



National Overview

Gasoline Prices Declined 2 Cents per Litre From Last Week

The average Canadian retail gasoline price decreased to 87 cents per litre for the week ending January 16, down nearly 2 cents per litre from last week, and almost 7 cents per litre below last year's price.

The downward pressure on gasoline prices is mainly due to a sharp drop in world crude oil prices. The main factors contributing to lower crude oil prices are the unusually mild winter in North America, which has reduced the demand for heating oil, reasonably high inventory levels of crude oil, and the continued relatively stable geopolitical situation in world oil producing regions. These positive factors are somewhat mitigated by the potential for OPEC to implement proposed production cuts in an attempt to prevent crude oil prices from falling further.

Diesel fuel prices declined by 1.6 cent per litre last week to 96 cents per litre, but remained nearly the same as last year. Furnace oil prices declined to 81 cents per litre, down 1 cent per litre from last week and from the same period last year.

Recent Developments

- On December 20, 2006, the New Brunswick government announced a one-time \$100 home energy benefit to low-income families to help them cope with the high cost of home energy. To be eligible, applicants must have had a total family income of less than \$25,000 in 2005, and be current residents of New Brunswick. The deadline to apply is June 30, 2007. Further information is available at: www.gnb.ca/cnb/news/fin/2006e159ofn.htm
- According to Statistics Canada, Canadian crude oil production increased 6.3%, in the first ten months of 2006, while exports, which account for 66% of total production, were 13% higher compared to the same period in 2005. Higher bitumen output from the Alberta oil sands, combined with higher offshore production in Newfoundland and Labrador, pushed up the production of crude oil. For further information, please visit: www.statcan.ca/Daily/English/070108/do70108c.htm
- According to a recent Statistics Canada report, Canadian industries spent \$204 million in 2003 for research and development (R&D) into the development of cleaner, more renewable energy practices. This accounted for 31% of total R&D spending on energy, more than double the proportion of only 15% in 1993. Over 40% of the \$204 million was spent on R&D in storage of energy technologies, such as hydrogen cells for use in cars, or on alternative fuels, such as ethanol and biodiesel fuels. www.statcan.ca/Daily/English/070108/do70108c.htm

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

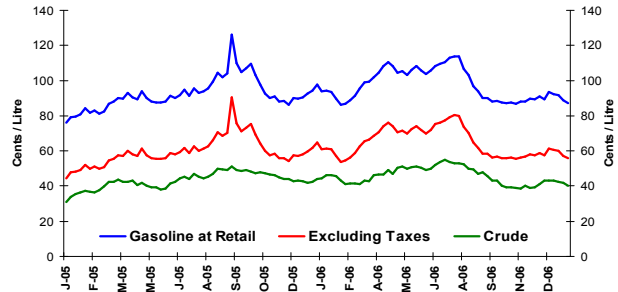
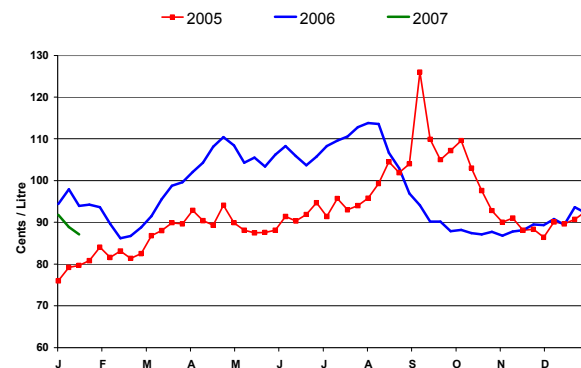


Figure 2: Weekly Regular Gasoline Prices



Changes in Fuel Prices

¢/L	Week of:	Change from:	
	2007-01-16	Previous Week	Last Year
Gasoline	87.1	-1.8	-6.8
Diesel	96.0	-1.6	+0.1
Furnace Oil	81.2	-0.9	-0.9

Source: NRCan

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Retail Gasoline Overview

The four-week average gasoline pump price in selected cities across Canada was 90 cents per litre for the period ending January 16, a decrease of almost 1 cent per litre from the last report on December 22, 2006. This is lower than the 94.8 cents per litre recorded during the same period in 2006.

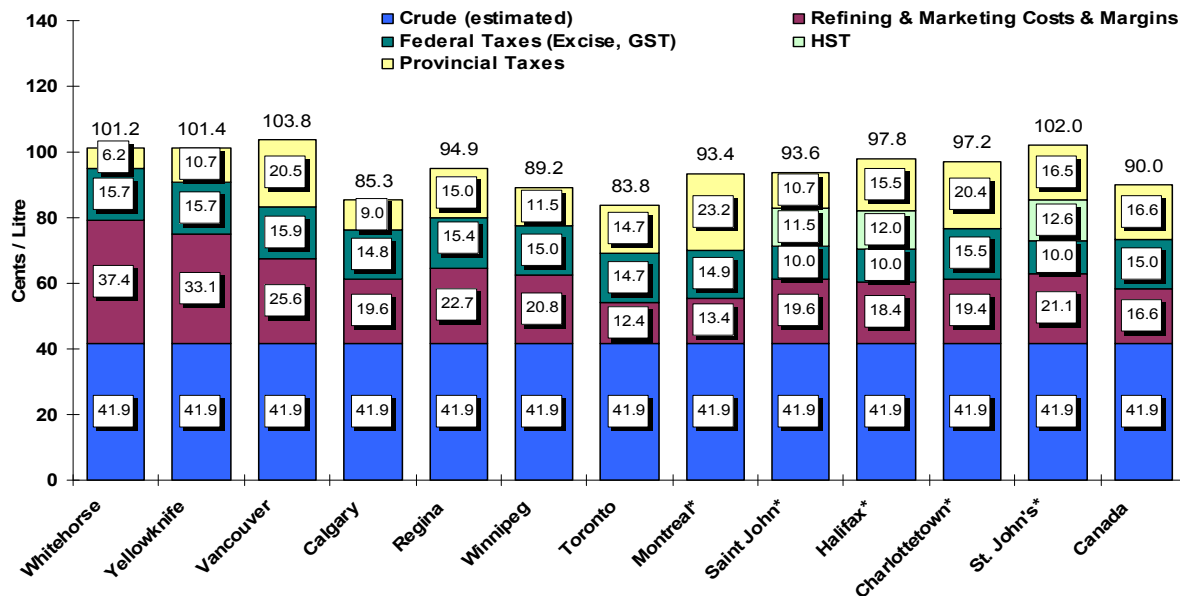
While lower wholesale gasoline prices experienced recently (see the section on Wholesale Gasoline Prices) have pushed down retail prices, Figure 3 shows the four-week average which still reflects some of the higher prices in December, hence the lag with current retail gasoline prices.

The four-week average gasoline refining and marketing costs and margins for the period of December 26, 2006

to January 16, 2007, registered almost 17 cents per litre of the total pump price, a decrease of about 1 cent per litre from the last report on December 22, 2006.

While the four-week Canada average price has only decreased marginally, there have been some significant differences across the regions, with price changes ranging from a decline of 4.3 cents per litre in Toronto to an increase of 5.3 cents per litre in Calgary. The largest increases were in the West compared to the four-week average from the last report where supplies remain extremely tight following a number of unscheduled refinery shutdowns in the fall. Western markets do not have easy access to alternate supplies and are more vulnerable to short-term supply disruptions.

**Figure 3: Regular Gasoline Pump Prices in Selected Cities
4-Week Average (December 26, 2006 to January 16, 2007)**



Source: NRCan

* Regulated Markets

Do Gasoline Prices Fall Slower Than Crude Oil Prices?

Judging by the number of enquiries received at NRCan, the recent drop in crude oil prices has many consumers wondering whether gasoline prices react more quickly when crude oil prices are increasing than they do when crude oil prices fall. In fact, statistical analysis does not support this perception. In 2000, when the Conference Board of Canada examined gasoline prices over a 10-year period in 11 major Canadian cities, they found that retailers adjusted their prices in the same manner for both increases and decreases in the crude oil price. However, this relation may not always be obvious to the consumer. There are a number of factors, such as gasoline inventory levels, local supply/demand balances and other local market conditions, which affect gasoline prices in addition to changes in crude oil prices. These other factors can sometimes work in conjunction with oil price changes but at other times they can offset oil price variations. For example, seasonal swings in gasoline demand generally result in an increase in gasoline prices during the summer months and a decrease in the fall. In periods of volatile crude oil prices these seasonal price changes may not be obvious. In addition, local market conditions can have a considerable impact on short-term wholesale prices of gasoline because it cannot be easily substituted when demand goes up, especially in the short term. Large price increases are sometimes necessary to balance supply and demand and these price increases will sometimes lead to price differences between regions.





Wholesale Gasoline Prices

Wholesale gasoline prices declined in all selected centres for the week of January 11, 2007, compared to the previous week. Canadian and American wholesale gasoline price declines ranged from 3 to 8 cents per litre in the selected centres compared to the previous week.

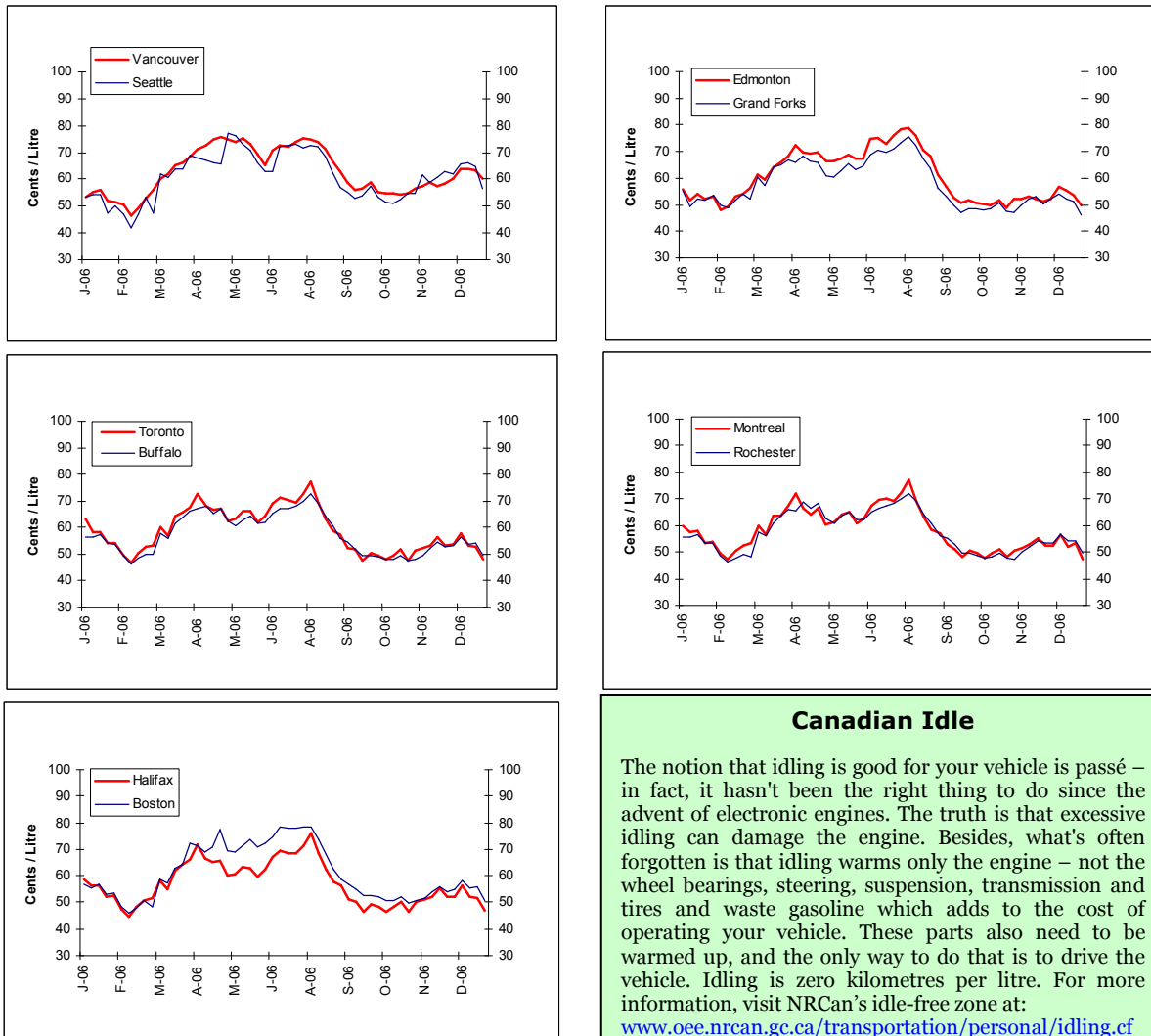
In the last four weeks wholesale gasoline prices, in both Canadian and American selected centres dropped, on average, by nearly 8 cents per litre.

While most centres shown in Figure 4 reported price declines in the range of 2 to 10 cents per litre compared

to those experienced last year at this time, Vancouver and Seattle prices are 5 and 3 cents per litre higher than last year, respectively. Conversely, Montreal and Toronto prices have dropped the most at 10 per litre, with Halifax closely behind at 9 cents per litre since last year at this time.

Overall, the current drop in wholesale gasoline prices reflects adequate supplies in most regions and the impact of the gradual downward movement of crude oil prices. These factors together help put downward pressure on gasoline prices.

Figure 4: Wholesale Gasoline Prices (Weekly Average)
Rack Terminals Prices for Selected Cities ending January 11th (Can ¢/L)



Sources: NRCAN, Bloomberg

Canadian Idle

The notion that idling is good for your vehicle is passé – in fact, it hasn't been the right thing to do since the advent of electronic engines. The truth is that excessive idling can damage the engine. Besides, what's often forgotten is that idling warms only the engine – not the wheel bearings, steering, suspension, transmission and tires and waste gasoline which adds to the cost of operating your vehicle. These parts also need to be warmed up, and the only way to do that is to drive the vehicle. Idling is zero kilometres per litre. For more information, visit NRCAN's idle-free zone at: www.oee.nrcan.gc.ca/transportation/personal/idling.cfm?attr=8





Refining and Marketing Margins

The refining margins for gasoline appear to have recently lost some of their earlier strength, on average, as indicated by the graphs in Figure 5. The relative stability in the latest margins corresponds to sufficient gasoline supplies and the relative stable situation in world crude oil markets.

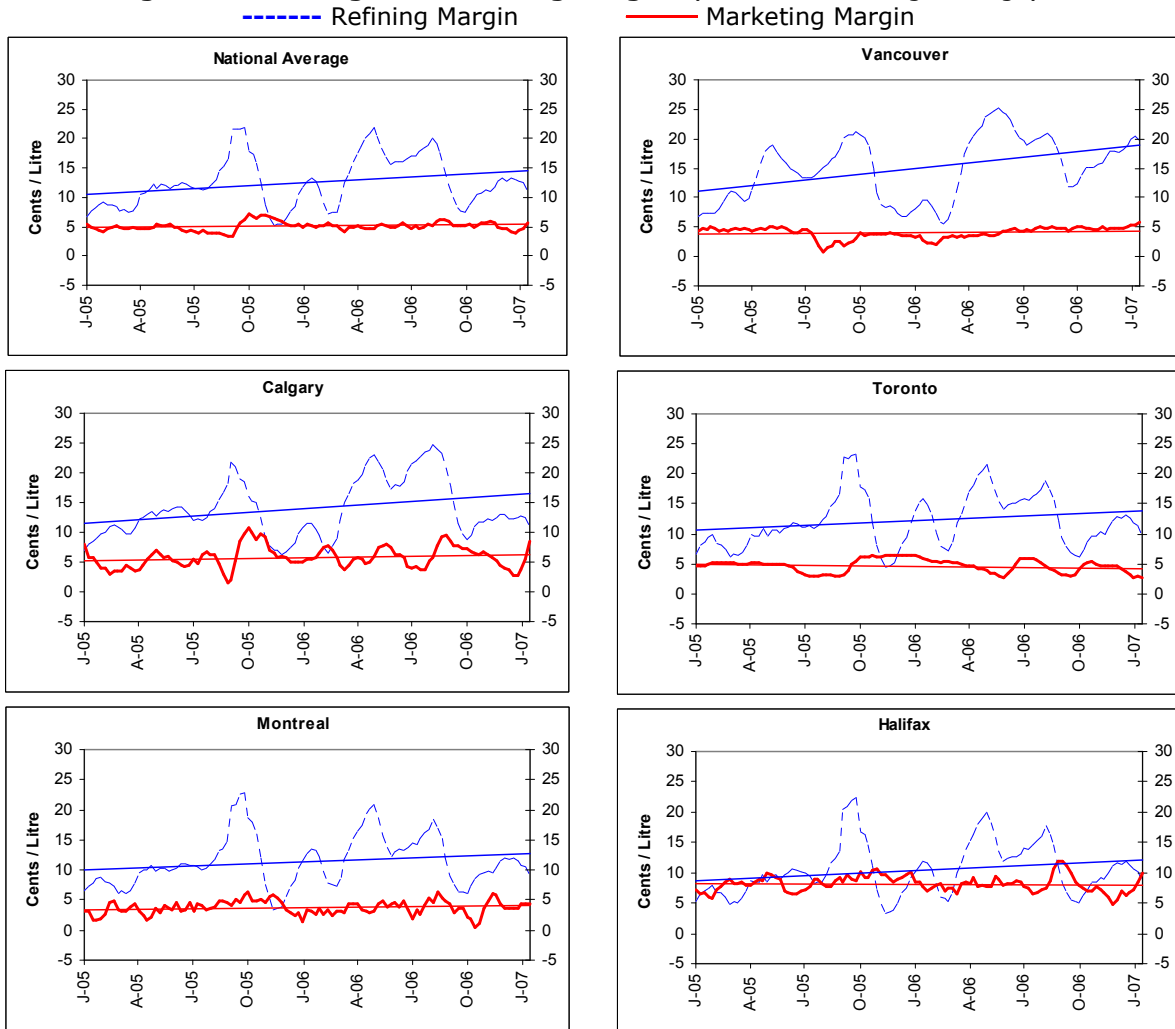
Overall, both refining and marketing margins are influenced by specific market conditions, mainly due to changes in product supply and demand balances. This fall saw a margin rebound due to reduced refinery production as a number of refineries performed scheduled and un-scheduled maintenance operations. Generally, these constraints tend to temporarily restrict supply and push refining margins up.

Although maintenance operations are being held on a regular basis, some refineries have not yet resumed full

operations following unplanned shutdowns. These include: Imperial Sarnia (Ontario) (refinery fire on December 14, 2006); Imperial Strathcona (Edmonton) (power outage on December 13, 2006); and Syncrude, Fort MacMurray (Alberta) (coker outage due to a repair leak on November 18, 2006).

Nationally, the marketing margin, which fluctuates over a much narrower range, has remained stable hovering around 5 cents per litre in the last two years. The sharp upward trend in Calgary and Halifax is mainly due to the fact that retail gasoline prices declined at a slower pace than wholesale gasoline prices, since retail operating costs remain the same. This margin, which tends to fluctuate depending on local market conditions, represents the difference between the pump price and the price paid by the retailer to purchase the gasoline and also serves to pay for the costs associated with operating a service station.

Figure 5: Refining and Marketing Margins (Four-Week Rolling Average)



Source: NRCan





Crude Oil Overview

Crude Oil Prices Decline Mainly Due to the Mild Winter

Although winter is not over yet for Canadians, milder than usual weather over most parts of North America has led to the decline in crude oil prices. According to the U.S. National Oceanic and Atmospheric Administration, 2006 was the warmest year on record for the Continental U.S., with the fourth warmest December ever. Supplies of crude and heating oil are above normal for this time of the year in the U.S., which also impacts the Canadian market, and although temperatures may get colder, it may not be enough to make up for the recent historically warm weather.

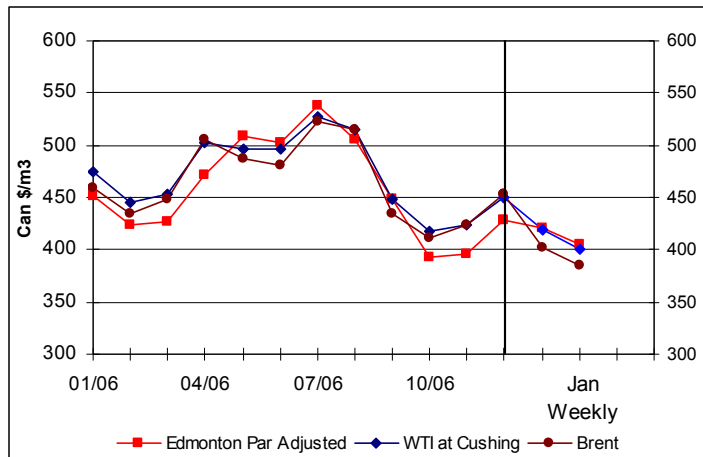
Crude oil prices ended the week in the \$385 to \$405/m³ (\$61 to \$64 Can/bbl) down \$15 to \$18/ m³ (\$2 to \$3 Can/bbl) from the previous week.

Edmonton Par declined \$38/ m³ (\$6 Can/bbl) below last year's levels, while Brent declined the most at nearly \$71/ m³ (\$11 Can/bbl) lower than last year.

A mitigating factor in the downward movement of oil prices is the uncertainties surrounding the actual reduction in production output announced by OPEC and the fact that not all member countries implemented the cuts. However, the latest drop in crude oil prices might bring compliance amongst the OPEC members with the next agreed production cut in February in an attempt to support crude oil prices.

Overall, lower demand for heating oil reduces the demand for crude oil, which in turn pushes both product and oil prices down.

Figure 6: Crude Oil Price Comparisons



Changes in Crude Oil Prices

Crude Oil Prices (\$Can)	Week ending: 2007-01-12		Change from:			
			Previous Week		Last Year	
	\$/m ³	\$/bbl	\$/m ³	\$/bbl	\$/m ³	\$/bbl
Edmonton Par	405.25	64.43	-15.35	-2.44	-38.24	-6.08
WTI	400.74	63.71	-18.32	-2.91	-65.47	-10.41
Brent	384.66	61.15	-17.39	-2.76	-70.56	-11.22

Source: NRCan

Crude Oil Geographical Distribution

Crude oil, as expected, is not distributed uniformly around the globe. Some regions and countries are well endowed, while others have none. Among the seven countries with the largest oil reserves in the world, Canada ranks second, after Saudi Arabia, and is the only one that is not a member of OPEC. Most proven reserves of conventional oil are found in the Middle East OPEC countries: Iran, Iraq, Kuwait, Saudi Arabia and the United Arab Emirates.

Since these reserves are often not in the same regions as the markets they serve, considerations of security and diversity of supply are among the important factors when developers choose between extracting more hydrocarbons from deposits in other regions closer to home and developing non-conventional hydrocarbons in regions closer to consumers. Underlying this point, the International Energy Agency's *World Energy Outlook 2004 Reference Scenario's* latest forecast predicts that 43% of the world's oil supply will be coming from the OPEC Middle East countries by 2030, compared with 25% in 2004.

Source: OECD/IEA, Resources to Reserves, 2005, p. 29

