



## National Overview

### Retail Gasoline Prices Peak at \$1.03 per Litre

The Canada average retail gasoline price rose to 103.0 cents per litre for the week ending March 13<sup>th</sup>, up 1.4 cents per litre from last week, and 7.5 cents per litre higher than last year's price.

Retail gasoline prices have risen for eight consecutive weeks and are now above the \$1 per litre threshold, the highest level since August 2006. Current prices reflect higher wholesale gasoline prices across North America, in the face of rising gasoline demand and tightening of supplies, as inventory levels are reduced at this time of the year. Current wholesale gasoline prices also reflect the rebound in crude oil prices since December. In addition, the average Canadian gasoline prices have been exacerbated in the last few weeks by the disruption caused by Imperial Oil's Nanticoke refinery fire in Ontario and the CN Rail strike. However, this situation is being resolved and the refining and transportation system is expected to re-balance itself in the short-term.

Diesel fuel prices increased nearly 2 cents per litre from last week to 99 cents per litre. Furnace oil prices rose almost 1 cent per litre to 85 cents per litre and are about 3 cents per litre higher than a year ago. Colder weather in recent weeks increased the demand for distillates and pushed prices upward.

### Recent Developments

- As of March 14, 2007, Imperial Nanticoke (Ontario) refinery operations continue to recover and the refinery is expected to be back to full capacity by the end of March. Gasoline supply to wholesale and commercial customers has improved as refinery production increases. The retail service station network is being restocked and is expected to continue to improve over the next few weeks.
- Saskatchewan's Consumers Co-operatives Refineries Ltd. is considering a \$1 billion expansion in refining capacity at its Regina facility. Owner Federated Co-operatives Limited will decide by the end of the year on whether to give the go ahead for the project.
- New Brunswick's Energy and Utility Board will set gasoline prices in the province every Thursday instead of every two weeks. The decision was made by the New Brunswick Government to allow a more responsive reaction to world oil market prices.
- Prince Edward Island's gasoline and diesel fuel tax rate <http://www.gov.pe.ca/pt/taxandland/> moved upward effective March 1, 2007, increasing 1.1 cents per litre to 20.8 cents a litre while diesel taxes increased 0.5 cents per litre to 20.0 cents a litre.

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

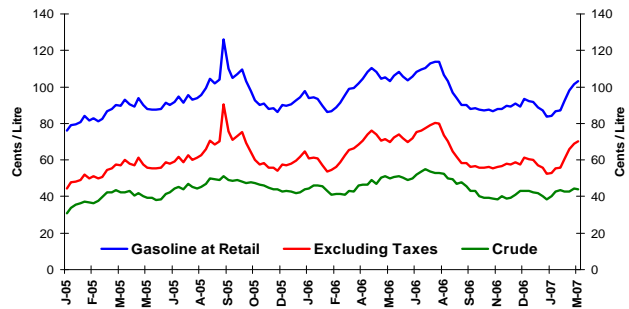
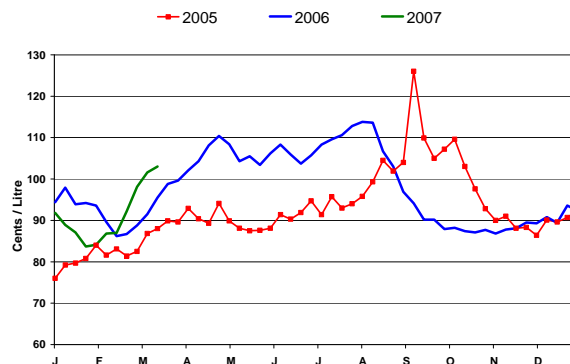


Figure 2: Weekly Regular Gasoline Prices



### Changes in Fuel Prices

| ¢/L         | Week of:   | Change from:  |           |
|-------------|------------|---------------|-----------|
|             | 2007-03-13 | Previous Week | Last Year |
| Gasoline    | 103.0      | +1.4          | +7.5      |
| Diesel      | 99.4       | +1.9          | +5.3      |
| Furnace Oil | 85.2       | +0.6          | +3.4      |

Source: NRCan

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## Retail Gasoline Overview

For the four-week period ending March 13, 2007, the average gasoline pump price in selected cities across Canada was almost 99 cents per litre, an increase of nearly 8 cents per litre from the last report on March 2, 2007. This is also 8 cents per litre higher than at the same period in 2006.

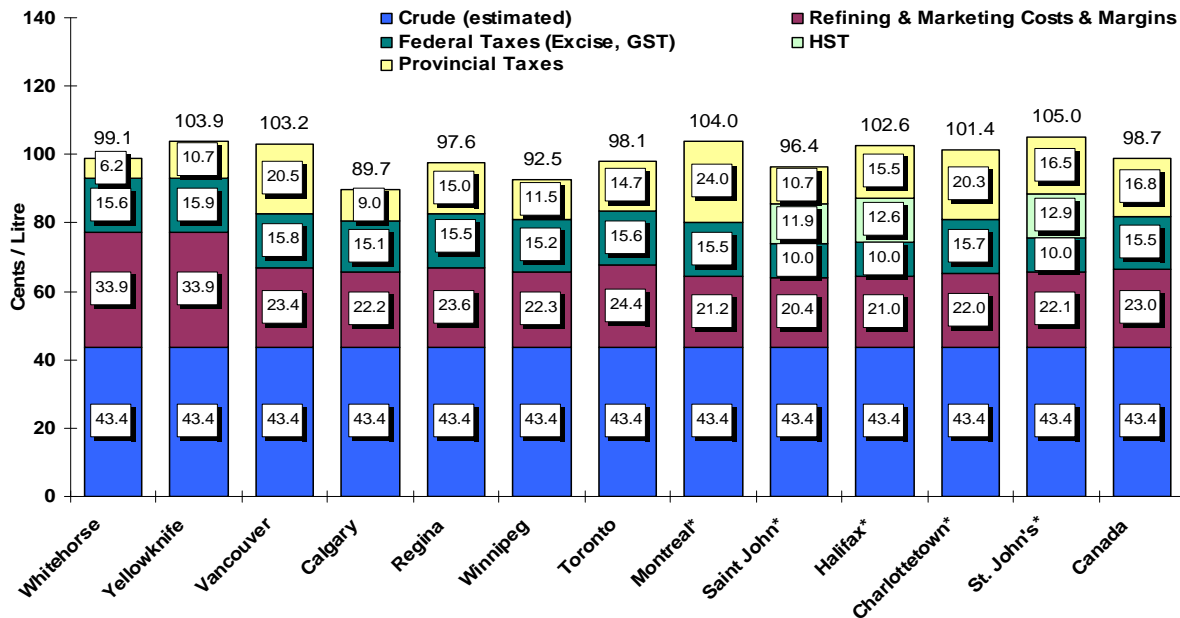
The four-week average crude oil price registered slightly above 43 cents per litre, nearly 0.5 cent per litre higher than our last report, and 2 cents per litre higher than the same period last year.

The gasoline refining and marketing costs and margins component, for the period under review in Figure 3, accounted for about 23 cents per litre of the total pump

price, an increase of nearly 7 cents per litre from the last report. All centres showed an increase in refining and marketing costs and margins ranging from 4 cents per litre (Yellowknife) to 8 cents per litre (Toronto and Montreal).

The four-week average retail gasoline prices, when compared to those in the last report, increased in the range of 5 to nearly 10 cents per litre for the selected cities. The price movement was larger in Eastern cities (Toronto to St. John's) ranging from 7 cents per litre in St. John's to almost 10 cents per litre in Montreal. Prices in Western cities (Vancouver to Winnipeg) increased in the range of 4.5 cents per litre (Vancouver) to 6 cents per litre (Winnipeg).

**Figure 3: Regular Gasoline Pump Prices in Selected Cities  
4-Week Average (February 20 to March 13, 2007)**



Source: NRCan

\* Regulated Markets

### Lower Gasoline Prices Partly Offset Inflation Rise in January 2007

Statistics Canada's Consumer Price Index (CPI) report released February 20, 2007, <http://www.statcan.ca/english/Subjects/Cpi/cpi-en.htm> indicates that Canada's annual inflation rate slowed to 1.2% in January, with lower gasoline prices offsetting the rising cost of housing. The annual increase in the amount that consumers pay for goods and services was down from 1.6% in December. The core CPI, which removes the eight most volatile items in the index and is used by the Bank of Canada to monitor its inflation-control target, rose by 2.1% between January 2006 and January 2007, following a 2% rise in December over 2005.

The 12-month change in the all-items index again grew at the fastest pace in Alberta reflecting continued pressure from higher housing costs. Prices there rose 3.9% on average in January 2007 compared with January 2006. All Canadian drivers, except those in British Columbia, enjoyed a drop in gasoline prices between January 2006 and January 2007. The price of gasoline fell 7.6% on average across Canada compared to January 2006. This decline was attributable to the fact that prices in January 2006 had taken a 19.2% leap mainly because of the unstable international geopolitical situation. The largest declines in gasoline prices occurred in Ontario, New Brunswick and Quebec. Drivers in British Columbia paid 6.4% more for gasoline in January than a year earlier.





## Wholesale Gasoline Prices

Wholesale gasoline prices continued to climb, albeit more moderately, in all selected centres for the week ending March 8<sup>th</sup>. Increases ranged from 3 cents per litre to less than one cent per litre in both Canadian and American markets.

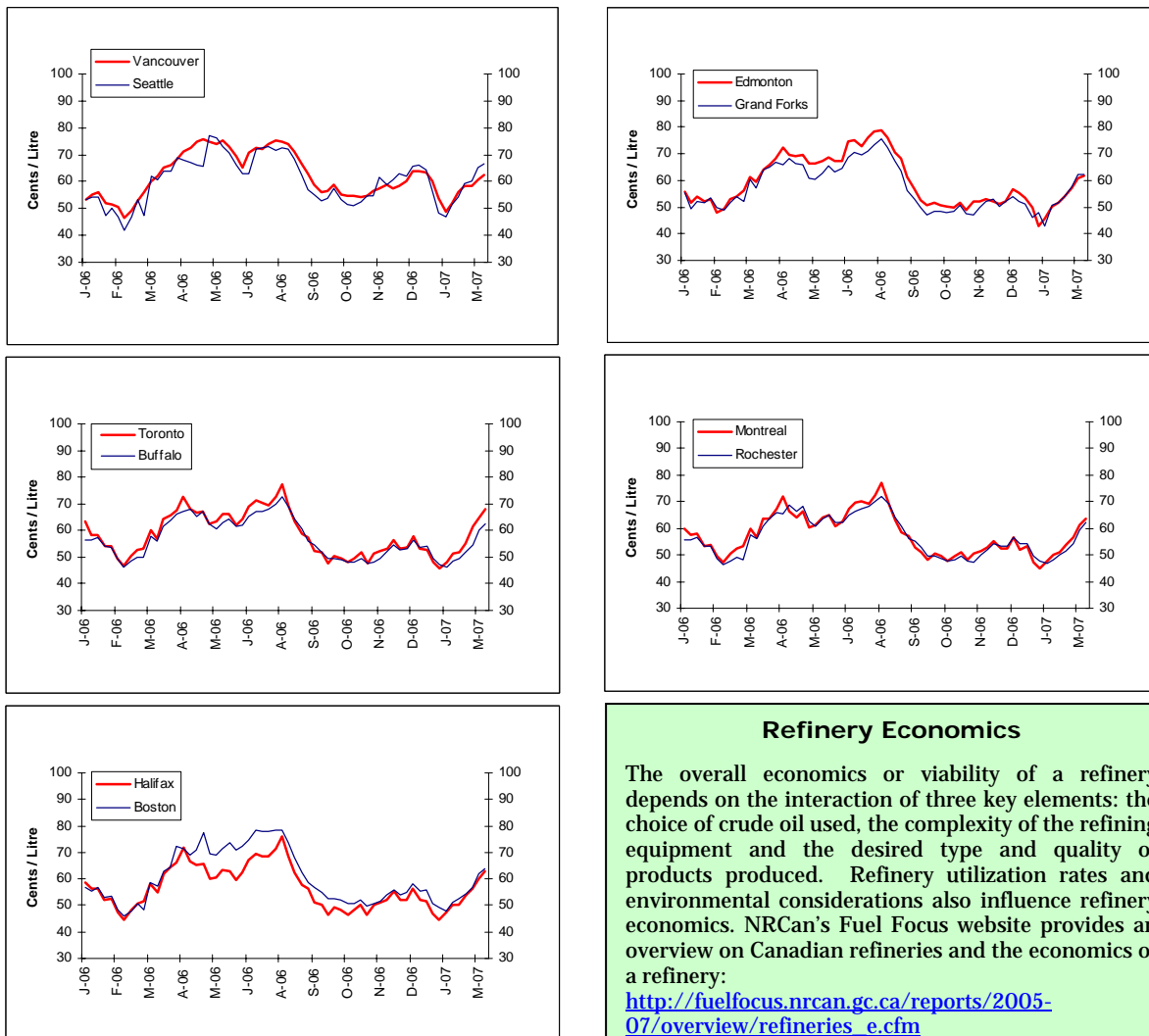
The upward movement in wholesale gasoline prices is being pushed by increased concerns about lower gasoline inventory levels at this time of the year and by marginally higher crude oil prices.

Wholesale gasoline prices continue moving upward in both Canadian and American centres as refineries in North America are starting their seasonal maintenance in order to prepare for the higher demand in the spring.

These maintenance operations generally result in a temporary curtailment of gasoline production and other petroleum products which in turn puts upward pressure on prices.

Toronto wholesale gasoline prices were the highest of all centres increasing 3 cents per litre on March 8<sup>th</sup> to reach 68 cents per litre, nearly 7 cents per litre higher than two weeks ago. The gasoline supply situation remained tight in Ontario following the shortage caused by Imperial's Nanticoke refinery fire and transportation problems. However, the refinery has restarted crude oil processing and a full return to normal refinery operations is expected by the end of March.

**Figure 4: Wholesale Gasoline Prices (Weekly Average)**  
Rack Terminal Prices for Selected Cities ending March 8<sup>th</sup> (Can ¢/L)



Sources: NRCAN, Bloomberg

**Refinery Economics**

The overall economics or viability of a refinery depends on the interaction of three key elements: the choice of crude oil used, the complexity of the refining equipment and the desired type and quality of products produced. Refinery utilization rates and environmental considerations also influence refinery economics. NRCAN's Fuel Focus website provides an overview on Canadian refineries and the economics of a refinery:

[http://fuelfocus.nrcan.gc.ca/reports/2005-07/overview/refineries\\_e.cfm](http://fuelfocus.nrcan.gc.ca/reports/2005-07/overview/refineries_e.cfm)





## Refining and Marketing Margins

As shown in Figure 5, refining margins for gasoline have rebounded in the last few weeks. The upward swing is indicative of a tightening of supplies as a result of upcoming spring maintenance and turnaround operations in various refineries. This is part of the normal refiner adjustment to the seasonal variation in demand by shifting operations away from heating oil, as demand declines, towards building up gasoline inventories in anticipation of the summer driving season.

Marketing margins across Canada continue to be relatively flat while the refining margins tend to fluctuate more widely in response to specific market supply and demand constraints of each region.

The marketing margin for gasoline can differ significantly from city to city and region to region. Although this margin represents a small fraction of the cost of a litre of gasoline it attracts the consumer's attention because it is related to the price posted by service stations across the country. Ultimately, it is the local market conditions in each area, as seen in Ontario in the last few weeks, which determines the retail pump price and the margin available to the retailers.

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

**Figure 5: Refining and Marketing Margins (Four-Week Rolling Average Ending March 13<sup>th</sup>)**



Source: NRCan





## Crude Oil Overview

Crude oil prices ended the week of March 9<sup>th</sup> in the \$443 to \$450/m<sup>3</sup> range (\$US 60 to \$US 61/bbl) up slightly from the previous week. Edmonton Par increased \$30/m<sup>3</sup> (\$US 3/bbl) above last year's levels, while Brent increased \$17/m<sup>3</sup> (\$US 1/bbl) from last year during the same period.

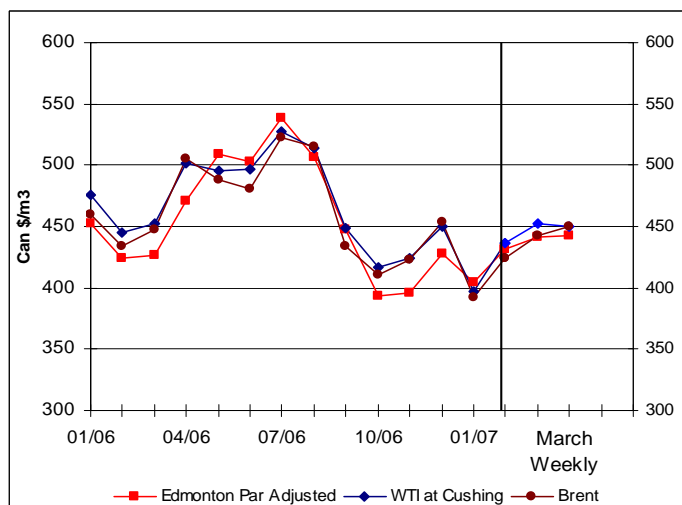
While the price for Canadian Par has increased marginally in Canadian dollars, the depreciating exchange rate has caused the price of Canadian oil to decrease in U.S. funds.

Recently, weather related events have had a greater influence on crude oil prices than the geopolitical scene. With February in the United States being the coldest in the last thirty years, prices remained close to \$US 60/bbl due to a high demand for heating oil.

As North America starts to feel the signs of spring, heating oil demand has begun to decline, bringing down the price of crude oil. But, as the summer driving season approaches, the increase in gasoline consumption will put increased pressure on crude oil supply which could lead to an increase in prices.

According to the International Energy Agency, OPEC cuts since September have only amounted to about 1.0 million barrels per day. Announced cuts were partly offset by increases in production in both Angola and Iraq. Following the recent cuts, it is estimated that OPEC now has almost 3 million barrels in unused production capacity. Although there is no indication of further production cuts, traders are anxious to see what results from OPEC's meeting on March 15<sup>th</sup>.

Figure 6: Crude Oil Price Comparisons



### Growth in World Oil Reserves

This graph shows that the world's proven oil reserves have doubled in the last 25 years from 102 billion cubic metres (642 billion barrels) in 1980 to 209 billion cubic metres (1,317 billion barrels) in January 2007, a 107 billion cubic metres increase.

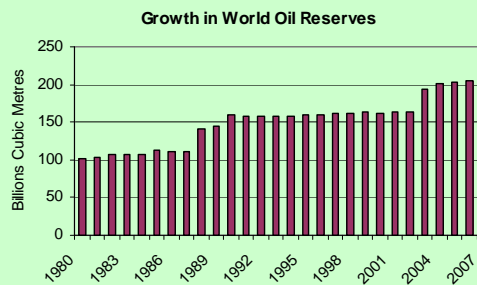
This growth has been the result of new finds, the inclusion of oil sands reserves in 2003 to world oil reserves, and the continued development and application of technologies such as 3 and 4-D seismic, horizontal wells, well fracturing, new drilling methods and enhanced recovery technologies.

The application of these technologies means that many wells now recover 40%, 50% or higher of the initial oil in place (as compared to historical rates of 20% to 30% recovery), and that incremental oil continues to be included in the reserve calculations.

### Changes in Crude Oil Prices

| Crude Oil Prices | Week ending:<br>2007-03-09 |               | Change from:             |               |                          |               |
|------------------|----------------------------|---------------|--------------------------|---------------|--------------------------|---------------|
|                  |                            |               | Previous Week            |               | Last Year                |               |
|                  | \$Can/<br>m <sup>3</sup>   | \$US/<br>bbl* | \$Can/<br>m <sup>3</sup> | \$US/<br>bbl* | \$Can/<br>m <sup>3</sup> | \$US/<br>bbl* |
| Edmonton Par     | 442.60                     | 59.76         | +0.80                    | -0.37         | +29.63                   | +2.81         |
| WTI              | 449.72                     | 60.72         | -3.26                    | -0.93         | +8.16                    | -0.17         |
| Brent            | 450.45                     | 60.82         | +7.68                    | +0.56         | +17.28                   | +1.08         |

\*Note that prices per barrel are reported in U.S. dollars  
Source: NRCan



Source: Oil and Gas Journal.

