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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 Decreased 3 Cents Per Litre From Last Week

Average Canadian retail pump prices declined for the fifth straight week to \$1.05 per litre—a drop of 3 cents per litre for the week ending October 21, 2008. This 10-month low reflects the decline in North American wholesale gasoline and world crude oil prices.

The drop in worldwide demand for refined petroleum products has pulled world crude oil prices downward. The Organisation for Economic Cooperation and Development has indicated that this year's demand among member countries has declined nearly 2%, or 1 million barrels per day—primarily due to reduced consumption in the U.S. In addition, the significant increase in U.S. gasoline inventories in recent weeks should further ease the pressure on wholesale gasoline prices.

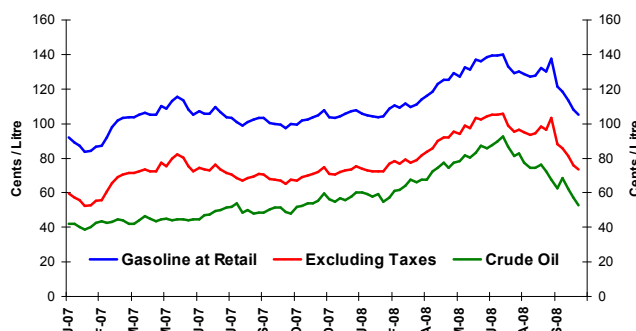
Diesel fuel prices declined by nearly 6 cents per litre to \$1.21 per litre compared to last week. This represents an increase of 20 cents per litre from the same period last year. Furnace oil also decreased 6 cents per litre from the previous week, averaging \$1.04 per litre.

This week's Supplement features an overview of heating oil prices in Canada. Due to higher crude oil prices, heating oil prices throughout the year remained higher than last year. Nonetheless, prices have declined rapidly since their mid-July peak of \$1.41 per litre. Overall, as we head into the heating season the average price is 18 cents per litre above last year's level.

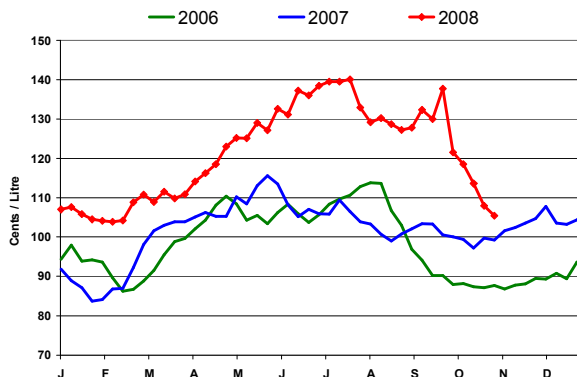
### Recent Developments

- **Canadian Gasoline Consumption Down 5% in August:** Canadian motor gasoline sales declined 5% in August 2008 to 3.7 million cubic metres, or 212 thousand cubic metres below the same month a year earlier. This is the fourth consecutive month with a year-over-year decline. Diesel fuel oil sales also declined to 2.3 million cubic metres, down nearly 9% or 216 thousand cubic metres below August 2007. (The Daily, <http://www.statcan.ca/Daily/English/081008/do81008c.htm>)
- **Demand for Hybrid Vehicles Expected to Rise:** Hybrid, electric, and diesel vehicles will account for 17% of U.S. vehicle sales by 2015, with diesels taking a larger share of the market than hybrids because of their cost, according to J.D. Power and Associates. The market share of four-cylinder and ethanol-capable flexible-fuel vehicles will grow significantly as demand for powerful engines declines. (Source: Ontario Ministry of Energy and Infrastructure Gasoline Report)

**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:	
	2008-10-21	Previous Week	Last Year
Gasoline	105.4	-2.5	+6.2
Diesel	121.0	-5.5	+19.5
Furnace Oil	104.0	-5.8	+17.8

Source: NRCan

### In This Issue

	Page
National Overview	1
Recent Developments	1
Retail Gasoline Overview	2
Wholesale Prices	3
Refining and Marketing Margins	4
Crude Oil Overview	5
Supplement: Heating Oil Prices – What Canadians Can Expect	6





## Retail Gasoline Overview

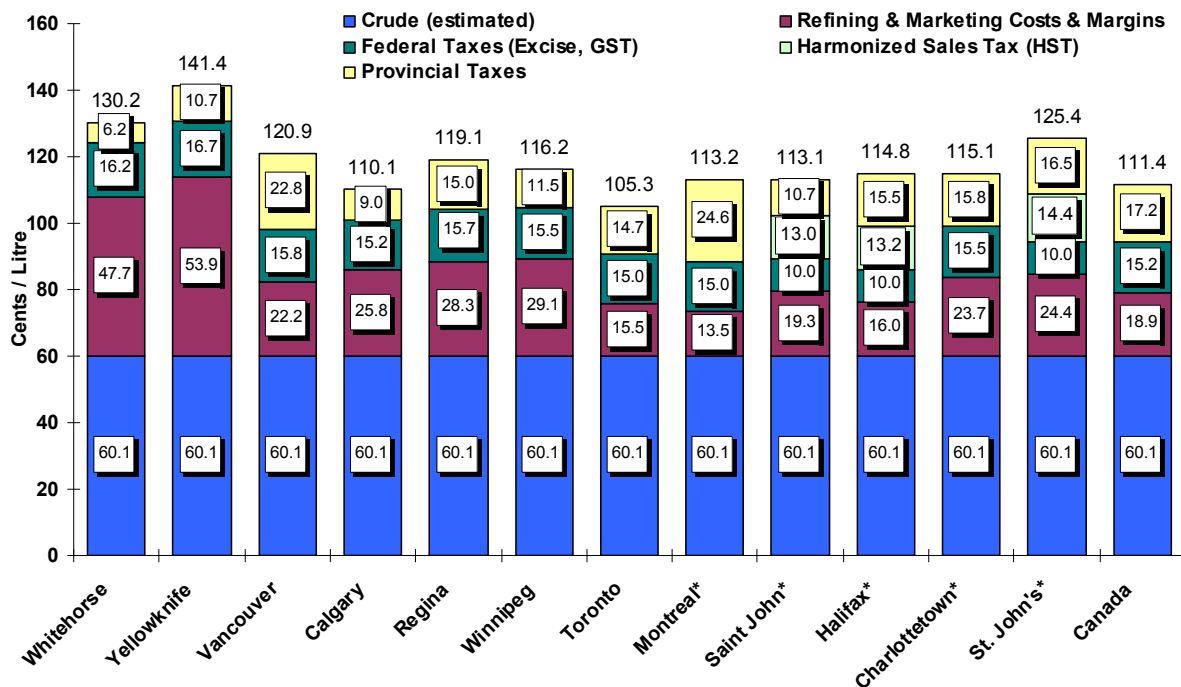
The **four-week average** regular gasoline pump price in selected cities across Canada was \$1.11 per litre for the period ending **October 21, 2008**—a decrease of 12 cents per litre since the last report on October 10, 2008. However, gasoline prices are 13 cents per litre higher than those recorded for the same period last year.

The **four-week average** crude oil price component of gasoline registered 60 cents per litre, down 5 cents from two weeks ago, and 13 cents per litre above the same period in 2007.

Ranging from \$1.10 to \$1.21 per litre, retail gasoline prices in most Western centres declined, on average, 11 cents per litre when compared to the previous report. Prices in Eastern centres decreased on average by 12 cents per litre, and ranged from \$1.05 to \$1.25 cents per litre.

At the national level, refining and marketing costs and margins declined more than 6 cents per litre since the last report.

**Figure 3: Regular Gasoline Pump Prices in Selected Cities  
Four-Week Average (September 30 to October 21, 2008)**



Source: NRCan

\* Regulated Markets

### Canadian Public Transit Demand on the Rise

According to a survey conducted for the Federation of Canadian Municipalities and the Canadian Urban Transit Association, public transit ridership has risen recently in many Canadian cities.

In the Greater Toronto Area, GO Transit's monthly ridership in May 2008 was up about 8% over the same month a year earlier. In Vancouver, ridership on the West Coast Express jumped 25% in April 2008, while sales of monthly two-and three-zone FareCards have increased 14 to 16%, which suggests that people making long commutes have decided to leave the car at home, not just for their commute but for other forms of travel. In Ottawa, transit ridership was nearly 5% higher in the first seven months of 2008 than it was at the same time in 2007, while July ridership was up by 9% compared to the same time last year. In St. John's, ridership on the Metrobus system increased by 12% compared to the same period a year earlier. In Gatineau, Quebec, ridership for July 2008 increased by 13% over the same month in the previous year. This is double the rate of increase experienced a year earlier.

Source: The Federation of Canadian Municipalities, <http://www.fcm.ca/english/View.asp?mp=1&x=955>





## Wholesale Gasoline Prices

Wholesale gasoline prices ranged from 64 to 73 cents per litre in the selected centres for the **week of October 16, 2008**. Overall, compared to the previous week, most Canadian and American centres recorded price decreases ranging from 1 to 6 cents per litre.

Compared to two weeks ago, wholesale prices in all the selected centres are lower on average by 9 cents in Canada and by 8 cents per litre in the U.S.

Ending the period in the 64 to 68 cents per litre range, changes in the wholesale gasoline prices in the Eastern markets of both Canada and the United States ranged

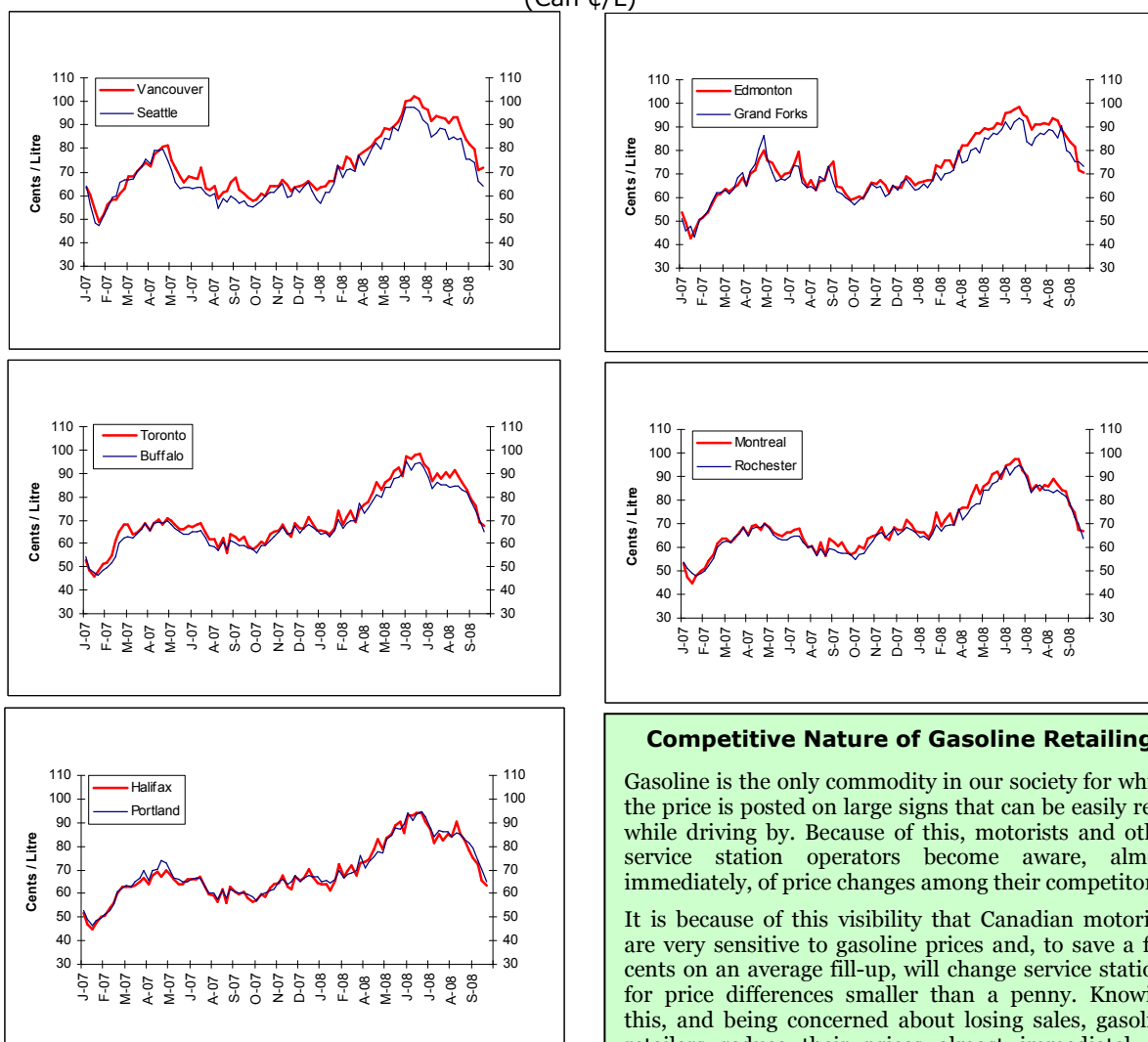
from a decrease of 1 to 6 cents per litre, compared to the previous week. Prices in Western centres ranged between a decrease of 2 cents per litre to an increase of 1 cent per litre and ended in the range of 64 to 73 cents per litre.

In the last four weeks wholesale prices in both Canadian and American selected centres have declined on average about 15 and 14 cents per litre, respectively.

Overall, prices in some selected centres have dropped to their January 2008 levels. However, prices are still higher by 4 to 14 cents per litre compared to the same period last year.

**Figure 4: Wholesale Gasoline Prices**

Rack Terminals Prices for Selected Canadian and American Cities Ending October 16, 2008  
(Can ¢/L)



Sources: NRCan, Bloomberg Oil Buyers Guide

### Competitive Nature of Gasoline Retailing

Gasoline is the only commodity in our society for which the price is posted on large signs that can be easily read while driving by. Because of this, motorists and other service station operators become aware, almost immediately, of price changes among their competitors.

It is because of this visibility that Canadian motorists are very sensitive to gasoline prices and, to save a few cents on an average fill-up, will change service stations for price differences smaller than a penny. Knowing this, and being concerned about losing sales, gasoline retailers reduce their prices almost immediately to match their competitors.





## Refining and Marketing Margins

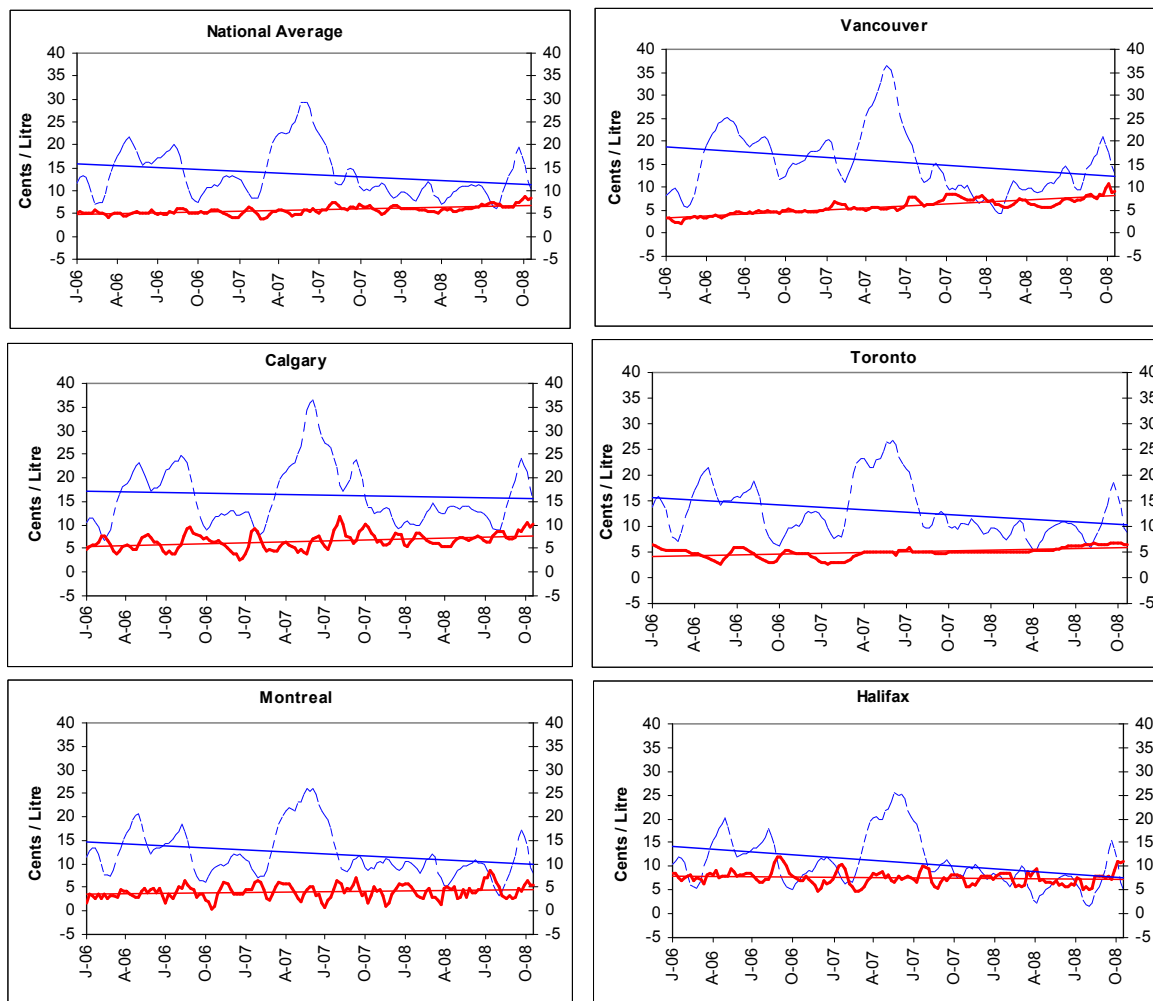
**Four-week rolling averages** are used for the for gasoline refining and marketing margins. See Figure 5 for the period ending October 21, 2008.

Refining margins are one indicator of the health of the refining sector. After many years of rates of return below other manufacturing industries, refining margins improved significantly in 2006 and 2007. However, as the graphs indicate, refining margins have in more recent months again been on a downward slope.

Unstable or unpredictable margins make it difficult for companies to consider new investments to expand production. As long as supply and demand balances remain tight, even small supply disruptions will cause upward price pressure and increase the volatility of margins.

Nationally, the marketing margins rose to 8.5 cents per litre, slightly higher than for the same period last year. Marketing margins for the five centres ranged from 6 cents per litre in Montreal to 11 cents per litre in Halifax.

**Figure 5: Refining and Marketing Margins**  
Four-Week Rolling Average Ending October 21, 2008  
----- Refining Margin      — Marketing Margin



Source: NRCan





## Crude Oil Overview

### Crude Oil Trades at Less Than Half of July Peak

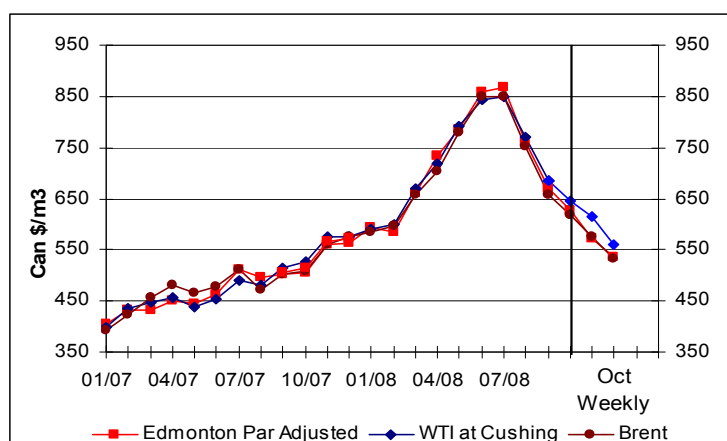
For the week ending October 17, 2008, crude oil prices averaged between \$532/m<sup>3</sup> and \$559/m<sup>3</sup> (\$US72 to \$US75 per barrel). All crude prices dropped week over week. The price of light sweet crude oil closed below \$US70 a barrel on the NYMEX on October 16, hitting a 14-month low. However, Canadian prices have not declined proportionately due to a significant decline in the Canadian dollar relative to the U.S. dollar.

Crude is trading lower because of expectations that economic weakness will dampen global crude demand. Energy prices continue to plummet as traders continue to sell off energy futures in response to the deepening economic crisis. Decreased demand in countries of the Organisation for Economic Cooperation and Development (OECD) is no longer the only driver, as

some analysts are reporting that oil demand in China slowed in September and October due to high oil stocks after the Olympics.

An emergency meeting of the Organization of Petroleum Exporting Countries (OPEC) to discuss a possible reduction in crude output to strengthen oil prices, originally to be held on November 18, has been moved to October 24, 2008. OPEC may need to reduce production not only because prices are currently too low but because of insufficient demand—OPEC has decreased its estimate of 2009 world oil demand growth by 100,000 b/d. In the short term, with refiners slowing down their purchases, the price of oil is not likely to increase substantially.

Figure 6: Crude Oil Price Comparisons



### Changes in Crude Oil Prices

Crude Oil Types	Week Ending: 2008-10-17		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
Edmonton Par	535.43	72.05	-37.40	-8.29	+20.28	-11.34
WTI	558.94	75.21	-55.54	-11.01	+21.39	-12.63
Brent	532.23	71.61	-43.51	-9.16	+14.72	-12.95

Source: NRCan

### Capital Expenditures Expected to Rise in 2008

According to the Canadian Association of Petroleum Producers, capital expenditures in the conventional and non-conventional sectors are expected to reach \$50 billion in 2008. With the beginning of new expansion projects, in addition to ongoing developments, the non-conventional sector capital expenditures increased 26% in 2007 to \$18 billion. This marked the third year in a row that expenditures have surpassed \$10 billion in the non-conventional sector.

Capital expenditures by the conventional oil and gas extraction industry totalled \$32 billion in 2007, down 18% from 2006. The decrease in spending reflected the lower number of exploratory (-40%) and development (-1.7%) wells drilled in 2007.

### Oil and Gas Extraction Industry: Capital and Operating Expenditures

	2007 2007	2006 to 2007
	\$ millions	% change
<b>Capital</b>		
Conventional	31,650.5	-17.9
Non-conventional	18,065.3	26.0
<b>Operating</b>		
Conventional	26,825.5	0.9
Non-conventional	10,851.1	6.0

Source: Statistics Canada, <http://www.statcan.ca/Daily/English/081008/do81008a.htm>





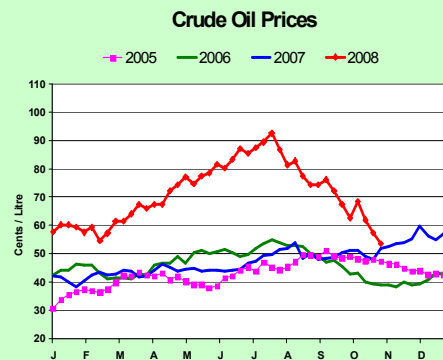
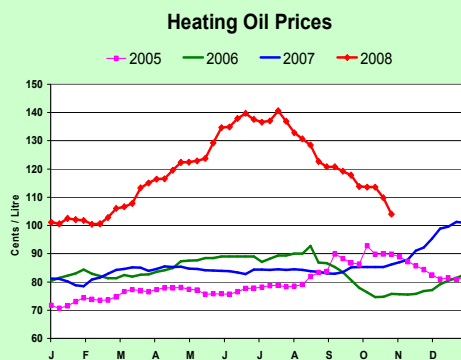


## Heating Oil Prices—What Canadians Can Expect

In the last twenty years, the use of fuel oil as a heating source has decreased significantly in Canada and been replaced primarily by natural gas and electricity. Still, for many provinces, heating oil is an important source of energy for heating homes during the winter season. Some provinces (Ontario, Quebec and the Atlantic provinces) are much more dependent on this type of fuel than others. Therefore, price fluctuations in these areas have a greater effect on consumers, particularly lower income earners. Heating oil sales are concentrated in Eastern Canada, with Atlantic Canada accounting for about 30% of domestic sales, Quebec at 37%, Ontario at 26% and the rest of Canada at 6%. In Prince Edward Island, 85% of the households use heating oil.

Due to higher crude oil prices, heating oil prices remained higher throughout the year than at this time last year. The average price as of October 21, 2008, was \$1.04 per litre, an increase of 18 cents per litre over the same period last year. The rise of heating oil prices in mid-year was primarily due to rising world crude oil prices and the tight supply of distillate fuel (diesel and heating oil) in North America. Since their peak in July, as of October 21, 2008, prices have dropped by 37 cents per litre.

As indicated in the following graphs, overall Canadian heating oil prices in the last few years have predictably tracked crude oil prices. As an indication of what Canadian consumers may expect in terms of increases in heating costs, the U.S. Energy Information Administration *Short-Term Energy and Winter Fuels Outlook* anticipates that households in the Northeast regions of the U.S. can expect to pay 23% more this winter for heating oil as a result of increased prices and have a 5% increase in consumption due to the colder weather anticipated over the next winter season.



The increase in the price of fuel oil, compared to the previous year, has led to a potential increase in the average heating bill for consumers. Given the current volatility of crude oil prices, heating oil prices have started to fall before the onset of winter. However, factors such as wholesale prices in the United States, the length and severity of the coming winter, and tight supplies of diesel and heating oil, particularly in Western Canada, will also put extra pressure on prices. As a companion section, the next Fuel Focus Supplement will examine some of the payment options available to home heating oil users and offer tips to reduce your heating bill.