Fuel Focus

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National Overview

Canadian Retail Gasoline Prices Decline to 103 cents per Litre

The average Canadian retail gasoline price decreased to 103 cents per litre for the week ending July 31st, down nearly 1 cent per litre from last week. This represents a decrease of almost 11 cents per litre from the same period last year.

With the summer driving season half way through, and with sufficient North American gasoline supplies, wholesale gasoline prices have pulled back putting downward pressure on retail gasoline prices. The added confidence that gasoline inventories seems to be enough to meet demand may also have helped keep oil prices from rising further.

Diesel fuel prices remained unchanged from last week at nearly 98 cents per litre. This represents a decline of 6 cents per litre compared to the same period last year. Furnace oil prices increased slightly by 1 cent per litre to nearly 85 cents per litre and are almost unchanged from a year ago.

Recent Developments

- **Inflation Rises 2.2% in June Identical to April and May:** For the third straight month, most of the growth in average price levels was attributable to costs associated with owned accommodation (+4.9%). To a lesser extent, the rise was due to an increase in costs associated with operating a vehicle (+2.8%), partly the result of higher gasoline prices compared to 2006 levels. (Statistics Canada, The Daily, June 18, 2007)

- **Record U.S. Gasoline Production and Demand in First Half of 2007:** According to the American Petroleum Institute gasoline production rose 3.4% year-to-year along with record demand despite higher prices and several unplanned refinery breakdowns. Higher imports helped meet the demand of gasoline deliveries. Refinery activities decreased in the first half of the year due to planned outages for operating reasons, but some of the unplanned shutdowns may have been the result of strain put on the system from reducing sulphur levels for ultra low-sulphur diesel. (Oil and Gas Journal, July 19, 2007)

- **Crude Oil Production Increase:** Overall production of crude oil increased 10% to 13.4 million cubic metres in May 2007 compared to the same period last year. This rise was led by a jump in Newfoundland and Labrador offshore production and Alberta bitumen output. Meanwhile exports, which accounts for 68% of Canada's total production, rose 5% reaching 9.2 million cubic metres, while imports increased 25% to 4 million cubic metres. (Statistics Canada, The Daily, July 30, 2007)

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

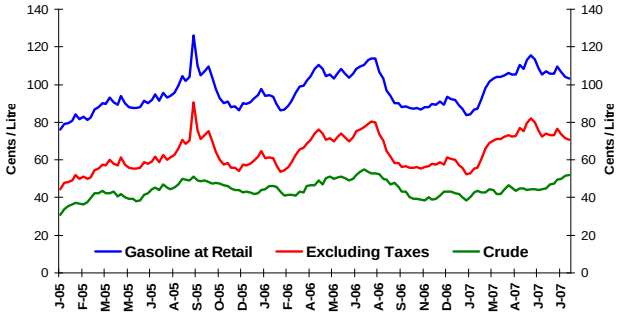
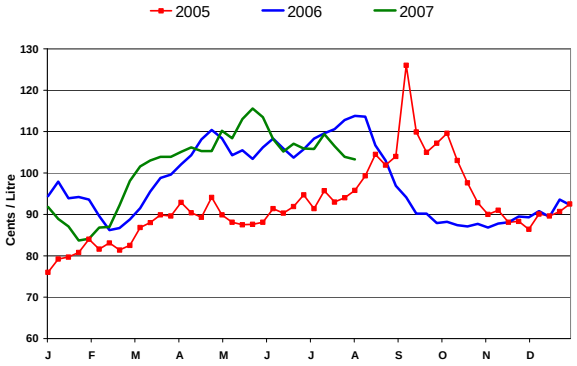


Figure 2: Weekly Regular Gasoline Prices



Changes in Fuel Prices

	Week of:	Change from:	
¢/L	2007-07-31	Previous Week	Last Year
Gasoline	103.3	-0.6	-10.5
Diesel	97.7	0.0	-6.4
Furnace Oil	84.5	+0.2	+0.1

Source: NRCan

In this Issue

Fuel Focus Supplement: In the last few weeks conflicting pressures from crude oil and wholesale gasoline markets influenced retail gasoline prices differently across the country. Find out about the various factors that can impact on prices in Why Gasoline Prices Vary Across Canada.

Retail Gasoline Overview

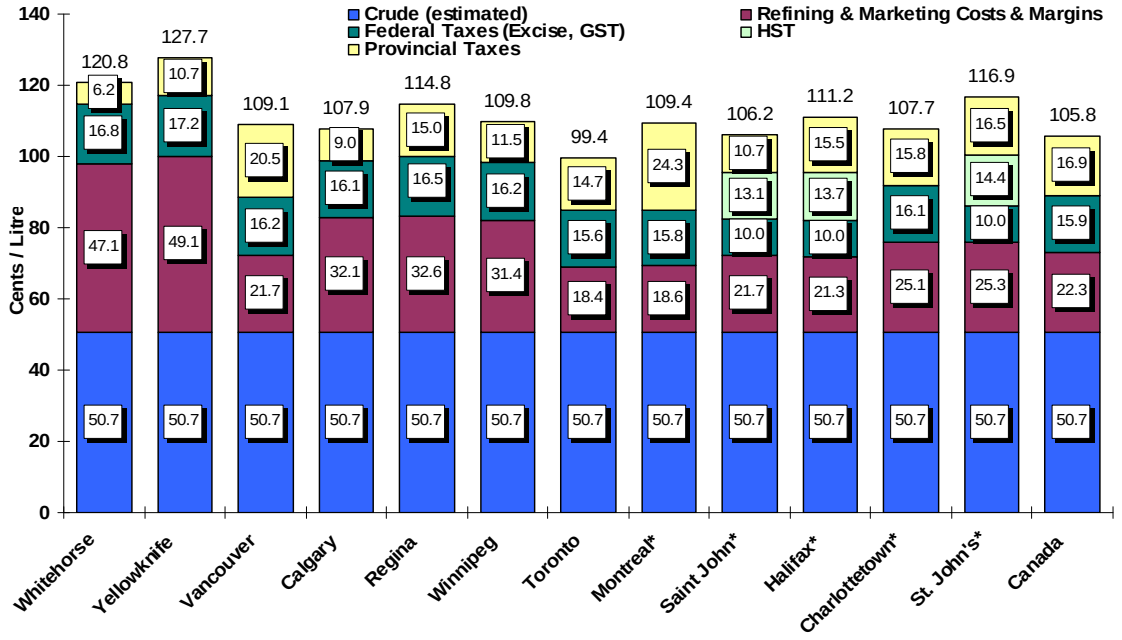
The average Canadian pump price in selected cities for the four weeks ending July 31st was nearly 106 cents per litre, a decline of one cent per litre from the last report on July 20, 2007. This represents a 6 cents per litre decrease compared to the same period in 2006.

The four-week average crude oil price increased by 2.3 cents per litre to nearly 51 cents per litre compared to two weeks ago, but remained 2 cents per litre lower than the same period last year.

The higher crude oil costs were offset by declines in margins ranging from 1 to 5 cents per litre.

Retail price declines in recent weeks, particularly in Ontario markets, are beginning to be reflected in the four-week averages shown in Figure 3. The tighter supply situation in western Canada slowed the price declines in those markets and will take longer to be reflected in the four week averages.

Figure 3: Regular Gasoline Pump Prices in Selected Cities
4-Week Average (July 10 to 31, 2007)



Source: NRCan

** Regulated Markets*

Retail Gasoline Stations in Canada

As of December 2006, there were 13,772 retail gasoline stations operating in Canada, or 4.2 outlets for every 10,000 persons. According to a recent survey by MJ Ervin & Associates Inc., http://www.mjervin.com/2006Census.pdf , the per capita number of outlets varies significantly from one province to another. This has a strong relationship to "throughput efficiency" by province, which in turn has significant implications with the level of price-competitiveness in that province's markets. Not surprisingly, provinces or markets with poor (low) throughput efficiencies tends to have higher retail gasoline prices (after tax differences are factored out) than those with high throughput efficiencies.

The census noted 98 different brands of gasoline in Canada. Sixteen percent of all gasoline stations come under the price control of one the three "major" oil companies (Petro-Canada, Esso or Shell), while 29% of all stations come under the price control of one of the nine refiner-marketers in Canada. The remaining 71% of all gasoline stations in Canada are price-controlled by individual outlet proprietors or non-marketers whose importance and influence is growing. These are the Regional Distributors and Big Box marketers. The latter in particular have an influence on the retail petroleum market – particularly in terms of price competitiveness – that is far out of proportion to their relatively small numbers of outlets.

Wholesale Gasoline Prices

Wholesale gasoline prices declined in all selected centres for the week of July 26th, compared to the previous week. Overall, price declines ranged from 1 to nearly 5 cents per litre among the Canadian and American centres.

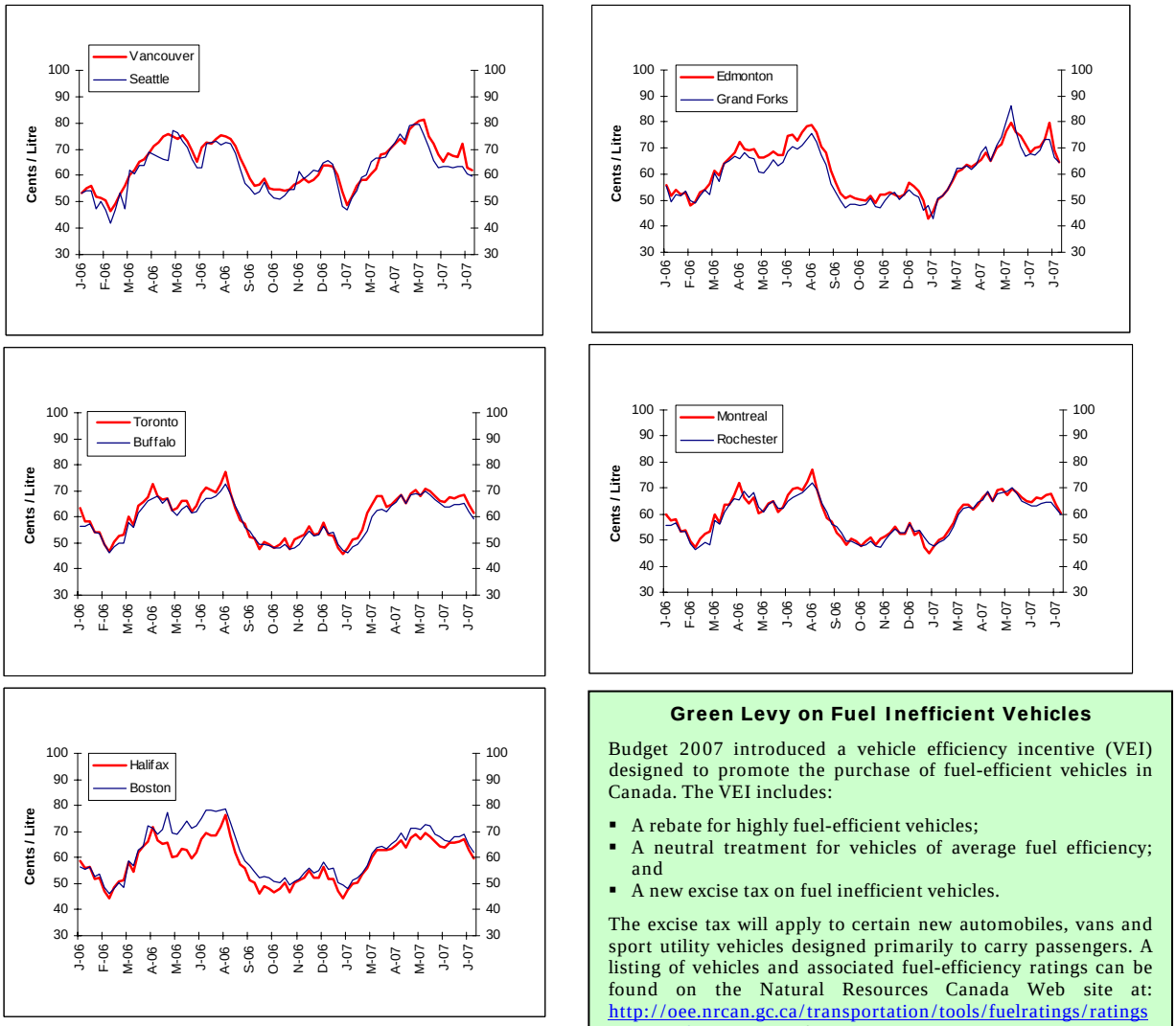
In the last two weeks prices have decreased significantly from 4 to 15 cents per litre in all centres. On average, prices for most centres are now down to their early March 2007 level. The overall decline in gasoline prices reflects relatively stable crude oil prices, a greater availability of supply, with higher refinery utilization in the U.S. and increased gasoline inventories.

Eastern markets in both countries registered price declines in the range of 2 to 3 cents per litre ending the period in the 59 to 62 cents per litre range. Price declines in Western markets fluctuated more widely varying in the range of 1 to almost 5 cents per litre, narrowing the gap that had developed between eastern and western markets in our last report.

Overall, prices decreased in the range of 3 to more than 6 cents per litre in the selected centres compared to the same period last year when the hostilities between Israel and Lebanon were escalating, increasing the fear of crude oil supply disruptions.

Figure 4: Wholesale Gasoline Prices

Rack Terminals Prices for Selected Canadian and American Cities on Thursday July 26, 2007



Sources: NRCan, Bloomberg Oil Buyers Guide

Green Levy on Fuel Inefficient Vehicles

Budget 2007 introduced a vehicle efficiency incentive (VEI) designed to promote the purchase of fuel-efficient vehicles in Canada. The VEI includes:

- A rebate for highly fuel-efficient vehicles;
- A neutral treatment for vehicles of average fuel efficiency; and
- A new excise tax on fuel inefficient vehicles.

The excise tax will apply to certain new automobiles, vans and sport utility vehicles designed primarily to carry passengers. A listing of vehicles and associated fuel-efficiency ratings can be found on the Natural Resources Canada Web site at: http://oee.nrcan.gc.ca/transportation/tools/fuelratings/ratings-search.cfm?attr=8 Information on the VEI is available on the Canada Revenue Agency website at : http://www.cra-arc.gc.ca/agency/budget/2007/excise-e.html

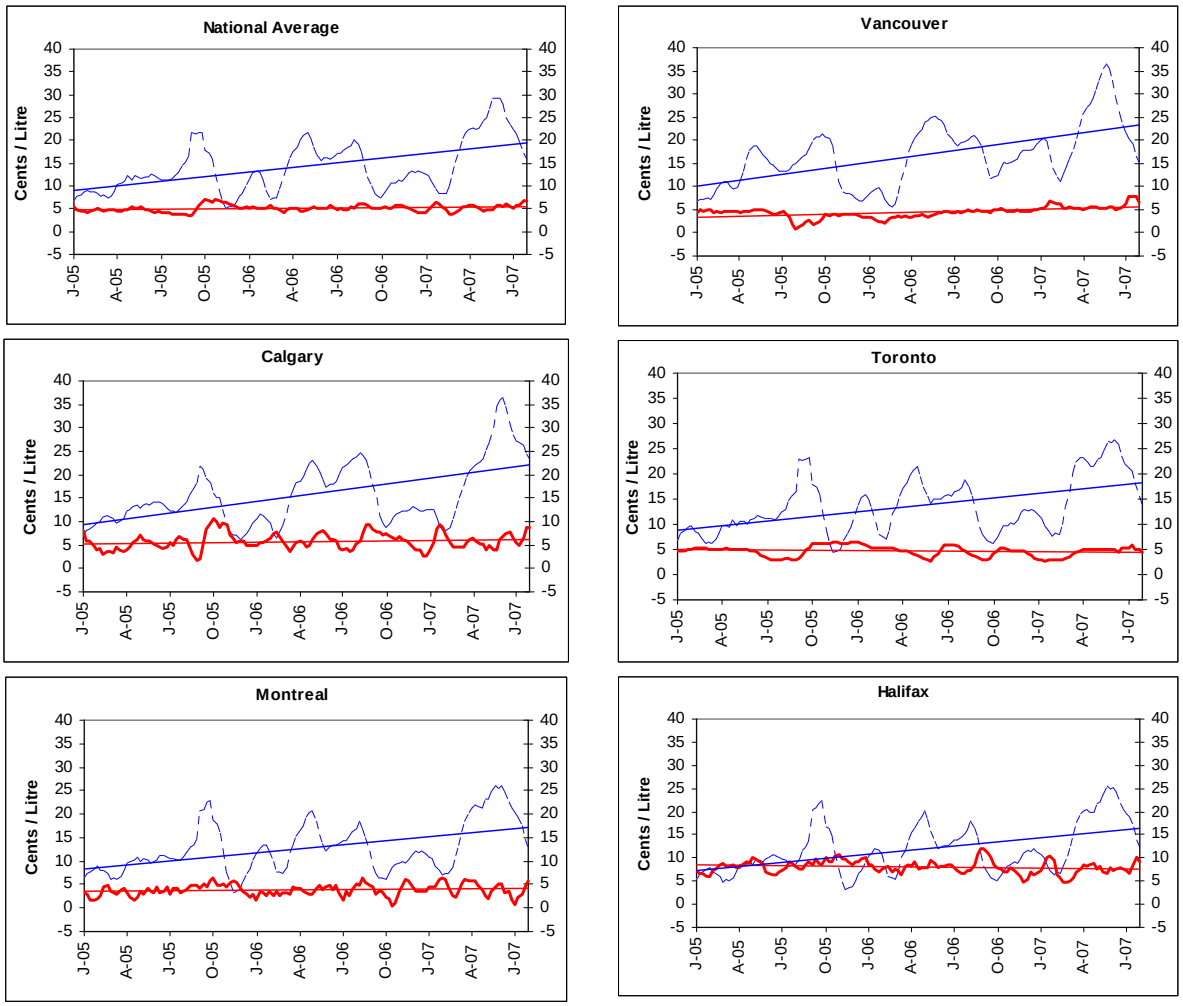
Refining and Marketing Margins

Four-week rolling averages are used for the refining and marketing margins for gasoline shown in Figure 5 for the period ending July 31st. Refining margins are presented here to indicate the trend in gasoline margins but do not represent overall refining margins. In fact, as one of the higher-valued products, gasoline generates a disproportionate share of the revenues. Gasoline margins are offset by much lower margins on other products such as heavy fuel oil and asphalt, products that can often sell for less than the cost of the crude oil used to make them.

Refining margins continued to decline in recent weeks following a steady rise in the last few months reflecting a supply and demand rebalancing for gasoline across North America. On a year-to-year basis Eastern centres represented in Figure 5, rose by 4 cents per litre while the two Western centres increased by around 6 cents per litre.

In contrast, the marketing margins have remained close to 5 cents per litre on average across Canada for the first half of 2007 compared to the same period in 2006. Only Vancouver rose 2 cents per litre in the first half of 2007 vs. the same period last year, while all other centres remained virtually unchanged.

Figure 5: Refining and Marketing Margins
Four-Week Rolling Average Ending July 31, 2007
Refining Margin — Marketing Margin



Source: NRCan

Crude Oil Overview

Oil Prices Come to Within 1¢ of Record High

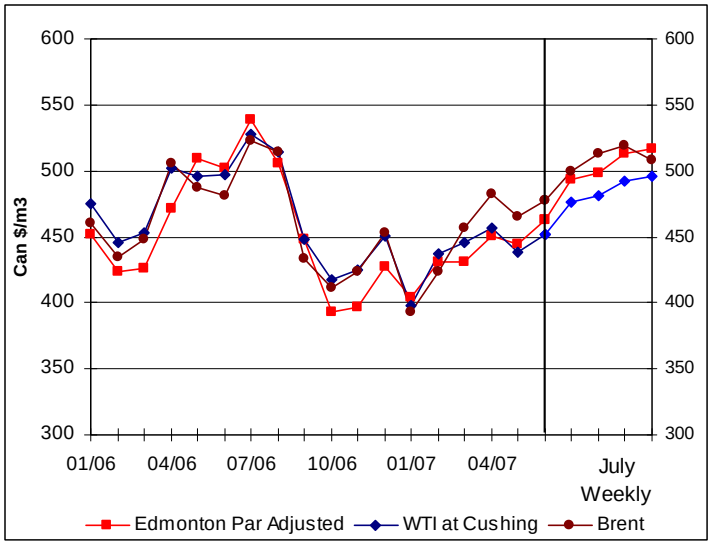
Crude oil prices ended the week of July 27th in the $495 to $517/m^3 range ($US 75to $US 78/bbl). While both Edmonton Par and WTI increased week over week, Brent saw a significant decrease. When comparing year over year, it becomes obvious that the recent appreciation of the Loonie has had a significant impact on the price Canadian refiners pay for crude oil.

On July 27th the September contract for light sweet crude on the New York mercantile exchange came to within 1¢ of the record high of $US77.03 set on July 14th of last year. This is mainly reflective of the continuing possibility of an active hurricane season and tightening crude oil reserves around the globe.

While the recent earthquake in Japan affecting nuclear power generation may not seem like something that would have an effect on crude oil prices, most of Japan's swing electricity production is fueled by fossil fuels. Some reports indicate that the Kashiwasaki-Kariwa nuclear plant could be closed for a full year - any other disruptions could create an increased need for imports in this region.

Although high prices would seem to benefit OPEC countries, the organization is sticking to $US60-65/bbl as a fair price for oil, afraid that higher prices could lead to lower demand and ultimately reduce their income.

Figure 6: Crude Oil Price Comparisons



Changes in Crude Oil Prices

Crude Oil Prices	Week ending: 2007-07-27		Change from:			
			Previous Week		Last Year	
	$Can/ m^3	$US/ bbl	$Can/ m^3	$US/ bbl	$Can/ m^3	$US/ bbl
Edmonton Par	516.85	78.49	+3.20	+0.29	-15.82	+4.01
WTI	495.38	75.22	+3.11	+0.28	-33.68	+1.25
Brent	507.58	77.08	-11.09	-1.88	-18.52	+3.52

Source: NRCan

Market Capitalization Value of Canadian Oil and Gas Companies in 2006

The table below shows the value of all oil gas companies trading on the Toronto Stock and TSX Venture Exchanges.

In 2006, the market capitalization value of oil and gas companies stood at C$521 billion, representing about 25% of the value of all stocks trading on the Toronto Stock Exchange.

Oil and gas companies also represented about 19% of the value of all stocks trading on the TSX Venture Exchange (C$10 billion).

This seems to indicate that with rising commodity prices, oil and gas companies represent a growing share of the Canadian stock market.

	Toronto Stock Exchange		TSX Venture Exchange	
		% of Total TSE		% of Total TSX
Number of Oil & Gas Companies Listed	166	10%	266	13%
Market Capitalization Value (C$ billions)	521	25%	10	19%

Source: Toronto Stock Exchange. As of December, 31 2006.

Why Gasoline Prices Vary Across Canada

The price you pay for gasoline at your local service station can vary quite a bit from the price in the next city. Price differences between cities and across Canada are tied to several factors that can push prices up or down. Some of these factors are as follows:

Factor 1: Taxes

Regional differences in provincial and municipal taxes are the most important factor affecting what you pay at the pump. There are two types of taxes:

- ***Fixed Tax*** – Provincial taxes range from 6.2 cents per litre in the Yukon to 15.8 cents per litre in Prince Edward Island (July 2007). In addition, municipal taxes are collected in three municipalities: Victoria (2.5 cents per litre), Vancouver (6.0) and Montréal (1.5).

  The federal government also taxes gasoline, but the amount is constant across the country: the excise tax is a fixed amount of 10 cents per litre for gasoline and 4 cents per litre for diesel.

- ***Sales Tax*** – The Goods and Services Tax (GST) is calculated at 6% on all fuel products, including gasoline and at 14% in New Brunswick, Nova Scotia and Newfoundland and Labrador where it is harmonized with the provincial sales tax. The province of Québec applies an additional sales tax of 7.5% called the Québec Sales Tax (QST).

Factor 2: Competition and Consumer Choice

Station owners are competing for attention as drivers make their buying decisions from behind the wheel. Unlike other retailers, gas stations advertise their prices on big signs along roadways and at intersections to attract customers. When a station in an area lowers its price, other stations typically match the price – by lowering what's called their retail margin [1], or the amount they earn from the sale of fuel – to avoid losing a customer. This can trigger a series of price changes by competing retailers over a period of several hours or days. At some point, stations end up selling at a loss and need to increase prices. At the end of such price competition, consumers frequently will see a uniform and large price increase as prices return to levels that represent more acceptable returns for retailers. Overall, this up and down cycle can sometimes lead to large differences in prices between neighbouring cities or different areas of the same city.

[1] In 2006, the retail margin averaged 5 cents per litre for regular unleaded gasoline.

Factor 3: Amount of Fuel Sold

The amount of gasoline that can be sold by an individual station will affect its price. A station in a smaller community or neighbourhood with fewer sales may have to charge a higher price to cover its fixed operating costs. Plus, it may not be eligible for volume discounts from gasoline wholesalers. Likewise, if an area has many stations, each has less traffic and fewer sales, which may lead to higher prices. In communities where the station owners are satisfied with how much they sell, consumers tend to see more stable prices and fewer price wars.

Factor 4: Type of and Location of Gas Stations

Types of Stations **–** More and more, stations are offering car washes, fast food outlets and other services to increase sales. These conveniences draw more customers, which gives the retailer the opportunity to sell other products such as snacks and refreshments. This type of retailing reduces the station's dependence on gasoline sales to cover operating costs. In fact, so-called "big box" retailers view low-cost gasoline retailing as a way to attract customers in order to increase their in-store sales.

Location of Stations **–** Stations that are further away from their suppliers have to pay higher transportation costs. They may pass on these costs to their customers in the form of higher gasoline prices.