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# Fuel Focus

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

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Canada 

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## National Overview

### National Retail Pump Prices Increased 9 Cents per Litre from Last Week

For the week ending March 3, 2015, Canadian average retail gasoline prices increased by nearly 9 cents per litre from the previous week to \$1.12 per litre—a three-month high. Since the last report two weeks ago, retail pump prices are 9 cents per litre higher.

Wholesale and retail pump prices across Canada moved upward, despite relatively flat crude oil prices. Oil prices remained firm while the price differential increased between the Brent and North American crudes. Refinery issues slowed gasoline production, resulting in gasoline market tightening, which in turn pushed gasoline prices upward.

Diesel fuel prices increased by more than 4 cents per litre from the previous week to \$1.22 per litre, while furnace oil prices increased by 1 cent per litre, ending at \$1.20 per litre. Compared to a year ago, prices for diesel and furnace oil are 17 and 13 cents per litre lower, respectively.

## Recent Developments

- **Gasoline Sales Up 2.2%:** Canadians consumed 41 billion litres of gasoline from January to November 2014, or nearly 890 million litres more than the same period last year. In the same period, diesel fuel sales increased by 2.5% to 27 billion litres, or 680 million litres, while furnace oil sales rose by less than 1% to 2.3 billion litres. (Statistics Canada, Cansim Table 134-0004)
- **Canadian Energy Dynamics:** The Canadian crude oil exports by pipeline and rail reached new highs in 2014, while natural gas exports continued to decline as gas flows change across North America, and notably into Ontario and Quebec. Conventional fuels were increasingly phased out by cleaner fuels, exemplified by Ontario's completion of its coal phase-out and growth in small-scale liquefied natural gas. The Canadian Energy Dynamics report provides insight, statistics and regional descriptions that frame these and other developments over the last year, from all across Canada. (Source: National Energy Board, <http://www.neb-one.gc.ca/nrg/ntgrtd/mrkt/dnmc/2014/index-eng.html>)

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

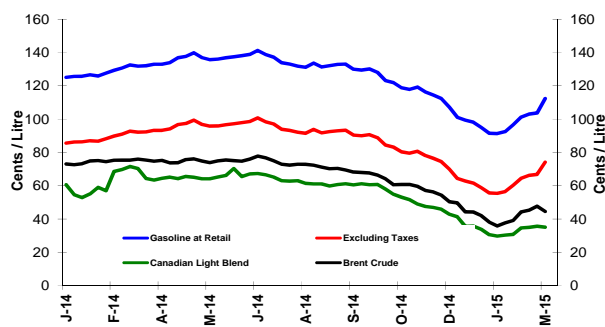
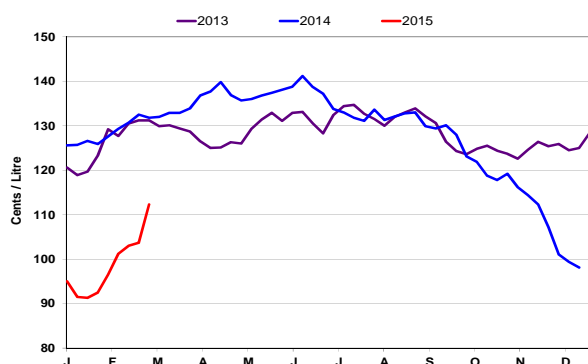


Figure 2: Weekly Regular Gasoline Prices



### Changes in Fuel Prices

¢/L	Week of:	Change from:	
	2015-03-03	Previous Week	Last Year
Gasoline	112.3	+8.6	-20.2
Diesel	122.2	+4.3	-23.5
Furnace Oil	119.5	+1.3	-12.9
Natural Gas Prices in \$CA/GJ			
Alberta (NGX)	2.50	-0.47	-5.55
Ontario (Dawn)	5.71	-0.24	-30.81

Source: NRCAN, Bloomberg, NGX

### Natural Gas Prices for Vehicles

2015-03-03	¢/kilogram	¢/L gasoline equivalent	¢/L diesel equivalent
Vancouver	114.5	75.5	78.3
Edmonton	115.0	75.9	78.7
Toronto	128.4	84.7	87.8

Source: ¢/kg Kent Marketing Services Limited

## In this Issue

	Page
National Overview	1
Recent Developments	1
Retail Gasoline Overview	2
Wholesale Gasoline Prices	3
Gasoline Refining and Marketing Margins	4
Crude Oil Overview	5





## Retail Gasoline Overview

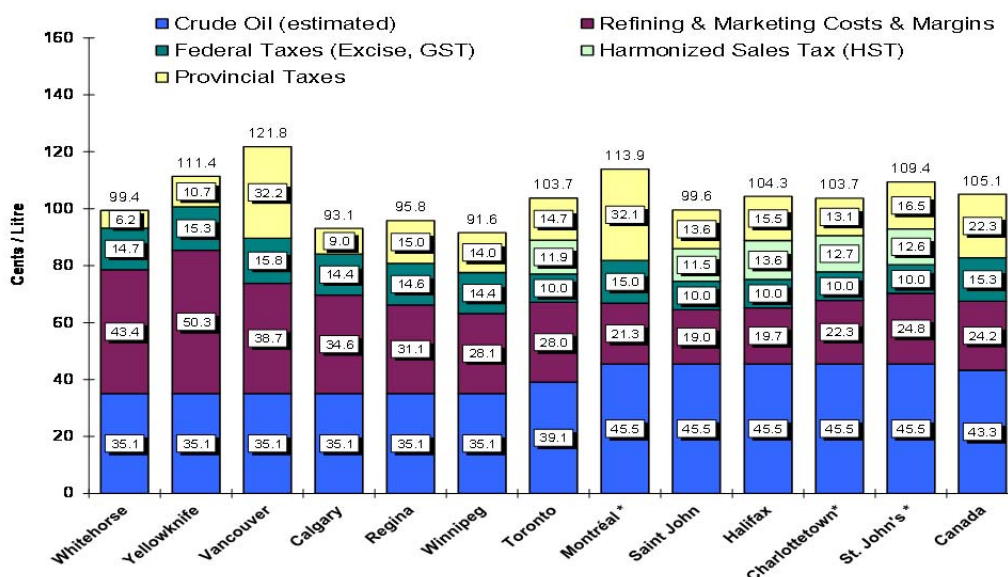
The **four-week average** regular gasoline pump price in selected cities across Canada was \$1.05 per litre for the period ending **March 3, 2015**. This is 25 cents per litre lower than the price recorded at this time last year.

The **four-week average** crude oil price component of gasoline registered at 43 cents per litre, up 3 cents per litre from two weeks ago. Compared to the same period in 2014, the crude oil price component of gasoline is 27 cents per litre lower.

Ranging from 92 cents per litre to \$1.22 per litre, retail gasoline prices in most Western centres increased, on average, by 6.4 cents per litre when compared to two weeks ago. Prices in Eastern centres increased on average by 6.5 cents per litre, and ranged from \$1.04 per litre to \$1.14 per litre.

At the national level, refining and marketing costs and margins increased by 3 cents per litre from two weeks ago, and are 4 cents per litre higher than last year at this time.

**Figure 3: Regular Gasoline Pump Prices in Selected Cities  
Four-Week Average (February 10 to March 3, 2015)**



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.

### Current Diesel and Gasoline Price Gap

The average Canadian operating a vehicle fueled by gasoline has seen those retail prices drop nearly 50 cents per litre since their peak in June of last year, whereas those operating a diesel vehicle have realized a drop of only half that amount over the same time period.

Gasoline prices were under significant downward pressure in December and January, due to lower seasonal demand and the surge in production resulting from North American refineries running at very high utilization rates. Gasoline inventories sat well above their seasonal norms. In contrast, diesel inventories were relatively low compared to historical seasonal norms, due to high offshore demand for North American diesel and high diesel exports. This put additional upward pressure on wholesale diesel prices.

This price disparity is expected to decrease in the coming months as winter turns to spring. Gasoline demand typically increases with the end of winter, while diesel and furnace oil demand declines. The gap between average Canadian diesel and gasoline prices has already dropped from 21 cents per litre in the first week of January to just 12 cents per litre in the first week of February.

Source: NRCan; Kent Marketing Group Ltd., <http://www.kentgroupltd.com/2015/02/17/making-sense-of-the-current-spread-between-diesel-and-gasoline-prices/>





## Wholesale Gasoline Prices

Wholesale gasoline prices increased in most centres for the **week of February 26, 2015**, compared to the previous week. Price changes ranged from an increase of nearly 2 to 12 cents per litre.

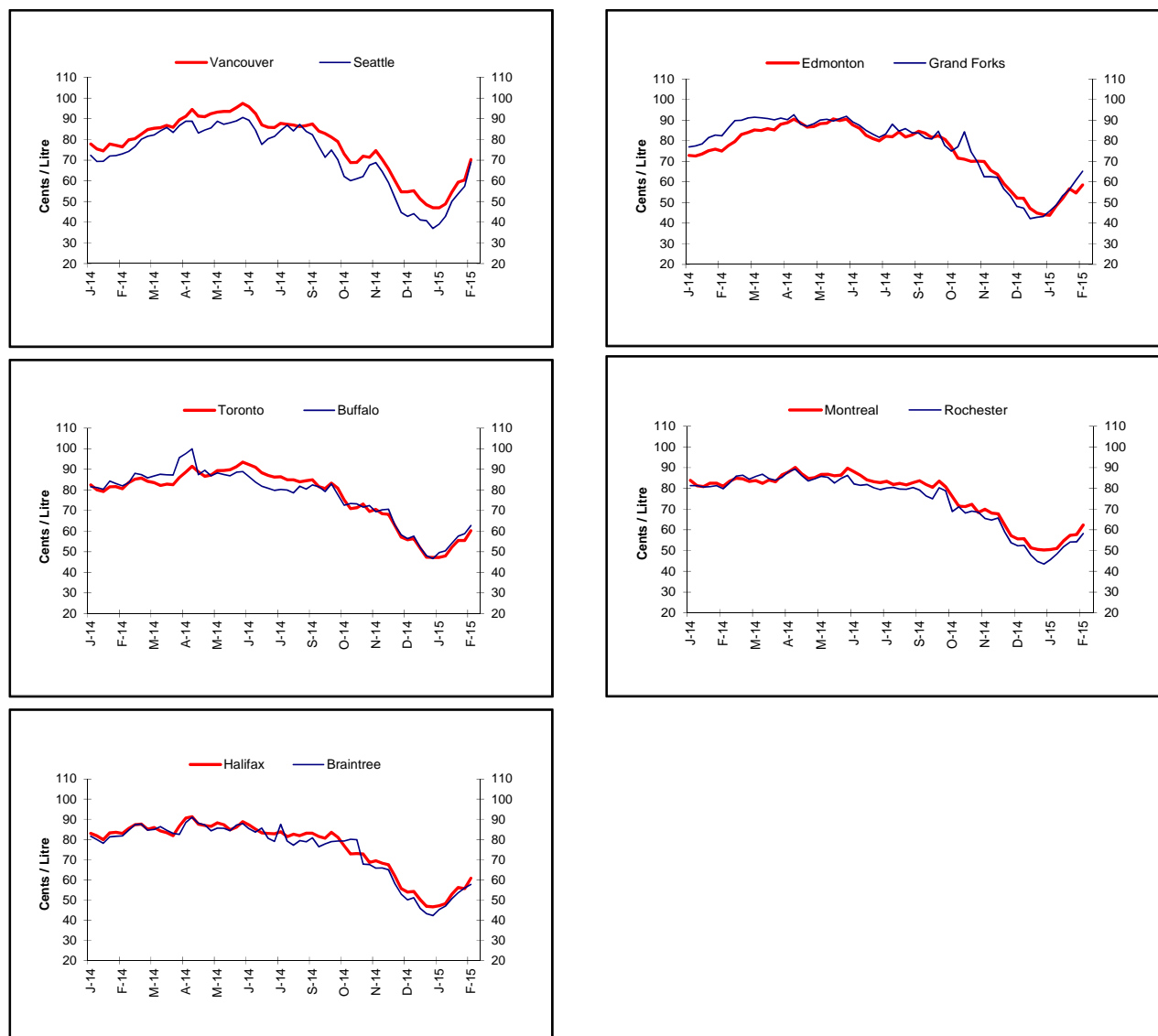
For the Eastern markets in Canada and the United States, wholesale gasoline price changes ranged from an increase of 2 to 5 cents per litre when compared to the previous week, with prices ending the period in the 58 to 63-cent-per-litre range.

Wholesale prices in Canadian and U.S. Western centres increased in the range of 4 to 12 cents per litre, ending the period in the 59 to 70-cent-per-litre range.

In the last **four weeks**, wholesale prices in selected Canadian and American centres have increased in the range of 10 to 26 cents per litre.

Prices are below last year's level in the range of 11 to 30 cents per litre.

**Figure 4: Wholesale Gasoline Prices**  
Rack Terminal Prices for Selected Canadian and American Cities Ending February 26, 2015  
(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.

The refining margin is defined as the difference between the wholesale price of gasoline and the crude oil price. However, this margin is very much a function of the gasoline supply situation and local market conditions. In turn, local market conditions can have a considerable impact on short-term wholesale gasoline prices.

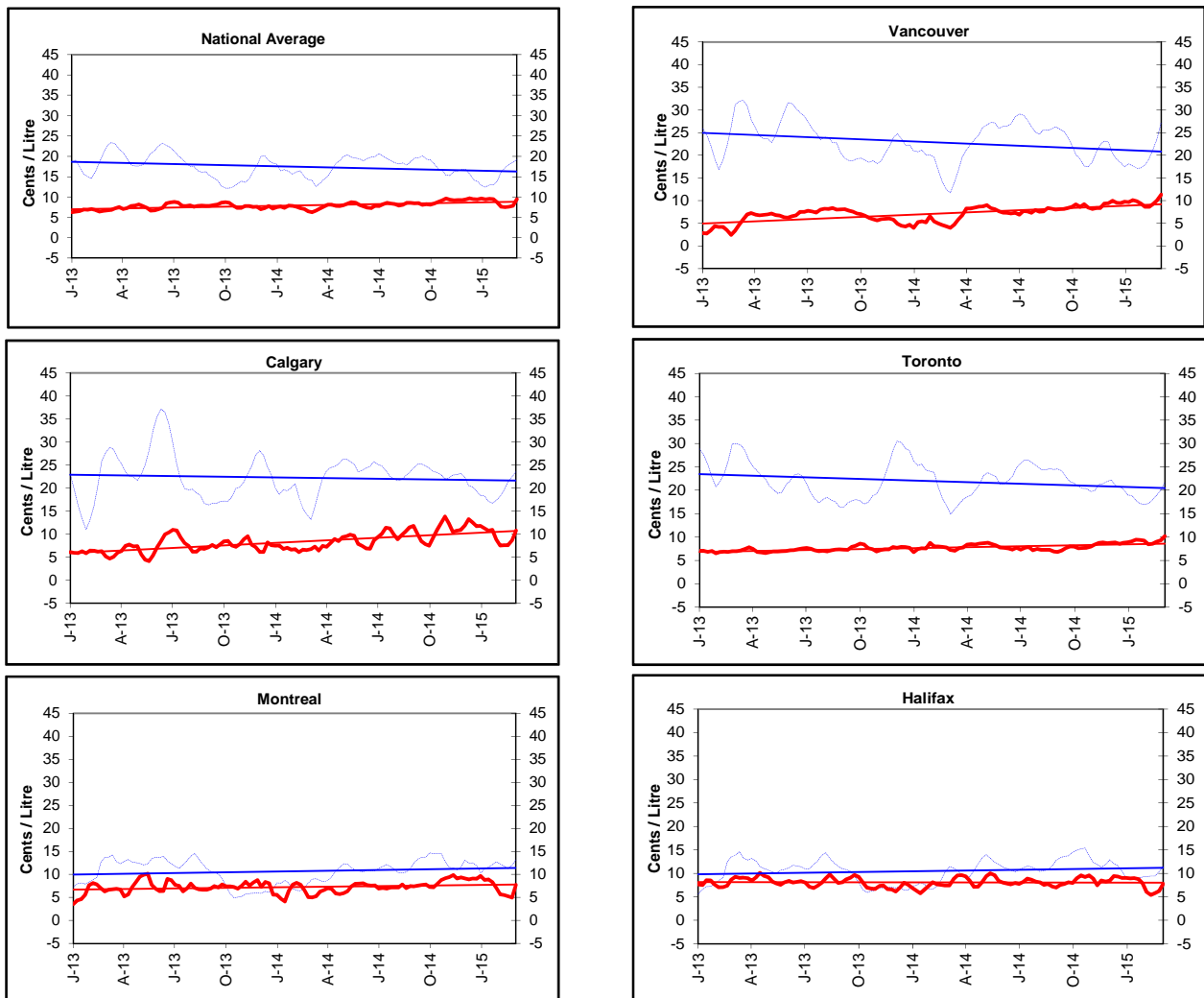
Marketing margins can differ significantly from city to city and region to region. These margins must cover

the costs associated with transporting products through the distribution system.

Some of the distribution challenges arise from the fact that petroleum products are refined in only a few geographic regions but are consumed all across Canada.

Overall, this margin can be fairly volatile as shown in the Montreal, Calgary and Vancouver markets, as outlets compete for market share. Conversely, they seem to be much less volatile in Toronto and Halifax.

**Figure 5: Gasoline Refining and Marketing Margins**  
Four-Week Rolling Average Ending March 3, 2015  
----- Refining Margin      — Marketing Margin



Source: NRCan





## Crude Oil Overview

### Crude Oil Price Gap Widens between Brent and North American Crudes

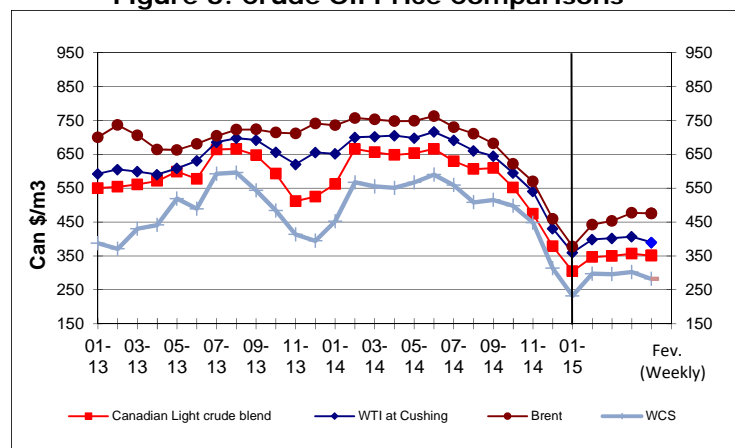
For the week ending February 27, 2015, prices for the three marker light crudes averaged between \$351/m<sup>3</sup> and \$475/m<sup>3</sup> (US\$45 to US\$60 per barrel).

All light crude oil prices declined for the week ending February 27, 2015, compared to the previous week, with WTI dropping the most by \$17/m<sup>3</sup> (US\$2 per barrel). Brent decreased by less than \$2/m<sup>3</sup> (US\$0.51 per barrel).

For the week ending February 27, 2015, Brent crude oil prices traded at a widening premium to WTI oil by a margin of \$85/m<sup>3</sup> (US\$11 per barrel).

WTI crude oil prices fell, mainly due to the large U.S. crude oil inventory levels relative to the demand for crude oil products. Meanwhile, Brent oil prices were buoyed on Libyan oil production constraints, which affected the supply and demand balance in the geographic area where Brent prices are set (e.g., Europe).

Figure 6: Crude Oil Price Comparisons



#### Refinery Outages: First Half 2015

Planned refinery maintenance during the first half of 2015 is not expected to adversely impact the supply of gasoline and distillate (diesel and furnace oil). The impact of refinery outages on product supplies during the first half of 2015 depends on many factors, including petroleum product demand, the availability of product supplies from available refinery capacity, inventories, imports and redirected exports, as well as actual levels of both planned and unplanned refinery outages.

The Energy Information Administration's (EIA) February *Short-Term Energy Outlook* (STEO) expects distillate demand to average 4.1 million bbl/d in the first half of 2015, an increase of 40,000 bbl/d (1%) compared to the same period last year. Colder-than-expected winter temperatures could cause distillate demand to be higher than expected in New England and the Mid-Atlantic states, which use distillate fuel for space heating. EIA's February STEO expects gasoline consumption to increase by 160,000 bbl/d (2%) during the first half of 2015 compared to the same period in 2014. U.S. gasoline demand is typically lower in the winter months and increases in the spring as the driving season begins.

Source: U.S. EIA, <http://www.eia.gov/petroleum/refinery/outage/>.

#### Changes in Crude Oil Prices

Crude Oil Types	Week Ending: 2015-02-27		Change From:			
			Previous Week		Last Year	
	\$Can/ m <sup>3</sup>	\$US/ bbl	\$Can/ m <sup>3</sup>	\$US/ bbl	\$Can/ m <sup>3</sup>	\$US/ bbl
Canadian Light	350.73	44.54	-5.86	-0.95	-364.31	-57.92
WTI	390.04	49.53	-16.86	-2.38	-324.90	-52.92
Brent	475.32	60.36	-1.83	-0.51	-289.11	-49.18
WCS	282.15	35.83	-20.34	-2.76	-264.59	-42.52

Source: NRCan

