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Fuel Focus

National Overview

Canadian Retail Gasoline Decreased by 5.3 cents per Litre from Last Week

The Canadian retail gasoline price averaged about 108 cents per litre for the week ending June 5th, down 5.3 cents per litre from last week and virtually unchanged from the same period last year.

Both crude oil and wholesale gasoline prices eased somewhat this week, leading to some downward movement at the retail pump. With crude oil markets demonstrating some relative stability of late and U.S. gasoline inventories slowly building toward more normal levels, the average Canadian retail gasoline price has dropped by more than 7 cents per litre since our last report on May 22 nd.

Gasoline markets continue to be vulnerable to short-term refinery outages or other supply disruptions and can be expected to remain volatile throughout the summer.

Diesel fuel prices remained unchanged from last week but were still nearly 5.1 cents per litre lower than at this time last year. Furnace oil prices declined 0.1 cents per litre to 84 cents per litre and were approximately 3 cents per litre lower than a year ago.

Recent Developments

- NRCan's Oil Division has released its Spring Petroleum Product Market Outlook. Petroleum product prices are expected to remain high and volatile throughout the summer partly due to geopolitical concerns with respect to crude oil, the challenges related to regulations on fuel specifications, and tight North American gasoline inventories. A summary of the Market Outlook is featured in a special supplement on page 6 of this week's report along with the link to the full report on the Fuel Focus website.
- The National Energy Board released its Summer Energy Outlook on May 30, 2007. The outlook highlighted how geopolitical events, weather and storage supplies may impact energy prices during the upcoming season. The report is available on the Board's Internet site at http://www.neb-one.gc.ca/newsroom/releases/nr2007/nr0717_e.htm under What's New!

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

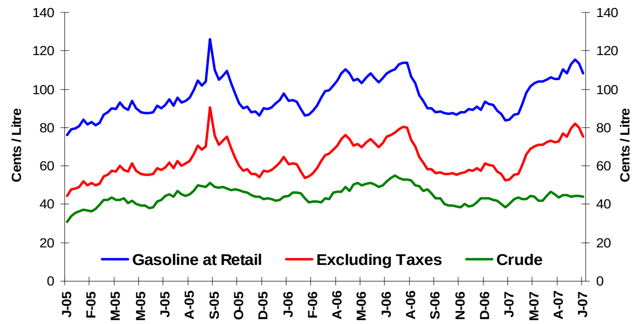
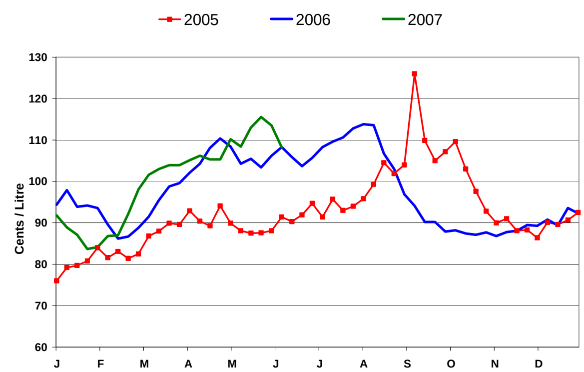


Figure 2: Weekly Regular Gasoline Prices



Changes in Fuel Prices

¢/L	Week of: 2007-06-05	Change from: Previous Week	Change from: Last Year
Gasoline	108.2	-5.3	+0.1
Diesel	97.1	0.0	-5.1
Furnace Oil	83.9	-0.1	-3.0

Source: NRCan

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Retail Gasoline Overview

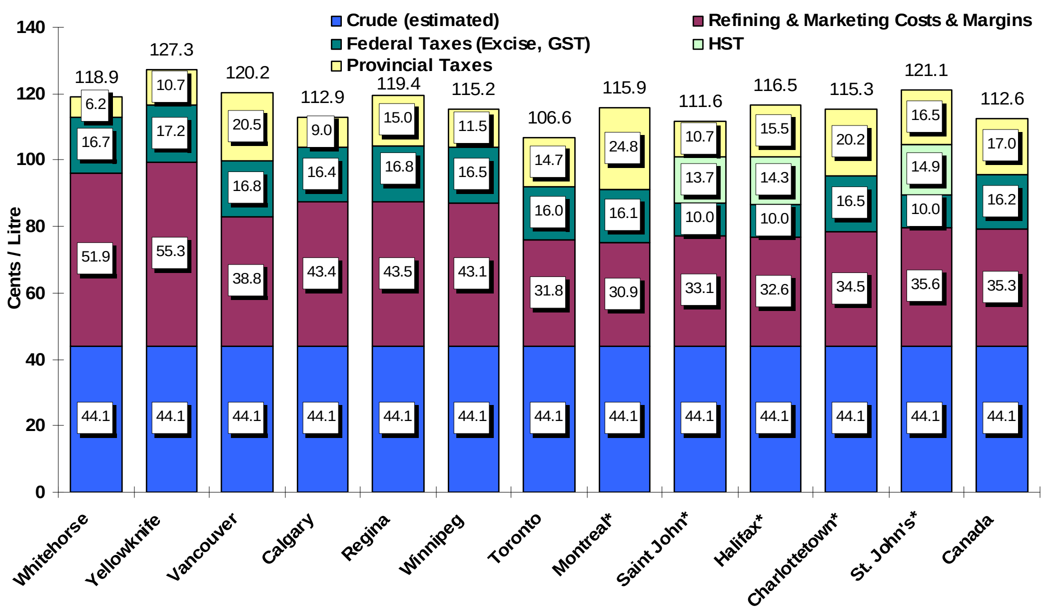
For the four-week period ending June 5, 2007, the average gasoline pump price in selected cities across Canada was almost 113 cents per litre, an increase of about 7 cents per litre from the last report on May 25, 2007. This represents a 5 cent per litre increase from the same period in 2006.

The four-week average crude oil price was 44.1 cents per litre, relatively unchanged since the last report. The crude component was 10 cents per litre lower than the same period last year.

On a national and regional level, Canadian gasoline prices have been increasing over the past year. While the tax component remains relatively stable from month to month, and year to year, refining margins and crude prices can be quite volatile and determine whether prices go up or down.

While higher prices can be a cause of frustration to many consumers, it should be noted that the Canada average price for gasoline before tax is well aligned with those in other industrialized countries around the world.

Figure 3: Regular Gasoline Pump Prices in Selected Cities
4-Week Average (May 15 to June 5, 2007)



Source: NRCan

* Regulated Markets

Inflation Rise 2.2 % in April

Statistics Canada's Consumer Price Index (CPI) report released May 17, 2007, http://www.statcan.ca/english/Subjects/Cpi/cpi-en.htm indicates that Canada's annual inflation rate rose 2.2% more in April compared to the same period last year, a slightly slower growth than the 2.3% increase recorded in March. However, excluding energy components, consumer prices increased at their fastest pace (+2.4%) in almost four years.

Much of the upward pressure on the all-items index in April again came from the owned accommodation sector, while energy components exerted relatively less influence. In April, average gasoline prices were slightly lower than they were last year. Prices at the pump, although relatively high, jumped 13.5% between March and April 2006, while they increased only 2.6% over the same months this year, pushing the 12-month variation of the gasoline index into negative territory (-0.6%).

Average gasoline prices were up between March and April for the third month in a row. Although gasoline prices accounted for most of the month to month increase in the CPI, the 2.6% increase observed in April was relatively moderate, compared with the 12.5% rise posted in March. Given that stocks have declined since February and should normally increase in this period of the year to support summer growth in demand, motorists had to spend more to fill up. Except for Ontario, where gasoline prices were down slightly (-0.2%), all other provinces posted increases ranging from 3.0% in Nova Scotia to 7.1% in British Columbia.

Wholesale Gasoline Prices

Wholesale gasoline prices decreased in all selected centres for the week of May 31st, compared to the previous week. Overall, price declines ranged from 1 to 6 cents per litre among the Canadian and American centres.

Eastern markets in both Canada and the United States have been relatively stable over the last few weeks trading in the 65-70 cents per litre range. Prices in comparable markets have tracked each other closely.

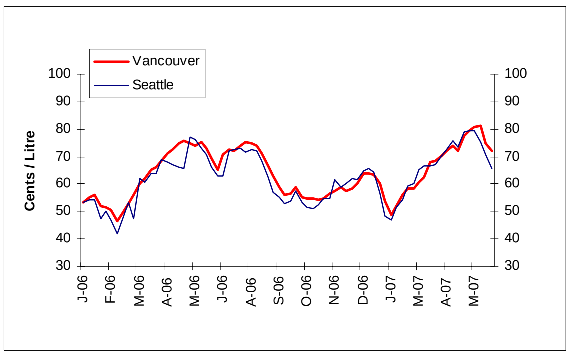
Western prices, on the other hand, have dropped 5-10 cents per litre since mid-May and are now trading just above 70 cents.

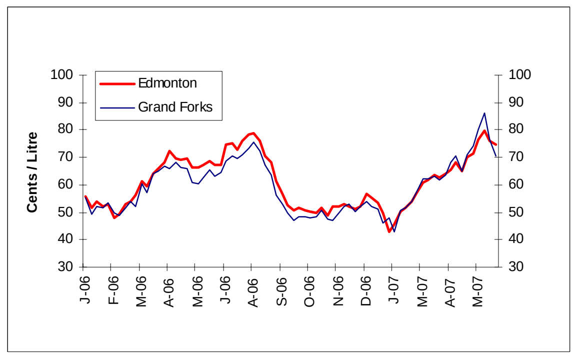
Grand Forks prices, which had risen to a high of 86 cents per litre two weeks ago, dropped by more than 15 cents in the last fourteen days to realign with other western markets.

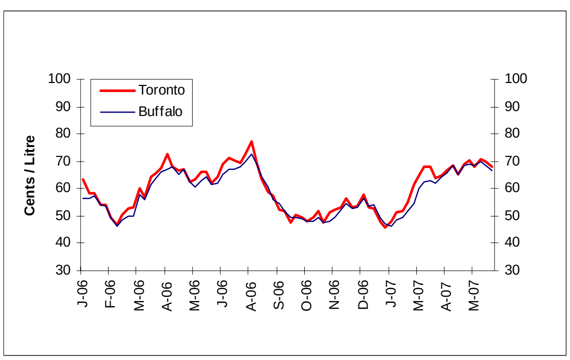
Western Canadian prices continue to trade slightly higher than those in US markets, reflecting the tight gasoline supply in western Canada and the limited access to alternate supply sources.

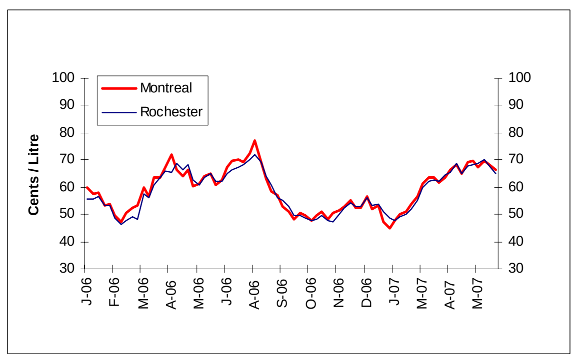
In spite of this week's declines, Edmonton and Grand Forks prices remain nearly 8 cents per litre higher than at this time last year.

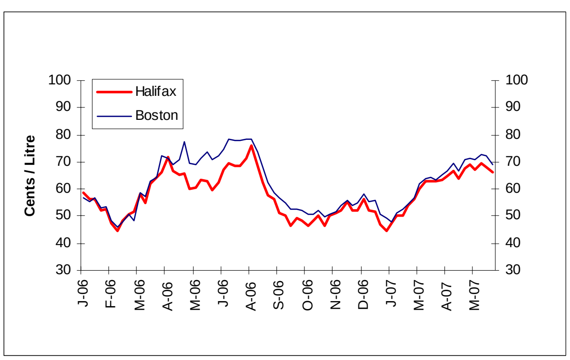
Figure 4: Wholesale Gasoline Prices
Rack Terminals Prices for Selected Cities on Thursday May 31, 2007 (Can ¢/L)











Sources: NRCan, Bloomberg

Higher Dollar Means Lower Gasoline Prices

A robust appreciation of the Canadian dollar relative to the U.S. dollar has reduced the impact of rising gasoline prices. For consumers, an increase in the value of the dollar is definitely a positive development. A higher dollar lowers the prices of imported goods while leaving the prices of domestic products unchanged. In essence, it acts as an implicit wage hike, giving consumers more money to spend elsewhere in the economy.

Refining and Marketing Margins

Four-week rolling averages are used for the refining and marketing margins for gasoline shown in Figure 5 for the period ending June 8th.

Refining margins continue to increase, reflecting the supply/demand imbalance for gasoline across North America this spring. There have been over 30 separate events so far this year that have reduced refining capacity use in Canada and the United States. In the face of robust demand, gasoline inventories have been drawn down and wholesale prices have been driven up as markets try to rebalance.

As the trend lines in Figure 5 indicate, refiner margins have increased over the last three years by about 6 cents per litre in eastern markets and 10-12 cents per litre in the west. These increases reflect the higher costs associated with new fuel specifications, the tighter supply in the west and improved returns for refiners.

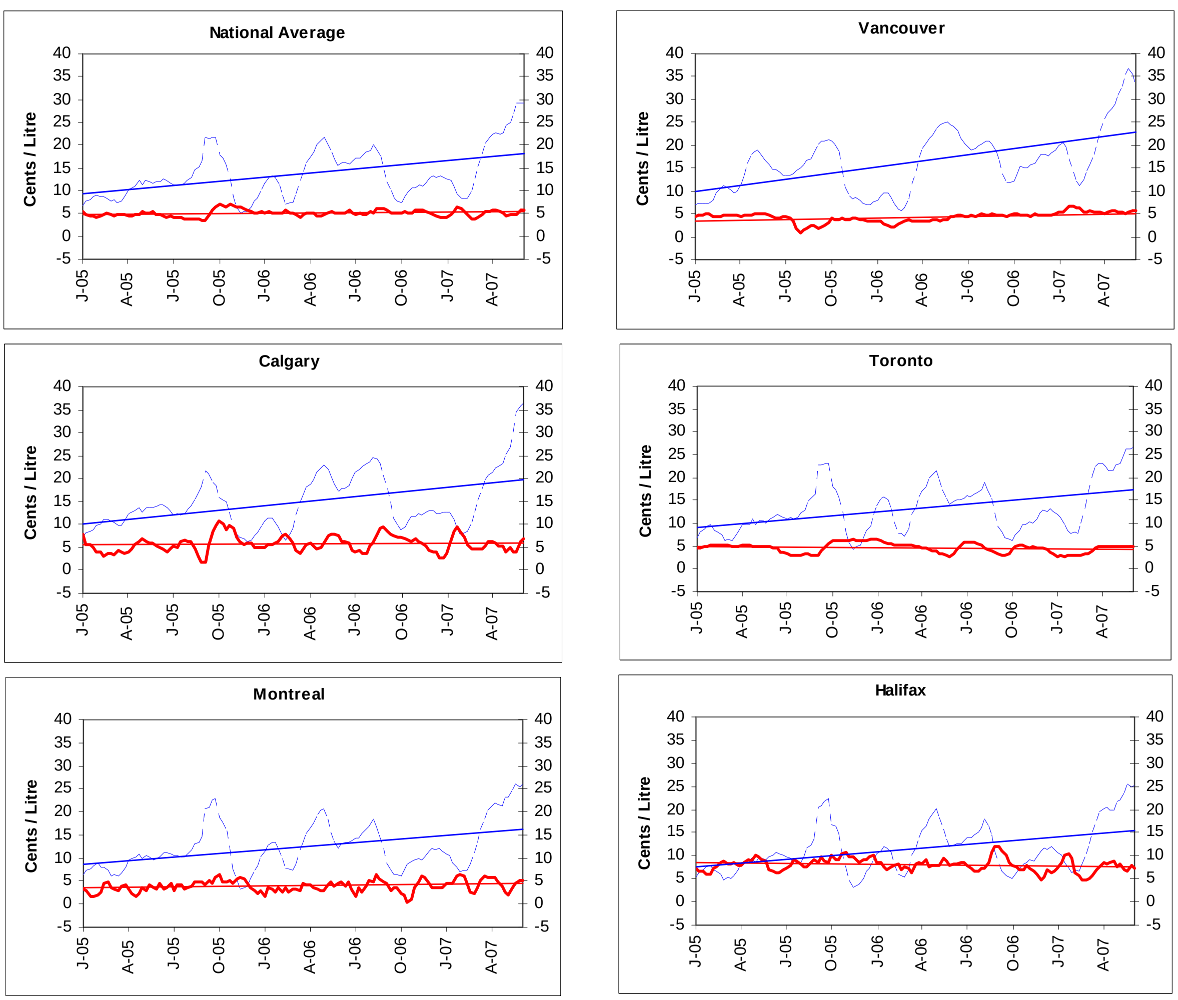
Retail margins remain relatively stable in all markets, with any minor volatility an indication of local price war activity. The local retailer generally earns 5 to 6 cents per litre on gasoline sales and often relies on ancillary income from C-stores, carwashes or food outlets to help cover the site operating costs.

Of the five markets show in Figure 5, only the regulated Halifax market has retail margins consistently above 6 cents per litre, averaging 7.5 cents per litre through the first 5 months of 2007.

Figure 5: Refining and Marketing Margins

Four-Week Rolling Average Ending June 5, 2007

------- Refining Margin ——— Marketing Margin



Source: NRCan

Crude Oil Overview

Brent Continues to Trade at a Premium to North American Crude

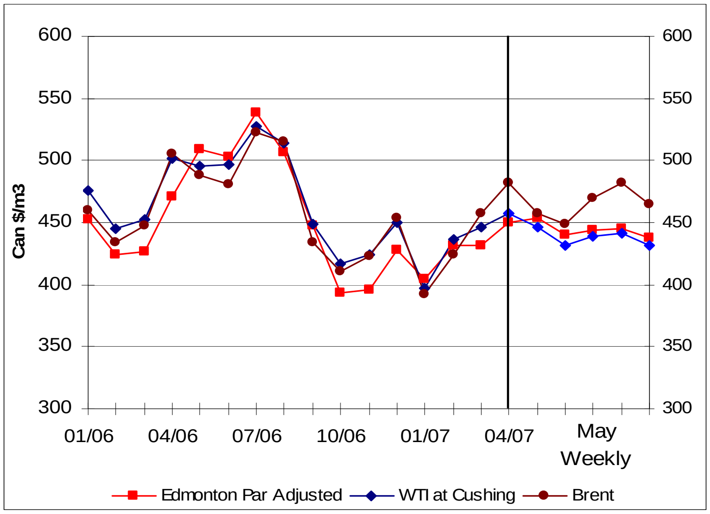
Crude oil prices ended the week of June 1st in the $432 to $465/m³ range ($US 64 to $US 69/bbl). All crude types decreased over the previous week. Brent had the biggest losses, recording a decrease of $17/m³ ($US2/bbl), while Edmonton Par saw the smallest decrease at $8/m³ (less than $US0.50/bbl).

Brent continues to trade at a significant premium to WTI and Edmonton par, and according to many analysts, Brent better reflects the tight global supply of oil. The price for WTI, on the other hand, does not seem to reflect the geopolitical concerns around Iran and Nigeria.

A recent oversupply of WTI due to refinery problems in the U.S. has led to lower prices for light sweet crude such as WTI and Edmonton Par. It is expected that as refinery problems are resolved and production comes back online, prices for WTI and Brent will once again become aligned.

As the summer hurricane season approaches, refiners, crude producers and governments alike are preparing for another active season. The National Oceanic and Atmospheric Administration is predicting 7-10 hurricanes this season, 3-5 of which will reach Category 3 or higher. As was seen in 2005, an active hurricane season in the South can add significant additional pressure to energy supply and prices.

Figure 6: Crude Oil Price Comparisons



Changes in Crude Oil Prices

Crude Oil Prices	Week ending: 2007-06-01		Change from: Previous Week		Change from: Last Year	
	$Can/m³	$US/bbl*	$Can/m³	$US/bbl*	$Can/m³	$US/bbl*
Edmonton Par	437.27	64.88	-7.97	-0.43	-78.30	-9.52
WTI	432.00	64.10	-9.06	-0.60	-63.29	-7.38
Brent	464.86	68.97	-17.23	-1.74	-15.26	-0.31

*Note that prices per barrel are reported in U.S. dollars

Source: NRCan

Hot Commodities

The Stanley Cup hockey players may be the hottest commodities fuelling sport these days, but a recent Statistics Canada report released in May 2007, declares oil one of the hottest commodities fuelling the economy. In general, the oil and gas industry in Canada has contributed significantly to the economy and is expected to continue to grow in terms of capital investment, revenue, jobs and wages.

While the price of crude oil has fluctuated dramatically over the last several years, it has remained substantially higher than the December 2001 price of $15.95 Cdn per barrel. The reasons for the increase are the rising world demand, particularly in China and India. On the supply side, the geopolitical conflicts have destabilized oil supplies, leading to increased prices.

With the discovery of oil in Alberta in 1947, Canada was transformed almost instantly from an oil-poor to an oil-rich nation. Recent development of non-conventional sources of oil and gas has further augmented the importance of this industry to the Canadian economy. By 2006, the contribution to GDP of all sectors of the oil and gas industry had exceeded $40 billion (1997 dollars), and direct employment totaled almost 300,000.

Source: Statistics Canada, www.statcan.ca/english/freepub/75-001-XIE/10507/art-2.pdf

Petroleum Product Market Outlook

The following is a summary of NRCan's *Petroleum Product Market Outlook* report released in May 2007.

Heading into the 2007 summer driving season, petroleum product prices are already well above levels experienced last spring, in fact they are the highest they have ever been heading into the summer. Due to geopolitical concerns in certain regions of the globe, the challenges facing some jurisdictions related to the introduction of new regulations affecting fuel specifications, and tight North American inventories, petroleum product prices are expected to remain high and volatile throughout the summer.

The highlights of the Petroleum Market Outlook are:

- Petroleum product prices in Canada have been exceptionally high this past year due to high world crude oil prices, refinery capacity constraints and resilient consumer demand. Despite higher prices, demand for petroleum products remains strong.

- Strong economic growth is driving the consumption of diesel, primarily through the agricultural, transportation and construction sectors. Over the last few years, this has led to higher annual growth in diesel fuel demand compared to more moderate growth in gasoline demand. This has resulted in a convergence in the price of gasoline and diesel.

- The Canadian refining industry is operating at maximum capacity. The lack of spare capacity has reduced the flexibility of the market, making it more vulnerable to unexpected supply disruptions and substantially increasing the volatility of petroleum product prices. This was especially evident when a number of refineries had production problems this winter.

- Many refinery turnarounds have been postponed due to logistics reasons. The successful and timely completion of these maintenance turnarounds will be an important factor in ensuring adequate inventory levels ahead of, and throughout the summer driving season.

- This summer, Canadian gasoline and diesel fuel prices are expected to remain high and will be vulnerable to upward pressures. A combination of high crude oil prices, the tight North American supply situation and continued challenges associated with meeting new fuel specifications are expected to result in prices similar to those of last summer.

This spring, petroleum product prices have increased earlier than is typical. This has led many analysts to believe that prices this summer may be inflated. Persistently high crude oil prices, new fuel specifications, the tight North American supply situation and increased demand are all expected to contribute to high prices this season.

As always, the Canadian petroleum industry is working hard to ensure that adequate supplies of gasoline and diesel fuel will be available to consumers this summer. Nonetheless, markets continue to be vulnerable to an unanticipated supply interruption such as an unplanned refinery closure or supply distribution problems.

The full report is available on the Fuel Focus website at: http://fuelfocus.nrcan.gc.ca/