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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 Up Nearly 2 Cents per Litre from Last Week

For the week ending May 3, 2011, average Canadian retail gasoline prices increased for the sixth straight week to $1.36 per litre—an increase of nearly 2 cents per litre from the previous week. Retail pump prices are at their highest levels since July 15, 2008, when they reached $1.40 per litre as world crude oil prices soared dramatically.

Overall, pump prices remained firm reflecting higher North American wholesale gasoline prices which are in turn sustained by high world crude oil prices.

Diesel fuel prices decreased marginally by less than 1 cent per litre to $1.28 per litre from the previous week. Prices are 27 cents per litre higher compared to the same period last year. Furnace oil prices are down by less than 1 cent per litre compared to last week, and are 30 cents per litre higher than at this time last year.

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

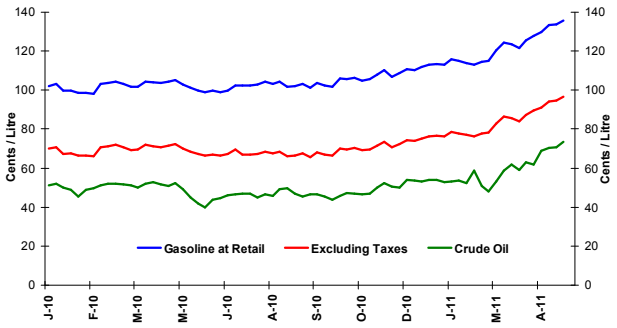
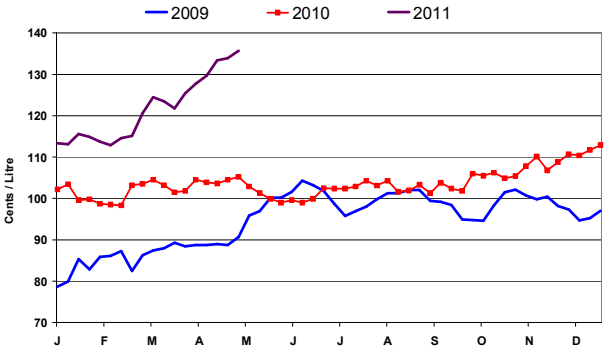


Figure 2: Weekly Regular Gasoline Prices



Recent Developments

- **U.S. Market Assessment of Refinery Outages**: On April 2011, the U.S. Energy Information Administration (EIA) released a report which reviews the implications for supplies of gasoline and middle distillate fuel (diesel, jet fuel, and heating oil) from refinery outages planned for March through June 2011, which covers the seasonal summer driving peak period. The main finding is that, as a result of modest demand levels and adequate capacity, including extra capacity that can be made available by shifting away from product exports towards domestic consumption should the need arise, most of the United States should not see product prices affected by refinery outages. (Source: EIA, http://www.eia.gov/FTPROOT/petroleum/outage2011a.pdf)
- **The Future of Electric Vehicles**: A recent International Energy Agency report examines whether or not electric vehicles are here to stay. Over the past few years, electric vehicles (Evs) have seeped into public consciousness. Those promoting Evs bill them as essential for reducing dependence on oil and slashing the world's CO2 emissions. But is that really the case? Or will they only play a token role in improving energy security and winning the battle against global warming? (Source: IEA, http://iea.org/index_info.asp?id=1931)

Changes in Fuel Prices

	Week of:	Change from:	
¢/L	2011-05-03	Previous Week	Last Year
Gasoline	135.7	+1.8	+30.5
Diesel	128.3	-0.1	+27.4
Furnace Oil	120.2	-0.3	+29.9

Source: NRCan

In this Issue

Retail Gasoline Overview

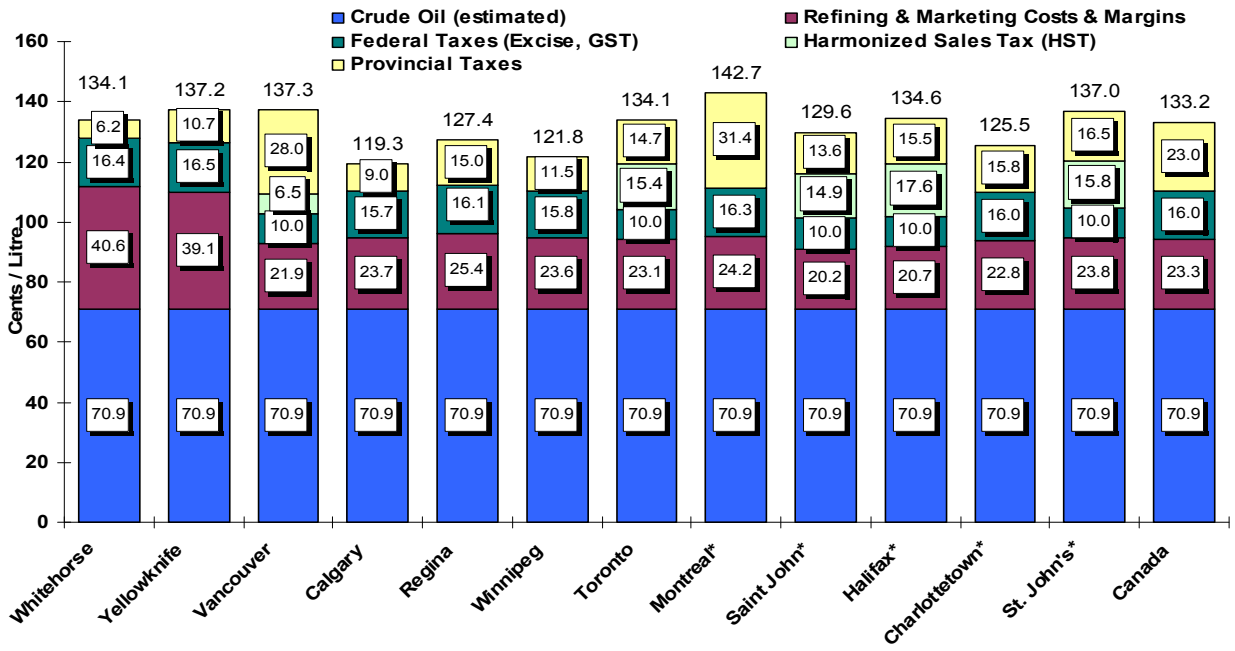
The **four-week average** Canadian pump price in selected cities across Canada was $1.33 per litre for the period ending May 3, 2011. This represents a 29 cent-per-litre increase compared to the same period in 2010.

For the period ending May 3, 2011, **four-week average** crude oil prices increased by 5 cents per litre to 71 cents per litre. The crude oil price component of gasoline is 19 cents per litre higher than at the same time last year.

Over the last two weeks, the average gasoline price increase in the individual centres was 4 cents per litre. Price fluctuations ranged between increases of 1.5 cent per litre in Vancouver to 5.6 cents per litre in Toronto.

The refining and marketing costs component declined by 2 cents per litre to 23 cents per litre. Compared to a year ago, margins are up by nearly 4 cents per litre.

Figure 3: Regular Gasoline Pump Prices in Selected Cities
Four-Week Average (April 12 to May 3, 2011)



Source: NRCan

** Regulated Markets*

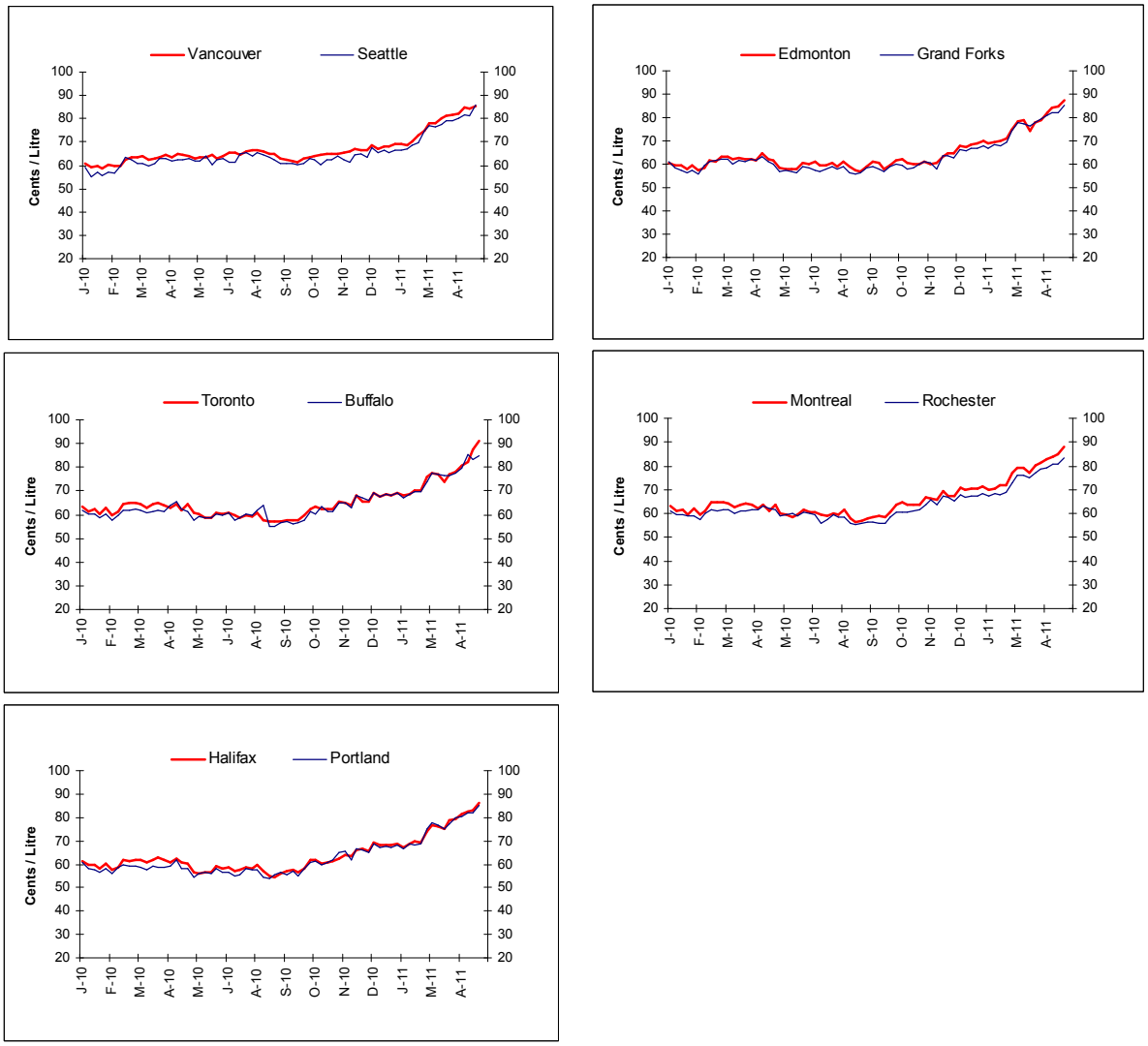
Wholesale Gasoline Prices

For the week **ending April 28, 2011**, wholesale gasoline prices moved up compared to the previous week.

Wholesale gasoline prices increased in both Canadian and U.S. markets in the range of 1 to 5 cents per litre compared to the previous week, and ended the period in the 83 to 87 cent-per-litre range. Compared to the same time last year, prices in the American and Canadian centres are, on average, 24 and 22 cents per litre higher, respectively.

In Western centres, wholesale gasoline price increases ranged from 1 to 5 cents per litre ending at 85 to 87 cents per litre. While wholesale prices in some Canadian centres increased more significantly compared to their American counterparts, the gap widened particularly in eastern Canada, reaching as much as 6 cents per litre in Toronto mainly due to a refinery turnaround.

Figure 4: Wholesale Gasoline Prices
Rack Terminal Prices for Selected Canadian and American Cities Ending April 28, 2011
(Can ¢/L)



Sources: NRCan, Bloomberg Oil Buyers Guide

Gasoline Refining and Marketing Margins

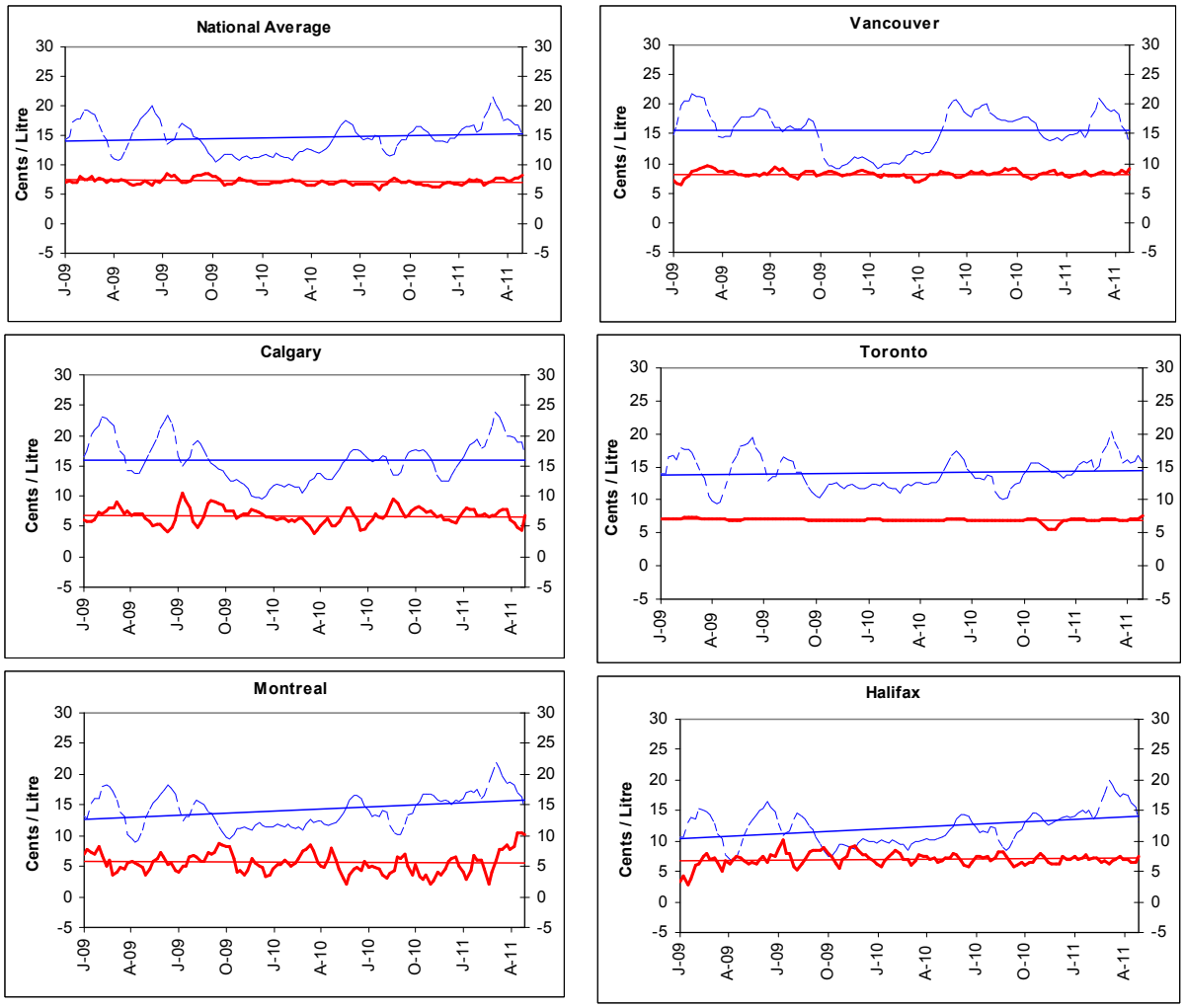
Four-week rolling averages are used for gasoline refining and marketing margins.

Refining margins for gasoline fluctuated downward over the last six weeks. This is indicative of sufficient supplies relative to an expected increase in demand. Heading into the summer driving season, refiners are now producing more gasoline to meet the demand and to increase their inventories.

Refining margins are 2 cents per litre higher at the national level, compared to the same period last year.

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 7 cents per litre in Calgary to a high of 10 cents per litre in Montreal.

Figure 5: Gasoline Refining and Marketing Margins
Four-Week Rolling Average Ending May 3, 2011
------- Refining Margin ——— Marketing Margin



Source: NRCan

Crude Oil Overview

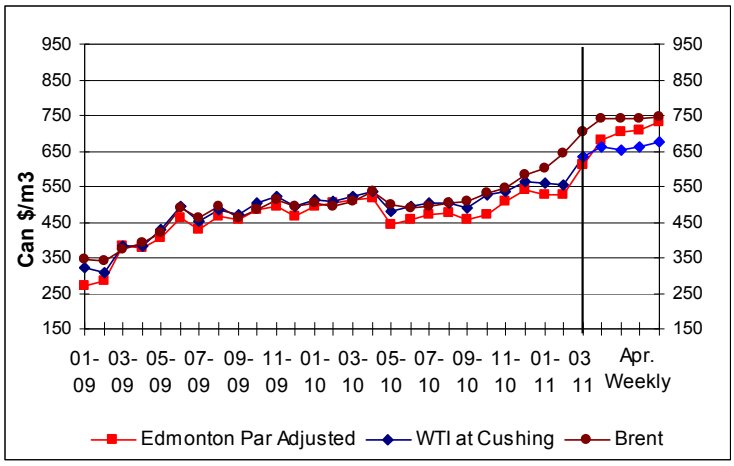
World Crude Oil Prices Level Out

For the week ending April 29, 2011, prices for the three marker crudes averaged between $674/m³ and $747/m³ (US$113 to US$125 per barrel). This is an increase of $5 to $25/m³ (US$2 to US$5 per barrel) from the previous week.

Much of the increase in world crude oil prices relates to the geopolitical risk premium associated with the tensions in crude oil producing countries in the Middle East.

U.S. crude oil inventories remain seasonally high, while gasoline stocks have declined to the bottom of their 5-year historical average. While consumer demand for refined petroleum products put upward pressure on crude oil ahead of the peak-demand driving season, large U.S. crude oil and petroleum product inventories help moderate the increase in prices.

Figure 6: Crude Oil Price Comparisons



Changes in Crude Oil Prices

Crude Oil Types	Week Ending: 2011-04-29		Change From:			
			Previous Week		Last Year	
	$Can/ m³	$US/ bbl	$Can/ m³	$US/ bbl	$Can/ m³	$US/ bbl
Edmonton Par	730.61	122.03	+24.67	+4.68	+271.09	+41.17
WTI	674.93	112.73	+14.82	+3.13	+140.02	+28.49
Brent	747.06	124.77	+5.14	+1.60	+205.77	+39.53

Source: NRCan

Viability of a Refinery

The overall economics or viability of a refinery depends on the interaction of three key elements: the choice of crude oil used (crude slates), the complexity of the refining equipment (refinery configuration) and the desired type and quality of products produced (product slate). Refinery utilization rates and environmental considerations also influence refinery economics.

Using more expensive crude oil (lighter, sweeter) requires less refinery upgrading but supplies of light, sweet crude oil are decreasing and the premium to be paid compared to heavier and more sour crudes is increasing. Using cheaper heavier crude oil means more investment in upgrading processes. Costs and payback periods for refinery processing units must be weighed against anticipated crude oil costs and the projected differential between light and heavy crude oil prices.

Crude slates and refinery configurations must take into account the type of products that will ultimately be needed in the marketplace. The quality specifications of the final products are also increasingly important as environmental requirements become more stringent.

Source: Natural Resources Canada, http://nrcan.gc.ca/eneene/sources/petpet/refraf-eng.php