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Fuel Focus

Understanding Gasoline Markets in Canada and Economic Drivers Influencing Prices

Issue 22, Volume 9

November 28, 2014

Canada

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ISSN 1918-3321

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

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National Overview

Canadian Retail Gasoline Prices Lowest Since February 2011

After a two-week decline, the national average retail gasoline price for the week ending November 25, 2014, settled at $1.14 per litre — the lowest price since February 2011. This represents a decrease of almost 2 cents per litre from the previous week, reflecting lower North American wholesale gasoline prices and, in turn, lower world crude oil prices. Overall, pump prices are 12 cents per litre lower compared to the same period in 2013.

Diesel fuel and furnace oil prices declined by 1 cent per litre to $1.30 and $1.20 per litre, respectively, compared to the previous week. Prices for diesel are 2 cents per litre lower than they were at this time last year, while furnace oil prices are 1 cent per litre lower than last year.

Recent Developments

- **Natural Gas Price Coverage**: The Fuel Focus report will now provide natural gas price comparisons in two main trading centres in Canada. In Alberta, the natural gas price is the wholesale price each day, traded on the NGX electronic exchange and clearing agency, for one-month gas to be delivered in the near month. The Ontario Dawn hub is located 35 kilometers southeast of Sarnia, Ontario. The Dawn facility link in the movement of natural gas from Western Canadian and U.S. supply basins to markets in central Canada, the Great Lakes region and the northeast U.S. The price data is from Bloomberg and represents the spot natural gas prices at Dawn.

  The natural gas price for consumers is composed of three main elements: 1) the price of the commodity; 2) pipeline transportation costs; and 3) distribution and other costs from local distribution companies. For consumers in Alberta the price will reflect the Alberta price plus relatively low pipeline costs. In general, the shorter the distance for the natural gas to travel, the lower the price will be. In Ontario, consumer prices will reflect Dawn and/or Alberta prices, and generally higher transportation costs.

- **Canadian Propane Market Update**: According to the National Energy Board (NEB) propane prices have fallen considerably since last winter. In April 2014, the NEB and the Competition Bureau released a report which explained the wholesale propane price spike in Edmonton and Sarnia in late January 2014, and in the U.S. Midwest pricing hub in Conway, Kansas. As of October 2014, daily prices at Edmonton and Sarnia averaged 23 and 33 cents per litre, respectively, down from 76 cents per litre in late January 2014. As of the start of November, underground propane inventories are at 11 year highs in Canada and at record highs in the U.S., driven largely by record Gulf Coast storage levels. (Source: National Energy Board)

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

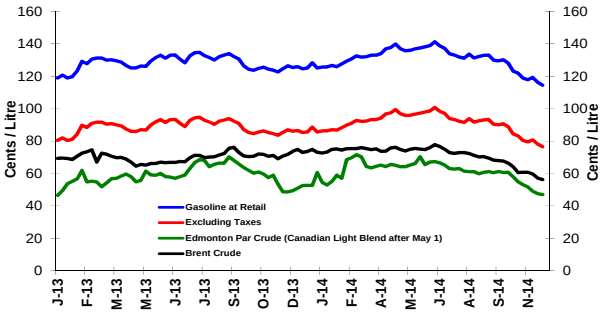
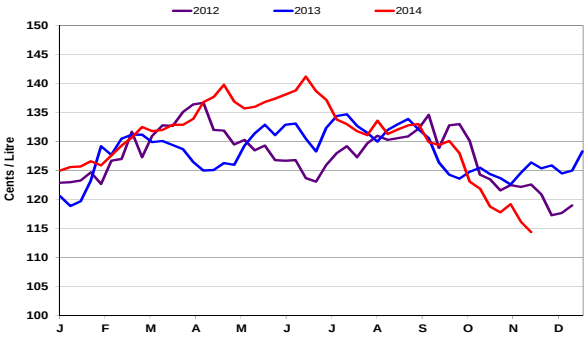


Figure 2: Weekly Regular Gasoline Prices



Changes in Fuel Prices

	Week of:	Change from:	
¢/L	2014-11-25	Previous Week	Last Year
Gasoline	114.4	-1.8	-12.0
Diesel	130.4	-1.1	-1.8
Furnace Oil	120.4	-0.6	-0.5
Natural Gas Prices $CA/GJ			
Alberta (NGX)	3.50	+0.15	+0.23
Ontario (Dawn)	5.00	-0.16	+1.01

Source: NRCan, Bloomberg, NGX

Natural Gas Prices for Vehicles

2014-11-25	¢/kilogram	¢/L gasoline equivalent	¢/L diesel equivalent
Vancouver	118.0	77.8	80.7
Edmonton	115.1	75.9	78.7
Toronto	128.4	84.7	87.8

Source: ¢/kg *Kent Marketing Services Limited*

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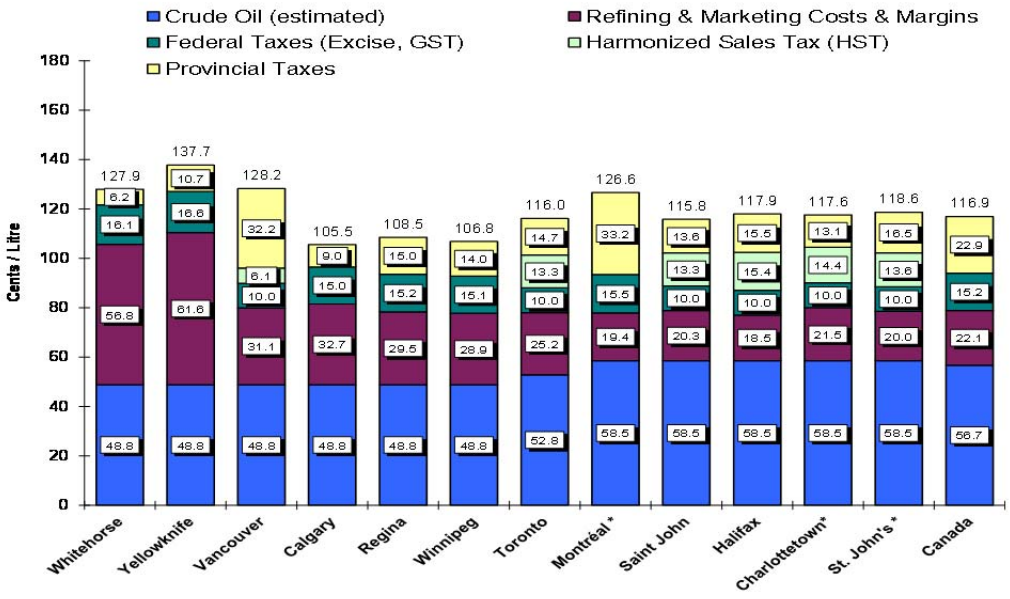
Retail Gasoline Overview

For the period ending November 25, 2014, the **four-week average** regular gasoline pump price in selected cities across Canada was $1.17 per litre, a decrease of 2.5 cents per litre compared to the previous report of November 14, 2014. Compared to the same period in 2013, the average Canadian pump price is 3 cents per litre lower.

The **four-week average** crude component was 57 cents per litre, a decrease of 3 cents compared to two weeks ago. Retail gasoline prices in selected Western cities (Vancouver to Winnipeg) ranged from $1.06 to $1.28 per litre. Compared to two weeks ago, prices have decreased on average by 2 cents per litre. Comparatively, prices in Eastern cities (Toronto to St. John's) ranged from $1.16 to $1.27 per litre, and most Eastern cities observed a price decrease on average of 3 cents per litre.

At the national level, refining and marketing costs and margins ended at 22 cents per litre, up 1 cent per litre from the previous report two weeks ago. This is 3 cents per litre lower than at this time last year.

Figure 3: Regular Gasoline Pump Prices in Selected Cities
Four-Week Average (November 4 to 25, 2014)



Source: NRCan ** Regulated Markets*

Note: Toronto crude oil cost includes pipeline tolls of $4 per barrel for light crude oil from Edmonton to Sarnia, Ontario.

U.S. New Vehicle Fuel Economy Rose to Record 24.1 Miles Per Gallon in 2013

After rising by 1.2 miles per gallon from 2011 to 2012, the average fuel economy of new cars and light trucks produced in the U.S. in 2013 increased by another 0.5 mpg to a record 24.1 mpg, according to the U.S. Environmental Protection Agency. CO_2 emissions from new vehicles fell to a record low of 369 grams per mile in 2013.

New vehicle fuel economy has improved in eight of the past nine years and is nearly 5 mpg higher than in 2004, and EPA expects a further increase of 0.1 mpg in the 2014 model year, reflecting a 2% increase in production of less-efficient pickups and SUVs. The fuel economy of new truck-based SUVs grew by 27% from 2004-13, while that of cars and car-based SUVs increased by 23%.

Mazda had the highest average economy rating for the 2013 model year, 28.1 mpg, followed by Honda at 27.4 mpg. The Detroit 3 automakers had the lowest fuel economy ratings as their sales are more oriented toward pickups and SUVs.

Source: Fuels & Vehicle Report, Ontario Ministry of Energy.

Wholesale Gasoline Prices

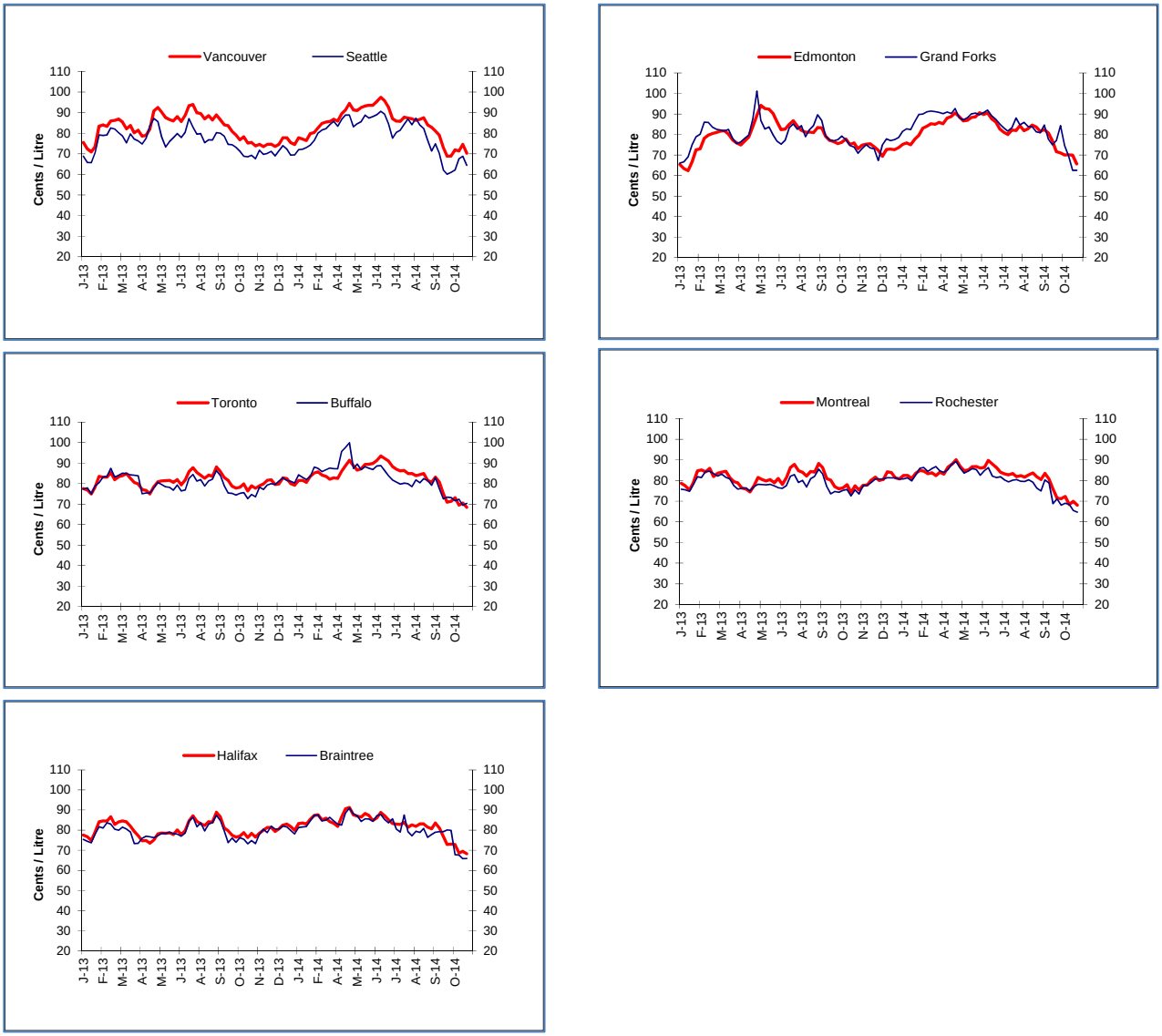
For the week ending November 20, 2014, compared to the previous week, wholesale gasoline price changes ranged from a decline of 4 cents per litre to an increase of almost 1 cent per litre.

In selected Eastern Canadian and American centres, wholesale gasoline prices, compared to the previous week, registered decreases ranging from 2 cents per litre to increases of less than 1 cent per litre. Prices ended between 65 and 70 cents per litre.

In Western Canadian and U.S. centres, wholesale gasoline prices ranged from a decrease of more than 4 cents per litre to an increase of less than 1 cent per litre. Prices ended the period between 64 and 70 cents per litre.

Compared to this time last year, wholesale price changes in both Canadian and American centres decreased in the range of 3 to 15 cents per litre.

Figure 4: Wholesale Gasoline Prices
Rack Terminal Prices for Selected Canadian and American Cities Ending November 20, 2014
(CAN ¢/L)



Sources: NRCan, Bloomberg Oil Buyers Guide

Gasoline Refining and Marketing Margins

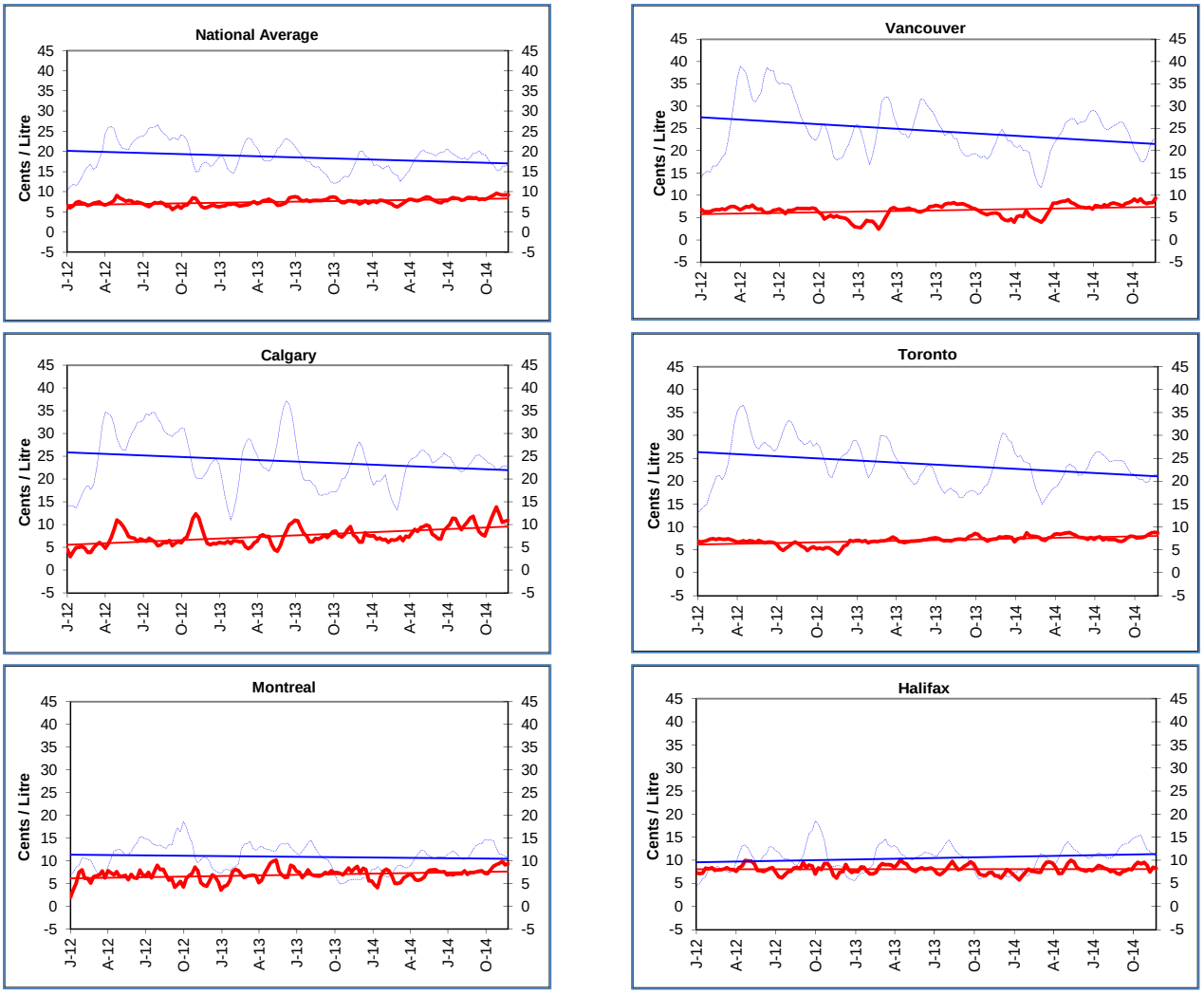
Four-week rolling averages are used for gasoline refining and marketing margins.

Compared to two weeks ago, refining margins in most selected markets rose on average by less than 1 cent per litre to nearly 17 cents per litre, compared to the previous week. Across Canada, refining margins ranged from 11 to 23 cents per litre.

Marketing margins, which cover the costs of operating a service station outlet, remained unchanged at 9 cents per litre. Marketing margins for the five centres registered between 8 and 11 cents per litre.

The marketing margin is the difference between the pump price (excluding taxes) and the price paid by the retailer to purchase the gasoline.

Figure 5: Gasoline Refining and Marketing Margins
Four-Week Rolling Average Ending November 25, 2014
Refining Margin — Marketing Margin



Source: NRCan

Crude Oil Overview

Global Crude Oil Prices Decline

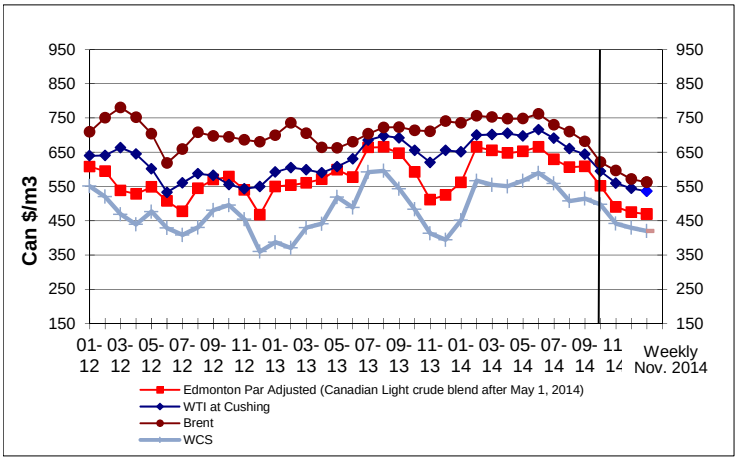
For the week ending **November 21, 2014**, light crude oil prices averaged between $470/m³ and $562/m³, (US$66 to US$79 per barrel). While the price of all three light crude oil markers declined compared to the previous week, the price for Brent and WTI declined by $9/m³ (US$1 per barrel), while the Canadian Light crude oil declined by less than $6/m³ (US$ 0.65 per barrel).

The price for Canadian heavy oil (Western Canada Select) averaged $420/m³ (US$59 per barrel) for the week ending November 21, 2014. Compared to last year at the same period, WCS rose by $43/m³ (US$1.93 per barrel).

The crude oil price differential between the Canadian light and WTI hovered at $70/m³ (US$9 per barrel) in the last three weeks.

Global crude oil prices continue to push downward as analysts and traders focused on the upcoming meeting of the Organization of Petroleum Exporting Countries (OPEC) and the Iran nuclear talks. On November 27, 2014, OPEC members decided to maintain current oil output pushing global crude oil benchmark prices lower. U.S. crude oil inventories continue to hover at their five-year average high putting downward pressure on the WTI prices.

Figure 6: Crude Oil Price Comparisons



Changes in Crude Oil Prices

Crude Oil Types	Week Ending: 2014-11-21		Change From:			
			Previous Week		Last Year	
	$Can/ m³	$US/ bbl	$Can/ m³	$US/ bbl	$Can/ m³	$US/ bbl
Canadian Light	469.56	66.05	-5.51	-0.65	-18.48	-8.02
WTI	536.30	75.44	-8.49	-1.05	-83.77	-18.66
Brent	562.43	79.11	-9.21	-1.14	-155.27	-29.80
WCS	420.11	59.09	-9.48	-1.22	+43.34	+1.93

Source: NRCan

EIA Short-Term Energy Outlook

The U.S. Energy Information Administration's (EIA) recently released November Short-Term Energy Outlook projects that Brent crude prices will average $83/barrel in 2015, $18/barrel lower than last month's outlook for 2015. STEO projects prices to remain in the $80 to $90 per barrel range next year, bottoming out under $82/barrel in the second quarter when balances are loosest and then increasing during the second half of 2015 to average $86/barrel in the fourth quarter.

The combination of robust U.S. production growth, a return of disrupted Libyan production despite recent setbacks, weakening expectations for the global economy – particularly in China – and seasonally low refinery demand have weighed on oil prices. More recently, indications from Saudi Arabia that it will not operate as the unilateral global swing supplier have put further downward pressure on traders' views of the market. Signs of willingness of other OPEC members to trim production have been scarce. Together, these conditions point to a much looser global supply/demand balance in 2015.

Source: EIA, excepts from *This Week in Petroleum*, http://www.eia.gov/petroleum/weekly/archive/2014/141113/includes/analysis_print.cfm)