



National Overview

Slight Increase in Canadian Retail Gasoline Prices from Last Week

The Canada average retail gasoline price increased marginally to 87 cents per litre for the week ending February 13, 2007, up 0.3 cent per litre from last week. However, prices rose nearly 3 cents per litre since the last report two weeks ago.

Canadian gasoline prices moved upward following the growing pressure from higher wholesale gasoline prices which, in turn, were influenced by the rising crude oil prices in recent weeks.

Diesel fuel prices increased 1 cent per litre from last week to almost 94 cents per litre. Furnace oil prices rose 1 cent per litre to 82 cents per litre and were nearly 1 cent per litre lower than a year ago. Both increased as a result of a rise in demand for distillates related to the recent onset of Artic-like temperatures throughout North America.

Recent Developments

- Peace River Oil Inc. of Red Deer, Alberta, announced an expansion of its Bluesky oil upgrader and refinery facility. The proposal is to double the size, with phase one targeted for completion in 2011 and an output of 50,000 barrel per day, up from an original plan of 25,000 barrel per day. The plant will produce both ultra low sulphur diesel and gasoline. Capital costs for the project are estimated at \$2.5 billion. For more information on the project, please visit: <http://peacriveroil.com/home.htm>
- The Hibernia offshore production output will be closed from mid-February for up to four weeks as the oil field undergoes its largest maintenance program in five years. The work was moved up from September. The field's output has been hindered since early January when a fuel valve failed in a generator and reduced power needed for production.
- The Canadian Automobile Association and Pollution Probe have entered into a partnership to help Canadian motorists develop a practical and balanced approach to mobility and the environment. For information on what you can do please consult *Driving Towards a Cleaner Environment – A Healthier Future* available at: http://www.caa.ca/eco%2Dmobility/english/pdf/CA A_Driving_Towards_a.pdf

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

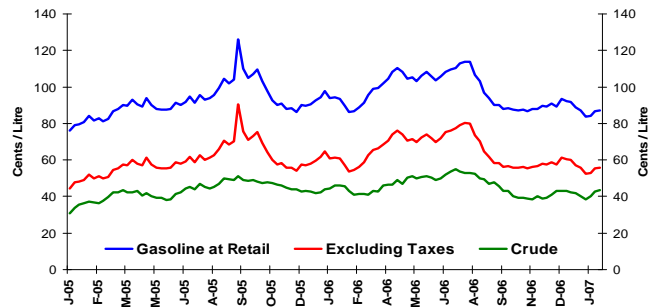
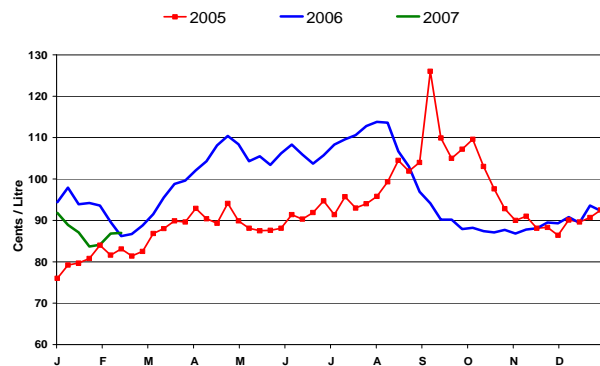


Figure 2: Weekly Regular Gasoline Prices



Changes in Fuel Prices

¢/L	Week of:	Change from:	
	2007-02-13	Previous Week	Last Year
Gasoline	87.0	+0.3	+0.8
Diesel	93.5	+0.9	+2.4
Furnace Oil	81.5	+0.6	-0.6

Source: NRCan

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Supplement – Are we really paying much more for gasoline? This week's supplement offers an overview of the average price of gasoline in Canada when adjusted for inflation and the value of the dollar over time.





Retail Gasoline Overview

The average Canadian pump price in selected cities for the four weeks ending February 13th was 85 cents per litre, a decrease of nearly 1 cent per litre from the last report on February 2nd. This is almost 11 cents per litre lower than at the same period in 2006.

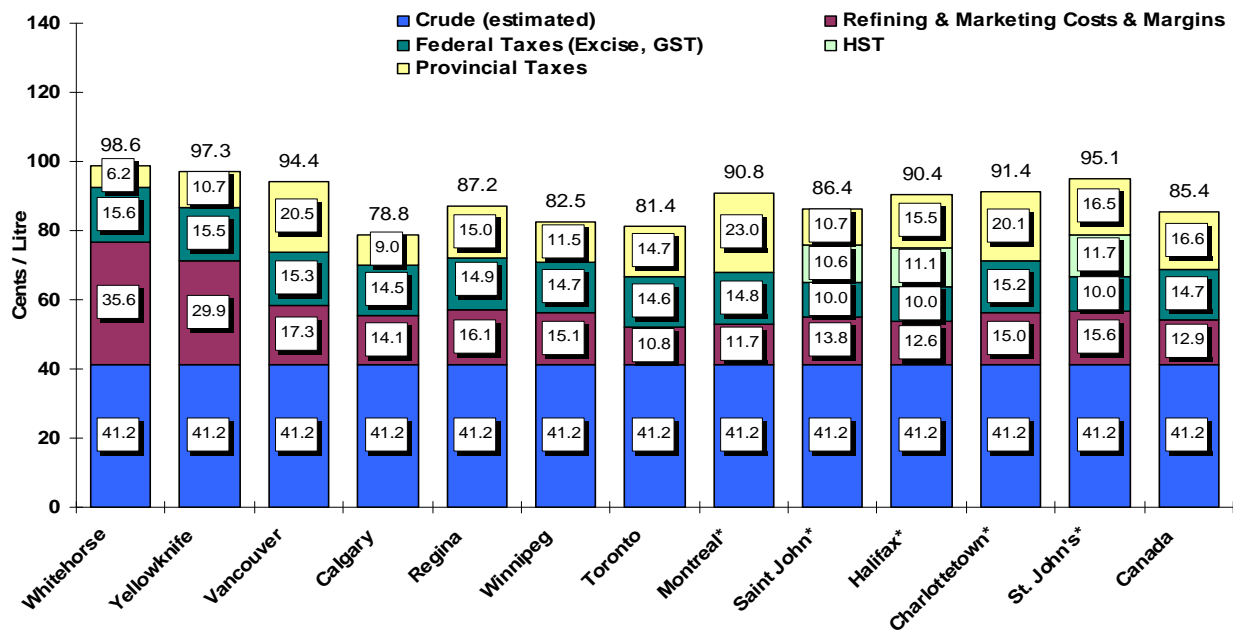
The four-week average crude oil price of 41 cents per litre declined 6 cents per litre from the same period last year.

Refining and marketing costs and margins declined on average 1.5 cent per litre across Canada. All centres,

with the exception of Toronto, showed a decline ranging from nearly 2 cents per litre in Montreal to 4 cents per litre in Regina.

Retail gasoline prices, when compared to those in the last report, declined in the range of 2 to 3 cent per litre in Western cities where gasoline supplies have remained tight for a long period of time. In contrast the price movement in Eastern cities was less pronounced ranging from an increase of 1.5 cent per litre in Toronto to a decline of 3 cents per litre in Saint John, New Brunswick.

**Figure 3: Regular Gasoline Pump Prices in Selected Cities
4-Week Average (January 23 to February 13, 2007)**



Source: NRCan

* Regulated Markets

Gasoline and Crude Oil Market Dynamic

Many consumers assume that changes in gasoline pump prices and crude oil prices are mostly, if not always, concurrent. Gasoline, after all, is made from crude oil, so the wholesale price of gasoline will be influenced by the price of crude oil. The reality, however, is that the commodity price of wholesale gasoline will move irrespective of the crude oil prices fluctuations.

Gasoline prices at the wholesale level will respond to many factors, independent from crude oil, such as increased demand, seasonal demand, inventory levels, curtailment of supply as a result of scheduled or un-scheduled maintenance, or repair operations at refineries. Also, as seen not long ago, serious weather events have the potential to partially or completely shut down refineries causing shortage of refining capacity resulting in extremely tight gasoline supply, hence higher prices. With Canadian refineries generally operating at full capacity these days, even a small disruption in supply can lead to higher prices, regardless of what is happening in crude oil markets.

Finally, the volatility in gasoline prices is also a function of the region where you live and frequent changes to the crude oil price only makes this volatility in the retail and wholesale gasoline markets more pronounced. For example, large urban outlets have a definite advantage as higher sales volumes will have a lower cost per unit sold, while the smaller outlets will need a higher margin to cover their retailing costs. The average mark-up made by retailers, in our sample of five Canadian cities in the Fuel Focus, is about 6 cents per litre. To stay competitive many will add other services such as convenience stores or car washes (see Fuel Focus report December 8, 2006) to generate additional income and enable them to sell gasoline at lower prices.





Wholesale Gasoline Prices

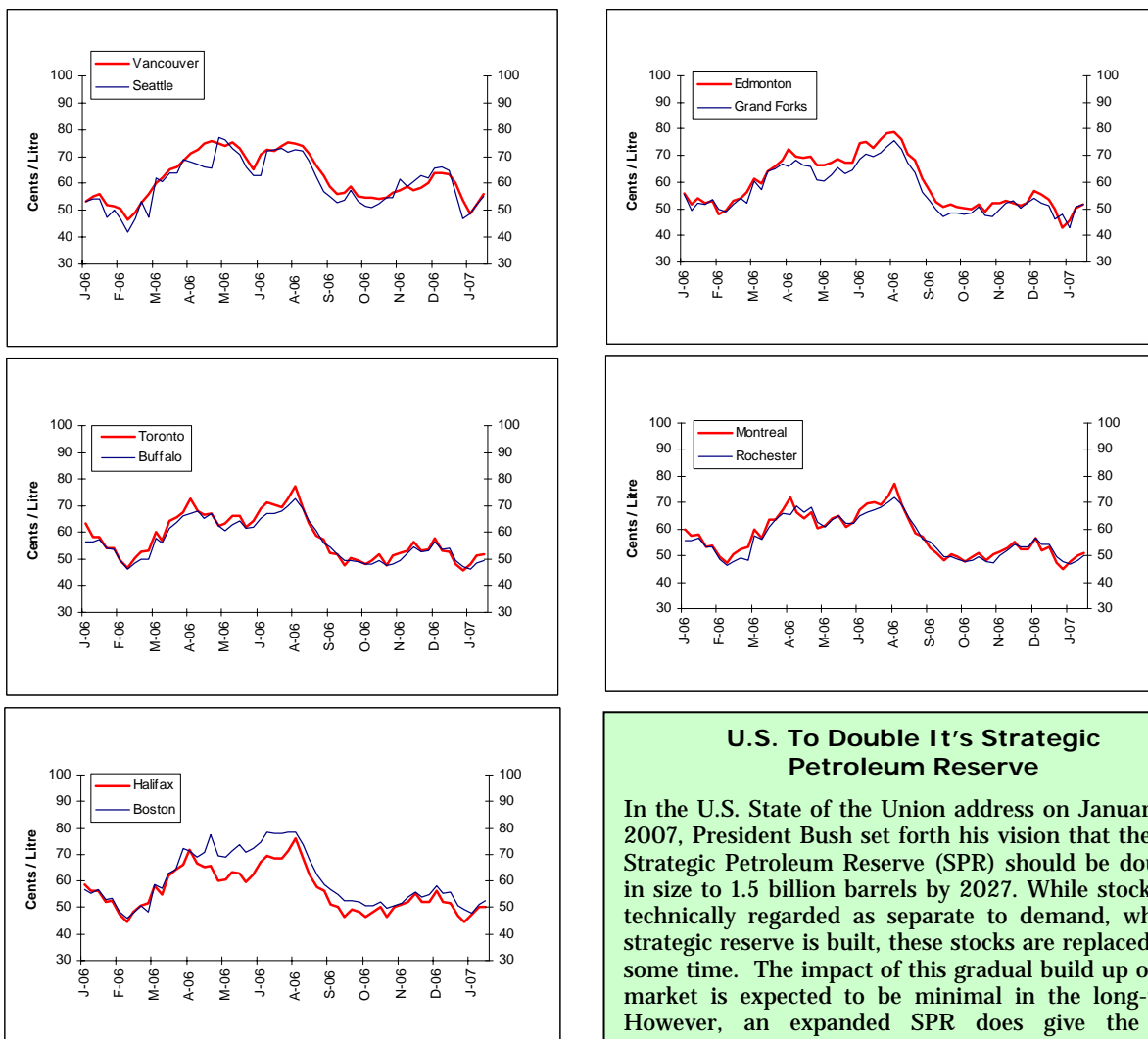
Wholesale gasoline prices rose in all selected centres for the week of February 8, 2007, compared to the previous week, mainly due to the higher crude oil prices for the week ending February 9th, the closing date for our review. Canadian and American wholesale gasoline price increases ranged from almost 1 cent to slightly more than 4 cents per litre in the selected centres, when compared to the previous week.

In the last two weeks price increases ranged from 3 to 9 cents per litre in both Canadian and American centres.

While all centres reported higher wholesale gasoline prices in the last two weeks, the four western centres of Vancouver, Seattle, Edmonton and Grand Forks increased the most, ranging from 6 to 9 cents per litre, ending in the range of 52 to 56 per litre on February 8th.

Prices are in the range of less than 1 cent per litre to approximately 8 cents per litre higher than they were at the same period last year.

Figure 4: Wholesale Gasoline Prices (Weekly Average)
Rack Terminals Prices for Selected Cities ending February 8th (Can ¢/L)



Sources: NRCan, Bloomberg

U.S. To Double It's Strategic Petroleum Reserve

In the U.S. State of the Union address on January 23, 2007, President Bush set forth his vision that the U.S. Strategic Petroleum Reserve (SPR) should be doubled in size to 1.5 billion barrels by 2027. While stocks are technically regarded as separate to demand, when a strategic reserve is built, these stocks are replaced over some time. The impact of this gradual build up on the market is expected to be minimal in the long-term. However, an expanded SPR does give the U.S. significant added security in the event of a supply disruption.





Refining and Marketing Margins

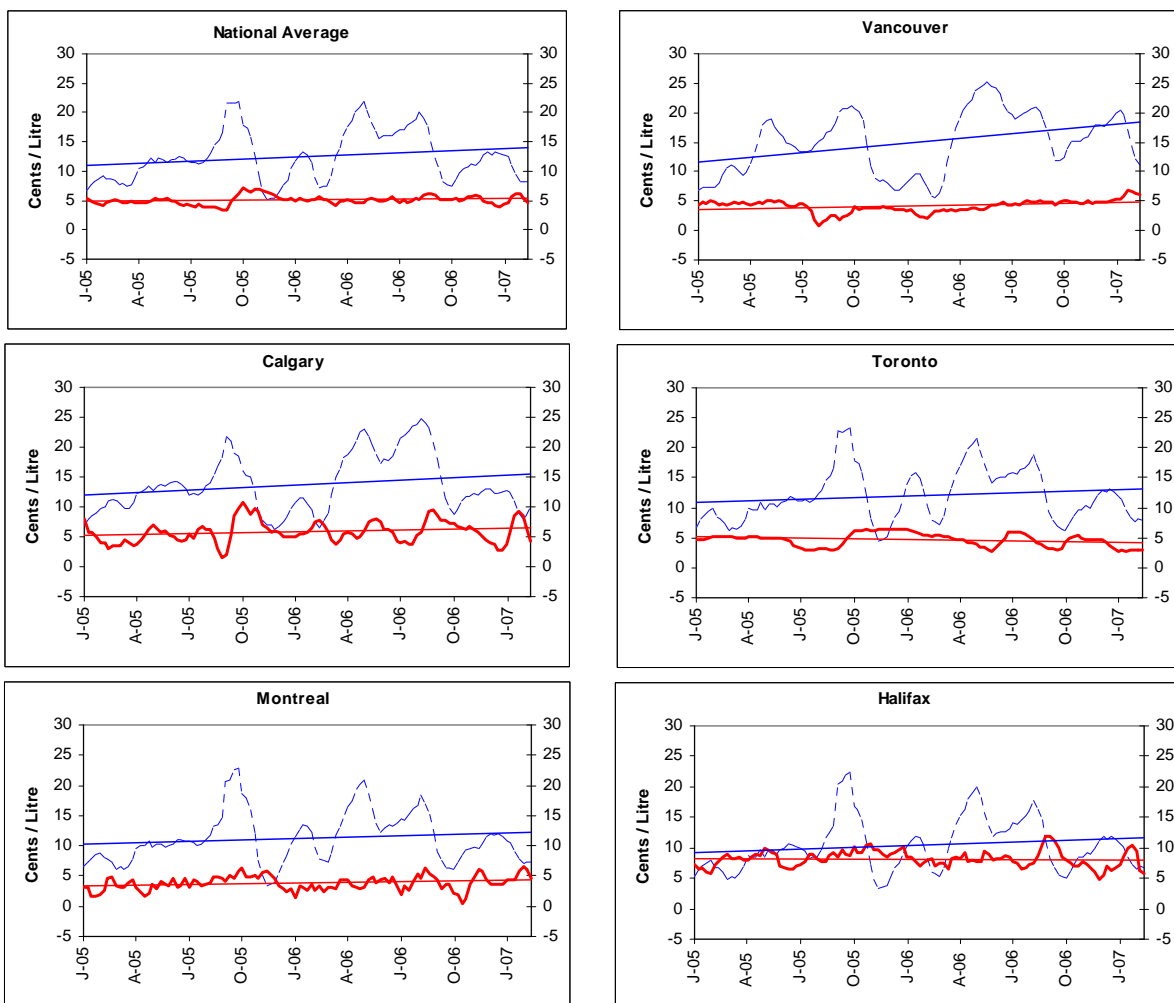
In this section we are focusing on the average refining and marketing margins for the four-week period ending February 13th as opposed to the weekly average used in the wholesale gasoline prices section. As shown in Figure 5, refining margins for gasoline tend to follow a seasonal pattern, namely rising in the summer in response to the demand of the driving season and dropping in the winter.

The refining margin is defined as the difference between the wholesale price of gasoline and the crude oil price. However, this margin is very much a function of the gasoline supply situation and the local market conditions. In turn, the local market conditions can have a considerable impact on short-term wholesale gasoline prices.

The marketing margin can differ significantly from city to city and region. These margins must cover the costs associated with transporting product through the distribution system. Some of the distribution challenges arise from the fact that petroleum products are refined in only a few geographic regions but they are consumed all across Canada.

Alberta and Saskatchewan produce more products than they consume, while Manitoba, parts of British Columbia and most of the territories are supplied primarily from the three refineries in Edmonton. As a result of the long distance the products must travel the margins are also higher in these areas.

Figure 5: Refining and Marketing Margins (Four-Week Rolling Average Ending February 13th)
----- Refining Margin — Marketing Margin



Source: NRCan





Crude Oil Overview

World Oil Prices Increase Marginally

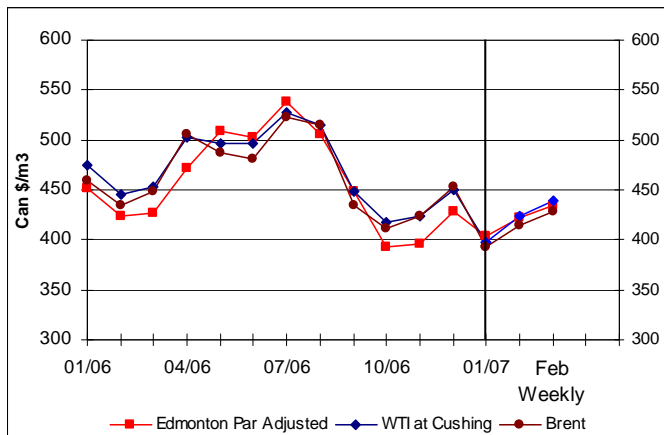
For the week ending February 9, 2007, average crude oil prices ranged from \$429 to \$438/m³ (\$US57 to \$US59/bbl) up \$11 to \$15/m³ (approximately \$US2/bbl) from the previous week. While the price for Edmonton Par has seen little change, WTI and Brent declined \$17/m³ and \$13/m³ (\$US4 and \$US3/bbl) against prices for the same period last year.

While the world geopolitical scene has been relatively calm over the past two weeks, crude oil prices increased slightly. Prices continue to settle within OPEC's estimated target of \$US50 to \$US60/bbl. OPEC-10 (excluding Angola and Iraq) crude oil production fell by 100,000 bbl/day in January. OPEC has announced further cuts effective February 1. It is expected that these cuts will decrease production by approximately 300,000 bbl/day (about 60% of the announced 500,000 bbl/day cuts).

With sufficient North American inventory and increasing spare production capacity, it is not expected that these cuts will cause a significant increase in the price of crude oil. Instead, it is expected that prices will remain close to \$US60/bbl for the immediate future.

While there has been little recent discussion about Iran in the media, the UN Security Council is scheduled to meet on February 20th to review sanctions against the country. This could result in increased tension between Iran and the West, adding further question to the security of Iran's oil supply. Security concerns and attacks on oil infrastructures in Nigeria continue to limit international supply from that region.

Figure 6: Crude Oil Price Comparisons



Changes in Crude Oil Prices

Crude Oil Prices	Week ending: 2007-02-09		Change from:			
	\$Can/ m ³	\$US/ bbl*	Previous Week	Last Year	\$Can/ m ³	\$US/ bbl*
Edmonton Par	433.95	58.39	+11.47	+1.48	-0.92	-1.76
WTI	438.48	59.00	+14.24	+1.85	-17.44	-4.06
Brent	429.11	57.73	+14.59	+1.90	-12.72	-3.37

*Note that prices per barrel are now reported in U.S. dollars

Source: NRCan

Canada's Established Conventional and Unconventional Crude Oil Reserves (millions cubic metres of oil)

Region	Rank	Reserves	Percent
Oil Sands Reserves (Unconventional)			
Alberta		27,663	100%
Conventional Oil Reserves			
East Coast Offshore	1	273	32.9%
Alberta	2	271	32.7%
Saskatchewan	3	198	23.9%
Mackenzie Beaufort	4	54	6.5%
British Columbia	5	21	2.6%
Mainland Territories	6	6	0.7%
Manitoba	7	4	0.5%
Ontario	8	2	0.2%

Total Conventional Oil Reserves 828 100%

Total Oil Sands and Conventional Oil Reserves 28,491 100%

Source: Alberta Energy Utilities Board and the Canadian Association of Petroleum Producers

Definitions:

Conventional Crude Oil – Crude oil that can be technically and economically produced through a well using normal production practices and without altering the natural viscous state of the oil.

Unconventional Crude Oil – Crude oil that is not classified as conventional oil (e.g., bitumen)





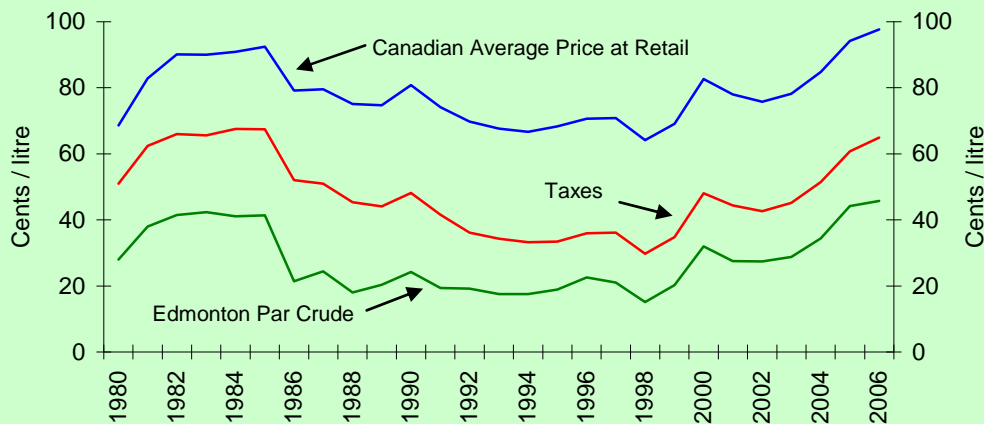
Historical Gasoline Prices

The following graph illustrates the historical average price of regular gasoline in Canada, when adjusted for inflation and the value of the dollar over time. In 2006, average gasoline prices reached nearly 98 cents per litre which is 4 cents per litre higher than in 1985.

Excluding taxes, gasoline prices were lower in 2006 by nearly 3 cents per litre compared to their highest point in 1984. The tax component of the retail gasoline price, which comprises the provincial and federal taxes, increased gradually over the decades from nearly 18 cents per litre in 1980, peaking at almost 35 cents per litre in 2000, and then declining slightly to 33 cents per litre in 2006. Overall, the average gasoline price for the 2000–2006 period was just over 84 cents per litre, compared to an average of 82.4 cents per litre for the 1980s.

Regular Fuel Focus readers will recall from our February 2, 2007, issue that real world crude oil prices (in 2006 \$) were at their highest in the early 1980s. However, Canadian consumers were partially shielded from those peaks with a regulated oil price that remained several dollars per barrel below world oil prices. Government price controls were removed in 1985 to ensure that sufficient supplies of petroleum products were available to consumers at the most competitive price. In 2006, crude oil prices reached 46 cents per litre, slightly higher than the peak of 42 cents per litre in 1983 when measured in 2006 dollars.

Average Price of Regular Gasoline in Canada
(in 2006 \$)



Source: Statistics Canada and NRCan

Average Historical Gasoline Prices		
	Nominal ¢/L	Real ¢/L (2006)
1980	46.0	82.4
1990	55.7	70.2
2000 - 2006	79.5	84.5
1980 - 2006	58.3	78.4

