Volume 3, Issue 1
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Fuel Focus

National Overview

Overall Pump Prices Decline Nearly 2 cents per Litre from Last Week

Average Canadian retail gasoline prices decreased by nearly 2 cents per litre to $1.06 per litre the week of January 15, 2008, compared to the previous week. However, this represents an increase of 19 cents per litre compared to the same time last year.

Canadian pump prices moved downward following the decline in wholesale gasoline prices. Overall, retail gasoline prices remain significantly higher than they were at this time last year as higher crude oil prices continue to apply upward pressure. Prices are currently hovering around the levels seen during the peak demand in the summer months of the last two years.

Diesel fuel prices decreased slightly by 1 cent per litre to $1.13 per litre the week of January 15th. However, this represents an increase of 17 cents per litre compared to the same period last year. Furnace oil prices rose by 1 cent per litre to $1.02 per litre as demand increased with the colder weather. This represents an increase of 21 cents per litre from a year ago.

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

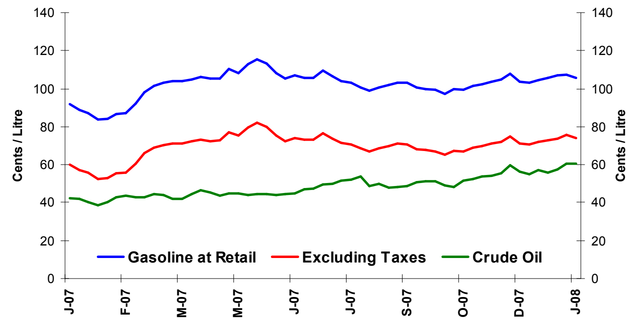
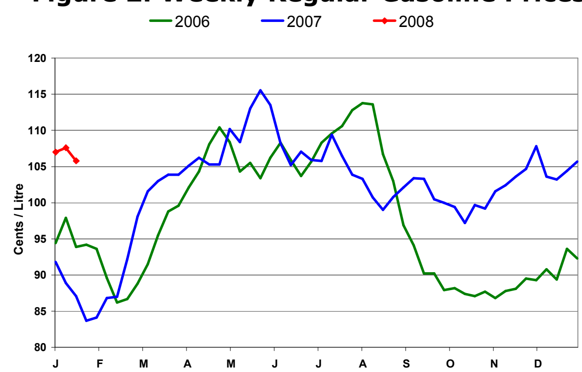


Figure 2: Weekly Regular Gasoline Prices



Recent Developments

- **Tax Reductions:** The GST and HST were reduced by one percentage point to 5% and 13% respectively on January 1, 2008.
- **Canada's Downstream Infrastructure**: On December 21, 2007, MJ Ervin & Associates of Calgary, Alberta, released a report called *Canada's Downstream Logistical Infrastructure: Refining, Pipelines, Terminals, Bulks Plants & Cardlocks.* The study provides a comprehensive overview of the logistical infrastructure associated with the manufacture and consumption of petroleum products in Canada. For more information, please contact MJ Ervin & Associates at (403) 283-8704.
- **Gasoline Consumption Up 1.7% In November**: Canadians consumed 39 billion litres of gasoline from January to November 2007, an increase of 3.4% over the same period in 2006. Diesel fuel sales increase 5% to 26 billion litres for the same period, while furnace oil rose 6% to 3.8 billion litres. (Statistics Canada, The Daily, http://www.statcan.ca/Daily/English/080111/d080111c.htm)

Changes in Fuel Prices

	Week of:	Change from:	
¢/L	2008-01-15	Previous Week	Last Year
Gasoline	105.8	-1.8	+18.7
Diesel	113.2	-0.7	+17.2
Furnace Oil	101.5	+0.9	+21.4

Source: NRCan

In this Issue

Fuel Focus Supplement:
U.S oil and gas exploration and development expenditures and reserve additions.

Retail Gasoline Overview

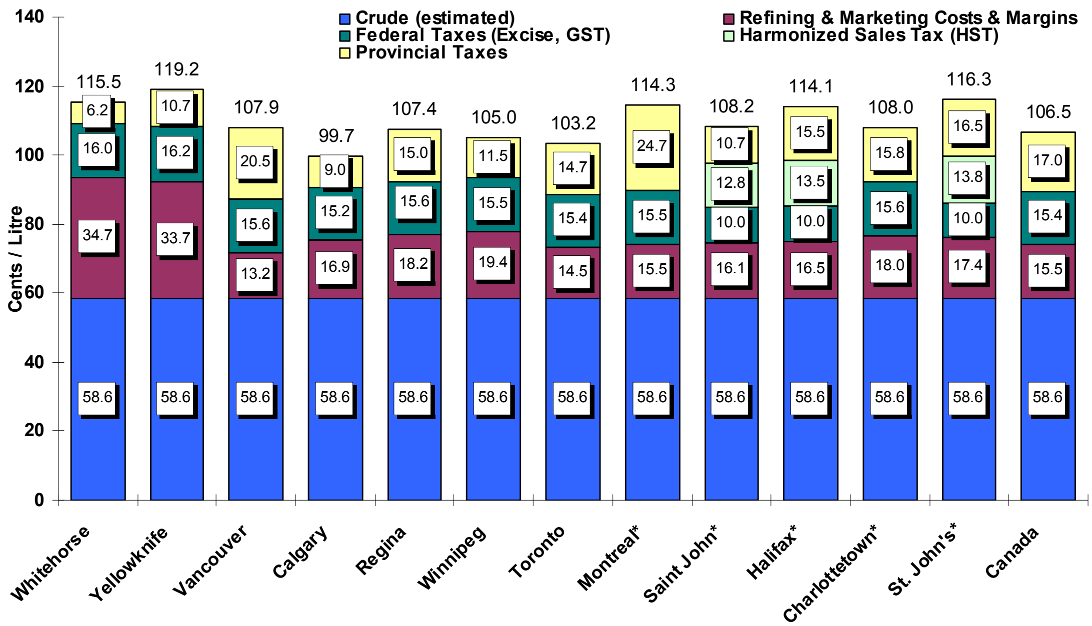
The average Canadian pump price in selected cities for the **four weeks** ending January 15th was $1.07 per litre, an increase of almost 2 cents per litre from the last report on December 21, 2007. This represents an increase of 17 cents per litre compared to the same period in 2007.

The **four-week average** crude oil prices increased by nearly 3 cents per litre to 59 cents per litre compared to the previous report.

Overall, crude oil prices are nearly 17 cents per litre higher than at the same period last year while refining and marketing costs and margins are 1 cent per litre lower than they were for the same period in 2007.

Retail gasoline prices in most Western centres increased about 1 cent per litre when compared to the previous report, ranging from $1.00 to $1.08 per litre. Price increases in Eastern cities were around 2 cents per litre and ranged from $1.03 to $1.16 cents per litre.

Figure 3: Regular Gasoline Pump Prices in Selected Cities
4-Week Average (December 25, 2007 to January 15, 2008)



Source: NRCan ** Regulated Markets*

Note: The GST and HST were reduced by one percentage point to 5% and 13% respectively on January 1, 2008.

Who Sets the Price for Gasoline at the Pump?

It depends on who owns the gasoline in the station's tanks. In a majority of cases, when the station owner buys gasoline directly from a refinery, that person decides the pump price. This decision will take into account, among other things, how much it cost the owner to buy the fuel from the refinery. For stations where the owner is an employee of a major oil company or a chain of independent stations, the price is usually set by the company's head office. In Canada, only 16% of all gas stations come under the price control of one of the three "major" oil companies (Petro-Canada, Esso and Shell). The price you pay for gasoline has four parts:

- The cost to locate and get crude oil out of the ground;
- The cost to change crude oil into gasoline (refining margin);
- The cost to operate the local station (retail margin); and
- Taxes to provincial, federal, and sometimes municipal, governments.

The refining and marketing margins also cover the costs for transporting the crude oil to refineries and gasoline to gas stations, and the marketing costs.

Wholesale Gasoline Prices

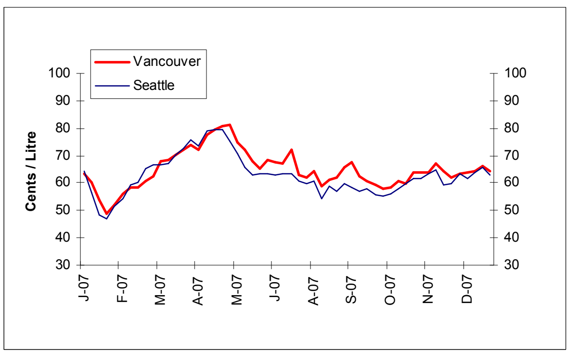
Wholesale gasoline prices decreased in all markets surveyed for the **week of January 10, 2008,** compared to the previous week.

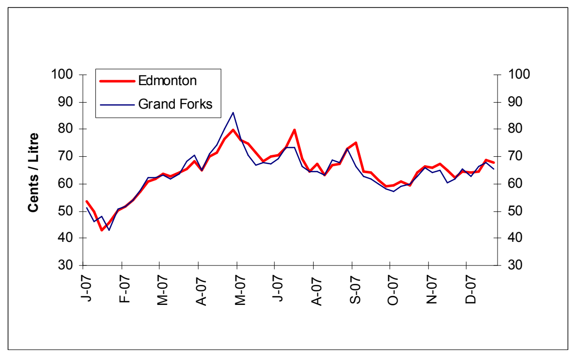
Wholesale prices dropped in all markets in both Canada and the United States by 1 to almost 3 cents per litre, compared to the previous week, ending in the 63 to 70 cents per litre range.

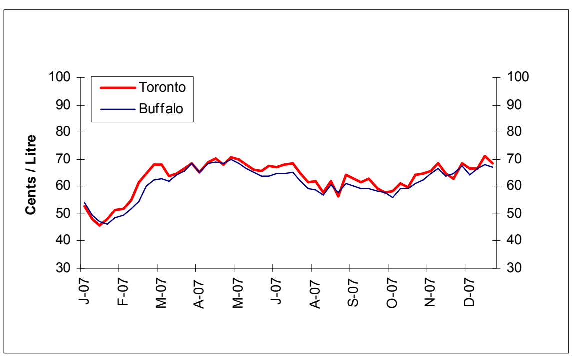
Wholesale gasoline prices in Eastern markets in both Canada and the United States have registered decreases ranging from less than 1 cent per litre to 3 cents per litre, compared to the previous week, ending the period in the 67 to 70 cents per litre range. Western wholesale gasoline price changes ranged from a decline of 1 cent per litre to 3 cents per litre ending, however, at a lower level in the range of 63 to 68 cents per litre.

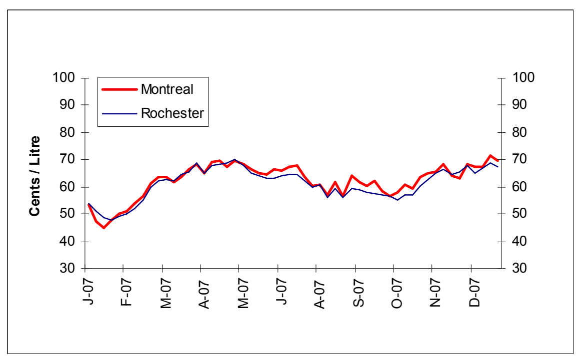
Overall, prices in most selected centres are well above last year's level, by a range of 17 to 22 cents per litre. On the other hand, Vancouver and Seattle prices remained in a lower range of 4 and 6 cents per litre above the same period last year, when their prices were significantly higher than other centres.

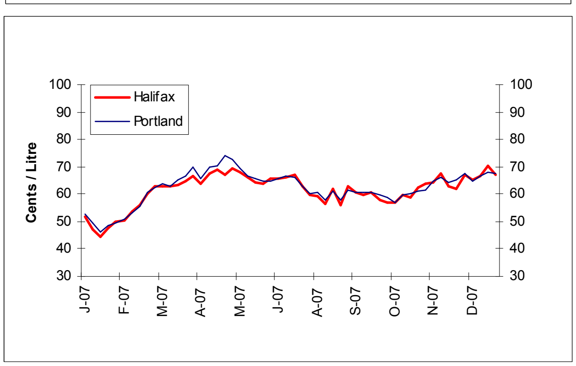
Figure 4: Wholesale Gasoline Prices
Rack Terminals Prices for Selected Canadian and American Cities on Thursday January 10, 2008
(Can ¢/L)











Sources: NRCan, Bloomberg Oil Buyers Guide

Free Resource for Driver Educators

The *Auto$mart Driver Education Kit* is a free teaching resource for driver educators to help teach students how to buy, drive and maintain their vehicles in ways that will reduce fuel consumption and increase road safety. The kit contains a 40-minute video, an interactive CD-ROM and handouts.

These tools demonstrate how fuel-efficient driving is safe driving, and how saving fuel saves money and helps protect the environment by reducing vehicle emissions. For more information, please visit http://oee.nrcan.gc.ca/transportation/business/drivers-ed-educator-intro.cfm?attr=16

Refining and Marketing Margins

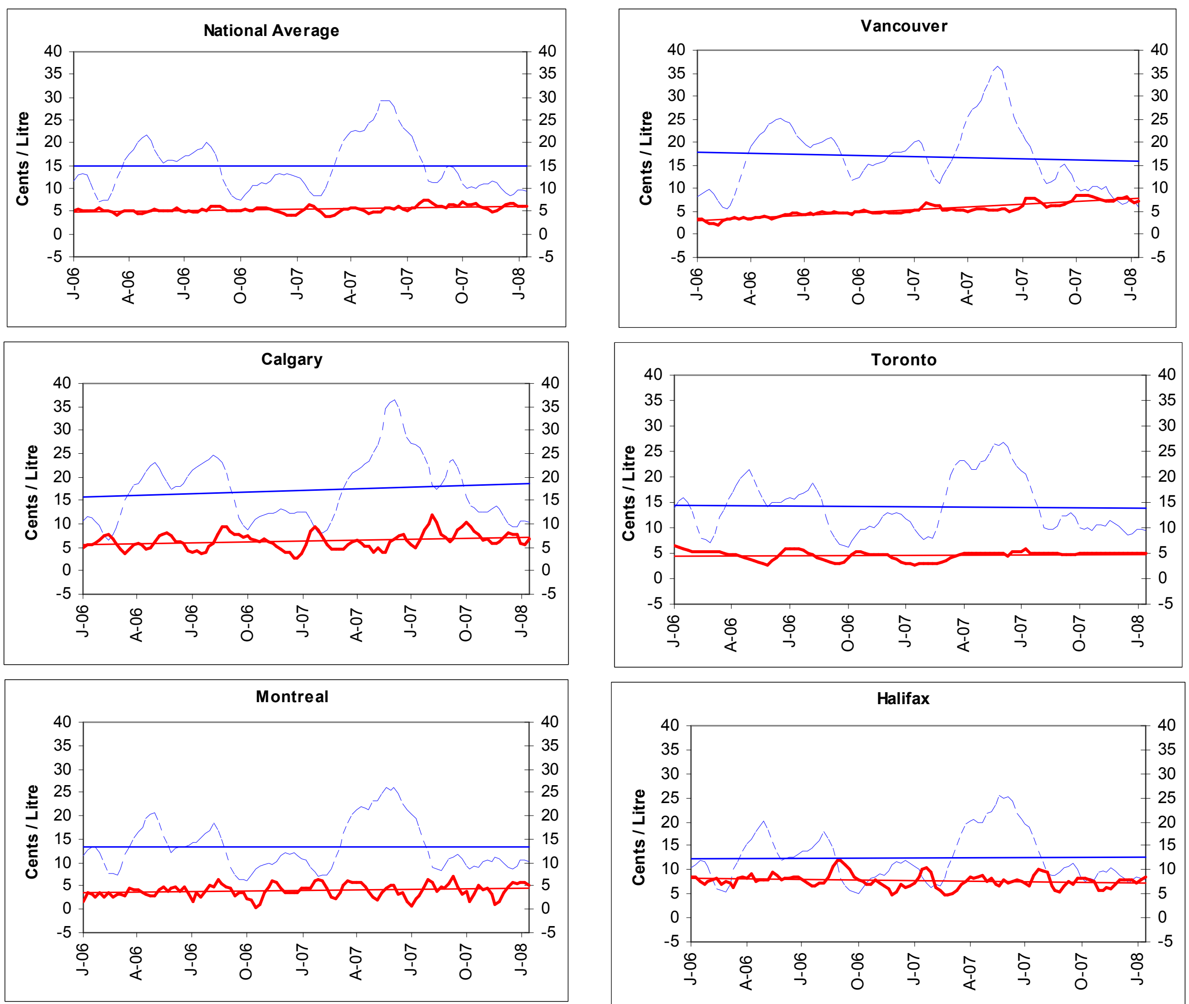
Four-week rolling averages are used for the refining and marketing margins for gasoline shown in Figure 5 for the period ending January 15th.

Overall, both refining and marketing margins are influenced by specific market conditions such as changes in product supply and demand balances. The significant downward slope is indicative of adequate gasoline supplies, which results mainly from the lower gasoline demand normally observed at this time of the year, and higher crude oil costs.

Nationally, the marketing margins has hovered around 5 cents per litre over the last two years. A notable feature is that refining margins for Vancouver and Halifax are now slightly below the marketing margins. This is partly due to the fact that wholesale gasoline prices have not been increasing as quickly as crude oil prices.

The marketing margin represents the difference between the pump price and the price paid by the retailer to purchase the gasoline. In addition, this margin also serves to pay for the costs associated with operating a service station.

Figure 5: Refining and Marketing Margins
Four-Week Rolling Average Ending January 15, 2008
------- Refining Margin ——— Marketing Margin



Source: NRCan

Crude Oil Overview

Crude Prices Reach $US100/bbl in Intraday Trading

For the week ending January 11, 2008, crude oil prices averaged between $592 and $605/m³ ($US93 to $US95 per barrel). All crude types decreased week over week, with WTI seeing the largest decrease of $12/m³ ($US3.50 per barrel).

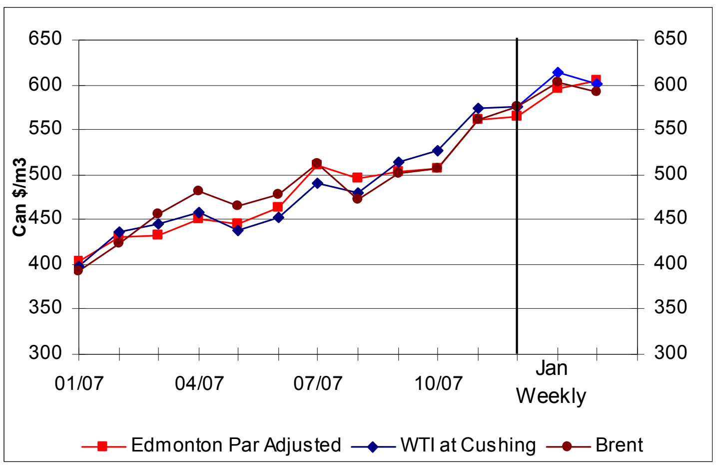
Following the assassination of Benazir Bhutto late in December, on January 2, 2008, crude oil prices surpassed $US100 per barrel on the NYMEX for the first time ever in intraday trading. Bhutto's assassination along with renewed violence in Nigeria and increased U.S. - Iranian tensions have added to the level of geopolitical pressure on oil prices.

While U.S. inventories of crude oil have decreased significantly over the past few weeks, increased product inventories have kept the market in balance. With crude oil futures prices finally surpassing current prices, refiners will have more incentive to hold inventories which should result in U.S. commercial inventories increasing at least in the short term.

Although world demand is increasing, recent oil reserve figures published by the *Oil and Gas Journal* indicate that even with rising demand, world reserves have increased year over year by about 1%. Most of this rise can be attributed to an increase in Venezuela's conventional reserves.

While the Canadian dollar has dropped since its record setting highs in November, Canadians continue to reap the benefits of buying petroleum products produced from oil priced in U.S. dollars.

Figure 6: Crude Oil Price Comparisons



Changes in Crude Oil Prices

Crude Oil Types	Week ending: 2008-01-11		Change from: Previous Week		Change from: Last Year	
	$Can/ m³	$US/ bbl	$Can/ m³	$US/ bbl	$Can/ m³	$US/ bbl
Edmonton Par	604.85	95.29	+8.78	-0.64	+199.30	+40.46
WTI	600.97	94.68	-12.01	-3.50	+200.23	+40.51
Brent	591.64	93.21	-10.63	-3.25	+206.98	+41.21

Source: NRCan

Why are World Crude Oil Prices Rising?

Crude oil prices increased significantly in 2007 ($404/m³ in January to $564/m³ in December for Edmonton Par). Although current crude oil prices are lower than in 1980, when expressed in 2007 dollars, ($US72 per barrel in 2007 compared to $US95 per barrel in 1980) many factors have influenced its rise in the last few years.

These have included: strong world economic growth leading to increased demand for oil, moderate non-OPEC supply growth, OPEC members' production decisions, low spare OPEC production capacity, tightness in global commercial inventories, worldwide refining bottlenecks, and ongoing geopolitical risks and concerns about the availability of supply.

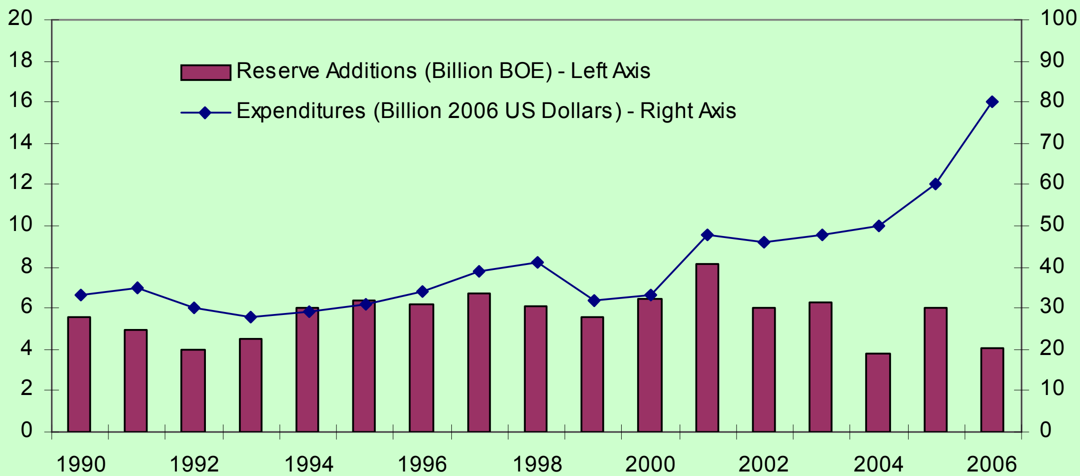
In addition, the rapid rise in prices has drawn increased participation of non-commercial traders, such as financial entities, into the oil commodity market. These traders are neither oil producers nor users of oil, and include investment banks and hedge fund companies. Although the role of these non-commercial futures market participants in recent price increases is difficult to assess, their level of participation in oil futures markets has increased substantially in the last few years.

Exploration and Development Expenditures

According to the U.S. Energy Information Administration's Financial Reporting System, major U.S. oil and gas producers have increased their exploration and development expenditures in recent years. Profits have increased sharply in the past five years, greatly increasing the amount of cash that companies have available for investments. However, there is a lag between the profit increase and the expenditures being undertaken as companies can be hesitant at first to invest in multi-year and multi-billion dollar exploration projects that will give a return many years later. When profits firm-up over a period of time, companies feel more secure in increasing investments. The graph below shows that expenditures to find and develop oil and gas reserves have risen by more than 60% since 2004.

Also notable is the fact that increased spending has not resulted in significant increases in reserves. This can be partly explained by the fact that it can take years before oil is discovered and then designated as proven reserve. Also, higher costs for raw materials and drilling rigs mean that some of the additional spending went into just maintaining what companies were already doing. In the next few months, oil companies will report their 2007 reserve additions to the EIA which may indicate the results of the higher expenditures.

Exploration and Development Expenditures and Corresponding Increase in Reserve Additions



Note: BOE - Barrel of Oil Equivalent

Source: EIA, Form EIA-28 (Financial Reporting System), *This Week in Petroleum*, December 19, 2007.