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Fuel Focus

National Overview

Retail Gasoline Prices Below $1 per Litre for the First Time Since February 27th

The average Canadian retail gasoline price declined to 99 cents per litre for the week ending August 14th, down more than 4 cents per litre from our last report. This represents a decline of nearly 8 cents per litre from the same period last year.

After weeks of a counter-intuitive trend in North American energy markets with the price of gasoline and crude oil going in opposite directions, crude oil prices had their first significant decline since June. Refinery repairs and routine maintenance which took production off-line for weeks at a time, led to a stockpile of crude oil as crude oil receipts exceeded actual production capacity. Refiners are now working through these surpluses and are now producing gasoline in large quantities to replenish their inventories. This has allowed wholesale gasoline prices to drop in the last few weeks.

Diesel fuel prices declined almost 2 cents per litre from last week to 97 cents per litre. This represents a decline of 11 cents per litre compared to same period last year. Furnace oil prices decreased slightly to 84 cents per litre compared to the previous week and more than 2 cents per litre from a year ago.

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

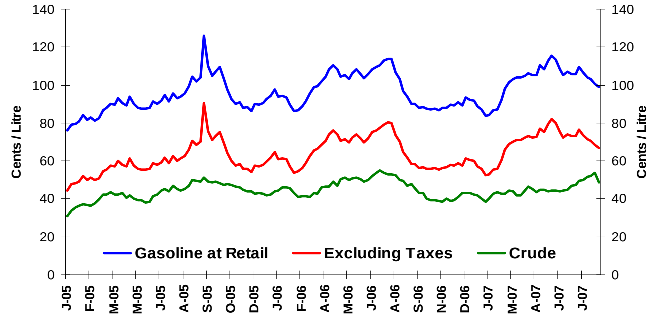
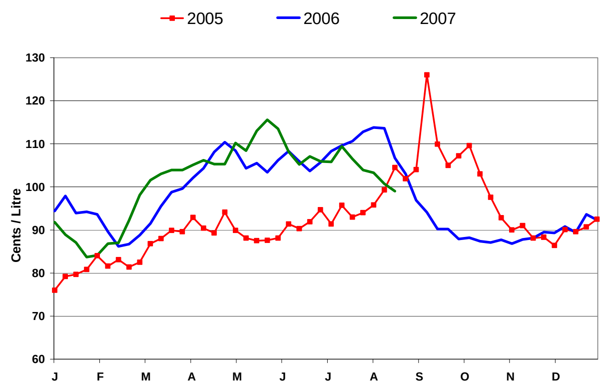


Figure 2: Weekly Regular Gasoline Prices



Changes in Fuel Prices

	Week of:	Change from:	
¢/L	2007-08-14	Previous Week	Last Year
Gasoline	99.0	-1.7	-7.7
Diesel	96.9	-1.6	-10.6
Furnace Oil	83.8	-0.5	-2.3

Source: NRCan

Recent Developments

- **Gasoline Consumption:** Canadians consumed 20 billion litres of gasoline in the first five months of 2007 - 3% more than the same period last year. In that same period, diesel fuel sales increased 4% to 13 billion litres while furnace oil rose nearly 12% to 2.6 billion litres. (Statistics Canada, The Daily, August 10, 2007)

- **Drive "Greener" Vehicles:** The Ontario Government announced a $15 million pilot program to provide Ontario businesses with rebates to buy hybrid and other low emission delivery and work trucks. The initiative will also give individuals incentives to drive low-emission vehicles, identified by special eco-license plates. Consultations with vehicle manufacturers and environmental groups will take place to identify which vehicles will qualify and which perks will apply once the eco-license plate program is launched next summer. For more information, please consult the following website: http://ogov.newswire.ca/ontario/GPOE/2007/08/08/c4806.html?lmatch=&lang=_e.html

In this Issue

Fuel Focus Supplement:

What is the impact of the appreciating Canadian dollar on gasoline prices? Find out more on who benefits and why in this week's Supplement.

Retail Gasoline Overview

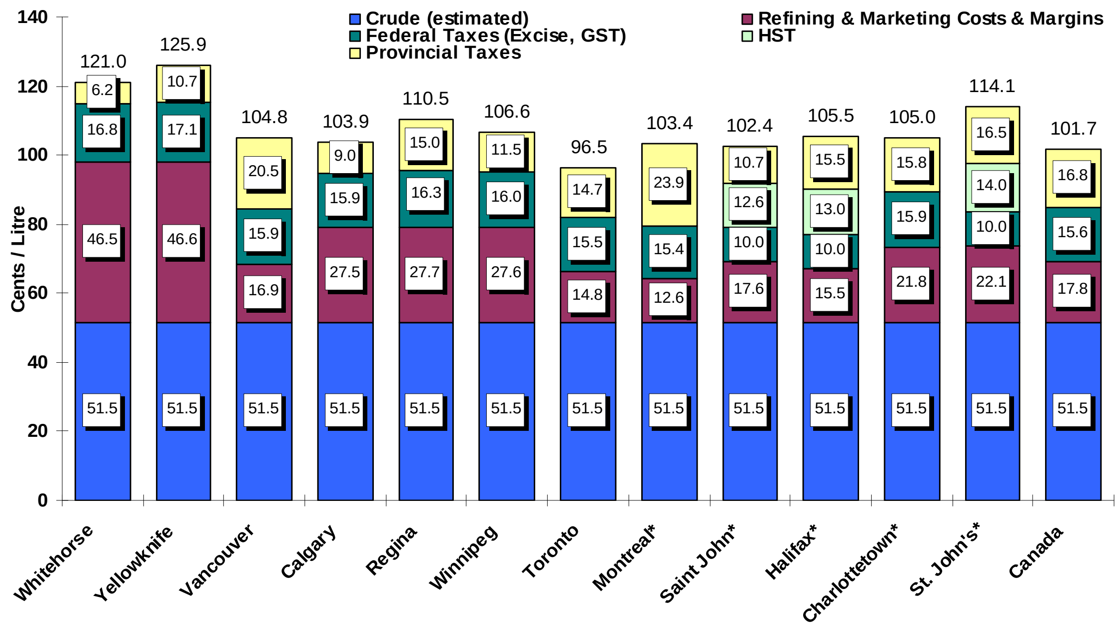
The four-week average Canadian gasoline price for the period ending August 14th was 102 cents per litre, a decrease of 4 cents per litre from the last report on August 3, 2007. This represents a decrease of 10 cents per litre from the same period in 2006.

The four-week average crude oil prices increased by nearly 1 cent per litre to almost 52 cents per litre compared to two weeks ago. However, crude oil prices are nearly 2 cents per litre lower than at the same period last year.

Retail gasoline prices, when compared to those in the last report, declined in most centres in the range of less than 2 cents per litre to almost 6 cents per litre.

Overall, the Western cities (Vancouver to Winnipeg) and Eastern cities (Toronto to St. John's) declined equally by about 4 cents per litre. The refining and marketing costs and margins component declined significantly in all centres from a low of 1 cent per litre in Whitehorse to a high of 6 cents per litre in Montreal.

Figure 3: Regular Gasoline Pump Prices in Selected Cities
4-Week Average (July 24 to August 14, 2007)



Source: NRCan ** Regulated Markets*

Gasoline Supply Allocations

When gasoline is in short supply, refiners occasionally must restrict the amount of product they supply to their customers. In the case of a severe supply and demand imbalance, such as after Hurricanes Katrina and Rita in 2005, suppliers will restrict access to supply by placing their contract customers on allocation. This means that retailers can only purchase a percentage of what they bought during the same period last year. Typically, suppliers initially begin with 100% allocations, which then decrease as supply conditions worsen. Suppliers will determine the allocation factor based on the severity of the shortage, the amount of inventory on hand and the expected duration, ensuring that there is always product to meet high priority uses such as fuel for emergency vehicles i.e. police vehicle fleet, fire trucks and ambulances.

Allocations only apply to contract customers and help ensure that limited supplies are distributed equitably across all contracts when supplies are or could be tight. Retailers without supply contracts get last dibs on gasoline and they pay a premium for any supplies that are available. This situation can result in a price inversion –where the wholesale gasoline price for volumes purchased without a contract can be higher than the prevailing retail price. This was the case for a short length of time in the post-Hurricane period in the fourth quarter of 2005.

Wholesale Gasoline Prices

Wholesale gasoline prices decreased in all selected centres for the week of August 9th, compared to the previous week. Overall, prices changes ranged from 1.4 to nearly 6.5 cents per litre.

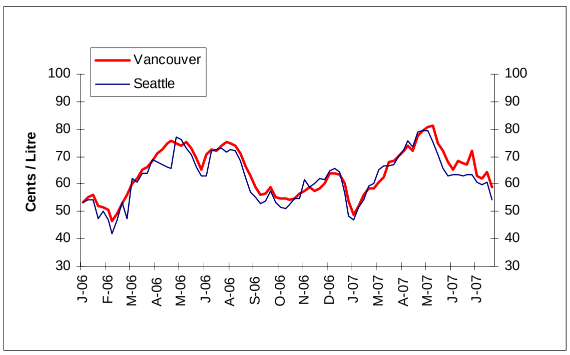
In the last two weeks prices have decreased by 1 to 5 cents per litre among Canadian and American centres. In fact, over the last four weeks, wholesale gasoline price declines ranged from 17 cents per litre in Edmonton to 8 cents per litre in Buffalo.

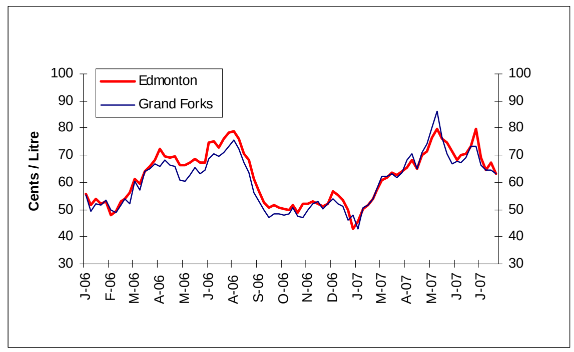
Eastern markets in both Canada and the United States have registered a price decrease in the last two weeks ranging from 2 to 4 cents per litre ending the period in the 56 to 58 cents per litre range. Western wholesale gasoline prices also declined in the range of 2 to 5 cents per litre ending on August 9th in the range of 54 to 63 cents per litre.

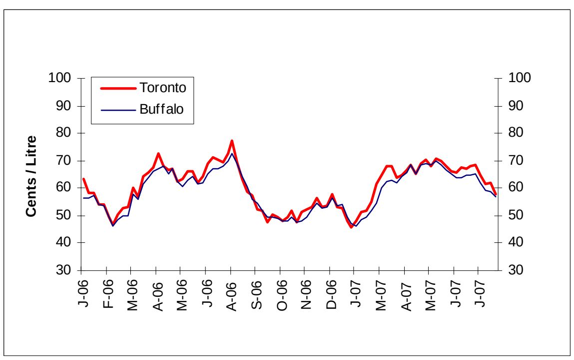
Overall, prices in all selected centres are well below last year's level. The decreases ranged from 9 to 18 cents per litre.

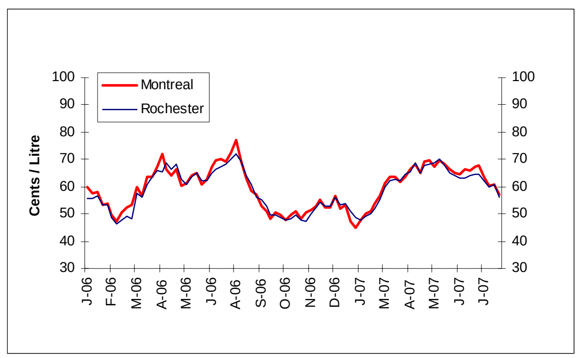
Figure 4: Wholesale Gasoline Prices

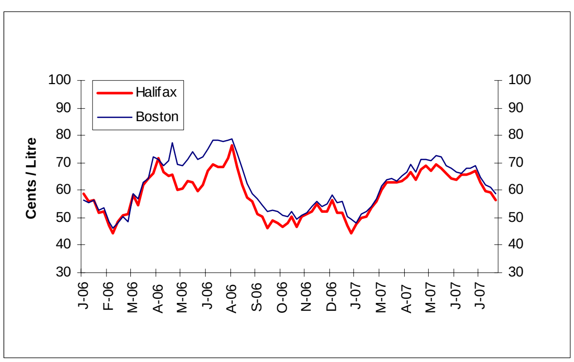
Rack Terminals Prices for Selected Canadian and American Cities on Thursday August 9, 2007











Sources: NRCan, Bloomberg Oil Buyers Guide

Would You Have the Facts?

A U.S. interactive survey conducted recently found that most American adults have a fundamental lack of knowledge regarding energy supplies and demand. For example, respondents overestimated U.S. imports from the Middle East. When asked which country was the biggest foreign supplier of oil 60% chose Saudi Arabia. The correct answer is Canada. The U.S imported 12.2 million barrels per day of crude oil and finished petroleum products in 2006, of which Canada contributed 17% or 2.1 million barrels per day (300 thousand cubic metres), compared to 12% from Saudi Arabia.

Source: Oil and Gas Journal, July 20, 2007 and U.S. DOE

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 August 7th. After rising in the first five months of the year to a high of 29 cents per litre, refining margins are now averaging around 11 cents per litre across Canada.

The downward swing in the refining margin is indicative of an increase in supplies as a result of refiners having built up sufficient gasoline inventories to meet the seasonal demand. Earlier in the year, refinery production across North America was hampered by a heavier-than-usual spring maintenance season.

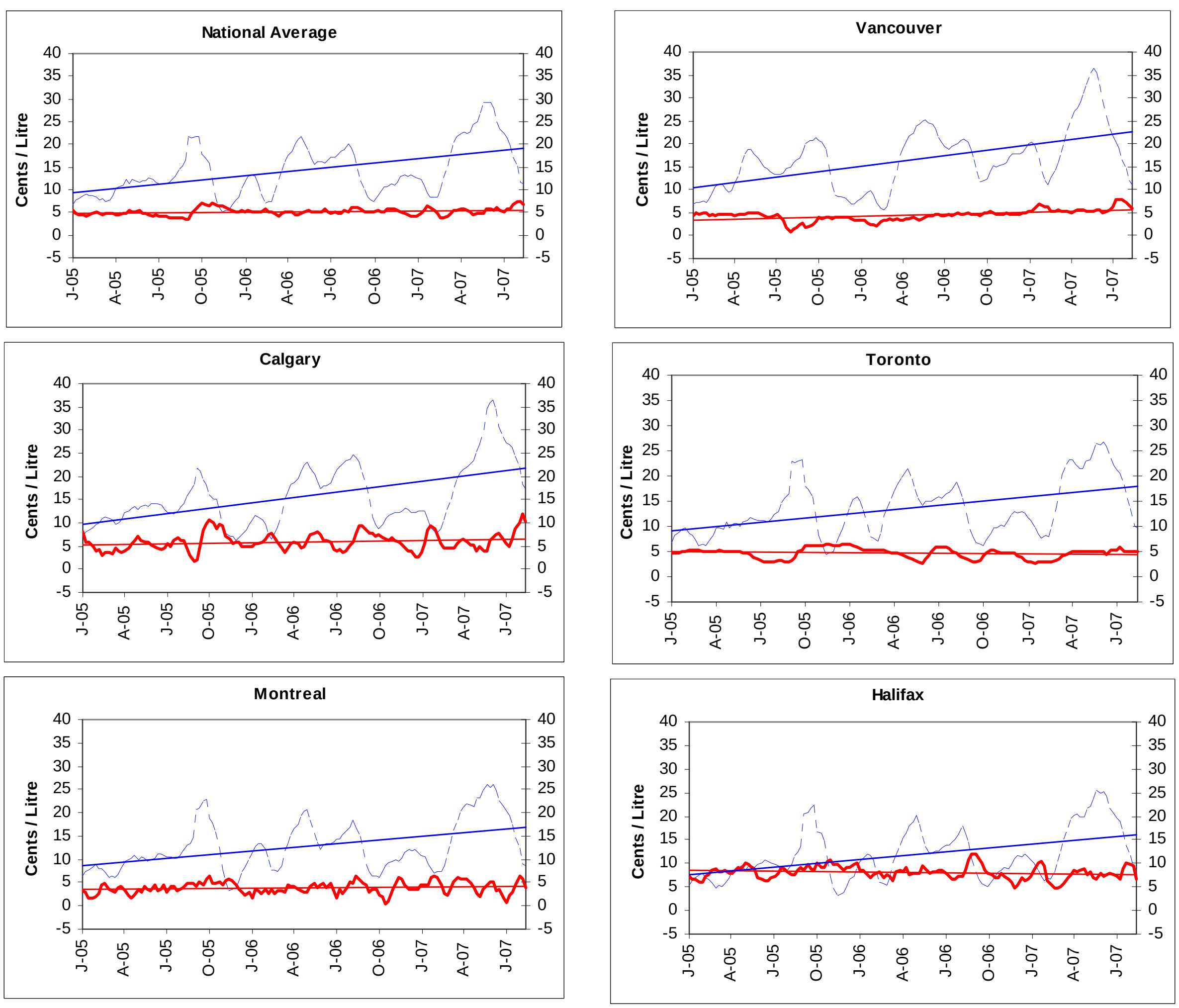
Seasonal supply constraints caused by lower product inventories, tend to put pressure on prices which in turn increases refining margins. However, as the graphs indicate, once the temporary supply constraint has passed, the refining margin also declines.

In contrast, marketing margins, on average about 5 cents per litre, have remained stable nationally as indicated by the trendline. The marketing margin is the difference between the pump price (excluding taxes) and the price paid by the retailer to purchase the gasoline. In general this margin is also expected cover all the costs associated with operating the retail outlet and include a profit.

Figure 5: Refining and Marketing Margins

Four-Week Rolling Average Ending August 7, 2007

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



Source: NRCan

Crude Oil Overview

Oil Reaches Record Highs Then Drops Sharply

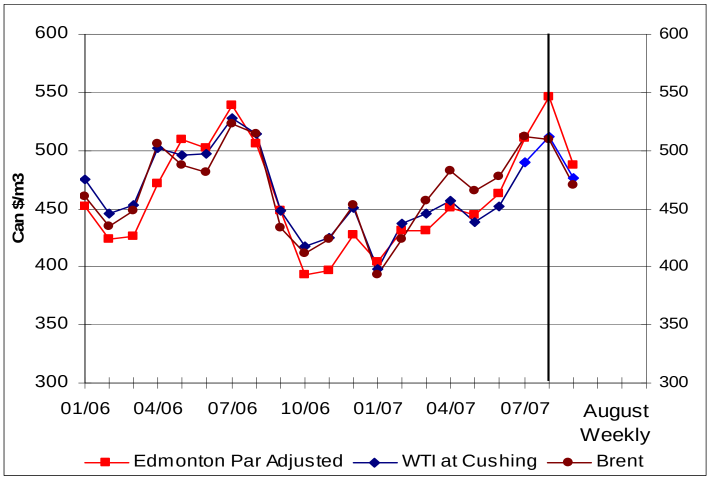
Crude oil prices ended the week of August 10th in the \$470 to \$487/m^3 range (\$US 71 to \$US 73/bbl). All crude types saw a significant decline week over week.

On Tuesday, August 1st, the price of light, sweet crude oil on the NYMEX reached a record high of \$US 78.41. This was quickly offset by news of a downturn in the U.S. economy that prompted oil traders to sell off oil futures, bringing the price of crude down by almost 10% the following week. Although prices hit record highs in U.S. dollars, due to the favourable exchange rate, Canadian refiners actually paid less in Canadian dollars for their crude oil over the last two weeks than they did during same period in 2006.

The recent decrease in the price of crude could be seen by some traders as an opportunity to buy oil futures under the belief that this is a temporary event. Any increased speculative buying could result in a price increase due to a higher demand for the paper commodity. Any news of further supply disruptions resulting from hurricanes, geopolitical problems or other events could also have a significant effect on prices.

With the summer driving season coming to a close and refiners not yet producing significant volumes of heating oil, decreased demand during the month of September should have a positive effect on the supply of crude oil and result in more stable prices.

Figure 6: Crude Oil Price Comparisons



Changes in Crude Oil Prices

Crude Oil Prices	**Week ending:** 2007-08-10		**Change from:** Previous Week		Last Year	
	$Can/ m^3	$US/ bbl	$Can/ m^3	$US/ bbl	$Can/ m^3	$US/ bbl
Edmonton Par	487.00	73.48	-58.84	-8.43	-40.15	-1.16
WTI	476.21	71.86	-35.43	-4.93	-57.77	-3.75
Brent	470.34	70.97	-39.51	-5.54	-74.46	-6.17

Source: NRCan

World Crude Oil Forecast

Continued production restraint by members of Organization of Petroleum Exporting Countries (OPEC), rising consumption, and moderate increases in non-OPEC supply are keeping oil prices firm according to the Energy Information Administration (EIA) Short-Term Energy Outlook http://www.eia.doe.gov/steo released August 7, 2007. The significantly higher crude oil prices in the last twelve months are the result of tighter world oil markets. This situation contrasts with conditions last year, when prices weakened in the second half due to slow consumption growth, rising global inventories, and the absence of hurricane-related oil supply losses.

EIA projections for 2008 also point to a tight market, with higher consumption growth in 2008 than in 2007, moderate growth in non-OPEC supply, increased demand for OPEC oil, and limited surplus production capacity, held mostly in Saudi Arabia. These tight conditions leave the market vulnerable to unexpected supply disruptions, especially as oil inventories are reduced over the coming months.

Impact of the Rising Canadian Dollar on Gasoline Prices

The following analysis examines the impact of the appreciating Canadian dollar and the benefits to Canadian gasoline consumers of the rising value of our currency. If everything else remained constant, what would gasoline prices have been, if crude oil prices were the only driver behind prices at the pump?

From January 2004 to June 2007, the price of the benchmark crude WTI has ranged from $35/bbl to nearly $71/bbl. Since crude oil is purchased in US dollars, Canadian refiners have benefited from the increased buying power resulting from the strong Canadian dollar relative to its U.S. counterpart. As observed in Figure 7, Canadian refiners would have paid approximately 10 cents per litre more for crude oil in Canadian dollars if the exchange rate had not changed. But does this imply a windfall for the Canadian refiners?

Not necessarily, since Canadian refiners must also compete with U.S. wholesale markets when they price their Canadian product. Figure 8 compares wholesale gasoline prices at New York Harbour in Canadian cents per litre at today's exchange rate and at the January 2004 rate. The analysis reveals that without the appreciation of the Canadian dollar, gasoline prices could have been as much as 14 cents per litre higher in June 2007.

Although crude costs have fallen in Canadian dollar terms, the price Canadian refiners can obtain for their product has also fallen, as Canadian wholesale prices must compete with neighbouring U.S. wholesale prices. As the Canadian dollar has appreciated, this has reduced the netback to Canadian refiners. Therefore, due to the competition in the North American gasoline market, Canadian gasoline consumers, and not the refiners, have benefited from the lower wholesale gasoline prices resulting from the stronger Canadian dollar.

Finally, Figure 9, which illustrates the difference between the crude oil cost and gasoline wholesale selling price, indicates that although refining margins have increased in the last three and half years, the appreciation in the Canadian dollar does not seem to be a significant contributor to the increase in refining margins.

Figure 7

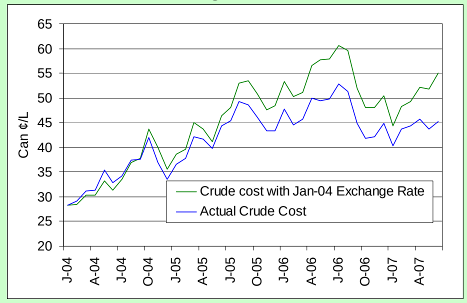


Figure 8

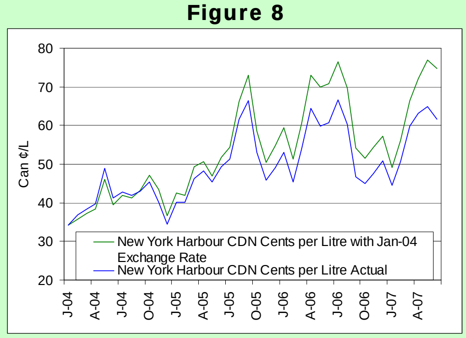


Figure 9