

Fuel Focus

Understanding Gasoline Markets in Canada and Economic Drivers Influencing Prices

2014 Annual Review

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2014 Annual Review

Fuel Focus 2014 Annual Review summarizes the events that characterized the Canadian retail gasoline market during 2014. Throughout the year, the bi-weekly Fuel Focus report provides readers with regular information on the various aspects of the Canadian gasoline markets and the economic drivers influencing prices.

Highlights

- The Canadian average retail pump prices presented in this report are based on averaging, once per week, snapshots of retail prices across Canada. Prices in individual markets have an even wider range than the Canadian average price range.
- In 2014, retail gasoline prices were significantly influenced by the rise and subsequent fall in world crude oil prices. Canadian retail gasoline prices averaged \$1.28 per litre, an increase of 0.2 cent per litre from 2013. Gasoline prices fluctuated within a range of 43 cents per litre, from a low of 98 cents per litre to a high of \$1.41 per litre in 2014. In comparison, the range was 16 cents per litre from a low of \$1.19 per litre to a high of \$1.35 per litre in 2013.
- Most of the changes in retail gasoline prices were due to similar movements for crude oil prices. The Canadian average retail pump price of 128.1 cents per litre in 2014 was slightly higher than the average retail pump prices of 127.9 cents per litre registered in 2013 and 127.5 cents per litre in 2012.
- In 2014, diesel fuel prices rose by 5 cents per litre to \$1.34 while furnace oil prices increased by nearly 5 cents per litre to \$1.25 per litre. Diesel fuel prices rise in the fall and winter as the demand increases for both diesel and heating fuel.
- Canadian and American wholesale gasoline prices averaged 79.8 and 78.4 cents per litre, respectively, in 2014, compared to 80.7 and 78.5 cents per litre, respectively, in 2013. Overall, average retail pump prices reflected the movements of North American wholesale gasoline and world crude oil prices.
- The average price for the three light crude oil benchmarks (Edmonton Light, WTI and Brent) averaged Can\$642/m³, or US\$93/bbl in 2014—a decrease of Can\$0.17/m³, or US\$6/bbl from 2013. Note that the Canadian vs. U.S. exchange rate changed dramatically in 2014 vs. 2013. The Canadian dollar weakened vs. the US dollar, and as a result, the price decline denominated in Canadian dollars is much less than expressed in US dollars. Overall, Canadian Light crude oil prices at Edmonton averaged US\$87/bbl, a decrease of US\$3/bbl from 2013. WTI averaged US\$93/bbl, and Brent prices averaged US\$100/bbl, a decrease of US\$9/bbl from 2013.

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

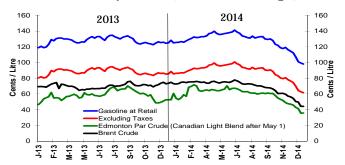
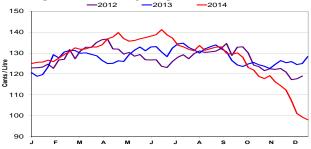


Figure 2: Weekly Regular Gasoline Prices



Changes in Fuel and Crude Oil Prices

	Annual (National Average)				
¢/L	2014	2013	Change		
Gasoline	128.1	127.9	+0.2		
Diesel	133.9	128.6	+5.3		
Furnace Oil	125.1	120.3	+4.8		
Canadian Light	59.5	58.3	+1.2		
Brent	69.2	70.3	-1.1		
Natural Gas Prices in \$CA/GJ					
Alberta (NGX)	4.18	3.01	+1.17		
Ontario (Dawn)	6.42	3.99	+2.43		

Source: NRCan, Bloomberg, NGX

Natural Gas Prices for Vehicles

Average 2014	¢/kilogram	¢/L gasoline equivalent	¢/L diesel equivalent
Vancouver	117.3	77.4	80.2
Edmonton	115.1	75.9	78.7
Toronto	123.9	81.7	84.7

Source: ¢/kg Kent Marketing Services Limited

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Supplement:

Taxes on Gasoline and Other Fuels; and 6 & 7 Fuel Focus Supplements in 2014







Retail Gasoline Overview

The annual average gasoline pump price in the selected cities shown in Figure 3 was \$1.28 per litre in 2014—an increase of 0.2 cent per litre compared to 2013.

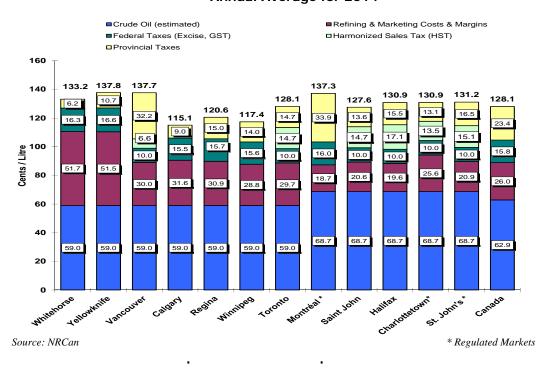
Crude oil, the main pump price component, averaged 63 cents per litre in 2014—a decrease of 0.2 cent per litre from the previous year.

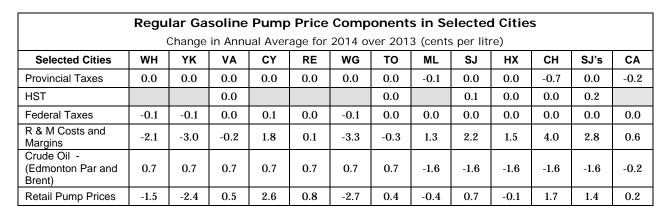
The refining and marketing costs and margins component increased by less than 1 cent per litre in 2014 to 26 cents per litre.

In 2014, federal and provincial taxes accounted for 39.2 cents per litre of the average gasoline price at the pump, compared to 39.4 cents per litre for the previous year.

Average retail gasoline prices in Calgary and Charlottetown increased by 2.6 and 1.7 cents per litre, respectively, due to higher refining and marketing costs and margins. Winnipeg registered a decrease of nearly 3 cents per litre as a result of lower refining and marketing costs and margins.

Figure 3: Regular Gasoline Pump Prices in Selected Cities Annual Average for 2014





Note: Empty fields indicate no changes from 2014 to 2013. Shaded areas indicate the tax is not applicable. Federal taxes include the excise tax and the GST where applicable.







Wholesale Gasoline Prices

In 2014, wholesale gasoline prices in Canada and the U.S. followed similar trends, with the annual average in Canada at 79.8 cents per litre, 1.4 cents per litre higher than the 78.4 cents per litre average for selected American centres.

Overall, Canadian and American wholesale gasoline prices followed each other closely. Vancouver showed a price spread above Seattle in 2014, as it did for most of 2013.

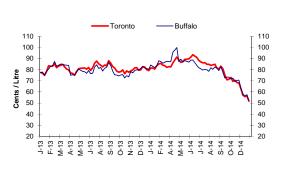
Higher prices in Vancouver were mainly due to tighter gasoline supplies. Limited capacity on the Kinder Morgan Trans Mountain Pipeline (which provides most of Vancouver's gasoline supply) and scheduled refinery maintenance in Edmonton contributed to relatively tight supplies in Vancouver compared to Seattle, and led to higher Vancouver prices.

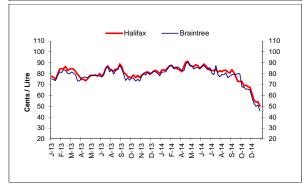
Figure 4: Wholesale Gasoline Prices (Weekly Average)

Terminal Rack Prices for Selected Cities Ending December 25, 2014

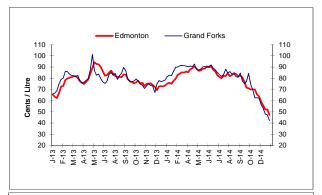
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Sources: NRCan, Bloomberg







Note: Average of the five centres shown for each country.





Refining and Marketing Margins

Average annual national refining margins for gasoline ranged from a low of 12 cents per litre to a high of 21 cents per litre in 2014. In comparison, margins fluctuated in the range of 12 to 23 cents per litre in 2013. Overall, the average national refining margins have gradually decreased from approximately 20 cents per litre in 2012 to 17 cents per litre in 2014.

Refinery margins fluctuated within a narrow range throughout the year with margins being somewhat higher in early summer, coinciding with the higher seasonal demand for gasoline during the summer driving season.

At the wholesale gasoline market level, stable refining margins are thought to indicate strong supply from refineries to the wholesale market, compared to demand for gasoline.

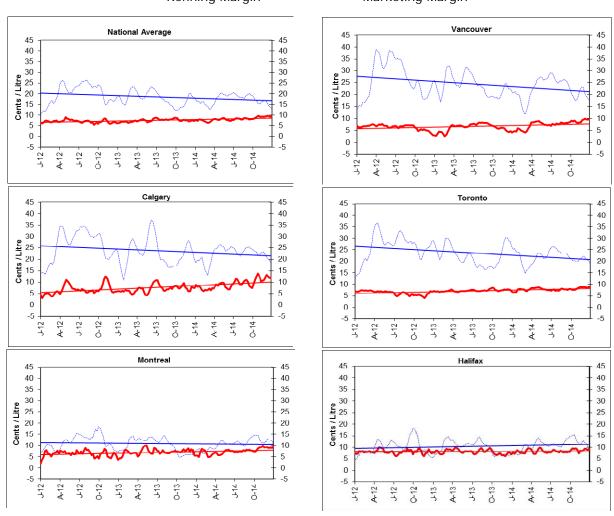
Marketing margins fluctuated over a narrow range and were much more stable than refining margins. Nationally, the average margin increased from last year by 0.7 cent per litre to 8 cents per litre.

Among the five centres, Calgary also ended the year with the highest annual average marketing margins at 9 cents per litre, 2 cents per litre above 2013. Montreal ended the year with the lowest average marketing margins at 7.4 cents per litre, up slightly from 7.2 cents per litre in 2013.

Figure 5: Refining and Marketing Margins (Four-Week Rolling Average)

Refining Margin

Marketing Margin





Source: NRCan

Canada



Crude Oil Overview

In 2014, crude oil prices for the three crude oil benchmarks (Canadian Light, WTI and Brent) averaged \$Can 642/m3 (US\$93 per barrel) a decrease of \$Can 0.17/m3 (US\$6 per barrel) from 2013. The following is a summary of the more significant events affecting the price of crude oil in 2014.

Canadian Light, the benchmark light crude at Edmonton, prices averaged \$591/m3, an increase of nearly \$7/m3. When converted to a US dollar basis, Canadian light crude oil prices fell, from US\$90/bbl to US\$87/bbl. WTI, the North American benchmark light crude, averaged US\$93/bbl, a decrease of US\$5/bbl from the previous year. Brent prices averaged US\$100/bbl, a decrease of US\$9/bbl from the previous year.

Since June 2014, the average for the three light crude oil benchmark prices fell by 55% from US\$105 per bbl to US\$58 per bbl in December 2014 - the lowest price since May 2009.

Western Canada Select (WCS), a heavy Canadian crude blend, prices averaged \$US74 per bbl, an increase of US\$1/bbl from the previous year.

All crude oil prices dropped dramatically, beginning in July. By December, crude oil prices were down 46% from their June levels.

The price differential between Brent global crude oil prices and the North American benchmarks narrowed considerably in 2014 compared to 2013. In 2014, the discount for Canadian Light compared to Brent ranged from US\$10 to US\$25 per bbl and averaged US\$14 per bbl. In 2013, the average discount for Canadian Light compared to Brent was nearly US\$19 per bbl. The discount for WTI compared to Brent ranged from less than US\$4 to US\$12 per bbl and averaged less than US\$7 per bbl.

In the first half of 2014, light crude oil prices remained buoyant as concerns over supply from Iraq kept oil prices firm. In North America, increased pipeline capacity between Cushing and the U.S. Gulf Coast (the reversal of the Seaway pipeline and subsequent expansion of the Seaway pipeline) contributed to reduce the differentials between Brent and the Canadian Light crude oil prices.

By the latter part of 2014, a number of factors contributed to a dramatic decline in crude oil prices:

- a surge in U.S. tight light crude oil production;
- ii) lower demand growth than expected, particularly in China;
- iii) statements by the Organisation of Petroleum Exporting Countries (OPEC) that OPEC would not reduce production of crude oil to protect prices from declining further; and
- iv) increasingly negative forecasts for crude oil prices from expert analysts.

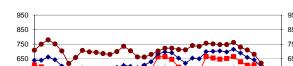
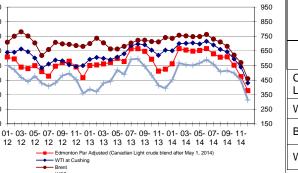


Figure 6: Crude Oil Price Comparisons



Changes in Crude Oil Prices

Crude Oil Types	Annual					
	2014		2013		Change	
	\$Can/ m³	\$US/ bbl	\$Can/ m³	\$US/ bbl	\$Can/ m³	\$US/ bbl
Canadian Light	591.47	86.92	584.72	90.15	+6.75	-3.23
WTI	644.35	92.98	635.91	97.99	+8.44	-5.01
Brent	689.58	99.51	705.27	108.72	-15.69	-9.21
wcs	510.19	73.62	471.75	72.67	+38.44	+0.95

Source: NRCan

WTI at Cushing - WCS

550 Can \$/m3 450

350

250

150



Federal and Provincial Consumption Taxes on Petroleum Products

(In Cents/Litre or in %, as indicated, as of December 31, 2014)

	Gasoline	Diesel	Propane (motor vehicle)	Furnace Oil/ Natural Gas (for heating)
<u> </u>	Federal	Taxes		
Excise Tax	10.0	4.0	-	-
Goods and Services Tax	5%	5%	5%	5%
OR: Harmonized Sales Taxes (1) (in most provinces): Newfoundland and Labrador, Ontario, and New Brunswick	13%	13%	13%	13%
Nova Scotia ⁽²⁾	15%	15%	15%	5%
Prince Edward Island	14%	14%	14%	5%
	Provincia	l Taxes		
Newfoundland and Labrador	16.5	16.5	7.0	
Prince Edward Island (3)	13.1	20.2		
Nova Scotia	15.5	15.4	7.0	
New Brunswick	13.6	19.2	6.7	
Quebec ⁽⁴⁾	19.2	20.2		
Quebec Sales Tax (QST)	9.975%	9.975%	9.975%	9.975%
Ontario	14.7	14.3	4.3	
Manitoba	14.0	14.0	3.0	
Saskatchewan	15.0	15.0	9.0	
Alberta	9.0	9.0	6.5	
Pritish Columbia plus Carbon Tay (5)	14.5	15.0		
British Columbia plus Carbon Tax (5)	6.67	7.67	4.62	7.67/5.70
Yukon	6.2	7.2		
Northwest Territories (6)	10.7/6.4	9.1		
Nunavut ⁽⁶⁾	10.7/6.4	9.1		
(in a	Transportated ddition to federal		xes)	
Montréal ⁽⁴⁾	3.0			
Vancouver ⁽⁵⁾	11.0	11.0		
Victoria ⁽⁵⁾	3.5	3.5		

Notes:

- 1. Where the HST is in place, the federal portion of the tax is 5%. GST or HST applies to the retail price before GST/HST.
- 2. Nova Scotia has a point of sale tax rebate of the provincial portion of the HST (8%) on furnace oil.
- 3. In Prince Edward Island (PEI), gasoline and diesel taxes are calculated based on volume and a fixed rate tax is applied to every litre of product sold. More detailed information is available on PEI's website at http://www.taxandland.pe.ca
- 4. In Quebec, gasoline, diesel and propane taxes are reduced by varying amounts in certain remote areas and within 20 kilometres of the provincial and U.S. borders. The Quebec provincial sales tax (QST) applies to all petroleum products at a rate of 9.975%. The QST is calculated on the retail price, which includes the Quebec per litre tax, federal excise tax and an urban tax of 3.0 cents per litre that is also added to gasoline sold in Montréal and surrounding municipalities.
- 5. British Columbia applies a carbon tax on all fuels. In the Greater Vancouver and Victoria areas, there are additional transportation taxes of 11.0 and 3.5 cents per litre, respectively, on gasoline and diesel. More information is available on the Government of British Columbia's website at http://www.sbr.gov.bc.ca/business/Consumer_Taxes/consumer_taxes.htm
- 6. In the Northwest Territories and Nunavut, gasoline is taxed at 6.4 cents per litre in communities not served by a highway system.

Notes:

The order in which taxes are applied is as follows: a) consumption and excise taxes (municipal, provincial and federal) are added to the ex-tax price, then b) the GST/HST are calculated and added onto the sum from a).





2014 Fuel Focus Supplements

The following is an index of the information and analysis provided as Supplements in the Fuel Focus Reports throughout the year. To view the full content of each Supplement, please follow the link.

Issue 2, February 21, 2014

Propane Supply and Distribution Situation in Eastern Ontario and Western Quebec

http://www.nrcan.gc.ca/energy/fuel-prices/gasoline-reports/15468#supsup

Issue 7, May 2, 2014

Changing North American Crude Oil Price Dynamics

http://www.nrcan.gc.ca/energy/fuel-prices/gasoline-reports/15981#supsup

Issue 11, June 27, 2014

Fuel Focus Website and Publications

http://www.nrcan.gc.ca/energy/fuel-prices/gasoline-reports/16349#supsup

Issue 18, October 3, 2014

Narrowing of Global Crude Oil Price Differentials

http://www.nrcan.gc.ca/energy/fuel-prices/gasoline-reports/16647#supsup

Issue 19, October 17, 2014

Regional Gasoline Price Differences Explained

http://www.nrcan.gc.ca/energy/fuel-prices/gasoline-reports/16684#supsup

Issue 23, December 12, 2014

North American Natural Gas Market: 2014-2015 Heating Season Outlook

http://www.nrcan.gc.ca/sources/natural-gas/16781



