



## National Overview

### After a 5 Week Decline Retail Gasoline Prices Increase Marginally

The average Canadian retail gasoline price increased marginally to 84 cents per litre for the week ending January 30, up 0.4 cent per litre from the previous week, ending a five week decline where prices dropped almost 10 cents per litre. The recent upward movement in retail gasoline prices is mainly due to the rise in wholesale gasoline prices and the slight rebound in crude oil prices. Interestingly, retail gasoline prices are almost at the same level as in 2005 at the similar period.

Diesel fuel prices declined 1 cent per litre from last week to 92 cents per litre. Since January 2, 2007, prices have dropped by almost 7 cents per litre. Furnace oil prices remained unchanged at 80 cents per litre and were nearly 3 cents per litre lower than at the beginning of the year and 5 cents per litre lower than a year ago.

## Recent Developments

- On January 22, 2007, Statistics Canada reported that in the first eleven months of 2006, Canadians consumed 37.5 billion litres of gasoline, a level almost unchanged compared to the same period last year. Furnace oil sales declined significantly by 10% to 3.6 billion litres mainly due to a milder winter in 2006, while diesel fuel oil remained leveled at 24.4 billion litres in sales.

[www.statcan.ca/Daily/English/070122/d070122b.htm](http://www.statcan.ca/Daily/English/070122/d070122b.htm)

- On January 24, 2007, Irving Oil initiated the process to obtain regulatory approval to build a second refinery in Saint John, New Brunswick, with a capacity of up to 300,000 barrels per day. The facility would be constructed near the existing Irving Canaport deepwater crude receiving terminal in the Red Head area of Saint John [www.irvingoil.com](http://www.irvingoil.com)
- On February 1, 2007, Prince Edward Island's retail gasoline tax rate decreased 0.7 cents per litre to 19.7 cents a litre while diesel taxes declined 0.5 cents per litre to 19.5 cents a litre. Further information is available at: <http://www.gov.pe.ca/pt/taxandland/>

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

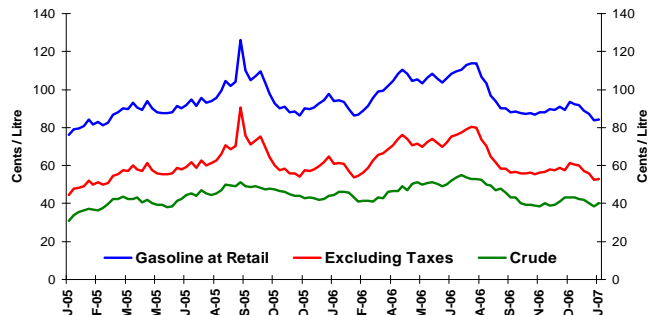


Figure 2: Weekly Regular Gasoline Prices

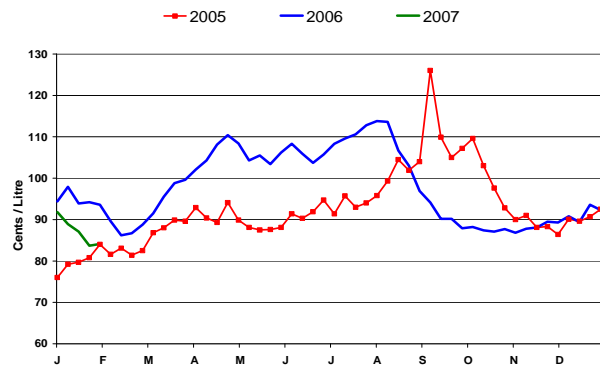


Table 1: Changes in Fuel Prices

| ¢/L         | Week of:   | Change from:  |           |
|-------------|------------|---------------|-----------|
|             | 2007-01-30 | Previous Week | Last Year |
| Gasoline    | 84.1       | +0.4          | -9.5      |
| Diesel      | 92.0       | -1.0          | -2.6      |
| Furnace Oil | 79.5       | -0.3          | -4.8      |

Source: NRCan

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**Supplement** - In 2006 world crude oil sold at levels never before experienced by oil consumers. Or did they? This week's Supplement offers a different perspective on historical crude oil prices when prices are adjusted for inflation.





## Retail Gasoline Overview

For the four-week period ending January 30, 2007, the average gasoline pump price in selected cities across Canada was 86 cents per litre, a decrease of 4 cent per litre from the last report on January 19, 2007. This is 9 cents per litre lower than at the same period in 2006.

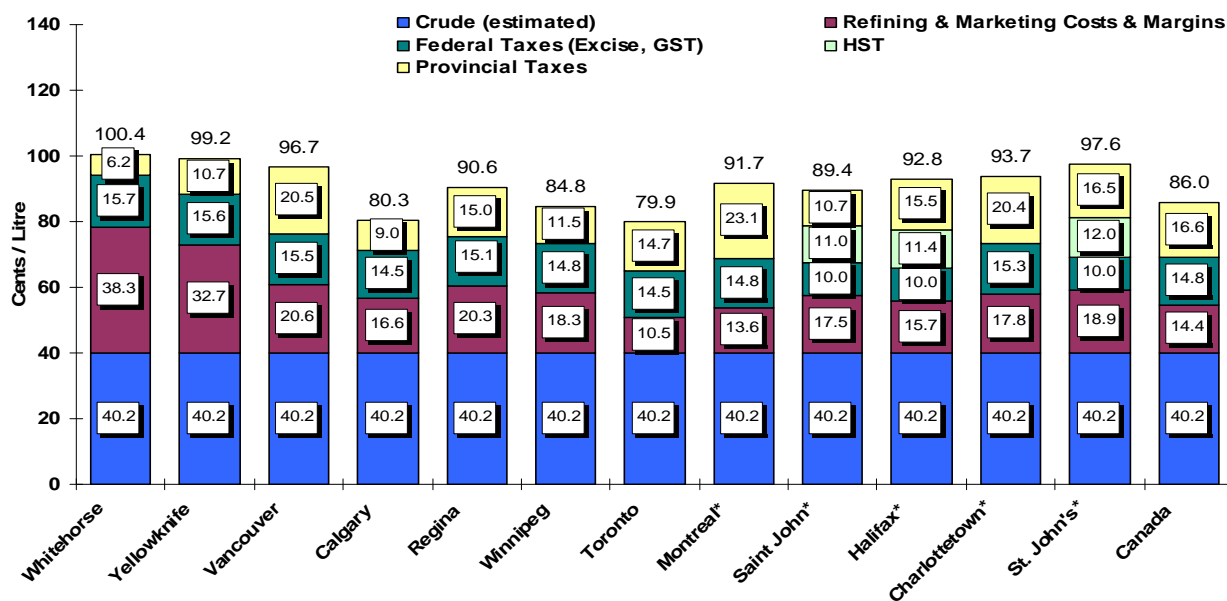
The four-week average crude oil price registered slightly higher than 40 cents per litre, nearly 2 cent per litre lower than our last report, and 5 cents per litre lower than the same period last year.

The gasoline refining and marketing costs and margins component, for the period under review in Figure 3, accounted for about 14 cents per litre of the total pump

price, a decrease of 2.2 cent per litre from the last report. All centres, with the exception of Montreal and Whitehorse, showed a decline in refining and marketing costs and margins.

Retail gasoline prices, when compared to those in the last report, declined in the range of 4 to 7 cents per litre in Western cities where gasoline supplies have remained tight for a long period of time, with the largest decrease in Vancouver (7 cents per litre). The price drop in the Eastern cities was of a lesser magnitude ranging from 2 to 5 cents per litre.

Figure 3: Regular Gasoline Pump Prices in Selected Cities  
4-Week Average (January 9 to January 30, 2007)



Source: NRCan

\* Regulated Markets

### Inflation Rise 2% in 2006

Statistics Canada's Consumer Price Index (CPI) report released January 23, 2007, [www.statcan.ca/english/Subjects/Cpi/cpi-en.htm](http://www.statcan.ca/english/Subjects/Cpi/cpi-en.htm) indicates that the inflation rate rose 1.6% in December, from 1.4% in November, which is below the average gain of 2% in the all-items CPI for 2006. Drivers paid slightly more for gasoline, although this rise was partly offset by another decline in natural gas prices caused by the unseasonably warm winter.

The December upturn was due mainly to the second consecutive 8.2% monthly increase in the homeowners' replacement cost. Since August 2006, this index has posted increases of over 8%. The increase in homeowner replacement costs was driven by the rising demand for new homes. Most of the increase is primarily attributable to the strong increase in residential construction in the western provinces, and in Alberta in particular, where the economic boom is continuing and the replacement costs rose 43%. Price increases elsewhere, although more modest, rose 10% in Saskatchewan and 6.8% in Manitoba.





## Wholesale Gasoline Prices

After a downward trend of nearly six weeks, wholesale gasoline prices rebounded in some selected centres for the week of January 25, 2007. This upward movement was partly caused by the slightly higher crude oil prices for the week ending January 26, 2007.

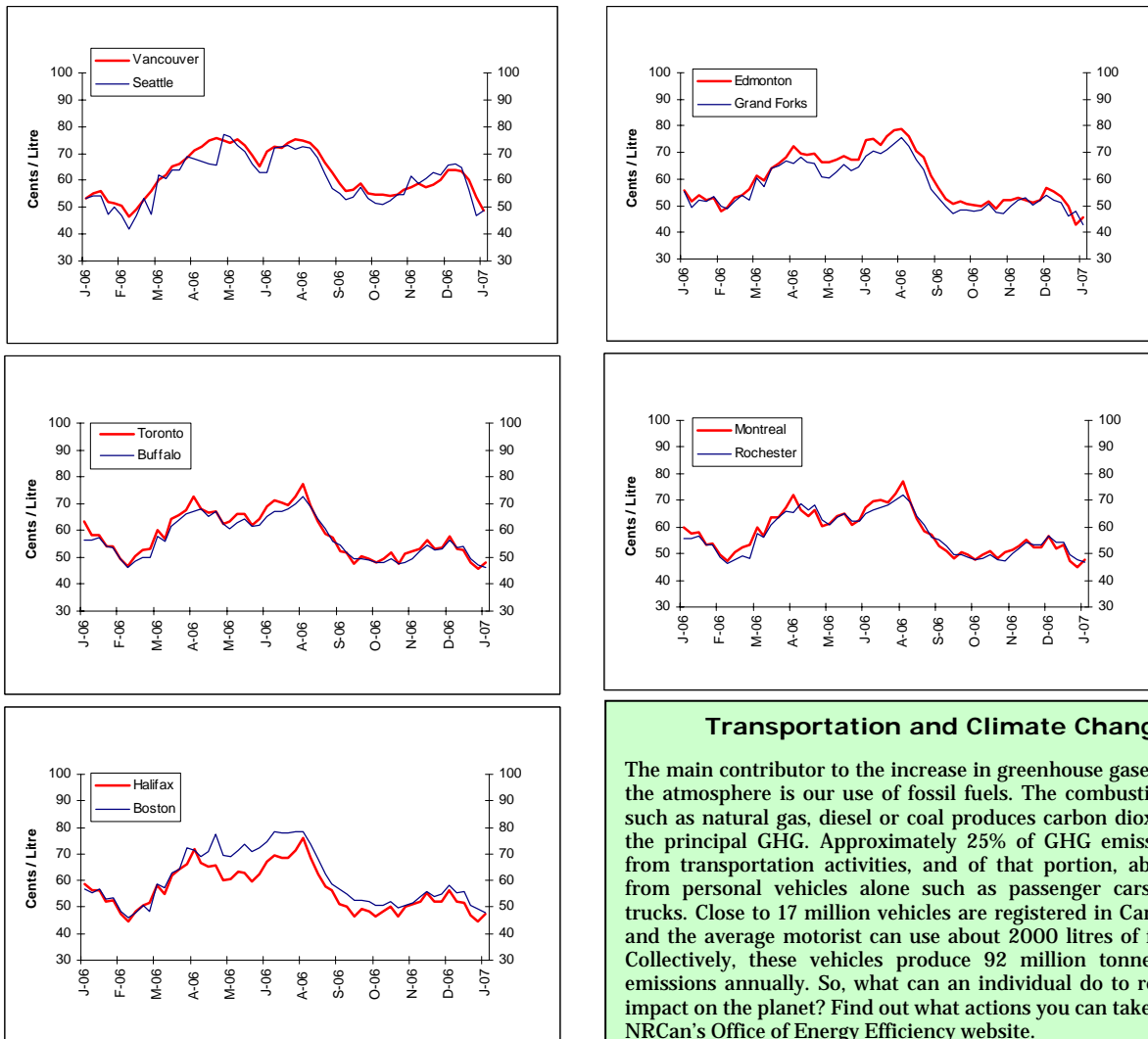
In the previous six weeks wholesale gasoline prices had declined in the range of 9 to 17 cents per litre in both Canadian and American centres. However, on January 25, Canadian and American wholesale gasoline prices reversed the trend in selected centres (Vancouver, Seattle, Toronto, Halifax, Edmonton, and Rochester)

with some registering price increases ranging from 2 to 3 cents per litre.

The wholesale gasoline price differential between Halifax and Boston which had been nearly 4 cents per litre in the previous four weeks narrowed for the week ending January 25<sup>th</sup> with both centres registering about 47 cents per litre.

All the centres reported lower prices in the range of 3 to 9 cents per litre compared to last year at this time, except for Seattle, where prices stood at slightly more than 1 cent per litre higher.

**Figure 4: Wholesale Gasoline Prices (Weekly Average)**  
Rack Terminals Prices for Selected Cities ending January 25<sup>th</sup> (Can ¢/L)



Sources: NRCan, Bloomberg

### Transportation and Climate Change

The main contributor to the increase in greenhouse gases (GHG) in the atmosphere is our use of fossil fuels. The combustion of fuels such as natural gas, diesel or coal produces carbon dioxide (CO<sub>2</sub>), the principal GHG. Approximately 25% of GHG emissions come from transportation activities, and of that portion, about half is from personal vehicles alone such as passenger cars and light trucks. Close to 17 million vehicles are registered in Canada today, and the average motorist can use about 2000 litres of fuel a year. Collectively, these vehicles produce 92 million tonnes of GHG emissions annually. So, what can an individual do to reduce their impact on the planet? Find out what actions you can take by visiting NRCan's Office of Energy Efficiency website.

<http://oee.nrcan.gc.ca/communities-government/climate-change.cfm?attr=8>





## Refining and Marketing Margins

In this section we are focusing on the four-week average refining and marketing margins as opposed to the weekly average wholesale gasoline prices. As illustrated in Figure 5, the four-week rolling average refining margins for gasoline have been declining since December 2006. These reductions reflect the fact that average wholesale prices in January have declined more significantly than crude oil prices.

In general, gasoline markets are well supplied. However, there have been some temporary restrictions in supply due to: maintenance operations being performed at a number of refineries; start-up delays

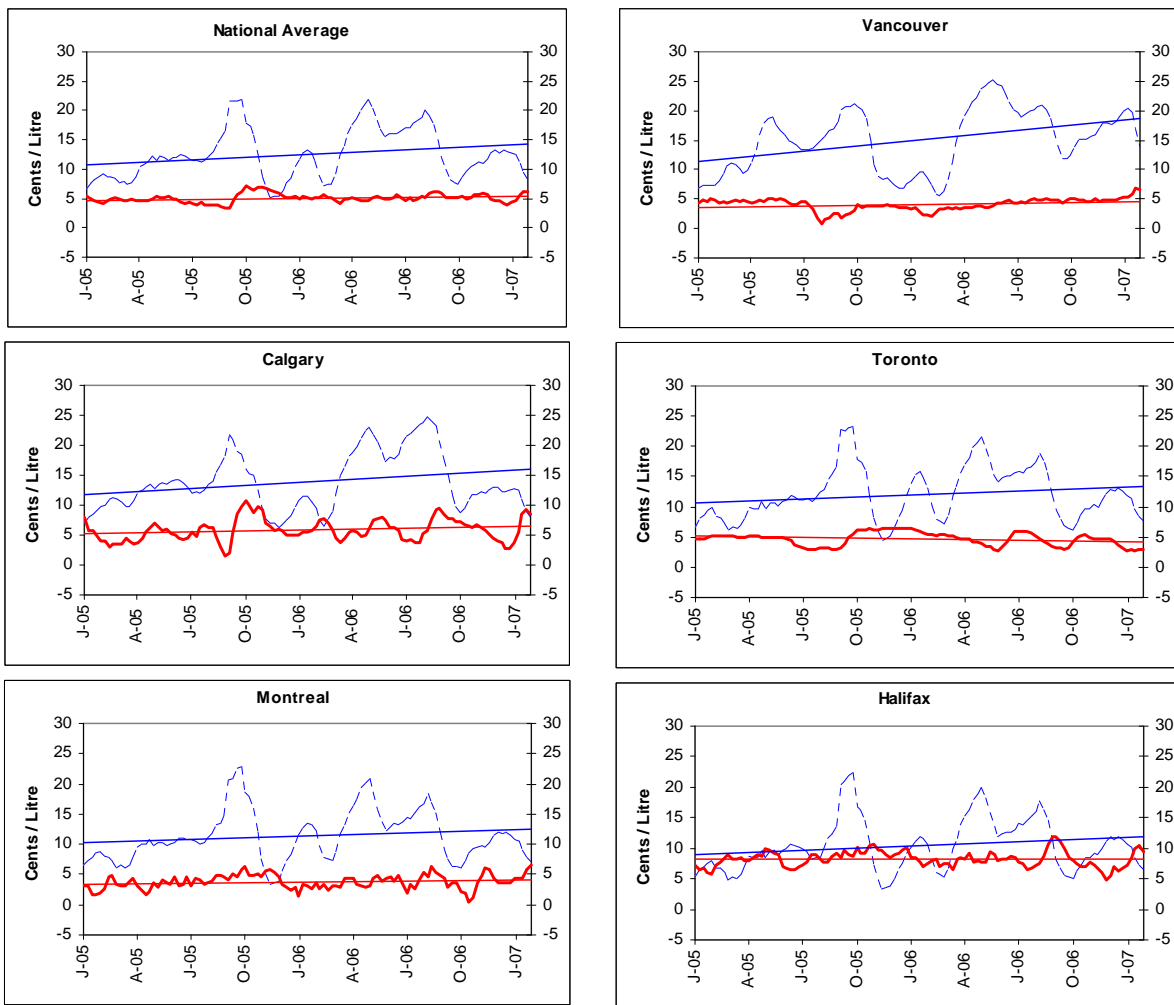
following unplanned shutdowns, for example, the Sarnia (Ontario), Strathcona (Edmonton) refinery and Syncrude's Fort McMurray upgrader, as Suncor's also reduced production output at its Fort McMurray oilsands facility following a fire in one of the Upgrader's diluent recovery units.

Conversely, marketing margins across Canada have trended upward, on average, to almost 6 cents per litre. Marketing margins, which are the difference between pump prices excluding taxes and rack prices, indicate that the reduction in wholesale gasoline prices since early January have not been fully reflected at the pump in some centres, in part because of the above situations causing tight markets.

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

----- Refining Margin

—— Marketing Margin



Source: NRCan





## Crude Oil Overview

### World Crude Oil Prices Rising Partly Over Geopolitical Concerns

For the week ending January 26, 2007, the average crude oil prices ranged from \$399 to \$406/m<sup>3</sup> (\$63.8 to \$64.5 Can/bbl) up \$17 to \$28/m<sup>3</sup> (\$3 to \$4 Can/bbl) from the previous week. Since January 2006, WTI declined, \$85/m<sup>3</sup> (\$13 Can/bbl) while Edmonton Par declined by nearly \$57/m<sup>3</sup> (\$9 Can/bbl).

World crude oil prices moved upward pushed by concerns over the reemergence of geopolitical issues with respect to Iran's continued nuclear activities and Nigeria's continued violence, all of which have the potential to cause disturbances in the oil market.

In the case of Iran, the fear is that a dispute could lead to the country cutting off its daily oil exports, thereby compromising OPEC's oil spare capacity and result in a resource shortage around the world.

Another consideration is the market reaction to the announcement made by the U.S. Secretary of Energy at the State of the Union address on January 23, to double the amount of the U.S. Strategic Petroleum Reserve to 1.5 billion barrels by 2027. Although the added reserves would be built over a 20 year period, the increased oil demand could potentially push crude oil prices upwards.

Furthermore, the recent cold weather has increased the demand for heating oil, particularly the U.S. Northeast the largest heating oil consuming region, resulting in higher demand for crude oil which in turn pushed up oil prices.

Figure 6: Crude Oil Price Comparisons

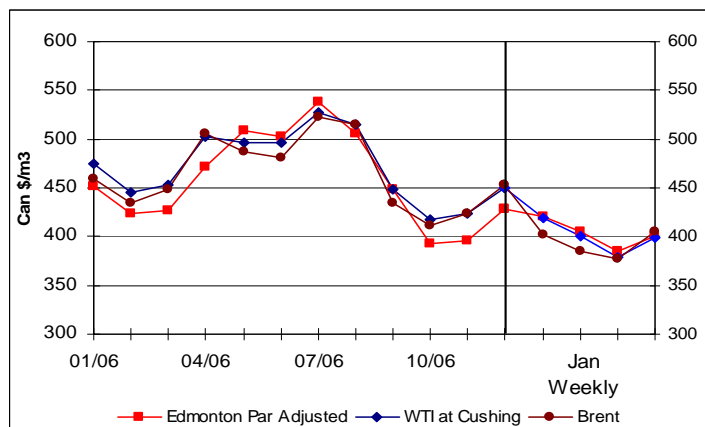


Table 2: Changes in Crude Oil

| Crude Oil Prices (\$Can) | Week ending: 2007-01-26 |        | Change from:      |        |                   |        |
|--------------------------|-------------------------|--------|-------------------|--------|-------------------|--------|
|                          |                         |        | Previous Week     |        | Last Year         |        |
|                          | \$/m <sup>3</sup>       | \$/bbl | \$/m <sup>3</sup> | \$/bbl | \$/m <sup>3</sup> | \$/bbl |
| Edmonton Par             | 401.15                  | 63.78  | 16.85             | 2.68   | -57.44            | -9.13  |
| WTI                      | 398.72                  | 63.39  | 20.46             | 3.25   | -84.63            | -13.45 |
| Brent                    | 405.69                  | 64.50  | 28.42             | 4.52   | -60.22            | -9.57  |

Source: NRCan





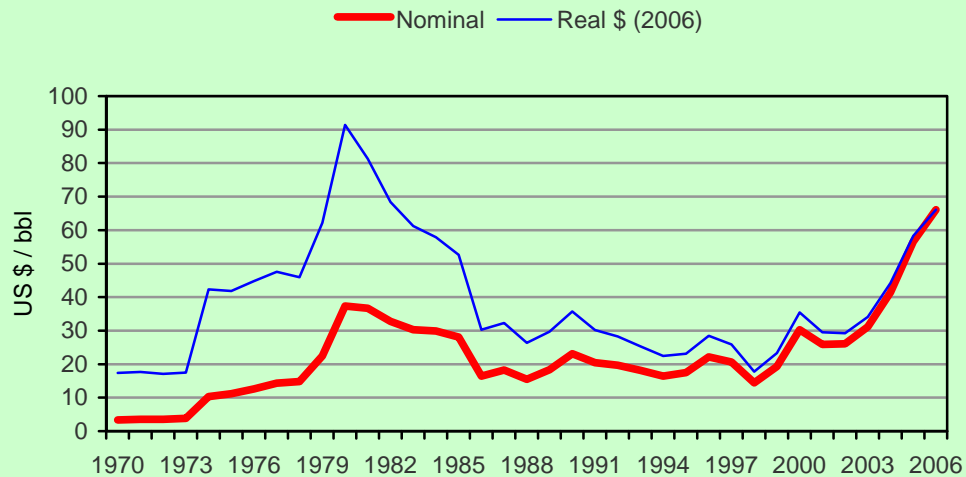
## Historical Crude Oil Prices

In 2006 world crude oil sold at levels never before experienced by oil consumers. Or did they? In July 2006, the price of West Texas Intermediate (WTI) crude oil, the North American benchmark, reached \$74 US/bbl, the highest price ever recorded. Over the year, WTI prices averaged about \$US 66/bbl, by far the highest annual average on record.

However, these prices do not take into consideration inflation and the value of the dollar over time. When current prices are adjusted for inflation, using the U.S. Consumer Price Index, the story is quite different. As the graph below indicates, oil prices in recent years have been considerably higher than those experienced in the 1990s but they remain well below the peak prices seen in the early 1980s following the price shock of 1979.

Between 1979 and 1982, the price of WTI averaged US\$76 when measured in 2006 dollars and peaked at over US\$91/bbl in 1980. The average for the 1980s was just over US\$53, compared to an average of US\$42.40 for the 2000-2006 period.

**Nominal vs Real Crude Oil Prices  
(WTI, US \$/bbl)**



Source: NRCan and Energy Information Administration. Real prices were calculated using the Consumer Price Index of the US Department of Labour.

|             | Decade Averages   |                       |
|-------------|-------------------|-----------------------|
|             | Nominal US \$/bbl | Real US \$/bbl (2006) |
| 1970        | 10.00             | 35.40                 |
| 1980        | 26.35             | 53.15                 |
| 1990        | 19.15             | 26.05                 |
| 2000 - 2006 | 39.65             | 42.40                 |

