



National Overview

Marginal Increase in Retail Pump Prices Over Last Week

Canadian retail gasoline prices increased by less than 1 cent per litre to \$1.40 per litre the week of July 15, 2008, compared to the previous week. However, pump prices are 34 cents per litre above the same time last year.

Diesel fuel prices declined by less than 1 cent per litre to \$1.48 per litre compared to last week. This represents an increase of 50 cents per litre from the same period last year. Conversely, furnace oil rose nearly 4 cents per litre to a record high of \$1.41 per litre from the previous week as distributors are purchasing distillates in preparation for the winter heating oil demand.

The slight rise in retail gasoline prices was moderated by the drop in the North American wholesale gasoline prices and the downward movement in world crude oil prices. The average Canadian pump price in selected cities for the **four-week average** from June 24 to July 15, 2008, was \$1.39 per litre.

Recent Developments

- **Sluggish Gasoline Sales:** While Canadian consumption of gasoline declined 3% or 265 million litres in May, sales in the first five months of 2008 were stable at 17 billion litres compared to the same period in 2007. Diesel fuel sales increased marginally by 1% to 11 billion litres for the same five month period, while furnace oil declined 15% to 2.1 billion litres.
- **BP Statistical Review of World Energy 2008:** The review provides statistical information on oil, natural gas, coal, and primary energy consumption. Crude oil prices have been on an upward path for more than six years now and, according to BP's data series which goes back to 1861, that is the longest period of rising prices on record. <http://www.bp.com/productlanding.do?categoryId=6929&contentId=7044622>
- **Shell Canada's Proposed Refinery Shelved:** On July 8, 2008, Shell Canada announced it will not proceed at this time to the next stage of pre-development work for its proposed refinery project in Sarnia, Ontario. http://www.shell.ca/home/content/ca-en/news_and_library/press_releases/2008/july08_sarnia_project.html

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

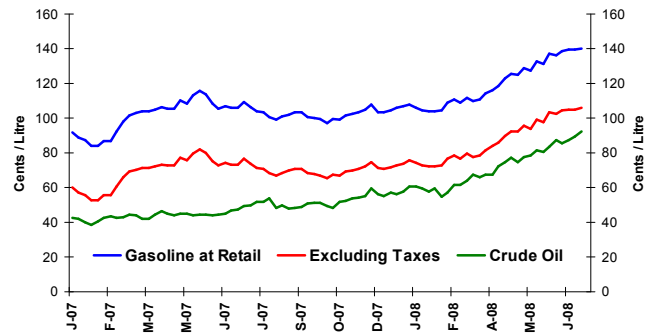
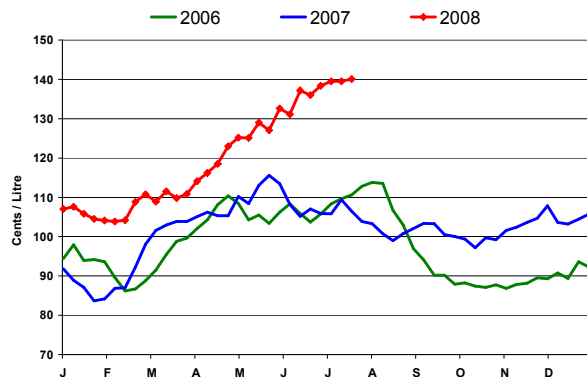


Figure 2: Weekly Regular Gasoline Prices



Changes in Fuel Prices

¢/L	Week of:	Change from:	
	2008-07-15	Previous Week	Last Year
Gasoline	140.1	+0.6	+33.6
Diesel	148.2	-0.6	+50.4
Furnace Oil	140.6	+3.5	+56.1

Source: NRCan

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Retail Gasoline Overview

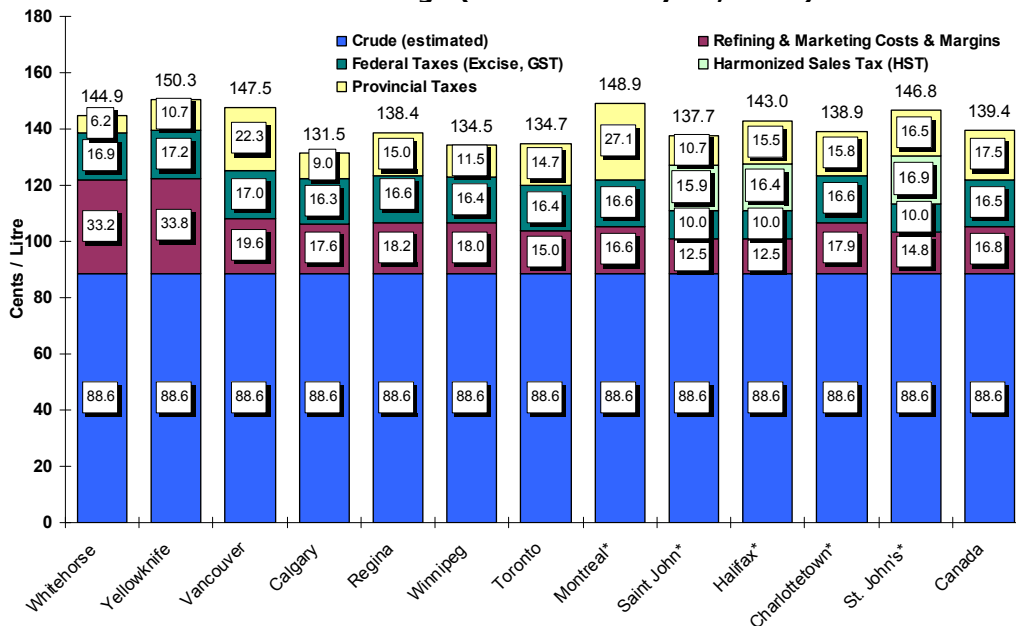
The average Canadian pump price in selected cities for the **four-week average** ending July 15th was \$1.39 per litre, an increase of nearly 2 cents per litre from the last report on July 4, 2008. This represents a 33 cents per litre increase compared to the same period in 2007.

The **four-week average** crude oil price, the largest pump price component, rose by 3 cents per litre to 89 cents per litre compared to two weeks ago and 40 cents per litre above the same period last year.

Retail gasoline prices in Eastern centres rose on average 2 cents per litre, ranging from \$1.35 to \$1.49 per litre from the last report two weeks ago. Prices in Western centres rose on average less than 1 cent per litre and ranged from \$1.32 to \$1.48 per litre.

At the national level, refining and marketing costs and margins declined 1 cent per litre to 17 cents per litre from the previous report two weeks ago. This represents a decline 26 cents per litre from the same period last year.

**Figure 3: Regular Gasoline Pump Prices in Selected Cities
4-Week Average (June 24 to July 15, 2008)**



Source: NRCan

* Regulated Markets

How is Gasoline Taxed?

There are two types of taxes on gasoline:

Fixed tax: The federal government charges an excise tax of 10 cents per litre on gasoline. Provincial governments also collect gasoline taxes and these vary considerably by province. In addition, the province of British Columbia applies a carbon tax. Lastly, three municipalities in Canada also apply taxes on gasoline. Vancouver, Victoria and Montreal charge taxes of 6.0, 3.5 and 1.5 cents a litre, respectively.

Sales tax: The federal Goods and Services Tax (GST) is 5%, (except in Nova Scotia, New Brunswick and Newfoundland/Labrador where it is replaced by the Harmonized Sales Tax (HST) of 13%). In Quebec, there is an additional sales tax of 7.5%. Unlike flat taxes, the amount of sales tax can vary depending on the price of the fuel. GST/HST is charged on crude oil, refining and marketing costs and margins, the federal excise tax and provincial road taxes.

The GST was reduced on July 1, 2006 and again on January 1, 2008, and is now at 5%. This is saving Canadian consumers more than \$500 million per year on gasoline purchases.





Wholesale Gasoline Prices

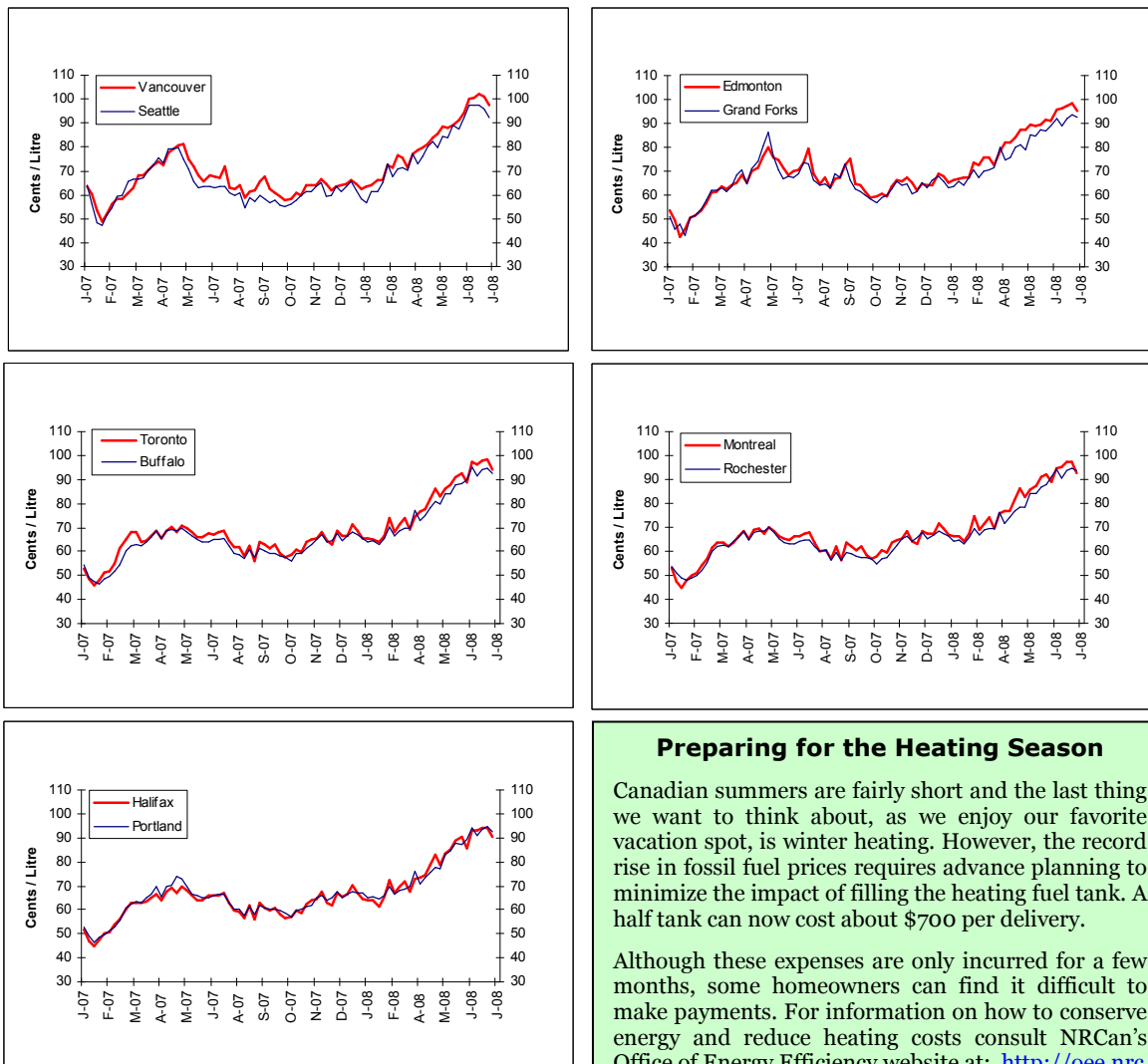
After weeks of regular increases, wholesale gasoline prices decreased in all selected centres for the **week of July 10th**, compared to the previous week. Overall, price changes ranged from 1 to 4 cents per litre.

In contrast to the last report two weeks ago wholesale prices in all selected centres are lower on average by 4 cents per litre in Canada and by more than 1 cent per litre in the U.S., thereby narrowing the gap that had emerged between Canada and American centres.

Compared to four weeks ago, wholesale prices in Canadian centres have declined in the range from 1 to 3 cents per litre, while American selected centres ranged from an increase of 1 cent per litre to a decrease of 5 cents per litre.

However, prices in all selected centres remain well above last year's level with increases ranging from 16 to 29 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 July 10, 2008
(Can ¢/L)



Sources: NRCan, Bloomberg Oil Buyers Guide

Preparing for the Heating Season

Canadian summers are fairly short and the last thing we want to think about, as we enjoy our favorite vacation spot, is winter heating. However, the record rise in fossil fuel prices requires advance planning to minimize the impact of filling the heating fuel tank. A half tank can now cost about \$700 per delivery.

Although these expenses are only incurred for a few months, some homeowners can find it difficult to make payments. For information on how to conserve energy and reduce heating costs consult NRCan's Office of Energy Efficiency website at: <http://oee.nrcan.gc.ca/residential/personal/heating.cfm?attr=4>





Refining and Marketing Margins

Four-week rolling averages are used to illustrate the refining and marketing margins for gasoline in Figure 5, for the period ending July 15, 2008.

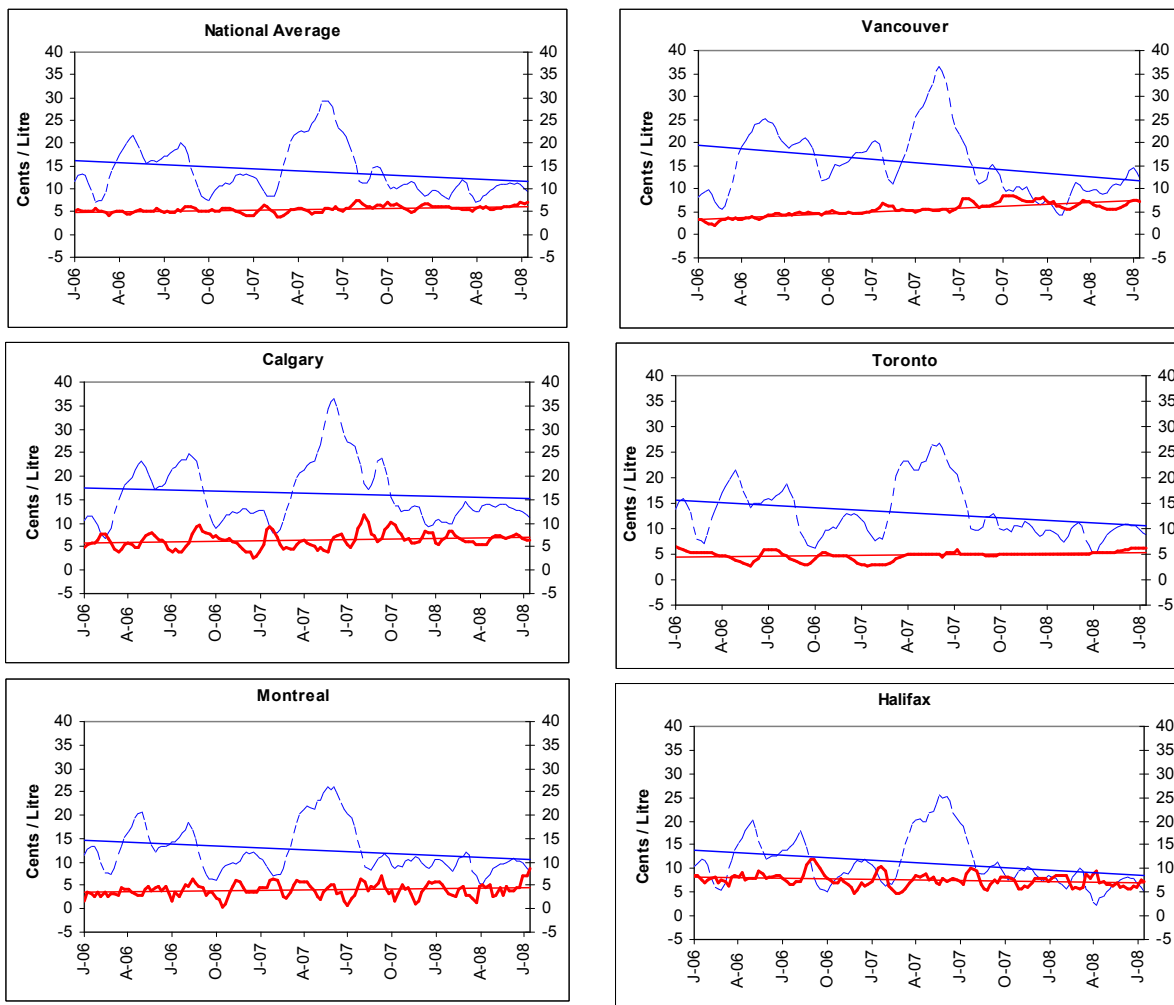
Although the refining margins for gasoline continue to show moderate fluctuations with a slight decrease in most centres for the week ending July 15th, the upward movement observed since April is indicative of a tightening in supplies as refiners are producing more gasoline to increase their inventories to meet the demand.

Strong U.S. gasoline inventories in the last few months have helped moderate the increase in gasoline prices. However, U.S. gasoline inventories have declined nearly to the bottom of the 5-year average range in recent weeks, while crude oil inventories have steadily moved downward since April. Overall, this situation creates a temporary constriction in supply and an upward pressure on refining margins.

In turn, this upward pressure is reflected in the wholesale gasoline market and in the retail pump price in both the U.S. and Canada.

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

----- Refining Margin — Marketing Margin



Source: NRCan





Crude Oil Overview

Short Reprieve in Crude Oil Price Climb

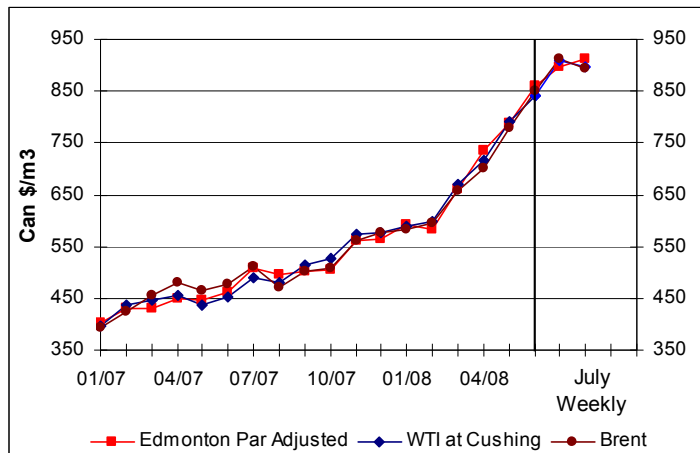
For the week ending July 11th, 2008, crude oil prices averaged between \$894/m³ and \$914/m³ (\$US140 to \$US143 per barrel). Brent and WTI benchmark crudes saw a slight price decline compared to the previous week, except for Edmonton Par which increased by \$17/m³.

The oil market continued to make media headlines with record high prices. International concerns increased volatility in the market in the last two weeks ending the short-lived hiatus. Iranian conciliations with Western powers over the country's nuclear program eased oil

prices, while Iran's missile testing and the potential Israeli response send renewed jitters in the market.

Meanwhile, refining margins remain under pressure as gasoline continues to offer lower returns for refiners trying to recoup high crude oil prices. Concerns about high crude oil prices and declining demand for gasoline in the U.S. add to the refiners' and marketers' apprehensions about taking on too much crude oil and product inventories.

Figure 6: Crude Oil Price Comparisons



World Oil Consumption to Grow

According to the latest Energy Information Administration Short-Term Energy Outlook world oil consumption of liquid fuels and other petroleum is projected to grow by almost 900,000 barrels per day (bbl/d) in 2008 and by an additional 1.4 million bbl/d in 2009, while U.S. consumption is expected to decline by about 400,000 bbl/d in 2008. Adjusting for increased ethanol use, U.S. petroleum consumption is projected to fall by 530,000 bbl/d in 2008.

The oil market remains tight, evidenced by rising prices, low surplus production capacity, and the concern that global supply growth may not keep pace with demand growth over the near term. Preliminary estimates indicate that higher oil consumption in the second quarter and a modest increase in production left the Organization for Economic Cooperation and Development commercial inventories below the 5-year average at the end of June.

World oil consumption continues to grow despite seven consecutive years of rising prices. Preliminary data indicate that world oil consumption during the first half of 2008 rose by roughly 520,000 bbl/d compared with year-earlier levels.

The pace of supply growth in non-OPEC is another key determinant of future market conditions. Despite higher prices and recent past projections of substantial growth in non-OPEC supplies that matched or exceeded consumption growth, actual non-OPEC production fell far short of both expectations and consumption growth.

Source: U.S. EIA, July 8, 2008 <http://www.eia.doe.gov/emeu/steo/pub/contents.html>

Note: 1 barrel = 0.15898 cubic metre

Changes in Crude Oil Prices

Crude Oil Types	Week ending: 2008-07-11		Change from:			
			Previous Week		Last Year	
	\$Can/ m ³	\$US/ bbl	\$Can/ m ³	\$US/ bbl	\$Can/ m ³	\$US/ bbl
Edmonton Par	914.18	143.39	+17.25	+3.21	+416.33	+68.01
WTI	897.54	140.77	-11.60	-1.26	+416.71	+67.97
Brent	893.87	140.19	-17.80	-2.23	+380.30	+62.43

Source: NRCan

