Fuel Focus

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National Overview

In the Last Two Weeks Canadian Retail Gasoline Prices Drop by More Than 3 ¢/L

The average Canadian retail gasoline price continues to decline, reaching $1 per litre for the week ending September 25th, down by 0.5 cent per litre from our last report and 3 cents per litre lower compared to two weeks ago. However, this represents a significant increase of 12 cents per litre from the same period last year.

Overall, Canadian consumers have reaped the benefits of the rising Canadian dollar as world crude oil prices have reached over $80 U.S. per barrel for the first time in history. While crude oil priced in U.S. dollars has increased by close to 50% since January, the price for the same crude in Canadian dollars has seen an increase of less than 30%. These savings have been passed on to the consumer in the form of less expensive refined petroleum products.

In addition, while low levels of gasoline inventories in the U.S. are still challenging, this is partly offset by lower demand for gasoline with the end of the summer driving season.

Diesel fuel prices increased less than 1 cent per litre from last week to almost 101 cents per litre, but are still more than 9 cents per litre higher than at this time last year. Furnace oil prices remained unchanged at nearly 85 cents per litre compared to the previous week, up more than 7 cents per litre from a year ago.

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

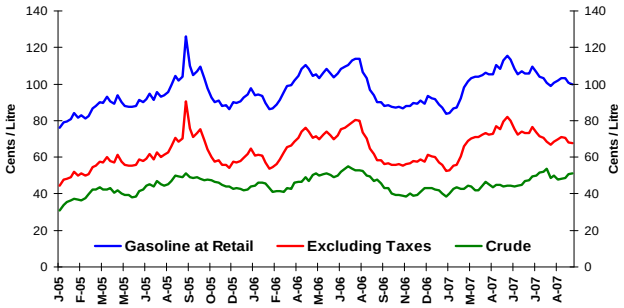
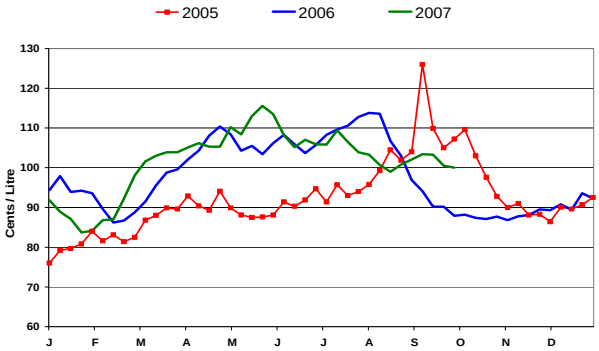


Figure 2: Weekly Regular Gasoline Prices



Changes in Fuel Prices

	Week of:	Change from:	
¢/L	2007-09-25	Previous Week	Last Year
Gasoline	100.0	-0.5	+12.1
Diesel	100.5	+0.6	+9.0
Furnace Oil	85.2	0.0	+7.3

Source: NRCan

Recent Developments

- **Refinery Proposal:** Beaver Hills Processing GP Inc. recently announced it will conduct a feasibility study for an innovative, $300 million processing facility in Alberta to refine condensate into petroleum products and petrochemical aromatics for the growing western Canadian market. The proposed facility, scheduled to be open by 2010, would have a capacity of 36,500 barrels per day and would be located near existing distribution infrastructure outside Edmonton.
- **Gasoline Consumption Increased in the First Six Months:** Canadians consumed 24 billion litres of gasoline in the first six months of 2007 - 3% more than the same period last year. In that same period, diesel fuel sales increased 5% to 16 billion litres while furnace oil rose 11% to 2.8 billion litres. (Statistics Canada, The Daily, September 7, 2007)
- **Federal Trade Commission (FTC) Releases Report:** The U.S. FTC Anti-Trust Division released a report explaining the national average gasoline price increase during the spring and summer of 2006. The findings point to market factors and damages from the hurricanes as the principle reasons for increases in the national average retail price for gasoline. Prices were higher in Canada for similar reasons, given our closely linked markets. For a copy of the report, consult this website: http://www.ftc.gov/opa/2007/08/gasprice.shtm

In this Issue

Fuel Focus Supplement:

Diesel fuel is emerging as the fastest growing petroleum product. Find out more on the differences in retail gasoline and diesel prices.

Retail Gasoline Overview

The four-week average Canadian gasoline price for the period ending September 25th was nearly 102 cents per litre, a decrease of almost 1 cent per litre from the last report on September 14th, 2007. This represents an increase of 11 cents per litre from the same period in 2006.

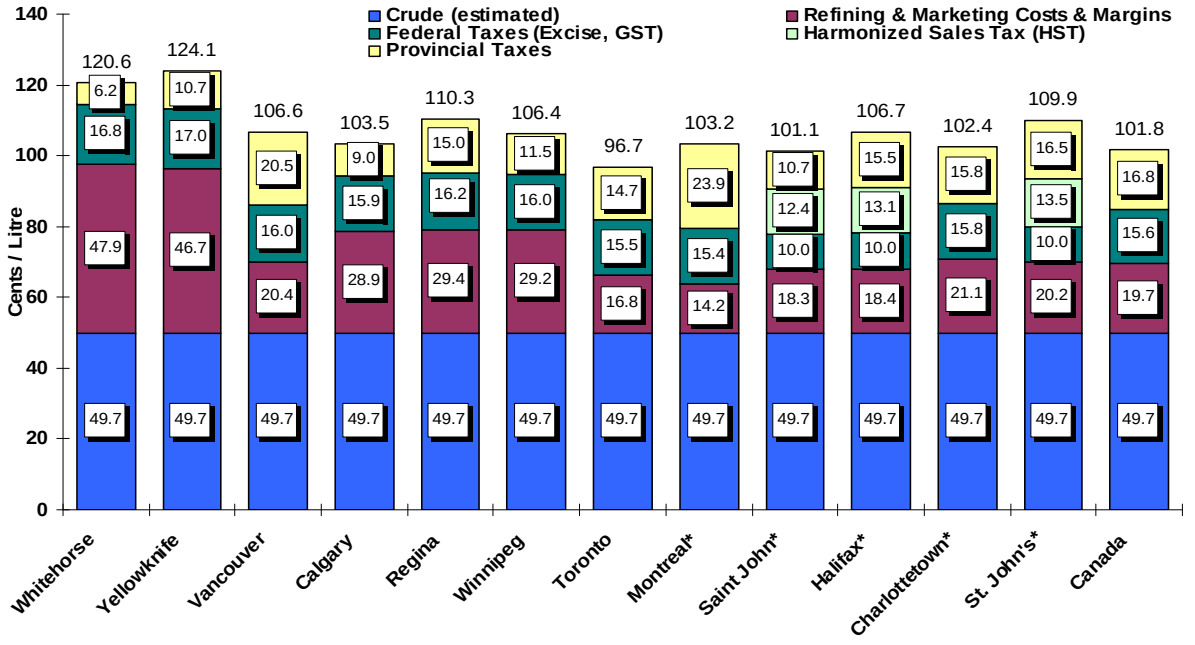
The four-week average crude oil prices increased by 1 cent per litre to almost 50 cents per litre compared to two weeks ago. However, crude oil prices are nearly 7 cents per litre higher than at the same period last year.

Retail gasoline prices for Eastern markets ranged between an increase of slightly more than 1 cent per litre (Charlottetown) to a decline of nearly 4 cents per litre (Montreal).

Prices in Western centres ranged from a decline of almost 1 cent per litre (Calgary) to an increase of 0.5 cent per litre (Winnipeg).

Overall refining and marketing costs and margins declined almost 2 cents per litre with the largest drop registered in Montreal at 4 cents per litre from two weeks ago.

Figure 3: Regular Gasoline Pump Prices in Selected Cities
4-Week Average (September 4 to 25, 2007)



Source: NRCan

** Regulated Markets*

Retail Gasoline Price Drivers

Gasoline prices can be difficult to understand because they do not behave like the prices of many of the other goods that consumers buy every week. Gasoline is a commodity, like gold or pork bellies, and its wholesale price reacts to a number of factors. The most obvious ones are supply and demand. When there is more demand (in summer when everyone drives more), there is more pressure to ensure that there is sufficient supply to meet demand, so the price goes up. When there is less demand, such as during the winter months, supply and demand are better balanced and prices are generally lower. Over the longer term, demand has been growing each year as drivers choose bigger and bigger vehicles and drive greater distances. This puts pressure on the supply and can also lead to higher prices.

The factor that has the greatest influence on gasoline prices over the longer term is the cost of crude oil, the raw material from which gasoline is made. The supply and demand for crude oil are balanced in a worldwide market, so that refiners around the world pay the world price for oil. When concerns occur over possible supply disruptions, some buyers will be willing to pay more for oil to ensure they have adequate supply for their refineries. This pushes up the price for everyone.

Wholesale Gasoline Prices

Wholesale gasoline prices declined in six of the ten selected centres for the week of September 20th, compared to the previous week. Overall, price declines ranged from less than 1 to nearly 2 cents per litre while price increases ranged also from less than 1 to almost 2 cents per litre among the Canadian and American centres.

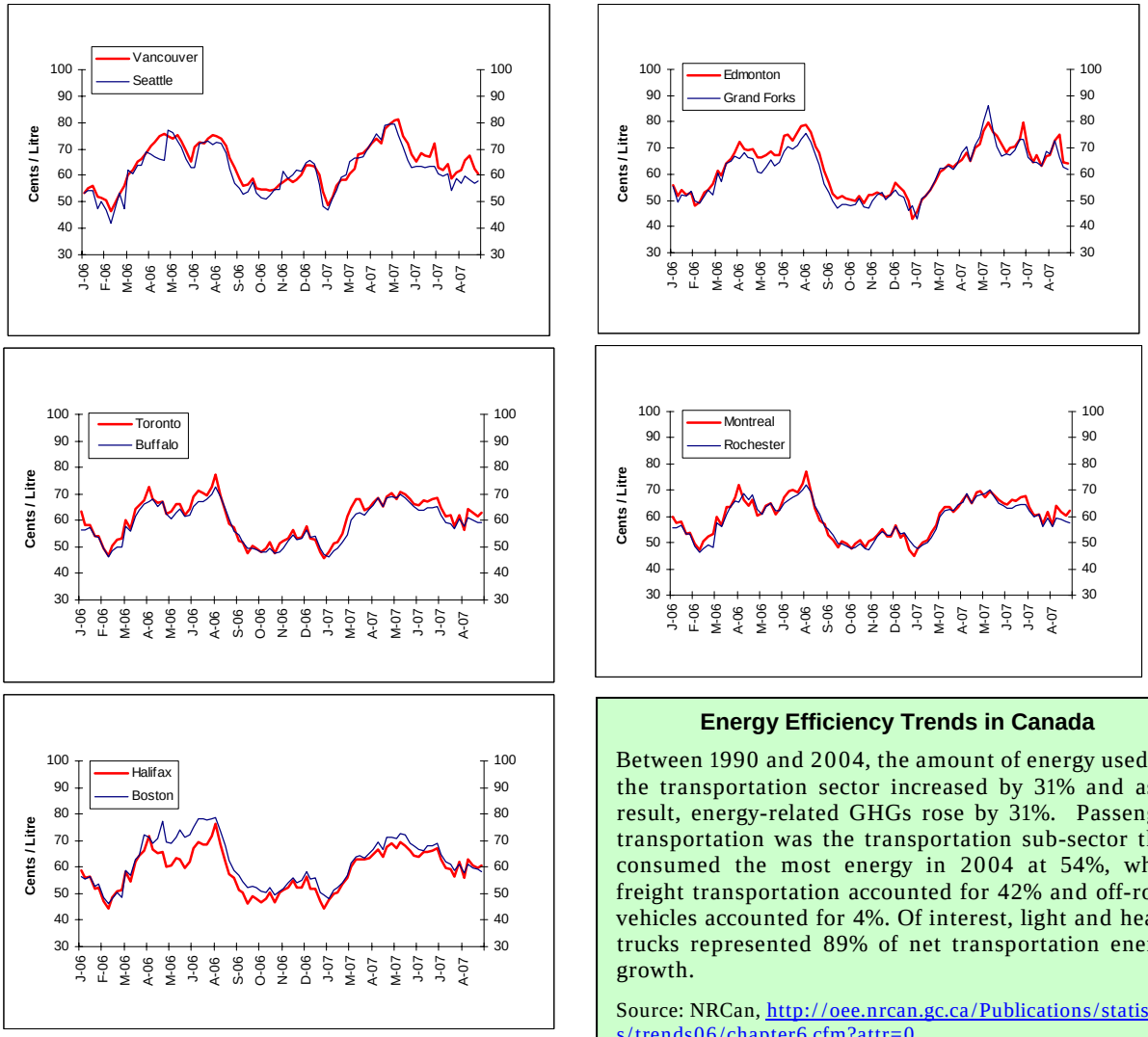
In the last two weeks prices decreased from less than 1 cent per litre (Halifax) to 11 cents per litre (Edmonton) in most centres. The downward movement in gasoline prices reflects the decline in demand with the end of the summer driving season and the significant gasoline imports in the U.S. partly offsetting the slow build in U.S. inventories. These, in turn, put downward pressure on Canadian wholesale gasoline prices.

Wholesale gasoline prices fluctuated in Eastern markets in both countries from an increase of almost 2 cents per litre in Montreal to a decline of more than 1 cent per litre in Boston compared to the previous week of September 13th. All Eastern centres ended the period in the range of 58 to 63 cents per litre.

Prices in Western centres dropped in the range of less than 1 to nearly 2 cents per litre from the previous week, except for Seattle registering a slight increase of nearly 1 cent per litre. Overall, prices are between 4 (Seattle) to 16 cents per litre (Toronto) higher than they were during the same period last year.

Figure 4: Wholesale Gasoline Prices

Rack Terminals Prices for Selected Canadian and American Cities on Thursday September 20, 2007



Sources: NRCan, Bloomberg Oil Buyers Guide

Energy Efficiency Trends in Canada

Between 1990 and 2004, the amount of energy used by the transportation sector increased by 31% and as a result, energy-related GHGs rose by 31%. Passenger transportation was the transportation sub-sector that consumed the most energy in 2004 at 54%, while freight transportation accounted for 42% and off-road vehicles accounted for 4%. Of interest, light and heavy trucks represented 89% of net transportation energy growth.

Source: NRCan, http://oee.nrcan.gc.ca/Publications/statistics/trends06/chapter6.cfm?attr=0

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 September 25th.

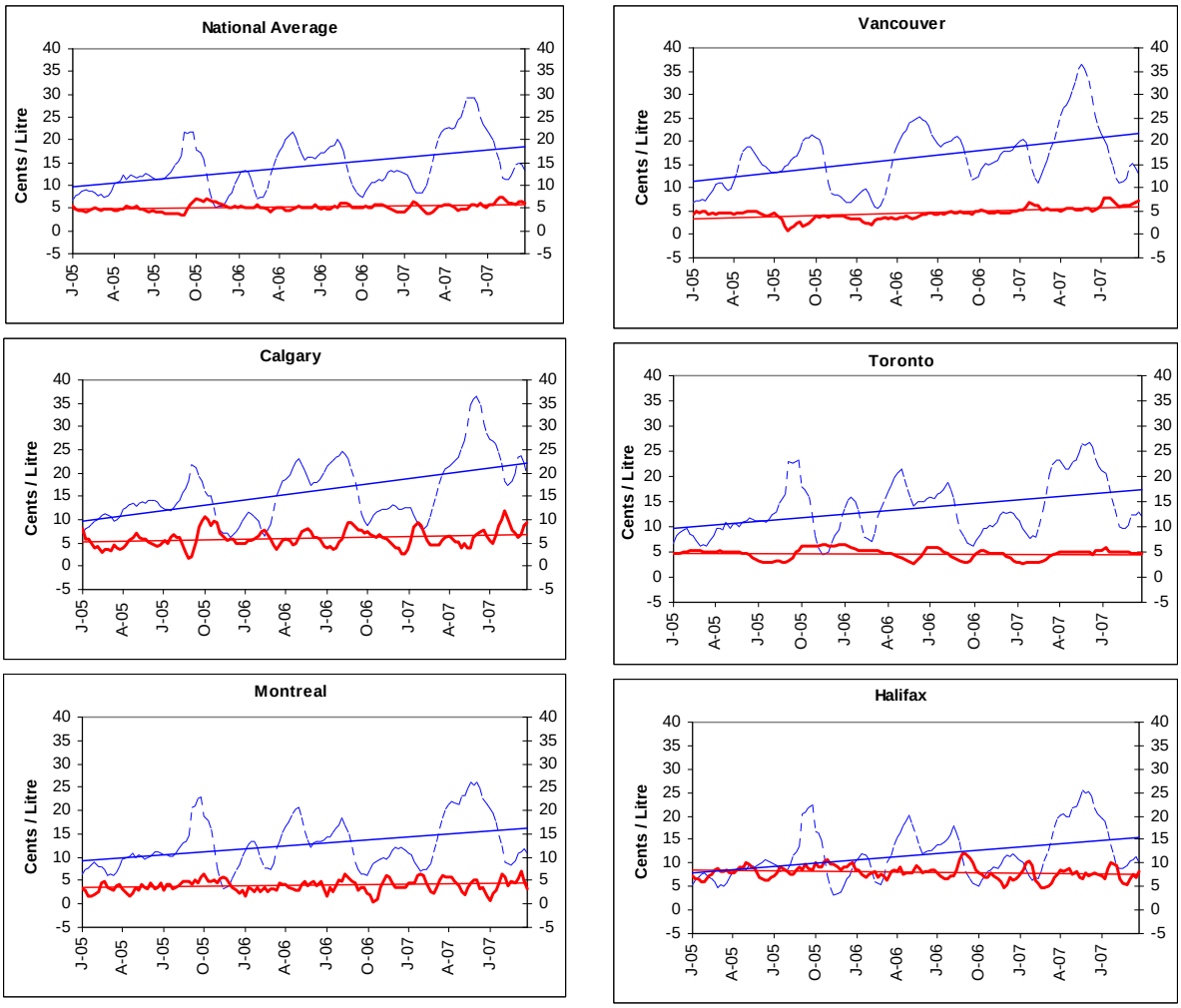
Refining margins, defined as the difference between the posted rack (wholesale) price of gasoline and the crude oil price, are indicative of the gasoline supply situation and other local market conditions. In turn, the local market conditions can have a considerable impact on short-term wholesale prices.

However, some refinery turnarounds now underway have reduced refinery utilization rates which tend to firm up refining margins. This is partly offset by lower demand for gasoline with the end of the summer driving season.

Overall, marketing margins remain much less volatile than refining margins and fluctuate over a much narrower range. This margin has fluctuated around 5 cents per litre over the last three years.

Although this margin represents the smallest component of the retail price, it is expected to cover all the costs associated with the operating a service station.

Figure 5: Refining and Marketing Margins
Four-Week Rolling Average Ending September 25, 2007
Refining Margin — Marketing Margin



Source: NRCan

Crude Oil Overview

Crude Oil Prices Rise Above $513 Per Cubic Metre (US$80 per barrel)

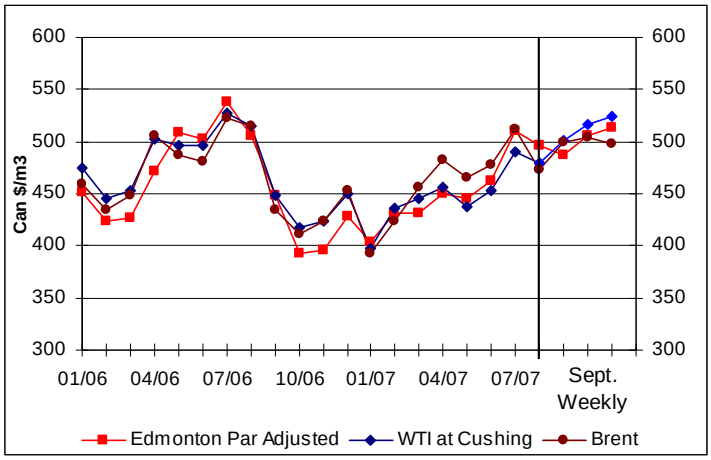
For the week ending September 21st, crude oil prices averaged between $499 and $524/m^3 (US$78.16 to US$82.15 per barrel). All prices except Brent were up from the previous week. All prices increased significantly from last year. WTI experienced the largest gain with an increase of almost $91/m^3 over the same period last year.

On September 21st, the spot (market) price for WTI reached over US$83 per barrel for the first time in history. This was triggered mainly by the devaluation of the U.S. dollar in response to the recent sub-prime mortgage crisis in that country.

Although international prices have increased dramatically, Canadian refiners have been shielded by a strong Canadian dollar. While crude oil priced in U.S. dollars has increased by close to 50% since January, the price for the same crude in Canadian dollars has seen an increase of less than 30%. These savings have been passed on to the consumer in the form of less expensive refined petroleum products. (For more information on the impact of the rising Canadian dollar on gasoline prices, please see the Fuel Focus report Issue 16 of August 17, 2007 http://fuelfocus.nrcan.gc.ca/issues/2007-08-17/supplement_e.cfm).

A further drop in U.S. crude or product inventories, increased hurricane activity or increased geopolitical tension in oil producing countries could keep prices at their current levels.

Figure 6: Crude Oil Price Comparisons



Changes in Crude Oil Prices

Crude Oil Prices	Week ending: 2007-09-21		Change from:			
			Previous Week		Last Year	
	$Can/m^3	$US/bbl	$Can/m^3	$US/bbl	$Can/m^3	$US/bbl
Edmonton Par	513.35	80.47	+8.20	+3.16	+80.40	+19.07
WTI	524.04	82.15	+8.07	+3.19	+90.95	+20.73
Brent	498.64	78.16	-5.62	+0.99	+71.99	+17.65

Source: NRCan

Heavy Fuel Oil Consumption in Canada

According to a Statistics Canada study, heavy fuel oil, while not one of the main energy sources nationally, is still an important fuel source for some industries in Canada.

Canada's thirst for energy continues unabated into the 21st Century. Despite growing concerns about greenhouse gas emissions, as well as climate change and air quality, petroleum products remain key to satisfying that demand. These petroleum products include heavy fuel oil, a highly polluting low-grade fuel of tar-like consistency. In fact, no significant shift from the combustion of hydrocarbons toward more benign and renewable energy sources, such as hydro-electricity, has occurred during the past 15 years.

However, some progress has been made in the case of heavy fuel oil. There has been a small decline in its overall use as an energy source. By far, the pulp and paper industry has been most instrumental in reducing the use of heavy fuel oil. Between 1990 and 2005, the industry cut its consumption by more than half. In contrast, electric utility companies in Atlantic Canada have shown a persistent dependence on heavy fuel oil during the last 15 years, burning it to generate electricity. Heavy fuel oil in marine transportation also remained strong during the last 15 years with more than half of the sales occurring in British Columbia.

Source: *Heavy Oil Consumption in Canada* http://www.statcan.ca/english/research/11-621-MIE/11-621-MIE2007062.htm

Understanding Differences in Retail Gasoline and Diesel Prices

Traditionally, gasoline prices rose above diesel prices during the spring and summer months. However, in 2005, this relationship was reversed, reflecting diesel fuel's emergence as the fastest growing petroleum product. In the last two years the relationship has become less predictable.

Various supply and demand factors as well as the market structures are distinct for each product. For instance, gasoline demand is driven primarily by the retail market. Diesel demand is primarily in the commercial, industrial and agricultural sectors, with only 15 percent of consumption at the retail level. Strong economic growth is driving the consumption of diesel, primarily through the transportation and construction sectors. This has led to higher annual growth in diesel fuel demand compared to a more moderate growth in gasoline demand.

At the wholesale level, the difference between gasoline and diesel prices has been negligible over the past five years, indicating that the fundamental cost structure of the two products is quite comparable although the price of gasoline follows more seasonal trends (Figure 1). Retailers who sell diesel face greater distribution costs and lower sales volumes than they do selling gasoline.

Figure 1: Canadian Wholesale Gasoline and Diesel Prices (January 2002 to September 2007)

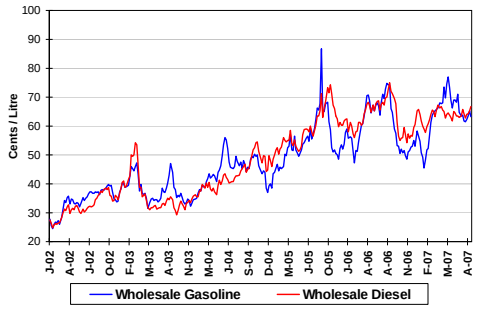
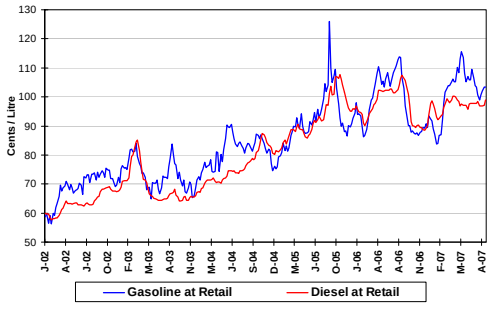


Figure 2: Canadian Retail Gasoline and Diesel Prices (January 2002 to September 2007)



At the retail level, federal excise taxes partially offset diesel's higher marketing costs. Each litre of retail gasoline sold in Canada is subject to a 10 cent federal excise tax; the excise tax on diesel is only 4 cents per litre (Figure 2).

This year, in spite of strong demand for diesel, gasoline prices once again rose above diesel for most of the summer months, reflecting stronger gasoline demand and longer than normal spring refinery shutdowns for maintenance. These all led to gasoline inventory draws and were reflected in very high gasoline prices and margins.

With U.S. gasoline inventories still well below five-year ranges and diesel stocks in the upper portion of the five-year band, gasoline prices will continue to be vulnerable to upward pressure and draw a premium over diesel prices for a longer than normal period of time this year.