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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 Decreased by 2 Cents per Litre over last two weeks

For the two-week period ending July 7, 2015, the Canadian average retail gasoline price reached \$1.21 per litre. This represents a decrease of 2 cents from the two-week period ending June 23, 2015. Prices are 17 cents per litre lower than the same period last year.

Average retail diesel prices decreased by less than 1 cent per litre over the same time period remaining at \$1.12 litre, this is 23 cents less compared to the same period last year. Over the same period, furnace oil prices also decreased by 1 cent per litre to reach \$1.07, 20 cents per litre less than a year ago.

Recent Developments

- Alberta Energy Regulator Releases Annual Outlook** On June 29, 2015, the Alberta Energy Regulator (AER) released their annual report "Alberta Energy Reserves 2014 and Supply / Demand Outlook 2015-2024". The AER projects that Alberta's oil sands production will grow by 76% to reach 4.0 million barrels per day (bpd) in 2024, while synthetic crude oil production will grow by 32% and reach 1.25 million bpd by 2024. They indicate that Alberta's total remaining established reserves of oil sands totaled 166.3 billion barrels in 2014. This is 0.9 billion barrels less than reported last year and is due to ongoing oil sands production. Canada continues to have the 3rd largest oil reserves in the world behind, Venezuela and Saudi Arabia. **Source:** Alberta Energy Regulator <http://www.aer.ca/about-aer/media-centre/news-releases/news-release-2015-06-29>
- Gross Domestic Product declined in April** Statistics Canada announced that real gross domestic product edged down 0.1% in April, the fourth monthly contraction in the economy. Overall, goods production fell 0.8% in April, down for a fourth consecutive month. This was primarily the result of a contraction in mining, quarrying, and oil and gas extraction, which fell by 2.6% in April, down for a sixth consecutive month. **Source:** Statistics Canada <http://statcan.gc.ca/daily-quotidien/150630/dq150630a-eng.htm?HPA>
- U.S. Demand for Gasoline Remains Strong** Recent Energy Information Administration data show that gasoline demand increased by 6% over the last 4 weeks compared to the same period last year. In addition, recent data released by the U.S. Department of Transportation show that vehicle miles traveled in April, increase by 3.9% over the same period last year. The increase in U.S. demand appears to be at least partly due to significantly lower U.S. gasoline prices. **Sources:** U.S. Department of Transportation http://www.fhwa.dot.gov/policyinformation/travel_monitoring/tvt.cfm, Energy Information Administration, http://www.eia.gov/dnav/pet/pet_sum_sndw_a_ep_mOf_vpp_mbbldp_w.htm

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

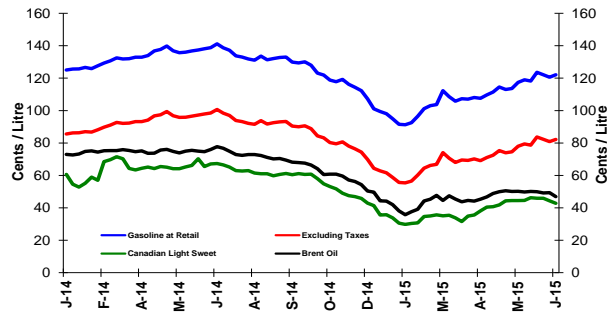
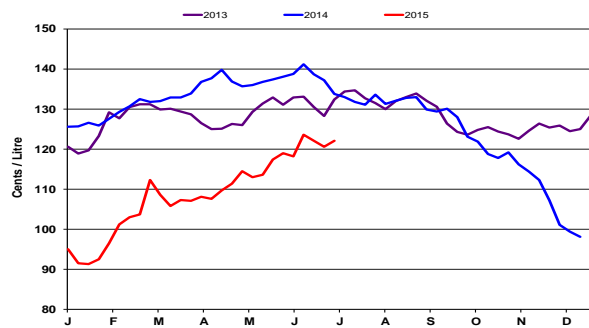


Figure 2: Weekly Regular Gasoline Prices



Changes in Fuel Prices

	Two week average ending:	Change from:	
		2 weeks ago	Last Year
¢/L	2015-07-07		
Gasoline	121.4	-1.5	-17
Diesel	111.8	-0.6	-23
Furnace Oil	106.9	-0.6	-20
Natural Gas Prices in \$/GJ			
Alberta (NGX)	2.54	-0.02	-1.70
Ontario (Dawn)	3.36	-0.03	-1.21

Source: NRCan, Bloomberg, NGX

Natural Gas Prices for Vehicles

2015-07-07	¢/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

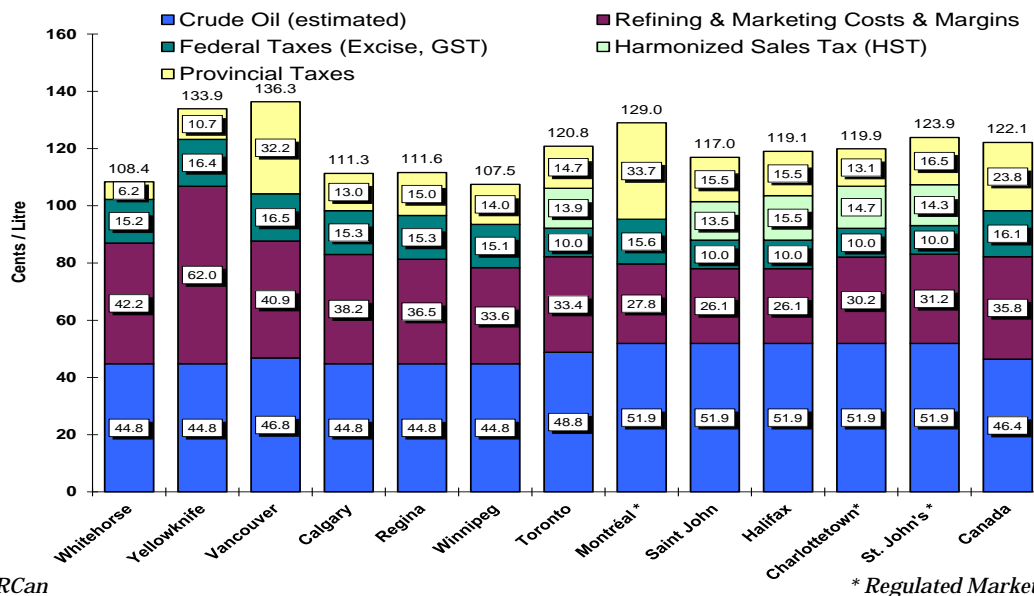
For the period ending July 7, 2015, the **four-week** average regular gasoline pump price in selected cities across Canada increased by 1 cent to reach \$1.22 per litre compared to the previous report of June 24, 2015. Compared to the same period in 2014, the average Canadian pump price is 17 cents per litre lower.

The four-week-average crude component decreased by 1 cent to reach 46 cents. The crude oil price component of gasoline is 28 cents per litre lower than this time last year.

Retail gasoline prices in Western centres decreased by 1 cent per litre compared to the previous report and ranged from \$1.08 per litre to \$1.36 per litre. Prices in Eastern cities decreased by 1 cent per litre and ranged from \$1.17 to \$1.29 per litre.

At the national level, refining and marketing costs and margins increased by 2 cents to reach 36 cents per litre compared to the last report two weeks ago.

**Figure 3: Regular Gasoline Pump Prices in Selected Cities
Four-Week Average (June 16 to July 7, 2015)**



Source: NRCan

* Regulated Markets

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.

Changes to Alberta's Greenhouse Gas Regulations

Since 2007, Alberta has regulated greenhouse gas emissions (GHGs), under their Specified Gas Emitters Regulations (SGERs). These Regulations currently require any facility that emits 100,000 tonnes or more greenhouse gases a year to reduce their emissions intensity by 12 per cent compared to a baseline level. The intensity target for facilities will increase to 15 per cent on January 1, 2016 and to 20 per cent on January 1, 2017. This change was announced by the Government of Alberta on June 25, 2015 as part of the renewal of the SGERs.

Companies have four ways that they can comply with the Regulations. They can reduce GHG emissions by making improvements to their operations, use emission performance credits, purchase Alberta-based carbon offset credits; and/or contribute to the Climate Change and Emissions Management Fund.

As part of the SGER renewal, the cost of contributing to the Climate Change and Emissions Management Fund will be increased from the current \$15 per tonne of GHG to a \$20 per tonne contribution per tonne, effective January 1, 2016 and again rising to \$30 per tonne on January 1, 2017.

In addition to these changes, the Government of Alberta announced that it will be creating a new Climate Change Advisory Panel in order to further inform an overarching Climate Change Strategy which is expected to be released during the fall 2015.

Source: Alberta Energy and Parks <http://esrd.alberta.ca/focus/alberta-and-climate-change/regulating-greenhouse-gas-emissions/greenhouse-gas-reduction-program/default.aspx>





Wholesale Gasoline Prices

For the two week period ending July 2, 2015, wholesale gasoline prices in selected North American cities decreased, except for small increases in Toronto and Vancouver.

Overall, North American wholesale gasoline price changes ranged between an increase of less than 1 cent and a decrease of 3 cents per litre. Prices for the period ended in the 65 to 78 cents-per-litre range. (All figures in Canadian cents per litre).

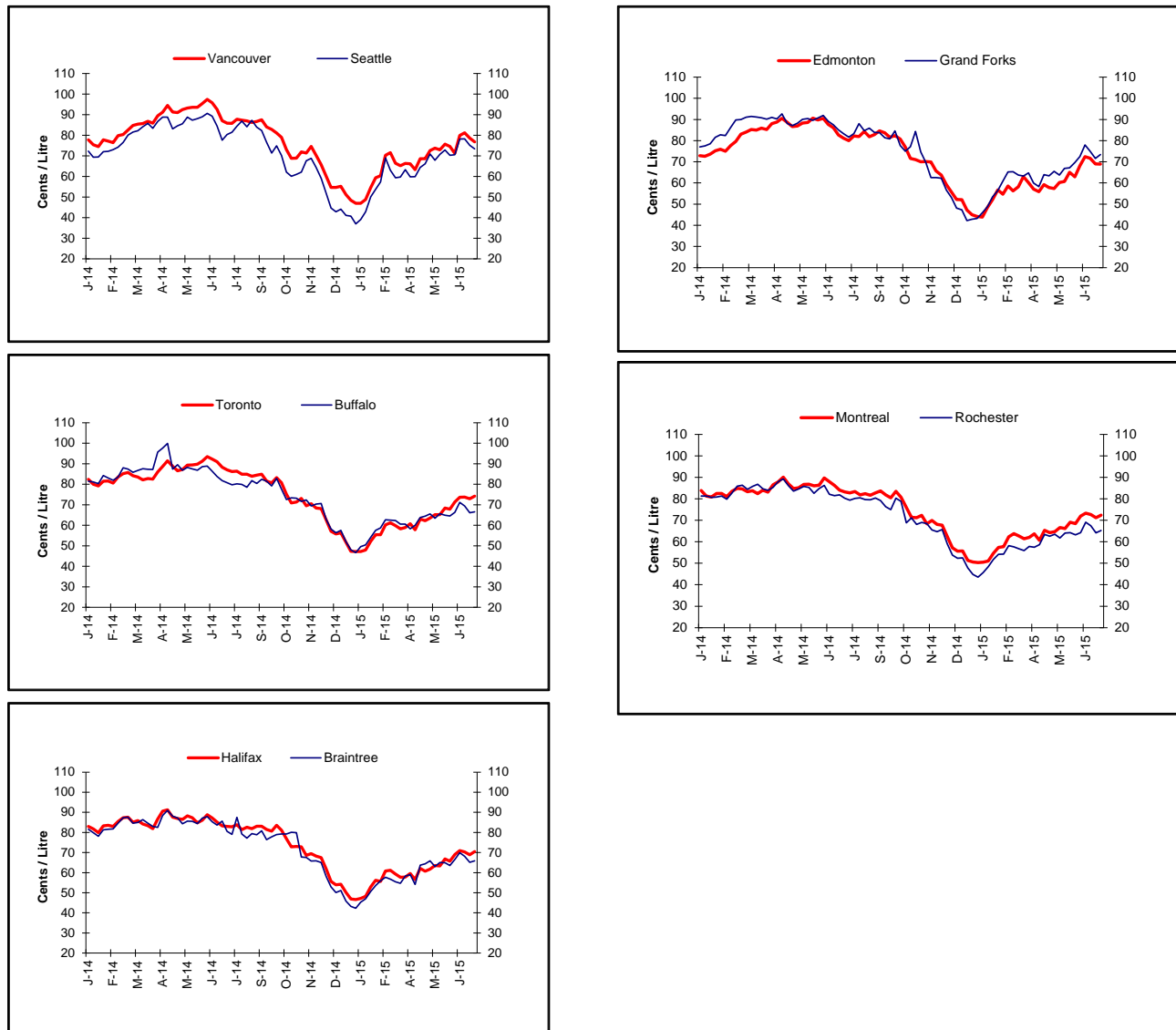
In the Eastern markets of Canada and the U.S., wholesale gasoline price changes ranged between an

increase of 1 cent and a decrease of 3 cents ending in the 65 to 74 cent per litre range.

In terms of wholesale gasoline prices in Western centres, price changes ranged between an increase of less than 1 cent and a decrease of 3 cents ending in the 69 to 78 cents-per-litre range.

In the last four weeks, wholesale prices changes in selected Canadian and American centres ranged between an increase of 1 cent to a decrease of 5 cents per litre.

Figure 4: Wholesale Gasoline Prices
Rack Terminal Prices for Selected Canadian and American Cities Ending July 2, 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 been trending upwards in all of the major Canadian markets shown below. Nationally, refining margins have again increased by nearly 3 cents over the past two weeks.

Over the past two weeks, crude oil prices have decreased more than wholesale prices, leading to stronger refining margins. Compared to last year, margins in Canada are currently 2 cents per litre higher.

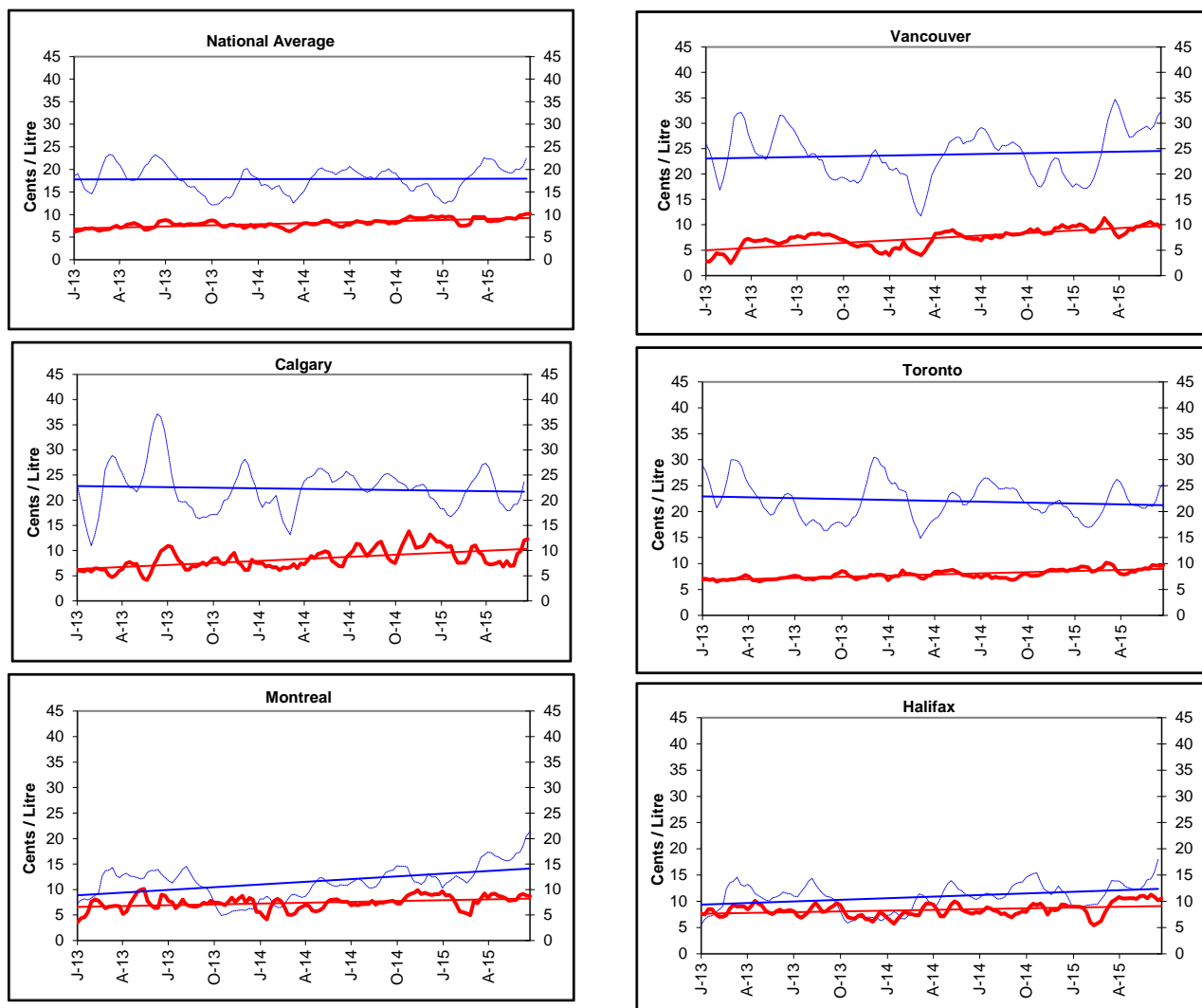
Nationally, marketing margins have decreased by 1 cent over the past two weeks, reaching an average of

Figure 5: Gasoline Refining and Marketing Margins

Four-Week Rolling Average Ending July 7, 2015

----- Refining Margin

----- Marketing Margin



Source: NRCan





Crude Oil Overview

Global crude oil prices decline as a result of crude inventory build-up

For the two weeks ending June 23, 2015, prices for the three light crude benchmarks averaged between CAD\$425.63 /m³ and CAD\$482.45/m³ (US\$ 54.22 and US\$61.45 per barrel).

Canadian light crude oil prices at Edmonton decreased by CAD\$33.88/m³ (US\$ 5.20 per barrel) from two weeks ago, West Texas Intermediate (WTI) decreased by CAD\$ 15.56/m³ (US\$2.88 per barrel) and Brent decreased by CAD\$ 11.61/m³ (US\$2.44 per barrel).

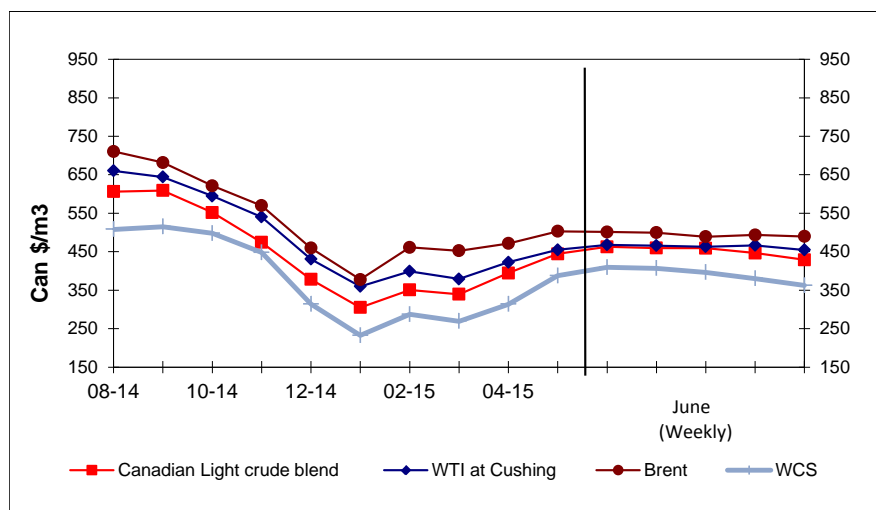
The differential between Canadian light crude oil prices and the other two benchmarks has increased over the past two weeks. Currently, Canadian Light crude is CAD\$ 36.58/m³ (US\$7.23) per barrel less than Brent. The differential between Canadian light crude and WTI has increased and reached CAD \$36.58/m³, (US\$ 3.13 per barrel). This is a significant increase from the previous two weeks where it averaged only CAD \$5.11/m³ (US\$0.81 per barrel).

The differential between WTI and the Canadian heavy benchmark, West Canada Select (WCS) has increased to an average of CAD 87.63/m³ (US \$11.16 per barrel) over the past two weeks. This is an increase from recent record low differentials.

Crude inventories increased for the first time in nine weeks, according to the U.S. EIA. Inventory levels increased by 2.4 million barrels, despite analysts' expectations for a decrease of 1.2 million barrels. U.S. inventories are currently at 465.4 million barrels for the week ending June 26. In response to the release of this data last week, WTI prices fell by 4.2% - the biggest single-day decrease since April 8. Brent prices fell by 2.5%. An inventory build is especially concerning because refineries are operating near peak capacity, and stocks are continuing to increase.

EIA data showed that U.S. production decreased by 9,000 bpd for the week ending June 26, with U.S. production currently at 9.60 mbpd.

Figure 6: Crude Oil Price Comparisons



Changes in Crude Oil Prices

Crude Oil Types	Week Ending: 2015-07-07		Change From:			
			Previous Week		Last Year	
	\$Can/ m ³	\$US/ bbl	\$Can/ m ³	\$US/ bbl	\$Can/ m ³	\$US/ bbl
Canadian Light	425.63	54.22	-33.88	-5.20	-226.14	-42.83
WTI	450.24	57.35	-15.56	-2.88	-254.38	-35.95
Brent	482.45	61.45	-11.61	-2.44	-268.68	-50.40
WCS	362.61	46.19	-35.65	-5.31	-201.16	-37.76

Source: NRCan

