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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

### Canadian Retail Pump Prices Increase by 2 Cents per Litre

For the week ending November 30, 2010, Canadian average retail gasoline prices increased from the previous week by 2 cents per litre to \$1.09 per litre. However, since the last report two weeks ago, average Canadian retail pump prices decreased by more than 1 cent per litre.

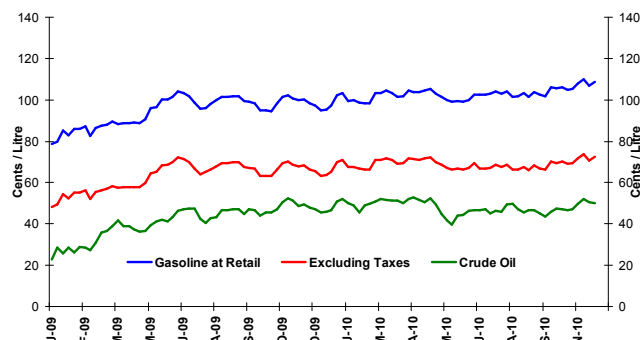
Diesel fuel prices decreased by less than 1 cent per litre from last week to \$1.10 per litre. Furnace oil prices declined by nearly 2 cents per litre from the previous week and averaged 93 cents per litre.

Average retail pump prices in Canada increased slightly despite the decline in North American wholesale gasoline prices and weaker world crude oil prices. Concerns over the European debt crisis and tensions over the Korean conflict contributed to the crude oil market uncertainties and in turn moderated the rise in crude prices.

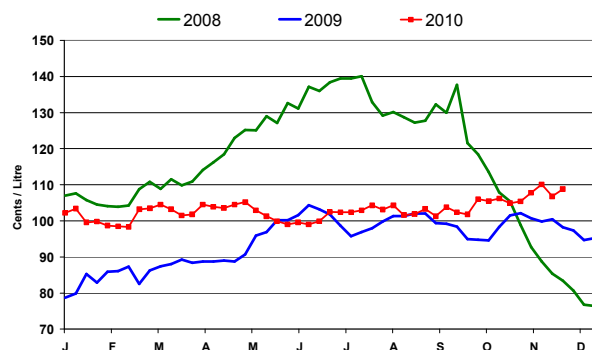
### Recent Developments

- **New Vehicles Sales Up:** The number of new motor vehicles sold rose 4.2% to 134,845 units in September. Stronger truck sales were the main contributor to the overall increase. Sales of new motor vehicles increased in all provinces in September. Sales of new motor vehicles in Ontario rose 6.8%, partially offsetting the decline in August, while in Alberta, sales advanced 2.4% in September, a fifth consecutive monthly increase. (Statistics Canada, <http://www.statcan.gc.ca/pub/63-007-x/63-007-x2010009-eng.htm>)
- **U.S. Gasoline Imports to Decline:** Ethanol's growing market share, combined with expanding U.S. refinery operations, will cut the need for gasoline imports by more than half of 2008 levels over the next two years, according to a new energy research report by Energy Security Analysis, Inc. Estimates are that gasoline import requirements will dip to below 400,000 barrels per day (b/d) by 2012, down from an average of more than 1 million b/d in 2008. This is attributed to ethanol's growing impact in the U.S. to renewable fuel standard requirements and lagging gasoline demand. (Source: Global Refining & Fuels Report, November 17, 2010, Issue 23)
- **Gasoline Sales Increase 8%:** Motor gasoline sales increased 8% to 30 billion litres in the first seven months of 2010 compared to the same period in 2009. Diesel fuel oil sales rose 14% to 19 billion litres, while light fuel oil (furnace oil) declined 1% to 2 billion litres in the same time period. (Source: NRCan and Statistics Canada)

**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	2010-11-30	Previous Week	Last Year
Gasoline	108.8	+2.0	+10.6
Diesel	109.6	-0.3	+13.4
Furnace Oil	92.7	-1.5	+5.9

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



## Retail Gasoline Overview

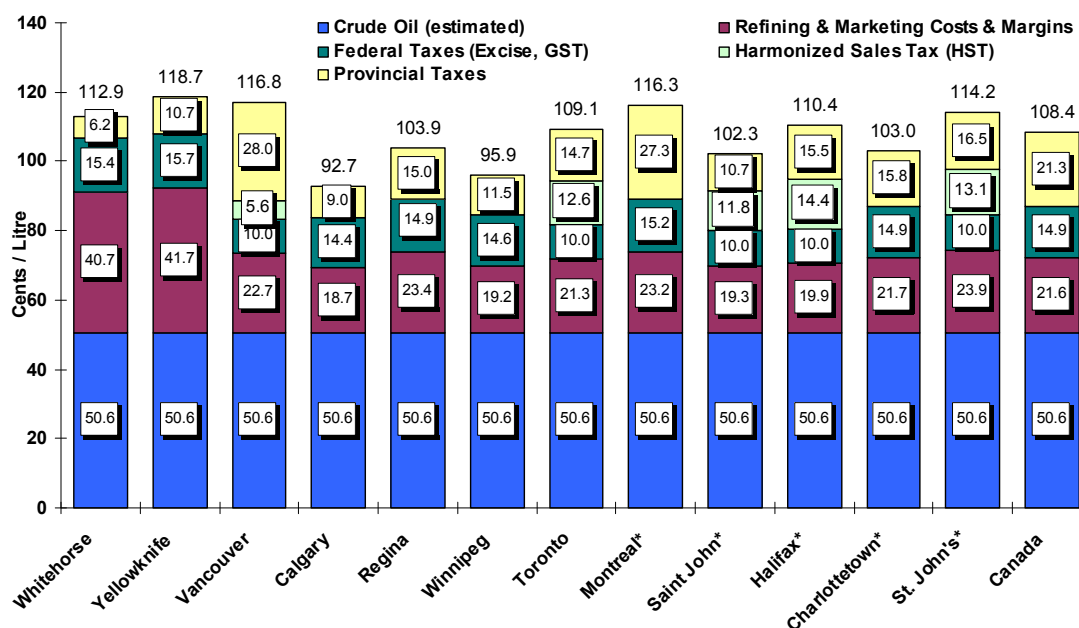
For the period ending November 30, 2010, the **four-week average** regular gasoline pump price in selected cities across Canada was \$1.08 per litre, an increase of more than 1 cent per litre compared to the price in the previous report of November 19, 2010. Compared to the same period in 2009, the average Canadian pump price is nearly 9 cents per litre higher.

The **four-week average** crude component was 51 cents per litre, an increase of 2 cents compared to two weeks ago. Crude oil prices are more than 1 cent per litre higher compared to the same time last year.

Retail gasoline prices in most Western centres—Vancouver to Winnipeg—increased marginally by less than 1 cent per litre when compared to the previous report and ranged from 93 cents per litre to \$1.17 per litre. Prices in Eastern cities—Toronto to St. John's—increased by 2 cents per litre and ranged from \$1.03 to \$1.16 per litre.

At the national level, refining and marketing costs and margins registered a decrease of 1 cent per litre to 22 cents per litre. This is an increase of 3 cents per litre compared to the same time last year.

**Figure 3: Regular Gasoline Pump Prices in Selected Cities  
Four-Week Average (November 9 to 30, 2010)**



Source: NRCan

\* Regulated Markets

### Inflation Up 2.4% in October 2010

Statistics Canada's Consumer Price Index (CPI) report released on November 23, 2010, indicates that consumer prices rose 2.4% in the 12 months to October, the largest increase since October 2008. It follows a 1.9% increase in September. About half of the 0.5 percentage point increase can be attributed to higher gasoline prices. In October, prices at the pump were 8.8% higher than a year earlier, following a 3.1% increase the previous month.

Energy prices advanced 9.1% during the 12 months to October, following a 5.6% increase in September. In addition to rising gasoline prices, prices for electricity increased 8.1%, while natural gas prices rose 10.6%. Prices increased in seven of the eight major components of the CPI in the 12 months to October; the only exception was clothing and footwear.

Transportation costs were up 4.6% in October after rising 3.1% in September. In addition to higher prices for gasoline and the purchase of passenger vehicles, passenger vehicle insurance premiums increased 4.6%, as standard automotive insurance coverage changed in Ontario.

Source: Statistics Canada, <http://www.statcan.gc.ca/daily-quotidien/101123/dq101123a-eng.htm>





## Wholesale Gasoline Prices

Wholesale gasoline prices, compared to the previous week, continued to decline in most centres for the **week of November 25, 2010**. Overall, price changes ranged from an increase of less than 1 cent per litre to a decrease of 4 cents per litre.

Decreases in wholesale gasoline prices in Eastern markets, in both Canada and the United States, ranged from less than 1 to 4 cents per litre, compared to the previous week, ending the period in the 61 to 66 cents per litre range.

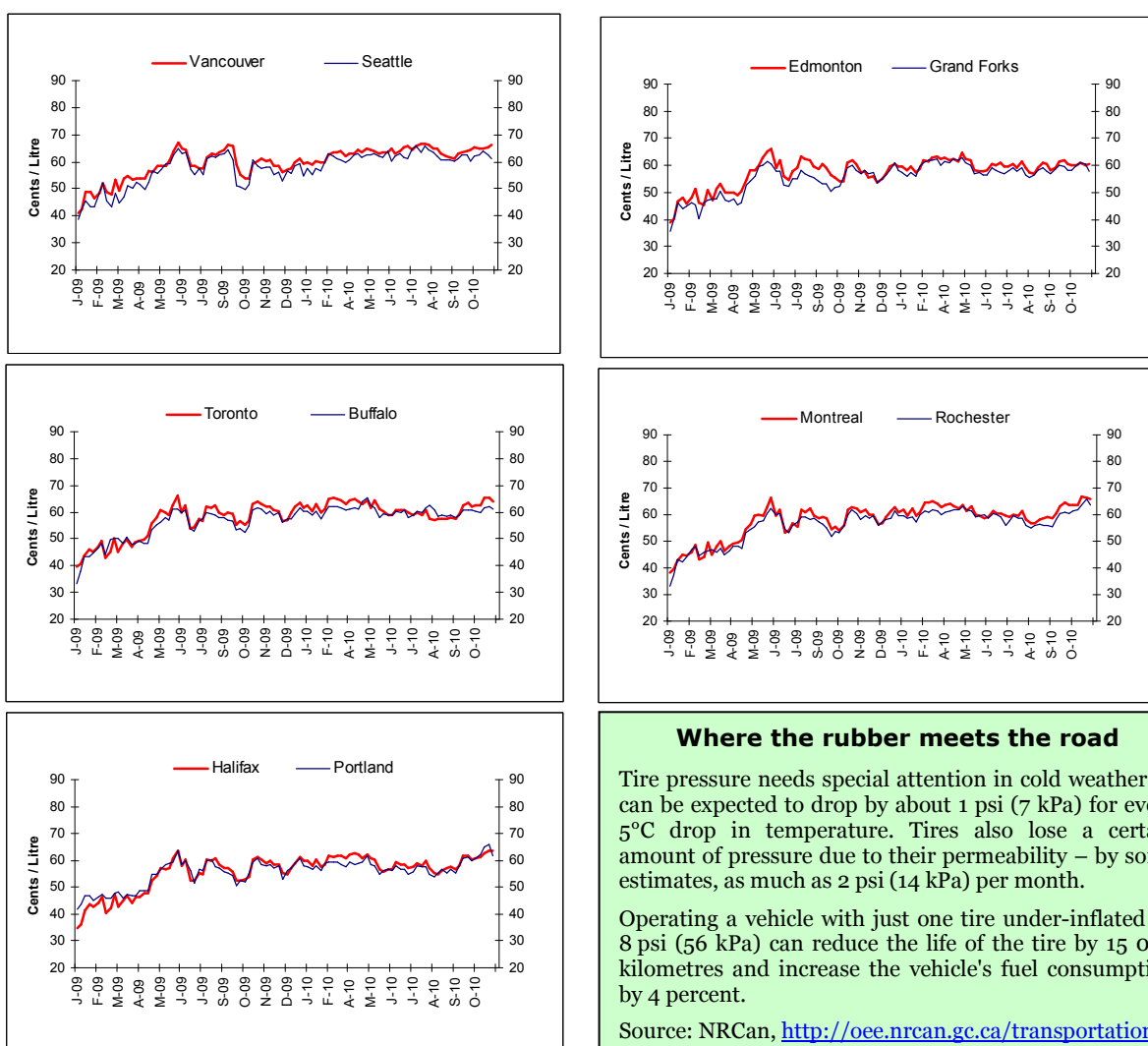
Wholesale gasoline price changes in Western centres ranged from an increase of 1 cent per litre to a decrease of nearly 3 cents per litre and ended the period between 58 and 66 cents per litre.

In the last four weeks, wholesale price changes in both Canadian and American selected centres ranged from an increase of 3 cents per litre to a decrease of 1 cent per litre.

Overall, wholesale gasoline prices in most markets are 1 to 8 cents per litre higher compared to the same period last year.

**Figure 4: Wholesale Gasoline Prices**

Rack Terminal Prices for Selected Canadian and American Cities Ending November 25, 2010  
(Can ¢/L)



Sources: NRCan, Bloomberg Oil Buyers Guide

### Where the rubber meets the road

Tire pressure needs special attention in cold weather. It can be expected to drop by about 1 psi (7 kPa) for every 5°C drop in temperature. Tires also lose a certain amount of pressure due to their permeability – by some estimates, as much as 2 psi (14 kPa) per month.

Operating a vehicle with just one tire under-inflated by 8 psi (56 kPa) can reduce the life of the tire by 15 000 kilometres and increase the vehicle's fuel consumption by 4 percent.

Source: NRCan, <http://oee.nrcan.gc.ca/transportation/personal/maintaining/autosmart-car-care.cfm?attr=8>





## Gasoline Refining and Marketing Margins

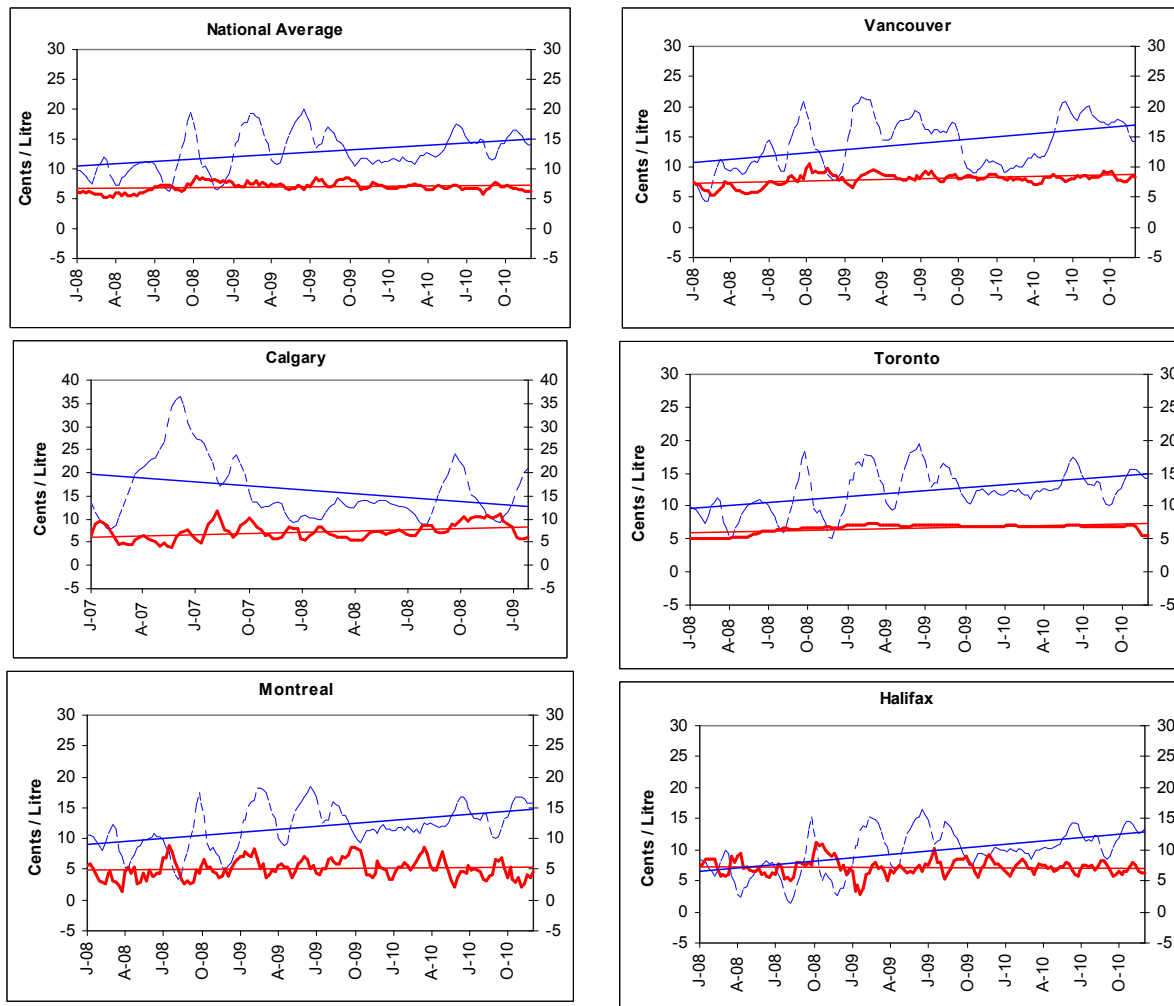
**Four-week rolling averages** are used for gasoline refining and marketing margins.

Refining margins continue to move downward in most selected centres. The downward trend reflects the decrease in demand for gasoline with adequate supply in the distribution system. As seen in the past, temporary supply bottlenecks can result in higher margins. Declining but still strong U.S. gasoline and crude oil inventories create downward pressure on prices which in turn lowers refining margins.

Overall, marketing margins hovered around 6 cents per litre. Marketing margins for the five centres ranged from a low of 5 cents per litre in Montreal to a high of 8 cents per litre in Calgary.

Marketing margins have to cover the costs associated with operating an outlet and generate a profit for the station owner. These margins can vary significantly depending on the region, volume sold and availability of other product offerings. Most of the costs of operating an outlet are fixed and do not decline with lower gasoline prices.

**Figure 5: Gasoline Refining and Marketing Margins**  
Four-Week Rolling Average Ending November 30, 2010  
----- Refining Margin      — Marketing Margin



Source: NRCan





## Crude Oil Overview

### World Crude Oil Prices Wane on World Events

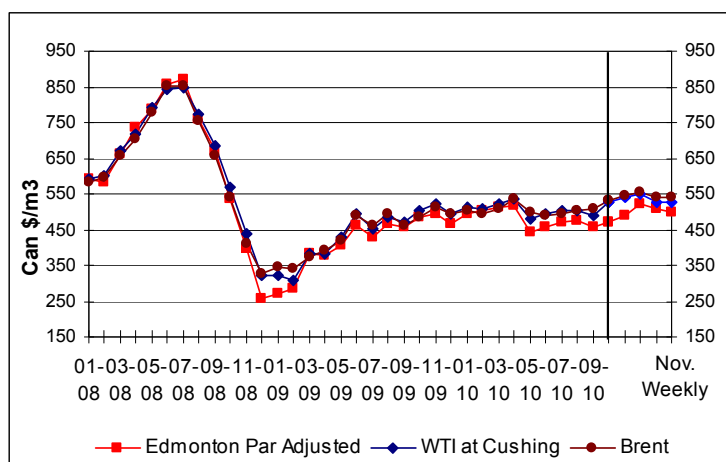
For the week ending November 26, 2010, prices for the three marker crudes averaged between \$500/m<sup>3</sup> and \$539/m<sup>3</sup>, (US\$78 to US\$84 per barrel). This represents a slight change from the previous week. However, compared to the previous year prices are higher by \$21 to \$31/m<sup>3</sup> (US\$6 to US\$8 per barrel).

World crude oil prices were sent into a new market hiatus on concerns that Ireland's debt crisis would spread to Portugal and Spain reducing economic growth in Europe. Meanwhile, tensions between North and South Korea added a new level of uncertainty which could represent a negative market development.

However, world oil prices continue to be buoyed upon positive indications about the U.S. economy, raising expectations that demand for fuel products will improve. For now, U.S. crude oil inventories remain significant and continue to put downward pressure on prices.

According to a recent study by the international energy industry consulting firm Purvin & Gertz on global crude oil market outlook, the current OPEC capacity appears sufficient to meet incremental oil demand under a range of supply scenarios through 2020. Spare capacity among OPEC producers, according to the firm, would be large enough to cover potential shortfalls from expected high growth areas.

Figure 6: Crude Oil Price Comparisons



### Changes in Crude Oil Prices

Crude Oil Types	Week Ending: 2010-11-26		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	500.80	78.35	-5.13	-0.70	+21.43	+6.28
WTI	536.91	82.54	+2.48	+0.34	+22.33	+6.39
Brent	538.97	84.16	-1.43	-0.27	+31.23	+7.79

Source: NRCan

### Increased Oil and Gas Drilling Expected in 2011

The 2011 Canadian Drilling Activity Forecast, released November 1, 2010, by the Petroleum Services Association of Canada (PSAC), forecasts a total of 12,250 wells drilled across Canada for 2011. This is more than the expected final tally of 11,350 for 2010, although still a long way from the almost 25,000 wells of 2005.

On a provincial basis for 2011, PSAC estimates 7,915 oil and gas wells to be drilled in Alberta and 700 in British Columbia, representing an increase of five per cent in Alberta and an increase of one per cent in B.C. over expected 2010 drilling levels. Saskatchewan's drilling rate in 2011 will see a 16% increase to 3,050 wells. Drilling in Manitoba will see a ten per cent increase to 550 wells.

Oil and gas activity is predicated on price. In 2011, oil prices will be adequate to sustain oil activity. As a result, PSAC is forecasting an increase in drilling in oil areas like Saskatchewan and northeast Alberta. Natural gas pricing, on the other hand, is expected to remain relatively low and PSAC is not expecting any significant gas price turnaround in 2011. That, combined with the industry's focus on shale gas drilling, has led PSAC to forecast an 11% drop in the conventional shallow natural gas drilling area of southeast Alberta.

Source: Petroleum Services Association of Canada, <http://www.psac.ca/images/mediacentre/20101101.pdf>

