

Guide and glossary

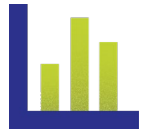
Pump prices are affected by changes in crude oil and wholesale prices, as well as by local competitive activity.

This report is designed to provide an understanding of these factors, by examining gasoline prices, and their underlying market activities, in a “reader-friendly” format.



A guide to the figures





Figures 1 & 2:

Regular gasoline/diesel and component prices

These figures show a one year history of the Canadian average price for regular gasoline/diesel as well as its components (see glossary for terminology) against the previous five year average tax, marketing margin, refining margin, and crude components:

- **Pump Price** - The pump price including taxes charged at the retail level
- **Ex-Tax Pump Price** - The pump price excluding taxes charged at the retail level (see the glossary for an overview of taxes);
- **Canadian Rack Price** - monthly national average of wholesale prices as reported by Kent Marketing Services Limited;
- **Crude** - the average crude price (a combination of WCS, WTI and Brent types) expressed in cents per litre, and as reported by Kent Marketing Services Limited.



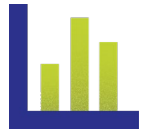


Figure 3: Gasoline and diesel price components

This shows what makes up the price of gasoline in both Canada and the United States, for each of the three months of the quarterly period:

- **Taxes** - see the glossary for an overview of taxes included in gasoline.
- **Margins** - refiner and marketer margins include the cost of processing crude oil into its various products, transportation, distribution, marketing, and profit or reinvestment for the refiner, marketer and local dealer (see also our discussion on margins).
- **Crude Oil** - the nominal cost of crude oil used in the manufacture of gasoline and diesel. Canadian crude cost is determined in the same way as Figures 1&2. US Crude cost uses WTI @ Cushing, Oklahoma as the benchmark.

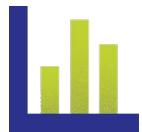


Figure 4: Various topics



Prices and margins





Crude oil prices

Crude prices are collected from industry sources. In some cases, prices originally quoted in US\$ per barrel have been converted to CDN\$ cubic metre, in order to provide comparisons.

- Some figures and narrative refer to a component cost of crude oil in the overall price of gasoline or diesel, or a “crude price” in determining refiner margins.
- The report derives these component crude prices (and the related refiner margins) from a fixed percentage of the crude cost.
- This results in an approximation of crude cost - attributing a crude cost for one particular product such as gasoline depends upon factors such as accounting practices, and the variety of products (e.g.: gasoline, diesel, asphalt) which a barrel of crude oil may yield.
- Consequently, the crude oil component of gasoline and diesel shown in the report is a nominal figure, based on the market value of a predominant type of crude oil for the region.





Margins defined

Product margins represent the price difference between related products and/or related markets.

- Margins tend to fluctuate, since they compare price fluctuations in related but separate markets, each with their own competitive forces at any point in time.
- Over time however, margin measurements can be a useful indicator of the “value-added” to crude as it is refined into gasoline, and subsequently, as it is marketed to the consumer.
- For example, a marketer margin of 5 cents per litre equals \$2.00 from a 40 litre fill-up.
- This \$2.00 represents gasoline sales revenue that would be available to the brand marketer to ship gasoline from the supply terminal to the outlet, meet marketing and outlet operating salaries and expenses, and retain some earnings for reinvestment or profits.





Refiner margin

Refiner margin is the difference between the nominal cost of crude oil, and the wholesale price of the refined product.

The refiner margin shown in the figures is derived from two component values: wholesale spot price (of regular gasoline/diesel) and crude oil component price.

The accuracy of the Refiner Margin in this report and its data sources are therefore dependent upon the accuracy of these two component prices:

- **Spot Price**, as defined in the glossary, may differ from the actual wholesale price realized by the refiner.
- For example, a great deal of wholesale gasoline in Canada is sold at a contract price, which differs from the posted spot price.
- **Crude Price**, as discussed above, has some inherent assumptions.
- Consequently, the refiner margin is a nominal value, due to the variability discussed above.





Marketer margin

Marketer margin is the difference between the wholesale price of gasoline, and the ex-tax pump price.

The marketer margin shown in the figures is derived from existing ex-tax pump prices, less the wholesale rack price, for the applicable market.

- A great deal of wholesale gasoline in Canada is sold at lower than the posted rack price, however (at a contract price, for example).
- As a result, marketer margins shown may be understated, by the difference between actual and rack wholesale price (for the same reason, refiner margins which are derived from rack prices tend to be overstated, by the same amount).





What it all means

The report is intended to provide a simplified view of gasoline and diesel prices, yet with sufficient detail to be meaningful.

Although some prices and margins are based upon certain necessary approximation, they provide useful perspective on past and present activity in the markets described.



Glossary





Glossary

- **Benchmark** - Refers to a commonly used reference, usually for pricing, quality, or other performance comparison. Example of common benchmark prices are New York Harbor Spot (wholesale gasoline), and WTI (crude oil).
- **Brent** - Brent Crude; a light sweet crude oil, serves as a major benchmark (reference) crude. It is commonly used as a price reference, with adjustments for quality and transportation, for other crude oils sold worldwide.
- **Downstream** - General term for that part of the industry which refines crude oil into petroleum products and markets, distributes, and retails it to customers.
- **Integrated** - A company engaged in more than one aspect of the oil industry. For example, an integrated refiner-marketer is involved in both the refining and marketing of petroleum products.
- **Marketer** - A company engaged in maintaining a network of retail outlets, usually associated with a common brand-name. Marketers buy products at a wholesale price, and either resell to individual dealers (see under “wholesale”) or directly operate retail outlets.
- **Margin** - The price difference between related products and/or related markets (see discussion of margins).





Glossary

- **OPEC** - Organization of Petroleum Exporting Countries; includes many crude oil producing countries from the Middle East, Africa, Indonesia, and Venezuela. For several decades, OPEC has effectively controlled the price of world crude oil by means of agreeing upon member country crude oil production levels.
- **Rack Price** - (see “Wholesale Price”)
- **Refiner** - A company engaged in purchasing and refining crude oil into manufactured petroleum products such as gasoline, diesel fuel, jet fuel, lubricating oils, etc. A refiner sells these products to its parent company’s marketing division, or to other marketers.
- **Pump Price** - (see “Retail Price”)
- **Retail Outlet** - General term for a “gas station”. Retail outlets may be owned and operated by individual dealers, or may be directly owned and operated by a petroleum marketer. In addition to selling gasoline, retail outlets typically offer a variety of other goods and services, such as convenience goods and car washes.
- **Retail Price/Markets** - The price of retail petroleum as it is purchased by the consumer at the pump, also called Pump Price. In Canada, this is the same price as is usually posted on pump price street signs, and invariably includes all taxes, including GST. The Report sometimes refers to Ex-Tax pump price, which is the Pump Price, less taxes (see definition).
- **Spot Price** - (see “Wholesale Price”)





Glossary

- **Taxes** - Taxes on gasoline include:
 - Federal Excise Tax (10 cents per litre);
 - Provincial tax (varies by province); and
 - GST or HST.

In addition, some municipalities collect a Provincial pump tax surcharge. Québec also charges a retail sales tax, and in some border communities, provides a pump tax reduction.

- **Upstream** - General term for that aspect of the oil industry engaged in the exploration for crude oil (or natural gas) and for drilling and production of these raw materials.
- **WCS** - Western Canadian Select; a heavy crude oil produced in Western Canada, is a common benchmark (reference) crude in the Canadian marketplace.

- **Wholesale Price/Markets** - Wholesale is a generic term for sales of goods to retailers for eventual sale to the consumer. Specific wholesale petroleum product prices include:

- **Rack Price**, the published bulk rate paid at a city loading terminal by a tanker-load buyer without a long term supply contract.
- **Contract Price**, the bulk rate paid at a city loading terminal, on the basis of a long term supply contract. This is usually lower than the rack price, and will differ from one wholesale customer to another.
- **Spot Price**, the price for quite large quantities of product at a few key trading centres around the world.

Although there are a variety of wholesale prices, the most often-quoted wholesale price is **rack price**, since it is publicly quoted, and easily available through several market price reporting services. Rack and spot prices serve as useful indicators of trends in other types of wholesale pricing activity.





Glossary

- **WTI** - West Texas Intermediate; a light sweet U.S. crude oil, is a common benchmark (reference) crude, and is traded in the futures market on the NYMEX. It is commonly used as a price reference, with adjustments for quality and transportation, for other crude oils sold in North America.



About Kalibrate

Kalibrate's decision-making software empowers fuel and convenience retailers across the globe with the market intelligence, micro-local data, and precision pricing and planning tools they need to gain real competitive advantage. For over 25 years, Kalibrate has been the chosen decision-making partner of 300+ fuel and convenience retailers in over 70 countries. The firm is headquartered in Manchester UK, with local offices in the USA, Canada, India, China, Australia, and Japan.

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