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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 Gasoline Prices Decline to $1.04 per Litre from Last Week

The Canada average retail gasoline price registered $1.04 per litre for the week ending April 20, 2010, down by less than 1 cent per litre from the previous week. Prices are 15 cents per litre higher than last year's price.

In the last two weeks pump prices have dropped by 1 cent per litre despite the slight increase in wholesale gasoline prices across North America, but followed the downward movement in crude oil prices.

Diesel fuel prices decreased slightly by nearly 1 cent per litre from last week to $1 per litre, but were still nearly 15 cents per litre higher than at this time last year. Furnace oil prices declined by 0.2 cent per litre to 90 cents per litre and were 15 cents per litre higher than a year ago.

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

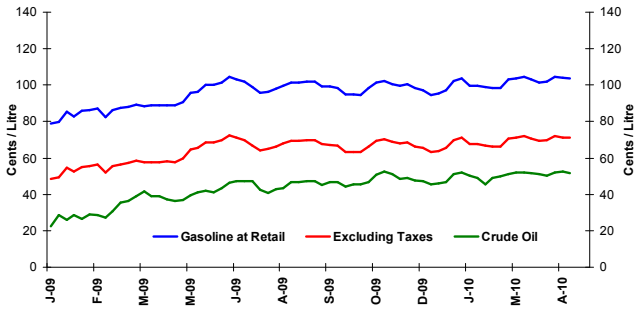
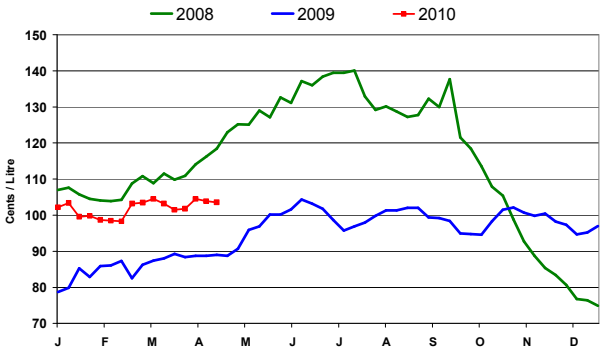


Figure 2: Weekly Regular Gasoline Prices



Changes in Fuel Prices

	Week of:	Change from:	
¢/L	2010-04-20	Previous Week	Last Year
Gasoline	103.6	-0.3	+14.6
Diesel	100.0	-0.5	+14.5
Furnace Oil	90.3	-0.2	+14.6

Source: NRCan

Recent Developments

- **Gasoline Sales Increase 1%:** Motor gasoline sales increased 1% to 6.6 billion litres in the first two months of 2010 compared to the same period in 2009. Diesel fuel oil sales were down almost 1% to 4.4 billion litres, while light fuel oil (furnace oil) declined 18% to 0.8 billion litres in the same time period. (Source: Statistics Canada, http://www.statcan.gc.ca/daily-quotidien/100409/dq100409c-eng.htm)
- ***Fairness at the Pumps Act***: On April 15, 2010, the Government of Canada announced a proposed *Fairness at the Pumps Act* to increase retailer accountability for measuring device accuracy. This Act would require retailers to have devices such as gas pumps and retail food scales inspected at regular intervals. Measurement Canada inspectors would continue to assess the accuracy of measurement devices through independent inspections and be solely responsible for taking enforcement actions when offences are identified. (Source: Industry Canada, http://www.ic.gc.ca/eic/site/ic1.nsf/eng/05475.html)
- **Renewable Fuels Regulations**: On April 1, 2010, the Government of Canada announced that it is moving forward with proposed regulations that will require an average renewable fuel content of five per cent in gasoline by September 2010. The proposal has been published in the Canada Gazette with a 60-day formal public comment period. (Source : Environnent Canada, http://www.ec.gc.ca/default.asp?lang=En&n=714D9AAE-1&news=5310FE32-88E2-4F0E-B72F-A66D4387EC37)

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Retail Gasoline Overview

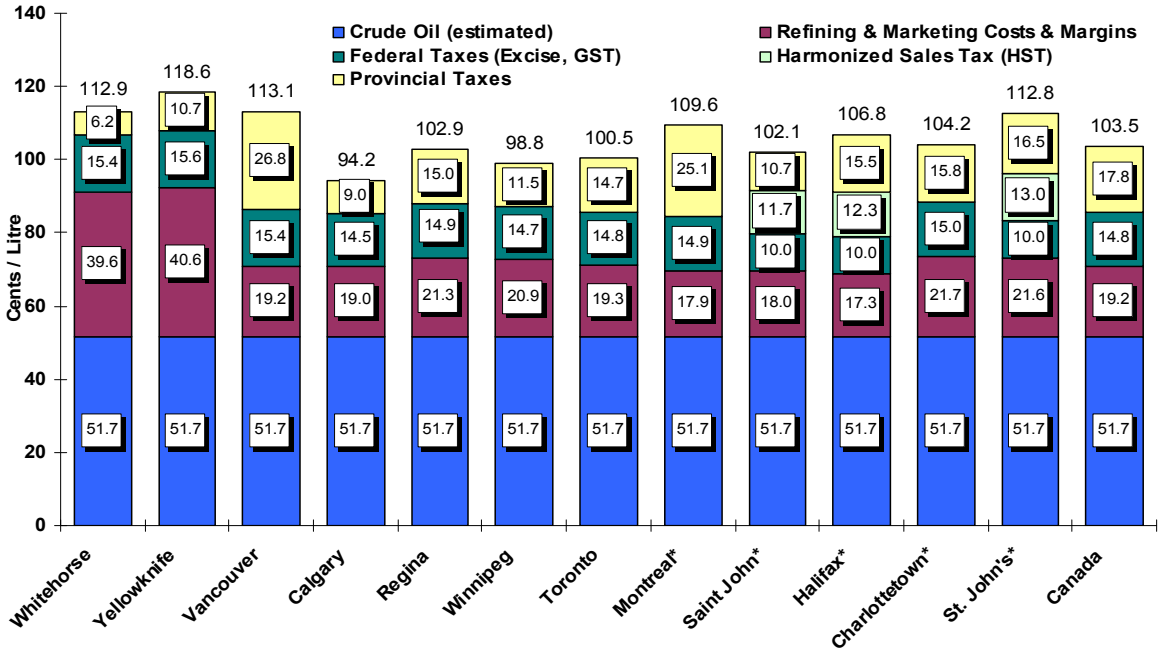
The average Canadian pump price in selected cities for the **four-week average** ending April 20, 2010, was $1.04 per litre—an increase of nearly 1 cent per litre from the last report on April 9, 2010. This is a 15-cent-per-litre increase from the same period in 2009.

The **four-week average** crude oil price component of gasoline registered 52 cents per litre, up by 1 cent 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.

The four-week average refining and marketing costs and margins remained unchanged at 19 cents per litre of the total pump price from two weeks ago.

The federal and provincial tax component of the pump price breakdown for the selected cities accounted for a total of 33 cents per litre, an increase of nearly 1.7 cents per litre from the same time last year. Of this amount 1 cent per litre stems from the increase in provincial taxes.

Figure 3: Regular Gasoline Pump Prices in Selected Cities
Four-Week Average (March 30 to April 20, 2010)



Source: NRCan

** Regulated Markets*

Regional Considerations and Gasoline Pricing

Local market conditions can have a considerable impact on short-term wholesale prices. This is due to the very inelastic demand for gasoline. Gasoline has very few substitutes, especially in the short term. Large price increases are sometimes necessary to balance supply and demand and these price increases will sometimes lead to a price discrepancy between regions.

Some regions in Canada can more easily bring in product from other regions. Atlantic Canada and Quebec have good access to supplies from the northeastern United States and Europe, and their geographic situation provides them with very low cost transportation. Ontario also has access to supplies from large U.S. markets, and can bring in products from Quebec. Logistical infrastructure however increases the cost of these supplies. Most of western Canada is landlocked, and as such, has very limited access to supplies from other regions. The current infrastructure was not designed to transport supplies to the prairies from other regions. However, the prairies supply a substantial volume of gasoline into the Vancouver market. In the event of a gasoline supply shortage in the prairies, refiners have the ability to balance supply and demand by importing gasoline into Vancouver from Washington, thereby freeing up additional supplies produced by Edmonton area refiners for use elsewhere in the west.

Source: NRCan, *Understanding Gasoline Prices*, http://nrcan.gc.ca/eneene/sources/petpet/reprap/2005-07/undcom/gasess-eng.php

Wholesale Gasoline Prices

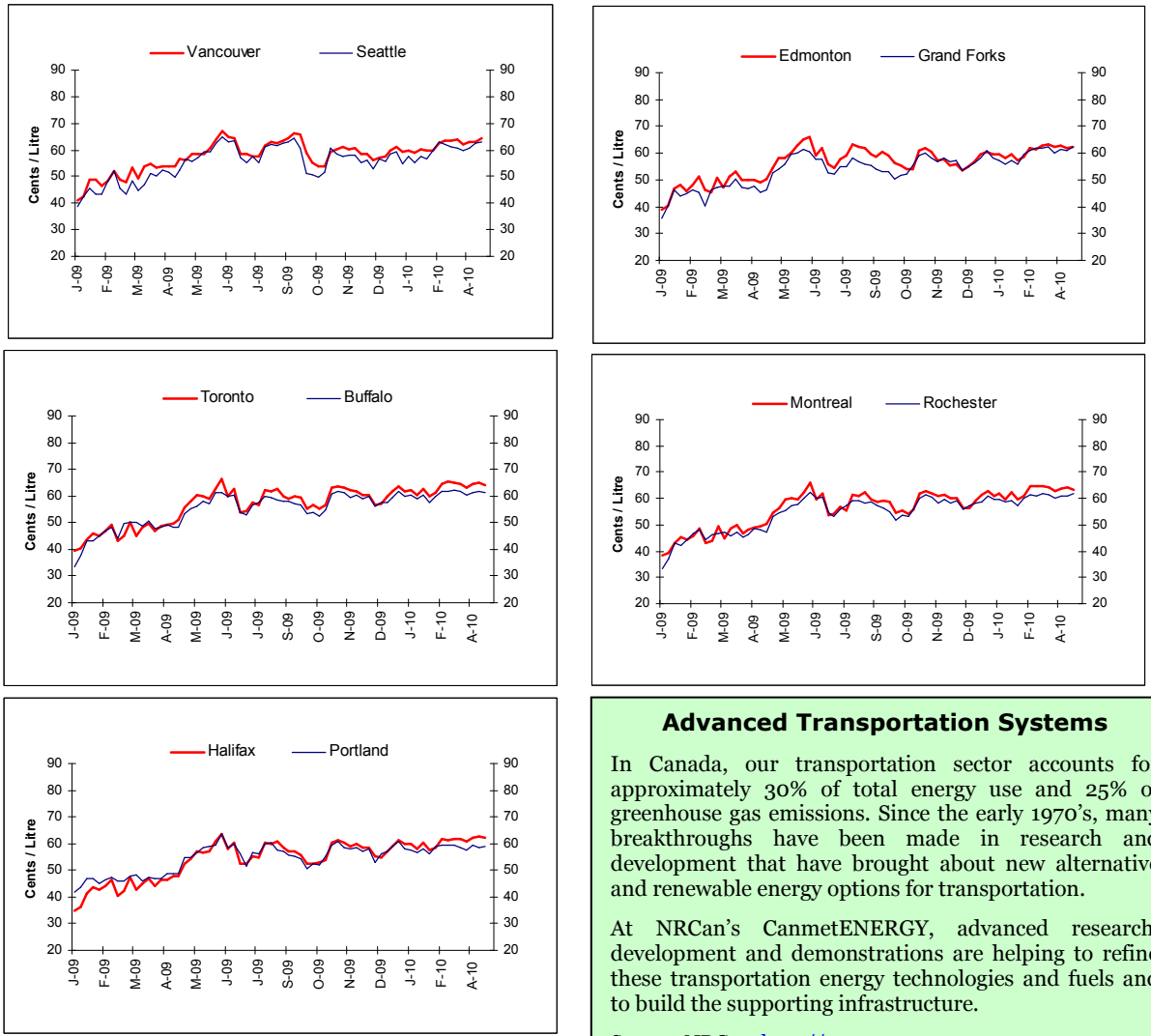
Compared to the previous week, **wholesale gasoline prices** increased in six of the ten selected centres for the week of **April 15, 2010**. Overall, price changes ranged from a drop of 1 cent per litre to an increase of 1 cent per litre.

In the Eastern markets of both Canada and the United States, changes in wholesale gasoline prices compared to the previous week, ranged from a decline of 1 cent per litre to an increase of 1 cent per litre, ending the period in the 59 to 64 cents per litre range.

In the Western centres, price increases ranged between less than 1 to slightly more than 1 cent per litre, ending at 62 to 64 cents per litre.

Overall, the mild fluctuation in wholesale gasoline prices reflects adequate supplies in most regions and the impact of the low volatility of crude oil prices. These factors together help keep moderate gasoline price volatility.

Figure 4: Wholesale Gasoline Prices
Rack Terminal Prices for Selected Canadian and American Cities Ending April 15, 2010
(Can ¢/L)



Sources: NRCan, Bloomberg Oil Buyers Guide

Advanced Transportation Systems

In Canada, our transportation sector accounts for approximately 30% of total energy use and 25% of greenhouse gas emissions. Since the early 1970's, many breakthroughs have been made in research and development that have brought about new alternative and renewable energy options for transportation.

At NRCan's CanmetENERGY, advanced research, development and demonstrations are helping to refine these transportation energy technologies and fuels and to build the supporting infrastructure.

Source: NRCan, http://canmetenergy-canmetenergie.nrcan-rncan.gc.ca/eng/transportation.html

Gasoline Refining and Marketing Margins

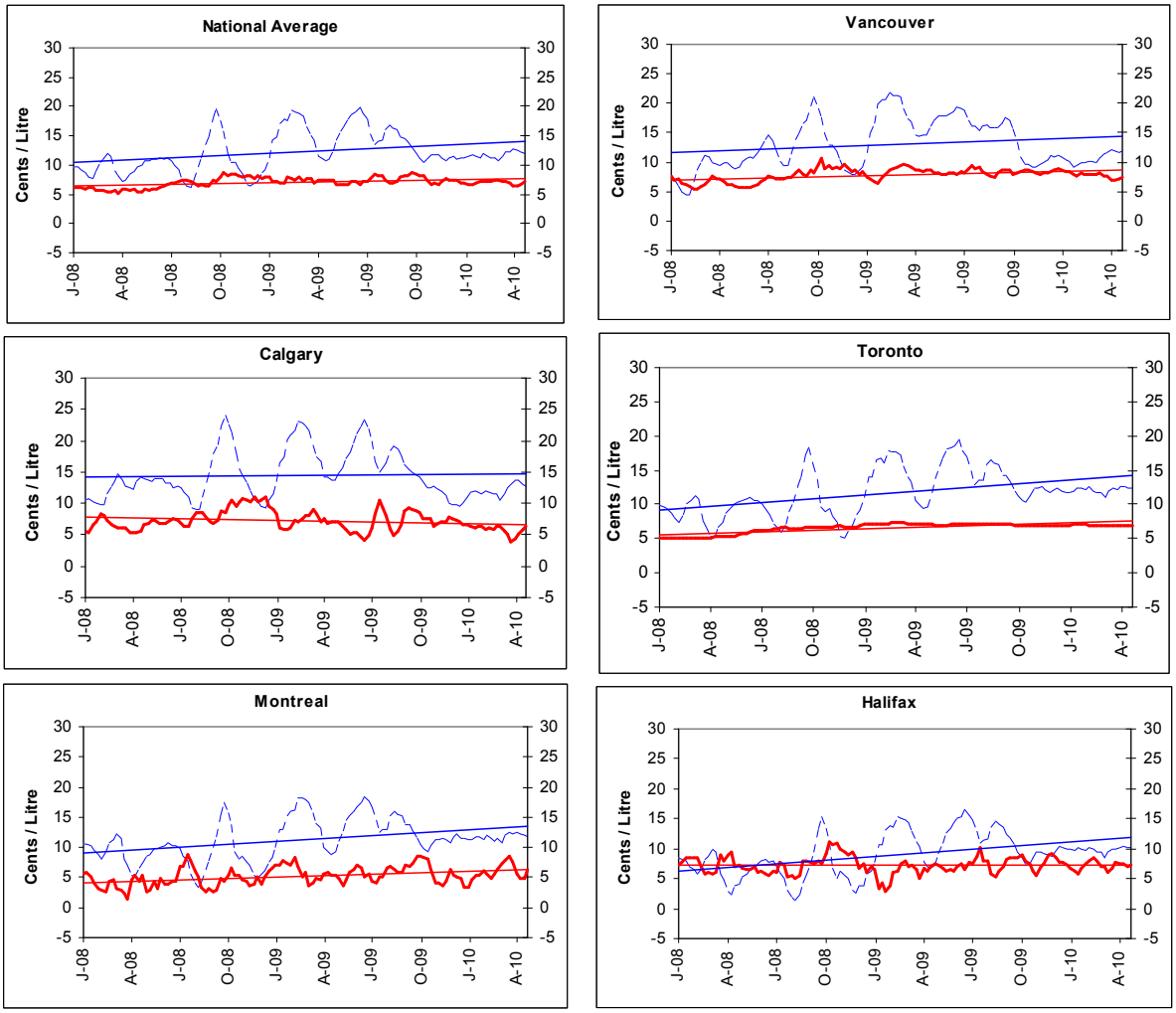
Four-week rolling averages are used for gasoline refining and marketing margins.

Overall, both refining and marketing margins are influenced by specific market conditions, mainly due to changes in product supply and demand balances. The relatively low fluctuation level in the latest margins corresponds to sufficient gasoline supplies and the relative stable situation in world crude oil markets.

Nationally, the marketing margin, which fluctuates over a much narrower range, has remained stable and hovered around 7 cents per litre.

This margin, which tends to fluctuate depending on local market conditions, represents the difference between the pump price and the price paid by the retailer to purchase the gasoline and also serves to pay for the costs associated with operating a service station.

Figure 5: Gasoline Refining and Marketing Margins
Four-Week Rolling Average Ending April 20, 2010
------- Refining Margin ——— Marketing Margin



Source: NRCan

Crude Oil Overview

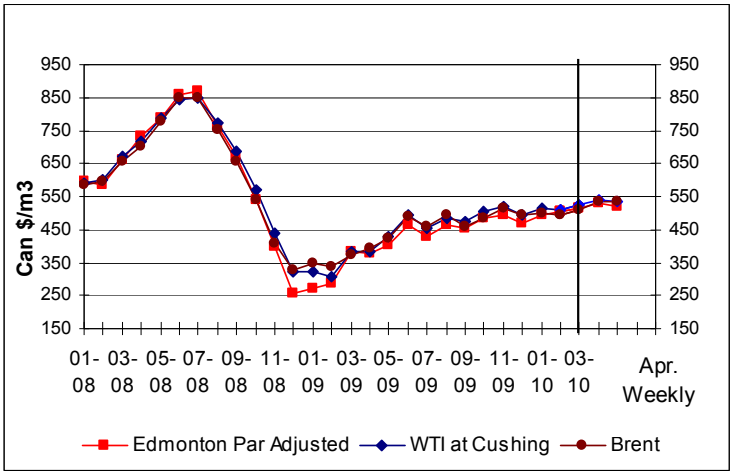
World Crude Oil Prices Moderate from the Previous Week

For the week ending April 16, 2010, prices for the three marker crudes averaged between $518/m³ and $537/m³, (US$82 to US$85 per barrel). Though this is a decrease of $8 to $10/m³ for Edmonton Par and WTI compared to the previous week, it is an exception for Brent which increased marginally from last week.

In the last ten months, the average monthly benchmark crude oil prices fluctuated in the narrow range of $448/m³ to $515/m³. On a monthly basis, world crude oil prices climbed gradually while different market forces seemed to moderate prices. On one hand, while consumer demand for refined petroleum products put upward pressure on crude oil prices ahead of the peak-demand driving season, large U.S. crude and petroleum product inventories, along with less than impressive economic data and high unemployment in the U.S. moderated the increase in prices.

Equally, the expectation of an economic recovery buoyed the financial and commodity markets and kept oil prices in the $US80 to $US85/barrel range for all three crude benchmarks.

Figure 6: Crude Oil Price Comparisons



Changes in Crude Oil Prices

Crude Oil Types	Week Ending: 2010-04-16		Change From:			
			Previous Week		Last Year	
	$Can/m³	$US/bbl	$Can/m³	$US/bbl	$Can/m³	$US/bbl
Edmonton Par	517.98	82.08	-9.73	-1.60	+141.72	+33.31
WTI	534.13	84.64	-7.78	-1.29	+149.72	+34.84
Brent	536.91	85.08	+0.08	-0.05	+135.88	+33.12

Source: NRCan

EIA's Summer Transportation Fuels Outlook

According to the U.S. Energy Information Administration (EIA) *Summer Transportation Fuels Outlook* released on April 6, 2010, the boost to gasoline consumption from the economic recovery is being countered by higher gasoline prices than last year. These counter-balancing forces are expected to be prominent features of the summer driving season.

EIA forecasts that regular-grade motor gasoline retail prices will average $2.92 per gallon (77 CAN ¢/litre) during this summer's driving season (the period between April 1 and September 30), up from $2.44 per gallon last summer. The forecast has the annual average regular grade retail gasoline price increasing from $2.35 per gallon in 2009 to $2.84 in 2010 and to $2.96 in 2011, primarily because of projected rising crude oil prices.

Average U.S. pump prices for regular gasoline are likely to exceed $3 per gallon at times during the driving season, and already exceed $3 per gallon in some areas. Projected annual average retail diesel fuel prices are forecast at $2.95 and $3.12 per gallon in 2010 and 2011, respectively.

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