



National Overview

Gasoline Prices Decline 4 Cents Per Litre From Last Week

After five consecutive weeks of price increases, the average Canadian retail gasoline price dropped 4 cents per litre to \$1.04 per litre the week of December 4, 2007, compared to the previous week.

Retail prices moved downward following the decline in wholesale gasoline prices which, in turn, was partly influenced by the decrease in crude oil prices. In fact, the average Canadian gasoline price dropped more than 1 cent per litre from our last report two weeks ago. However, despite its recent decline, crude oil accounts for a significant portion of the overall price of gasoline at the retail level.

Diesel fuel prices continue to rise above gasoline prices increasing by 2 cents per litre to \$1.14 per litre from last week. This represents an increase of 25 cents per litre compared to the same period last year. Furnace oil prices rose by 4 cents per litre to 99 cents per litre as demand increased with the colder weather. This represents an increase of 21 cents per litre from a year ago.

Recent Developments

- Fuel Consumption Standards Act:** On November 7, 2007, the Canadian government proclaimed into law the Motor Vehicle Fuel Consumption Standards Act. Under the Act, fuel consumption standards will be established for light-duty road motor vehicles. These standards are to be established and implemented for model year 2011. <http://www.tc.gc.ca/mediaroom/releases/nat/2007/07-h215e.htm>
- Irving Oil Refinery Process:** The draft terms of reference of an environmental impact assessment were submitted November 26th to the provincial government as the first step toward a proposed second refinery in St. John, New-Brunswick. Irving Oil will hold its second open house on Friday, December 7th to share information on the environmental assessment methods and answer questions from the public.
- U.S. Federal Court Voids Recent Fuel Economy Regulations:** The Ninth Circuit Court of Appeals ruled that the Bush administration violated the law by ignoring global warming when it set national gas-mileage standards for 2008-2011 SUVs and pickup trucks. The court sent the decision back to the National Highway Traffic Safety Administration for a full Environmental Review of the gas-mileage standards. <http://www.biologicaldiversity.org/swcbd/press/CAFE-11-15-2007.html>

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

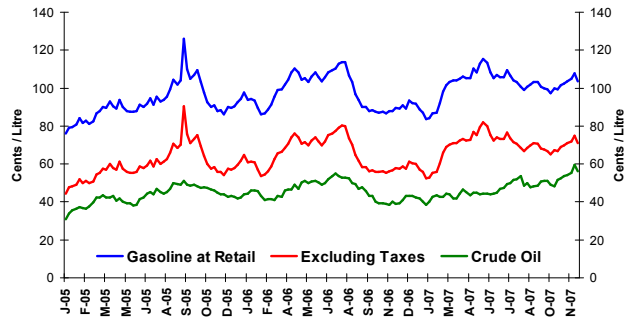
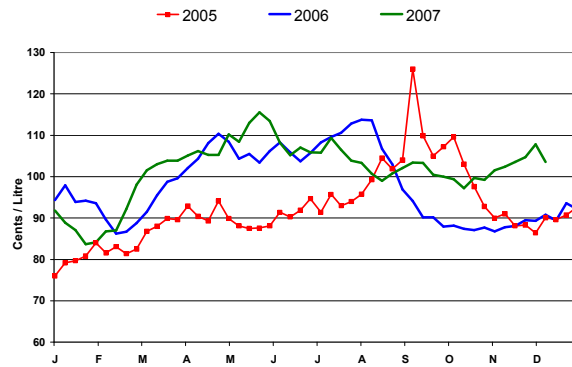


Figure 2: Weekly Regular Gasoline Prices



Changes in Fuel Prices

¢/L	Week of:	Change from:	
	2007-12-04	Previous Week	Last Year
Gasoline	103.6	-4.2	+12.8
Diesel	114.0	+1.7	+24.7
Furnace Oil	99.1	+3.7	+20.9

Source: NRCan

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Fuel Focus Supplement:

Historical Comparison of Gasoline Prices and Other Consumer Components.





Retail Gasoline Overview

The **four-week average** Canadian gasoline price for the period ending December 4th was \$1.05 per litre, an increase of 2 cents per litre from the last report on November 23, 2007. However, this represents an increase of 15 cents per litre from the same period in 2006.

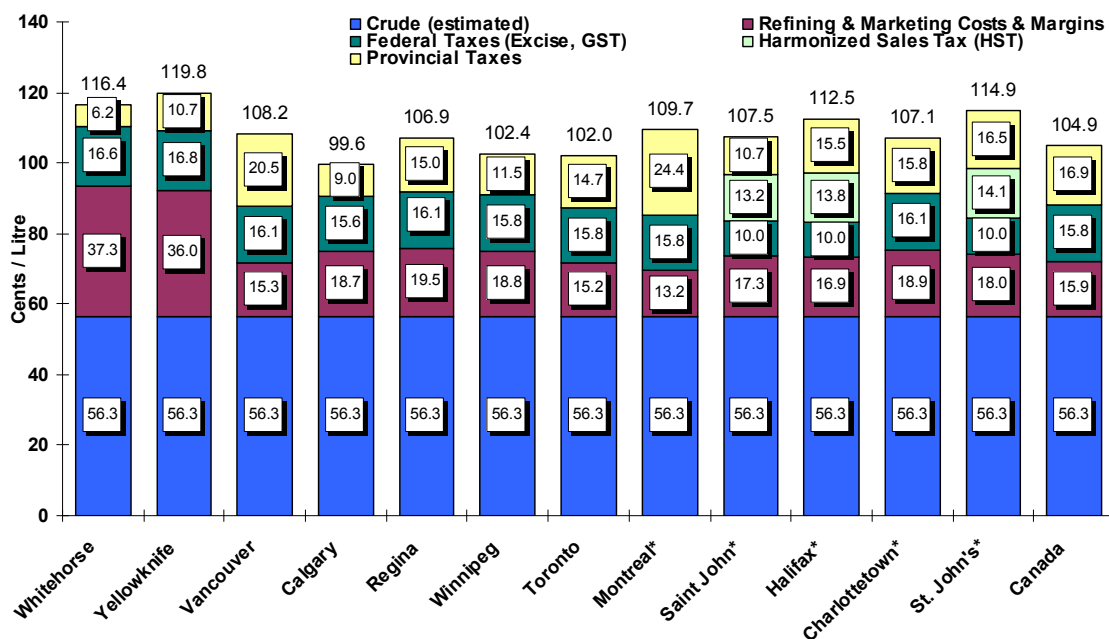
The **four-week average** crude oil prices increased by 2 cent per litre to 56 cents per litre compared to two weeks ago. Crude oil cost represents 54% of the total pump price compared to 44% at the same time

last year. Overall, crude oil prices are nearly 16 cents per litre higher than at the same period last year.

Retail gasoline prices in most Western centres increased about 2 cents per litre when compared to those in the previous report two weeks ago. Price increases in Eastern cities ranged from 1 cent per litre to almost 4 cents per litre.

The refining and marketing costs and margins declined in most centres from two weeks ago by 1 cent per litre.

**Figure 3: Regular Gasoline Pump Prices in Selected Cities
4-Week Average (November 13 to December 4, 2007)**



Source: NRCan

* Regulated Markets

Inflation Rises 2.4% in October

Statistics Canada's Consumer Price Index (CPI) report released on November 20, 2007, indicates that prices rose by 2.4% in October compared with the same month in 2006, a slightly slower rate of growth than the 2.5% posted in September. Gasoline and the two main components of owned accommodation—mortgage interest cost and homeowners' replacement cost—were the primary sources of October's increase.

Excluding energy, the all-items index climbed 1.9% in the 12 months preceding October 2007, a slowdown from the 2.1% growth recorded in September. The upward pressure on consumer prices between October 2006 and October 2007 was driven by gasoline, as it was in September. In October 2007, the price at the pump rose 13.5% compared with the same month in 2006, a change due largely to a drop in last year's gasoline prices.

Statistics Canada, The Daily, <http://www.statcan.ca/Daily/English/071120/do71120a.htm>





Wholesale Gasoline Prices

Wholesale gasoline prices decreased in all selected centres for the **week of November 29th**, compared to the previous week.

Wholesale prices dropped in all markets in both Canada and the United States by 2 to almost 6 cents per litre, compared to the previous week, ending in the 59 to 65 cents per litre range.

Western wholesale gasoline prices decreased by 2 to 6 cents per litre ending the week of November 29th in the 59 to 65 cents per litre range. More specifically, the Edmonton and Vancouver prices were about 5 cents per litre above the U.S. centres due to the tightness in supply following the partial shutdown resulting from a fire at Shell's Scotford upgrader in Alberta.

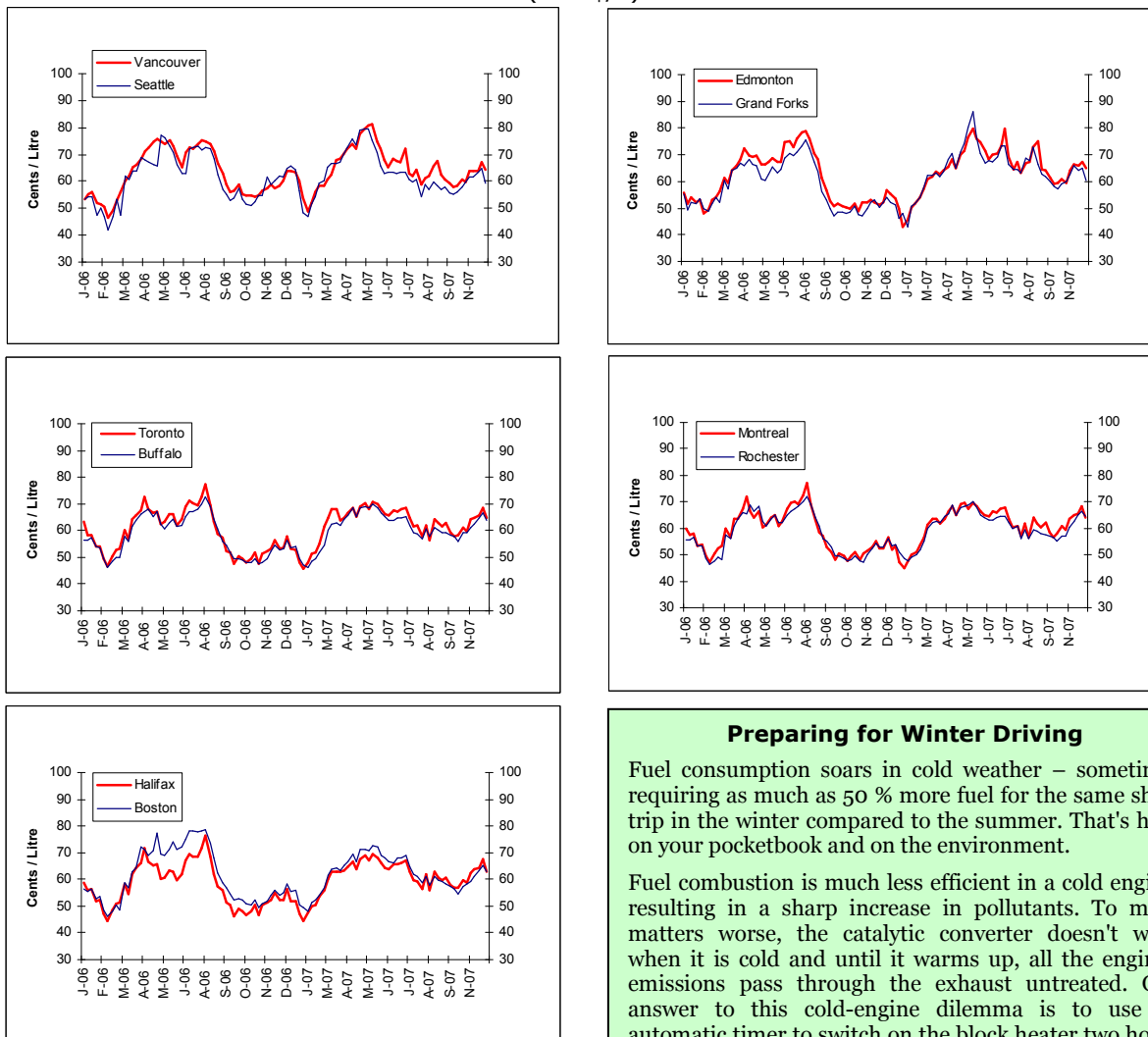
Meanwhile, Eastern centres declined from 2 to 4 cents per litre settling into the 63 to 65 cents per litre range.

Compared to the last four weeks, wholesale gasoline prices are up 1 to 4 cents per litre in most selected centres, with the exception of Grand Forks and Seattle which registered decreases of more than 2 cents per litre.

Overall, prices in most selected centres are well above last year's level, with the exception of Seattle where prices are 1 cent per litre lower. For all other centres, prices are 7 cents to 13 cents per litre higher than at the same period last year.

Figure 4: Wholesale Gasoline Prices

Rack Terminals Prices for Selected Canadian and American Cities on Thursday November 29, 2007 (Can ¢/L)



Sources: NRCan, Bloomberg Oil Buyers Guide

Preparing for Winter Driving

Fuel consumption soars in cold weather – sometimes requiring as much as 50 % more fuel for the same short trip in the winter compared to the summer. That's hard on your pocketbook and on the environment.

Fuel combustion is much less efficient in a cold engine, resulting in a sharp increase in pollutants. To make matters worse, the catalytic converter doesn't work when it is cold and until it warms up, all the engine's emissions pass through the exhaust untreated. One answer to this cold-engine dilemma is to use an automatic timer to switch on the block heater two hours before you plan to drive the vehicle.





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 December 4th.

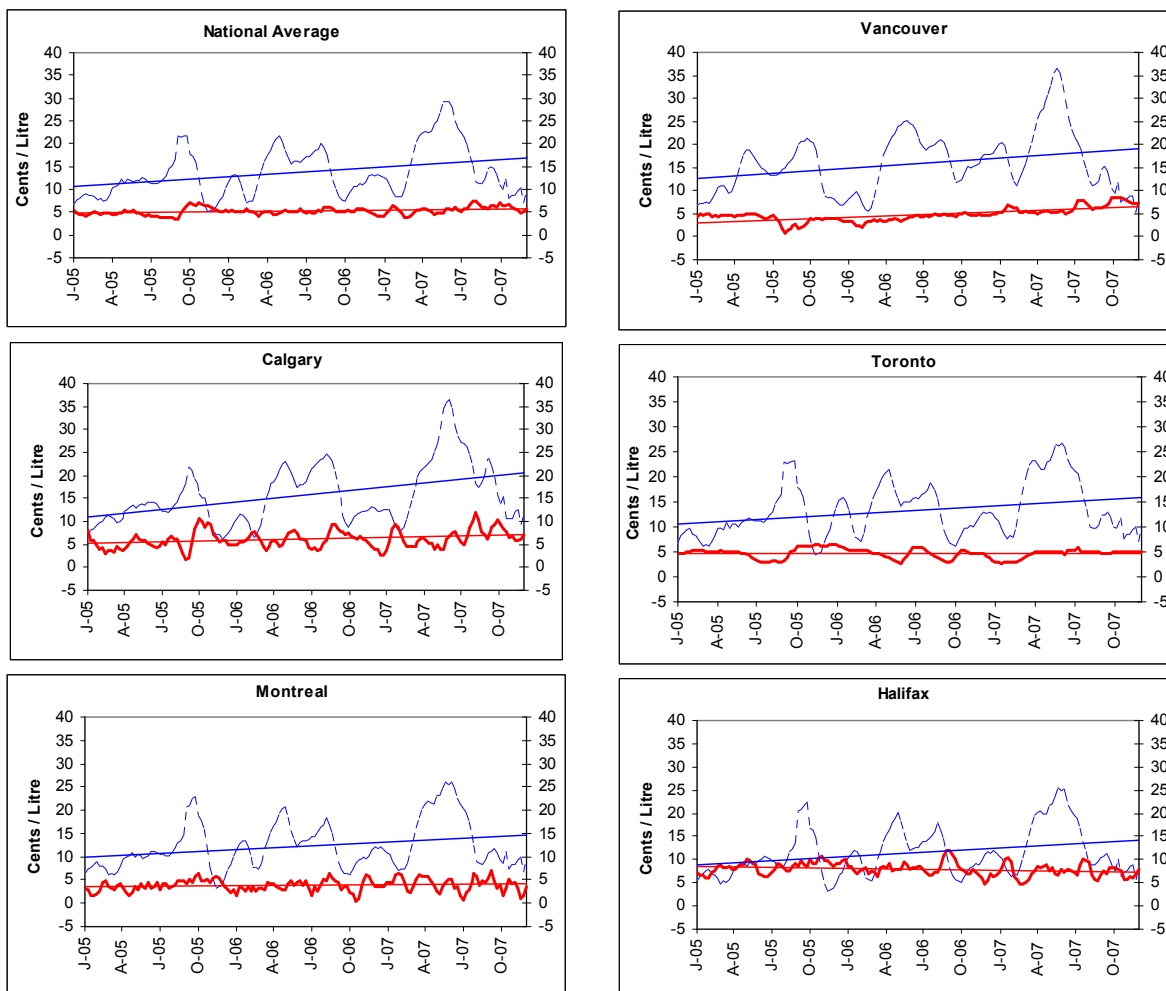
Nationally, the trendline indicate that marketing margins have remained around 5 cents per litre. Overall, marketing margins can be fairly volatile as outlets compete for market share and retail station operators aim to draw customers through price and other product offerings.

Different regions, or cities, will also have different marketing margins for various reasons. For example, the cost associated with transportation of gasoline through the distribution system to retail stations across Canada will have an impact on the pump price.

These costs are in addition to other costs associated with operating a retail outlet such as land, buildings, underground tanks, pumps, salaries, property taxes, utilities, credit card charges and advertising campaigns.

Marketing margins in the five centres below, ranged from a high of 7 cents per litre in Vancouver to a low of 1 cent per litre in Montreal. Overall, the fluctuations can also reflect the throughput efficiency of a particular market. A market, or region, with high average throughput efficiency, and therefore lower operating cost per litre, would be more likely to have more competitive retail gasoline prices than those with lower throughput efficiencies, resulting in lower gasoline prices for the customer.

Figure 5: Refining and Marketing Margins
Four-Week Rolling Average Ending December 4, 2007
----- Refining Margin — Marketing Margin



Source: NRCan





Crude Oil Overview

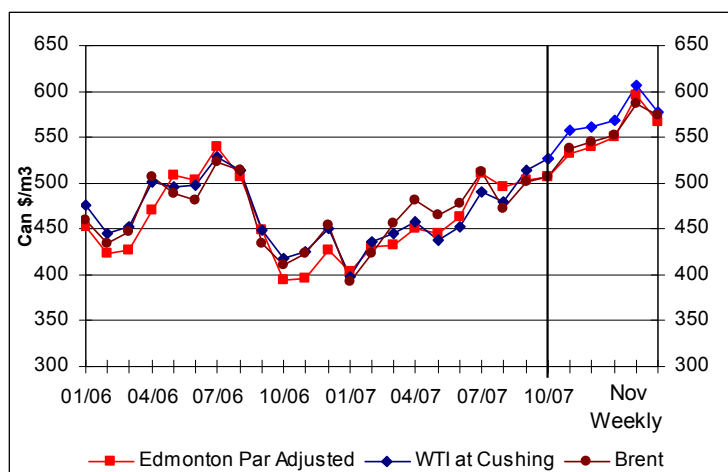
Crude Oil Prices Recede

For the week ending November 30th, crude oil prices averaged between \$566 and \$578/m³ (\$US91 to \$US92 per barrel). After the previous week record levels, prices for all crudes decreased significantly with Edmonton Par registering the greatest drop at \$28.80/m³.

Despite the temporary disruption of an estimated 240,000 cubic metre (1.5 million barrels) of Canadian oil exports to the U.S. due to a pipeline explosion and fire on November 28th, crude oil prices continue to fall.

As this report was released, OPEC was to announce a potential increase in production at their December 5th meeting in Abu Dhabi. This was a question on the mind of most crude oil analysts this week. With crude oil prices falling, it remains unclear as to whether the cartel will be comfortable with the potential of further price decreases in reaction to increased crude oil on the market. Speculation amongst industry analysts is that OPEC will not increase production.

Figure 6: Crude Oil Price Comparisons



Changes in Crude Oil Prices

Crude Oil Prices	Week ending: 2007-11-30		Change from:			
	\$Can/ m ³	\$US/ bbl	Previous Week		Last Year	
			\$Can/ m ³	\$US/ bbl	\$Can/ m ³	\$US/ bbl
Edmonton Par	566.35	90.61	-28.80	-5.32	+157.35	+33.44
WTI	578.07	92.49	-28.17	-5.19	+134.00	+30.42
Brent	574.20	91.87	-12.35	-2.68	+127.69	+29.46

Source: NRCan

Energy Supply is Not in Question

According to the latest report from the National Energy Board, future energy supply will be ample, but Canadians will have choices to make concerning how they use energy towards a sustainable future.

Canada's Energy Future looks at energy supply and demand from a Reference Case and three scenario perspectives between 2005 and 2030. Across all scenarios, energy demand continues to increase but there will be enough supply to meet the growing need.

While emerging technologies and alternative energy sources are growing fast, they continue to fulfill a small portion of the total energy demand requirements. For example, emerging and alternative energy, such as wind, solar, geothermal and biofuels (biomass, ethanol and biodiesel) in the "greenest" scenario account for 10 per cent of the total energy demand in Canada in 2030. Conventional energy will continue to be the number one fuel source for Canadians.

Some of the report highlights include:

- Significant growth in the oil sands is expected and will come with an increase in pipeline infrastructure and markets;
- In two of the three scenarios, natural gas production and exports decline.
- Electricity exchanges between provinces and exports to the U.S. will increase.
- Controlling greenhouse gas emissions associated with energy use will be challenging.

Source: National Energy Board, <http://www.neb-one.gc.ca/clf-nsi/rthnb/nwsrls/2007/nwsrls38-eng.html>



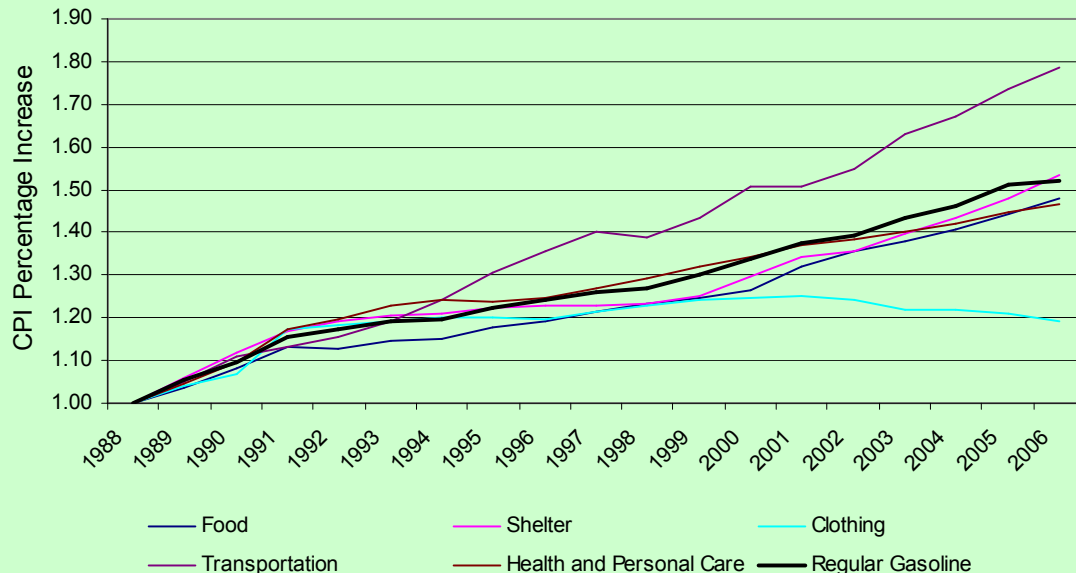


Historical Comparison of Gasoline Prices and Other Consumer Components

Gasoline prices have increased significantly in the last few years causing much public debate about the causes of these increases. Exactly how much more gasoline prices have increased over other consumer items is not always clear. The graph below is a sample of some typical consumer prices over 19 years, adjusted for inflation. The percentage increase, based on the annual consumer price indexes for each commodity, shows that gasoline prices are very much in line with many other consumer goods. In fact, transportation and clothing costs have deviated the most and in opposite directions.

Historically, gasoline price increases have remained in the same range as other commodity items. Overall, gasoline prices rose above most other selected items from 2002 to 2004, but leveled off in 2005 and 2006.

Gasoline Prices vs. Other Selected Consumer Items



Sources: Statistics Canada Catalogue no. 62-001; NRCan

However, gasoline is not the main cost component with respect to the cost of driving a vehicle. The Canadian Automobile Association (CAA) publishes a brochure called *Driving Costs*, designed to help consumers calculate how much it costs to own and operate a vehicle. Their analysis indicates that gasoline is a very small component of the total cost of owning a vehicle. In 2006, the gasoline expenditures for a small and a larger passenger vehicle were 8 and 12 cents per kilometer, respectively. This is based on 18,000 km driven annually and represents approximately 21% of the total cost (insurance, depreciation, licensing, financing and maintenance) of operating and owning a vehicle. On the whole, gasoline costs, despite prices rising slightly above other household commodities since 2002, remained much lower than most other costs associated with operating a vehicle. For more information on driving costs visit <http://www.caa.ca/pdf/2007-04-27%20DrivingCostsBrochure2007.pdf>

