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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 Up 1 Cent per Litre from Last Week

Canadian retail pump prices, for the week ending September 3, 2013, increased by 1 cent per litre to \$1.34 per litre—a six-week high. This represents an increase of 3 cents per litre from the same time last year.

Diesel fuel prices rose by 2 cents per litre from the previous week, ending at \$1.29 per litre. Furnace oil prices rose by nearly 2 cents per litre to \$1.21 per litre from last week. Diesel prices are more than 2 cents per litre higher from the same period last year, while furnace oil prices are almost 4 cents per litre higher.

Average retail gasoline prices rose on higher wholesale gasoline prices, which in turn reflected higher crude oil prices. Significant conflict and the threat of military action in Syria remains the main driver for higher world crude oil prices. Another large issue looming is the Libyan conflict which has reduced oil production levels due to strikes. Concerns over supply issues have a direct impact on the spread between the Brent and WTI oil prices.

Recent Developments

• **Domestic Crude Oil Production:** Canadian production of crude oil and equivalent hydrocarbons decreased slightly by 0.1% to 15.5 million cubic meters in May 2013 compared to the same period last year. Exports increased nearly 3% to 12 million cubic meters. About 74% of Canada's total domestic production went to the export market compared to 72% a year earlier. Imports decreased 26% to 3 million cubic meters. (Statistics Canada, The Daily, <http://www.statcan.gc.ca/daily-quotidien/130827/dq130827c-eng.htm>)

• **TransCanada's Energy East Pipeline:** On August 1, Calgary-based TransCanada Corp. announced that it was proceeding with a project that is much larger and more expensive than Keystone XL. The 4,345-kilometre (2,700-mile) Energy East pipeline would move up to 1.1 million barrels per day (b/d) of crude oil from western Canada to eastern Canadian refineries and export terminals. The pipeline is estimated to cost US\$12 billion and would involve converting a 3,000 kilometre portion of natural gas capacity on the company's Canadian Mainline pipeline, as well as building another 1,400 kilometres of new pipe. Crude would be transported from Alberta and Saskatchewan to delivery points in Montreal and Quebec City and terminate at Canaport in Saint John, New Brunswick. The Canaport terminal would also house a new deepwater marine terminal owned by Irving Oil and TransCanada. (Source: Global Refining & Fuels Report, August 20, 2013)

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

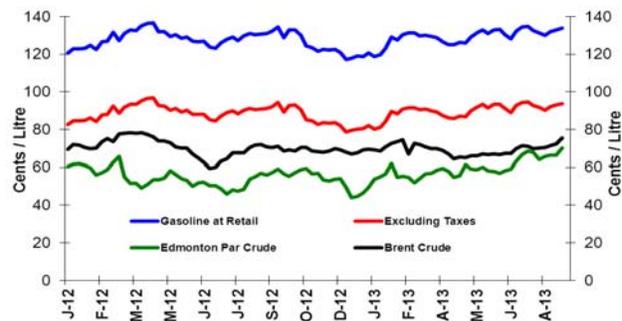
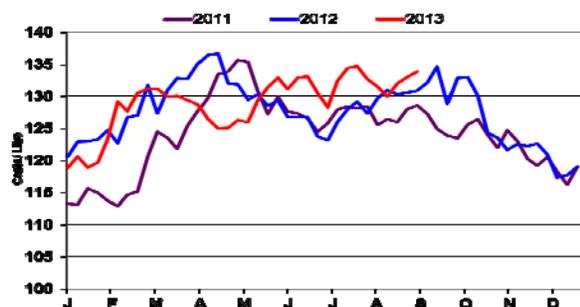


Figure 2: Weekly Regular Gasoline Prices



Changes in Fuel Prices

¢/L	Week of:	Change from:	
	2013-09-03	Previous Week	Last Year
Gasoline	133.9	+0.9	+3.0
Diesel	128.5	+2.3	+2.4
Furnace Oil	120.9	+1.6	+3.7

Source: NRCan

Natural Gas Prices for Vehicles

2013-09-03	¢/kilogram	¢/L gasoline equivalent	¢/L diesel equivalent
Vancouver	119.4	78.8	81.7
Edmonton	115.1	75.9	78.7
Toronto	110.6	73.0	75.6

Source: ¢/kg Kent Marketing Services Limited

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Retail Gasoline Overview

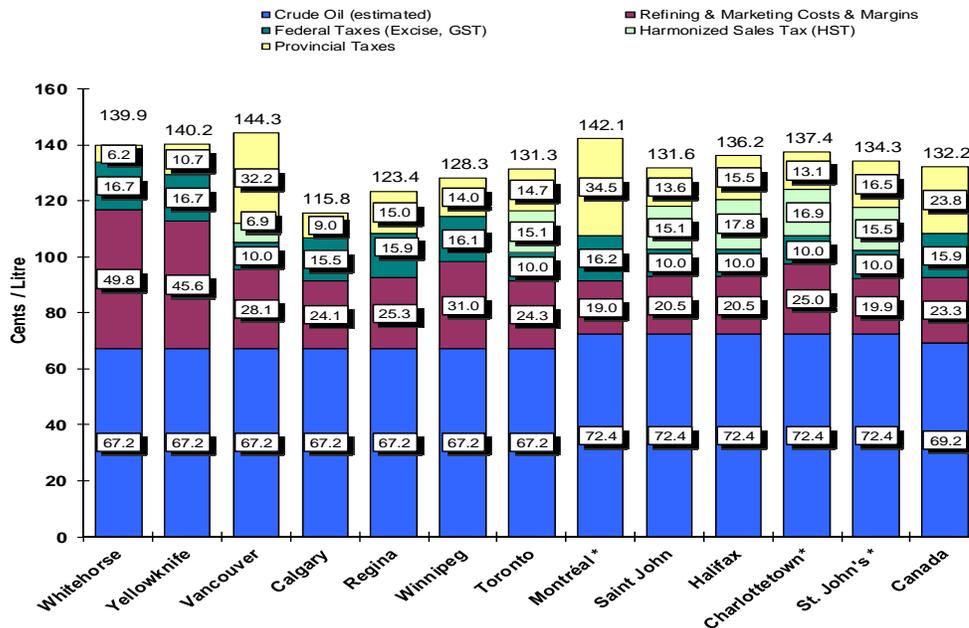
The **four-week average** Canadian pump price in selected cities for the week ending September 3, 2013, was \$1.32 per litre—an increase of less than 1 cent per litre from the last report on August 23, 2013. This represents a 2 cent-per-litre increase compared to the same period in 2012.

Compared to two weeks ago, the **four-week average** crude oil price increased by 1 cent per litre and settled at 69 cents per litre.

On average, retail gasoline prices in Eastern centres rose by 1 cent per litre compared to the last report two weeks ago. Prices ranged from \$1.31 to \$1.42 per litre. Prices in Western centres decreased, on average, by less than 1 cent per litre and ranged from \$1.16 to \$1.44 per litre.

At the national level, refining and marketing costs declined by 1 cent per litre from the previous report of two weeks ago to 23 cents per litre.

**Figure 3: Regular Gasoline Pump Prices in Selected Cities
Four-Week Average (August 13 to September 3, 2013)**



Source: NRCan

* Regulated Markets

Inflation Up 1.3% in July

The Consumer Price Index (CPI) rose 1.3% in the 12 months to July, following a 1.2% increase in June. The increase in the CPI in July was led by transportation prices, which rose 2.7% on a year-over-year basis, following a 2.0% gain in June.

Compared to July of last year, consumers paid 6.1% more for gasoline. This followed a 4.6% increase in June. Gasoline prices rose in all provinces, with Prince Edward Island (+13.9%) recording the largest gain and Saskatchewan (+2.7%) posting the smallest increase. Prices for the purchase of passenger vehicles rose 2.0% in the 12 months to July, matching the increase in June.

Source: The Daily, Statistics Canada, <http://www.statcan.gc.ca/daily-quotidien/130823/dq130823a-eng.htm>





Wholesale Gasoline Prices

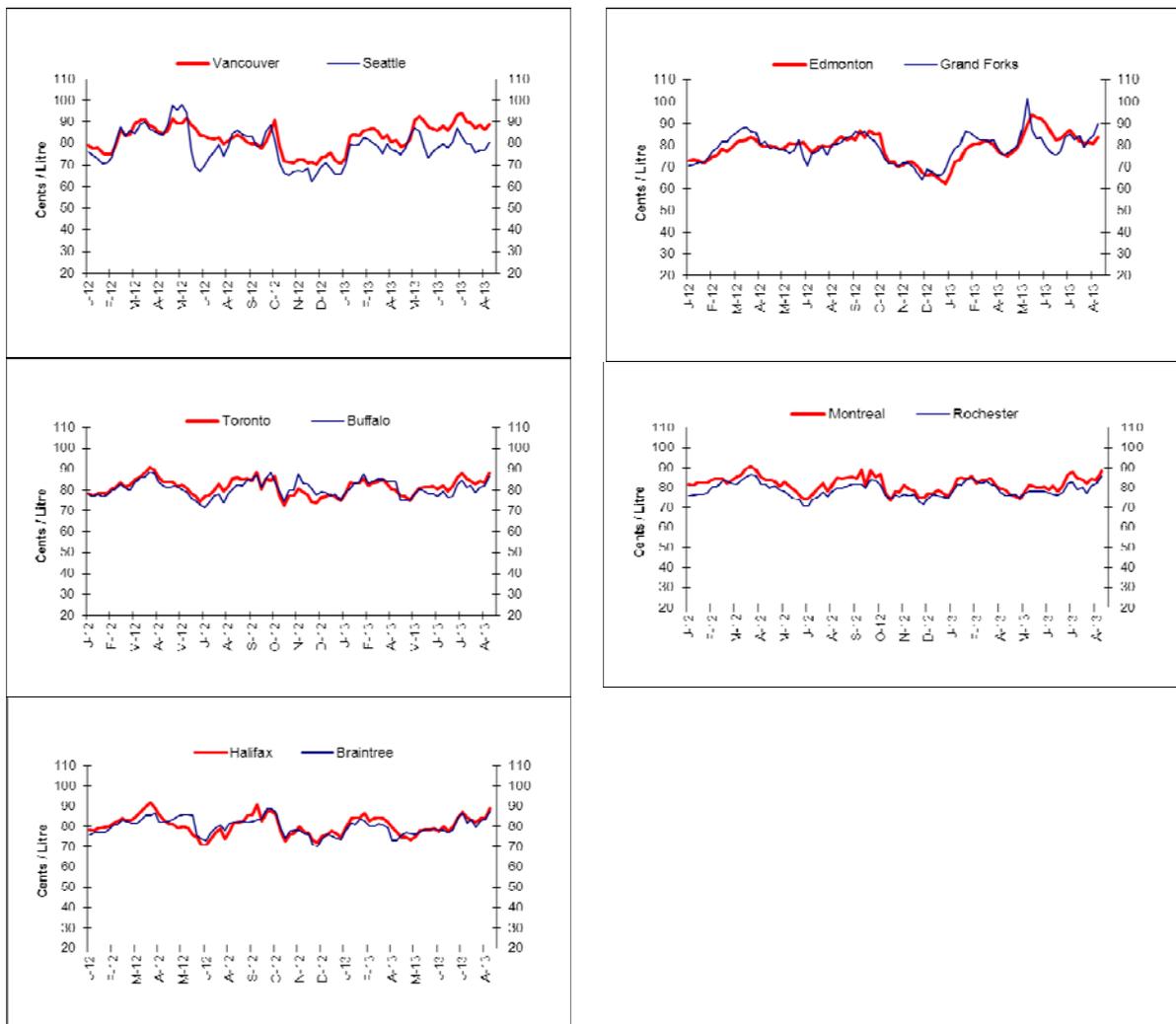
Wholesale gasoline prices increased in all selected Canadian and American centres for the week **ending August 29, 2013**.

Wholesale gasoline prices increased in both Canadian and U.S. markets in the range of 3 to 5 cents per litre. Prices ended the period in the 80 to 90 cent-per-litre range.

In the Eastern markets of Canada and the U.S., wholesale gasoline prices ranged from 87 cents per litre to 89 cents per litre. Price increases ranged from 4 cents per litre to 5 cents per litre.

In the Western centres, wholesale gasoline price changes ranged from an increase of 3 cents per litre to a decrease of 5 cents per litre, with prices ending in the range of 80 to 90 cents per litre.

Figure 4: Wholesale Gasoline Prices
Rack Terminal Prices for Selected Canadian and American Cities Ending August 29, 2013
(CAN ¢/L)



Sources: NRCan, Bloomberg Oil Buyers Guide





Gasoline Refining and Marketing Margins

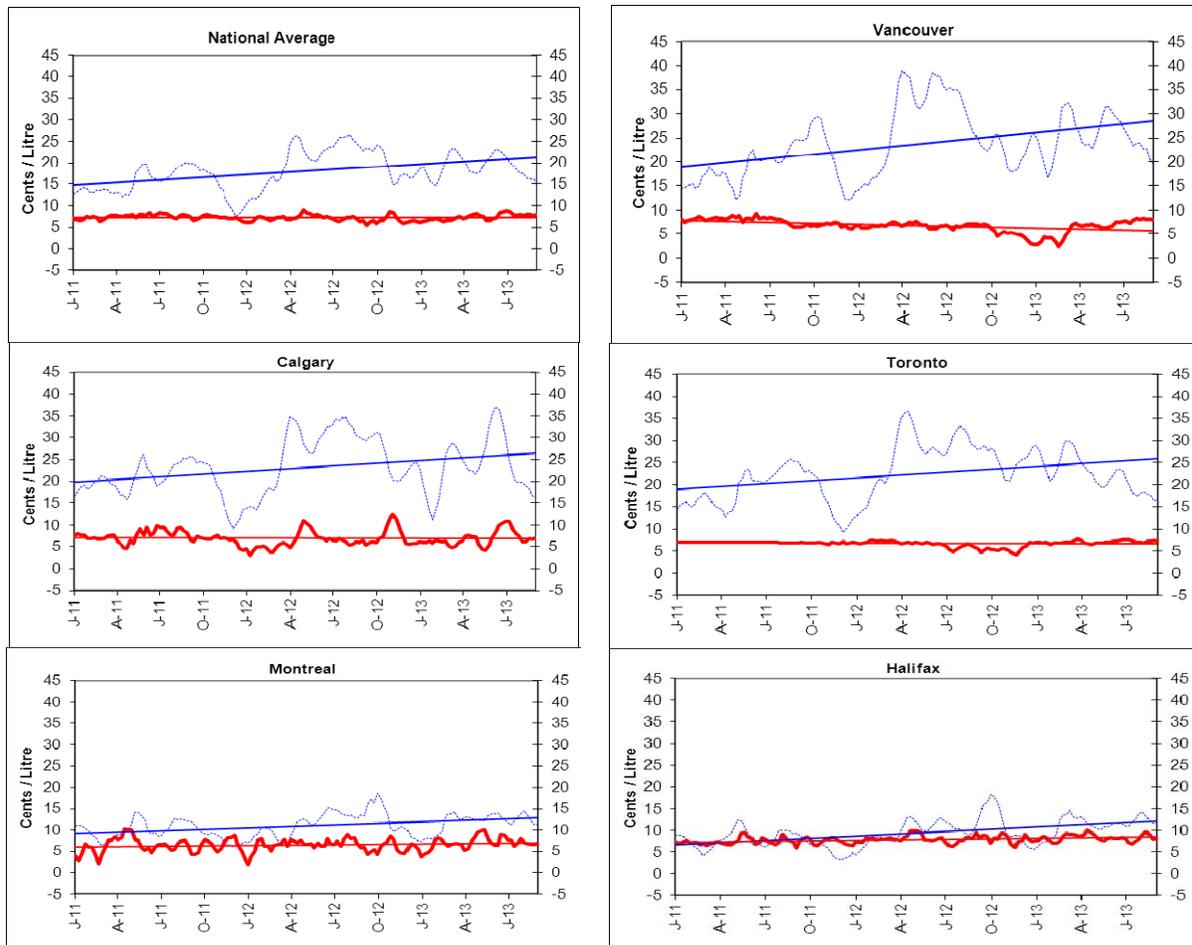
Four-week rolling averages are used for gasoline refining and marketing margins.

Nationally, refining margins are averaging 15 cents per litre, about 8 cents per litre lower than at this time last year. These refining margins refer to the difference between the cost of the crude oil and the wholesale price at which a refiner can sell gasoline. The margin includes the costs associated with refining the product as well as a profit for the refiner.

Overall, marketing margins hovered around 8 cents per litre. Marketing margins have to cover the costs associated with operating an outlet and generating a profit for the station owner.

These margins can vary significantly depending on the region, volume sold, and availability of other product offerings. Most of the costs of operating an outlet are fixed and do not decline with lower gasoline prices.

Figure 5: Gasoline Refining and Marketing Margins
Four-Week Rolling Average Ending September 3, 2013
----- Refining Margin — Marketing Margin



Source: NRCan





Crude Oil Overview

Major Crude Oil Benchmark Prices Firm Up on Middle-East Tensions

For the week ending August 30, 2013, prices for the three marker crudes averaged between \$700/m³ and \$755/m³, (US\$106 to US\$114 per barrel). All marker crudes increased in price compared to the previous week. Price changes ranged from \$24/m³ to \$36/m³ (US\$3 to US\$5 per barrel).

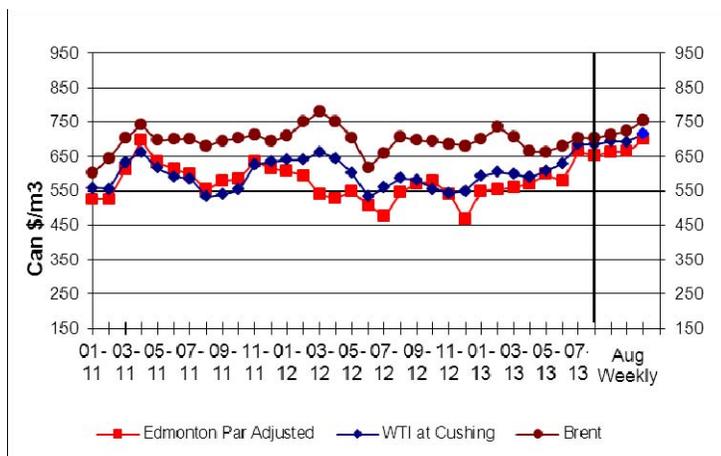
The crude oil price differential between WTI and Brent stood at \$39/m³ (\$US6 per barrel) for the week under review. According to some analysts, the WTI/Brent spread may widen further depending on the Syrian situation. For the week ending August 30, 2013, the price differential between Edmonton Par and WTI

further narrowed to \$16/m³ (\$US2.43 per barrel) compared to the last report two weeks ago.

Global crude oil markets prices firmed up in reaction to the potential military action in Syria and the threat to possible reduction to world oil supplies. As seen in the past, any potential conflict in the Middle-East strategic supply regions or supply routes causes futures prices of globally-traded commodities such as oil to trade upward.

U.S. crude oil inventories remain at the upper range of the five-year average. The robust U.S. crude oil supply indicates that there is no shortage of oil in the U.S. which likely helps moderate the rise in WTI oil prices.

Figure 6: Crude Oil Price Comparisons



Changes in Crude Oil Prices

Crude Oil Types	Week Ending: 2013-08-30		Change From:			
	\$Can/ m ³	\$US/ bbl	Previous Week		Last Year	
	\$Can/ m ³	\$US/ bbl	\$Can/ m ³	\$US/ bbl	\$Can/ m ³	\$US/ bbl
Edmonton Par	700.37	105.87	+36.40	+4.71	+138.80	+15.54
WTI	716.40	108.30	+23.88	+2.79	+121.59	+12.62
Brent	755.29	114.17	+32.16	+4.01	+47.19	+0.28

Source: NRCan

World Petroleum Use Sets Record High in 2012 Despite Declines in North America and Europe

The world's consumption of gasoline, diesel fuel, jet fuel, heating oil, and other petroleum products reached a record high of 88.9 million barrels per day (bbl/d) in 2012, as declining consumption in North America and Europe was more than outpaced by growth in Asia and other regions. The world's three top petroleum-consuming regions are:

Asia - In 2009, Asia surpassed North America as the world's largest petroleum-consuming region as consumption rebounded from its 2008 decline. Between 2008 and 2012, Asia's consumption increased by 4.4 million bbl/d.

North America - Petroleum use in North America, which is dominated by consumption in the United States, has declined since 2005.

Europe - Petroleum use in Europe has declined in every year since 2006. Part of this decline was related to a reduction in overall energy intensity and government policies that encourage energy efficiency.

Source: U.S. EIA, <http://www.eia.gov/todayinenergy/detail.cfm?id=12691>

