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Fuel Focus

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

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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://nrcan.gc.ca/eneene/focinf-eng.php>

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National Overview

Retail Pump Prices Increased Nearly 1 Cent per Litre from Last Week

For the week ending October 19, 2010, Canadian average retail gasoline prices increased by nearly 1 cent per litre from the previous week to \$1.06 per litre—the highest level this year. Prices are above last year's level by 8 cents per litre.

Diesel fuel prices rose by 1 cent to \$1.05 per litre, and furnace oil prices increased by less than 1 cent ending at 93 cents per litre from the previous week. Compared to a year ago, prices for diesel and furnace oil are 14 and 13 cents per litre higher, respectively.

The rise in retail gasoline prices reflects the greater volatility in North American wholesale gasoline prices, which in turn were firmed up by the upward trend from world crude oil prices.

Recent Developments

- **Domestic Sales of Refined Products Up:** Statistics Canada preliminary data for August 2010 shows that sales of refined petroleum products totalled 10 025 thousand cubic metres, up 15 % from August 2009 and 11 % higher than July 2010. All of the major petroleum product groups posted increased sales in August from the same month in 2009. (Source: Statistics Canada, <http://www.statcan.gc.ca/daily-quotidien/101012/dq101012a-eng.htm>)
- **Refineries Shutdown in France:** On October 15, 2010, all 12 French refineries were shut down by companies due to a workers' strike across the nation. A 12-day strike in December 2008 cost refineries 26 million euros according to an estimate of the Union française des industries pétrolières, an industry group. A strike at the oil terminals in March 2007 lasted 17 days. (Sources: Oil and Gas Journal and Bloomberg).
- **New Waiver Promotes Ethanol and Gasoline Blend in the U.S.:** On October 13, 2010, the U.S. Environmental Protection Agency (EPA) granted a waiver to allow the sale of fuel that contains up to 15 percent ethanol – known as E15 – for use in cars and light trucks. This waiver applies for model year 2007 and newer. However, certain conditions must be fulfilled and additional steps taken to allow the sale and distribution of E15, including pump labelling. The decision to allow its use in model year 2001 to 2006 vehicles will be made pending results of additional testing, which is expected in November. No approval was granted for pre-2001 vehicles, as well as motorcycles and non-road engines, vehicles and equipment. (Source: EPA, <http://yosemite.epa.gov/opa/admpress.nsf/o/BF822DDBEC29CoDC852577BB005BACoF>)

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

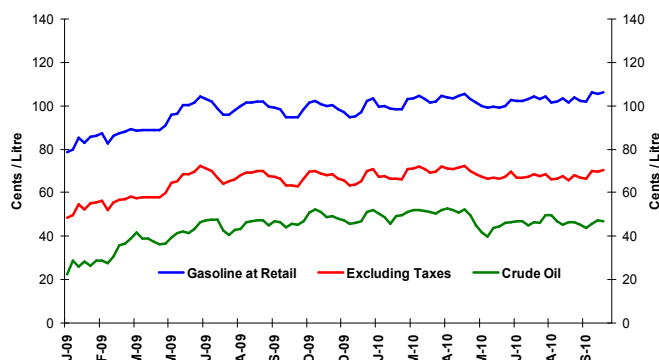
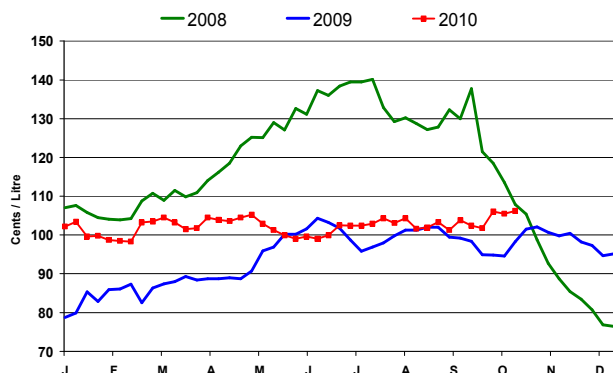


Figure 2: Weekly Regular Gasoline Prices



Changes in Fuel Prices

	Week of:	Change from:	
¢/L	2010-10-19	Previous Week	Last Year
Gasoline	106.2	+0.7	+7.9
Diesel	105.3	+1.0	+13.6
Furnace Oil	92.9	+0.4	+12.7

Source: NRCan

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Retail Gasoline Overview

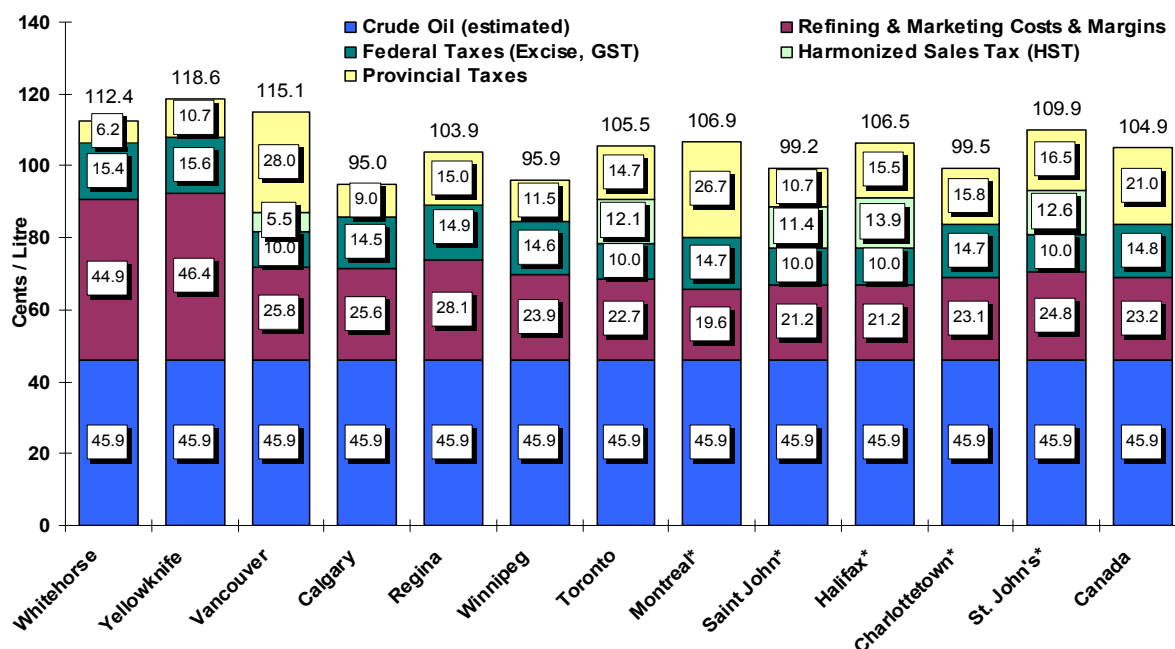
For the period ending October 19, 2010, the **four-week average** regular gasoline pump price in selected cities across Canada was \$1.05 per litre, an increase of 1 cent per litre compared to the price in the previous report of October 8, 2010. Compared to the same period in 2009, the average Canadian pump price is 9 cents per litre higher.

The **four-week average** crude component was 46 cents per litre, an increase of nearly 1 cent compared to two weeks ago.

Retail gasoline prices in most Western centres declined slightly by less than 1 cent per litre when compared to the previous report and ranged from 95 cents per litre to \$1.15 per litre. Prices in Eastern cities increased by 2 cents per litre and ranged from 99 cents per litre to \$1.10 per litre.

At the national level, refining and marketing costs and margins registered an increase by 1 cent per litre to 23 cents per litre compared to a year ago.

**Figure 3: Regular Gasoline Pump Prices in Selected Cities
Four-Week Average (September 28 to October 19, 2010)**



Source: NRCan

* Regulated Markets

Pipelines in Canada

Efficient and inexpensive transportation of energy is crucial for Canada's energy sector. Pipelines provide the most reliable and efficient means of transporting large amounts of crude oil.

There are about 23,000 kilometres of main trunk lines transporting crude oil from the Western Canada Sedimentary Basin to Canadian refineries and international border crossing points, and from the United States into Canadian refineries.

There are also over 12,000 kilometres of gathering lines, transporting crude oil from producers' fields to the main trunk lines, and over 5,000 kilometres of pipeline dedicated to the transport of refined petroleum products.

Source: NRCan, Fuel Focus website, <http://nrcan.gc.ca/eneene/sources/infinf/pipgaz-eng.php>





Wholesale Gasoline Prices

Compared to the previous week, wholesale gasoline prices for the week ending **October 14, 2010** increased slightly in most Canadian and American centres.

Wholesale gasoline price changes ranged from an increase of more than 1 cent per litre to a decrease of less than 1 cent per litre. Prices ended in the 60 to 65 cents per litre range.

In the Eastern markets of Canada and the U.S., wholesale gasoline prices, compared to the previous week, ranged from an increase of 1 cent per litre to a slight decrease in Halifax.

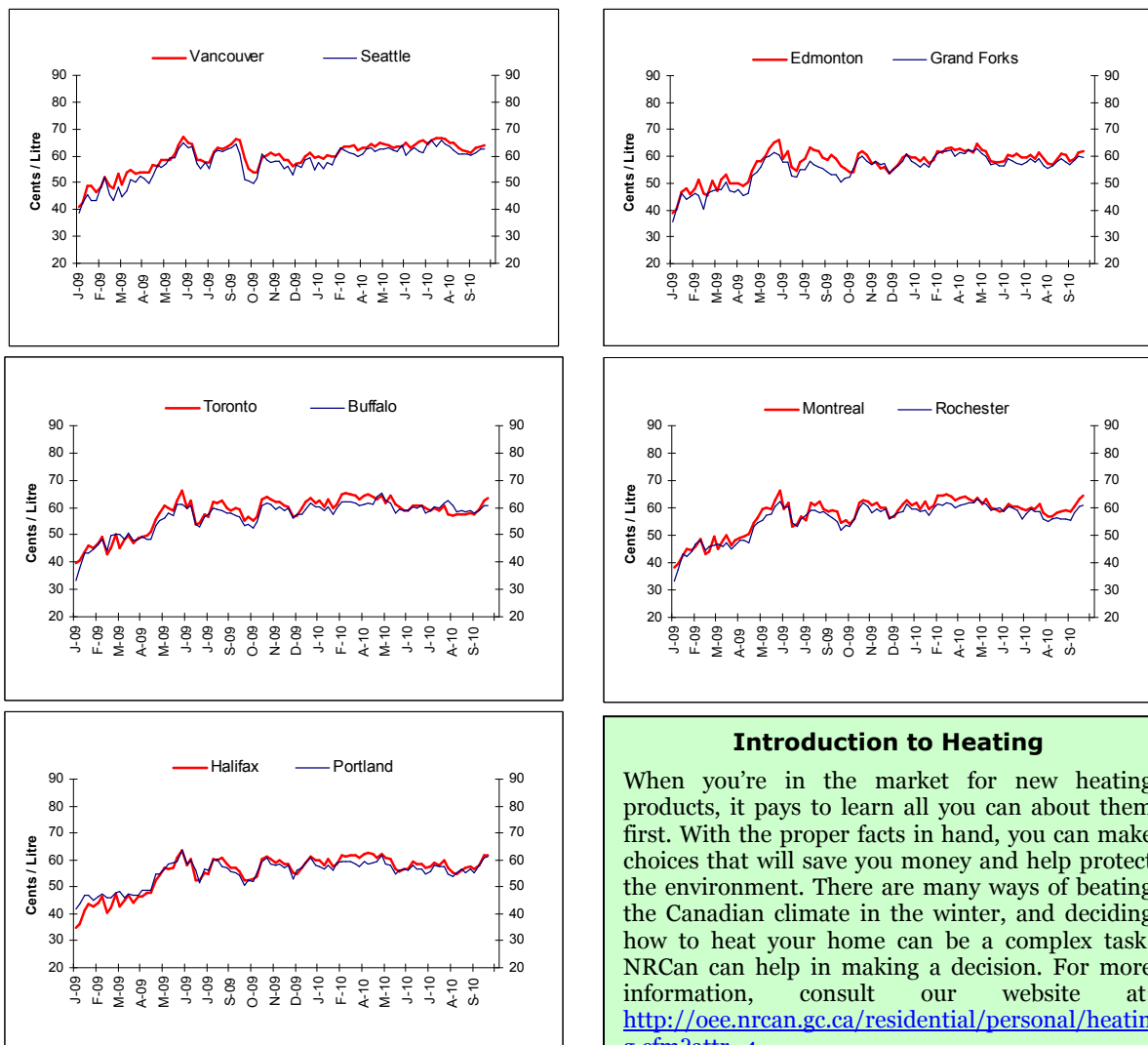
Wholesale gasoline prices in the Western centres ranged from an increase of less than 1 cent per litre to a decrease of less than 1 cent per litre. Prices ended in the 60 to 64 cents per litre range.

Compared to two weeks ago, prices in both Canadian and American centres increased in the range of 1 to 4 cents per litre following the increase in world oil crude prices.

Compared to the previous year, wholesale prices in Canadian and American centres are 4 to 11 cents per litre higher than at the same time last year.

Figure 4: Wholesale Gasoline Prices

Rack Terminal Prices for Selected Canadian and American Cities Ending October 14, 2010
(Can ¢/L)



Introduction to Heating

When you're in the market for new heating products, it pays to learn all you can about them first. With the proper facts in hand, you can make choices that will save you money and help protect the environment. There are many ways of beating the Canadian climate in the winter, and deciding how to heat your home can be a complex task. NRCAN can help in making a decision. For more information, consult our website at: <http://oee.nrcan.gc.ca/residential/personal/heating.cfm?attr=4>

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 the selected markets have increased on average by 1 cent per litre. The four-week national average refining margin is approximately 16 cents per litre.

The upward movement is in part due to the price decline in the Edmonton Par crude which is used in our methodology to calculate the refining margins. As shown

in Figure 6, Edmonton Par has dropped more significantly than WTI and Brent. Because wholesale gasoline prices in Canada are influenced by the North American markets, they have not dropped as significantly as crude prices. As a result, refining margins increased.

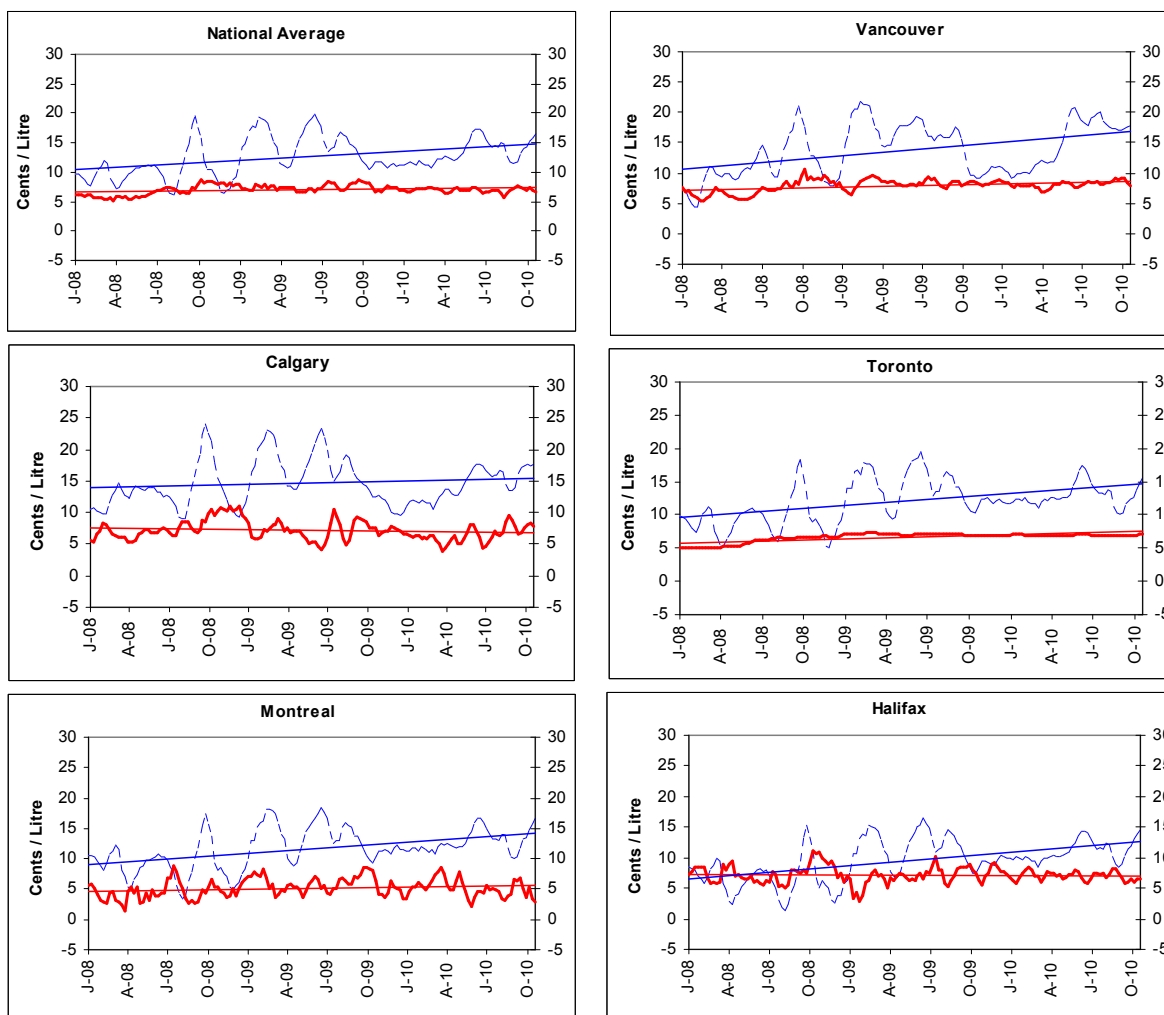
Marketing margins ranged from 3 to 8 cents per litre compared to two weeks ago. Changes range from a decrease of almost 2 cents per litre to an increase of less than 1 cent per litre.

Figure 5: Gasoline Refining and Marketing Margins

Four-Week Rolling Average Ending October 19, 2010

----- Refining Margin

----- Marketing Margin



Source: NRCan





Crude Oil Overview

Upward Crude Oil Prices Partly Offset by Large Inventories

For the week ending October 15, 2010, prices for the three marker crudes averaged between \$469/m³ and \$529/m³, (US\$74 to US\$83 per barrel).

The price differential between Edmonton Par crude and the other two marker crudes continue to persist partly due to outages on the Enbridge Inc. pipeline system last month which constrained transportation capacity of Canadian crude oil in the U.S., creating a temporary backlog. In addition, refinery downturns in preparation for winter fuel supply could partly limit the use of western Canadian crude as refineries may not have their usual operational capacity.

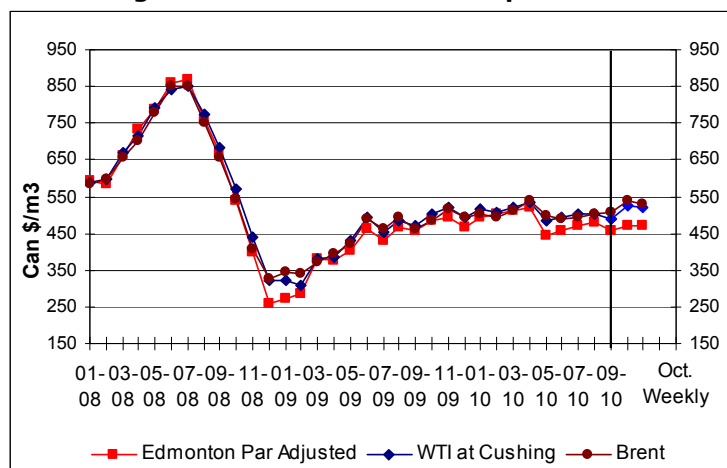
The upward movement in world crude oil prices in recent weeks was partially driven by the depreciation of

the U.S. dollar versus other currencies and the rise in equity markets as investors put their money where it can attract higher yields.

Large crude oil and petroleum product inventories help moderate prices. U.S. crude oil inventories remain above their five-year average range, while gasoline inventories, having dropped precipitously in the last few weeks, still remain significantly above their five-year average range.

The Organization of Petroleum Exporting Countries meet in Vienna on October 14, 2010, and no changes in quota levels are expected as the members are comfortable with the current price level and the market remains well-supplied.

Figure 6: Crude Oil Price Comparisons



Changes in Crude Oil Prices

Crude Oil Types	Week Ending: 2010-10-15		Change From:			
			Previous Week		Last Year	
	\$Can/ m ³	\$US/ bbl	\$Can/ m ³	\$US/ bbl	\$Can/ m ³	\$US/ bbl
Edmonton Par	469.47	74.02	-2.93	+0.06	+2.09	+2.16
WTI	521.15	82.17	-4.99	-0.20	+28.49	+6.42
Brent	528.79	83.37	-8.14	-0.69	+51.34	+9.97

Source: NRCan

EIA's Winter Fuels Outlook

On October 12, 2010, the Energy Information Administration (EIA) released its 2010 Winter Fuels Outlook. The EIA expects the average household expenditures for space-heating fuels in the U.S. to increase this winter (October 1 to March 31) by 2.5 percent, from last winter. The EIA projects higher expenditures in all fuels except electricity. Their price forecast reflects moderately higher prices for all the fuels.

According to the U.S. National Oceanic and Atmospheric Administration's most recent projection of heating degree-days, the lower 48 states are forecast to be 3 percent warmer during the winter heating season compared to last winter and 1 percent warmer than the 30-year average (1971-2000). However, heating degree-day projections vary widely between regions and for the Northeast U.S., the principal market for heating oil, it is projected to be about 5 percent colder than last winter.

Overall, household expenditures for home heating in the U.S. are expected to increase by 12% for heating oil, 8% for propane and 4% for natural gas but will decrease for electric heating by 2%.

The EIA expects the price of West Texas Intermediate (WTI) crude oil to average about \$80 per barrel this winter, a \$2.50-per-barrel increase over last winter.

Source: EIA, <http://www.eia.doe.gov/emeu/steo/pub/contents.html>

