



National Overview

Average Retail Gasoline Prices Stabilize at 105 cents per Litre from Last Week

The Canadian average gasoline prices remained unchanged at 105 cents per litre for the week of April 24, 2007, compared to the previous week. However, overall retail gasoline prices have declined nearly 1 cent per litre from two weeks ago.

After an upward climb of nearly 22 cents per litre over the last few months, average Canadian retail gasoline prices have abated somewhat in recent weeks and are well below last year's level of \$1.10 per litre. Prices were buoyed at this time last year by the conflict between Israel and Lebanon and the ensuing speculation that the struggle could escalate to oil producing countries in the Middle East and result in oil supply shortages.

In recent months, higher retail gasoline prices were affected by rising wholesale gasoline prices, driven in part by lower U.S. gasoline inventory levels at a time when inventories should be rising in preparation for the higher summer demand. However, the recent decline in wholesale gasoline prices, which were in turn tempered by lower crude oil prices, appears to have partially dampened the upward effect on retail gasoline prices.

Diesel prices declined slightly this week to \$1 per litre. Prices are now 2 cents per litre lower than they were at this time last year. Furnace oil prices rose marginally to 85 cents per litre, but were down approximately 2 cents per litre from a year ago.

Recent Developments

- The Alberta Government has announced the creation of the Energy Resources Conservation Board as a result of separating the Energy and Utilities Board into two independent regulatory authorities. The new Board will focus exclusively on the responsible development of Alberta's resource wealth, while the Alberta Utilities Commission will oversee the distribution and sale of electricity and natural gas to Alberta consumers.
- Consumers paid 2.3% more in March for goods and services in the Consumer Price Index basket than they did in March 2006, owing largely to the strong increase in gasoline prices throughout the country. Canadian consumers paid 10% more for gasoline in March than a year ago at the same time, the strongest 12-month increase since the 16.1% increase in July 2006. Strong demand for gasoline in the United States translated into a continual decrease in American gasoline inventories over the last seven weeks. This was an important factor behind the rise in gasoline prices. (Statistics Canada, The Daily <http://www.statcan.ca/Daily/English/070419/d070419a.htm>)

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

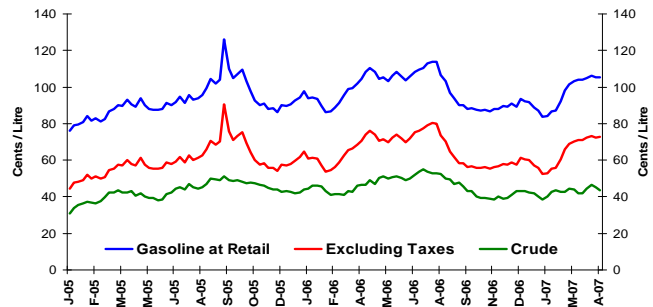
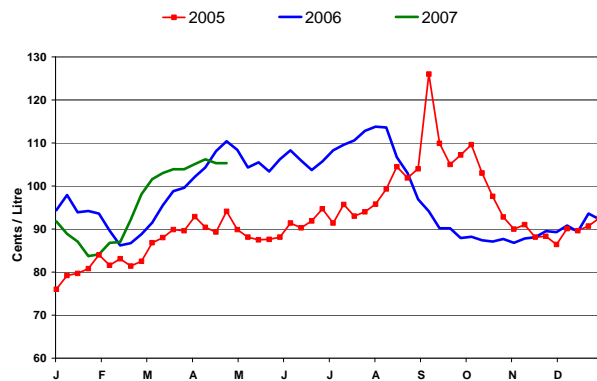


Figure 2: Weekly Regular Gasoline Prices



Changes in Fuel Prices

¢/L	Week of:	Change from:	
	2007-04-24	Previous Week	Last Year
Gasoline	105.3	0.0	-5.1
Diesel	99.9	-0.4	-2.4
Furnace Oil	85.4	+0.1	-1.8

Source: NRCan

In this Issue

	page
<i>National Overview</i>	1
<i>Recent Developments</i>	1
<i>Retail Gasoline Overview</i>	2
<i>Wholesale Prices</i>	3
<i>Refining and Marketing Margins</i>	4
<i>Crude Oil Overview</i>	5
<i>Supplement</i>	6

Fuel Focus Supplement: The impact of temporary oil refinery interruptions on petroleum product prices.





Retail Gasoline Overview

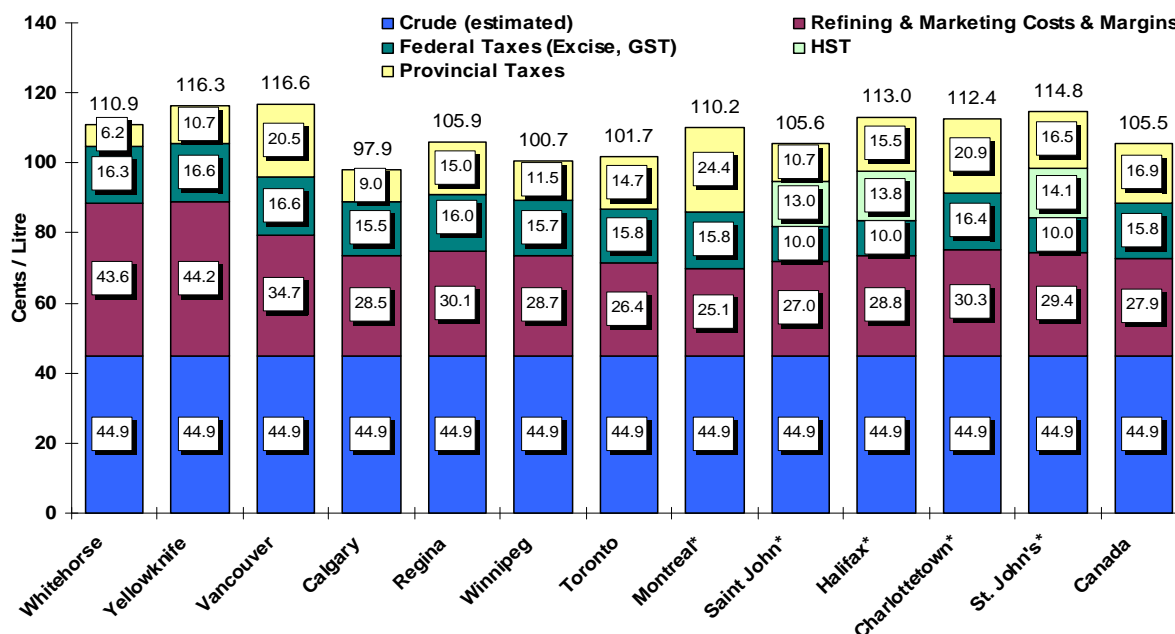
The average Canadian pump price in selected cities for the four weeks ending April 24th was nearly 106 cents per litre, an increase of almost 1 cent per litre from the last report on April 13th. This is 1 cent per litre lower than at the same period in 2006.

The four-week average crude oil prices rose 1.2 cent per litre to 45 cents per litre compared to two weeks ago. However, prices were lower by 2 cents per litre from the same period last year.

Refining and marketing costs and margins declined on average almost 1 cent per litre across Canada, mainly pulled down by 1 and 2.5 cents per litre in Toronto and Montreal respectively.

Retail gasoline prices, when compared to those in the last report, increased in the range of 2 to almost 4 cents per litre in Western cities where gasoline supplies have remained tight for some time. In contrast price fluctuations in Eastern cities ranged from a drop of almost 2 cents per litre in Montreal to an increase 2 cents per litre in Saint John.

**Figure 3: Regular Gasoline Pump Prices in Selected Cities
4-Week Average (April 3 to 24, 2007)**



Source: NRCan

* Regulated Markets

2006 Year End Review Shows Flexibility of the Canadian Economy

Statistics Canada's Year End Review of the Economy, released April 12, 2007, <http://www.statcan.ca/Daily/English/070412/d070412a.htm> shows that Canadians' abilities to react and adapt to fast-changing or unexpected circumstances was last year's most surprising economic development and not the surge in oil prices or the bursting of the American housing bubble which failed to dampen growth.

A year-end review of the economy indicates that the most dramatic example of that adaptability in 2006 was the increase in migration of people to oil-rich Alberta. The province's dominant role in economic growth was the year's biggest economic story. The economy has been hit with a number of shocks in recent years, which in the past could well have triggered a slowdown or even recession. Instead growth has been "remarkably stable" since 2003.

Real gross domestic product expanded 2.7%, only marginally less than the 2.9% gain in 2005, despite a mid-year slowdown and the same as the average annual gain since 2003. The mildness of the slowdown was even more surprising in light of concerns and perceived threats expressed about the economy, including slumps in the automobile and housing markets.





Wholesale Gasoline Prices

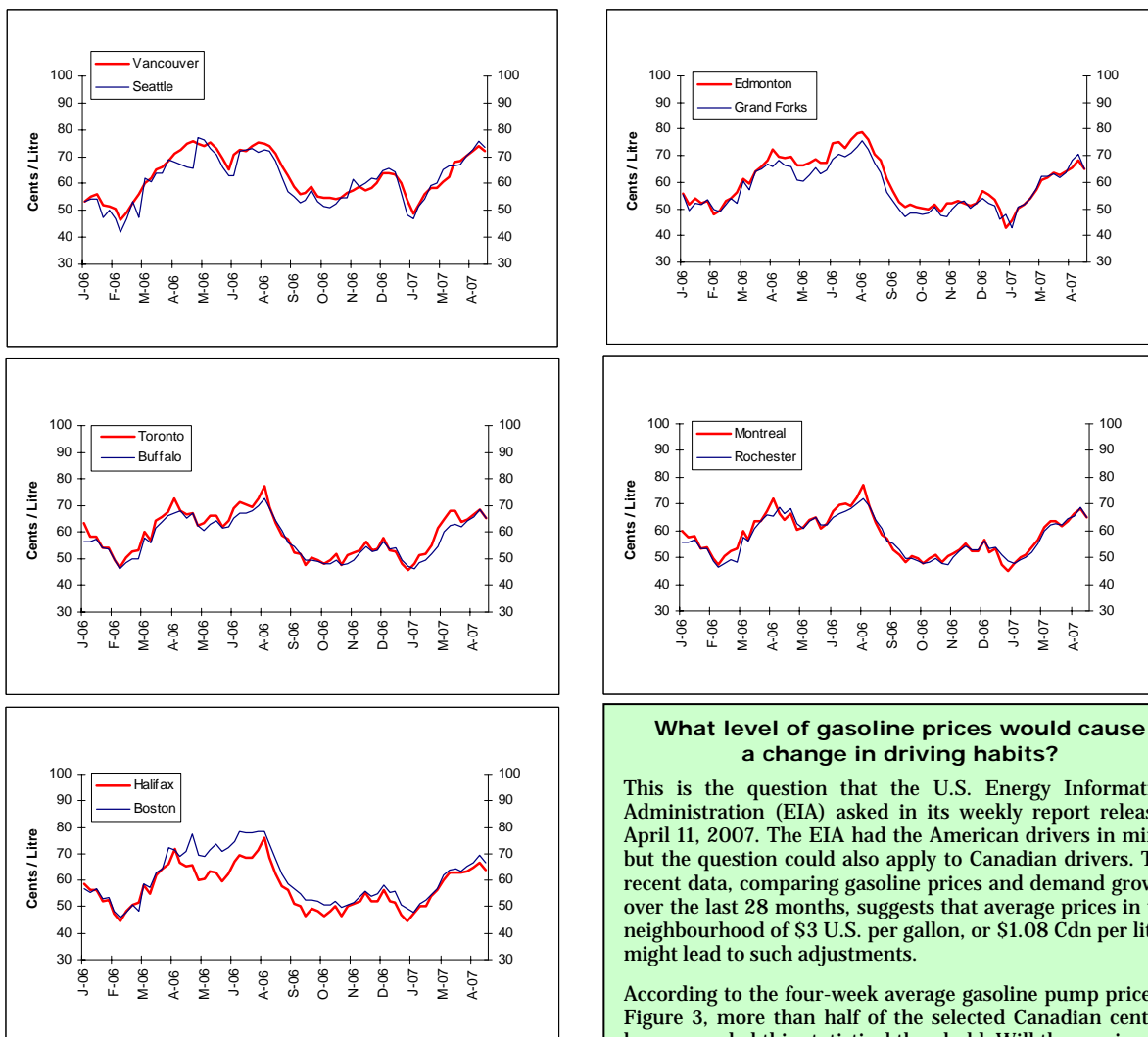
Wholesale gasoline prices decreased in all selected centres for the week of April 19th, compared to the previous week. Overall, price decreases ranged from less than 2 cents per litre to nearly 4 cents per litre.

The upward pressure on wholesale gasoline prices in the last few months has been mainly due to concerns over lower gasoline inventory levels at this time of the year as refinery turnarounds and maintenance operations are taking place and suppliers are switching from distillates and winter-grade gasoline production to summer-grade gasoline.

These market and refinery conditions seem to have abated recently as prices have started to decline in the last two weeks. During this period prices have declined by about 1 to 3 cents per litre in all centres, with the exception of Seattle which registered a 1 cent per litre increase.

Overall, prices are also in the range of less than 1 to nearly 8 cents per litre lower than they were at the same period last year, except for Vancouver and Seattle, which are 1 and 5 cents per litre higher respectively.

Figure 4: Wholesale Gasoline Prices
Rack Terminals Prices for Selected Cities on Thursday April 19, 2007 (Can ¢/L)



Sources: NRCan, Bloomberg

What level of gasoline prices would cause a change in driving habits?

This is the question that the U.S. Energy Information Administration (EIA) asked in its weekly report released April 11, 2007. The EIA had the American drivers in mind, but the question could also apply to Canadian drivers. The recent data, comparing gasoline prices and demand growth over the last 28 months, suggests that average prices in the neighbourhood of \$3 U.S. per gallon, or \$1.08 Cdn per litre, might lead to such adjustments.

According to the four-week average gasoline pump price in Figure 3, more than half of the selected Canadian centres have exceeded this statistical threshold. Will these prices be sufficient to cause Canadian drivers to change their driving habits or slow the demand growth for gasoline?





Refining and Marketing Margins

Refining margins continue to follow the seasonal pattern namely rising as the summer approaches and dropping in the winter. As shown in the four-week rolling averages in the graphs below for the period ending April 24th, margins indicate a tightening in supply while refiners are switching to producing summer-grade gasoline.

The upward trendline reflects the higher operating costs associated with new fuel quality standards and tighter supply and demand balances for gasoline in recent years. In particular, the West Coast market (Vancouver) is influenced by American markets, such as California and Washington State, where retail prices are now above \$3 US per gallon (\$1.08 Can per litre).

Furthermore, most Canadian refineries operate at near

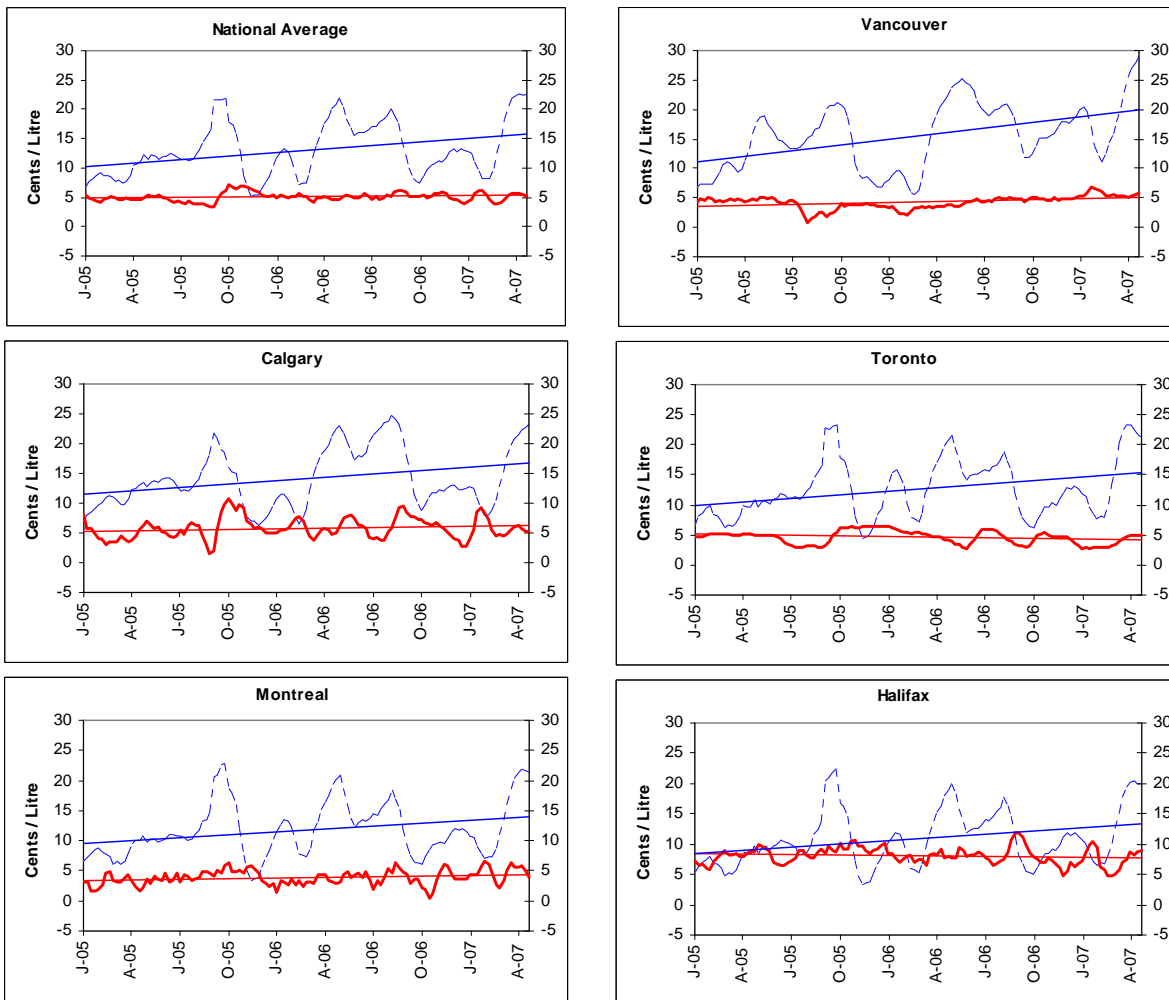
capacity with high utilization rates which means that markets have become increasingly vulnerable even to small supply disruptions. Thus a combination of little spare capacity and unexpected supply disruptions can result in upward price pressure until the balance between supply and demand is achieved.

In general, marketing margins are much less volatile than refining margins fluctuating over a much narrower range. This margin can differ significantly from city to city and region to region. Although it 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 which determine the retail pump price and the margin available to the retailers.

Figure 5: Refining and Marketing Margins
Four-Week Rolling Average Ending April 24, 2007

----- Refining Margin

———— Marketing Margin



Source: NRCan





Crude Oil Overview

Brent Continues to Trade at a Premium to WTI and Edmonton Par

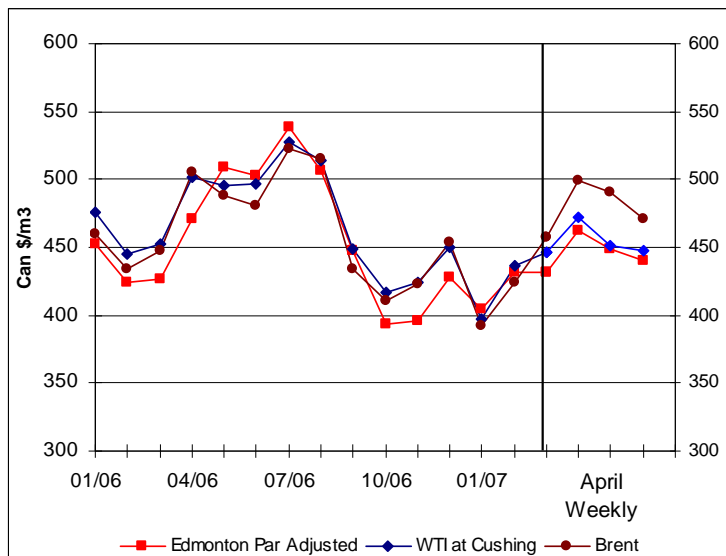
Crude oil prices ended the week of April 20th in the \$440 to \$470/m³ range (\$US 62 to \$US 66/bbl) down from the previous week. All crude types are down significantly from this time last year.

Brent continues to trade at a premium to WTI and Edmonton Par due to an abundance of light sweet crude oil in the North American market. Lower than normal refinery utilization rates and steady North American crude oil production are the main drivers behind lower prices. As refineries increase production heading into the summer driving season, it is expected that with increased demand, WTI and Edmonton Par will become more aligned with Brent.

With increasing temperatures, weather is not expected to have any significant effect on crude oil prices heading into the summer. This said, if 2007 turns out to be an active hurricane season, as seen in 2005, decreases in crude oil and refinery production could have an impact on crude oil prices.

While the situation in Iran seems to have subsided for the time being, the Nigerian presidential election caught the eye of energy traders last week. After international monitoring of the election led to reports of ballot shortages and vote rigging allegations, the opposing party rejected the results of the elections. With approximately one quarter of Nigerian crude oil production already offline due to militant action, analysts are watching closely to see what unfolds in Africa's biggest oil producing country.

Figure 6: Crude Oil Price Comparisons



EIA's Short Term Energy Outlook

According to the Energy Information Administration (EIA) short-term energy outlook <http://www.eia.doe.gov/emeu/steo/pub/contents.html> released April 10, 2007, the recent and continuing international tensions amplify the effects of already tight international petroleum markets as the summer season (April through September) begins. At the same time, unanticipated refinery problems in February and March, both in the United States and abroad, reduced the supply of gasoline resulting in seasonal price increases about a month earlier than usual.

As a result of tight oil markets and continued international uncertainty, the price of West Texas Intermediate crude oil is expected to average over \$65 per barrel this summer (compared with \$70 per barrel last summer) and average close to \$64 per barrel annually for both 2007 and 2008. However, as we have seen in the recent past, petroleum prices are subject to significant volatility, particularly when markets are tight and tensions in oil exporting nations deepen.

During the summer season the average monthly gasoline pump price is projected to peak at an average of \$2.87 per gallon in May, compared with \$2.98 per gallon last July. Retail regular grade motor gasoline prices are projected to average \$2.81 per gallon this summer compared with \$2.84 per gallon last summer.

Conversions: 1 U.S. gallon = 3.78 litres;
1 barrel = 0.1589 cubic metres = 159 litres;
\$1 U.S. = \$1.17 Cdn. (Average for March)
Prices are in U.S. dollars.

Changes in Crude Oil Prices

Crude Oil Prices	Week ending: 2007-04-20		Change from:			
	\$Can/ m ³	\$US/ bbl*	\$Can/ m ³	\$US/ bbl*	\$Can/ m ³	\$US/ bbl*
Edmonton Par	439.90	61.99	-9.10	-0.42	-47.02	-5.92
WTI	447.13	63.01	-4.43	+0.25	-68.50	-8.90
Brent	470.40	66.29	-20.09	-1.88	-51.65	-6.60

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

Source: NRCan





Temporary Oil Refinery Interruptions and Petroleum Product Prices

Over the last nine months the Fuel Focus report has provided an overview of the market drivers that affects gasoline pricing in Canada. Although crude oil prices and weather conditions are elements that can have a substantial impact on petroleum product prices and are well covered by the media, the activities undertaken at the refinery level and their potential impact on prices is perhaps not as well understood. This is understandable given the relative complexity of the refining industry.

Is there a correlation between temporary refinery interruptions and petroleum product prices? According to a recent report prepared by the Energy Information Administration of the U.S. Department of Energy, until the mid-1990s North American refineries had excess refinery capacity and refinery outages had little impact on product prices since a substantial amount of capacity existed to compensate for outages. From the mid-80s to the mid-90s demand grew while refinery capacity remained flat, resulting in a higher utilization rate which still exists. This means that little spare capacity is available during peak demand such as the summer season and that unexpected refinery outages can result in supply disruptions which in turn can result in price surges. However, an outage does not always result in upward price pressure, since other factors can influence the impact of outages such as the time of the year relative to seasonal demand peaks, availability of imports, inventories levels and events in the market place in the prior weeks.

In fact, according to the report, a shutdown of a refinery unit can reduce the production of finished products such as gasoline and distillates (diesel and furnace oil). But refinery unit outages do not generally have a significant product price impact. It is mainly the balance between total supply and demand, in conjunction with market expectations about near-term future supply and demand, which ultimately affects short-term price variations. Unexpected surges in demand can arise, such as when a severe cold snap occurs, tightening the market and increasing the pressure on prices. On the other hand, extreme weather events such as the hurricanes hitting the U.S. Gulf Coast in 2005 were large enough to cause large unexpected refinery outages which were disruptive enough to impact on prices throughout North America. On the supply side, total refinery production, inventories, net imports, and even the time of the year impact the supply-demand balance and thus prices.

Inventory levels are also used as a measure of supply and demand in the market, because they may, in turn, exert pressure on prices. Product inventories, such as gasoline, frequently have a typical seasonal pattern, but if they are low relative to their typical levels and continue to fall, it may indicate increased demand in the market. During such times, prices will generally rise, as the market perceives this imbalance and buyers bid prices up to obtain apparently scarce supply. The reverse holds as well: high and rising stocks may indicate excess supply relative to demand, and induce prices to fall.

Spring can be a vulnerable time period when supplies from refineries move away from distillate products and switch from winter gasoline to producing summer grade gasoline as demand is increasing. During that time, prices can be initially depressed as suppliers draw down their winter-grade gasoline, which cannot be used during the summer months. Prices then increase seasonally as the summer-grade gasoline season begins and demand rises towards its summer peak. However, if refineries are having difficulty coming back on line from turnarounds, they may be slow to ramp up production of summer-grade gasoline to meet seasonal demand and price pressure may occur. This was the case in the spring of 2006, when a number of refineries in the U.S. were still trying to recover from the hurricanes in fall 2005.

Excerpts from Refinery Outages: Description and Potential Impact on Petroleum Product Prices, Energy Information Administration, U.S. Department of Energy, March 2007.

Next Issue: Refinery Maintenance Operations

