



## National Overview

### Retail Gasoline Prices Linger at About 87 Cents per Litre in the Last 7 Weeks

The average Canadian gasoline retail price registered a moderate increase to 87.8 cents per litre for the week ending November 7<sup>th</sup> remaining at the same level as our last report of two weeks ago. This is approximately 3 cents per litre below last year's price at this time.

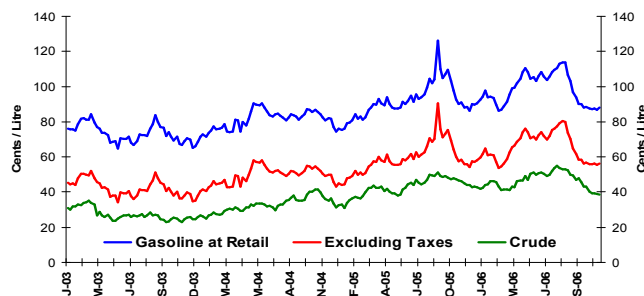
Although the Canadian gasoline prices have shown a slight increase recently, prices are in the same range as in the last two years at this time. The unprecedented price decline over the last few months also coincides with the drop in crude oil prices observed since July. High inventory levels of both crude oil and gasoline and the stable geopolitical situation in oil producing regions have helped keep crude oil prices relatively constant. In addition, the Organisation of Petroleum Exporting Countries' attempt to support crude oil prices by cutting crude oil production has not had much impact on the world crude oil market.

Diesel prices declined slightly by 1 cent per litre to 89.4 cents per litre from last week and by 15 cents per litre from last year at this time. Furnace oil prices also declined slightly to 75.5 cents per litre, down 0.3 cents per litre from two weeks ago.

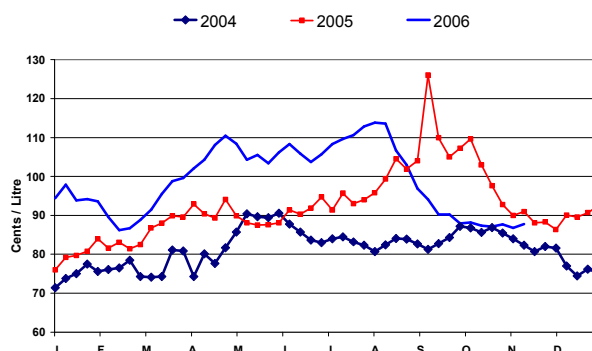
## Recent Developments

- The Government of Newfoundland and Labrador has announced that a proposed project for a second refinery for Placentia Bay has advanced through to the required provincial regulatory process and is now in the final stages of it's the feasibility study.  
<http://www.releases.gov.nl.ca/releases/2006/nr/1030n08.htm>
- On October 30<sup>th</sup>, the Nova Scotia Government announced a new program called Your Energy Rebate, effective December 1<sup>st</sup>, to help many Nova Scotians with the rising cost of energy for their homes. The rebate consists of the eight per cent provincial portion of the harmonized sales tax (HST). The sales tax rebate for electricity and natural gas will come into force on Jan. 1, 2007.  
<http://www.gov.ns.ca/news/details.asp?id=20061030007>
- Prince Edward Island's tax rate has remained the same for November. Tax rates in the province are adjusted on the first of every month and consist of a blended tax, comprised of a volume based amount of 11.5 cents per litre, and an ad valorem tax of 10.7% applied to the average wholesale price of gasoline and diesel oil. Further information is available at:  
<http://www.gov.pe.ca/pt/taxandland/>

**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:  |           |
|-------------|------------|---------------|-----------|
|             | 2006-11-07 | Previous Week | Last Year |
| Gasoline    | 87.8       | +1.1          | -3.2      |
| Diesel      | 89.4       | -0.8          | -14.6     |
| Furnace Oil | 75.5       | -0.2          | -11.7     |

Source: NRCan

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## Retail Gasoline Overview

The four week average Canadian gasoline price for the period ending November 7<sup>th</sup> was 87.3 cents per litre, a slight decrease of 0.3 cents per litre from the last report and down 16 cents per litre from the \$1.03 per litre recorded during the same period in 2005.

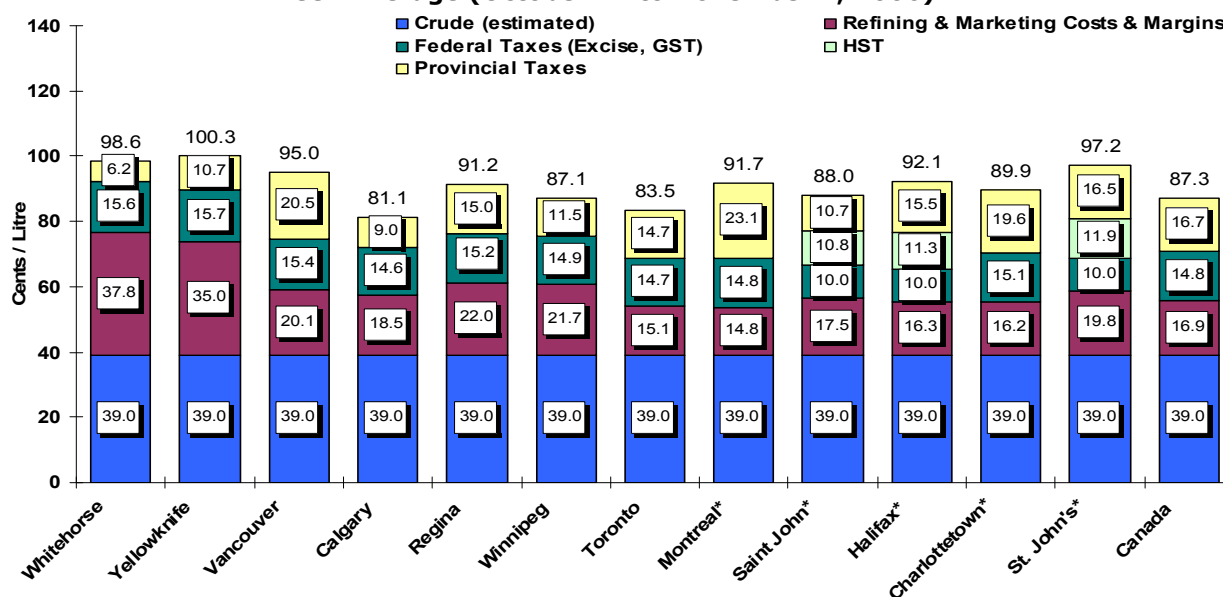
The drop in gasoline prices appears to have bottomed out after peaking at \$1.12 for the four weeks of July 11<sup>th</sup> to August 1<sup>st</sup>. The main driver of the decline has been falling crude oil prices which have dropped more than 15 cents per litre since the end of July.

The refining and marketing margins portion of the pump price increased across Canada approximately 1.2 cents per litre from the last report, partially offsetting the

decline in crude oil prices. On average, the margins increased slightly by 0.4 cent per litre in the western selected cities (Vancouver to Winnipeg) from two weeks ago compared to an increase of 1.6 cent per litre observed in the eastern selected cities (Toronto to St. John's). A number of provinces in Eastern Canada have regulated prices which generally tend to come down more slowly.

A strengthening of refining margins in recent weeks reflects the seasonal turnaround schedule. A number of refineries have been operating at reduced capacity while fall maintenance is performed. This reduces product inventories and generally results in higher wholesale prices for a short period of time until supply and demand rebalance.

**Figure 3: Regular Gasoline Pump Prices in Selected Cities  
4-Week Average (October 17 to November 7, 2006)**



Source: NRCan

\* Regulated Markets

### Fall in Gasoline Prices Bring Inflation Down in September

Statistics Canada's Consumer Price Index (CPI) report released October 22, 2006, <http://www.statcan.ca/english/Subjects/Cpi/cpi-en.htm> indicates that an 18.7% drop in gasoline prices substantially decreased the 12-month percentage change in the CPI from 2.1% in August to 0.7% in September.

Excluding energy prices, the index increased from 1.5% to 1.8% in the same period. The significant decrease in the CPI is due to the effect of Hurricane Katrina on the September 2005 index. The gasoline price decline this year compared to the price spike last year at the same period brought the CPI down from August to September. However, since June 2004, the CPI excluding energy varied between 1.4% and 1.8%, suggesting relative moderation in price changes.

A record monthly decrease of 17.4% in gasoline prices appeared to be the main source of the September decline in the All-items index. In general, Canadian drivers paid substantially less at the pump than they did last summer. Some provincial variations showed that Alberta recorded the most substantial reduction of 20.7% while Newfoundland and Labrador showed the smallest drop at 12.7%.

All fossil fuel prices declined, reflecting the current world conditions in which the upward pressure on prices has been partially offset by the apparent slowdown in economic activity in the United States, which accounts for approximately one-quarter of the world's consumption of petroleum products. Gasoline, at the top of the list with an 18.7% decline, was the primary source of the drop in the index, followed at some distance by natural gas (-3.9%), fuel oil (-4.3%), and fuel, parts and supplies for recreational vehicles (-7.4%). Electricity pushed the index in the opposite direction, with a 12-month increase of 6.6%.





## Wholesale Gasoline Prices

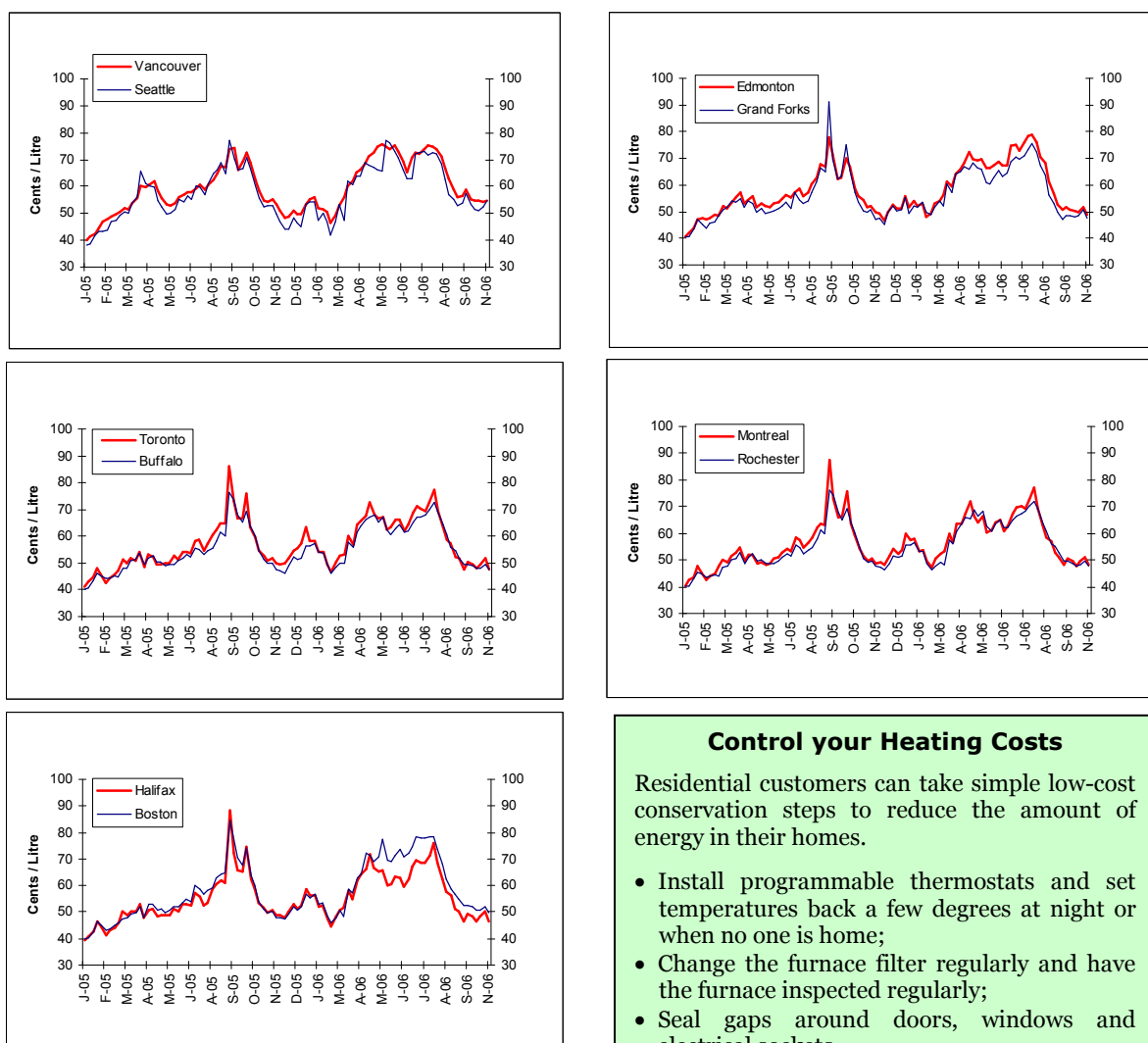
Wholesale gasoline prices declined on average almost 3 and 2 cents per litre for selected Canadian and American cities, respectively, for the week of November 2<sup>nd</sup>, compared to the previous week. This week's wholesale gasoline price is almost 2 cents per litre lower than two weeks ago and virtually the same as last year at this time.

However, wholesale prices appear to have bottomed out in most of the selected cities, perhaps an indication that a seasonal market level may have been reached. Gasoline prices have declined significantly in recent

months owing to the dramatic drop in crude oil prices and high inventory levels for both crude oil and gasoline.

Of all the selected centres, the Vancouver and Seattle markets showed an upward trend compared to other cities ending at 55 cents per litre in both cities for the week of November 2<sup>nd</sup>. Conversely, Halifax and Boston wholesale gasoline prices registered a downward trend to 47 and 49 cents per litre respectively for the week ending November 2<sup>nd</sup>, almost to the same level as four weeks ago.

**Figure 4: Wholesale Gasoline Prices** (Weekly Average)  
Rack Terminals Prices for Selected Cities ending November 2<sup>nd</sup> (Can ¢/L)



Sources: NRCan, Bloomberg

### Control your Heating Costs

Residential customers can take simple low-cost conservation steps to reduce the amount of energy in their homes.

- Install programmable thermostats and set temperatures back a few degrees at night or when no one is home;
- Change the furnace filter regularly and have the furnace inspected regularly;
- Seal gaps around doors, windows and electrical sockets.





## Refining and Marketing Margins

The refining margins have shown some upward movement since the last issue of Fuel Focus two weeks ago, while the marketing margins continue to remain fairly stable. The recent margin rebound is partly due to reduced refinery production this fall to allow maintenance operations to be performed in a number of refineries. Scheduled, or un-scheduled, maintenance in turn tend to constrain supply temporarily and push refining margins up.

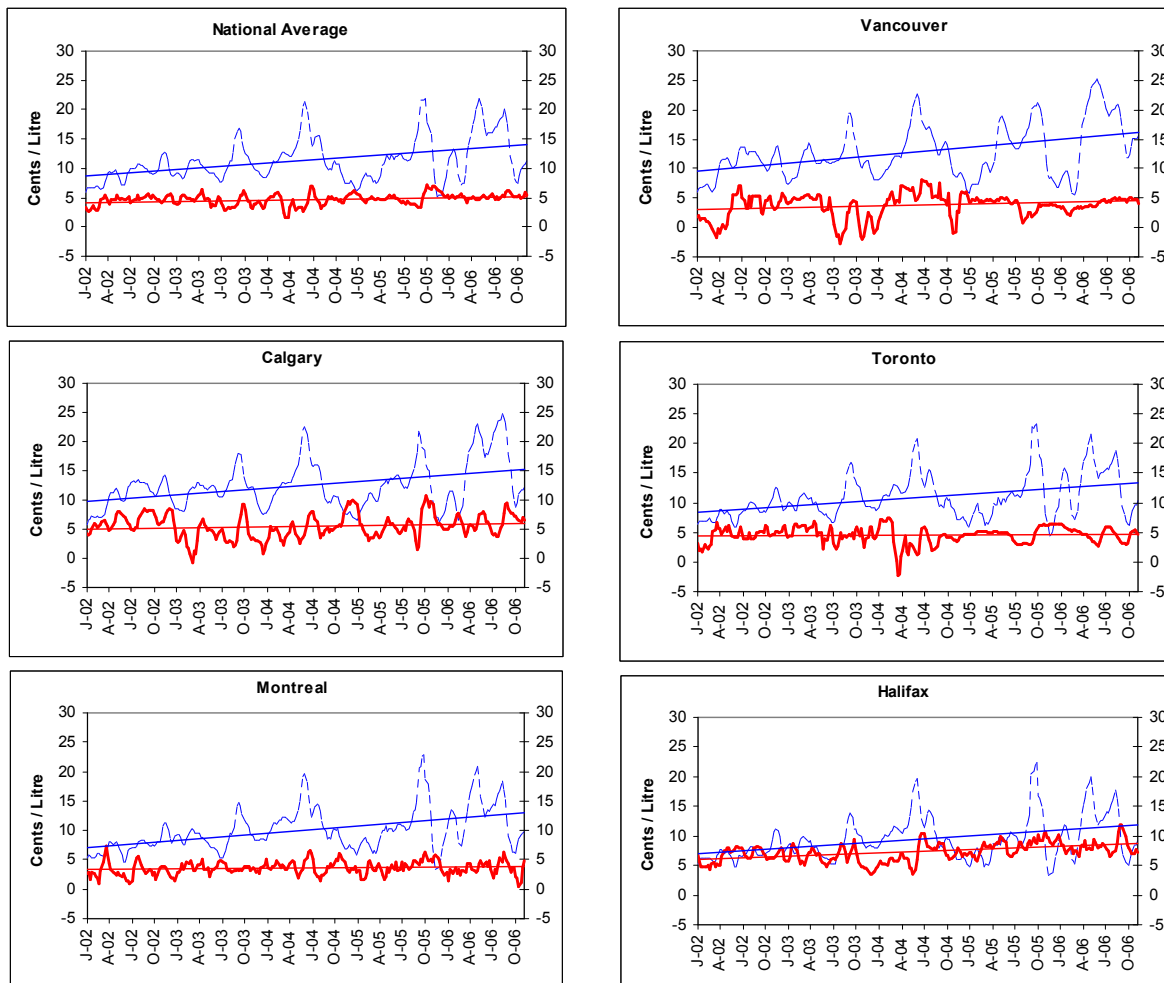
Both refining and marketing costs and margins are influenced by specific market conditions, such as changes in product supply and demand balances.

Some of the other costs associated with retailing gasoline are related to the volume of gasoline sold while other costs are fixed regardless of the volume sold. However, large urban outlets have a definite advantage as higher sales volumes will have a lower cost per unit sold, while the smaller outlets will need a higher margin to cover their retailing costs.

**Figure 5: Refining and Marketing Margins (Four-Week Rolling Average)**

----- Refining Margin

—— Marketing Margin



Source: NRCan





## Crude Oil Overview

### Crude Oil Price Decline Moderating

Crude oil prices declined moderately again this week in light of the continued relative geopolitical stability in oil producing regions and high inventory levels of crude oil. Barring any unforeseen events which could cause an oil supply shortfall, such as an attack on oil facilities or a sharp drop in crude oil inventories, prices should remain at the current levels for a while.

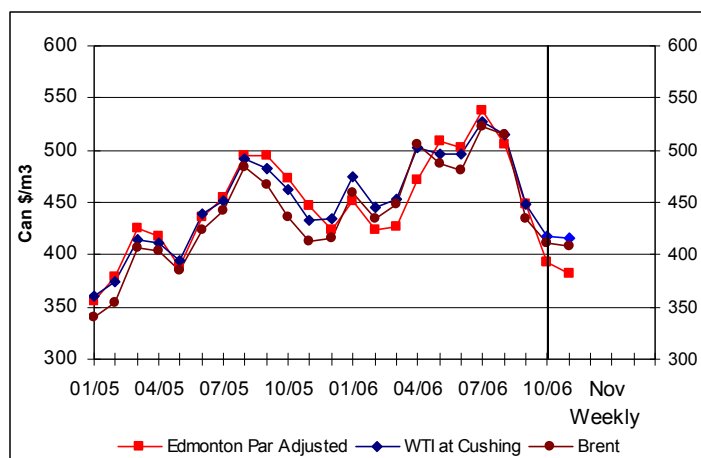
Furthermore, the Organisation of Petroleum Exporting Countries' (OPEC) attempt to support crude oil prices by cutting crude oil production, did not have much impact on the market. Five OPEC members have announced reduction plans, but there has been little

indication of substantial production cuts by the November 1<sup>st</sup> effective date.

In addition, Indonesia said it would not cut production while Nigeria has production problems and is not expected to reduce current output any further. However, on November 6<sup>th</sup>, Saudi Arabia Oil Minister Ali al-Naimi mentioned the possibility of additional production quota cuts in the near future should worldwide inventories remain high.

The prices for the three benchmark crude oils shown in Figure 6 ended the week in the \$61 to 66 per barrel range, down slightly from last week, and \$5 to 13 per barrel lower than last year.

**Figure 6: Crude Oil Price Comparisons**



### Domestic Sales of Gasoline

The total Canada sales of gasoline increased 2.2% comparing the month of September 2006 to the same period last year. Overall, the rapid increase in prices resulting from the effect of the two hurricanes lowered demand for gasoline in September 2005. In fact, gasoline sales in September 2006 were slightly below the sales registered in September 2004, a period of lower prices.

In the first nine months of 2006, sales of all refined petroleum products declined 3.1% or 2.3 billion litres. The bulk of this was gasoline consumption which fell by nearly 600 million to 30 billion litres, a decline of 2%, from the same period a year ago. Ontario and Quebec sales both declined marginally by 1% to reach 12 and 6 billion litres respectively. British Columbia gasoline sales also declined by 2% or 3 billion litres while Manitoba and Saskatchewan sales increased 5 and 6% respectively, albeit from a much smaller volume. Furnace oil declined by 430 million litres to 2.9 billion litres due mainly to the milder temperatures experienced last winter.

Source: Statistics Canada: Cat. 45-004-XIE, and The Daily, November 6, 2006

### Changes in Crude Oil Prices

| Crude Oil Prices (\$/Can) | Week ending: 2006-11-03 |        | Change from:  |        |           |        |
|---------------------------|-------------------------|--------|---------------|--------|-----------|--------|
|                           |                         |        | Previous Week |        | Last Year |        |
|                           | \$/m3                   | \$/bbl | \$/m3         | \$/bbl | \$/m3     | \$/bbl |
| Edmonton Par              | 382.25                  | 60.77  | -7.60         | -1.21  | -79.94    | -12.71 |
| WTI                       | 415.80                  | 66.10  | -0.46         | -0.07  | -32.16    | -5.11  |
| Brent                     | 408.42                  | 64.93  | -3.50         | -0.56  | -30.19    | -4.80  |

Source: NRCan





## USE OF OIL FOR HOME HEATING

In the last twenty years, the use of fuel oil as a heating source has decreased significantly in Canada and has been replaced primarily by natural gas and electricity. Still, for many provinces, heating oil is an important source of energy for heating homes during the winter season. Some provinces are much more dependent on this type of fuel than others, and therefore price fluctuations in these areas have a greater effect on consumers, particularly lower income earners.

In 1984 approximately 25% of Canadian households used heating oil as their primary heat source. By 2003, the percentage of Canadian households heating with oil had declined to 12%. On a provincial basis, the Atlantic region has the highest percentage of households heating with oil mainly due to the unavailability of fuel substitutes such as natural gas. The only province that has actually increased the number of households that heat with oil over the last 20 years is PEI, where close to 84% of all households heat with oil. In Alberta, where the use of natural gas is most common, less than 1% of households use heating oil as a source of heating. The most noticeable declines of heating oil usage in the last two decades were in Quebec from 35% to 17%, Ontario from 24% to 10% and New Brunswick from 50% to 23%.

However, of the number of households using heating oil, the majority are still in Ontario and Quebec with a combined 987,000 households heating with oil. In comparison, while the Atlantic provinces have a larger percentage of homes using oil, they account for only 391,000 households. Only 115,000 households in Western Canada use heating oil.

In conclusion, although consumers in the Atlantic Provinces are highly affected by heating oil price fluctuations, the overall impact of higher prices is greater in Ontario and Quebec where there are a higher number of households heating with oil.

### Current Use of Oil for Heating by Canadian Households

|                  | Total<br>Households<br>'000 | Households<br>Heating with Oil<br>'000 | %         |
|------------------|-----------------------------|--|-----------|
| Newfoundland     | 198                         | 59                                     | 30        |
| P.E.I.           | 54                          | 45                                     | 84        |
| Nova Scotia      | 369                         | 219                                    | 59        |
| New Brunswick    | 292                         | 68                                     | 23        |
| Quebec           | 3,117                       | 536                                    | 17        |
| Ontario          | 4,560                       | 451                                    | 10        |
| Manitoba         | 428                         | 8                                      | 2         |
| Saskatchewan     | 380                         | 13                                     | 4         |
| Alberta          | 1,163                       | -                                      | -         |
| British Columbia | 1,623                       | 94                                     | 6         |
| <b>Canada</b>    | <b>12,214</b>               | <b>1,494</b>                           | <b>12</b> |

Source: 2003 Statistics Canada 62-002