



National Overview

Retail Gasoline Prices Increase 4 Cents a Litre From Last Week

The average Canadian retail gasoline price increased to nearly 94 cents per litre for the week ending December 19, up 4 cents per litre from last week, and 3 cents per litre above last year's price.

Retail gasoline prices rebounded after months of decline, following the upward trend in wholesale gasoline prices and rising world crude oil prices in recent weeks. The table below reflects the impact of the more current gasoline prices, thus the recent crude oil increase, while crude oil prices in Figure 6 are as of Friday, December 15.

Diesel fuel prices rose by 4 cent per litre this week to 94 cents per litre, but stood nearly 1 cents per litre lower than last year. Furnace oil prices increased to 81 cents per litre, up 1 cents per litre from last week and 0.5 cents per litre from last year at the same period.

Recent Developments

- On November 15, 2006, the Newfoundland and Labrador Board of Commissioners of Public Utilities, through its Petroleum Price Office, established a new methodology for setting the maximum fuel prices. Prices will be set every second Thursday in order to more closely align prices with international markets. The switch to two-weekly price setting, effective November 23, is in response to increased and persistent volatility in commodity markets, especially in the past year. <http://www.pub.nf.ca/press.htm>
- In the first ten months of 2006, Canadians consumed 34 billion litres of gasoline, a slight decline of 0.1% compared to the same period last year. Diesel fuel oil sales remained at 22 billion litres while furnace oil sales dropped significantly by 10% to 3.3 billion litres mainly due to a milder winter in 2005-2006. (Statistics Canada, The Daily)
- On December 14, 2006, a fire at the Imperial Oil Sarnia refinery was quickly contained while a controlled burn was allowed to continue for an extended period to ensure the facilities were rendered safe. An investigation of the incident has commenced and damages to the hydrocracker are being assessed. No product shortages are expected in the near term as a result of this event and supply will be rebalanced through the company's refining network as required.

This is the last issue of Fuel Focus for this year. A 2006 Annual Review is planned for January 12 and the regular issue will resume on January 19, 2007.

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

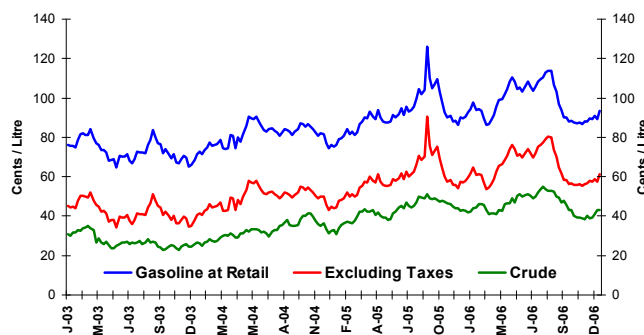
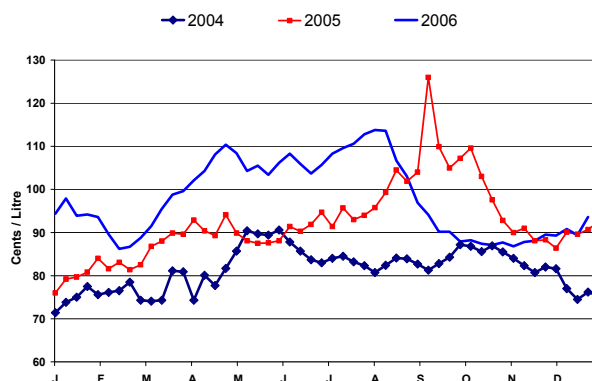


Figure 2: Weekly Regular Gasoline Prices



Changes in Fuel Prices

¢/L	2006-12-19	Change from:	
		Previous Week	Last Year
Gasoline	93.6	+4.2	+3.0
Diesel	93.8	+3.8	-1.2
Furnace Oil	81.4	+1.0	+0.5

Source: NRCan

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Retail Gasoline Overview

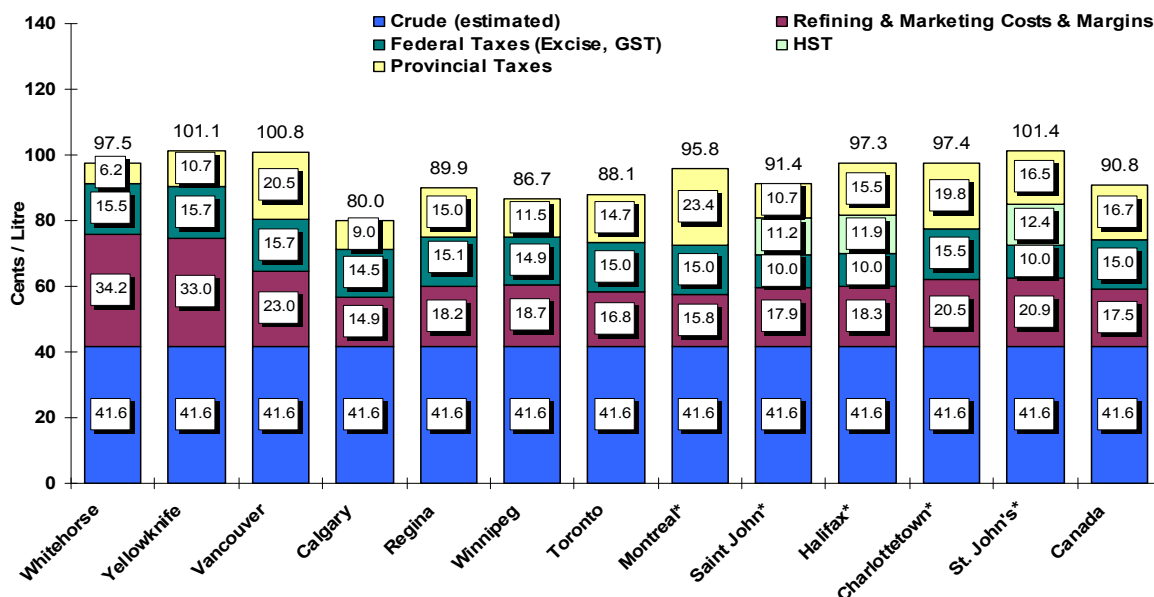
The four-week average gasoline pump price in the selected cities shown in Figure 3 was approximately 91 cents per litre for the period ending December 19, the highest increase reported since the end of September. This represents an increase of almost 2 cents per litre from the level recorded during the same four-week period in 2005.

The upward movement in gasoline prices is mainly due to pressures from the wholesale gasoline market which in turn is responding to supply constraints caused by the recent fall maintenance operations in a number of refineries and upon the effects of the increase in crude oil prices.

The crude oil portion of the pump price components registered approximately 42 cents per litre, an increase of 2 cents per litre from two weeks ago, but 1 cent per litre lower than the same period last year.

The four-week average crude oil price is mainly responsible for the increase in the average retail pump price, while the refining and marketing costs and margins registered a small decline and the tax component of the gasoline pump remained stable compared to the last report two weeks ago.

**Figure 3: Regular Gasoline Pump Prices in Selected Cities
4-Week Average (November 28 to December 19, 2006)**



Source: NRCan

* Regulated Markets

Convenience Stores Survey

According to a survey undertaken by the Your Convenience Manager magazine of 406 self-described convenience stores across Canada, cigarettes continue to be the largest contributor to convenience store revenues accounting for 36% of the store's sales. Although only one-third of the stores surveyed (38%) sell gasoline, these stores showed the highest percentage of sales in all categories of products (except for grocery items, videos and telephone cards) indicating that selling gasoline is a definite advantage in boosting sales of non-fuel offerings. Convenience stores selling gasoline are also more likely to accept credit and debit cards as a payment option while stores without gasoline almost exclusively use cash or debit cards as payment.

Gross weekly margin averaged \$2,600 on weekly retail sales of about \$14,000. Of this amount, cigarettes account for the largest portion of the gross margins at 25% and together with beverages and other confectionary items account for 52% of total gross margin dollars.

Source: Your Convenience Manager, State of the Industry Report, May/June 2006





Wholesale Gasoline Prices

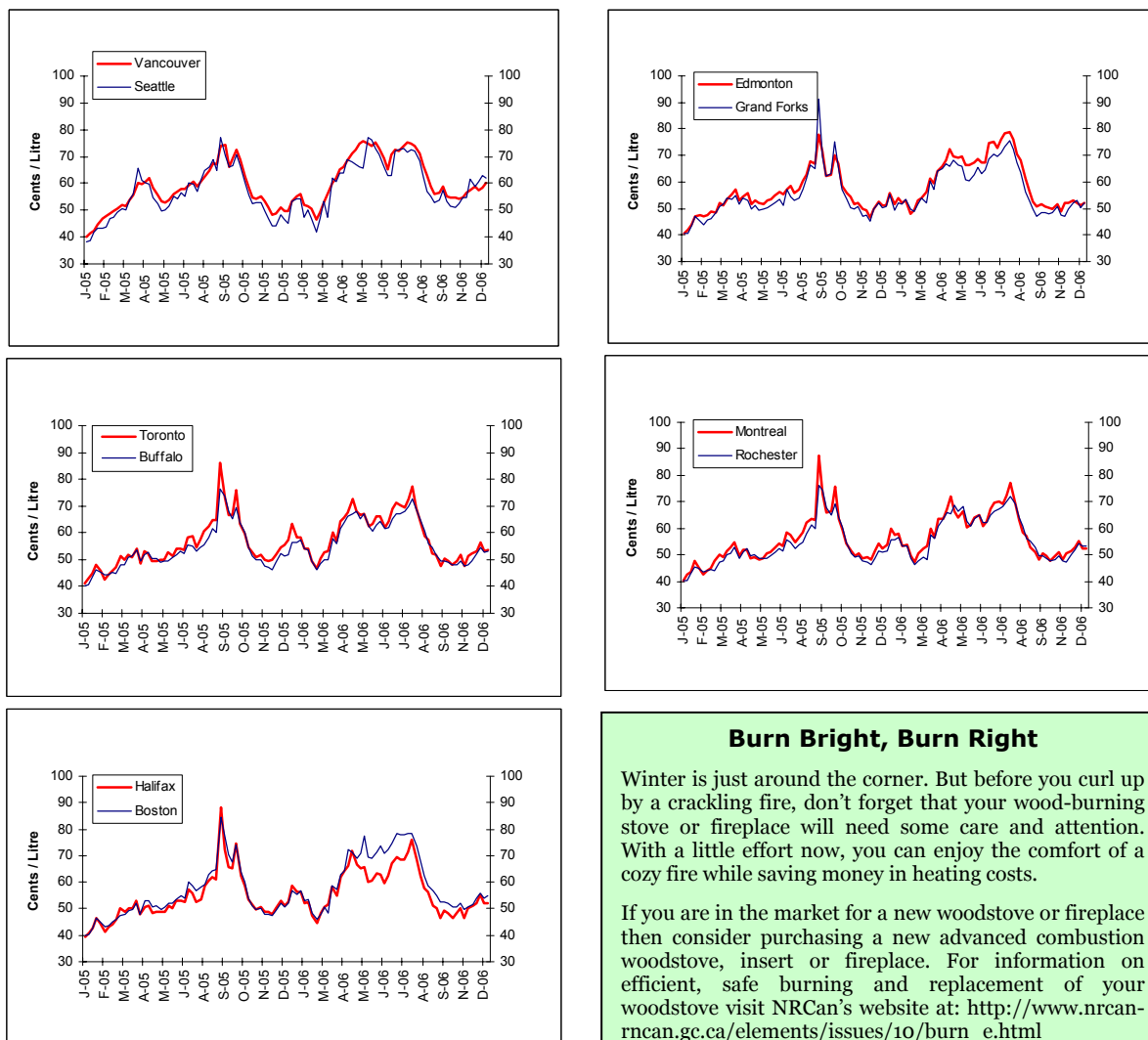
Wholesale gasoline prices increased slightly in most selected centres for the week of December 14th, compared to the previous week. Prices ranged from a decline of less than 1 cent per litre to an increase of 2 cents per litre in both Canadian and American wholesale markets.

The Vancouver and Seattle markets showed an upward trend compared to other cities ending at 60 cents per litre in Vancouver on December 14th, approximately 3 cent per litre higher than two weeks ago, while the

competing rack price in Seattle stood at 62 cents per litre. In general, the firmer prices on the West Coast are due to tighter supplies and more limited access to supplies from other regions.

While most of the centres shown reported prices within 1 to 2 cents per litre of those experienced last year at this time, the Vancouver and Seattle prices are 9 and 14 cents per litre higher than last year respectively. Overall, wholesale gasoline prices in most of the selected centres have returned to their levels of four weeks ago.

Figure 4: Wholesale Gasoline Prices (Weekly Average)
Rack Terminals Prices for Selected Cities ending December 14th (Can ¢/L)



Sources: NRCAN, Bloomberg

Burn Bright, Burn Right

Winter is just around the corner. But before you curl up by a crackling fire, don't forget that your wood-burning stove or fireplace will need some care and attention. With a little effort now, you can enjoy the comfort of a cozy fire while saving money in heating costs.

If you are in the market for a new woodstove or fireplace then consider purchasing a new advanced combustion woodstove, insert or fireplace. For information on efficient, safe burning and replacement of your woodstove visit NRCAN's website at: http://www.nrcan-rncan.gc.ca/elements/issues/10/burn_e.html





Refining and Marketing Margins

Four-weeks rolling averages are used for the refining and marketing margins shown in Figure 5. These margins can fluctuate dramatically on a short term basis, but tend to quickly return to normal when markets rebalance.

In the last five years, the national average for refining margins stood at 11.3 cents per litre while the centres shown below registered the following: Vancouver 12.9 c/L, Calgary 12.6 c/L, Toronto 11 c/L, Montreal 10.1 c/L and Halifax 9.4 c/L.

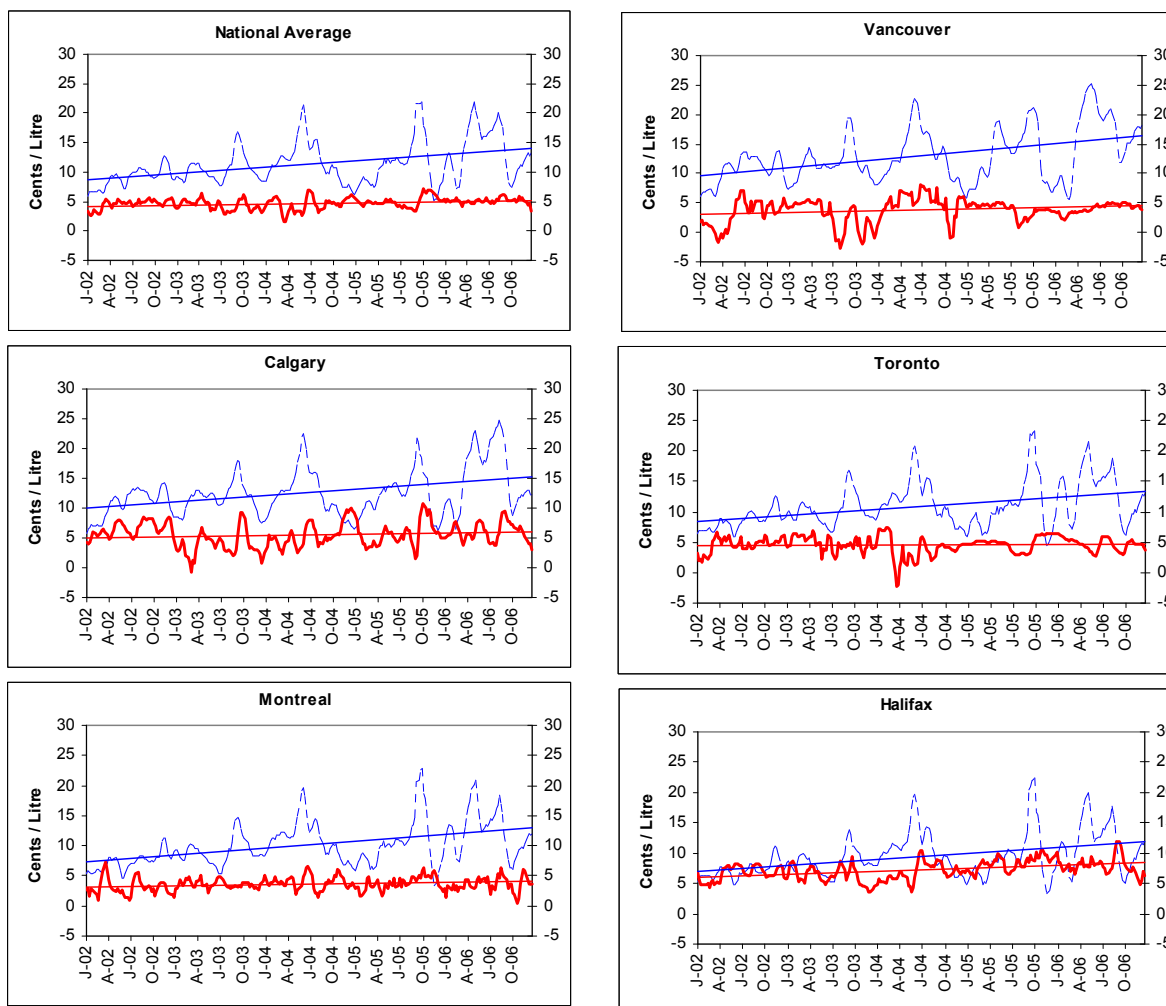
The refining margins tend to be volatile mainly because they are more susceptible to seasonal fluctuations such as the higher demand for gasoline in the summer driving season and the winter demand for heating oil. Over the five year period refining margins have increased from 8.7 to 14 cents per litre.

However, weather-related or other events than constrain supply, can also significantly impact this margin.

Over the last 20 years, the industry undertook significant measures to increase their competitiveness and improve their margins, which had become unsustainable. Over time, as indicated by the trendline, these measures along with the high costs associated with implementing environmental initiatives and regulations, contributed to higher margins.

However, in the long term, improved refinery margins can be expected to attract increase investments in refinery capacity, such as the recent proposals for new refinery investments in Newfoundland and Labrador, New-Brunswick and Ontario, which in time should help stabilize gasoline prices.

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



Source: NRCan





Crude Oil Overview

Slight Decline in Crude Oil Prices

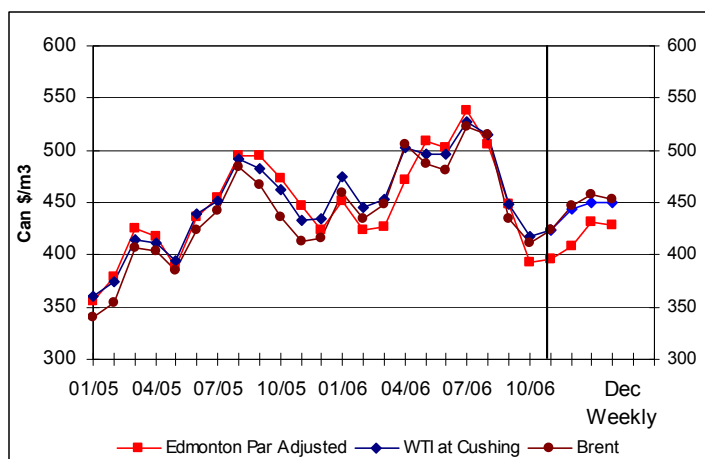
Crude oil prices shown in Figure 6 ended the week in the \$428 to \$453 per cubic metre range. Edmonton Par and Brent ended the week with a slight decline of \$4 and \$6 per cubic metres respectively, while WTI showed a slight increase compared to the previous week. The Brent price remains above last year's levels at \$26 per cubic metre higher than last year.

However, there are a few conflicting factors that will influence the crude oil prices in the coming weeks. U.S. oil inventories fell for the third consecutive week and although world crude oil inventories may be sufficient, many energy traders see any potential decline in supplies as a reason to bid up prices especially against the backdrop of resilient consumer demand.

OPEC has decided to delay their cut in production output until February, but other causes for apprehension are the continued civil unrest in Nigeria, with the threat to oil production facilities, and concerns over the situation in Iraq, which put upward pressure on crude oil prices.

On the other hand, other mitigating factors such as the warmer than usual weather could lead to downward pressure on crude oil prices by causing the demand for heating oil to decline and pushing both product and oil prices down.

Figure 6: Crude Oil Price Comparisons



Changes in Crude Oil Prices

Crude Oil Prices (\$Can)	Week ending: 2006-12-15		Change from:			
			Previous Week		Last Year	
	\$/m3	\$/bbl	\$/m3	\$/bbl	\$/m3	\$/bbl
Edmonton Par	427.60	67.98	-4.40	-0.70	-1.24	-0.20
WTI	449.55	71.47	+0.11	+0.02	+11.70	+1.86
Brent	452.67	71.97	-5.78	-0.92	+26.09	+4.15

Source: NRCan

How World Oil Markets Work

Several key factors influence the global oil market, including the types of crude oil, the players in the oil market, supply and demand for crude oil, and the price of oil. All have a direct impact on the prices consumers pay for gasoline, diesel fuel and other oil-based products.

Crude oil is arguably the world's most important and actively-traded commodity. The type of crude oil that is used as a benchmark in North America is West Texas Intermediate (WTI) oil, which is a light, sweet (low sulphur) crude. This is the price that is usually quoted in newspaper articles. Light sweet crude oils sell at higher prices than heavy sour (high sulphur) crudes, which are more difficult and expensive to refine and yield less of the more valuable oil products such as gasoline and jet fuel.

There is a great deal of concentration in the world oil industry: just ten companies control 68 percent of the world's proven oil reserves. Nine of the ten biggest oil reserve holders are state-owned National Oil Companies. Oil refineries are the primary users of oil. They convert crude oil into useable petroleum products such as gasoline, diesel, jet fuel and home heating oil.

The price of oil is set in the global marketplace. Oil is traded widely all around the world and can move from one market to another easily by ship, pipeline or barge. Therefore, the market is worldwide and the supply/demand balance determines the price for crude oil all around the world. If there is a shortage of oil in one part of the world, prices will rise in that market to attract supplies from other markets until supply and demand are in balance. If there is a surplus in a region and the price drops, buyers will soon be drawn to that market.

This explains why crude oil prices are similar all around the world. Prices vary only to reflect the cost of transporting crude oil to that market and the quality differences between the various types of oil. The global nature of the market also explains why events anywhere in the world will affect oil prices in every market.

