



National Overview

Canadian Average Retail Gasoline Prices Reach \$1.08 per Litre

The average Canadian retail gasoline price declined to 108 cents per litre for the week ending May 8th, down nearly 2 cents per litre from last week. However, this represents an increase of 3 cents per litre since the last report two weeks ago.

Although gasoline prices declined compared to last week, they remain 4 cents per litre higher than at the same time last year. Recent prices were driven up by the sharp rebound in wholesale gasoline prices due to concerns over lower gasoline inventory levels, particularly in the U.S. (See Supplement). Unanticipated refinery problems have also reduced the supply of gasoline and pushed prices up. Meanwhile, the demand for gasoline is expected to grow with the arrival of the summer season, motivating market traders to secure contracts early on in preparation for summer delivery, an action which also tends to put upward pressure on prices.

Crude oil prices declined as gasoline prices moved up emphasizing the independent nature of the two markets. While a buildup in crude oil softened prices, the constraints on the refinery side firmed up gasoline prices.

Diesel fuel prices decreased slightly by less than 1 cent per litre from last week to 98 cents per litre, but were still nearly 4 cents per litre lower than at this time last year. Furnace oil prices declined to nearly 85 cents per litre and were approximately 3 cent per litre lower than a year ago.

Recent Developments

- Crude Oil:** In the first two months of 2007, crude oil exports, which account for nearly two-thirds (65%) of Canada's total production, rose 2.1% to 2.5 million cubic metres, while imports increased nearly 11% to 0.8 million cubic metres, compared to the same period last year. A 10% increase in crude oil production in Alberta offset a 4.2% decline in offshore output in Newfoundland and Labrador as a result of maintenance on the Hibernia Oil field.
- Price Regulation:** A six-month review of petroleum products price regulation, undertaken by Service Nova Scotia and Municipal Relations, released April 26th, indicates that prices tend to be more stable under regulation, with fewer price changes and more uniform prices across the province. The complete report is available at: <http://www.gov.ns.ca/news/details.asp?id=20070426003>
- Gasoline Consumption:** Canadians consumed 9.7 billion litres of gasoline in the first three months of 2007, nearly 2% higher compared to the same period last year. Diesel fuel sales increased by almost 7% to 6.7 billion litres while furnace oil rose also by 7% to almost 1.8 billion litres compared to the same period in 2006. (Statistics Canada, The Daily)

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

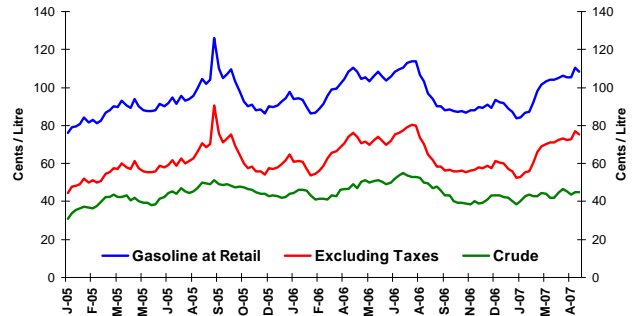
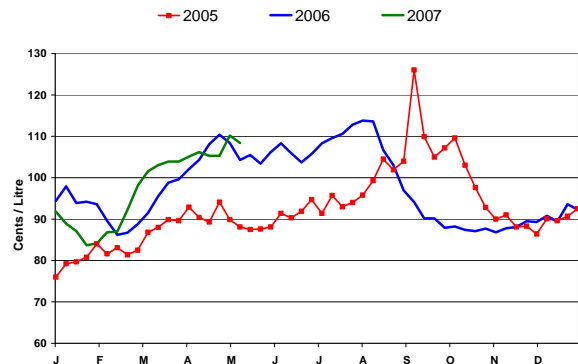


Figure 2: Weekly Regular Gasoline Prices



Changes in Fuel Prices

¢/L	Week of:	Change from:	
	2007-05-08	Previous Week	Last Year
Gasoline	108.4	-1.8	+4.1
Diesel	98.4	-0.6	-3.7
Furnace Oil	84.6	-0.1	-3.0

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 U.S. Gasoline Inventories on North American Prices. The supplement on Refinery Maintenance Operations has been temporarily postponed to feature what is currently driving gasoline prices.





Retail Gasoline Overview

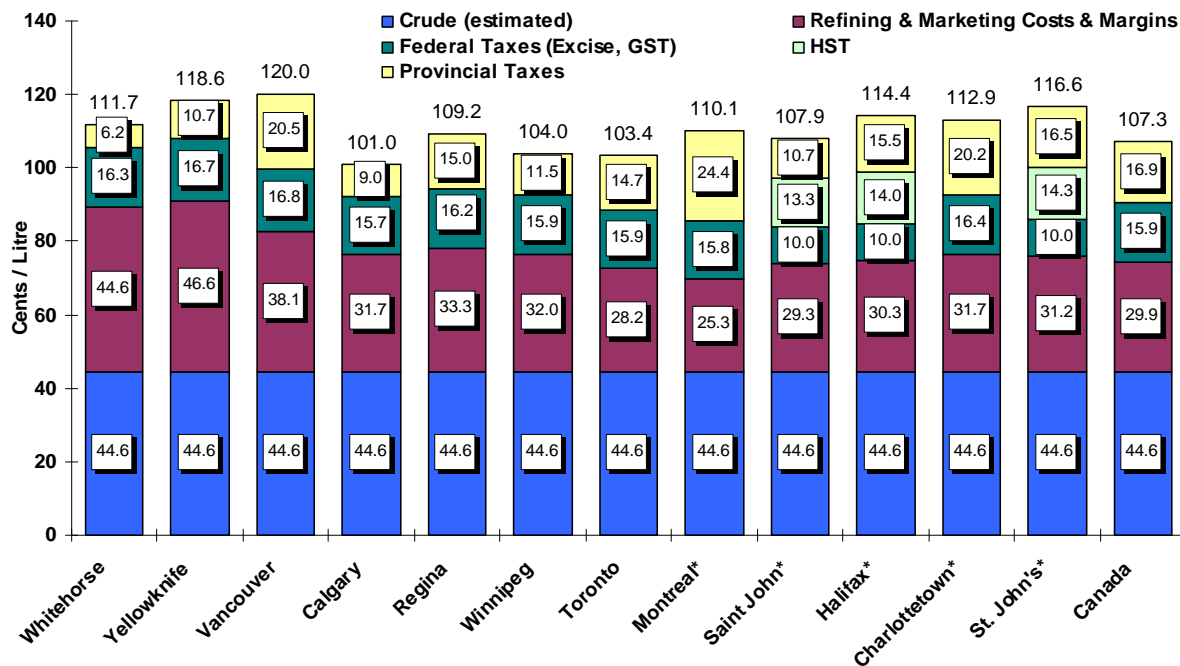
The four-week average Canadian gasoline price for the period ending May 8th was 107 cents per litre, an increase of nearly 2 cents per litre from the last report on April 27th. This represents almost a 1 cent per litre decline from the same period in 2006.

As shown in Figure 3, the crude oil portion of the pump price components registered almost 45 cents per litre. This is a slight decline of 0.5 cent per litre from two weeks ago, and nearly 4 cents per litre lower than the same period last year.

The four-week average refining and marketing costs and margins for the period of April 17th to May 8th, accounted for almost 30 cents per litre of the total pump price; an increase of 2 cents per litre from two weeks ago.

Retail gasoline prices rose on average nearly 3 cents per litre in Western provinces, while prices increased slightly more than 1 cent per litre in Eastern provinces compared to the previous report two weeks ago.

**Figure 3: Regular Gasoline Pump Prices in Selected Cities
4-Week Average (April 17 to May 8, 2007)**



Source: NRCan

* Regulated Markets

Price Regulation Findings in Nova Scotia

On April 26th, the department of Service Nova Scotia and Municipal Relations released a review of the first six months of gasoline pricing regulation in Nova Scotia. So far, the main findings reveal that the regulation is meeting its stability and cost objectives, but insufficient time has gone by to provide a reliable basis for determining whether the industry infrastructure objective is being met.

Allowing for the constraints arising from the limited experience (half of the yearly price cycle was incorporated in the study), the report provided four recommendations in areas where elements of the regulatory framework could be strengthened. The recommendations are as follows:

- Reduce the benchmark price adjustment period from two weeks to one week in an attempt to diminish the size of the price change, and not just the frequency;
- Remove the price cap on full-serve gasoline to provide the opportunity for rural dealers to earn higher margins;
- Adopt a fixed and transparent formula for forward averaging and apply it at each adjustment enabling the industry to plan more effectively;
- Consider a framework for regulatory review to ensure the regulation is working to meet its objectives.

Source: Petroleum Products Price Regulation - A Six-Month Review, Service Nova Scotia and Municipal Relations, March 2007





Wholesale Gasoline Prices

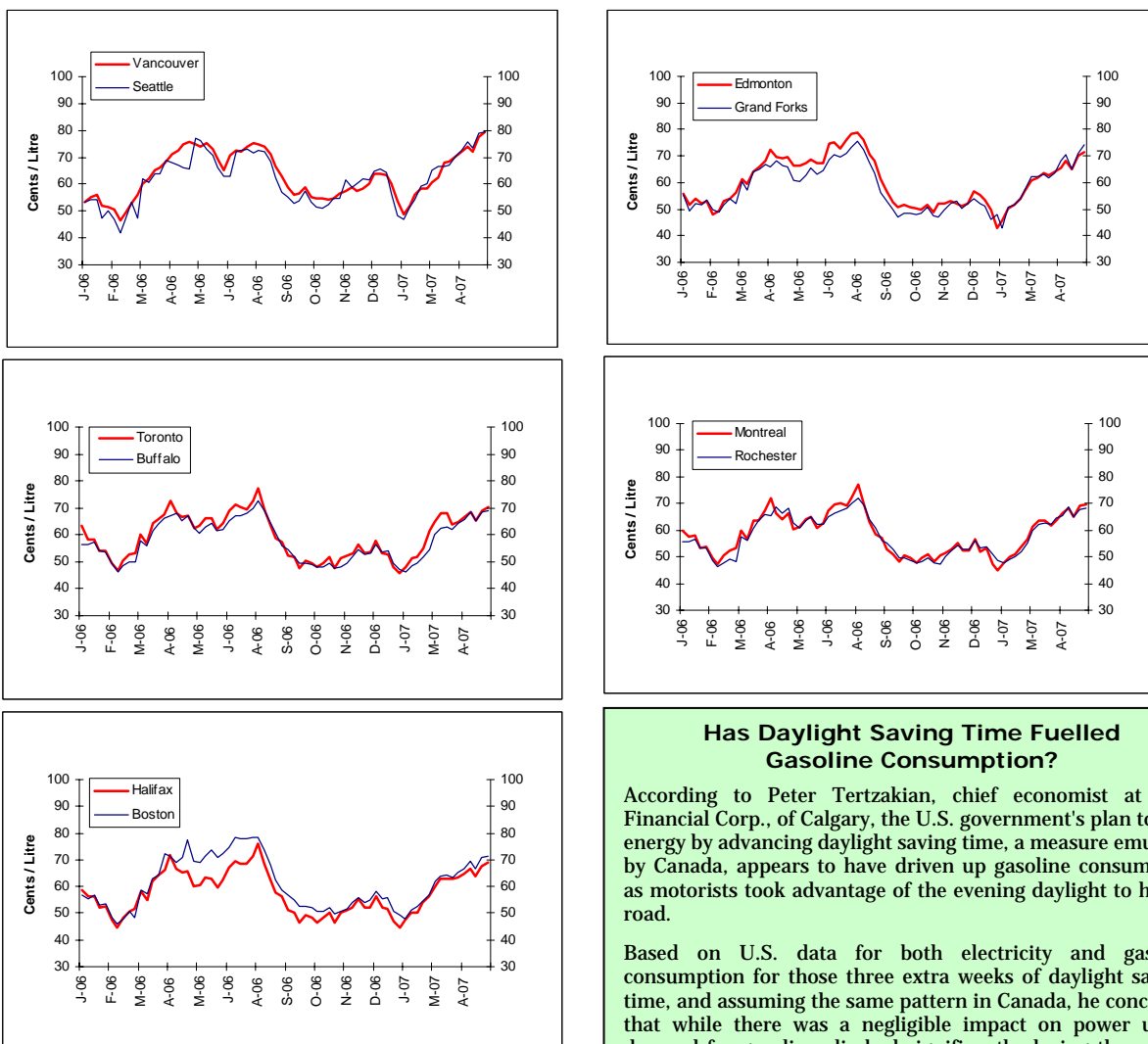
Wholesale gasoline prices increased in all selected centres for the week of May 3rd, compared to the previous week. Overall, prices changes ranged from less than 1 to 3 cents per litre.

The resurgence in wholesale gasoline prices has been principally due to concerns over lower gasoline inventory levels, particularly in the U.S., as traders worried about sufficient supplies to meet demand during the summer driving season.

This also affects Canadian consumers because of the closely integrated North American wholesale gasoline market. The Supplement offers a more detailed explanation of the impact of the U.S. gasoline inventories on Canadian gasoline prices.

In the last two weeks price increases ranged from approximately 3 to 9 cents per litre in Canadian and American centres. Prices are as much as 13 cents per litre higher in some markets than they were for the same period last year.

Figure 4: Wholesale Gasoline Prices
Rack Terminals Prices for Selected Cities on Thursday May 3, 2007 (Can ¢/L)



Sources: NRCan, Bloomberg

Has Daylight Saving Time Fuelled Gasoline Consumption?

According to Peter Tertzakian, chief economist at ARC Financial Corp., of Calgary, the U.S. government's plan to save energy by advancing daylight saving time, a measure emulated by Canada, appears to have driven up gasoline consumption as motorists took advantage of the evening daylight to hit the road.

Based on U.S. data for both electricity and gasoline consumption for those three extra weeks of daylight savings time, and assuming the same pattern in Canada, he concluded that while there was a negligible impact on power usage, demand for gasoline climbed significantly during the period. Although he conceded that there is no hard evidence that a surge in gasoline demand is attributable to more after-work daylight, it seems to indicate that people do drive more with an extra hour of evening daylight.

Excerpts from the Globe and Mail, April 18, 2007





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 May 8th. After experiencing a decline in December and the earlier part of January, refining margins have rebounded since then, now averaging around 25 cents per litre across Canada.

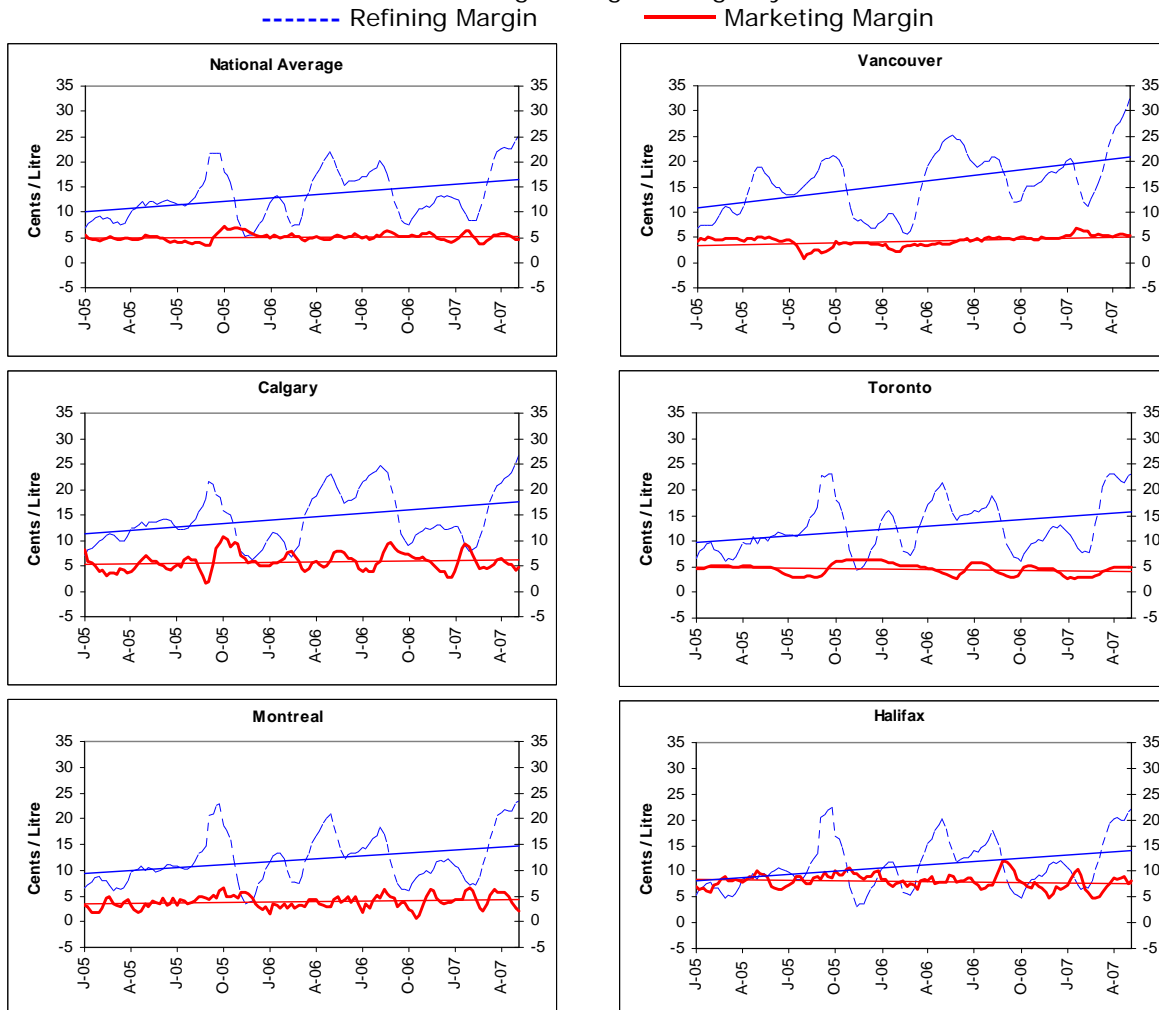
The upward swing in the refining margin is indicative of a tightening of supplies as refiners are building up gasoline inventories in anticipation of the greater summer demand. Seasonal supply constraints caused by lower product inventories, tend to put pressure on prices which in turn increases refining margins. However, as the graphs indicate, once the temporary supply constraint has passed, the refining margin also declines.

On the other hand, marketing margins, on average about 5 cents per litre, have remained stable nationally as indicated by the trendline.

The marketing margin is the difference between the pump price (excluding taxes) and the price paid by the retailer to purchase the gasoline. Although representing the smallest component of the retail price, in general this margin is expected cover all the costs associated with operating the retail outlet and include a profit.

Overall, these graphs show that marketing margins can be volatile as outlets compete for market share. As gasoline is essentially the same from outlet to outlet, the only way for retailers to differentiate themselves is through price and other product offerings.

Figure 5: Refining and Marketing Margins
Four-Week Rolling Average Ending May 8, 2007



Source: NRCan





Crude Oil Overview

Overall Crude Oil Prices Weaken on High U.S. Inventory Build-Up

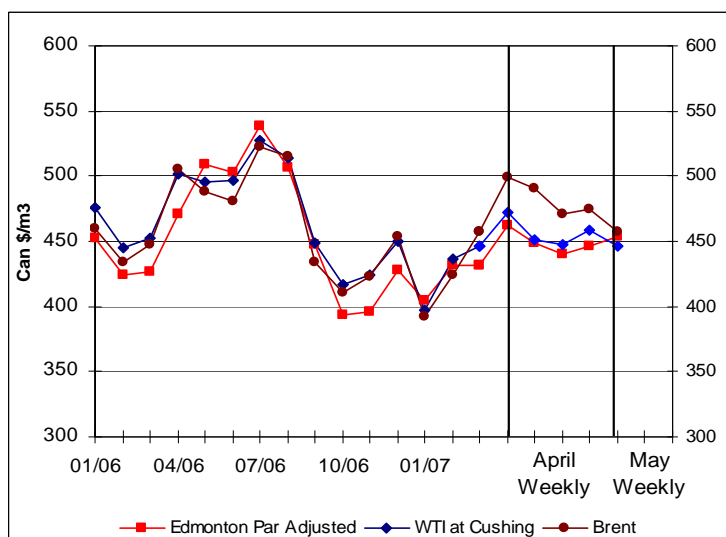
Crude oil prices ended the week of May 4th in the \$446 to \$457/m³ range (\$US 64 to \$US 66/bbl). The WTI and Brent declined \$12 and \$17/m³ respectively, while Edmonton Par rose \$7/m³ from the previous week, and \$14/m³ compared to the last report two weeks ago. However, all selected benchmark crude oil prices declined in the range of \$49 to \$57/m³ over last year's levels.

Overall, oil prices weakened as high crude oil inventory in the U.S. outweighed worries of a gasoline shortfall ahead of the start of the peak-demand driving season. Crude oil inventories have been growing for weeks in the

U.S. mainly due to refinery outages. This in turn, has meant lower gasoline inventories heading into summer.

Geopolitical tensions have diminished as an attack on Iran seems less likely. The West has been trying to stop the Islamic Republic from building a uranium enrichment program with little success, prompting fears of an attack, which might prompt Iran to use oil as a bargaining tool. However, some production interruptions are still a concern, namely in Nigeria, and a reminder that certain oil producing regions remain vulnerable to disruptions.

Figure 6: Crude Oil Price Comparisons



Changes in Crude Oil Prices

Crude Oil Prices	Week ending: 2007-05-04		Change from:			
			Previous Week		Last Year	
	\$Can/ m ³	\$US/ bbl*	\$Can/ m ³	\$US/ bbl*	\$Can/ m ³	\$US/ bbl*
Edmonton Par	454.30	65.21	+7.40	+1.72	-53.02	-7.57
WTI	446.20	64.04	-12.25	-1.12	-56.80	-8.11
Brent	456.87	65.58	-17.42	-1.80	-48.79	-7.04

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

Source: NRCan

World Oil Producing Wells

Approximately 80% of the oil wells drilled in the world have been in the United States. The current distribution, shown in the table below, indicates that 78% of the wells are in the Western Hemisphere, compared to 5% in OPEC countries where almost 70% of the world's oil reserves are located, and 2% in the Middle East.

This seems to indicate that most of the world's oil regions, outside of the Western Hemisphere, are at the low end of the resource curve. Oil drilling in these oil bearing regions could potentially increase the world's proven reserves.

Total World Oil Producing Wells	
Western Hemisphere	632,541
Asia / Pacific	88,410
FSU / Eastern Europe	55,627
OPEC	36,746
Middle East	11,948
Western Europe	9,326
Africa	9,320
Total	807,132

Source: NRCan. Data from Oil and Gas Journal as of December 2005

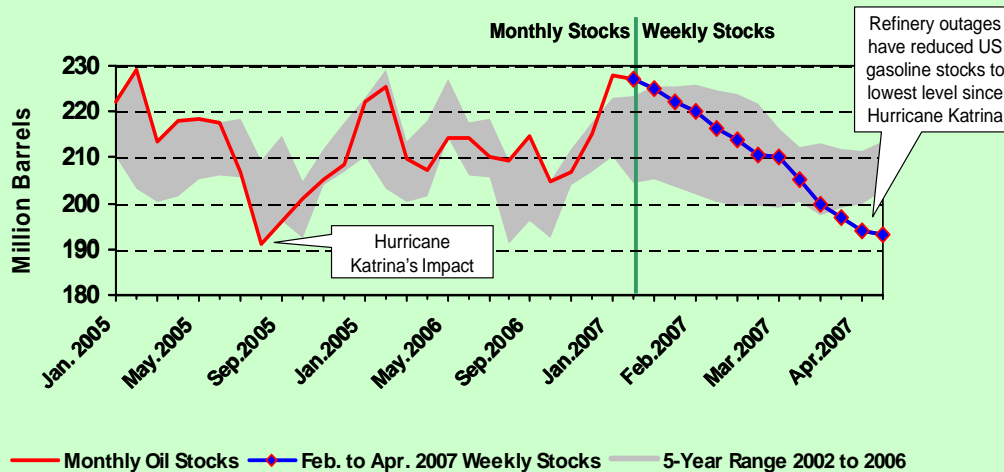




The Impact of U.S. Gasoline Inventories on North American Prices

While Canadian inventory levels determine the adequacy of supply in Canadian markets, it is U.S. inventory levels that drive prices across all of North America. For the last 12 weeks, U.S. gasoline stocks have been falling, as shown in the graph below. Unanticipated refinery problems, in the United States and other countries have reduced the supply of gasoline. In addition, U.S. gasoline supplies have been reduced by lower levels of imports from Europe. In April 2007, U.S. gasoline stocks reached their lowest level since September 2005, following Hurricane Katrina. U.S. gasoline supplies are well below the 5-year historical range (2002-2006) for this time of year (outlined in grey).

U.S. Gasoline Stocks (Million Barrels)



With summer approaching, the demand for gasoline is expected to grow. Traditionally, gasoline inventories increase at this time of year in anticipation of the peak driving season. In most years, the Memorial Day weekend in the United States marks the beginning of the peak demand for gasoline. However, this year, demand has been showing signs of increasing sooner. Since the U.S. and Canadian governments decided to advance daylight savings time (in an effort to reduce overall energy consumption), it appears that demand for transportation fuels in the U.S. has increased. Although there is no hard evidence to link this increase to the time change, many analysts believe that the additional hours of daylight have led to increased travel in the evenings.

News of the recent declines in stock levels, combined with the earlier than usual up-tick in gasoline demand, has market analysts speculating about possible gasoline shortages this summer. This has sent speculators and traders scurrying to the market to secure contracts for summer delivery. This trader activity has driven up wholesale prices of gasoline across North America and, subsequently, prices at the pump. Prices are likely to remain high until inventory levels begin to build or analysts are comfortable that there will be enough gasoline to meet summer demand.

Note: The term inventories and stocks are used interchangeably.

