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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 4 cents over past two weeks

For the two-week period ending June 23, 2015, the Canadian average retail gasoline price reached \$1.23 per litre. This represents an increase of 4 cents from the two-week period ending June 9, 2015. Prices are 17 cents per litre lower than the same period last year.

Average retail diesel prices decreased by 1 cent per litre over the same time period to \$1.12 litre, 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

- CAPP Annual Crude Oil Outlook:** On June 9, 2015, the Canadian Association of Petroleum Producers released its 2015 Crude Oil Forecast, Markets and Transportation report, which presents long-term projections of Canadian oil supply and demand through 2030. The report forecasts that total Canadian production will grow from 3.7 mbpd in 2014 to 5.3 mbpd in 2030. Lower oil prices have reduced capital spending intentions and this will have a significant impact on long term Canadian oil production. By 2030, Canadian oil production is forecast to be 1.1 mb/d lower than last year's forecast. **Source:** Canadian Association of Petroleum Producers

<http://www.capp.ca/publications-and-statistics/publications/264673>

- National Energy Board Imposes Leave to Open Conditions on Enbridge Line 9B** On June 18, 2015 the National Energy Board (NEB) issued an order imposing new conditions on Enbridge Line 9B. The expansion and flow reversal of the pipeline is expected to allow the shipment of 300,000 barrels per day from Sarnia to refineries in Quebec. The NEB approved the proposal in March 2014, subject to 30 conditions. Enbridge applied to open the pipeline in February. The order requires that Enbridge carry out hydrostatic tests at three locations, and that the company to carry out bi-weekly ground patrols and quarterly integrity tests for the first two years of operation for the line. In addition the NEB imposed a pressure reduction on the pipeline for the beginning of operations. As a result of the requirement to perform hydrostatic testing, it is unclear when the pipeline will be operational. **Source:** National Energy Board <http://news.gc.ca/web/article-en.do?mthd=tp&crtr.page=1&nid=988529&crtr.tp1D=1>

- Consumer Prices Up by 0.9%** Statistics Canada released the Consumer Price Index (CPI) for May 2015, which showed that prices rose by 0.9% in the 12 months leading up to May, similar to the 0.8% increase in April. Lower energy prices continue to moderate the rise in the CPI, as transportation was the only component where prices did not increase year over year. Excluding energy, the CPI increased 2.2% in the 12 months to May, matching the rise in April. Statistics Canada **Source:** <http://www.statcan.gc.ca/daily-quotidien/150619/dq150619a-eng.htm>

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

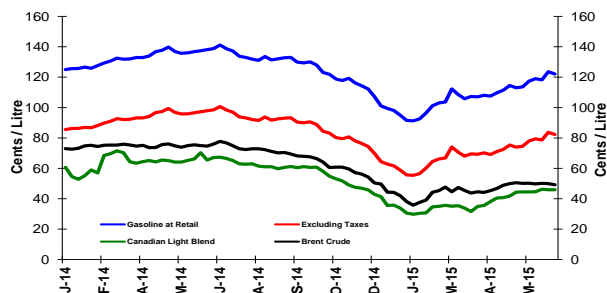
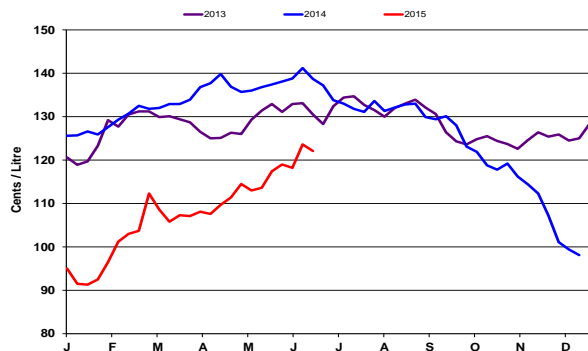


Figure 2: Weekly Regular Gasoline Prices



Changes in Fuel Prices

	Two week average ending:	Change from:	
		2 weeks ago	Last Year
¢/L	2015-06-23		
Gasoline	122.85	+4.25	-16.8
Diesel	112.3	-0.95	-23.3
Furnace Oil	107.5	-0.4	-19.45
Natural Gas Prices in \$/GJ			
Alberta (NGX)	2.52	+0.08	-1.99
Ontario (Dawn)	3.39	+0.13	-1.56

Source: NRCan, Bloomberg, NGX

Natural Gas Prices for Vehicles

2015-06-23	¢/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

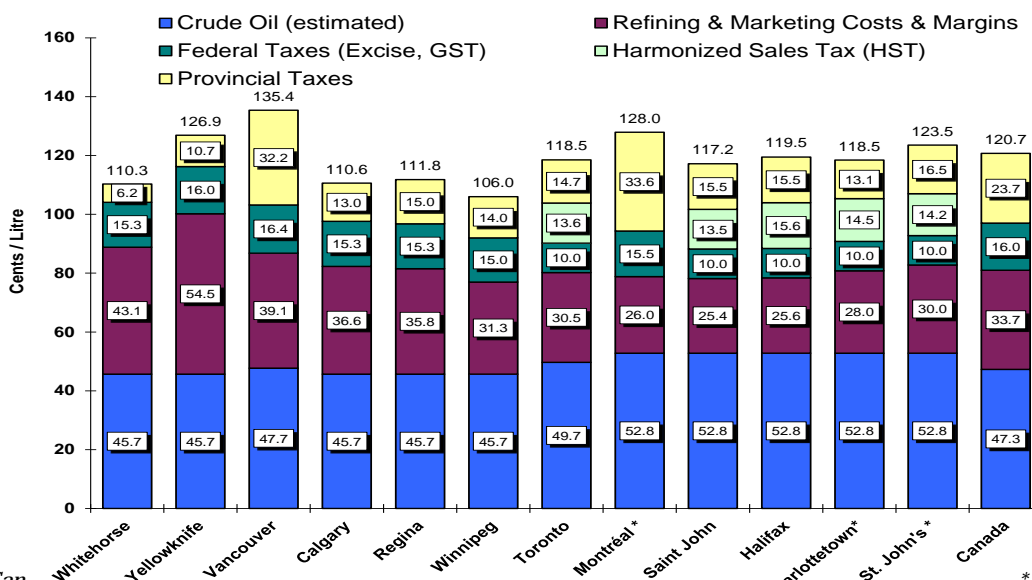
For the period ending June 23, 2015, the **four-week-average** regular gasoline pump price in selected cities across Canada increased by 4 cents to reach \$1.21 per litre compared to the previous report of June 12, 2015. Compared to the same period in 2014, the average Canadian pump price is 18 cents per litre lower.

The **four-week-average** crude component remained the same as two weeks ago at 47 cents. The crude oil price component of gasoline is 28 cents per litre lower than this time last year.

Retail gasoline prices in Western cities increased by 5 cents per litre compared to the previous report and ranged from \$1.06 per litre to \$1.35 per litre. Prices in Eastern cities increased by 3 cents per litre and ranged from \$1.17 to \$1.28 per litre.

At the national level, refining and marketing costs and margins increased by 3 cents to reach 34 cents per litre compared to the last report two weeks ago.

**Figure 3: Regular Gasoline Pump Prices in Selected Cities
Four-Week Average (June 2 to June 23, 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.

U.S. EPA released 2014, 2015 and 2016 Renewable Fuels Standard Targets

On May 29, 2015, the U.S. Environmental Protection Agency (EPA) announced proposed targets under the Renewable Fuels Standard for 2014, 2015 and 2016. The EPA is required to develop annual production targets for biofuels, including cellulosic ethanol, advanced biofuels, conventional ethanol and diesel as part of the Renewable Fuels Standard.

Due to administrative delays, the agency did not finalize production targets for 2014, and missed the November 30, 2014 deadline for 2015 targets. As a result, the American Petroleum Institute and the American Fuel & Petrochemical Manufacturers launched a legal challenge. The EPA reached an agreement with the associations to propose 2015 targets by June 1, 2015 and finalize them by November 30, 2015. With regard to the final 2014 targets, it was agreed that they would be in line with actual rather than forecasted production. Final targets for 2014-2016 will be released by the November 30 deadline.

2014-2017 EPA proposed RFS Volume Requirements in billions of gallons (billions of litres)

Year	Conventional Ethanol	Biodiesel	Advanced Biofuels	Cellulosic	Total Renewable
2014	13.25 (50.16)	1.63 (6.17)	2.68 (10.14)	0.03 (0.11)	15.93 (60.30)
2015	13.4 (50.72)	1.70 (6.44)	2.90 (10.98)	0.11 (0.42)	16.30 (61.70)
2016	14.0 (53.00)	1.80 (6.81)	3.40 (12.87)	0.21 (0.79)	17.40 (65.87)

Canada does not have production targets for biofuels, but under the Canadian *Renewable Fuel Regulations*, gasoline must have 5% renewable content, and diesel fuel must have 2% renewable content. Several Canadian provinces also have requirements for renewable content.

Source: NRCan, EPA <http://www.epa.gov/otaq/fuels/renewablefuels/documents/420f15028.pdf>





Wholesale Gasoline Prices

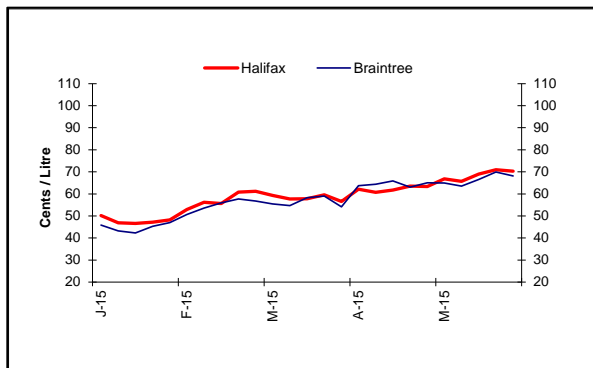
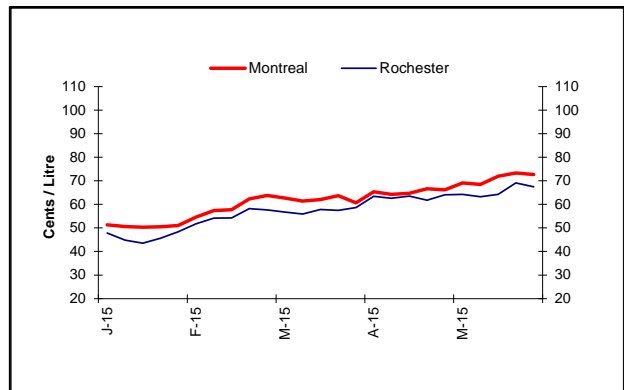
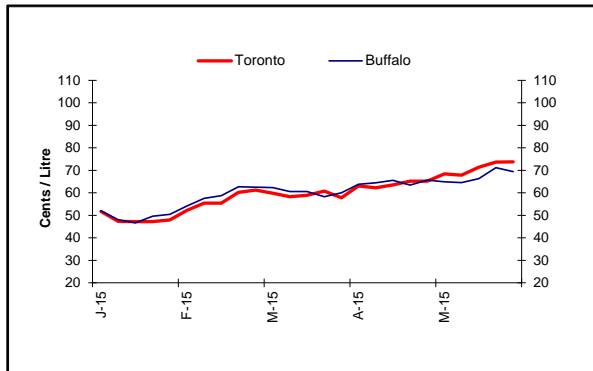
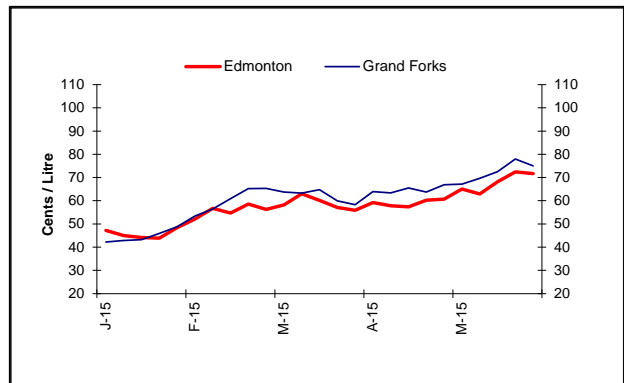
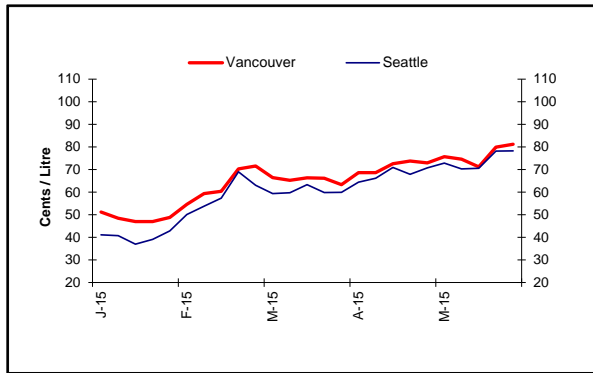
For the two week period ending June 18, 2015, wholesale gasoline prices in the selected North American cities increased. Overall, North American wholesale gasoline price changes ranged between an increase of 2 cents to an increase of 5 cents. Prices for the period ended in the 67 to 76 cents-per-litre range. (All figures in Canadian cents per litre).

Wholesale gasoline prices in Western cities increased between 4 and 5 cents, and ended in the 70 to 77 cents-per-litre range.

In the last four weeks, wholesale prices in selected Canadian and American cities increased between 4 and 9 cents.

In the Eastern markets of Canada and the U.S., wholesale gasoline price changes increased between 2 and 4 cents, and ended in the 67 to 73 cent per litre range.

Figure 4: Wholesale Gasoline Prices
Rack Terminal Prices for Selected Canadian and American Cities Ending June 18, 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.

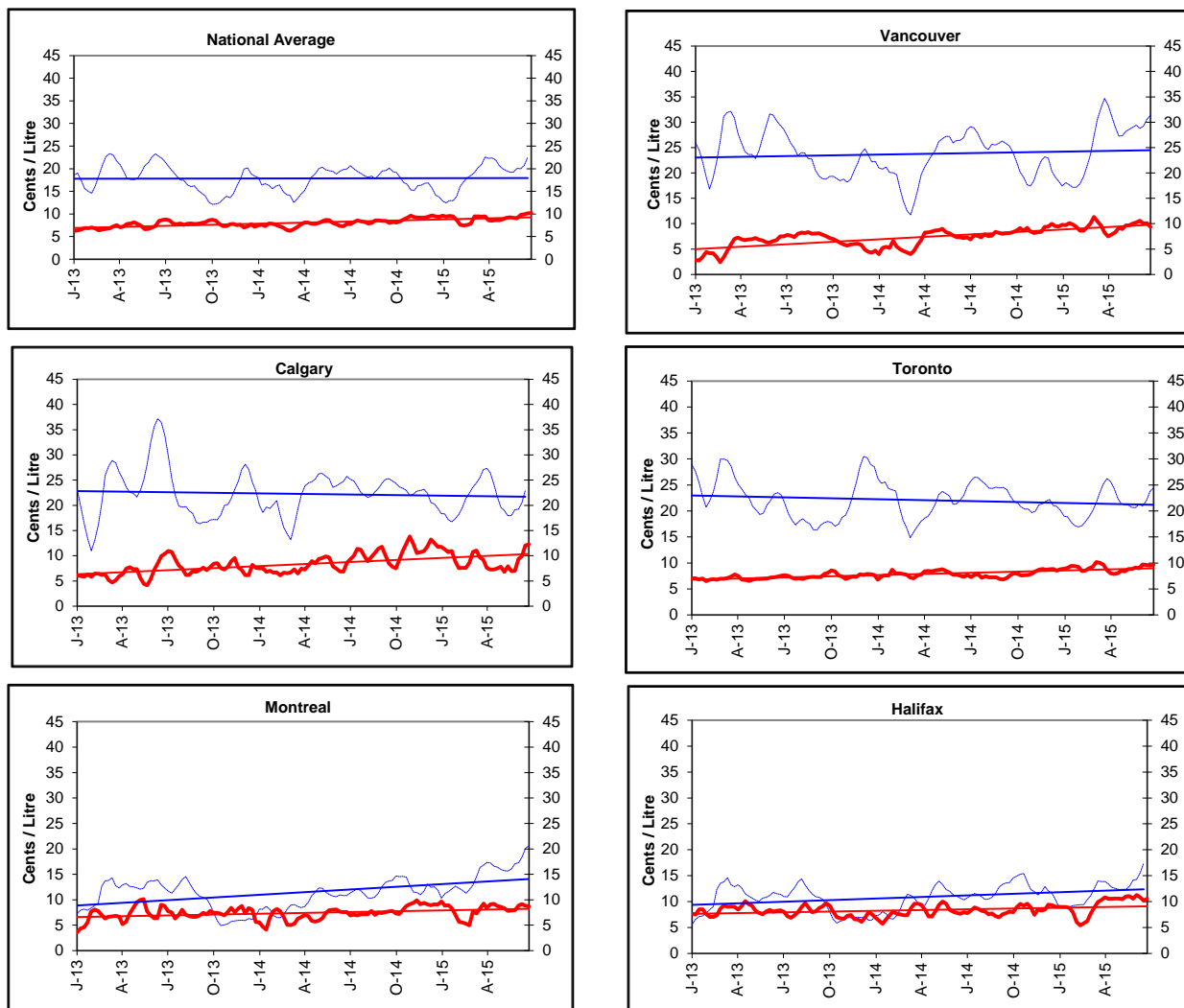
The gasoline marketing margins represent the difference between the wholesale and retail prices of gasoline. This margin pays for the costs associated with operating a service station.

Gasoline refining margins have been trending upwards in all of the major Canadian markets shown below. Nationally, refining margins have increased by nearly 3 cents over the past two weeks.

This is an indication that wholesale prices have been increasing faster than crude oil prices. Compared to last year, margins in Canada are currently 2 cents higher.

Nationally, marketing margins have increased slightly over the past several weeks, reaching an average of 10 cents per litre.

Figure 5: Gasoline Refining and Marketing Margins
Four-Week Rolling Average Ending June 23, 2015
----- Refining Margin — Marketing Margin



Source: NRCan





Crude Oil Overview

Global crude oil prices remain relatively stable over past two weeks

For the two weeks ending June 23, 2015, prices for the three light crude benchmarks averaged between CAD\$459.51 /m³ and CAD\$494.06/m³ (US\$ 59.42 and US\$63.89 per barrel).

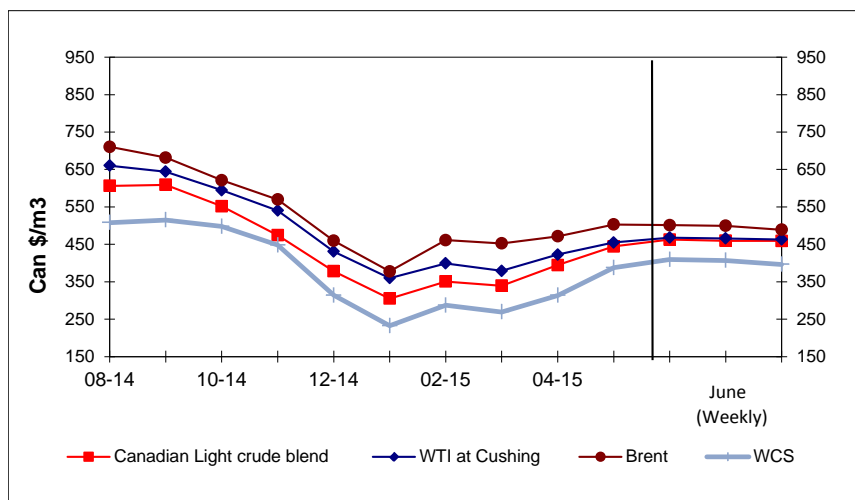
Canadian light crude oil prices at Edmonton increased by CAD\$0.10/m³ (US\$ 0.77 per barrel) from two weeks ago, West Texas Intermediate (WTI) increased by CAD\$ 2.10/m³ (US\$1.03 per barrel) and Brent decreased by CAD\$ 5.10 /m³ (an increase of US\$0.16 per barrel).

The differential between Canadian light crude oil prices and the other two benchmarks has increased slightly. Currently, Canadian Light crude is CAD\$ 39.57/m³ (US\$6.29) per barrel less than Brent. The differential between Canadian light crude and WTI remains less than CAD \$6.29/m³, (US\$ 1 per barrel) and averaged only CAD \$5.11/m³ (US\$0.81 per barrel) over the past two weeks.

The differential between WTI and the Canadian heavy benchmark, West Canada Select (WCS) has increased to an average of CAD 67.54/m³ (US \$8.73 per barrel) over the past two weeks. This is an increase from record low differentials, caused by tightening market for WCS due to reduced oil sands production from projects shut-in during the recent Alberta wildfires.

US EIA data showed crude inventories fell for the eighth week in a row. Inventory levels decreased by 4.9 million barrels, compared with analysts' expectations for a decrease of 2.0 million barrels. US inventories are currently at 463 million barrels for the week ending June 19. EIA data showed that US production increased by 15,000 bpd for the week ending June 19. US production currently stands at 9.60 mbpd.

Figure 6: Crude Oil Price Comparisons



Changes in Crude Oil Prices

Crude Oil Types	Two weeks ending: 2015-06-23		Change From:			
			Previous Week		Last Year	
	\$Can/ m ³	\$US/ bbl	\$Can/ m ³	\$US/ bbl	\$Can/ m ³	\$US/ bbl
Canadian Light	459.51	59.42	-2.26	+0.77	-212.70	-39.33
WTI	465.80	60.23	+2.10	+1.03	-257.48	-46.02
Brent	494.06	63.89	-5.10	+0.16	-278.22	-49.57
WCS	398.26	51.50	-52.45	+0.11	-190.90	-35.05

