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Fuel Focus

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

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National Overview

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

After a four-week decline, the national average retail gasoline price for the week ending November 13, 2012, settled at \$1.23 per litre, an increase of 1 cent per litre from the previous week, reflecting higher North American wholesale gasoline prices. Overall, pump prices are less than 1 cent per litre lower than last year.

Diesel fuel and furnace oil prices both decreased by 1 cent per litre, settling at \$1.23 and \$1.19 per litre respectively. Prices for diesel are 10 cents per litre lower than they were at this time last year, while furnace oil prices are 3 cents per litre higher than last year.

Recent Developments

- **New York City Metropolitan Area Retail Gasoline Supply:** Hurricane Sandy struck the U.S. East Coast on Monday, October 29, 2012. As a result of the subsequent disruptions to the supply chain for gasoline, the U.S. Energy Information Administration (EIA) implemented an emergency survey to temporarily monitor vehicle fuel supply conditions in the New York City Metropolitan area. As of November 9, 2012, EIA estimated that 21% of gas stations in the New York metropolitan area did not have gasoline available for sale. (Source: EIA, http://www.eia.gov/special/disruptions/hurricane/sandy/gasoline_updates.cfm)
- **Decline in Oil and Gas Capital Spending:** According to the Globe and Mail, the capital spending drought in the oil patch looks headed for a second successive year, as weak commodity prices, shrinking cash flows and an uncertain future have oil executives set to tighten budgets again in 2013. The Globe and Mail drew attention to an analysis of expected cash flow trends from ARC Financial Corp., which points to a 15 percent decline in cash flows for the Canadian oil and natural gas sector based on the market's price expectations next year. ARC suggests a 10 to 15 percent decline in capital spending is likely. That's on top of a decline of nearly 20 percent in 2012, which left the sector's capital spending at its lowest levels since 2005. If the forecast is accurate, capital spending could be as low as \$42 billion next year - about \$20 billion less than the industry spent as recently as 2011. The study indicated that the spending slowdown is also an extension of the profound "changing of the fundamentals in the industry," and the most significant "in 50 years" (Globe and Mail, B1, November 6, 2012).

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

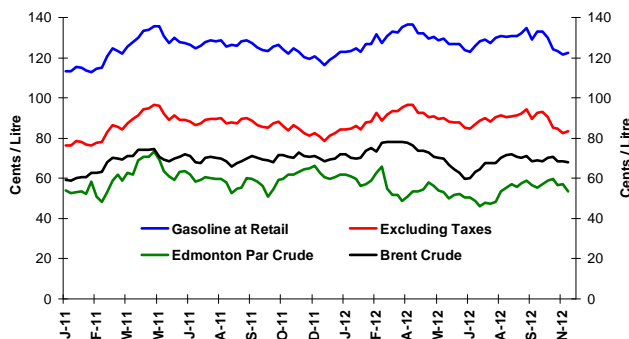
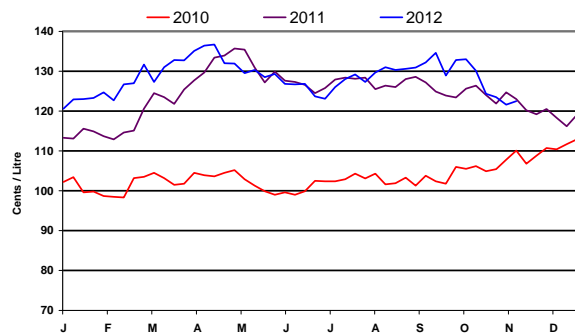


Figure 2: Weekly Regular Gasoline Prices



Changes in Fuel Prices

	Week of:	Change from:	
¢/L	2012-11-13	Previous Week	Last Year
Gasoline	122.5	+0.9	-0.5
Diesel	123.0	-0.7	-9.7
Furnace Oil	119.3	-0.5	+2.8

Source: NRCan

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Retail Gasoline Overview

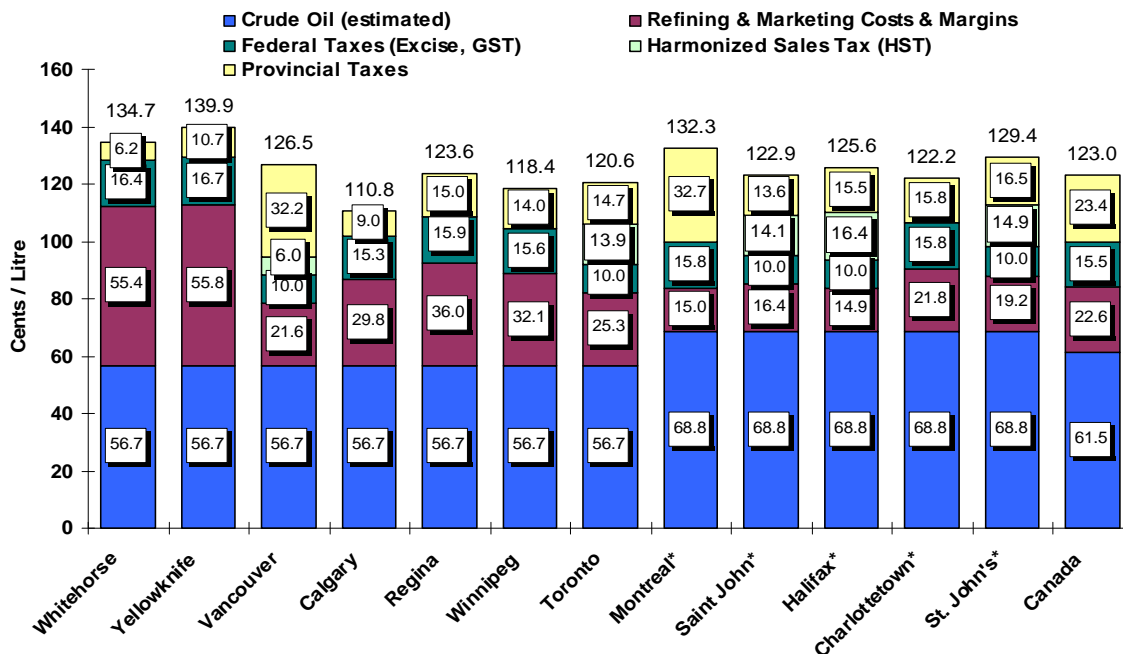
For the period ending November 13, 2012, the **four-week average** regular gasoline pump price in selected cities across Canada was \$1.23 per litre, a decrease of 5 cents per litre compared to the previous report of November 2, 2012. Compared to the same period in 2011, the average Canadian pump price is less than 1 cent per litre lower.

The **four-week average** crude component was 62 cents per litre, a decrease of 1 cent compared to two weeks ago. Retail gasoline prices in the selected Western cities (Vancouver to Winnipeg) ranged from

\$1.11 to \$1.26 per litre. Compared to two weeks ago, prices have decreased on average by 5 to 7 cents per litre. Comparatively, prices in Eastern cities (Toronto to St. John's) ranged from \$1.21 to \$1.32 per litre, and most Eastern cities observed a price decrease of 3 to 7 cents per litre.

At national level, refining and marketing costs and margins ended at 23 cents per litre, down 3 cents per litre from the previous report two weeks ago. This is 3 cents per litre higher than at this time last year.

Figure 3: Regular Gasoline Pump Prices in Selected Cities
Four-Week Average (October 23 to November 13, 2012)



Source: NRCan

* Regulated Markets

Flexibility in the Petroleum Product Chain

To provide flexibility in the distribution of petroleum products, refiners and marketers maintain inventories of various products in strategic locations throughout the distribution chain. If supplies of imported or domestic crude oil were interrupted for any reason, or if the product distribution system failed, companies would rely on commercial inventories to meet short-term needs while alternate arrangements were being made.

Inventory levels of some products, such as gasoline and furnace oil, fluctuate significantly over the year. Demand for these products is very seasonal and at its peak can exceed the production capacity of refineries. Therefore, refiners need to anticipate peak consumption periods by building inventories in advance. Gasoline inventories increase during the first quarter of the year and are used during the summer months to supplement refinery production. Furnace oil stocks grow during the fall and are drawn during the coldest months of winter when demand is at its highest.





Wholesale Gasoline Prices

Wholesale gasoline prices in selected Canadian and American cities ranged from 70 to 86 cents per litre for the week ending November 8, 2012.

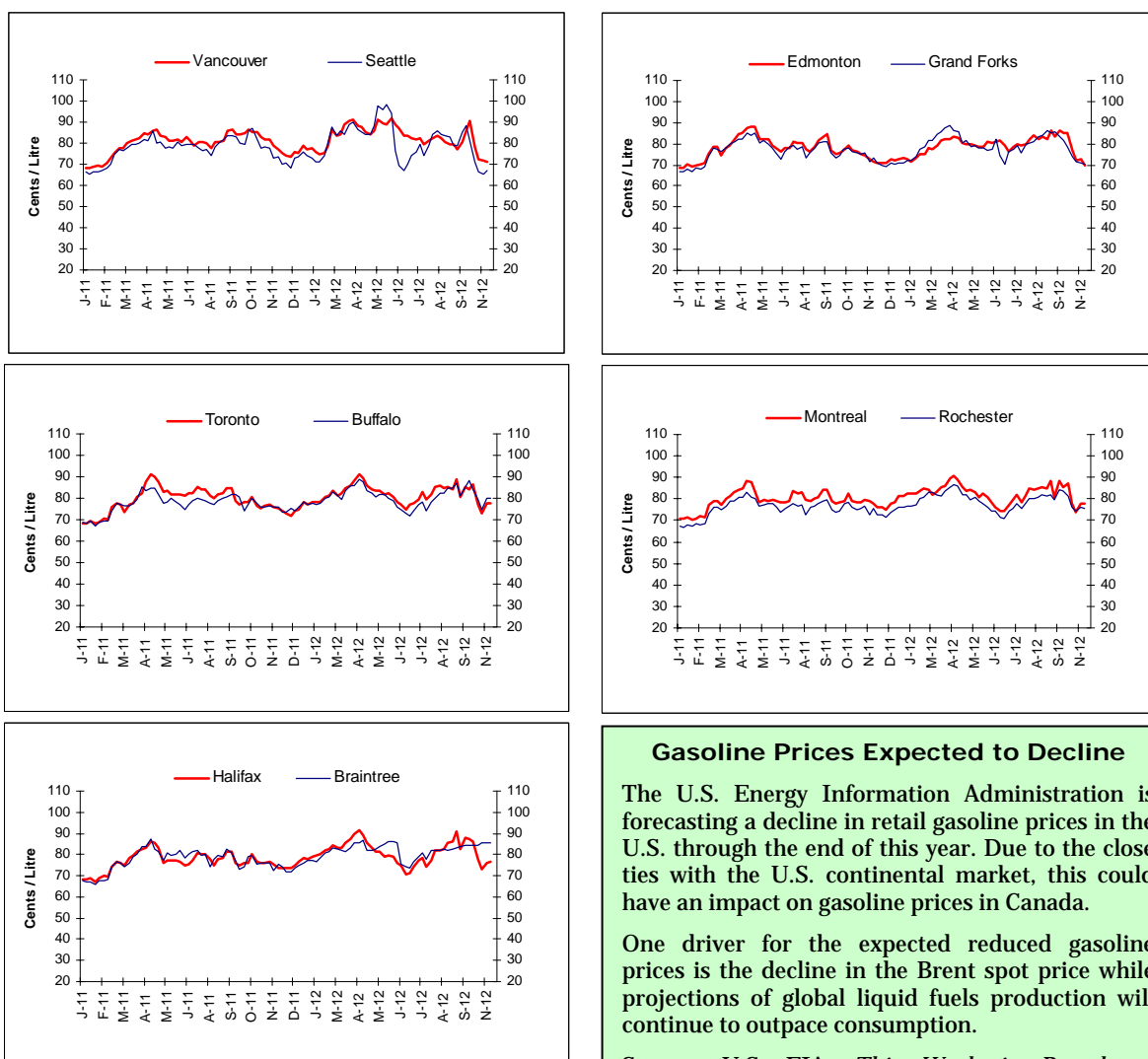
Compared to last week, wholesale gasoline price changes ranged from a decrease of 1 cent per litre to an increase of 1 cent per litre in selected Eastern centres. Prices ended between 76 and 86 cents per litre.

In Western centres, the wholesale price of gasoline ranged from 67 to 71 cents per litre, and price changes ranged from a decrease of nearly 3 cents per litre to an increase of less than 2 cents per litre compared to the previous week.

Compared to this time last year, wholesale price changes in both Canadian and American centres ranged from a decrease of 11 cents per litre to an increase of 10 cents per litre.

Figure 4: Wholesale Gasoline Prices

Rack Terminal Prices for Selected Canadian and American Cities Ending November 8, 2012
(Can \$/L)



Sources: NRCan, Bloomberg Oil Buyers Guide

Gasoline Prices Expected to Decline

The U.S. Energy Information Administration is forecasting a decline in retail gasoline prices in the U.S. through the end of this year. Due to the close ties with the U.S. continental market, this could have an impact on gasoline prices in Canada.

One driver for the expected reduced gasoline prices is the decline in the Brent spot price while projections of global liquid fuels production will continue to outpace consumption.

Source: U.S. EIA, *This Week in Petroleum*,
<http://www.eia.gov/oog/info/twip/twip.asp>





Gasoline Refining and Marketing Margins

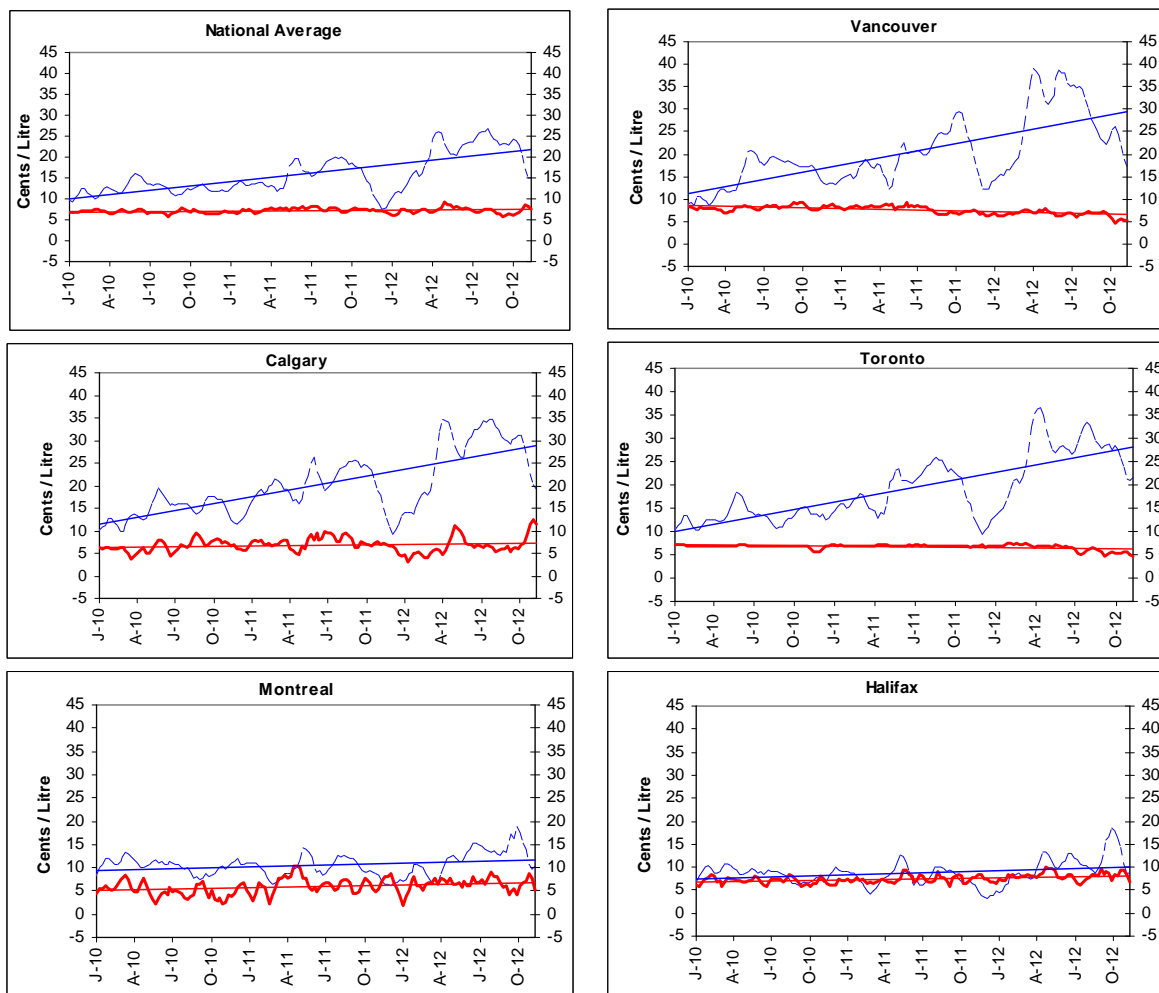
Four-week rolling averages are used for gasoline refining and marketing margins.

Compared to two weeks ago, refining margins in most selected markets declined on average by less than 1 to 5 cents per litre, reflecting seasonally weaker gasoline demand. Across Canada, refining margins ranged from 9 to 22 cents per litre.

Strong U.S. gasoline and crude oil supplies contribute to maintaining a downward pressure on wholesale gasoline prices and, in turn, reducing refining margins.

The marketing margin is the difference between the pump price (excluding taxes) and the price paid by the retailer to purchase the gasoline. Marketing margins for the five selected centres ranged between 5 and 12 cents per litre. See Fuel Focus Volume 7, Issue 21, page 4 for more detailed analysis of refining margins.

Figure 5: Gasoline Refining and Marketing Margins
Four-Week Rolling Average Ending November 13, 2012
----- Refining Margin — Marketing Margin



Source: NRCan





Crude Oil Overview

Global Crude Oil Prices Grow Weaker

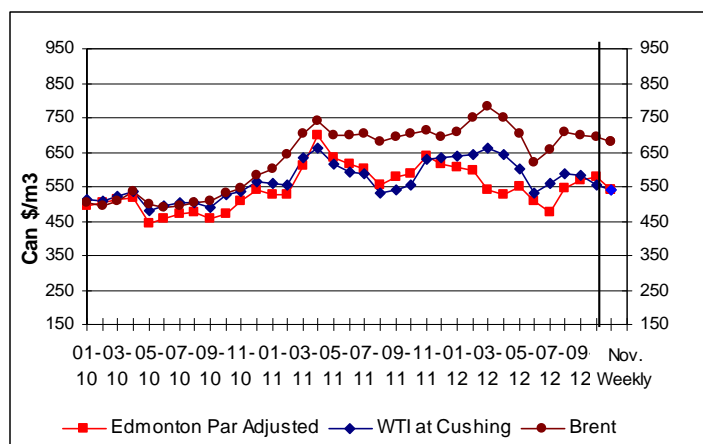
For the week ending November 9, 2012, prices for the three marker crudes averaged between \$539/m³ and \$680/m³ (US\$86 to US\$108 per barrel).

Compared to the previous week, Edmonton Par and Brent fell by \$28/m³ and \$3/m³ (US\$4 and US\$0.29 per barrel), respectively, while WTI rose slightly by \$0.10/m³ (US\$0.13 per barrel). However, Edmonton Par crude oil prices hovered above WTI prices in the month of October and remained slightly above WTI prices by \$2/m³ for the week ending November 9, 2012,

reflecting the increased crude oil inventories in the U.S. moderating WTI prices while demand for Edmonton Par remained fairly robust.

Compared to this time last year, prices for all three marker crudes are down in the range of \$47/m³ to \$81/m³ (US\$5 and US\$11 per barrel). Canadian crude oil prices remain significantly cheaper than imported global crudes. Currently, Edmonton Par is US\$22.21 per barrel less than Brent.

Figure 6: Crude Oil Price Comparisons



EIA Short-Term Energy Outlook

According to the U.S. Energy Information Administration (EIA) Short-Term Energy Outlook released November 6, 2012, the West Texas Intermediate (WTI) crude oil price will average \$89 per barrel in the fourth quarter of 2012, about \$4 per barrel lower than in last month's Outlook, while the Brent crude oil price is expected to average about \$1 per barrel less than in last month's forecast at about \$110 per barrel over the same period. The projected WTI discount to Brent crude oil, which averaged \$22 per barrel in October 2012, falls to an average of \$11 per barrel in the fourth quarter of 2013. WTI crude oil is forecasted to average \$88 per barrel in 2013, while the Brent crude oil forecast remains unchanged at \$103 per barrel.

U.S. regular gasoline retail prices began October 2012 at \$3.80 per gallon and fell to \$3.49 per gallon on November 5, 2012. Projected U.S. regular gasoline retail prices average \$3.56 per gallon during the fourth quarter of 2012. Hurricane Sandy, however, has contributed to higher wholesale gasoline prices on the East Coast, and the recovery schedule for affected refineries, pipelines and distribution terminals contributes to uncertainty over the near-term price outlook. EIA expects regular gasoline retail prices, which averaged \$3.53 per gallon in 2011, to average \$3.64 per gallon in 2012 and \$3.44 per gallon in 2013.

Source: U.S. Energy Information Administration, <http://www.eia.gov/forecast/s/steo/>

Changes in Crude Oil Prices

Crude Oil Types	Week Ending: 2012-11-09		Change From:			
			Previous Week		Last Year	
	\$Can/ m ³	\$US/ bbl	\$Can/ m ³	\$US/ bbl	\$Can/ m ³	\$US/ bbl
Edmonton Par	540.97	86.24	-27.53	-4.26	-81.23	-10.99
WTI	539.42	85.99	+0.10	+0.13	-81.06	-10.97
Brent	680.32	108.45	-2.75	-0.29	-46.80	-5.18

Source: NRCan

