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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

Overall Retail Pump Prices Increased 3 Cents per Litre from Last Week

Canadian retail pump prices increased to a four-week high by 3 cents per litre to \$1.05 per litre for the week ending April 6, 2010. Average Canadian pump prices rose mainly because of an increase in wholesale gasoline prices.

Diesel fuel prices increased by less than 1 cent per litre to 98 cents per litre compared to the previous week. This is an increase of 11 cents per litre from the same period last year. Furnace oil prices remained almost unchanged from the previous week at an average of nearly 90 cents per litre.

Overall, world crude oil prices continue to fluctuate upward despite the 5-year-above-average inventories of U.S. crude oil and gasoline. For the week ending April 2, 2010, crude oil prices averaged between \$521/m³ and \$532/m³ (\$US82 to \$US83 per barrel) increasing week over week.

Recent Developments

- **Suncor Energy Completes Maintenance at Oil Sands Upgrader:** The maintenance work involved repairs following a fire in February at one of two oil sands upgraders operated by Suncor near Fort McMurray, Alberta. Oil sands production during the repair period in March averaged approximately 245,000 barrels per day. Production numbers include upgraded sweet and sour synthetic crude oil and diesel, as well as non-upgraded bitumen sold directly to the market from all Suncor-operated facilities. (Suncor Energy, <http://www.suncor.com/en/newsroom/2418.aspx?id=1142046>)
- **New Vehicle Emission Regulations:** Environment Canada announced proposed regulations to reduce greenhouse gas emissions in new passenger automobiles and light trucks which would affect new vehicles manufactured or imported for the 2011 model year and onwards. The new harmonized standards with the U.S. will require that an automaker's combined fleet of cars and trucks obtain on average six litres of gasoline for every 100 kilometres travelled.
- **Quebec Gasoline and Diesel Tax Increase:** On April 1, 2010, the Quebec gasoline and diesel tax increased by 1 cent per litre to 16.2 and 17.2 cents per litre, respectively. The tax increase was announced in the latest provincial budget as part of an effort to provide increased funding for road and public transportation infrastructures.

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

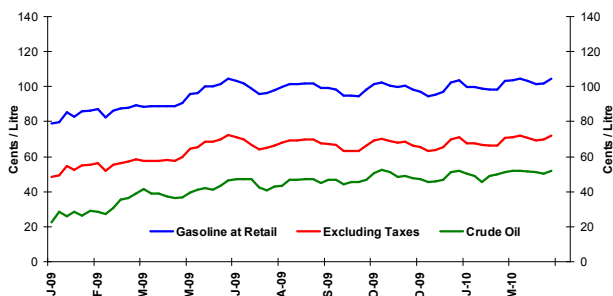
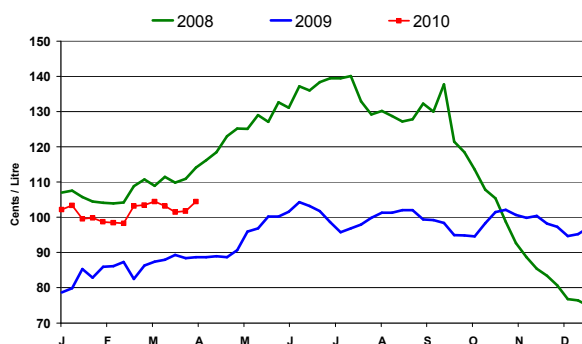


Figure 2: Weekly Regular Gasoline Prices



Changes in Fuel Prices

	Week of:	Change from:	
¢/L	2010-04-06	Previous Week	Last Year
Gasoline	104.5	+2.7	+15.8
Diesel	98.1	+0.5	+10.8
Furnace Oil	89.8	+0.1	+13.8

Source: NRCan

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Retail Gasoline Overview

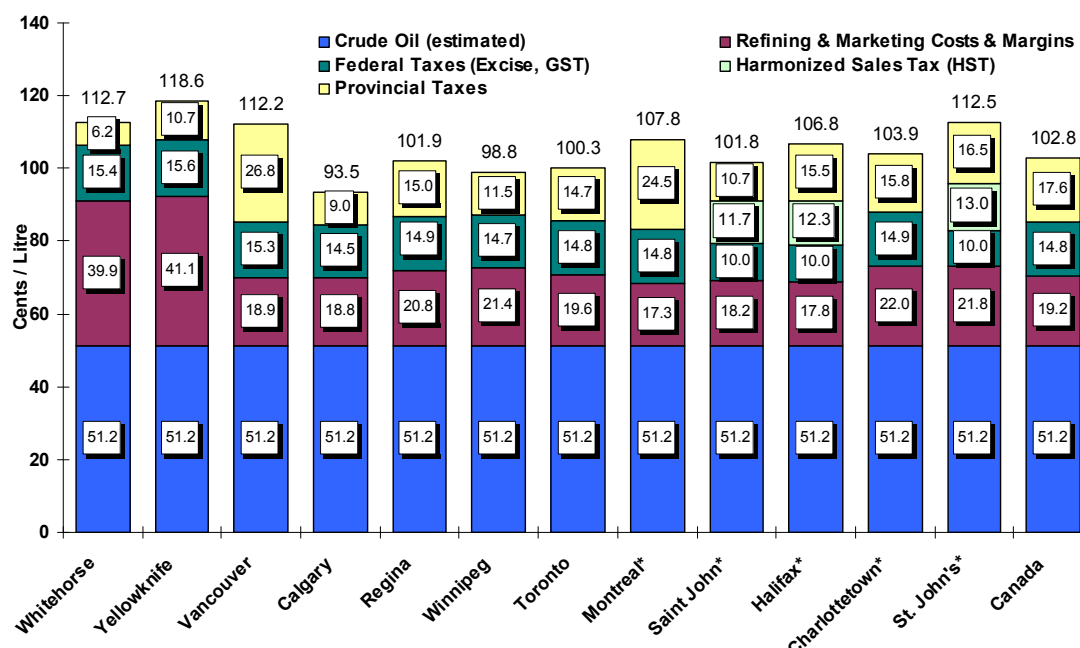
The average Canadian pump price in selected cities for the **four-week average** ending April 6, 2010, was \$1.03 per litre—an increase of 3 cents per litre from the last report on March 26, 2010. This represents a 14 cents per litre increase from the same period in 2009.

The **four-week average** crude oil price component of gasoline registered 51 cents per litre, up by 2 cents per litre from two weeks ago. The crude oil price component of gasoline is 12 cents per litre higher than at the same time last year.

Retail gasoline prices in most Western centres (Winnipeg to Vancouver), which ranged from 94 cents per litre to \$1.12 per litre, increased on average by 1 cent per litre when compared to the previous report. Prices in Eastern centres (Toronto to St. John's) declined on average by 1 cent per litre and ranged from \$1 to \$1.12 per litre.

Overall, the refining and marketing costs and margins component remained the same at 19 cents per litre compared to two weeks ago, and is less than 1 cent per litre higher than at the same time last year.

**Figure 3: Regular Gasoline Pump Prices in Selected Cities
Four-Week Average (March 16 to April 6, 2010)**



Source: NRCan

* Regulated Markets

Inventory Systems Influence Gasoline Replacement Costs

Consumers sometimes ask why the pump prices change when the gasoline in storage is the same as the day before. There are two different accounting systems used to determine the way a company values its inventory. Under the First In First Out (FIFO) system, inventories are valued at the price paid for the product when it was put into inventory. During periods of rising oil prices, the value of crude oil inventories is based on the price at the time the oil went into stock, not on the higher current cost of replacing the oil as it is used.

Under the Last In First Out (LIFO) system, inventories are valued at the price of the most recent addition to stocks. During periods of rising or falling prices, the value of the inventory is based on the most recent price and this is reflected in product prices immediately. Using replacement costs in retail pricing is especially important when wholesale price fluctuates frequently. A retailer must generate enough cash from current retail sales to purchase the next delivery of gasoline. Otherwise, the retailer would be constantly relying on debt to finance wholesale gasoline purchases. Over time, either system will result in similar net values. Any financial gains made when prices move in one direction will be offset by corresponding losses when prices move in the opposite direction.

Source: Natural Resources Canada





Wholesale Gasoline Prices

Wholesale gasoline prices, when compared to the previous week, increased in all centres for the **week of April 2, 2009**.

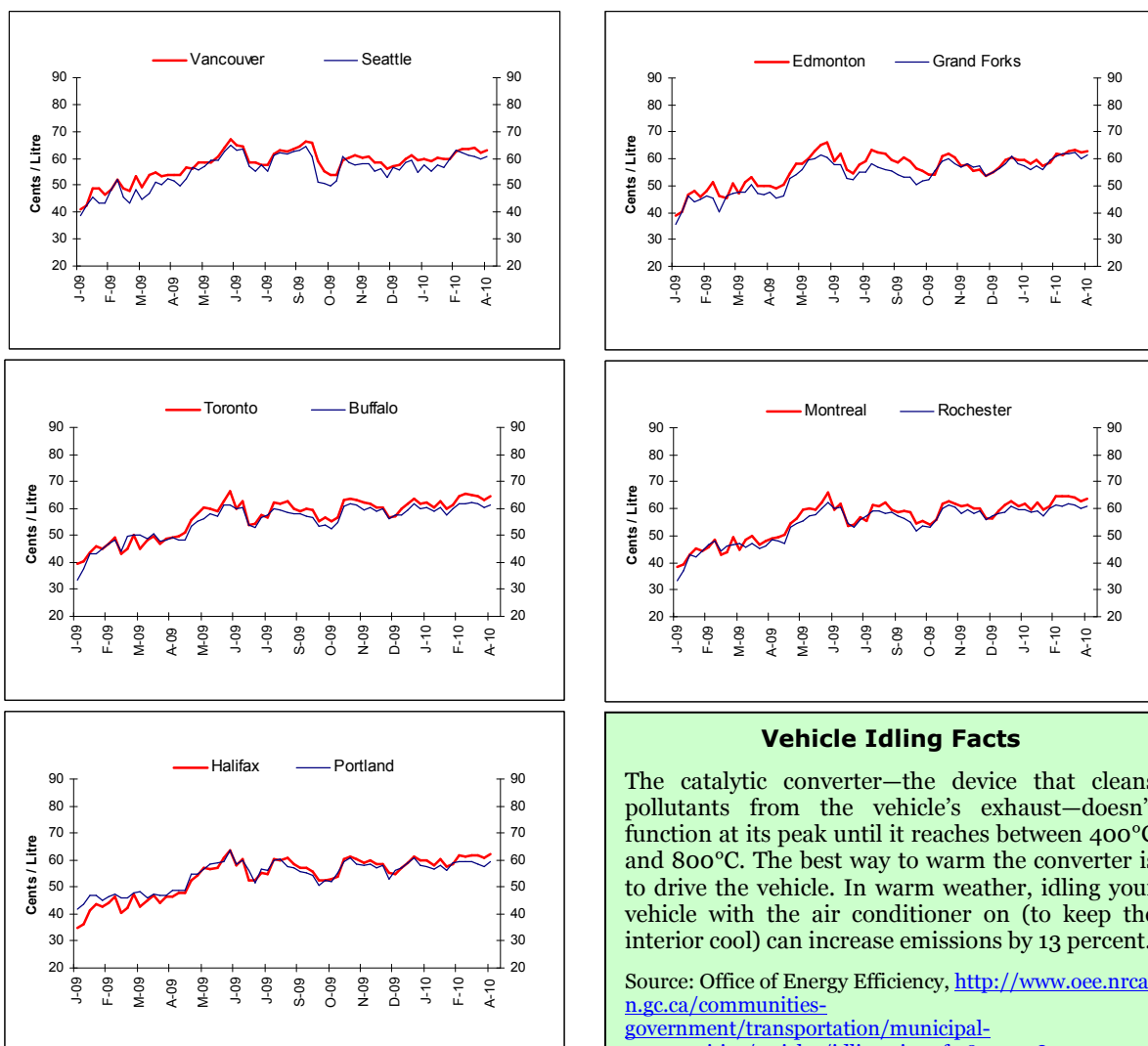
Wholesale gasoline prices in the Eastern markets of both Canada and the United States increased by 1 to 2 cents per litre, compared to the previous week, and ended the period between 59 and 64 cents per litre.

In the Western centres, price increases ranged between less than 1 and 2 cents per litre and ended at 61 to 63 cents per litre.

In the last four weeks, wholesale prices in most Canadian and American selected centres have decreased by about 1 cent per litre.

Overall, wholesale gasoline prices in most markets are 10 to 18 cents per litre above last year's level.

Figure 4: Wholesale Gasoline Prices
Rack Terminal Prices for Selected Canadian and American Cities Ending April 1, 2010
(Can ¢/L)



Sources: NRCan, Bloomberg Oil Buyers Guide

Vehicle Idling Facts

The catalytic converter—the device that cleans pollutants from the vehicle's exhaust—doesn't function at its peak until it reaches between 400°C and 800°C. The best way to warm the converter is to drive the vehicle. In warm weather, idling your vehicle with the air conditioner on (to keep the interior cool) can increase emissions by 13 percent.

Source: Office of Energy Efficiency, <http://www.oee.nrcan.gc.ca/communities-government/transportation/municipal-communities/articles/idling-tips.cfm?attr=28>





Gasoline Refining and Marketing Margins

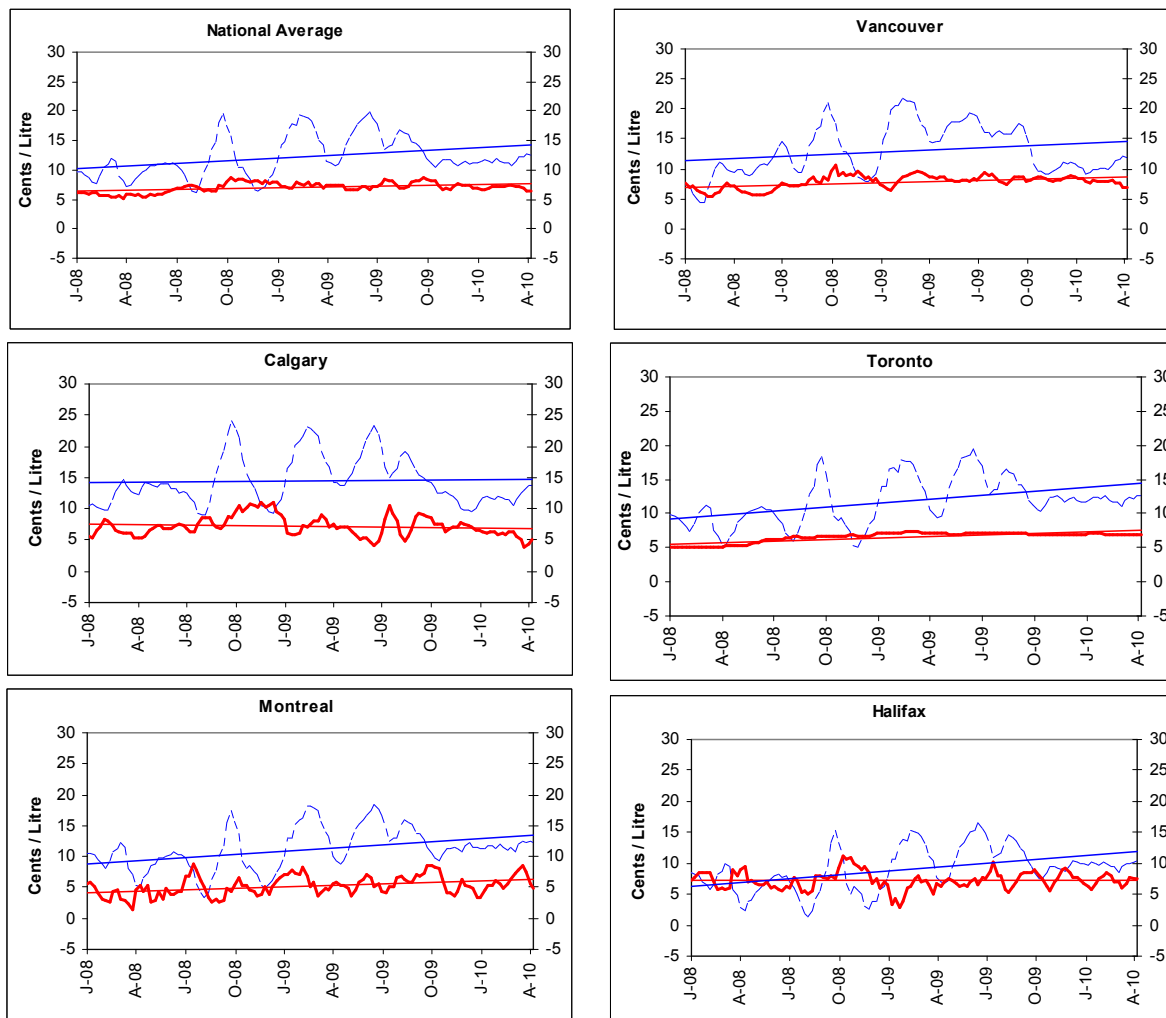
Four-week rolling averages are used for the refining and marketing margins for gasoline.

Reflecting the adequate supply in the distribution system, refining margins continue to show relatively low volatility. These margins tend to be volatile in times of higher demand such as increase demand for gasoline in the summer or due to other events that may constrain supplies.

Currently, the higher than average gasoline and crude oil inventories in the U.S. further contribute to the lower refining margins, and help moderate the increase in overall retail gasoline prices.

Marketing margins, representing the costs associated with operating an outlet, hovered at less than 7 cents per litre. Marketing margins for the five centres ranged from a low of 5 cents per litre in Montreal to more than 7 cents per litre in Halifax.

Figure 5: Gasoline Refining and Marketing Margins
Four-Week Rolling Average Ending April 6, 2010
----- Refining Margin — Marketing Margin



Source: NRCan





Crude Oil Overview

Crude Oil Prices Fluctuate in a Narrow Range

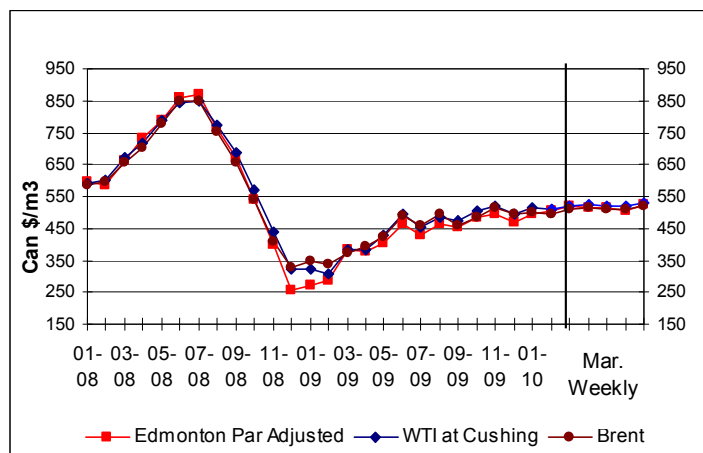
For the week ending April 2, 2010, crude oil prices averaged between \$521/m³ and \$532/m³ (\$US82 to \$US83 per barrel) increasing week over week. While all the following benchmark crude prices have increased gradually over the last few months, they are still trading significantly higher than at this time last year.

Overall, world crude oil prices continue to fluctuate upward despite the 5-year-above-average inventories of U.S. crude oil and gasoline. The weaker U.S. dollar, along with the Good Friday holiday weekend and increased

gasoline consumption drove much of the momentum in crude oil prices while markets attempt to recover as consumer confidence increases.

Large spare capacity in both the upstream and downstream seems to dictate price equilibrium. In the short-term, however, the U.S. Energy Information Administration forecast that world oil consumption will grow by 1.5 million barrels per day (bbl/d) in 2010 and 1.6 million bbl/d in 2011. Most of the growth in oil consumption is expected in the Asia-Pacific and Middle East regions

Figure 6: Crude Oil Price Comparisons



Changes in Crude Oil Prices

Crude Oil Types	Week Ending: 2010-04-02		Change From:			
			Previous Week		Last Year	
	\$Can/ m ³	\$US/ bbl	\$Can/ m ³	\$US/ bbl	\$Can/ m ³	\$US/ bbl
Edmonton Par	522.73	81.97	+18.22	+3.51	+145.77	+34.04
WTI	532.02	83.29	+13.30	+2.61	+136.16	+32.97
Brent	521.19	81.60	+13.94	+2.71	+126.34	+31.40

Source: NRCan

Roundtable on the Use of Natural Gas in Canada's Transportation Sector

Natural Resources Canada (NRCan) has launched roundtable consultations on the development of a roadmap for natural gas use in the transportation sector. The roadmap work will address knowledge gaps, inform public and private decision making, and define government and industry roles moving forward. It will investigate the transportation applications that would be optimal for the use of natural gas, assist in determining long-term investment requirements by stakeholders and outline key steps for implementation.

The target audience for the consultations is the industry, the associations, provincial and territorial governments, academia, and NGOs.

The outcome will be to determine priorities and confirm the work plan for a joint initiative to develop a roadmap for increased use of natural gas in Canada's transportation sector.

These consultations started March 12, 2010, and will continue until September. For more information on NRCan's consultations, please visit <http://www.nrcan-rncan.gc.ca/com/consultation/concon-eng.php>

