Fuel Focus

Issue 3
Week ending August 1, 2006

National Overview

Retail Gasoline Prices peak at 113.8 cents per Litre

The average Canadian retail gasoline price increased by 1 cent per litre to 113.8 cents per litre for the week ending August 1st , up from 112.8 cents per litre in the previous week. Diesel fuel rose nearly 2 cents per litre while furnace oil registered a slight decline compared to last week.

Higher gasoline prices followed the overall trend in wholesale gasoline prices which were 14.9 cents per litre higher on August 1st compared to the same time last year. These higher prices were again pushed by higher crude oil prices in the last few weeks, driven mainly by the continued conflict between Israel and Lebanon and higher demand for gasoline.

Although there have been signs of crude oil prices stabilizing in the last week, prices continue to be buoyed by increase global oil consumption and gasoline in particular. Other concerns contributing to the relative strength in crude oil prices are related to potential damaging weather events, as the hurricane season approaches in the U.S. and the associated potential supply shortages should any disruption occur in oil producing and refining areas. Page 5 provides a short overview of how supply problems can impact on the economic drivers which in turn create pressure on prices.

Recent Developments

- As a result of high crude oil prices and falling natural gas prices during much of the year, natural gas is now selling in the U.S. for 1/13 as much as a barrel of oil compared with 1/7 the price of a barrel of crude oil a year ago according to Ziff Energy Group in Calgary.

- Suncor Energy Products Inc. launched a new era of ultra low sulphur diesel with the opening of a new diesel desulphurization unit at the company's Sarnia, Ontario refinery. The new facility, part of Suncor's planned three-year $1.2 billion investment in the province, is expected to reduce sulphur emissions from Sunoco diesel fuel by up to 97%.

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

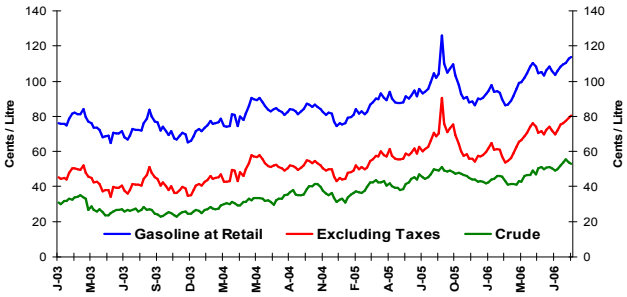
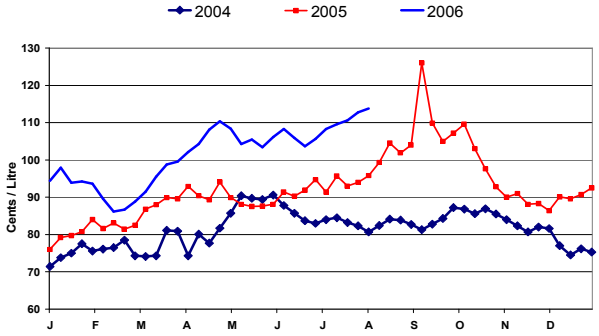


Figure 2: Weekly Regular Gasoline Prices



Changes in Fuel Prices

	Week of:	Change from:	
¢/L	2006-08-01	Previous Week	Last Year
Gasoline	113.8	+1.0	+18.0
Diesel	104.1	+1.7	+12.4
Furnace Oil	84.4	-0.4	+5.9

Source: NRCan

In this Issue

Fuel Focus Info Tips – Who wants to think of heating during the summer? We do. In the next few issues we will provide tips on managing heating expenses in anticipation of the upcoming heating season.

Retail Gasoline Overview

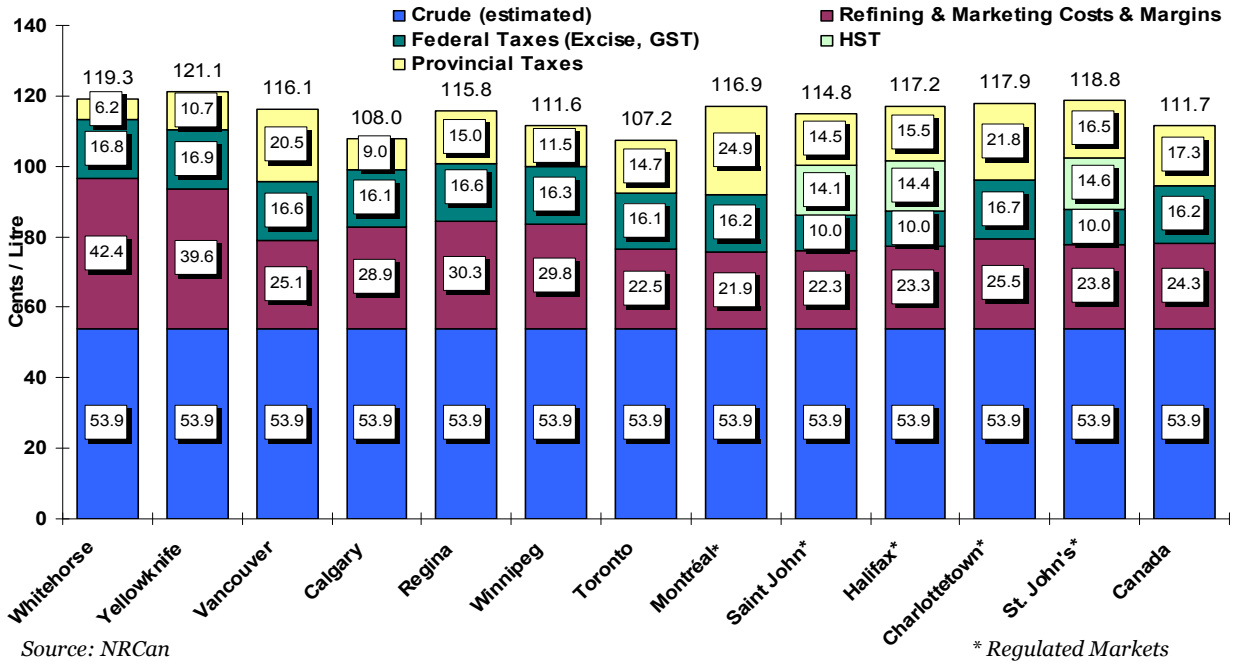
The average Canadian pump price in selected cities for the four weeks ending August 1st was $1.12 per litre, an increase of 3 cents per litre from the July 18th report and a rise of 17 cents from the 94.6 cents per litre recorded during the same period in 2005.

The gasoline price increase in the last few months stemmed from the rise in demand while refiners continue to produce at maximum capacity to meet the summer gasoline requirements.

The four week average crude oil price, at 53.9 cents per litre, has risen by 1.3 cents per litre since the last report, an increase of 8.4 cents per litre from the same period last year.

The federal government excise tax on gasoline is 10 cents a litre, unchanged since 1995. In addition to the excise tax, the 6% Goods and Services Tax (GST) is imposed on all petroleum products. In the provinces of Newfoundland and Labrador, Nova Scotia and New Brunswick, the GST and the retail sales tax are replaced by a single Harmonized Sales Tax (HST) at a rate of 14%.

Figure 3: Regular Gasoline Pump Prices in Selected Cities
4 Week Average (July 11 to August 1, 2006)



Source: NRCan

** Regulated Markets*

Inflation Drop in June

According to Statistics Canada's recent Consumer Price Index (CPI) report http://www.statcan.ca/english/Subjects/Cpi/cpi.pdf, Canadians paid 2.5% more for goods and services in June 2006 than they did a year earlier, but this was lower than the 12-month change of 2.8% in May, prompting stable interest rates from the Bank of Canada. Gasoline and natural gas prices were the main contributors to the slowdown of the change in the CPI as the 12-month increase in gasoline prices slowed from 19% in May to 15% in June. However, even if gasoline prices slowed the CPI somewhat, they were again the major reason for the increase in the CPI in the last 12 months. Energy cost rose 14% from May 2005 to May 2006, but posted a smaller increase of 11.5% in June 2006 from June 2005. Although all components contributed to the increase in the energy index, gasoline (+15%) was the primary factor, followed by electricity (+6.2%), fuel oil (+13.5%), natural gas (+6.5%) and fuel, parts and supplies for recreational vehicles (+10.3%). However, the Government of Canada 1% GST reduction will partially offset the rise in inflation. A rough estimation of the impact of this reduction on the level of the CPI suggests a decrease of about 0.6% as some products, such as certain food items, are exempt from the GST.

The CPI provides a broad measure of the cost of living in Canada and is the most important indicator because of its widespread use, for example, to calculate changes in government payments such as the Canada Pension Plan and Old Age Security. Through the monthly CPI, Statistics Canada tracks the retail price of a representative shopping basket of about 600 goods and services from an average household's expenditure: food, housing, transportation, furniture, clothing, and recreation.

Wholesale Gasoline Prices

Wholesale gasoline prices rose across the selected cities for the week of July 27th compared to the week of July 20th, ranging from a high of 78.3 cents per litre in Edmonton to 71.5 cents per litre in Halifax.

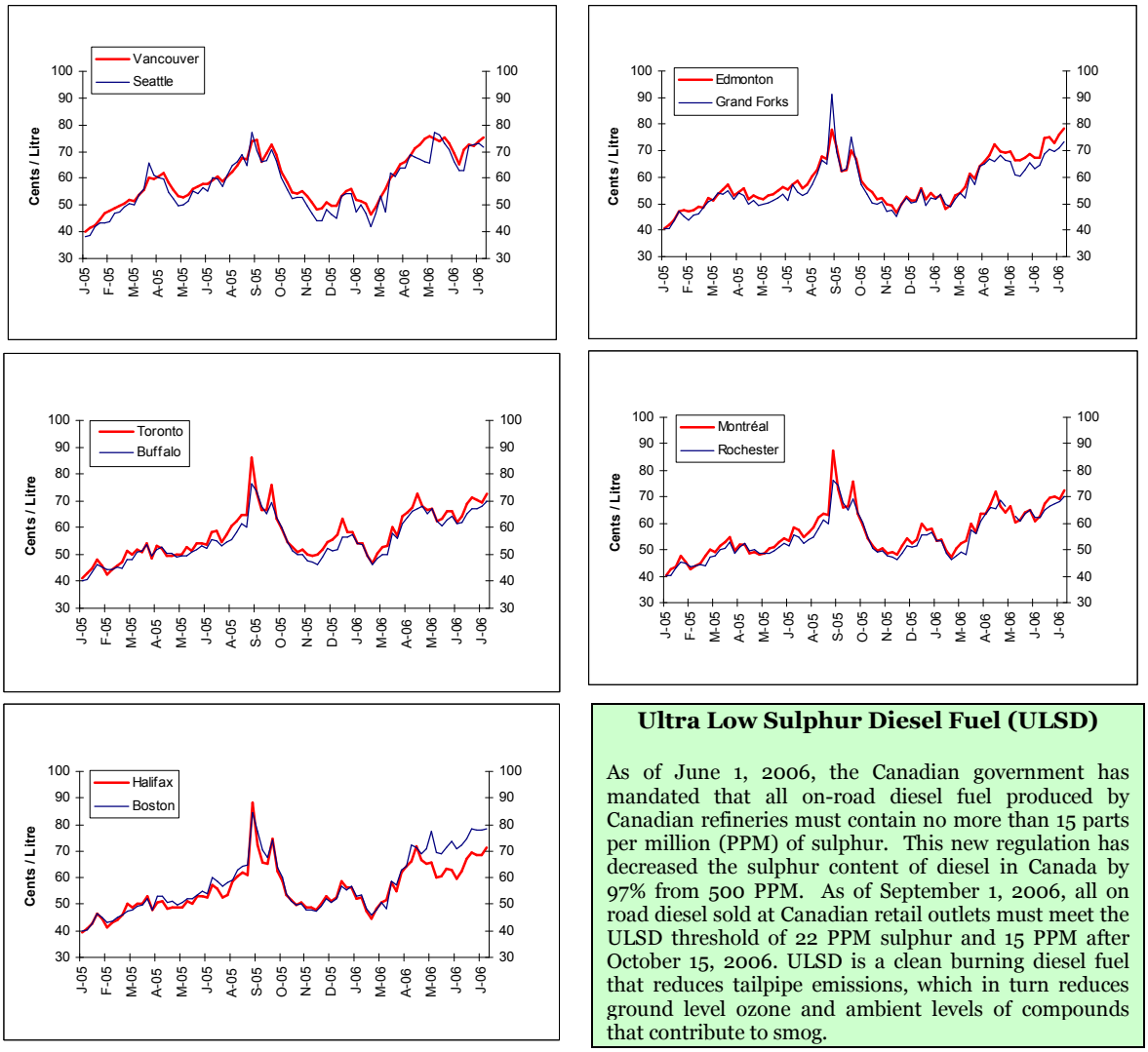
The overall increase in wholesale gasoline prices reflects the increase in crude oil prices and tight supplies of gasoline, all contributing to increased prices at the pump. Meanwhile, refineries are producing at full capacity to meet the increased demand in the summer months, typically 20% higher, compared to the winter.

In Boston rack prices continued to sell at a premium as terminal operators are adjusting to the transition to ethanol-blended reformulated gasoline, ending the week at 78 cents per litre, a four week high, and a gap of almost 7 cents per litre with Halifax.

The Vancouver price rose 1.4 cents per litre to 75.3 cents per litre while the competing Seattle rack price fell 1.6 cents per litre to 71.6 cents per litre. The Seattle-Vancouver price differential continued to decline from a high of 8 cents on June 29th to 3.7 cents per litre on July 27th.

Figure 4: Wholesale Gasoline Prices

Rack Terminals Prices for Selected Cities on July 27th (Can ¢/L)



Sources: NRCan, Bloomberg

Ultra Low Sulphur Diesel Fuel (ULSD)

As of June 1, 2006, the Canadian government has mandated that all on-road diesel fuel produced by Canadian refineries must contain no more than 15 parts per million (PPM) of sulphur. This new regulation has decreased the sulphur content of diesel in Canada by 97% from 500 PPM. As of September 1, 2006, all on road diesel sold at Canadian retail outlets must meet the ULSD threshold of 22 PPM sulphur and 15 PPM after October 15, 2006. ULSD is a clean burning diesel fuel that reduces tailpipe emissions, which in turn reduces ground level ozone and ambient levels of compounds that contribute to smog.

Refining and Marketing Margins

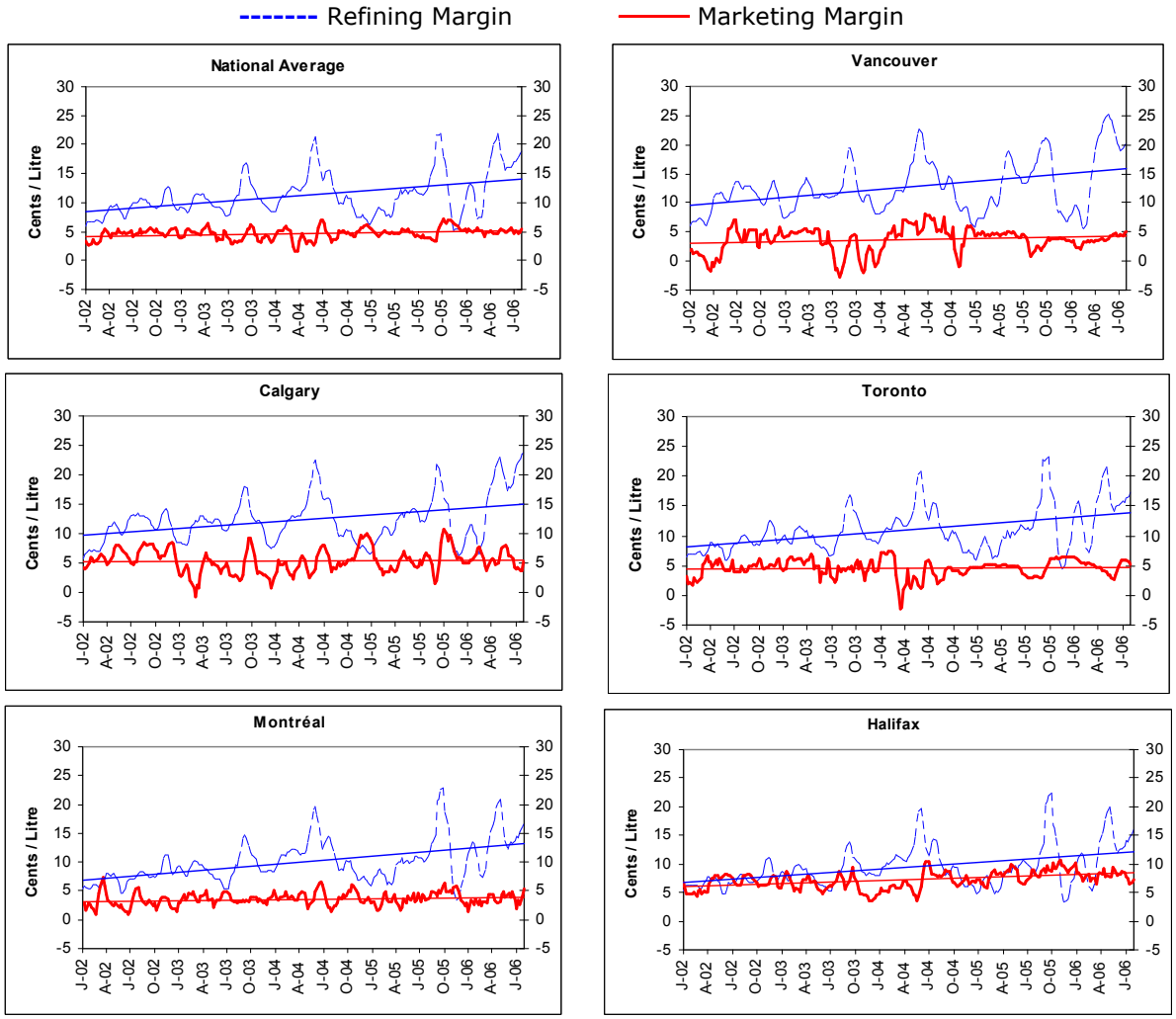
Refining margins continue to fluctuate mainly due to concerns over tight supplies while the demand for gasoline continues to rise. These margins refer to the difference between the cost of the crude oil and the wholesale price at which a refiner can sell gasoline. The margin includes the costs associated with the refining of the product as well as profit for the refiner.

The fluctuating refining margins, as shown in Figure 5, are indicative of a number of factors influencing the gasoline supply conditions in a particular market. High refining margins indicate tight supplies, while low margins are indicative of ample gasoline supplies. Typically, gasoline demand exhibits regular season patterns, rising in the spring and falling in the latter half of the year.

Marketing margins represent the difference between the wholesale and retail prices of gasoline. This margin pays for the costs associated with storing the gasoline until it is delivered and transporting it to the local service station. Gasoline can often be loaded and unloaded several times between the refinery and the retail outlet.

This margin also pays for the costs associated with operating the service station - land, buildings, underground tanks, pumps, salaries, property taxes, utilities, credit card charges and advertising campaigns. Once these costs are covered, the remainder of the margin is profit.

Figure 5: Refining and Marketing Margins



Source: NRCan

Crude Oil Overview

Crude Oil Prices Show Signs of Stabilization

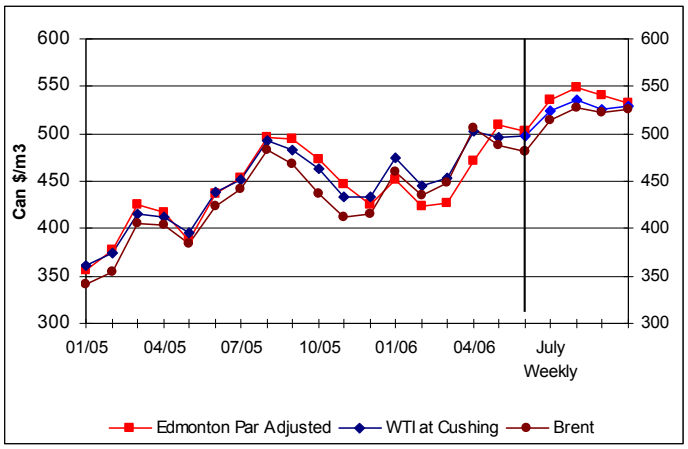
After weeks of continued upward movement the average weekly Edmonton Par crude oil prices started declining, in the week of July 28th reaching $533 per cubic metre ($85 per bbl). This was down more than $8 per cubic metre from the previous week and was well below the $548 per cubic metre recorded two weeks ago.

On July 28th, the benchmark crude price for West Texas Intermediate (WTI) was nearly $529 per cubic metre ($84 per bbl) a slight increase from the previous week and $71 per cubic metre ($11 per bbl) higher than last year. The Brent crude oil benchmark rose to $526 per cubic metre ($84 per bbl), nearly $3 per cubic metre higher than last week and $77 per cubic metre ($12 per bbl) above last year.

Despite its current stabilization, crude oil continues to be buoyed by a number of factors such as rising demand for crude oil in the U.S. and China and fears of supply disruption in the Middle East upon further escalation in hostilities between Israel and Lebanon. A mitigating factor in the rise of crude oil prices is that the fighting has not spread to neighbouring countries, including oil-rich Iran, as feared by investors.

Figure 6: Crude Oil Price Comparisons

(NRCan data on crude oil prices available on July 28th)



Changes in Crude Oil Prices

Crude Oil Prices ($Can)	Week ending: 2006-07-28		Change from:			
			Previous Week		Last Year	
	$/m3	$/bbl	$/m3	$/bbl	$/m3	$/bbl
Edmonton Par	532.67	84.69	-8.55	-1.36	+79.98	+12.72
WTI	529.06	84.11	+3.03	+0.48	+71.07	+11.30
Brent	526.10	83.64	+3.08	+0.49	+76.52	+12.16

Source: NRCan

How is the price of crude oil determined?

Crude oil prices are affected by the principles of supply and demand. When the available supply of crude oil exceeds the demand by refiners, prices tend to fall. When demand is growing faster than supply, prices will increase.

Interruptions to crude oil supplies or even the threat of supply problems (such as political events or hurricanes) can force prices upward. Because crude oil can be moved anywhere in the world, suppliers will seek out the place where they can get the highest price. This creates a global market for oil where prices are similar all around the world; the only differences are transportation costs and the quality of the oil.

Crude oil, as the raw material from which refined petroleum products are made will also impact on the price of gasoline. Therefore, changes in the cost of crude oil will change the cost to refiners and therefore the price at which the refiners sell their products to marketers and distributors (wholesalers) and, in turn, this increase or decrease in price will be passed on to consumers at the pumps, which is one of the reasons gasoline prices move up and down.

In a future issue we will highlight some aspects of the role of speculation on crude oil prices.