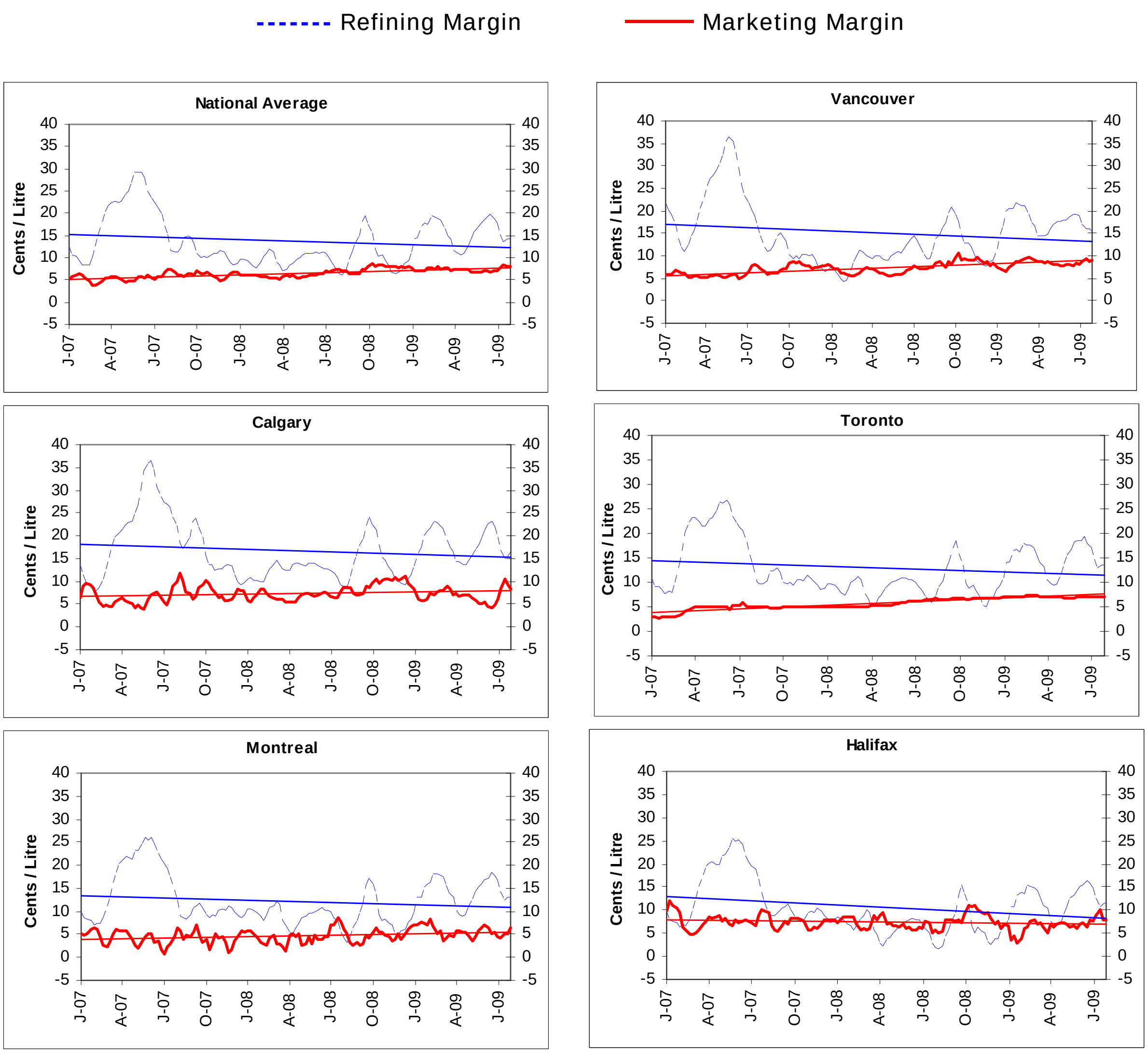
Four-week rolling averages are used for the gasoline refining and marketing margins. Figure 5 shows the trends for the period ending July 28, 2009.

Gasoline refining margins had been trending lower since their peak in June but have started to move upwards in the last two weeks. This reflects the fact that wholesale prices have been increasing faster than crude oil prices. Compared to last year, margins in Canada are currently about 8 cents a litre higher.

Nationally, the marketing margins continue to hover around an average of 8 cents a litre. However, as outlets compete for market shares, the marketing margins can be volatile—as shown in the individual centres. For the five centres, the marketing margins ranged from a low of less than 7 cents in Montreal to a high of 9 cents in Vancouver. The marketing margins have to cover all costs associated with operating a service station.

Figure 5: Gasoline Refining and Marketing Margins

Four-Week Rolling Average Ending July 28, 2009



Source: NRCan

Crude Oil Overview

Crude Oil Prices on the Upswing

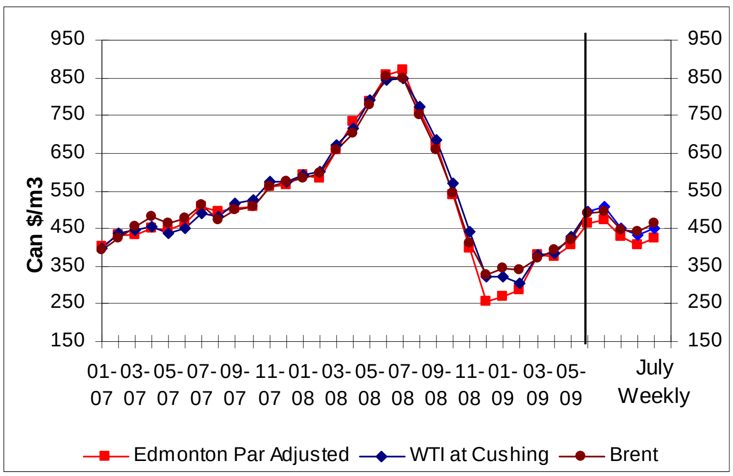
For the week ending July 24, 2009, prices for the three marker crudes (WTI, Brent and Edmonton Par) averaged between \$424/m^3 and \$463/m^3 (\$US57 to \$US62 per barrel). This is an increase of \$16 to 21/m^3 (\$US4 to \$US5 per barrel) from the previous week. Crude prices are now about \$340 to \$394 /m^3 (\$US60 to \$US67 per barrel) lower than a year ago.

Last year at this time, crude oil markets were making headlines. Following record high oil prices which peaked in early July 2008, crude prices then dropped at record rates and raised considerable controversy about the drivers behind the price increases in 2008.

Crude prices have rallied on indications that the global economy continues to show signs of strengthening. Also, as the US dollar continues to decline against other major currencies, and China continues to snap up crude resources, oil prices are pushing upwards.

Crude's advance may also have been supported by a report that the organization of Petroleum Exporting Countries (OPEC) may soon reduce exports. However, some observers are of the view that since OPEC's current production is at 72%, further reduction is unlikely.

Figure 6: Crude Oil Price Comparisons



Changes in Crude Oil Prices

Crude Oil Types	**Week Ending:** 2009-07-24		**Change From:**			
			Previous Week		Last Year	
	\$Can/ m^3	\$US/ bbl	\$Can/ m^3	\$US/ bbl	\$Can/ m^3	\$US/ bbl
Edmonton Par	423.81	61.45	+16.45	+4.07	-393.92	-67.46
WTI	449.03	65.10	+14.15	+3.84	-349.29	-60.64
Brent	462.53	67.06	+20.52	+4.79	-342.06	-59.67

Source: NRCan

CAPP's Crude Oil Production Forecast

The Canadian Association of Petroleum Producers (CAPP) has released its Canadian Crude Oil Forecast and Market Outlook 2009-2025. The forecast indicates that even with delays due to current economic circumstances, oil sands production is expected to grow, although the pace of development has slowed

In the Growth Case, total production (including oil sands) is forecast to grow from 2.7 million barrels per day (Mb/d) in 2008 to 3.3 Mb/d in 2015, and will continue to increase reaching 4.2 Mb/d by 2025.

In the *Operating & In Construction Case*, total production is forecast to rise to 3.0 Mb/d by 2015 and then decline gradually through to 2025, due to a reduction in conventional production. This reduction is moderated by increased light crude oil production from the Bakken field in Saskatchewan over the near term, and the Hebron heavy oil project in Atlantic Canada which is expected to come on stream by 2017.

For the oil sands component of Canada's oil supply, the share of supply coming from In-Situ Projects increases slightly over the forecast period and the proportion of total oil sands that is upgraded remains relatively unchanged over the forecast period. In the Growth Case, oil sands' production rises from 1.2 Mb/d in 2008 to 3.3 MB/d by 2025, compared to the 2.0 Mb/d for the other case.

Source: CAPP – June 5, 2009
http://www.capp.ca/aboutUs/ MediaCentre/ NewsReleases/ Pages/2009-2025 CanadianCrudeOilForecastandMarketOutlook.aspx