



National Overview

Canadian Retail Gasoline Prices Up for the Sixth Consecutive Week

The average Canadian retail gasoline price was up for the sixth consecutive week, reaching 98 cents per litre for the week ending February 27, 2007. Prices are now 9 cents per litre higher than they were at this time last year.

Canadian gasoline prices rose following the upward pressure from wholesale gasoline prices which reflect mainly the impact of tighter supplies in the face of increased demand for gasoline, reduced inventory levels at this time of the year and the effects of the upward movement in crude oil prices. The supply and logistical constraints, observed recently in Ontario, also pushed up the average Canadian gasoline prices.

Diesel fuel prices increased 2.5 cents per litre from last week to 96 cents per litre. Furnace oil prices rose 1.4 cents per litre to 84 cents per litre and were nearly 3 cents per litre higher than a year ago. Colder temperatures resulted in an increase in demand for distillates in recent weeks.

Recent Developments

- The Ontario market experienced wide-spread petroleum product supply and logistics problems due to a series of refinery interruptions, the Canadian National (CN) Rail strike and the cold temperatures in recent weeks. On February 15, 2007, a fire at Imperial Oil's Nanticoke refinery reduced product supply, primarily affecting diesel and gasoline production. In addition, supply efforts were hampered by extremely colder temperatures experienced throughout southern Ontario in early February which had already drawn down inventories of heating oil and diesel. The closure of the St. Lawrence Seaway during the winter months and the CN Rail strike also reduced some of the distribution system's flexibility.
- On February 14, 2007, the Government of Canada announced two new programs to help Canadians choose more eco-friendly vehicles. The \$15 million ecoTechnology for Vehicles Program will test a range of advance technologies while the \$21 million ecoENERGY for Personal Vehicles program will provide fuel consumption information and decision-making tools to encourage the purchase of fuel-efficient vehicles. For more information, visit <http://www.tc.gc.ca/mediaroom/releases/nat/2007/07-gc005e.htm>
- In 2006, Canadians consumed nearly 41 billion litres of gasoline, a slight decline of 0.1% compared to 2005. Diesel fuel oil sales increased marginally by 1% to reach 26 billion litres while furnace oil sales dropped significantly by 10% to 4.1 billion litres mainly due to a milder winter in 2005-2006. (Statistics Canada, The Daily)

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

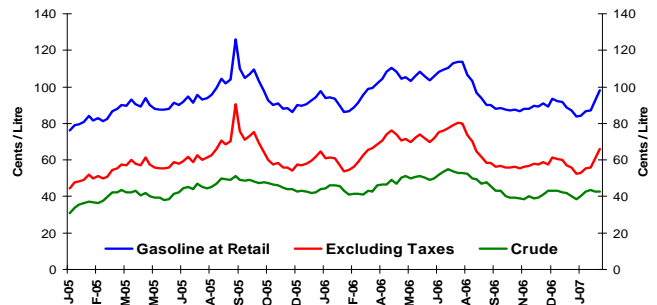
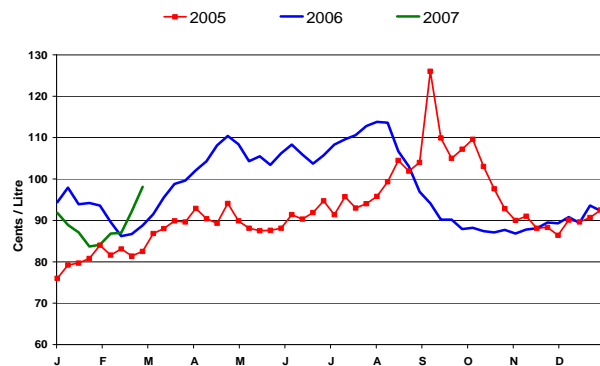


Figure 2: Weekly Regular Gasoline Prices



Changes in Fuel Prices

¢/L	Week of:	Change from:	
	2007-02-27	Previous Week	Last Year
Gasoline	98.1	+5.9	+9.3
Diesel	96.4	+2.5	+4.9
Furnace Oil	84.2	+1.4	+3.0

Source: NRCan

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Retail Gasoline Overview

The four week average Canadian gasoline price for the period ending February 27th was 91 cents per litre, a increase of 5.6 cents per litre from the last report on February 16th. This represents a 3.2 cents per litre rise from the same period in 2006.

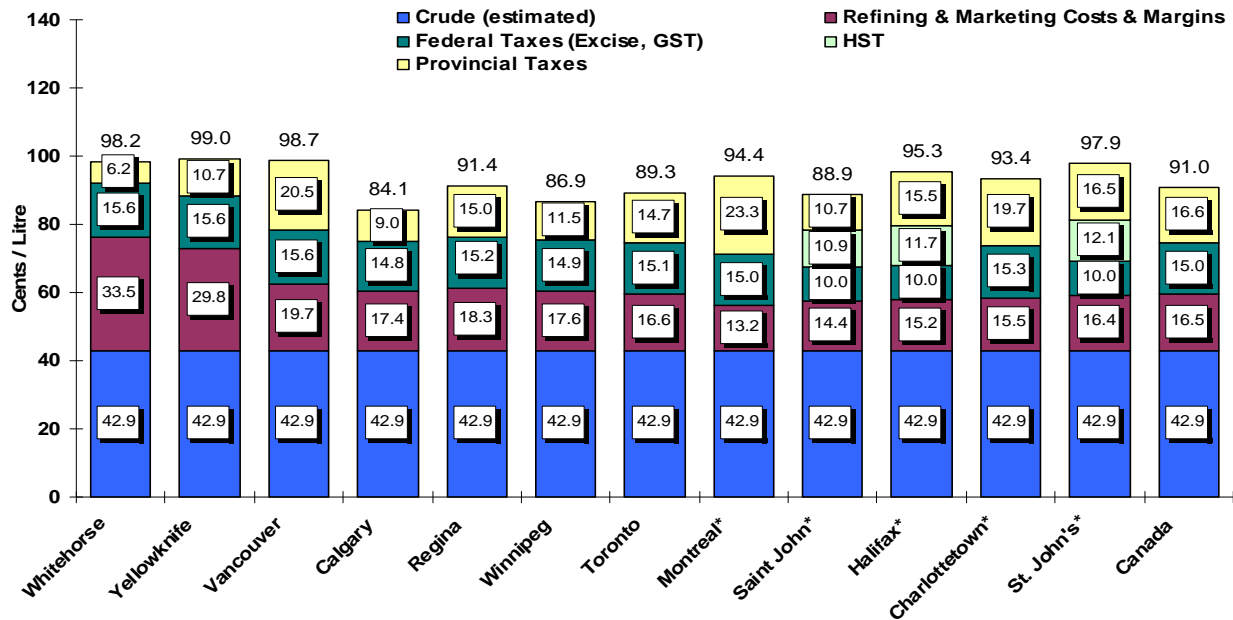
As shown in Figure 3, the crude oil portion of the pump price components registered almost 43 cents per litre, an increase of nearly 2 cents per litre from two weeks ago. Prices are unchanged from the same period last year.

Gasoline refining and marketing costs and margins, for the period under review, accounted for more than

16 cents per litre of the total pump price, an increase of nearly 4 cents per litre from two weeks ago. Most centres showed an increase ranging from almost 6 cents per litre (Toronto) to 0.5 cents per litre (Charlottetown).

Retail gasoline prices, when compared to those in the last report, increased in the range of 4 to 5 cent per litre in Western cities, while the price movement in Eastern cities ranged from an increase of 8 cent per litre in Toronto to 2 cents per litre in Charlottetown. However, the average price increase in Eastern cities (Toronto to St. John's), compared to Western cities (Vancouver to Winnipeg), was slightly less due to a number of Eastern provinces regulating prices.

Figure 3: Regular Gasoline Pump Prices in Selected Cities
4-Week Average (February 6 to February 27, 2007)



Source: NRCan

* Regulated Markets

Seasonal Variations in Demand and the Impact on Distillate and Gasoline Inventories

Demand for some petroleum products is very seasonal and at its peak can exceed the production capacity of refineries. Therefore, refiners need to anticipate the peak consumption periods by building inventories in advance. Although the Canadian winter is still quite evident across most of the country, oil refiners are nonetheless starting to prepare for summer. As winter ends, heating oil demand declines and refiners start building-up their gasoline inventory in anticipation of the summer driving season. Gasoline inventories increase during the first quarter of the year in anticipation of the growing demand in the summer months. As fall approaches the cycle is reversed and refiners start producing more distillate fuels in preparation for the colder weather ahead. Furnace oil stocks grow during the Fall and are drawn during the coldest months of winter to supplement production when demand is at its highest level. As a result, inventory levels for products such as gasoline and furnace oil can fluctuate significantly over the year.





Wholesale Gasoline Prices

For the week of February 22nd, wholesale gasoline prices increased in all selected centres, compared to the previous week. Increases ranged from less than 1 cent per litre to 6.5 cents per litre in both Canadian and American markets.

The current increase in wholesale gasoline prices reflects mainly the impact of tighter supplies in the face of increased demand for gasoline, reduced inventory levels at this time of the year and the effects of the upward movement in crude oil prices.

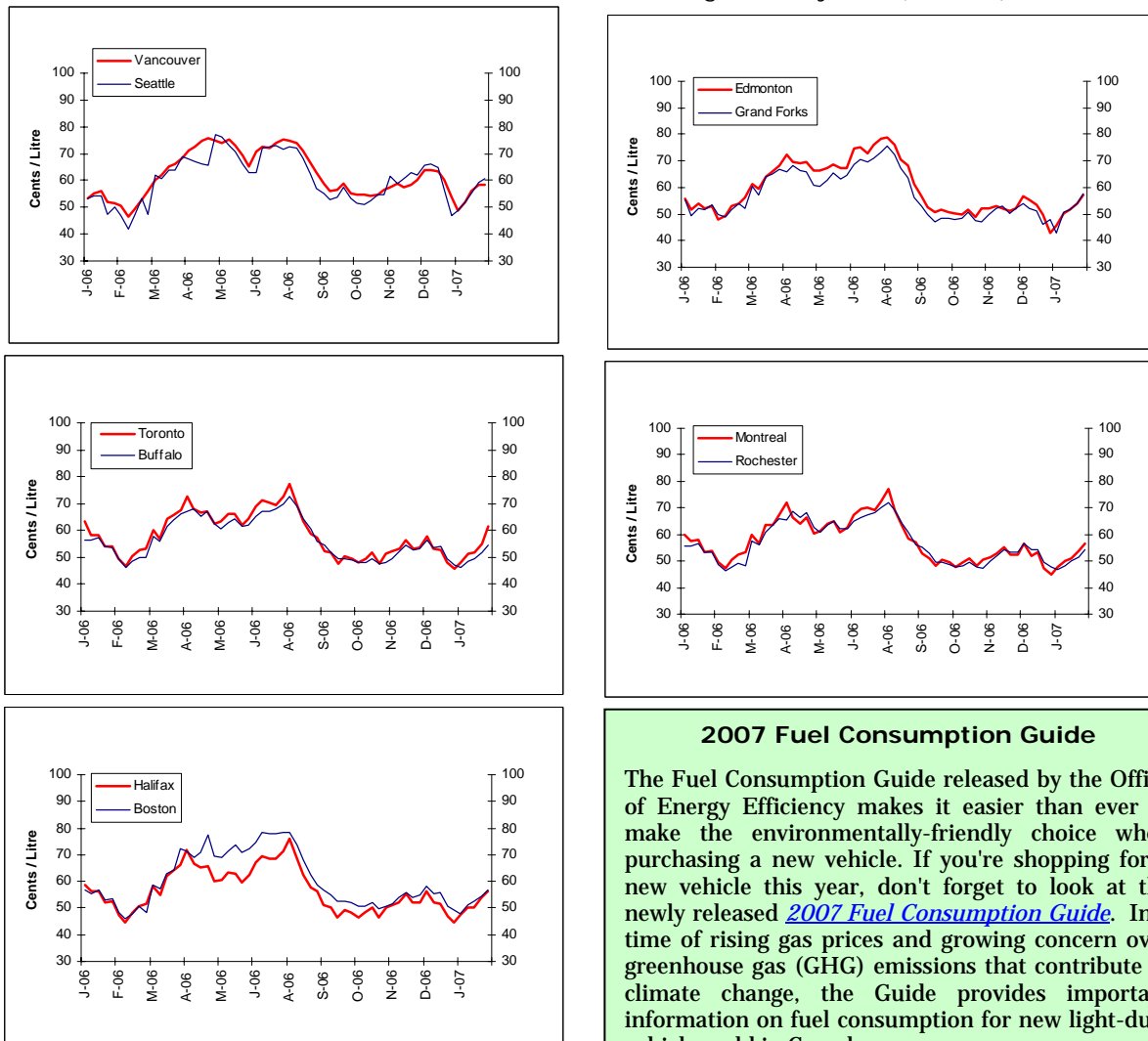
Prices moved upward in both Canadian and American centres as many refineries in North America start their planned seasonal maintenance at this time of year, resulting in a temporary curtailment of gasoline and other petroleum product supplies, in order to prepare for the higher demand spring period.

Toronto wholesale gasoline price saw the highest rise, increasing 6.5 cents per litre on February 22nd to reach nearly 62 cents per litre. This represents a rise of approximately 10 cent per litre compared to two weeks ago. Meanwhile, the competing rack price in Buffalo rose almost 3 cents per litre on February 22nd, nearly 5 cents per litre higher from two weeks ago.

Toronto wholesale gasoline prices were buoyed by recent gasoline shortages caused by a refinery fire and transportation problems in Ontario. As a result, prices firmed up in the wake of tightening supplies.

Overall, prices have risen in the range of 7 to 15 cents per litre in all centres in the last five weeks. Prices are also in the range of 6 cents per litre to almost 13 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 22nd (Can ¢/L)



Sources: NRCan, Bloomberg

2007 Fuel Consumption Guide

The Fuel Consumption Guide released by the Office of Energy Efficiency makes it easier than ever to make the environmentally-friendly choice when purchasing a new vehicle. If you're shopping for a new vehicle this year, don't forget to look at the newly released [2007 Fuel Consumption Guide](#). In a time of rising gas prices and growing concern over greenhouse gas (GHG) emissions that contribute to climate change, the Guide provides important information on fuel consumption for new light-duty vehicles sold in Canada.





Refining and Marketing Margins

This section focuses on the average refining and marketing margins for the four-week period ending February 27th as opposed to the weekly average used in the wholesale gasoline prices section. Therefore, the trend between these two sections is not directly comparable.

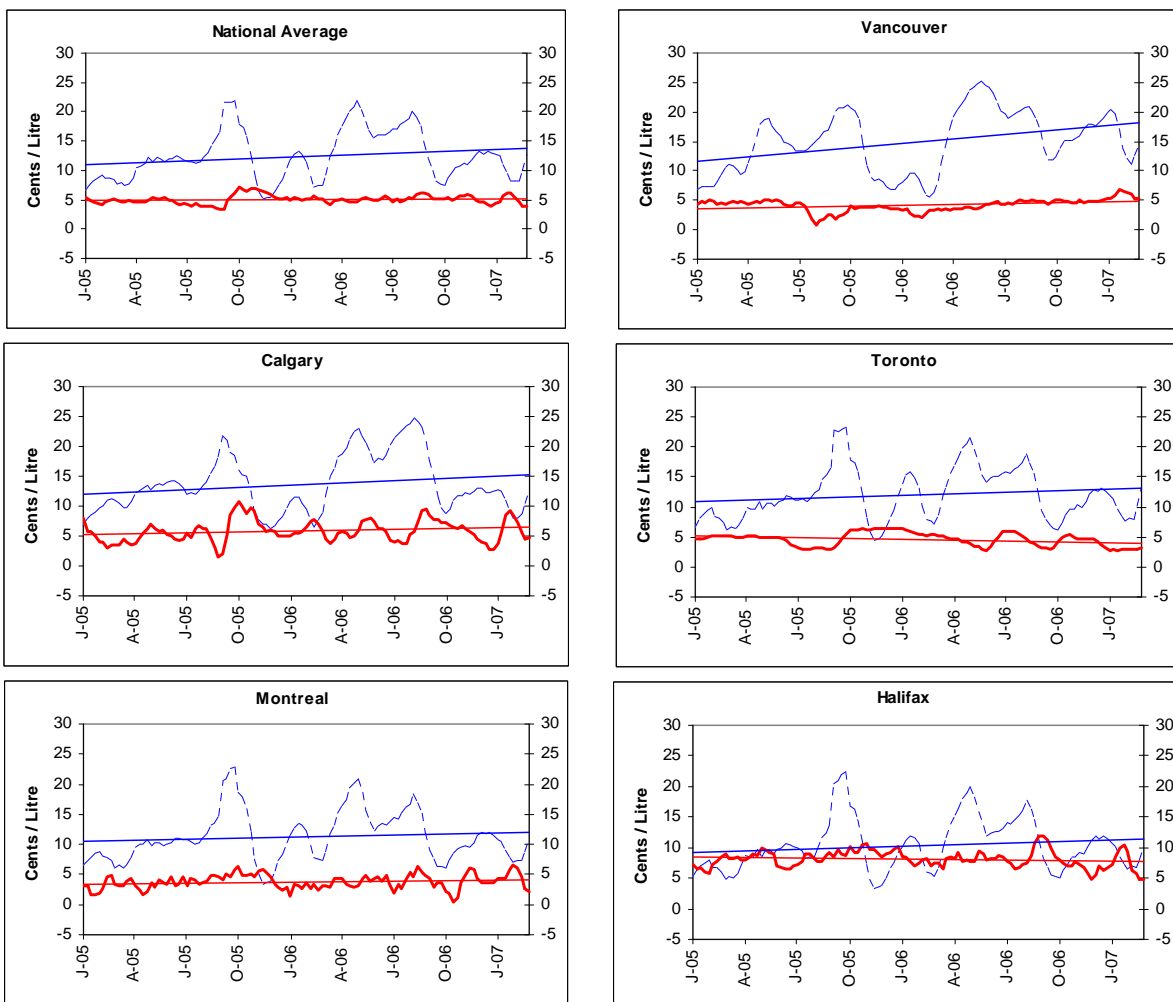
The intent in Figure 5 is to illustrate that in spite of the volatility observed in the refining margins as a result of seasonal fluctuations and specific market conditions, over the long-term they are relatively stable. However, these margins have increased in recent years as supplies of gasoline have tightened and refinery costs have increased.

In general, while gasoline markets are well supplied across the country, there can also be temporary

restrictions in the supply chain due to planned maintenance operations or unforeseen events. For example, the recent fire at Imperial's Nanticoke refinery on February 15, 2007, combined with transportation difficulties associated with the CN Rail strike, have led to product shortages in Ontario.

The marketing margins, on average about 5 cents per litre, must pay for the cost associated with the marketing of gasoline. Part of the cost associated with retailing gasoline varies with the volume of gasoline sold, while other costs are fixed regardless of the volume of business. Most often urban outlets with higher sales volume will have a lower cost per unit sold than smaller markets with lower sales per outlet. The smaller outlets will then need a higher margin to cover their retailing costs.

Figure 5: Refining and Marketing Margins (Four-Week Rolling Average Ending February 27th)
----- Refining Margin — Marketing Margin



Source: NRCan





Crude Oil Overview

Crude oil prices surpasses \$US60/bbl

Crude oil prices ended the week of February 23rd in the \$425 to \$436/m³ range (\$US 58 to \$US 60/bbl) up \$3 to \$16/m³ (\$US 1 to \$US 2/bbl) from the previous week. Edmonton Par increased \$13/m³ (\$US 1/bbl) above last year's levels, while Brent declined \$2/m³ (\$US 1/bbl) from last year at the same period.

Crude oil prices on the New York Mercantile Exchange (NYMEX) have surpassed \$US 60/bbl for the first time this year, still well below the recent high of \$US 78/bbl seen in July 2006.

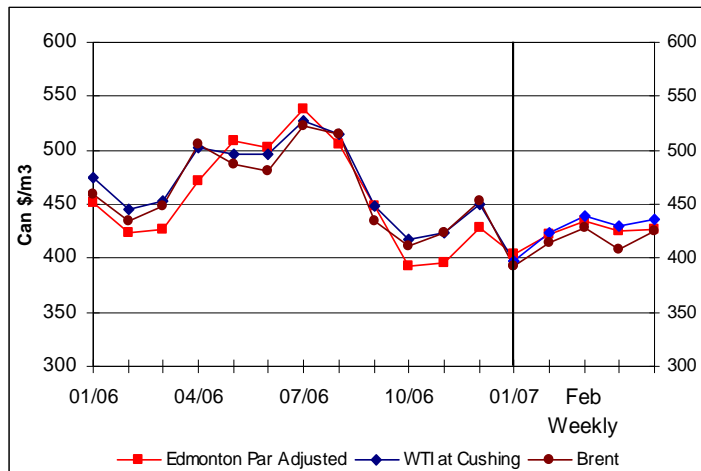
Iran's recent refusal to comply with international demands to stop enriching uranium continues to keep traders worried that increased tensions in the Middle East could result in a decrease in the international supply of crude oil.

With speculators anticipating future supply disruptions as a result of geopolitical tensions, crude oil prices have been driven up in futures markets by hedge funds in anticipation of future price increases.

OPEC's cuts have removed some excess crude oil from the international market causing world inventory levels to be reduced. If international demand remains weak and there are no significant supply disruptions, strong non-OPEC supply could have a significant impact on current market dynamics.

Overall, world supply and demand for crude oil remains relatively balanced. Barring any momentous international developments or supply disruptions, the price of oil is expected to remain near \$US 60 per barrel.

Figure 6: Crude Oil Price Comparisons



Changes in Crude Oil Prices

Crude Oil Prices	Week ending: 2007-02-23		Change from:			
			Previous Week		Last Year	
	\$Can/ m ³	\$US/ bbl*	\$Can/ m ³	\$US/ bbl*	\$Can/ m ³	\$US/ bbl*
Edmonton Par	427.50	58.44	+2.95	+0.62	+13.28	+1.13
WTI	436.32	59.66	+7.10	+1.20	+2.54	-0.34
Brent	424.84	58.09	+16.23	+2.44	-2.03	-0.96

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

Source: NRCan

World's Top Oil Reserves

Country	Billions of Cubic Metres	Billions of Barrels	OPEC Member
Saudi Arabia	42	262	Yes
Canada	28	179	No
Iran	22	136	Yes
Iraq	18	115	Yes
Kuwait	16	102	Yes
United Arab Emirates	16	98	Yes
Venezuela	13	80	Yes
Russia	10	60	No
Libya	7	42	Yes
Nigeria	6	36	Yes

Source: Oil and Gas Journal, December 2006. For more information please consult the oil markets section at:

http://fuelfocus.nrcan.gc.ca/fact_sheets/oilmarket_e.cfm

