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Fuel Focus

Understanding Gasoline Markets in Canada and Economic Drivers Influencing Prices

Volume 5, Issue 8

May 7, 2010

Canada

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National Overview

Canadian Retail Gasoline Prices Increased 1 Cent per Litre from Last Week

Average Canadian retail gasoline prices increased by nearly 1 cent per litre for the week ending May 4, 2010. Since the beginning of the year gasoline prices have fluctuated by less than 7 cents per litre compared to the same period a year ago when prices, although much lower, fluctuated by 12 cents per litre.

Diesel fuel prices rose by 1 cent per litre to $1.01 per litre compared to the previous week. This is an increase of 18 cents per litre from the same period last year. Furnace oil prices remained almost unchanged from the previous week with an average of 90 cents per litre.

Overall, retail prices reflected the upward pressure from higher North American wholesale gasoline prices. However, perhaps the most significant factor moderating the rise in prices is the high gasoline inventories in the U.S.

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

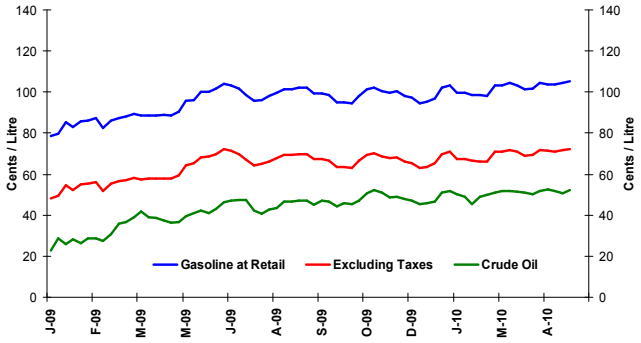
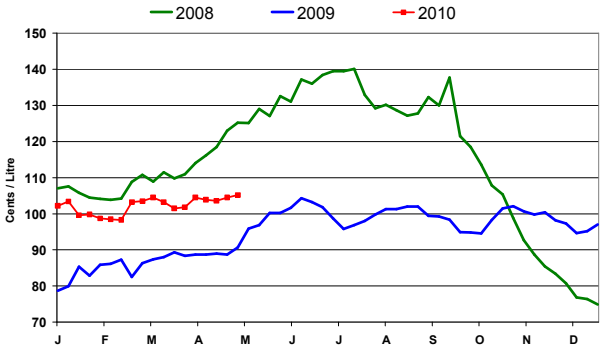


Figure 2: Weekly Regular Gasoline Prices



Recent Developments

- **Retail Gasoline Price Gap Between Montreal and Quebec City**: At the request of the Quebec Minister of Natural Resources, the Quebec Régie de l'énergie released a study to explain the gap in gasoline prices and marketing margins between Quebec City and Montreal. According to the report, the price fluctuations are due to geographic, demographic, and economic aspects within the respective markets. For example, gasoline demand in Montreal is five times greater than in Quebec City while the number of retail stations is three times higher in Quebec City. The report is available in French only. (Source: Régie de l'énergie, http://www.regie-energie.qc.ca/audiences/3710-09/Avis_a_la_ministre_R-3710-2009.pdf)
- **Gasoline Price Outlook**: According to the U.S. Energy Information Administration (EIA), this spring the U.S. gasoline market is characterized by modest consumption, increased ethanol use, high availability of imports, and high gasoline inventories. The EIA does not see much tightness in the gasoline market this spring. Even with refinery closures, these factors combine to provide ample supply after refinery outages are considered. (Source: EIA, This Week In Petroleum, April 28, 2010 http://www.eia.doe.gov/oil_gas/petroleum/info_glance/petroleum.html)
- **Inflation Up 1.4% in March 2010**: Consumer prices rose 1.4% in the 12 months to March, following a 1.6% increase in February. Gasoline prices exerted the most upward pressure on the Consumer Price Index for the fifth consecutive month. In March, prices at the pump were 17.2% higher than they were in March 2009. (Source: Statistics Canada, http://www.statcan.gc.ca/daily-quotidien/100423/dq100423a-eng.htm)

Changes in Fuel Prices

	Week of:	Change from:	
¢/L	2010-05-04	Previous Week	Last Year
Gasoline	105.2	+0.7	+14.5
Diesel	100.9	+1.3	+18.1
Furnace Oil	90.3	+0.1	+17.2

Source: NRCan

In this Issue

Retail Gasoline Overview

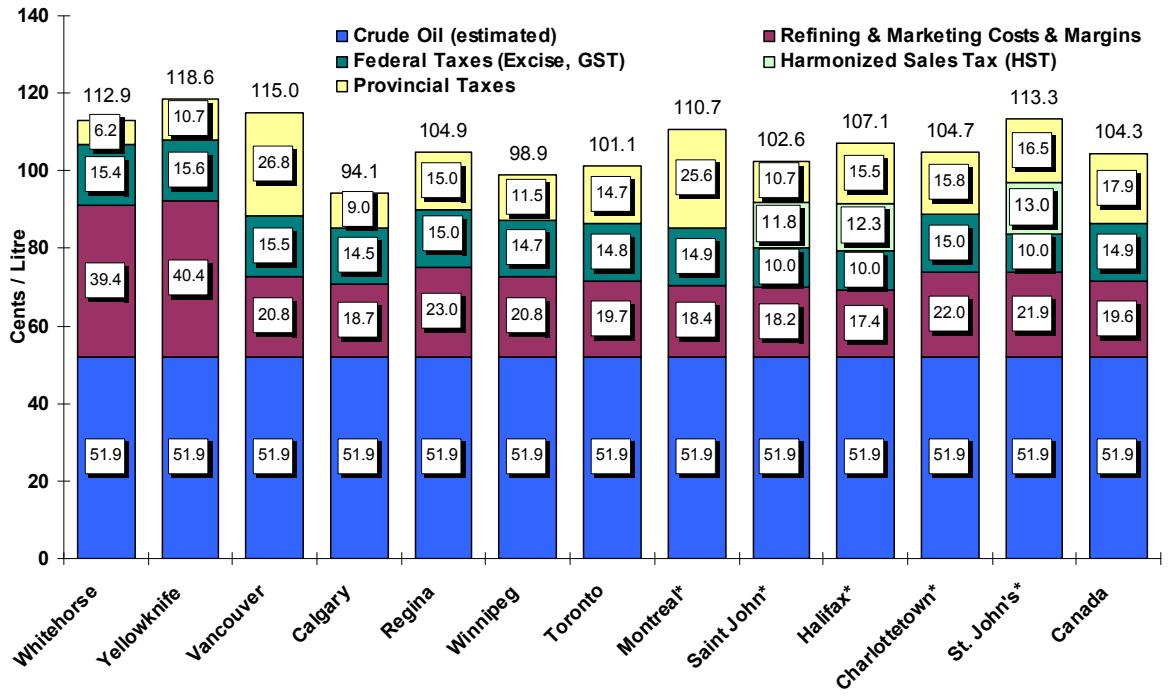
The **four-week average** Canadian pump price in selected cities across Canada was $1.04 per litre for the period ending May 4, 2010. This represents a 15 cents per litre increase compared to the same period in 2009.

For the period ending May 4, 2010, **four-week average** crude oil prices increased by 0.2 cent per litre to 52 cents per litre.

Over the last two weeks, gasoline prices in all the individual centres have remained fairly static with the most significant change occurring in Regina and Vancouver where prices increased by 2 cents per litre.

The refining and marketing costs component rose slightly by less than 1 cent per litre to nearly 20 cents per litre. Compared to a year ago, margins are down by about 2 cents per litre.

Figure 3: Regular Gasoline Pump Prices in Selected Cities
Four-Week Average (April 13 to May 4, 2010)



Source: NRCan

** Regulated Markets*

Seasonal Adjustment and Identifying Economic Trends

In March 2010, Statistics Canada released an article aimed at explaining the seasonal adjustment of data and its relationship to underlying economic trends. The concept of "seasonality" is not limited to the effect of changing seasons. It encompasses any regularly recurring movements in the unadjusted data, namely the effect of average weather patterns, statutory holidays, industry norms (such as the holidays in the auto and construction industries every July), as well as the number and distribution of working days in a month or a quarter. Masking the underlying trend, the seasonal pattern is often the dominant feature of the monthly change in unadjusted data. By removing seasonal effects, seasonally adjusted data allow analysts to focus more clearly on the underlying trend cycle in as close to real time as possible.

Retail sales are one example of a series that exhibits a clear seasonal pattern. The irregular component remains in seasonally adjusted data and at times obscures the trend cycle. The irregular component encompasses the random element introduced by unexpected events. Memorable examples of the irregular component include the ice storm in central Canada in winter 1998 and the electrical blackout in Ontario in August 2003, both of which severely disrupted production. More frequent causes such as unscheduled maintenance, labour strikes, or atypical weather are reflected in this component.

Source: *Canadian Economic Observer*, March 2010, Statistics Canada-Catalogue no. 11-010-x

Wholesale Gasoline Prices

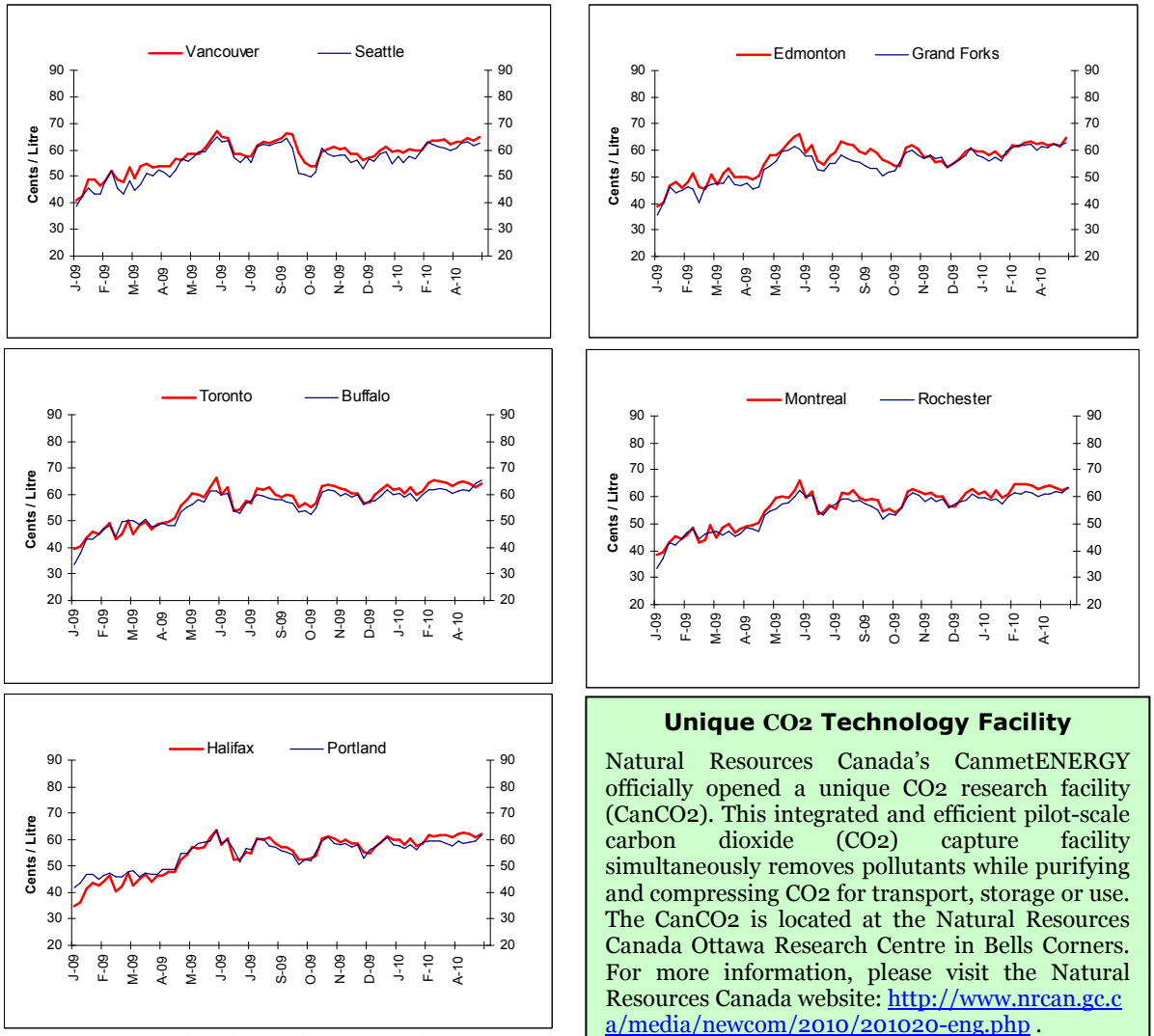
For the week **ending April 29, 2010**, wholesale gasoline prices moved slightly compared to the previous week.

Wholesale gasoline prices increased in both Canadian and U.S. markets in the range of 1 to 3 cents a litre compared to the previous week, and ended the period in the 62 to 65 cents per litre range. Compared to the same time last year, prices in the American and Canadian centres are, on average, 14 and 13 cents per litre higher, respectively.

Wholesale gasoline prices in both the Western and Eastern centres ranged between 62 and 65 cents per litre.

Overall, since March, wholesale gasoline prices have shown very low volatility, especially compared to last year when prices started to trend upwards due to supply constraints from planned refinery maintenance. Now, however, high gasoline inventories in the U.S. are dampening wholesale and to a certain extent retail prices.

Figure 4: Wholesale Gasoline Prices
Rack Terminal Prices for Selected Canadian and American Cities Ending April 29, 2010
(Can ¢/L)



Sources: NRCan, Bloomberg Oil Buyers Guide

Unique CO_2 Technology Facility

Natural Resources Canada's CanmetENERGY officially opened a unique CO_2 research facility (CanCO2). This integrated and efficient pilot-scale carbon dioxide (CO_2) capture facility simultaneously removes pollutants while purifying and compressing CO_2 for transport, storage or use. The CanCO2 is located at the Natural Resources Canada Ottawa Research Centre in Bells Corners. For more information, please visit the Natural Resources Canada website: http://www.nrcan.gc.ca/media/newcom/2010/201020-eng.php .

Gasoline Refining and Marketing Margins

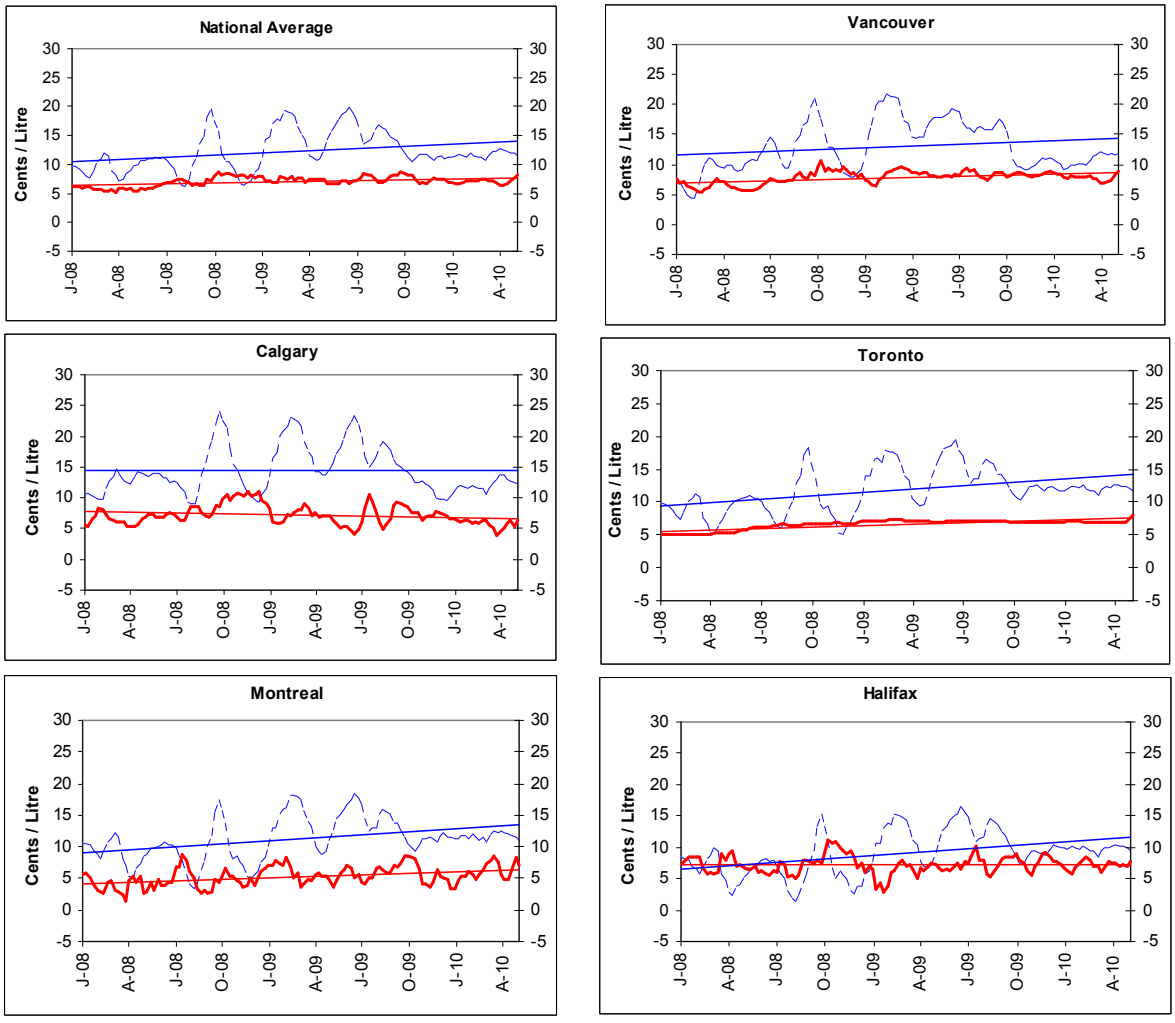
Four-week rolling averages are used for gasoline refining and marketing margins.

Gasoline refining margins in the last two weeks have shown no gains and ended the week at less than 12 cents per litre. This trend reflects an adequate supply in the distribution system in North America. Strong U.S. gasoline and crude oil inventories have contributed to moderating prices which, in turn, lower refining margins.

Although these factors moderate the rise in retail gasoline prices, they also constrict the refiners' margins. In turn, adequate margins are necessary for fostering new investments to expand production which could alleviate supply disruptions when supply and demand balances are tight.

Marketing margins, representing the costs associated with operating an outlet, hovered around 8 cents per litre. For the five centres, marketing margins ranged from a low of 6 cents per litre in Calgary to a high of 9 cents per litre in Vancouver.

Figure 5: Gasoline Refining and Marketing Margins
Four-Week Rolling Average Ending May 4, 2010
------- Refining Margin ——— Marketing Margin



Source: NRCan

Crude Oil Overview

Low Volatility in World Crude Oil Prices Continue

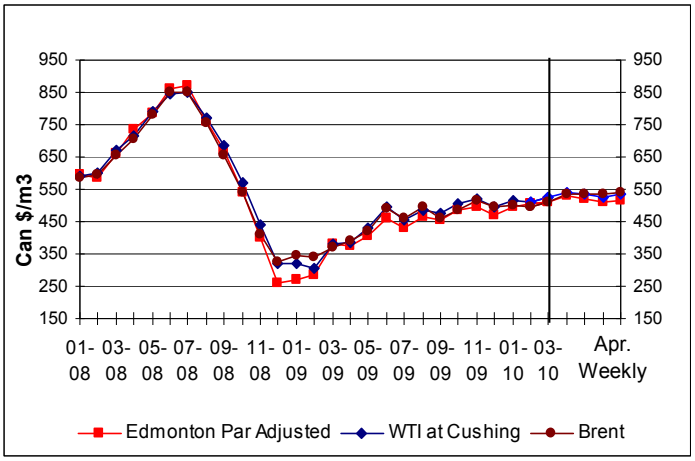
For the week ending April 30, 2010, prices for the three marker crudes averaged between $514/m³ and $541/m³, (US$81 to US$85 per barrel). This is a slight increase of $6 to $10/m³ (US$0.45 to US$1 per barrel) compared to the previous week.

World demand for crude oil and refined petroleum products remained partially dampened by the slow economic growth, the concerns over Greece's credit rating and the potential impact of the Greek debt crisis on the eurozone in general.

However, trading of crude oil futures nudged up as some of the debt crisis fears subsided following the European governments' endorsement and unprecedented 110-billion-euro bailout to save Greece from bankruptcy.

The U.S. Gulf of Mexico oil well leak following an explosion on April 22, 2010, continues to pose a significant environmental threat, but has not yet affected oil and gas supply or disrupted shipping operations. Overall, supply conditions remain intact. According to the International Energy Agency, pushed by stronger demand forecast, U.S. refinery capacity utilization rose to its highest level based on a five-year average range.

Figure 6: Crude Oil Price Comparisons



Changes in Crude Oil Prices

Crude Oil Types	Week Ending: 2010-04-30		Change From:			
			Previous Week		Last Year	
	$Can/m³	$US/bbl	$Can/m³	$US/bbl	$Can/m³	$US/bbl
Edmonton Par	513.51	80.86	+5.60	+0.45	+145.45	+32.24
WTI	534.91	84.24	+10.23	+1.17	+148.46	+33.17
Brent	541.29	85.24	+6.71	+0.61	+167.18	+35.80

Source: NRCan

Consumption Taxes on Gasoline

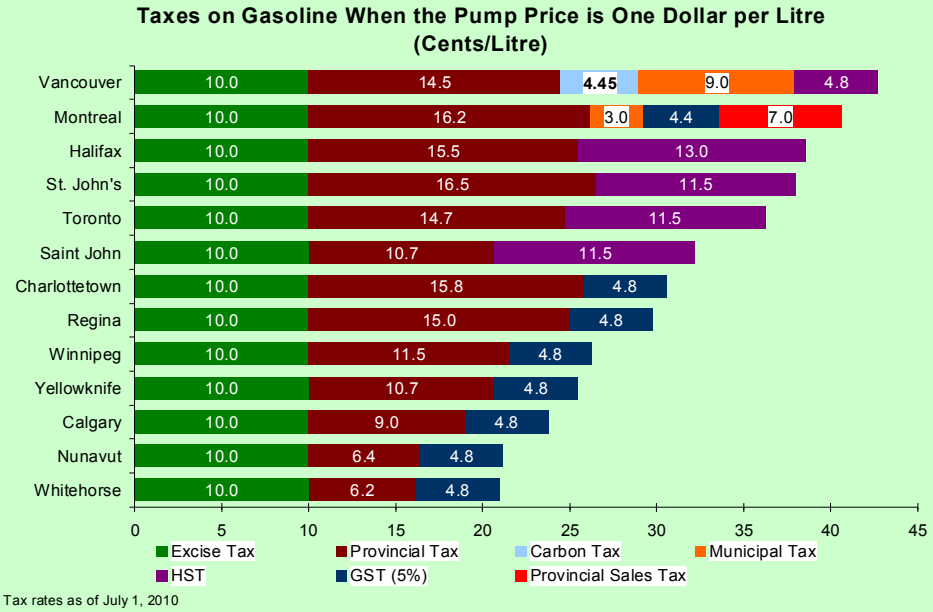
An important element of the gasoline and diesel retail pump prices is the tax component. A portion of the final price you pay at the pump for gasoline and other fuels goes to various levels of government in the form of taxes. Depending on where you live, you pay a federal, provincial and, in some cases, a municipal tax on these products.

The following figure illustrates the tax component breakdown on a litre of gasoline in selected centres across Canada when the pump price is one dollar. We choose to present the tax rates as of July 2010, because a number of provinces have announced tax changes that became effective earlier this year, or that will be effective in July. Specifically, the introduction of the 13% Harmonized Sales Tax (HST) in Ontario; the 12% HST in British Columbia (B.C.); the increase of the HST in Nova Scotia to 15% from 13%; and the increase in the carbon tax rate in B.C. In addition, the consumption tax in Quebec rose by 1 cent per litre in April 2010.

The federal excise taxes on gasoline and diesel are 10 cents and 4 cents a litre, respectively. These rates do not vary with the retail price of fuel. The federal excise tax on gasoline has been unchanged since 1995, while the rate for diesel fuel has remained the same since 1987. The other component of the federal tax, the Goods and Service Tax (GST) and, by extension the HST, was reduced on January 1, 2008, by 1% to 5% and 13%, respectively.

As the following chart illustrates, when the gasoline price is one dollar, Vancouver will have the highest tax component on gasoline at 42.7 cents, mainly due to the additional carbon and transit taxes. Meanwhile, all selected Eastern centres will pay more than 30 cents per litre in taxes. In most centres, the largest tax component on a litre of gasoline is the provincial/territorial fixed consumption tax.

Starting July 1, 2010, Ontario and B.C. will move to a federally administered single, value-added sales tax. The single sales tax will have a combined rate of 13% in Ontario and 12% in B.C. The introduction of a value-added sales tax will result in higher pump prices in Ontario by approximately 7 cents per litre because of the HST. B.C. consumers will benefit from a point-of-sale rebate for motor fuels (gasoline, diesel) equal to the provincial portion of their HST (7%) and will not be affected by the increase in the tax rate.



Note: Estimated tax rates for July 2010. All tax calculations are based on the latest data available as of May 1, 2010.