



National Overview

Overall Retail Gasoline Prices Decreased 2 cents per Litre from Last Week

Canadian retail gasoline prices decreased to \$1.27 per litre for the week ending May 20th, down 2 cents per litre compared to the record setting price of \$1.29 per litre the previous week. Pump prices are now 11 cents per litre above the \$1.16 peak registered in 2007 at this time of the year.

However, retail pump prices remain firm and rose 2 cents per litre from the last report **two weeks ago** reflecting higher North American wholesale gasoline prices which are in turn sustained by record high world crude oil prices.

The four-week average Canadian pump prices rose 4 cents per litre to \$1.27 as a result of the higher crude oil cost component which now represents 61% of the total pump price. This compares to 40% for the same period last year.

Diesel fuel prices increased 4 cents per litre to \$1.39 per litre the week of May 20th. This represents an increase of 41 cents per litre compared to the same period last year. Furnace oil prices rose by nearly 6 cents per litre to its highest level at \$1.29 per litre.

Recent Developments

- **Benzene in Canadian Gasoline:** Since the implementation of the Benzene in Gasoline Regulations in 1999, national benzene levels have been significantly reduced from an average of 1.6% (1995-1998) by volume to a current average of 0.7% volume - over 50% reduction. The annual report from Environment Canada also provides information on gasoline composition, regionally and by company, as well as a review of refiners' and importers' compliance with the regulations. The report is available at: http://www.ec.gc.ca/cleanair-airpur/caol/OGEB/bnz06_eng.html
- **First Quarter Gasoline Sales:** Canadians consumed 9.9 billion litres of gasoline in the first three months of 2008, an increase of 2% over the same period in 2007. Diesel fuel sales increased 1.3% to 6.7 billion litres for the same period, while furnace oil declined 13% to 1.6 billion litres. (Statistics Canada, The Daily, <http://www.statcan.ca/Daily/English/080502/do80502c.htm>)
- **Oil Sands Upgrader Maintenance Shutdown:** Suncor Energy Inc. plans to shut down one of two upgraders at the company's oil sands operations near Fort McMurray to complete maintenance during a scheduled shutdown. The work is expected to last approximately 30 days. During this period, the other upgrader is expected to continue to operate at production volumes of approximately 200,000 barrels per day. <http://www.suncor.com/default.aspx?ID=3291>

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

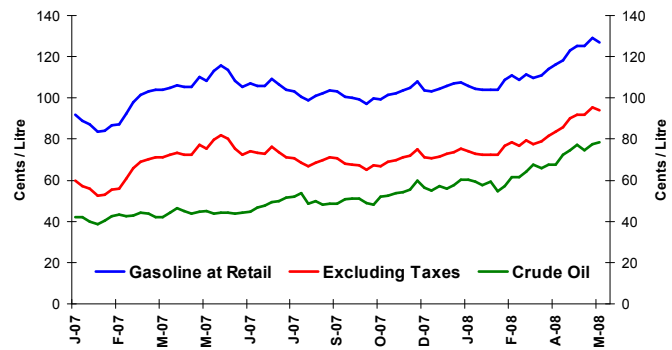
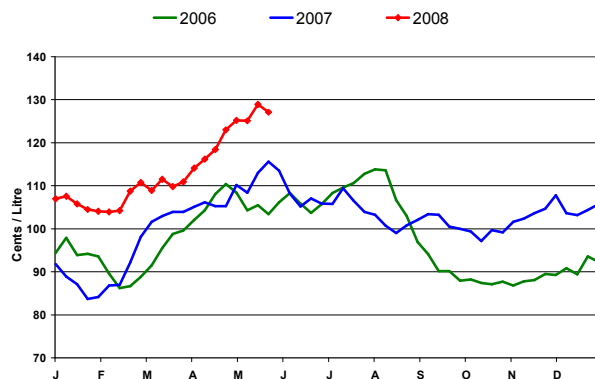


Figure 2: Weekly Regular Gasoline Prices



Changes in Fuel Prices

¢/L	Week of:	Change from:	
	2008-05-20	Previous Week	Last Year
Gasoline	127.1	-1.8	+11.5
Diesel	138.7	+3.8	+41.2
Furnace Oil	129.2	+5.5	+45.1

Source: NRCan

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Supplement: Canadian Petroleum Product Market Outlook – Spring 2008





Retail Gasoline Overview

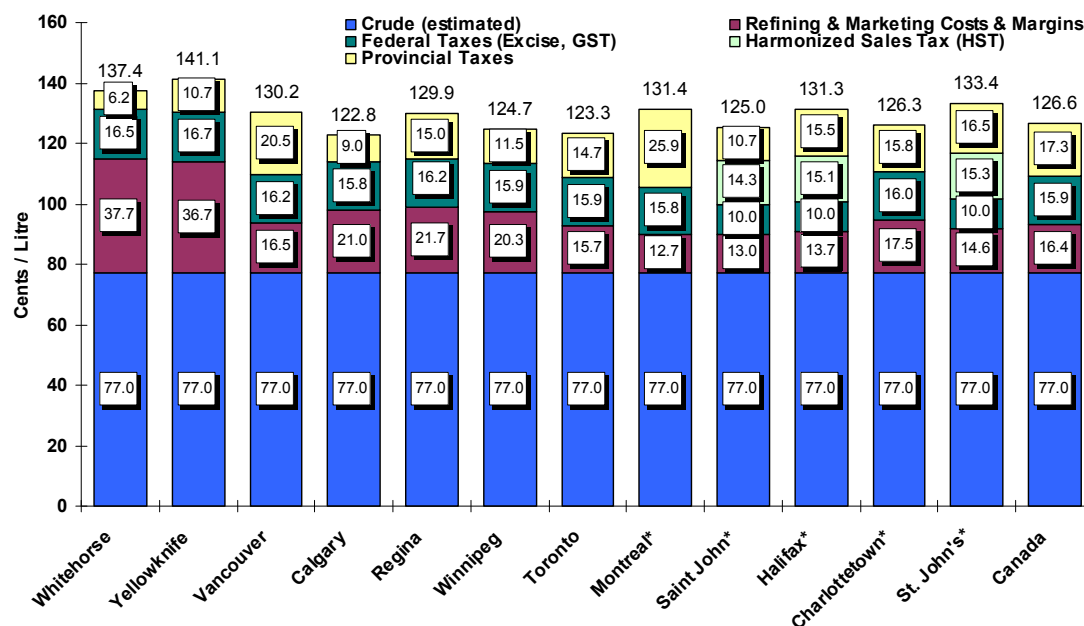
The average Canadian pump price in selected cities for the **four-week average** ending May 20th was \$1.27 per litre, an increase of nearly 4 cents per litre from the last report on May 9, 2008. This represents a 15 cents per litre increase compared to the same period in 2007.

The four-week average crude oil cost increased by 2 cents per litre to 77 cents per litre, compared to two weeks ago. Crude oil costs currently represent 61% of the total pump price compared to 40% at the same time last year, an increase of 33 cents per litre.

Retail gasoline prices in most Western centres increased 3 cents per litre when compared to those in the previous report two weeks ago, while prices in Eastern centres increased 4 cents per litre.

Refining and marketing costs and margins increased 1 cent per litre from the last report, but remained 18 cents per litre lower than at the same period last year, despite relatively higher retail prices this year.

**Figure 3: Regular Gasoline Pump Prices in Selected Cities
4-Week Average (April 29 to May 20, 2008)**



Source: NRCan

* Regulated Markets

Lower Earnings for Three Major Oil Companies

Three of Canada's major integrated oil companies earned \$309 million on petroleum products in the first three months of 2008, a decline of 37% from earnings of \$488 million in the same period in 2007, according to an Ontario Ministry of Energy analysis. The decline reflected lower industry margins, lower product sales*, the higher Canadian dollar relative to the U.S. dollar, and refinery outages. Total product revenues grew by 35% to \$14 billion, product volumes declined by 1.3% to 151 million litres per day, and gasoline volumes were unchanged at 70 million litres per day*. Earnings per litre of product sold averaged 2 cents, down from almost 4 cents a year earlier. Petro-Canada earned 4 cents, Suncor Energy earned 3 cents, and Imperial Oil (whose Edmonton refinery had operating difficulties) earned 0.5 cents

Source: Company reports, Ontario Ministry of Energy.

* For these three companies.





Wholesale Gasoline Prices

Wholesale gasoline prices rose in six of the ten selected centres for the **week of May 15th**, compared to the previous week. Overall, price changes ranged from a drop of 1 cent per litre to an increase of 2 cents per litre.

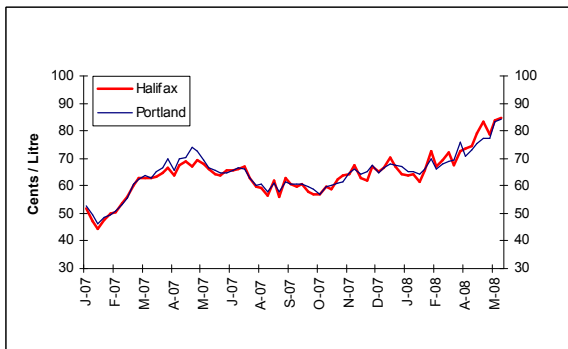
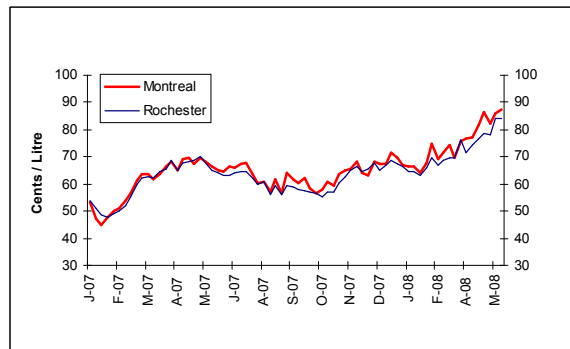
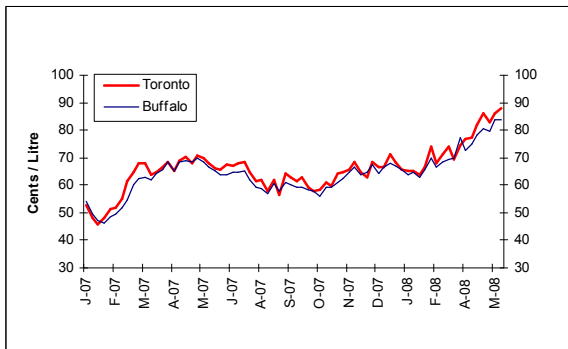
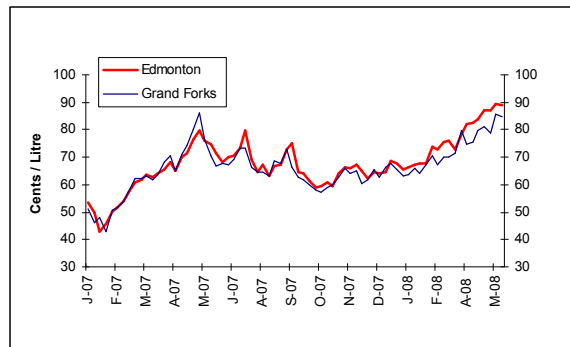
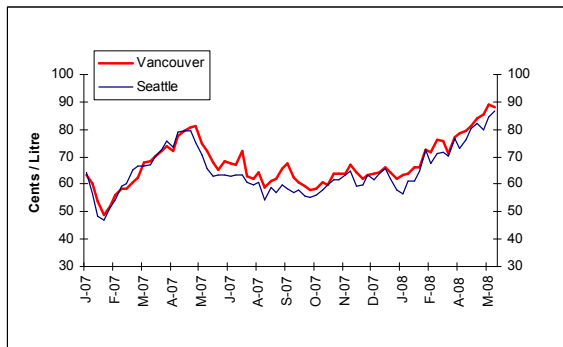
Wholesale gasoline prices in Eastern markets in both Canada and the United States ranged from a decrease of less than 1 cent per litre to an increase of almost 2 cents per litre, compared to the previous week, ending the period in the 84 to 88 cents per litre range.

Western wholesale gasoline price changes also ranged from a decline of 1 cent per litre to an increase of 2 cents per litre ending between 85 to 89 cents per litre. Edmonton and Vancouver prices have declined compared to the previous week, but remain slightly higher than their American counterparts due to tight supply in Western Canada.

Overall, prices in most selected centres are well above last year's level with increases ranging from 7 to 18 cents per litre, compared to the same period last year.

Figure 4: Wholesale Gasoline Prices

Rack Terminals Prices for Selected Canadian and American Cities ending May 15, 2008
(Can ¢/L)



Sources: NRCan, Bloomberg Oil Buyers Guide

Energy Conservation Offer to Ontario Residents

That old, inefficient second fridge of yours is wasting up to \$150 per year in electricity. The Ontario Power Authority offers to pick up that fridge for FREE, haul it out of your basement for you and take care of it in an environmentally responsible manner. To find out if you are eligible or to schedule an appointment call: 1-877-797-9473 or visit: <http://www.everykilowattcounts.com/residential/roundup/>. For other programs, rebates and grants in your province or territory, please visit: <http://ecoaction.gc.ca/grantsrebates-subventionsremises/consumers-consommateurs-eng.cfm>





Refining and Marketing Margins

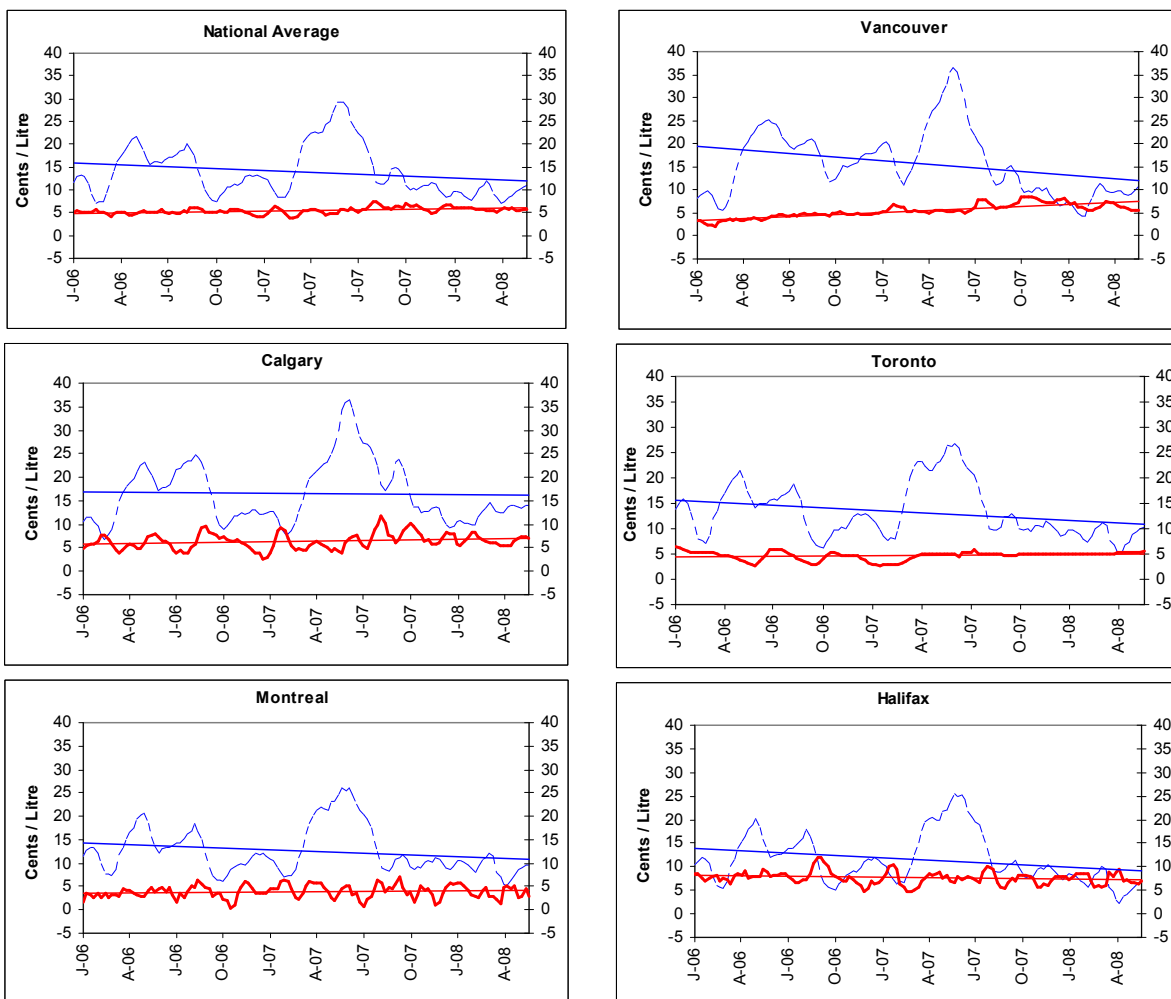
Four-week rolling averages are used for the refining and marketing margins for gasoline shown in Figure 5 for the period ending May 20th.

Nationally, the marketing margins continue to hover around 5 cents per litre. However, some centres such as Vancouver and Montreal recently saw their marketing margins decline as a result of increased competition between outlets.

Although it represents a small portion of the total pump price, the marketing margin can vary significantly from city to city and region to region. Ultimately, it is the local market conditions in each area which determine the retail pump price and the margins available to the retailers. Marketing margins for the five centres registered between 3 and 7 cents per litre.

Figure 5: Refining and Marketing Margins
Four-Week Rolling Average Ending May 20, 2008

----- Refining Margin — Marketing Margin



Source: NRCan





Crude Oil Overview

Supply Concerns and Expected Rising Demand Firm-up World Crude Oil Prices

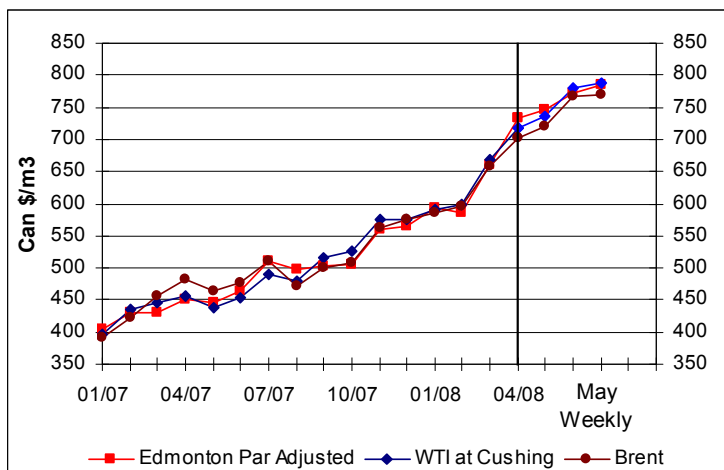
For the week ending May 16th, 2008, crude oil prices averaged between \$771 and \$788/m³ (\$US122 to \$US125 per barrel). Week-over-week prices saw an increase of between \$3 and \$14/m³ (\$US0.5 to \$US3 per barrel) with Edmonton Par seeing the biggest increase.

Despite U.S. inventories being in the middle of the five year range and Saudi Arabia's announcement to increase production by 300,000 barrels per day, the price of crude once again hit a record high on May 16th. This time prices surpassed \$US126 per barrel – almost twice the price as this time last year.

Heading into the summer, there are two main price drivers typically affecting crude oil. One is the increase in consumption of transportation fuels for personal use as North Americans start to venture outside of the city and, the second, fears of an active hurricane season (June 1 - Nov 30) that could disrupt significant oil and refining production as happened in 2005. Even if it turns out that consumption increases only slightly and there is a mild hurricane season, prices will likely be driven up in anticipation of possible imbalances between demand and supply.

Analysts continue to project increases heading into the summer and fall of 2008 with some predicting prices to range between \$US150-200 per barrel within 2 years.

Figure 6: Crude Oil Price Comparisons



Canadian Heavy Crude Oil Prices Double Since Last Year

World oil prices hovered around the \$US120 per barrel in April 2008, essentially more than double the prices compared to the same period last year. However, these high prices have also benefited Canadian heavy oil producing companies such as Husky Energy Inc., Baytex Energy Trust, Penn West Energy Trust and Harvest Energy Trust. Posted prices for Lloydminster heavy crude oil topped \$100 per barrel for a few days last month and averaged a record \$96 per barrel for all of April, up from \$89 in March and only \$45 per barrel for April 2007.

Light, sweet crude posted prices at Edmonton continued their rapid ascent and averaged a record \$117 per barrel in April, more than \$45 per barrel higher than in April 2007 and nearly \$12 above the March 2008 average.

New York Mercantile Exchange prices for West Texas Intermediate averaged \$US113 per barrel in April, putting the average for the first four months of 2008 at \$102 per barrel, smashing by a wide margin all previous highs and up 77% from \$59 per barrel over the same four months last year.

Source: Nickel's Daily Oil Bulletin, May 5, 2008.

Changes in Crude Oil Prices

Crude Oil Types	Week ending: 2008-05-16		Change from:			
			Previous Week		Last Year	
	\$Can/ m ³	\$US/ bbl	\$Can/ m ³	\$US/ bbl	\$Can/ m ³	\$US/ bbl
Edmonton Par	785.33	124.78	+13.60	+3.04	+341.43	+60.54
WTI	788.48	125.28	+8.79	+2.28	+348.99	+61.68
Brent	770.58	122.44	+2.83	+1.32	+300.49	+54.41

Source: NRCan





Canadian Petroleum Product Market Outlook – Spring 2008

The fall of the U.S. dollar and rising trading activity in futures markets coupled with continued geopolitical uncertainty, have led to record-breaking crude oil prices this spring. While crude prices have increased substantially since last spring's report, gasoline prices in April were only about 13% higher than what they were the same month last year. Since Canadian refiners purchase their crude oil in U.S. dollars, Canadian consumers have been partially shielded from the increase, when filling up their fuel tanks, due to a strengthening domestic currency. To add to this, inventories of gasoline have been above the average for this time of year pushing refining margins down for this product.

Highlights of the Canadian Petroleum Product Market Outlook are:

- Petroleum product prices in Canada have been exceptionally high this past year due to high world crude oil prices, refinery capacity constraints and resilient consumer demand.
- After two years of decreasing demand for petroleum products, total Canadian demand in 2007 increased by close to 4%.
- Strong economic growth in Canada is driving up the consumption of diesel, primarily through the agricultural, transportation and construction sectors. Over the last few years, this has led to higher annual growth in diesel fuel demand compared to more moderate growth in gasoline demand. As refiners cannot typically switch from gasoline to diesel production without significant investment, the increased demand has caused the price of diesel to exceed that of gasoline.
- The Canadian refining industry is operating at close to maximum capacity. The lack of spare capacity has reduced the flexibility of the market, making it more vulnerable to unexpected supply disruptions and substantially increasing the volatility of petroleum product prices. This was especially evident when a number of refineries had production problems last winter.
- This summer, Canadian gasoline and diesel fuel prices are expected to remain high all across Canada and will be vulnerable to upward pressures. By the end of April, retail gasoline prices had not reflected the full effect of record-setting crude oil prices, resulting in lower refinery margins. As gasoline inventories start to decline approaching the summer driving season, prices could increase.

The full report is available on the Fuel Focus website at:
http://www.fuelfocus.nrcan.gc.ca/reports_e.cfm

