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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 for the Second Straight Week

For the week ending June 14, 2011, Canadian average retail gasoline prices decreased by 0.3 cents per litre for a second straight week to $1.27 per litre—this represents a decline of nearly 3 cents per litre from two weeks ago. Prices are above last year's level by 28 cents per litre.

Diesel fuel prices remained almost unchanged from the previous week at $1.25 per litre, while furnace oil prices increased by 1 cent, ending at $1.15 per litre. Compared to a year ago, prices for diesel and furnace oil are 28 cents per litre higher, respectively.

Retail pump prices were pushed downward in part by lower North American wholesale gasoline prices which reflected the weakness in the underlying price for world crude oil.

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

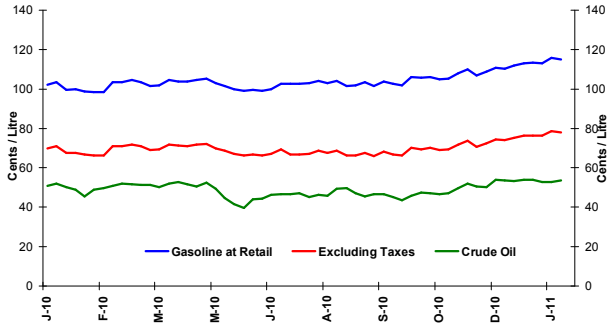
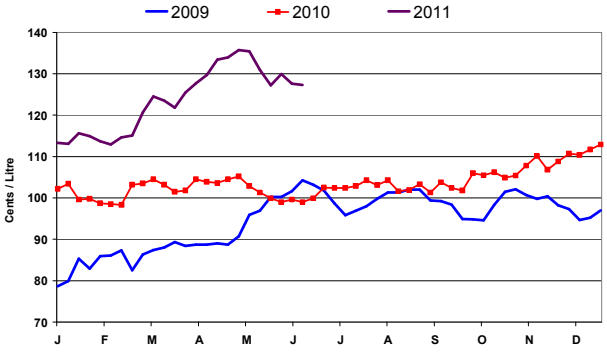


Figure 2: Weekly Regular Gasoline Prices



Recent Developments

- **Slight Increase in Gasoline Demand:** Canadians consumed 6.7 billion litres of gasoline in the first two months of 2011, an increase of 2.5% over the same period in 2010. Diesel fuel sales increased 6% to 4.6 billion litres for the same period, while furnace oil declined 2% to 0.9 billion litres. (Statistics Canada, Revised Data, The Daily, http://www.statcan.gc.ca/pub/45-004-x/2011002/t109-eng.htm)
- **Potential Constraints in Refinery Capacity:** According to a report by IHS CERA, the U.S. Midwest won't be able to take any additional volumes of Canadian oilsands production as early as 2015 - five years earlier than estimated by a U.S. government department - due to limited refinery capacity in that region. According to the report, the U.S. Department of State estimated that Canadian oilsands production would not be affected until 2020 should the Keystone pipeline not proceed, but based that conclusion on when oilsands production would fill current pipeline capacity, not refinery capacity in the Midwest region. (Source: The Daily Oil Bulletin)
- **Ontario's Net Trade Deficit in Petroleum Products**: The net trade deficit with other Canadian provinces was 6-billion litres in 2010, down from 7.9-billion in 2009. The net trade deficit in 1989 was 1.5-billion litres, and the record of 9.5-billion litres was set in 2006, the year after the Petro-Canada refinery in Oakville was closed. The overall product trade outcome in 2010 was a deficit of 5.8-billion litres, or 17.1% of total Ontario product demand, its lowest level in six years. This balance has not been positive since 1991. The free trade of petroleum products within Canada and North America allows Ontario refineries to optimize their operations. (Source: Ontario Ministry of Energy Gasoline Report, June 6, 2011)

Changes in Fuel Prices

	Week of:	Change from:	
¢/L	2011-06-14	Previous Week	Last Year
Gasoline	127.3	-0.3	+28.3
Diesel	124.7	+0.2	+28.5
Furnace Oil	115.0	+0.8	+28.1

Source: NRCan

In this Issue

Retail Gasoline Overview

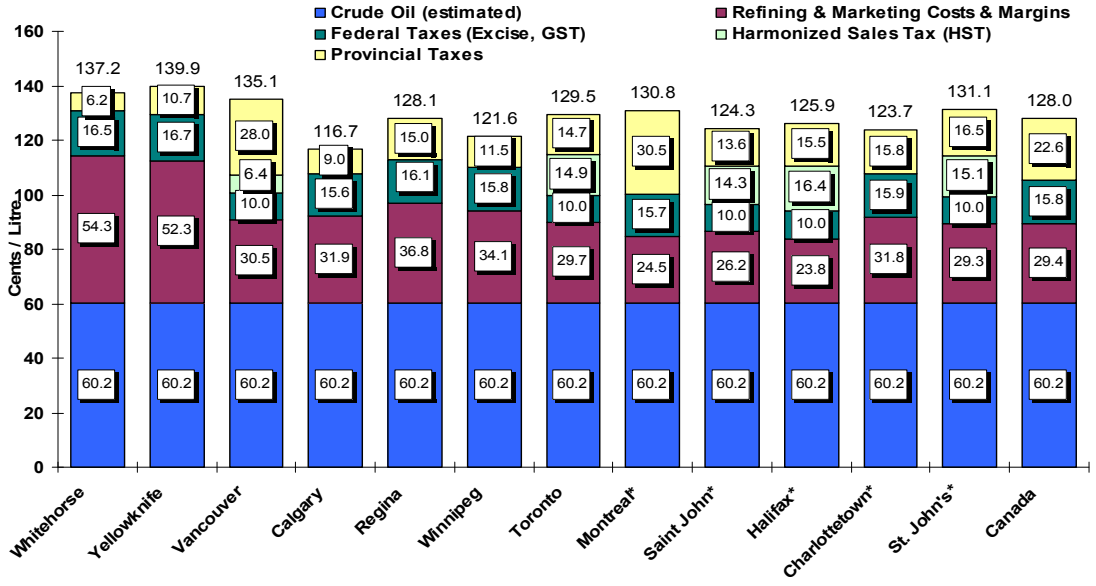
The **four-week average** regular gasoline pump price in selected cities across Canada was $1.28 per litre for the period ending June 14, 2011. This is a decrease of 3 cents per litre from the last report on June 3, 2011, and represents an increase of 29 cents per litre compared to the same period in 2010.

The **four-week average** crude oil price component of gasoline was down 3 cents from two weeks ago and registered at 60 cents per litre—18 cents per litre higher than during the same period in 2010.

Retail gasoline prices in Eastern centres decreased on average by 2.7 cents per litre and, compared to the last report two weeks ago, ranged from $1.24 per litre to $1.31 per litre. Prices in Western centres decreased, on average, by 3 cents per litre and ranged from $1.17 per litre to $1.35 per litre.

At the national level, refining and marketing costs rose by less than 1 cent per litre from the previous report of two weeks ago to 29 cents per litre.

Figure 3: Regular Gasoline Pump Prices in Selected Cities
Four-Week Average (May 24 to June 14, 2011)



Source: NRCan

** Regulated Markets*

Petroleum Product Trade in Canada

Canada is a net exporter of petroleum products. Yet, at times, product imports can play a significant role in satisfying petroleum product demand. The availability of both crude oil and petroleum product imports in every region hinges on geographic constraints. Each of these regions has its own natural features and this creates some unique situations. Some regions are better suited than others to import products.

Because of their connection via major waterways, Atlantic Canada and Quebec have good access to supplies from the northeastern United States and Europe. Ontario also has access to supplies from large U.S. markets and can also bring in provisions via Quebec. However, logistical constraints, such as the size of ships that can navigate the Seaway and the seaway-shipping season, increase the cost of these supplies. Other modes of transportation, such as pipeline, unit train and trucking, are necessary to bring in products from other regions.

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 supply shortage in the Prairies, refiners have the ability to balance supply and demand by importing product into Vancouver from Washington State. This frees up additional product from Edmonton area refiners to be distributed to prairie markets.

Source: NRCan's Fuel Focus, http://www.nrcan.gc.ca/eneene/sources/petpet/tracom-eng.php

Wholesale Gasoline Prices

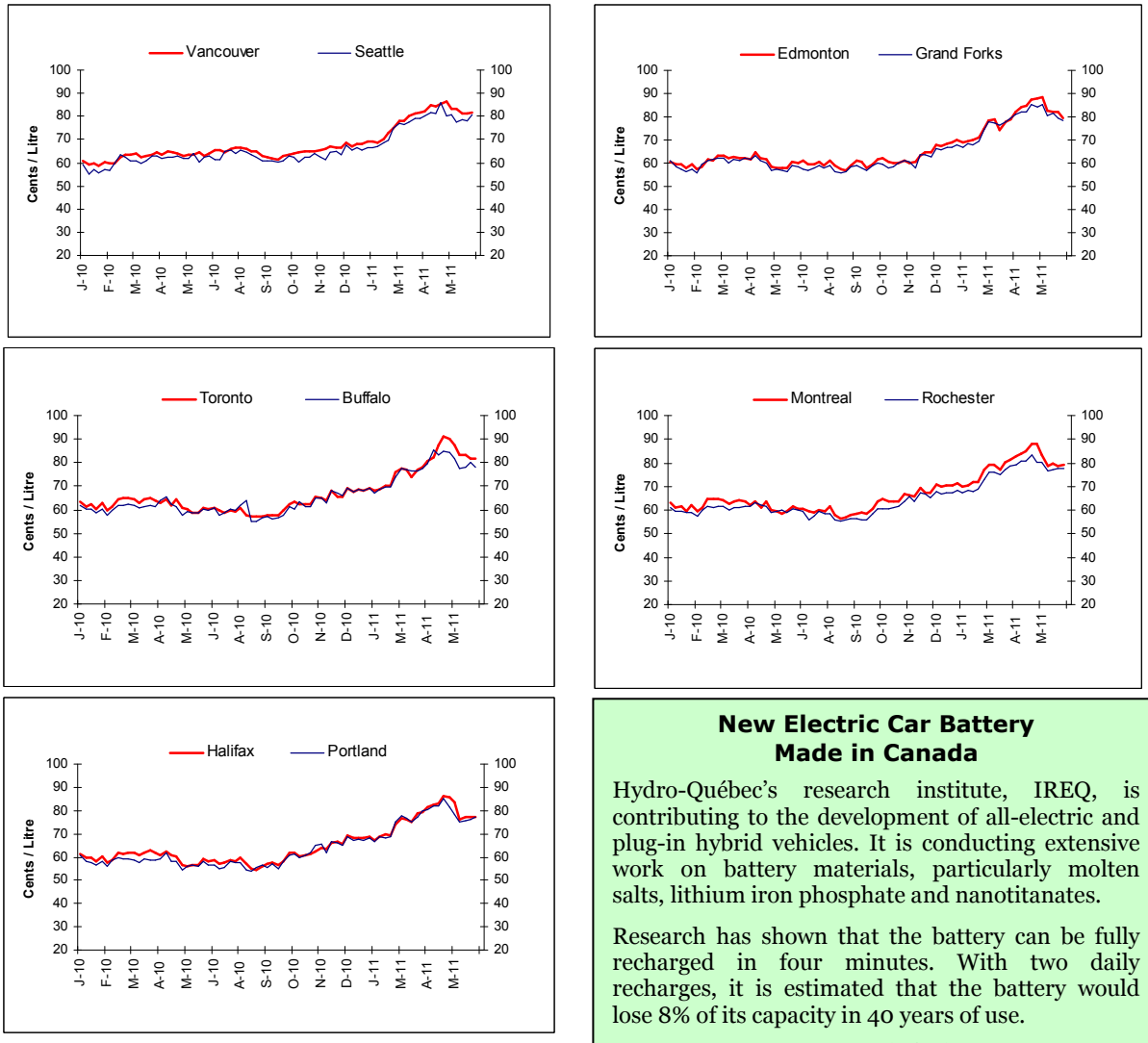
For the **week of June 9, 2011**, compared to the previous week, wholesale gasoline price changes ranged from a decline of 3 cents per litre to an increase of 3 cents per litre.

In the Eastern markets of Canada and the United States, wholesale gasoline prices, compared to the previous week, registered increases ranging from less than 1 cent per litre to a decrease of less than 1 cent per litre. Prices for the period ended in the 77- to 82-cent-per-litre range.

Western wholesale gasoline prices ended in the range of 78 to 82 cents per litre with changes ranging from a decline of almost 2 cents per litre (Buffalo) to an increase of nearly 3 cents per litre (Seattle).

Overall, in the last four weeks prices have declined in most selected centres in the range of 1 to 9 cents per litre.

Figure 4: Wholesale Gasoline Prices
Rack Terminal Prices for Selected Canadian and American Cities Ending June 9, 2011
(Can ¢/L)



Sources: NRCan, Bloomberg Oil Buyers Guide

New Electric Car Battery Made in Canada

Hydro-Québec's research institute, IREQ, is contributing to the development of all-electric and plug-in hybrid vehicles. It is conducting extensive work on battery materials, particularly molten salts, lithium iron phosphate and nanotitanates.

Research has shown that the battery can be fully recharged in four minutes. With two daily recharges, it is estimated that the battery would lose 8% of its capacity in 40 years of use.

Source: CARBURE, Juin/July 2011; IREQ, http://www.hydroquebec.com/innovation/en/innovations.html

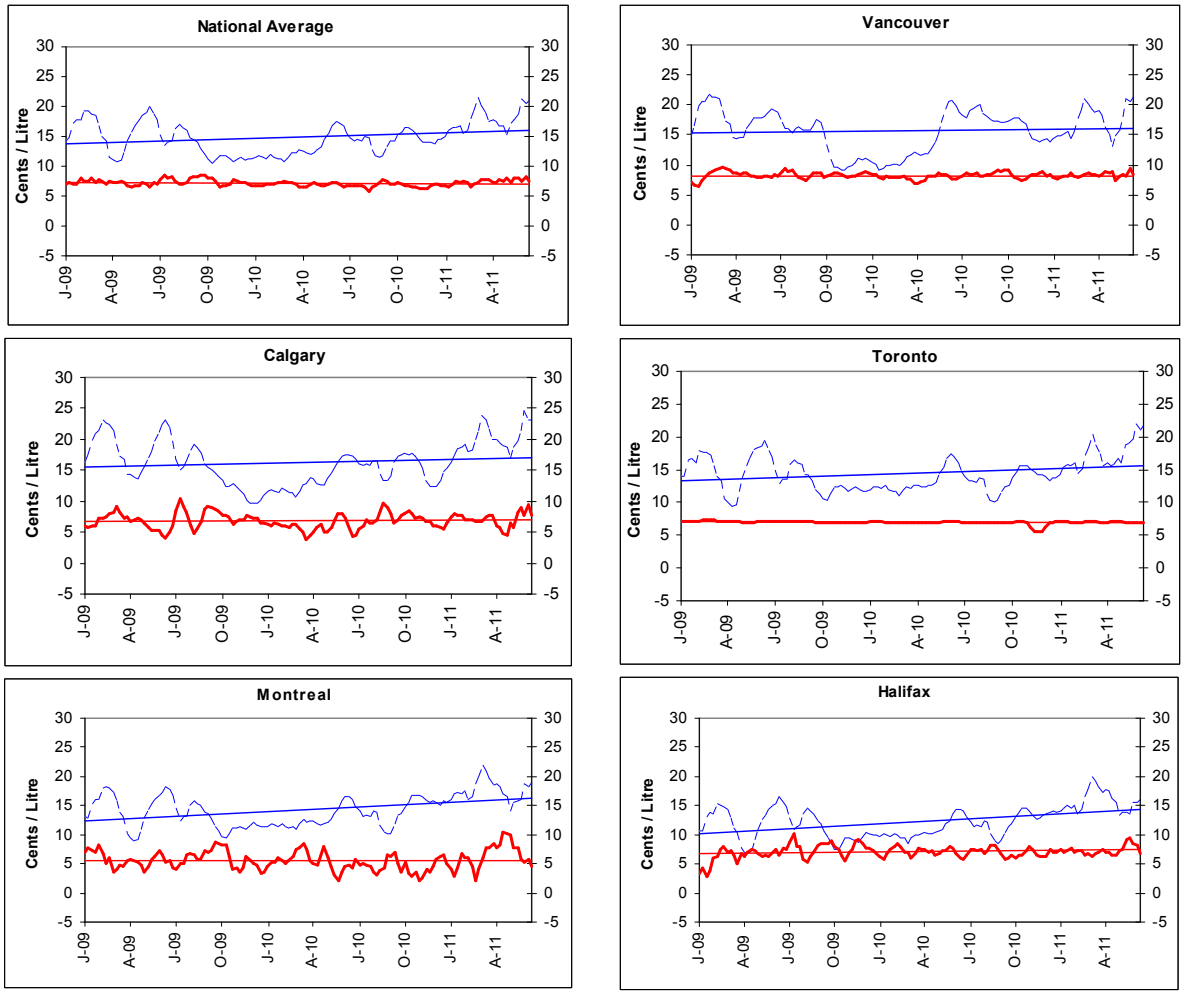
Gasoline Refining and Marketing Margins

Four-week rolling averages are used for gasoline refining and marketing margins. Overall, refining margins have gradually increased by around 20 cents per litre—approximately 4 cents per litre higher than for the same period in June 2010.

The refining margins shown here are derived numbers based on the difference between the estimated crude oil price and the wholesale price of gasoline at a point in time. While the analysis presented here is useful for tracking the trends in gasoline margins and estimating how much of the pump price is going to the refiner, it does not represent overall refining margins when considering all refinery products (e.g. gasoline, diesel, asphalt, lubricating oil, etc.).

Gasoline, accounting for about 30-35% of a refinery's output, is only one of many products produced from a barrel of crude oil. As one of the higher-valued products, gasoline generates a disproportionate share of the revenues. Gasoline margins are offset by much lower margins on other products such as heavy fuel oil and asphalt that often sell for less than the cost of the crude oil used to make them.

Figure 5: Gasoline Refining and Marketing Margins
Four-Week Rolling Average Ending June 14, 2011
------- Refining Margin —— Marketing Margin



Source: NRCan

Crude Oil Overview

WTI Still Trading at a Discount to Brent; OPEC's Production Quotas Unchanged

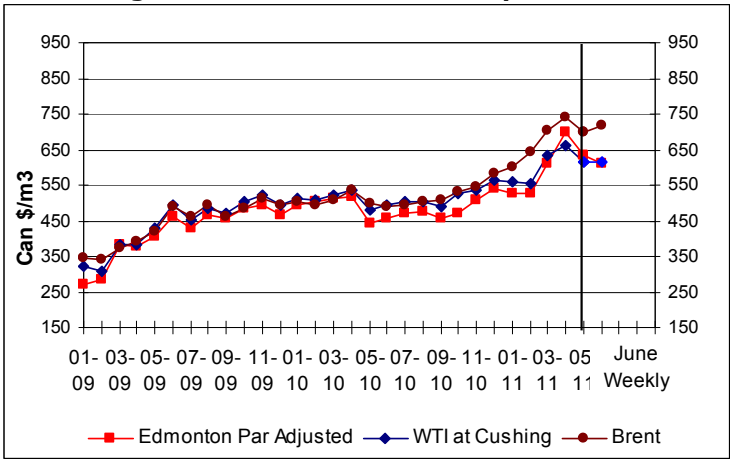
For the week ending June 10, 2011, prices for the three marker crudes averaged between $609/m³ and $719/m³, (US$99 to US$117 per barrel). While WTI and Edmonton Par declined, this is an increase of $11/m³ (US$2 per barrel) for Brent compared to the previous week. WTI continues to trade at a discount to Brent and the situation is expected to persist until transportation bottlenecks impacting the movement of mid-continent crude oil to the Gulf coast are relieved.

World crude oil prices have been in a hiatus in the last few weeks as commodity traders were partly poised in anticipation of the Organization of the Petroleum Exporting Countries (OPEC) ministers' meeting in Vienna and a possible oil production surge in an effort to cool off oil prices and take some pressure off the world economy.

However, unable to reach a consensus on an oil production output target, OPEC members announced it would keep production levels where they were, triggering an immediate price jump to over $US100 per barrel.

OPEC member countries are not in agreement about whether rising oil demand near the latter part of the year and possible supply reductions could push prices up to such high levels economic growth would be constrained. Other Gulf Cooperation Council nations have indicated that they were ready to supply more oil to the market despite the outcome of the Vienna meeting.

Figure 6: Crude Oil Price Comparisons



Changes in Crude Oil Prices

Crude Oil Types	Week Ending: 2011-06-10		Change From: Previous Week		Change From: Last Year	
	$Can/m³	$US/bbl	$Can/m³	$US/bbl	$Can/m³	$US/bbl
Edmonton Par	608.61	99.12	-11.20	-1.99	+163.69	+31.25
WTI	614.10	100.01	-4.66	-0.98	+132.82	+26.60
Brent	719.24	117.14	+10.86	+1.58	+239.17	+43.91

Source: NRCan

U.S. Short-Term Energy Outlook

World benchmark crude oil prices reached their highest level this year at the end of April, fell by about 10 percent by May 9 and have changed very little since then. The U.S. Energy Information Administration (EIA) still expects oil markets to tighten through 2012 given projected world oil demand growth and slowing growth in supply from countries that are not members of the Organization of the Petroleum Exporting Countries (OPEC). The projected U.S. refiner crude oil average acquisition cost rises from $104 per barrel in 2011 to $108 per barrel in 2012, about the same as last month's Outlook.

EIA forecasts that the annual average regular-grade gasoline retail price will increase from $2.78 per gallon in 2010 to $3.60 per gallon in 2011 and to $3.67 per gallon in 2012. The sizable jump in retail prices this year reflects not only the higher average cost of crude oil, but also an increase in U.S. refinery margins on gasoline (the difference between refinery wholesale gasoline prices and the average cost of crude oil) from an average of $0.34 per gallon in 2010 to $0.47 per gallon in 2011, still 6 to 9 cents per gallon below the record margins set in 2006 and 2007.

Source: U.S. EIA, http://www.eia.gov/emeu/steo/pub/contents.html