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Fuel Focus

National Overview

Retail Gasoline Prices Drop 6 Cents per Litre in the Last Five Weeks

The average Canadian retail gasoline price decreased 2 cents per litre to 97 cents per litre the week of October 12th compared to the previous week. Overall, retail gasoline prices have declined for the fifth straight week by 6 cents per litre.

Wholesale gasoline markets have declined in the last four weeks, nudged by the decline in crude oil prices, and the turnaround from the higher demand for gasoline with the end of the summer driving season. This is also the time of the year when refiners are producing less gasoline and more heating fuel in anticipation of the winter heating season.

Diesel fuel prices declined by less than 1 cent per litre to $1 per litre from last week. This represents an increase of 10 cents per litre compared to the same period last year. Furnace oil prices remained unchanged at 85 cent per litre up almost 11 cents per litre from a year ago.

Recent Developments

- **Moving Forward**: On September 26, 2007, the Council of Energy Ministers released its publication called *Moving Forward on Energy Efficiency in Canada - A Foundation for Action*. The report highlights the opportunities for energy efficiency and specific roles and opportunities in existing buildings, industry and transportation sectors of the economy.
Moving Forward is available at: http://www.nrcan-rncan.gc.ca/com/resoress/publications/cemcme/index-eng.php?ft-cem-eng.gif
- **Crude Oil Production Increases in July**: Overall production of crude oil and equivalent hydrocarbons increased nearly 4% to 13.5 million cubic metres in July 2007 compared to the same period last year. Meanwhile, exports rose almost 3% to 8.8 million cubic metres, while imports declined 8% to reach 4.4 million cubic metres. (Statistics Canada, The Daily, September 28, 2007)
- **Legislation to Prevent Manipulation and Excessive Speculation in Energy Markets**: On September 17, 2007, U.S. Senator Carl Levin (D - Mich.), introduced legislation to help prevent price manipulation and excessive speculation in energy markets. The bill targets energy commodity markets that are currently exempt from government oversight under the "Enron loophole".
http://levin.senate.gov/newsroom/release.cfm?id=283456

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

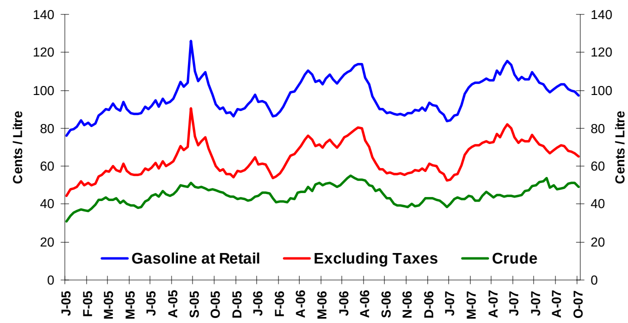
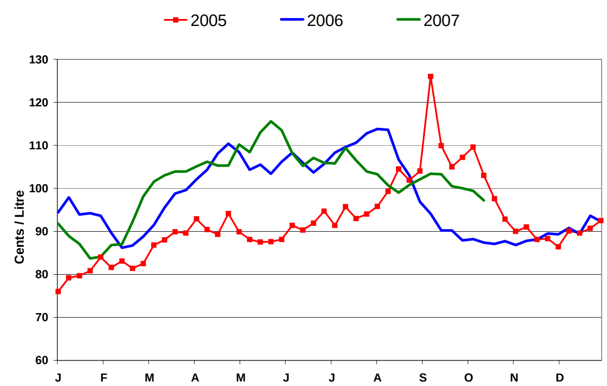


Figure 2: Weekly Regular Gasoline Prices



Changes in Fuel Prices

	Week of:	Change from:	
¢/L	2007-10-09	Previous Week	Last Year
Gasoline	97.2	-2.2	+9.8
Diesel	100.1	-0.5	+10.1
Furnace Oil	85.3	0.0	+10.7

Source: NRCan

In this Issue

Fuel Focus Supplement:

This week's Supplement presents the fifteen largest world oil producers and reserve holders in 2006.

Retail Gasoline Overview

The average Canadian pump price in selected cities for the four weeks ending October 9th was 99 cents per litre, a decline of 3 cent per litre from the last report on September 28, 2007. However, this represents an 11 cents per litre increase compared to the same period in 2006.

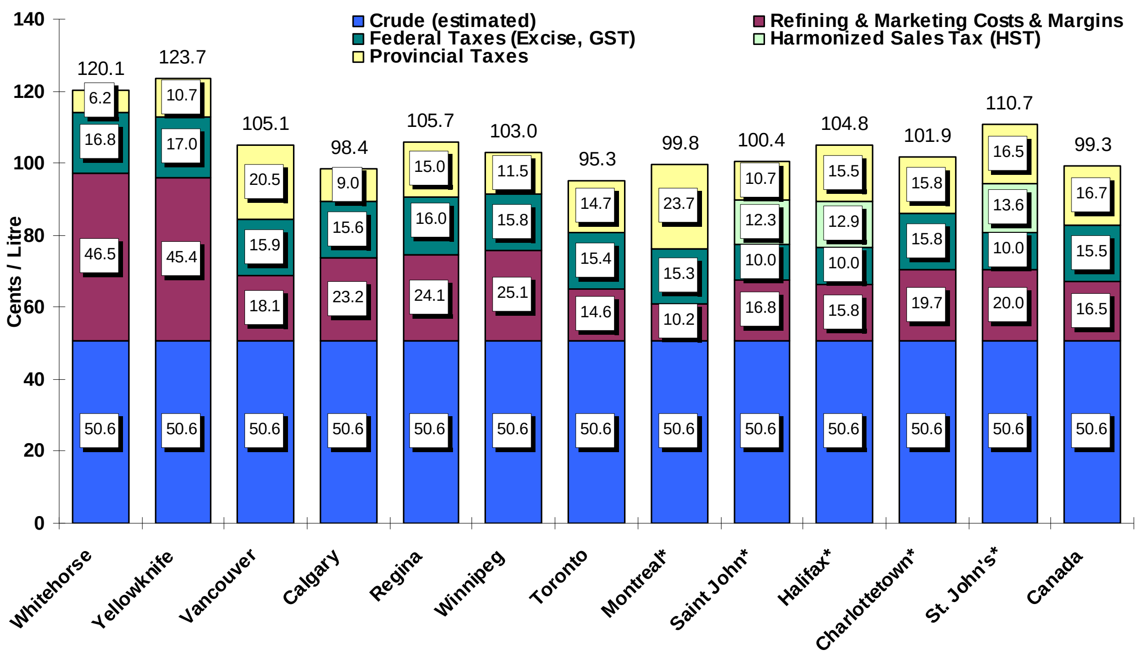
The four-week average crude oil price increased by almost 1 cent per litre to 51 cents per litre compared to two weeks ago, and remained 8 cents per litre higher than the same period last year.

Retail gasoline prices, when compared to those in the last report, declined in most centres in the range of 1 cent per litre (Charlottetown) to 5 cents per litre (Calgary). St. John's registered an increase of 1 cent per litre compared to September 28, 2007.

Overall, retail gasoline prices in the Western cities (Vancouver to Winnipeg) decreased 4 cents per litre when compared to those in the last report, while prices in Eastern cities (Toronto to St. John's) declined by about 1 cent per litre.

Refining and marketing costs and margins declined over 3 cents per litre in the last two weeks with the largest drops occurring in Calgary (6 ¢/L), Regina (5 ¢/L), Winnipeg (4 ¢/L) and Montreal (4 ¢/L).

Figure 3: Regular Gasoline Pump Prices in Selected Cities
4-Week Average (September 18 to October 9, 2007)



Source: NRCan

* Regulated Markets

What Are 'Market Forces' ?

Economic reports and news media will often use the term 'market forces' to explain price fluctuations of energy commodity products. Market forces are the interaction between the supply and the demand and the price of a good or service. By studying the buying and selling practices of market participants, economists have been able to determine that buyers and sellers will react to certain events in a predictable way. For example, buyers will be willing to purchase more of a product if the price is lower and sellers will be willing to offer more products for sale if the price is higher. These opposing market forces will be in balance when the price results in the same amount being supplied by the seller and demanded by the buyer. Therefore, the price becomes the balancing factor.

If the demand for a product is higher than the available supply, the supplier will raise the price until the demand drops to equal the supply. Conversely, if supply exceeds demand the supplier must lower the price until the entire supply of products is sold. However, the markets for some goods and services are not as straight forward as simple supply and demand balances. Refinery locations, inventory levels, refinery capacity and utilization rates and sales volume of gasoline are all factors that can have an impact on gasoline prices. In addition, from the seller's perspective, operating costs, location and availability all add to the cost of a product. From the buyer's perspective, convenience or the perception that a product may be in short supply may influence how much the consumer is willing to pay.

Wholesale Gasoline Prices

Wholesale gasoline prices declined in all selected centres for the week of October 4th, compared to the previous week. Overall, price changes ranged from less than 1 cent per litre to 2.5 cents per litre. This followed the overall momentum of the last two weeks where prices decreased by 1 to 5 cents per litre in all centres.

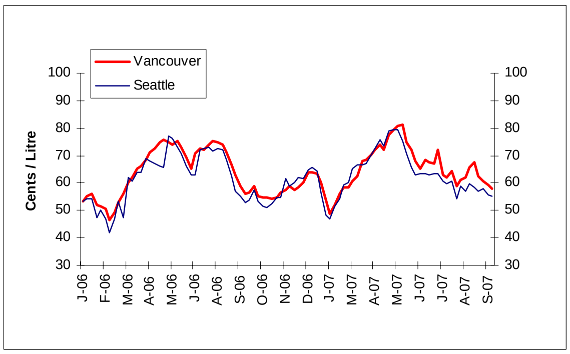
A notable feature this week is the nearly non-existent price gap between all Canadian and American centres, except for Vancouver and Seattle where the price spread registered nearly 3 cents per litre.

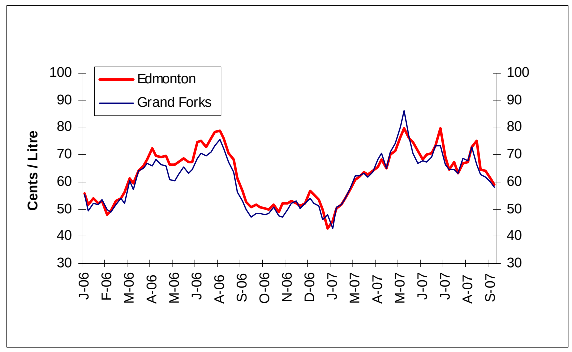
Overall, prices have declined in the range of 2 to 16 cents per litre (Edmonton) in all selected centres in the last four weeks. East-West price differentials, which had widened in some centres during the last few months, have been all but eliminated. Prices in both Eastern and Western markets are now generally in the 55 to 59 cents per litre range.

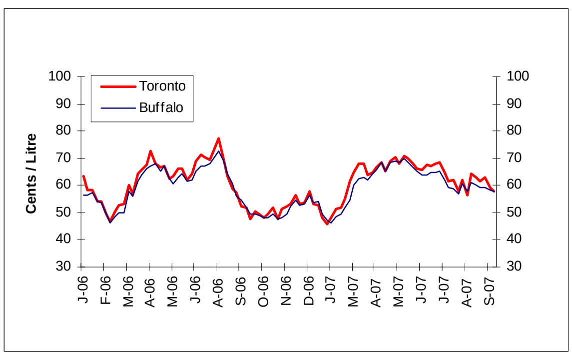
However, prices remain 2 to 10 cents per litre higher than they were for the same period last year.

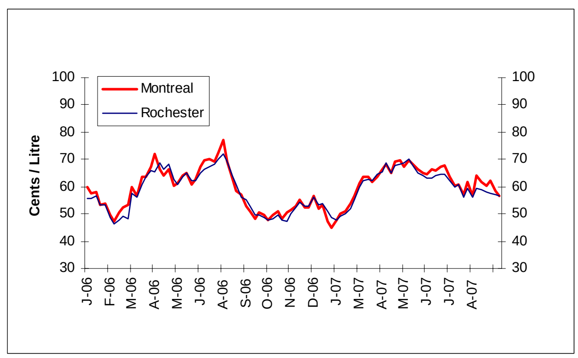
Figure 4: Wholesale Gasoline Prices

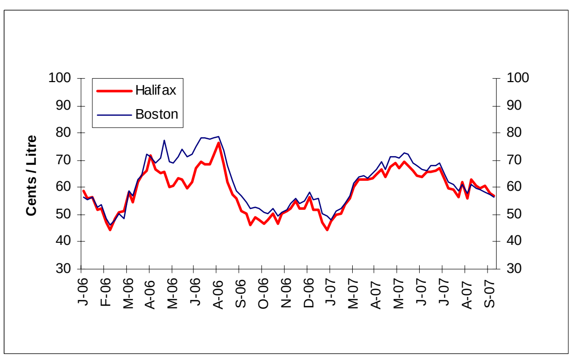
Rack Terminals Prices for Selected Canadian and American Cities on Thursday October 4, 2007











Sources: NRCan, Bloomberg Oil Buyers Guide

Canadian Refined Petroleum Products Consumption

Canadians consumed 28 billion litres of gasoline in the first seven months of 2007, an increase of 3% over the same period last year.

In the same period, diesel fuel rose nearly 4% to 18 billion litres, while light fuel oil, used mainly for heating, increased 12% to 2.9 billion litres. Sales in furnace oil normally increase at this time of the year in preparation for the heating season.

Heavy fuel oil sales, used for electricity generation, marine transportation and institutional and industrial sectors, rose nearly 3% to 4 billion litres.

Source: The Daily, http://www.statcan.ca/Daily/English/071001/d071001a.htm

Refining and Marketing Margins

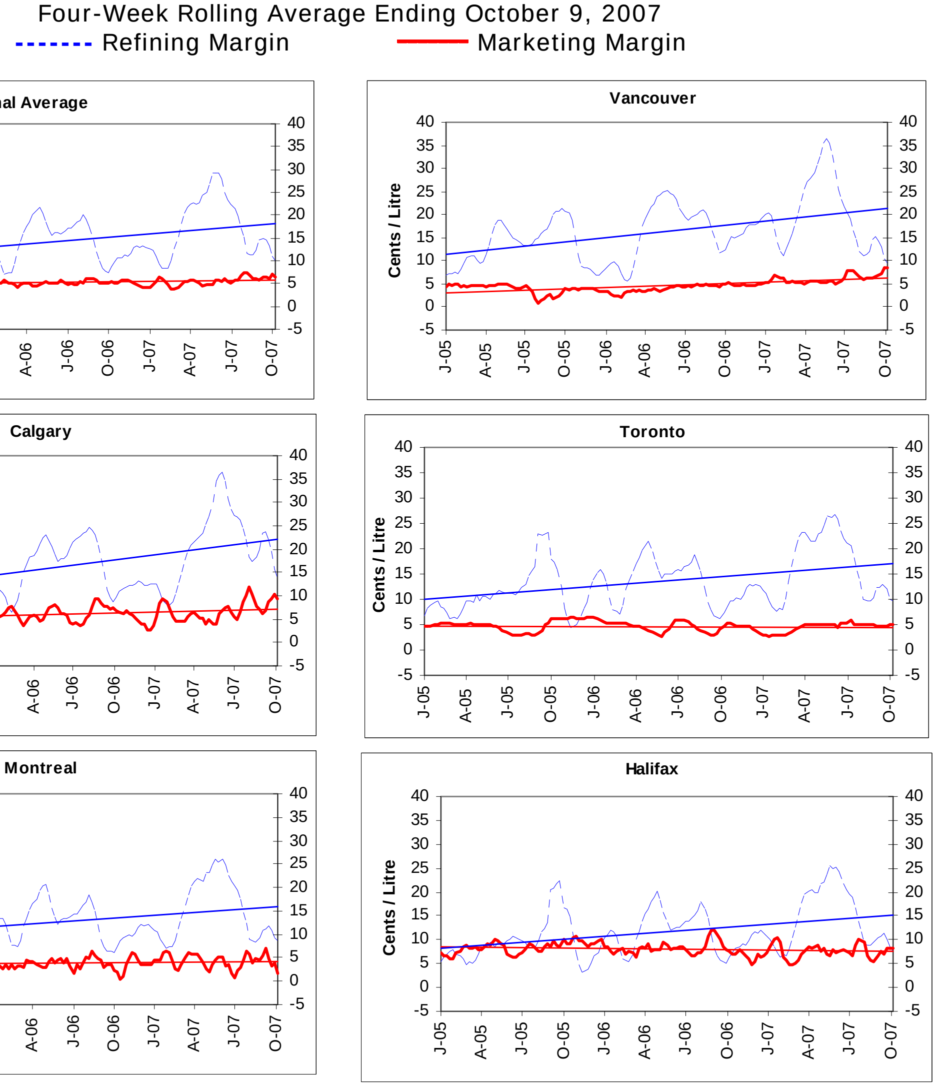
Four-week rolling averages are used for the refining and marketing margins for gasoline shown in Figure 5 for the period ending October 9th.

The marketing margin is the difference between the pump price (excluding taxes) and the price paid by the retailer to purchase the gasoline. Although a small portion of the total retail price of gasoline, it is generally expected to cover all costs associated with operating a retail outlet and include a profit for the station owner.

In general, marketing margins are less volatile than refining margins, fluctuating over a much narrower range. Nationally, the marketing margins have remained fairly stable hovering around 5 cents per litre.

In the first nine months of 2007, among the five centres in Figure 5, Calgary demonstrated the widest fluctuations with margins moving from a high of almost 12 cents per litre (2.3 cents per litre higher than in 2006) to lows of nearly 4 cents per litre. Marketing margins in Vancouver and Halifax also fluctuated over time. But while the margins in Vancouver on average increased 2 cents per litre from 2006 through the first nine months in 2007, the Halifax margins declined 0.7 cent per litre in the same period.

Figure 5: Refining and Marketing Margins
Four-Week Rolling Average Ending October 9, 2007



Source: NRCan

Crude Oil Overview

Crude Prices Remain High

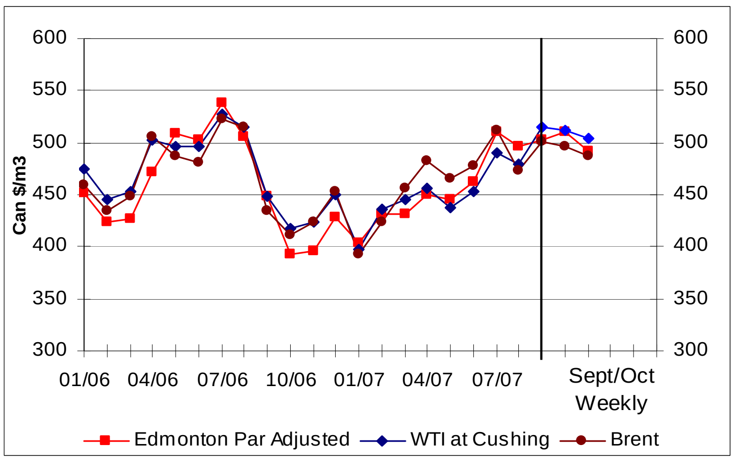
For the week ending October 5th, crude oil prices averaged between \$488 and \$504/m^3 (US\$79 to US\$81 per barrel). All prices were down marginally from the previous week. With crude oil prices being sustained at record highs, all prices have increased year over year.

Crude prices have managed to hover around the US\$80 per barrel (\$504/m^3) mark on world markets. With the Canadian dollar remaining at par, Canadian consumers continue to be somewhat shielded from the increase in prices.

While a weak dollar is the main reason behind increased crude oil prices in the U.S., there are a few other factors that have kept prices at the current levels. U.S. inventories of crude oil have increased over the last few months, while product inventories have registered a significant drop (in particular gasoline). The anticipation that there will be a significant draw on crude inventories by refiners to replace diminishing inventories may be adding pressure to crude prices. In addition, ongoing tensions between Iran and the U.S. continue to add a geopolitical premium to prices.

While this hurricane season has been relatively active, there has been little damage to oil and gas infrastructure in the U.S. Gulf Coast in particular. If there are no serious weather-related incidents between now and the close of the season (November 30th), prices may react downwards.

Figure 6: Crude Oil Price Comparisons



Changes in Crude Oil Prices

Crude Oil Prices	Week ending: 2007-10-05		Change from: Previous Week		Change from: Last Year	
	\$Can/ m^3	\$US/ bbl	\$Can/ m^3	\$US/ bbl	\$Can/ m^3	\$US/ bbl
Edmonton Par	492.30	78.76	-17.35	-2.17	+90.05	+21.84
WTI	503.72	80.58	-7.42	-0.58	+81.11	+20.79
Brent	487.74	78.03	-8.76	-0.81	+81.38	+20.53

Source: NRCan

Debt Financing Rising for Canadian Oil and Gas Companies

For the first time in more than 20 years, Canadian oil and gas companies have turned to debt, taking advantage of low interest rates, high commodity prices, long-life assets in the oil sands and large pools of capital in the U.S.

Four leading oil-sands producers – Suncor Energy, Nexen, Opti Canada and Western Oil Sands – have recently issued US\$3.5 billion of new debt, a reversal from the Canadian companies' long-time use of equity markets as an investment tool.

Debt has been out of favour since 1984, when Dome Petroleum crumbled under an unmanageable burden of C\$6.2 billion of debt. However, borrowing has made a comeback with the appearance of more foreign banks and investment firms in Calgary. In addition, with the emergence of oil sands projects, companies are attracted by the long reserve life of oil sands assets. Debt financing is attractive to Canadian companies that want to take advantage of the strongest Canadian dollar in 30 years by accessing private, pension and mutual-fund capital pools in the U.S. looking for better returns.

Source: Petroleum Economist, August 2007

Top Oil Production and Reserves Holders

Canada is a major world oil and gas producer. But how do we rank against other countries? The following presents the fifteen largest world oil producers and reserve holders in 2006. These 15 countries represent 70% of the world's total production of crude oil (85.2 million b/d) and 91% of the world's oil total reserves (1,317 billion barrels).

In comparison Canada's overall oil production in 2006 was 3.19 million b/d (7th largest), but ranked second largest in oil reserves in the world with reserves of 179.2 million barrels. According to the International Energy Agency the global crude oil and natural gas liquids production, averaging 85.2 million b/d last year, climbed 680,000 b/d from 2005. Output of crude oil from the OPEC accounted for 34.3 million b/d.

Country	Oil Production (Million Barrels per day)	Rank	Country	World Oil Reserves (Billion Barrels)	Rank
Russia	9.69	1	Saudi Arabia	262.3	1
Saudi Arabia	9.22	2	**Canada**	**179.2**	**2**
United States	7.37	3	Iran	136.3	3
Iran	3.89	4	Iraq	115.0	4
Mexico	3.68	5	Kuwait	101.5	5
China	3.67	6	United Arab Emirates	97.8	6
Canada	**3.19**	**7**	Venezuela	80.0	7
Norway	2.78	8	Russia	60.0	8
United Arab Emirates	2.62	9	Libya	41.5	9
Venezuela	2.56	10	Nigeria	36.2	10
Kuwait	2.50	11	Kazakhstan	30.0	11
Nigeria	2.24	12	United States	21.8	12
Brazil	2.10	13	China	16.0	13
Iraq	1.90	14	Qatar	15.2	14
Libya	1.71	15	Mexico	12.4	15
Total	**59.12**			**1205.2**	

Source: Oil production data is from the *International Energy Agency*, Oil Market Report, September 12, 2007. Reserves are from the Oil and Gas Journal, December 18, 2006.

1 barrel = 0.15898 cubic metre; b/d = barrel per day