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Fuel Focus

*Understanding Gasoline Markets in Canada
and Economic Drivers Influencing Prices*

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National Overview

Canadian Retail Gasoline Prices Increased by 3 cents over past two weeks

For the two-week period ending June 9, 2015, the Canadian average retail gasoline price reached \$1.19 per litre. This represents an increase of 3 cents from the two-week period ending May 26, 2015. Prices are 19 cents per litre lower than last year at this time.

Average retail diesel prices remained at \$1.13 over the same time period, this is 23 cents less than for the same period last year. Over the same period, furnace oil prices remained at \$1.08, 19 cents less per litre than a year ago.

Recent Developments

• OPEC Leaves Oil Output Targets Unchanged

At its latest semi-annual Conference on June 5, 2015, OPEC decided to maintain its current production at roughly 30 million barrels per day levels for at least another six months. In response to the announcement, the price of crude oil benchmarks rose by 0.5% in Friday trading. Despite the production quota, the producer group is currently collectively producing about 31 million barrels a day. U.S. and Iranian officials continue talks which may result in the lifting of current economic sanctions on Iran. If sanctions are lifted, it is predicted that Iran, an OPEC member, could add another 500,000-700,000 barrels of oil per day onto the market in fairly short order. OPEC nations will meet again in December to set new production targets. **Source:** CBC <http://www.cbc.ca/news/business/opec-leaves-oil-output-targets-unchanged-1.3101998>

- **Alberta Forest Fires Force 10% Output Cut From Oil Sands Projects** On May 23, a wildfire forced Cenovus and Canadian Natural Resources Limited to temporarily shut-in their oil sands operations as conditions caused by forest fires became too harsh to operate in. In addition, several other producers have vacated non-essential workers from their operations as a precautionary measure. The fire has shut down about 10% of Alberta's oil sands operations – approximately 230,000 bpd. Some of this production is expected to return to normal operations as early as this week. **Source:** CBC

<http://www.cbc.ca/news/canada/calgary/alberta-forest-fires-affect-several-oilsands-operations-1.3087985>

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

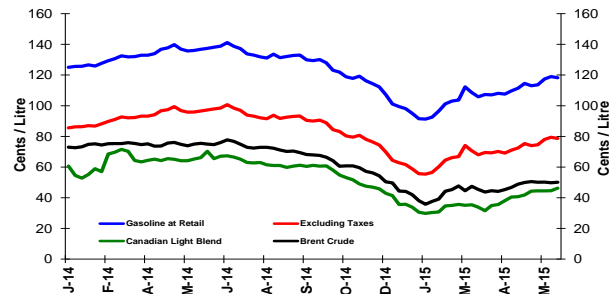
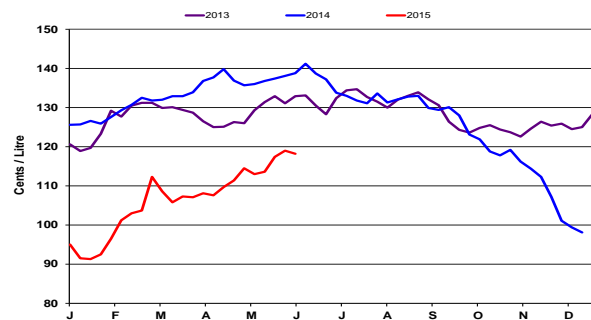


Figure 2: Weekly Regular Gasoline Prices



Changes in Fuel Prices

	Two week average ending:	Change from:	
¢/L	2015-06-09	2 weeks ago	Last Year
Gasoline	118.6	+3.1	-19.2
Diesel	113.3	+0.2	-22.5
Furnace Oil	107.9	-0.5	-19.4
Natural Gas Prices in \$CA/GJ			
Alberta (NGX)	2.440	-0.3	-1.7
Ontario (Dawn)	3.256	-0.17	-1.3

Source: NRCan, Bloomberg, NGX

Natural Gas Prices for Vehicles

2015-06-09	¢/kilogram	¢/L gasoline equivalent	¢/L diesel equivalent
Vancouver	123.6	81.5	84.5
Edmonton	115	75.9	78.7
Toronto	128.4	84.7	87.8

Source: ¢/kg Kent Marketing Services Limited

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Retail Gasoline Overview

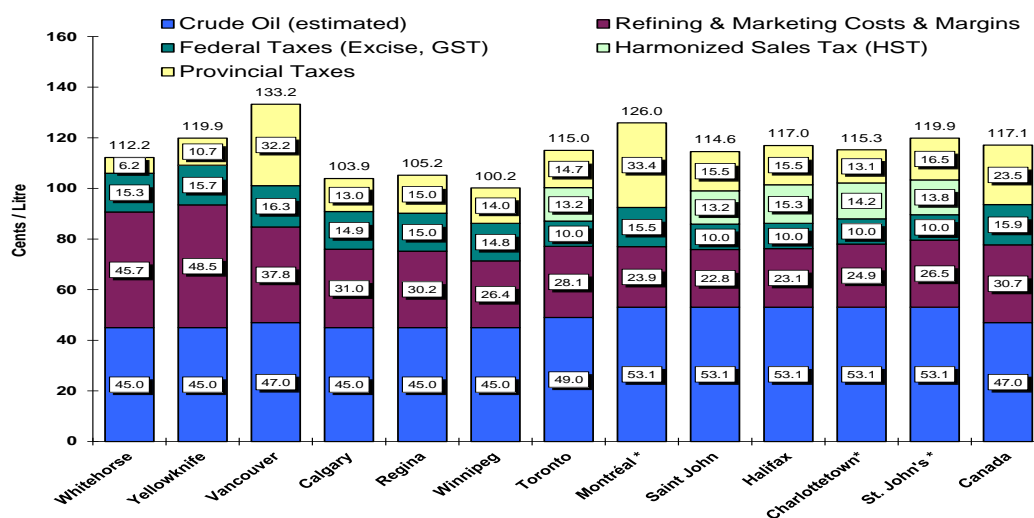
For the period ending June 9, 2015, the **four-week-average** regular gasoline pump price in selected cities across Canada increased by 2 cents to reach \$1.17 per litre compared to the previous report of May 29, 2015. Compared to the same period in 2014, the average Canadian pump price is 20 cents per litre lower.

The **four-week-average** crude component excluding transportation costs decreased by 3 cents to reach 47 cents compared to two weeks ago. The crude oil price component of gasoline is 27 cents per litre lower than this time last year.

Retail gasoline prices in Western centres increased by 3 cents per litre compared to the previous report and ranged from \$1.00 per litre to \$1.33 per litre. Prices in Eastern cities increased by 2 cents per litre and ranged from \$1.15 to \$1.26 per litre.

At the national level, refining and marketing costs and margins increased by 6 cents to reach 31 cents per litre compared to the last report two weeks ago.

**Figure 3: Regular Gasoline Pump Prices in Selected Cities
Four-Week Average (May 19 to June 9, 2015)**



Source: NRCan

* Regulated Markets

Note: Transportation costs are included in the crude oil estimate for Vancouver (\$2.20), Toronto (\$4.50) and Eastern Canada (\$3.40) all prices in USD.

Crude oil transportation costs now included in pump price breakdown

The Fuel Focus retail pump price breakdown (Fig 3 above) shows the components that make up the retail price of gasoline. The breakdown will now include transportation costs within the cost of crude oil. Previously, they were included as part of refining and marketing costs and margins.

In Western Canada and Ontario, refiners use mostly domestic crude oil. As a result, we base the crude oil costs in Western Canada and Ontario on the price of Canadian Light Sweet. Refiners in Eastern Canada (Montreal and points east), rely mainly on imported crudes, and therefore we base their crude oil costs on the price of the internationally traded Brent crude oil benchmark. In order to show more accurate crude oil costs, we have updated our assumptions about the transportation costs of shipping the crude oil from the selling point to the relevant refinery. These costs will continue to be refined moving forward.

The crude oil costs for Vancouver reflect the cost to move crude oil through the Trans Mountain pipeline from Edmonton, Alberta to Burnaby, British Columbia. **The toll is currently \$2.20 USD per barrel (0.02CAD per litre).**

The crude oil costs for Toronto reflect the cost of moving crude oil via the Enbridge Mainline from Edmonton, Alberta to Sarnia, Ontario. **The toll is currently 4.50 USD per barrel (0.04 CAD per litre).**

The crude oil costs will reflect the cost of moving Brent crude to Montreal, which is first shipped via tanker to Portland and then moved from there via pipeline. **The estimated transportation costs are \$3.40 USD per barrel (0.03 CAD per litre).**

Source: NRCan, Canadian Association of Petroleum Producers, Bloomberg





Wholesale Gasoline Prices

For the two week period ending June 4, 2015, wholesale gasoline prices in the selected North American cities increased, with the exception of Vancouver, Seattle and Rochester.

Overall North American wholesale gasoline price changes ranged between a decrease of 1.4 cents to an increase of 4 cents. Prices for the period ended in the 65 to 73 cents-per-litre range. (All figures in Canadian cents per litre).

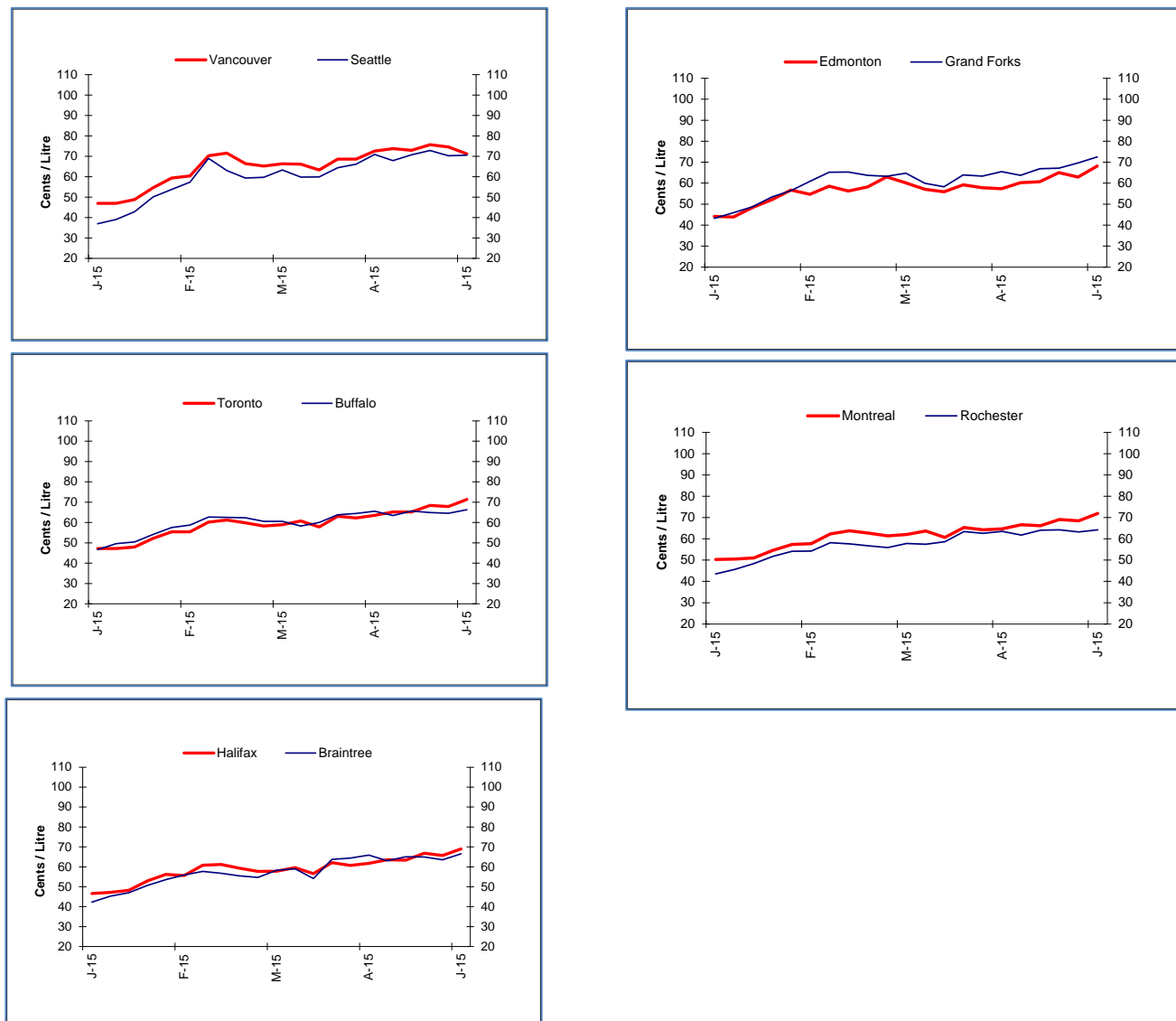
In the Eastern markets of Canada and the U.S., wholesale gasoline price changes ranged between

a decrease of 0.5 cents to an increase of 3 cents, and ended in the 64 to 68 cent per litre range.

Wholesale gasoline price changes in Western centres, ranged between a decrease of 1.4 cents to an increase of 4 cents, and ended in the 65 to 73 cents-per-litre range.

In the last four weeks, wholesale price changes in selected Canadian and American centres ranged between a decrease of 1 cent to an increase of 8 cents.

Figure 4: Wholesale Gasoline Prices
Rack Terminal Prices for Selected Canadian and American Cities Ending June 9, 2015
(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.

These gasoline refining margins refer to the difference between the cost of crude oil and the wholesale price at which the refiner can sell gasoline. The margin includes the cost associated with refining the product as well as a profit for the retailer.

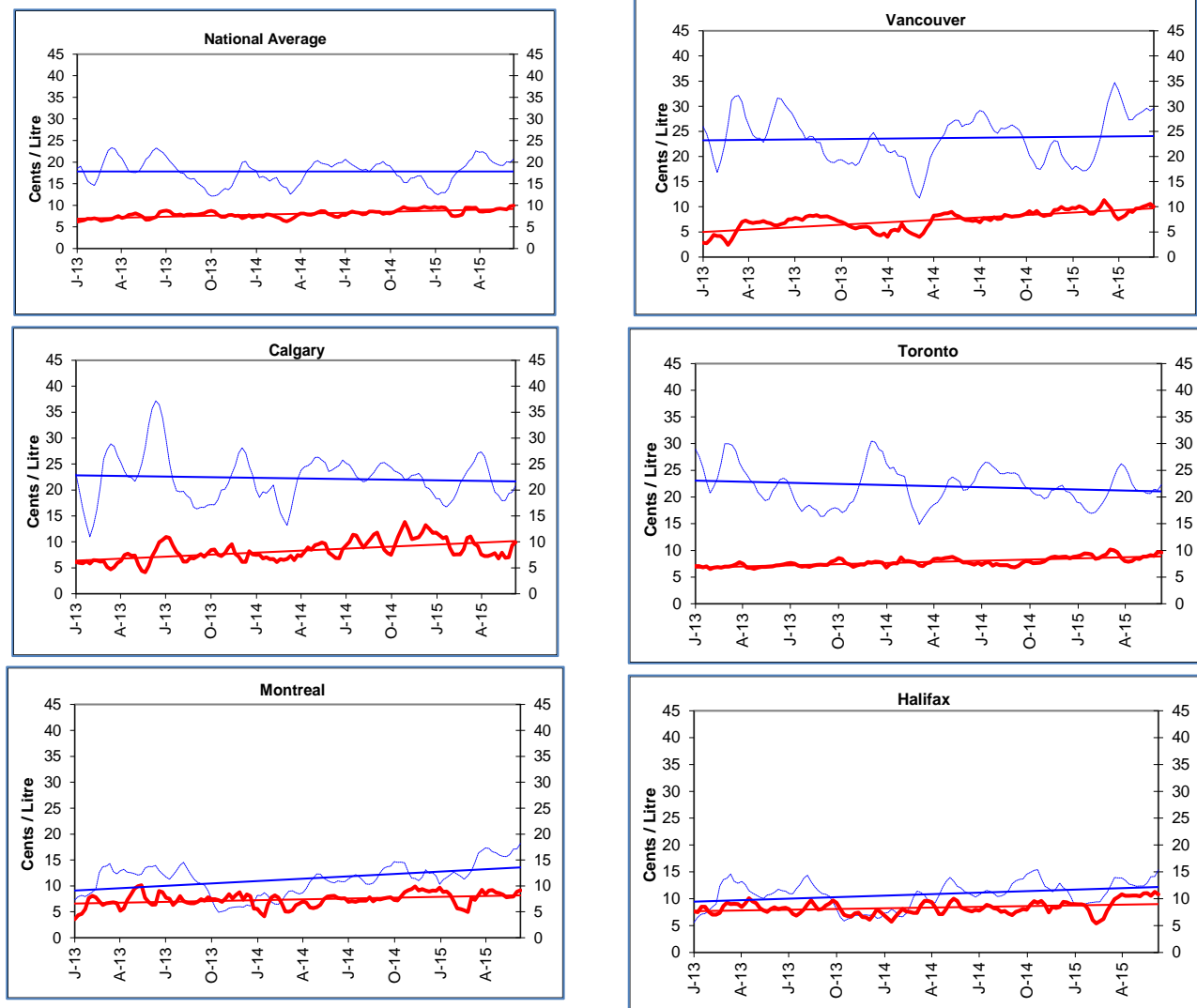
The gasoline marketing margins represent the difference between the wholesale and retail prices of gasoline. This margin pays for the costs associated with operating a service station.

Gasoline refining margins have increased slightly over the past two weeks in the major Canadian markets as shown below.

Nationally, refining margins reached 21 cents per litre and are 2 cents higher this year compared to last year.

Nationally, marketing margins have been steady over the past several weeks, hovering around an average of 9 cents per litre.

Figure 5: Gasoline Refining and Marketing Margins
Four-Week Rolling Average Ending June 9, 2015
----- Refining Margin — Marketing Margin



Source: NRCan



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Crude Oil Overview

Crude oil prices remain relatively unchanged over past two weeks

For the two weeks ending June 9, 2015, prices for the three light crude benchmarks averaged between CAD\$461.78 /m³ and CAD\$499.16/m³ (US\$ 58.65 and US\$63.73 per barrel).

The Canadian dollar weakened by nearly 3% over the past two weeks, which is reflected in the relative price changes below. Canadian light crude oil prices at Edmonton increased by CAD\$15.51/m³ (US\$ 0.17 per barrel) from two weeks ago, WTI increased by CAD\$ 11.14/m³ (US\$0.16 decrease per barrel) and Brent decreased by CAD\$ 1.93 /m³ (US\$ 1.44 per barrel).

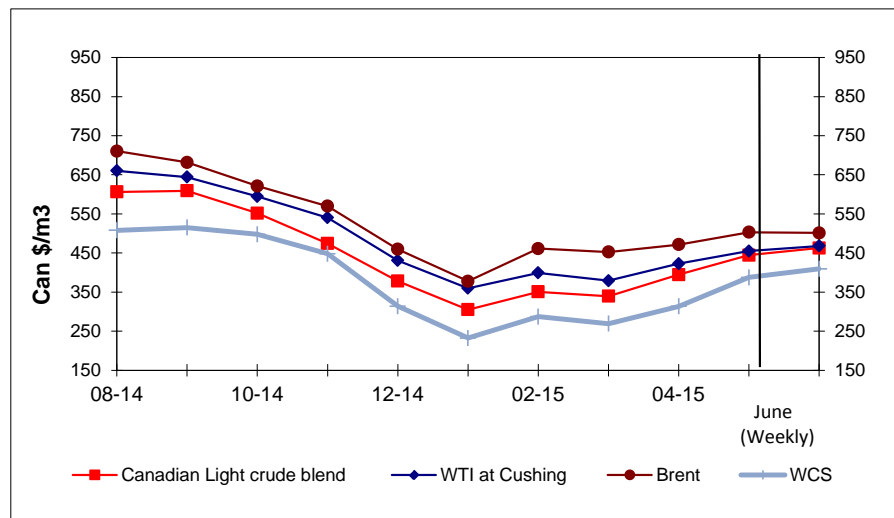
The differential between Canadian light crude oil prices and the other two benchmarks has been narrowing. Currently Canadian Light crude is \$5.16 USD less than Brent.

The differential between Canadian light crude and WTI has narrowed to less than USD\$ 1, and averaged only USD\$0.55 over the past two weeks.

The differential between West Texas Intermediate (WTI), and the Canadian heavy benchmark, West Canada Select (WCS) has narrowed to \$US 7.90/bbl, its lowest level in more than five years. This is driven by an increase in WCS prices related to oil sands production that is offline as a result of the wildfires in Alberta.

U.S. EIA data show crude inventories fell by 6.8 million barrels for the week ending June 5, the sixth straight week of declines. This compared with analysts' expectations for a decrease of 3.46 million barrels. Commercial inventory levels in the U.S. now stand at 470.6 million barrels.

Figure 6: Crude Oil Price Comparisons



Changes in Crude Oil Prices

Crude Oil Types	Two Week average ending: 2015-06-09		Change From:			
			Two weeks ago		Last Year	
	\$Can/ m ³	\$US/ bbl	\$Can/ m ³	\$US/ bbl	\$Can/ m ³	\$US/ bbl
Canadian Light	461.78	58.65	+15.51	+0.17	-195.85	-37.22
WTI	463.7	59.20	-0.16	+11.14	-241.94	-43.87
Brent	499.2	63.73	-1.44	-1.93	-249.05	-45.49
WCS	450.71	51.39	+0.99	+66.50	-124.20	-32.46

Source: NRCan

