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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 2 cents over past two weeks

For the two-week period ending May 26, 2015, the Canadian average retail gasoline price reached \$1.16 per litre. This represents an increase of 2 cents from the two-week period ending May 12, 2015. Prices are 21 cents per litre lower than last year at this time.

Average retail diesel prices increased by 1 cent per litre over the same time period reaching \$1.13 per litre. This is 24 cents less than for the same period last year.

Over the same period, furnace oil prices decreased by 1 cent per litre to reach \$1.08, a decrease of 19 cents per litre from a year ago.

Recent Developments

- Monthly Short-Term Energy Outlook:** The U.S. Energy Information Administration (EIA) released its monthly Short-Term Energy Outlook on May 13, 2015. The report highlighted several factors that contributed to crude prices rallying in April despite increasing global inventories. These factors include: higher global oil demand growth, expected declines in U.S. tight oil production, and the growing risk of unplanned supply outages in the Middle East and North Africa. Source: US EIA <http://www.eia.gov/forecasts/steo/>
- Canada Releases Greenhouse Gas Emissions Target:** On May 15, the Government of Canada announced that it plans to reduce its greenhouse gas (GHG) emissions by 30% below 2005 levels by 2030. The Government announced its intention to develop a number of regulatory measures which will be pursued in line with its sector by sector approach to reduce GHGs. These include new regulations on GHG methane emissions in the oil and gas sector, natural gas fired electricity generation and on the production of chemical and nitrogen fertilizers. Source: Government of Canada <http://news.gc.ca/web/article-en.do?nid=974959>
- Benefits from Lower Gasoline Prices Weighed Down by Decrease in the Value of the Canadian Dollar:** According to a study by TD Bank, the average Canadian family will save about \$600 in gasoline costs in 2015 due to the decrease in oil prices. However, the Canadian dollar has also dropped making imports more expensive for the Canadian consumer. They note that most benefits to consumers from lower oil prices will likely be offset by more expensive imports in areas such as clothing and food products. Source: TD Economics http://www.td.com/document/PDF/economics/special/gas_prices_cloud_retail_outlook.pdf

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

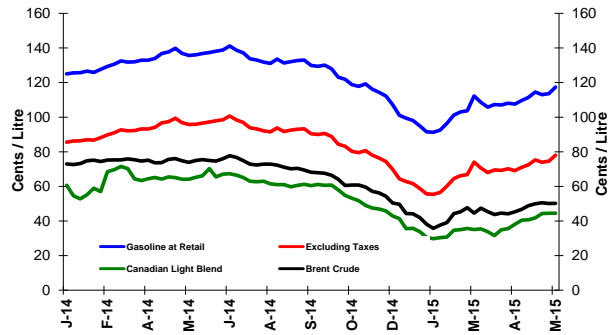
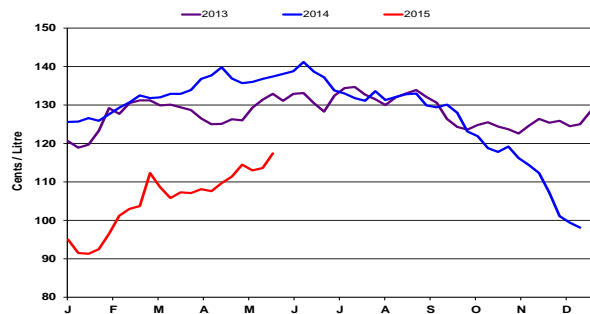


Figure 2: Weekly Regular Gasoline Prices



Changes in Fuel Prices

¢/L	Two week average ending:	Change from:	
		2 weeks ago	Last Year
	2015-05-26		
Gasoline	115.5	+1.75	-21
Diesel	113.1	+0.95	-23.8
Furnace Oil	108.4	-0.15	-18.5
Natural Gas Prices in \$CA/GJ			
Alberta (NGX)	2.77	-0.19	-1.49
Ontario (Dawn)	3.55	-0.17	-1.27

Source: NRCAN, Bloomberg, NGX

Natural Gas Prices for Vehicles

2015-05-26	¢/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

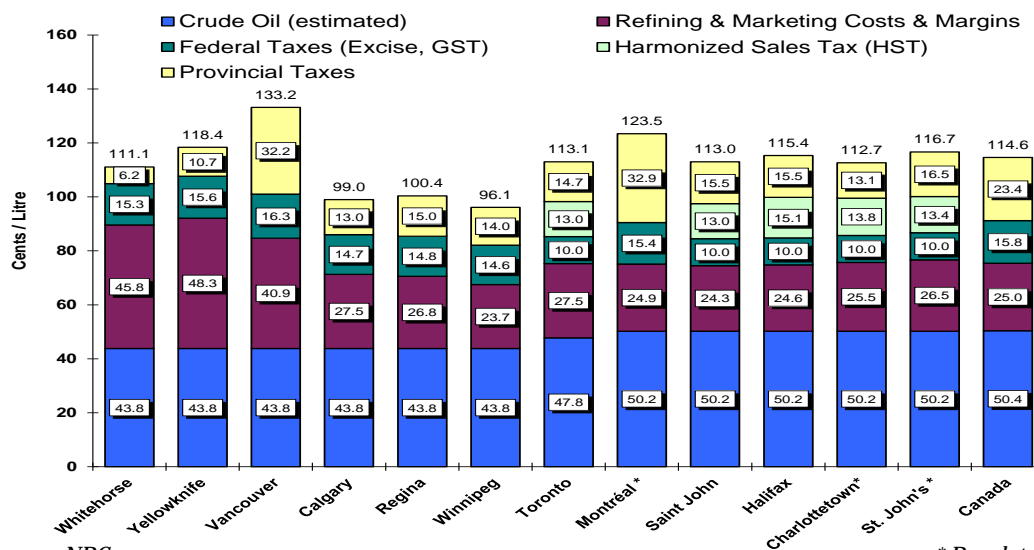
For the period ending May 26, 2015, **the four-week** average regular gasoline pump price in selected cities across Canada increased by 3 cents to reach \$1.15 per litre compared to the previous report of May 12, 2015. Compared to the same period in 2014, the average Canadian pump price is 22 cents per litre lower.

The **four-week** average crude component increased by 6 cents to reach 50 cents compared to two weeks ago. The crude oil price component of gasoline is 23 cents per litre lower than this time last year.

Retail gasoline prices in Western centres increased by less than 1 cent per litre compared to the previous report and ranged from 96 cents per litre to \$1.33 per litre. Prices in Eastern cities increased by 1 cent per litre and ranged from \$1.13 to \$1.23 per litre.

At the national level, refining and marketing costs and margins remained the same at 25 cents per litre compared to the last report two weeks ago.

**Figure 3: Regular Gasoline Pump Prices in Selected Cities
Four-Week Average (May 5 to 26, 2015)**



Source: NRCan

* Regulated Markets

Note: Toronto crude oil cost includes pipeline tolls of \$4 per barrel for light crude oil from Edmonton to Sarnia, Ontario.

British Columbia Maintains Carbon Intensity Targets Under Low Carbon Fuel Regulations

The Ministry of Energy and Mines in British Columbia announced that their carbon intensity targets under the Renewable & Low Carbon Fuel Requirements Regulation will remain unchanged. The current targets require fuel suppliers to gradually reduce the amount of carbon pollution in the fuels they sell by 10% between 2010 and 2020. It also requires a minimum level of renewable fuel in both gasoline (5%) and diesel (4%).

This announcement followed an 18-month review, which accepted input from a variety of stakeholders, including refiners, biofuels producers, and environmental and health advocates. A number of recommendations came out of this process, which are currently being considered by the Ministry.

The Ministry indicated that a fundamental component for success of the Regulation is a functioning market for the exchange of compliance credits. This market is essential for enabling fuel suppliers to comply by acquiring credits when necessary. The Ministry will be working with fuel suppliers in the coming months to establish transaction protocols that enable credit trading.

The Ministry indicated that they will conduct a review of the Regulation every three years, with the next review to be conducted in 2017. They expect that by 2017, a market price for credits will have been established and can be used as an indicator for assessing future carbon intensity reduction targets within the Regulation.

Source: Government of British Columbia <http://www.empr.gov.bc.ca/RET/RLCFRR/Pages/default.aspx>





Wholesale Gasoline Prices

For the two-week period ending May 21, 2015, wholesale gasoline prices in the selected North American cities increased.

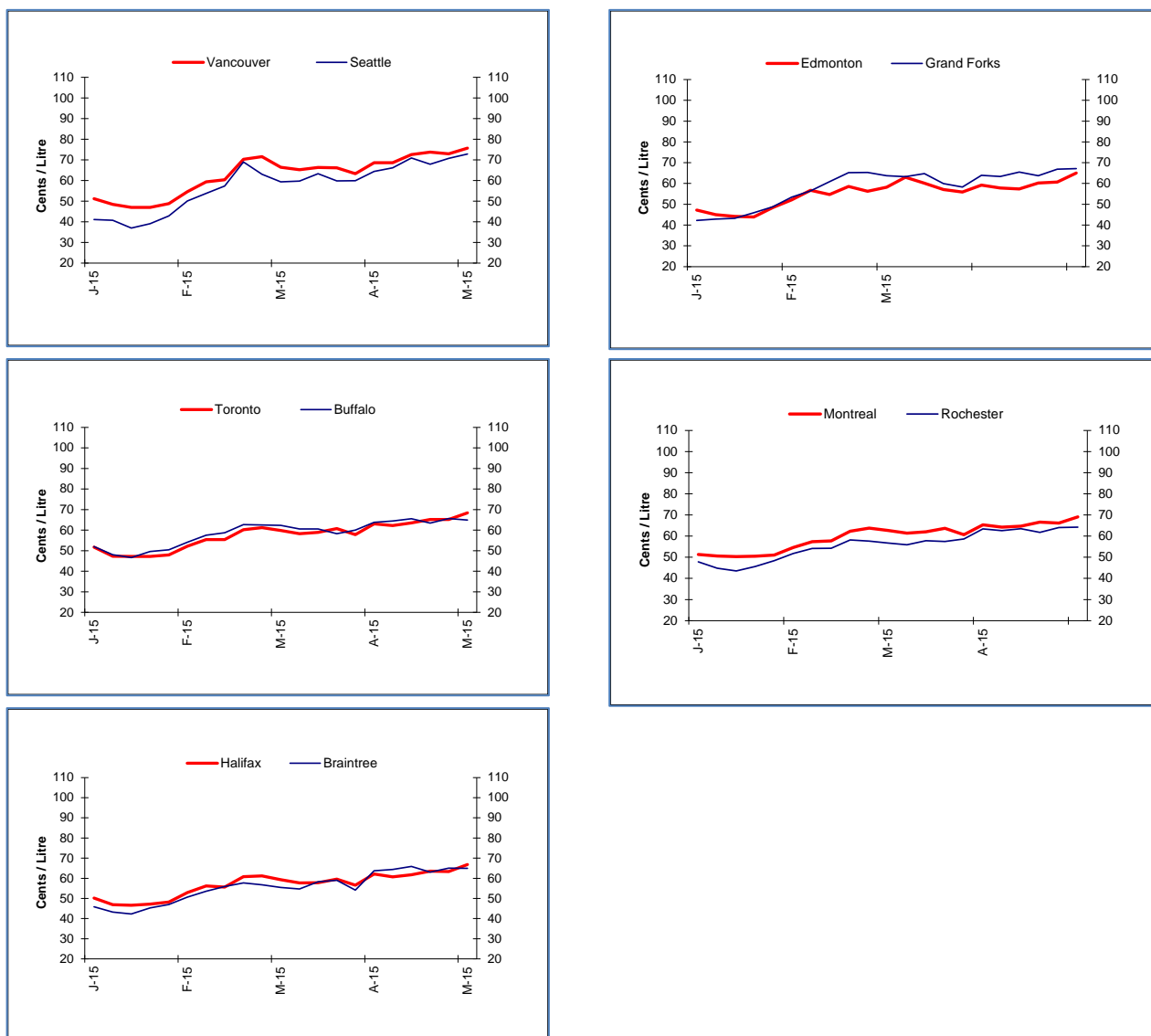
Overall, North American wholesale gasoline prices increased by between 1.5 to nearly 5 cents. Prices for the period ended in the 64- to 76-cent-per-litre range. (All figures in Canadian cents per litre).

In the Eastern markets of Canada and the U.S., wholesale gasoline price increases ranged between 1.5 cents to 3.3 cents, and ended in the 64- to 68-cent-per-litre range.

Increases in wholesale gasoline prices in Western centres ranged between 2 cents and 5 cents, and ended in the 65- to 76-cent-per-litre range.

In the last four weeks, wholesale price changes in selected Canadian and American centres increased between 1 cent and 8 cents.

Figure 4: Wholesale Gasoline Prices
Rack Terminal Prices for Selected Canadian and American Cities Ending May 21, 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 moved upwards over the past two weeks in the major Canadian markets, shown below. This is the result of wholesale prices increasing more than crude oil prices.

Nationally, refining margins reached 19 cents per litre and are 3 cents higher this year compared to last year.

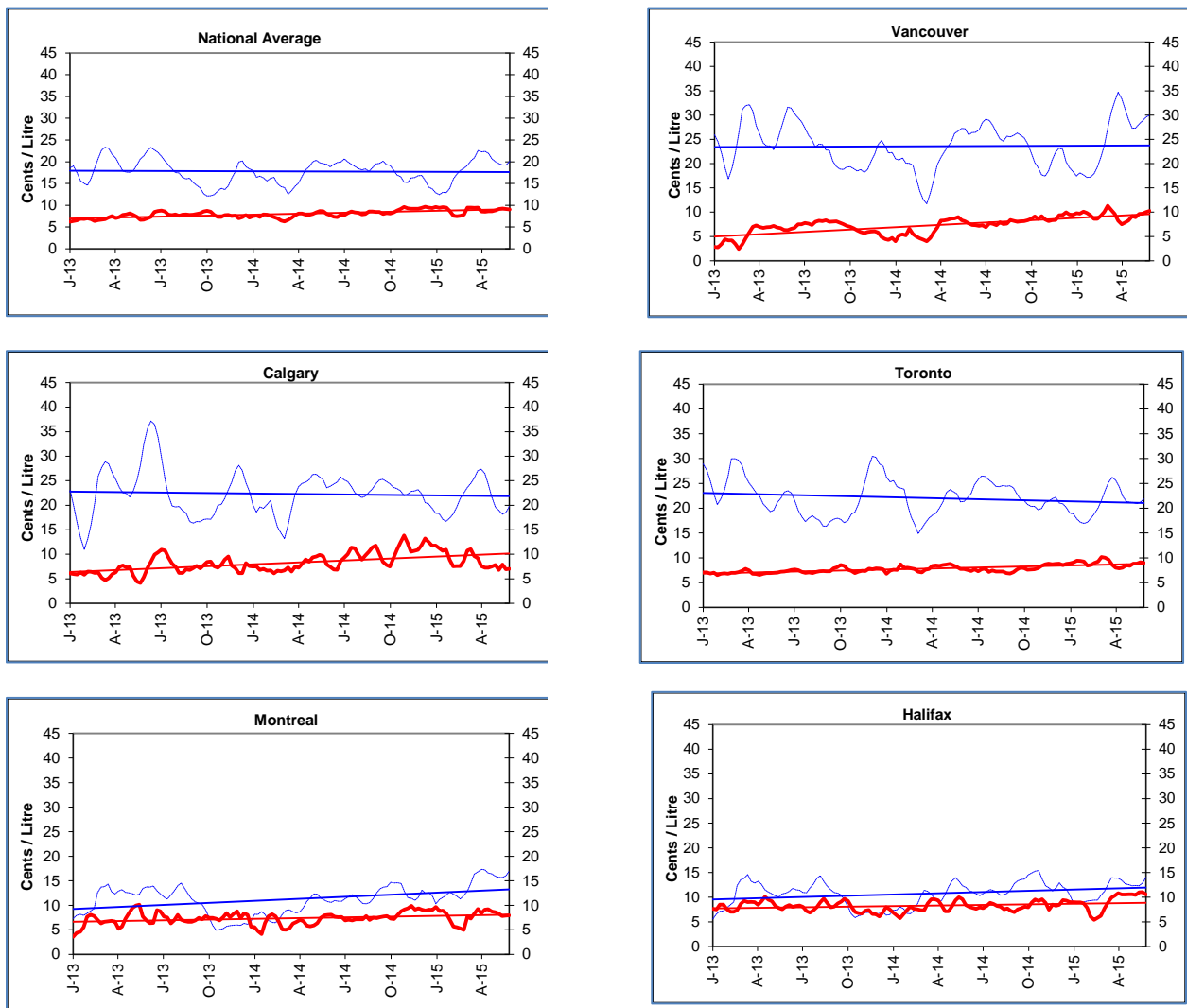
Nationally, marketing margins have been steady over the past several weeks, hovering around an average of 9 cents per litre.

Figure 5: Gasoline Refining and Marketing Margins

Four-Week Rolling Average Ending May 26, 2015

----- Refining Margin

----- Marketing Margin



Source: NRCan





Crude Oil Overview

Declines in U.S. crude oil production and inventories leading to higher prices

For the two weeks ending May 26, 2015, prices for the three light crude benchmarks averaged between CAD\$446.26 /m³ and CAD\$500.60/m³ (US\$58.5 and US\$65.66 per barrel).

Over the past two weeks prices for Canadian light crude oil increased, while WTI and Brent prices decreased. Canadian light crude oil prices at Edmonton increased by CAD\$2.77/m³ (US\$0.44 per barrel) from two weeks ago, WTI decreased by CAD\$0.04/m³ (US\$0.24 per barrel) and Brent decreased by CAD\$3.24 /m³ (US\$0.70 per barrel).

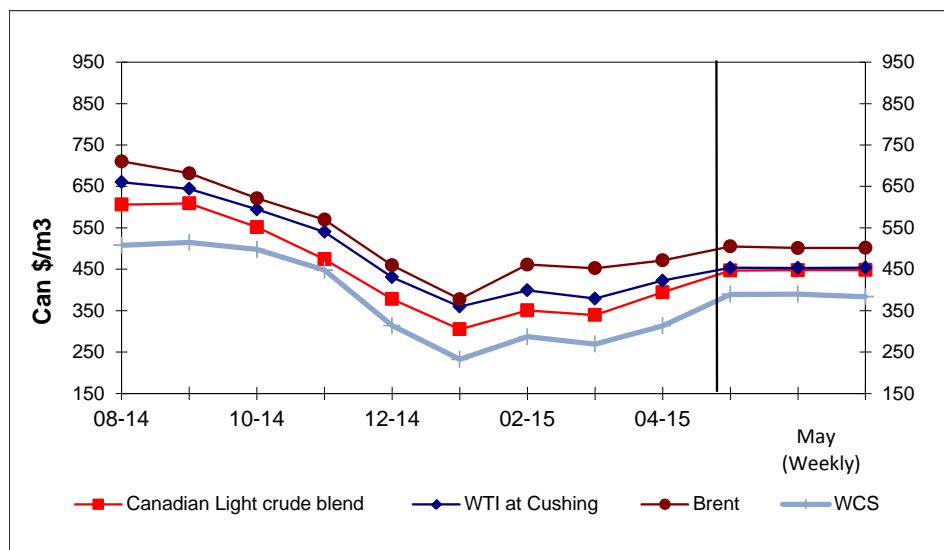
The differential between Canadian light crude oil prices and the other two benchmarks has been narrowing. Currently Canadian Light crude is USD\$7.2 less than Brent.

The differential between Canadian light crude and WTI has narrowed to less than USD\$1, and averaged only USD\$0.87 over the past two weeks. The Western Canada Select crude oil price decreased by CAD\$1.88/m³ (US\$0.45 per barrel) compared to two weeks ago.

U.S. crude inventories declined for the third straight week. The U.S. EIA reported that crude inventories fell by 2.7 million barrels last week, which is a larger decrease than had been expected. Inventory levels in the U.S. now stand at 482.2 million barrels.

In addition, U.S. production decreased by 112,000 bpd from 9.374 MMbpd to 9.262 MMbpd. These two factors, along with the modest drop in the USD, have contributed to the rise in crude oil prices over the past several weeks.

Figure 6: Crude Oil Price Comparisons



Changes in Crude Oil Prices

Crude Oil Types	Two-week average ending: 2015-05-26		Change From:			
			Two weeks ago		Last Year	
	\$Can/m ³	\$US/bbl	\$Can/m ³	\$US/bbl	\$Can/m ³	\$US/bbl
Canadian Light	446.26	58.48	+0.44	+0.08	-213.49	-34.03
WTI	452.56	59.36	-0.04	-0.24	-253.95	-43.65
Brent	500.60	65.66	-3.24	-0.69	-252.78	-44.37
WCS	384.21	50.40	-1.88	-0.45	-194.78	-34.13

Source: NRCan

