



National Overview

Retail Gasoline Prices Appear To Have Bottomed Out

The average gasoline retail price in Canada registered a slight increase to 87.7 cents for the week ending October 24th. This is 0.3 cents per litre higher than the last report two weeks ago and approximately 5 cents per litre below last year at this time.

On average, Canadian gasoline prices have declined by 26 cents per litre from their peak of \$1.14 this summer while crude oil prices have dropped by the equivalent of 17 cents per litre from their high levels in July.

Crude oil remained relatively stable in the week ending October 20th due to high inventory levels of crude oil and gasoline and the relative political stability in oil producing regions of the world.

Diesel prices rose by 0.7 cents per litre from last week to 90.2 cents per litre, an increase of 0.2 cents per litre from two weeks ago. Furnace oil prices increased to 75.8 cents per litre, up 1.2 cents per litre from the last report two weeks ago.

Recent Developments

- On October 3rd, the Government of Alberta announced a \$239 million investment in the bioenergy sector. Of this amount, \$209 million will be used to help introduce renewable products into traditional fuel and energy markets under a Renewable Energy Producer Credit program and \$30 million will create a program to support technology investment. For further information, please visit:
<http://www.gov.ab.ca/home/index.cfm?page=1508>
- On October 13th, the Ontario Government announced a \$313 million investment (two cents of every litre of gasoline sold in Ontario), into public transit from October 1, 2006 to September 30, 2007. By the end of 2007, ridership is expected to grow by 31 million - the equivalent of removing 25.8 million car trips from Ontario roads. Further information is available at:
<http://ogov.newswire.ca/ontario/GPOE/2006/10/13/c7664.html?lmatch=&lang=e.html>
- In the first six months of 2006, crude oil exports, which account for 66% of total production, jumped by nearly 10%, while imports declined 2%, compared to the same period last year. Higher bitumen and synthetic production in Alberta was partially offset by lower offshore crude oil production in Newfoundland and Labrador.

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

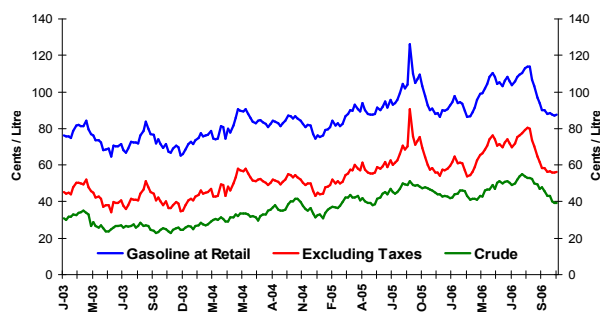
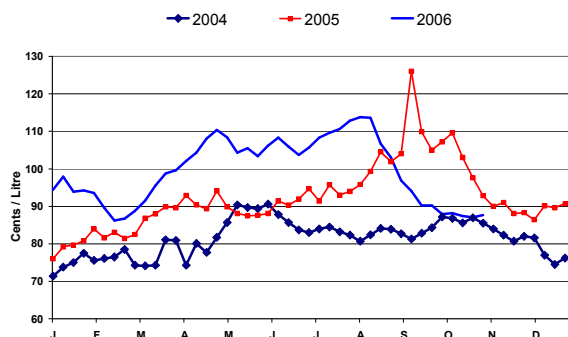


Figure 2: Weekly Regular Gasoline Prices



Changes in Fuel Prices

¢/L	Week of:	Change from:	
	2006-10-24	Previous Week	Last Year
Gasoline	87.7	+0.6	-5.1
Diesel	90.2	+0.7	-17.4
Furnace Oil	75.8	+1.1	-14.0

Source: NRCan

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Retail Gasoline Overview

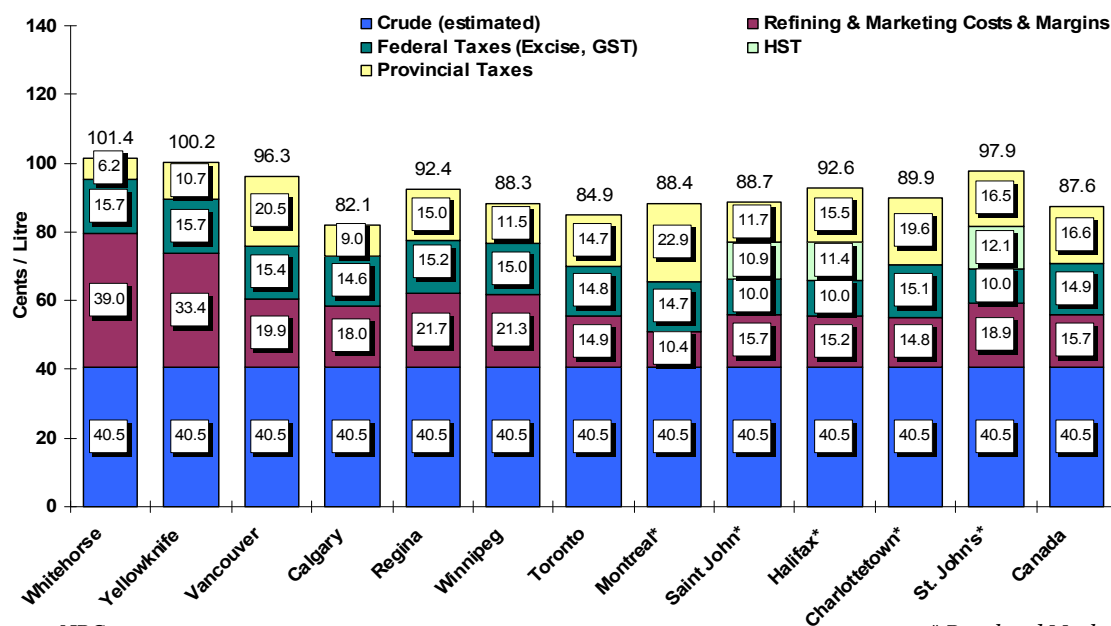
The average Canadian pump price in selected cities for the four weeks ending October 24th was 87.6 cents per litre, a slight decrease from the October 10th report, indicating that the dramatic drop in prices may be slowing down. After peaking at just under \$1.13 in August, the Canadian 4-week average has dropped by almost 25 cents in the last 3 months.

Falling crude oil prices are the main factor responsible for the decline. The crude oil component has dropped from about 53 cents per litre in August to 40.5 cents per litre in this report.

Refining and marketing costs and margins are about 9 cents per litre lower than they were in August, reflecting the easing pressures on the gasoline supply as demand falls off and gasoline inventories return to more comfortable levels.

The tax components, both federal and provincial, have also declined slightly. However, the majority of taxes are applied at fixed rates and do not vary with the price. As prices decline, taxes account for a larger portion of the price. For example, when retail prices were in the \$1.13 per litre range, taxes accounted for about 30% of the price. With prices now in the 88 cents per litre range, taxes make up 36% of the retail price.

**Figure 3: Regular Gasoline Pump Prices in Selected Cities
4-Week Average (October 3 to October 24, 2006)**



Source: NRCan

* Regulated Markets

Do Gasoline Prices Fall Slower Than Crude Oil Prices?

Many consumers are aware of gasoline price movements and complain that gasoline prices react more quickly when crude oil prices are increasing than they do when crude oil prices fall. In fact, statistical analysis does not support this perception. In 2000, when the Conference Board of Canada examined gasoline prices over a 10-year period in 11 major Canadian cities, they found that retailers adjusted their prices in the same manner for both increases and decreases in the crude oil price. However, this relation may not always be obvious to the consumer. There are a number of factors, such as gasoline inventory levels, local supply/demand balances and other local market conditions, which affect gasoline prices in addition to changes in crude oil prices. These other factors can sometimes work in conjunction with oil price changes but at other times they can offset oil price variations. For example, seasonal swings in gasoline demand generally result in an increase in gasoline prices during the summer months and a decrease in the fall. In periods of volatile crude oil prices these seasonal price changes may not be obvious. This fall the Canadian market has experienced normal seasonal declines in gasoline demand combined with higher inventory levels. These downward pressures on gasoline prices, in conjunction with the rapid drop in oil prices, have resulted in gasoline prices declining more quickly than oil prices. On average, Canadian gasoline prices have declined by 26 cents per litre from their peak of \$1.14 this summer while crude oil prices have dropped by the equivalent of 17 cents per litre from their highest levels in July.





Wholesale Gasoline Prices

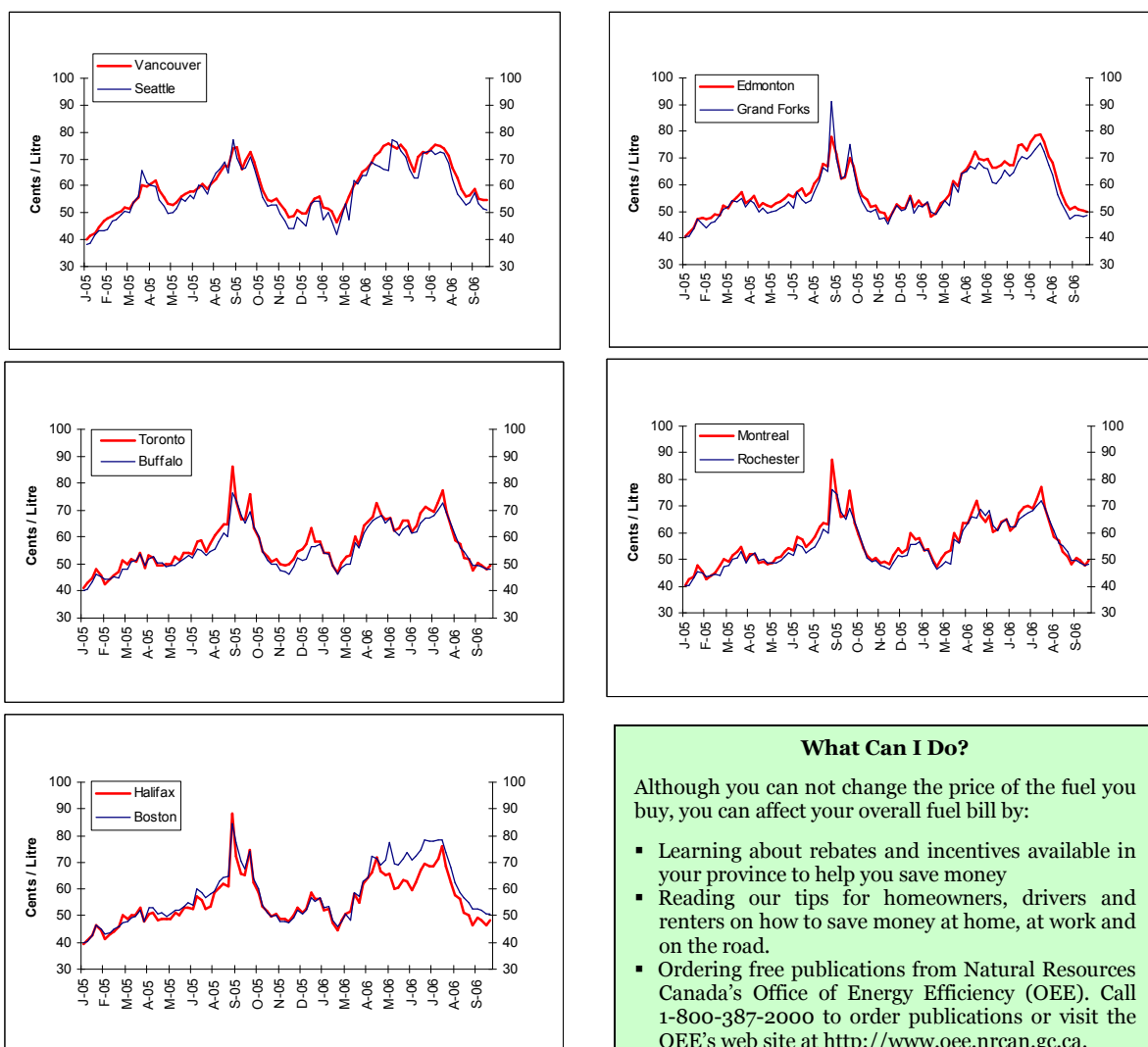
Wholesale gasoline prices appear to have bottomed out in recent weeks with the October 19th average of the selected cities marginally higher than a week ago. Prices are about 5 cents per litre less than they were at the same time last year.

The dramatic drop in wholesale gasoline prices that began in early August was mirrored in both the Canadian and American markets. After peaking in the 75-77 cents per litre range this summer, prices have now dropped below 50 cents per litre, a level that has not been experienced since February 2006.

Overall, the recent decline in gasoline prices reflects the lower crude oil prices and higher crude oil and gasoline inventory levels.

The Halifax rack price rose 1.5 cents per litre to 48 cents per litre while the competing Boston price remained almost unchanged at 51 cents per litre for the week ending October 19th. Vancouver and Seattle wholesale gasoline prices declined marginally in the week ending October 19th, but declined 1 and 2 cents per litre respectively from two weeks ago. The Seattle-Vancouver price differential increased by almost 4 cents per litre in the week of October 19th, suggesting tighter gasoline supplies in the Vancouver market.

Figure 4: Wholesale Gasoline Prices (Weekly Average)
Rack Terminals Prices for Selected Cities ending October 19th (Can ¢/L)



What Can I Do?

Although you can not change the price of the fuel you buy, you can affect your overall fuel bill by:

- Learning about rebates and incentives available in your province to help you save money
- Reading our tips for homeowners, drivers and renters on how to save money at home, at work and on the road.
- Ordering free publications from Natural Resources Canada's Office of Energy Efficiency (OEE). Call 1-800-387-2000 to order publications or visit the OEE's web site at <http://www.oee.nrcan.gc.ca>.

Sources: NRCan, Bloomberg



Natural Resources
Canada

Ressources naturelles
Canada





Refining and Marketing Margins

Four-week rolling averages are used for the refining and marketing margins shown in Figure 5. On a day-to-day basis the margins can fluctuate dramatically, such as last year during the hurricane period and its aftermaths, but quickly return to more normal ranges once markets rebalance.

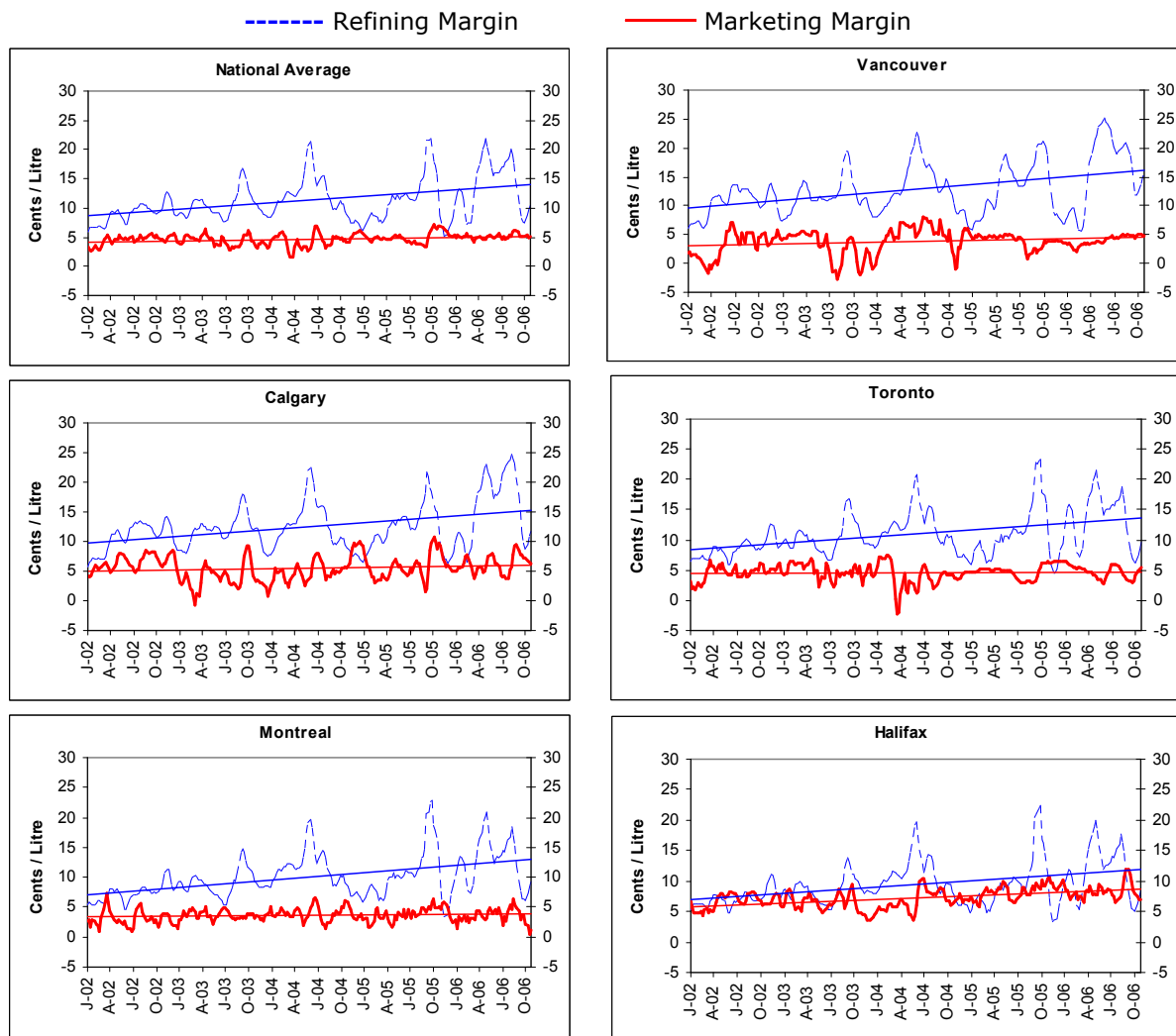
These variations tend to last for short periods of time. Thus, using a four-week rolling average has the advantage of eliminating the wide variability that can be observed sometimes on a daily or weekly basis, without masking trends.

As shown in the graphs below, over the long term, refiner margins follow similar trends across the

country and have been increasing over the last five years. Some of these increases have been due to higher costs associated with the implementation of new fuel quality regulations.

Increasingly stringent fuel specifications will inevitably have an impact on refining margins as the cost of manufacturing increases. Programs and policies to improve air quality and cut greenhouse gases and carbon emissions, particularly in the transportation sector, are expected to gain more prominence in the coming years.

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



Source: NRCan





Crude Oil Overview

Crude Oil Prices Remain Stable

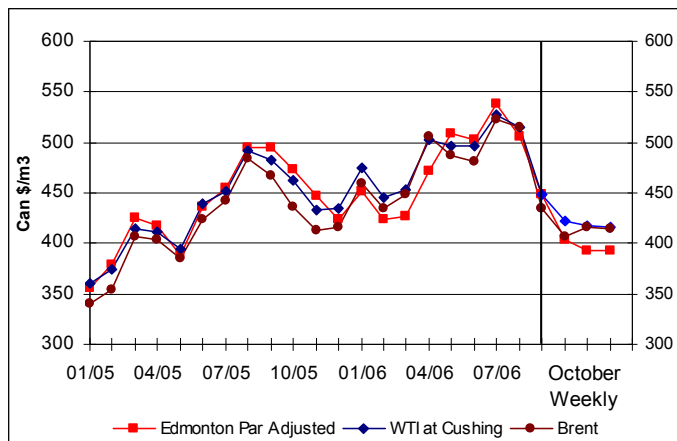
Crude oil remained relatively stable in the week ending October 20th due to high inventory levels of crude oil and gasoline and the relative political stability in oil producing regions of the world.

The Organization of Petroleum Exporting Countries (OPEC) announced a larger than expected 1.2 million barrel per day reduction in oil production effective November 1st. The reduction will be based on the members monthly output rather than quotas and applies to ten OPEC members. The lone exception, Iraq, is attempting to raise its production to prewar levels. OPEC's strategy is to stabilize crude oil prices which have declined almost 25% since the record high of \$84 (Cdn) per barrel was reached in July.

However, the announcement has not resulted in a substantial increase in crude oil prices, partly due to the other factors mentioned previously which are exerting downward pressure on prices.

Edmonton Par price ended at \$393 per cubic metre (\$62 Cdn per bbl), slightly higher than the previous week, but \$11 per cubic metre lower than two weeks ago and down 27% from its peak at \$539 per cubic metre in July. Meanwhile, West Texas Intermediate (WTI) registered \$416 per cubic metre (\$66 Cdn per bbl), virtually unchanged from the previous week. The Brent crude oil benchmark declined to approximately \$414 per cubic metre (\$66 Cdn per bbl), down \$2 per cubic metre from the previous week.

Figure 6: Crude Oil Price Comparisons



Changes in Crude Oil Prices

Crude Oil Prices (\$/Can)	Week ending: 2006-10-20		Change from:			
			Previous Week		Last Year	
	\$/m3	\$/bbl	\$/m3	\$/bbl	\$/m3	\$/bbl
Edmonton Par	392.75	62.44	+0.50	+0.08	-84.64	-13.46
WTI	416.19	66.17	-0.88	-0.14	-47.17	-7.50
Brent	414.11	65.84	-2.05	-0.33	-18.10	-2.88

Source: NRCan

False Claim on Automobile Gasoline Saving Device

The Competition Bureau is warning Canadian consumers to be aware of false claims about so-called gasoline saving devices that supposedly improve fuel efficiency, reduce harmful emissions and reduce repair costs on a vehicle's engine.

These devices are advertised in garages and accredited installation centres, in newspapers, on the radio and Internet and range in price from \$100 to \$600. Canadians are cautioned against considering such an investment on the basis of representations which suppliers may not be able to substantiate. The Competition Bureau is currently unaware of any credible scientific evidence that could demonstrate that such products can significantly improve fuel efficiency. Under the Competition Act, it is prohibited to make representations to the public that are false or misleading in a material respect.

False or misleading representations can have serious economic consequences, especially when directed toward a large audience or if they take place over a long period of time. They can affect both business competitors, who are engaging in honest promotional efforts, and consumers who are often enticed to make purchases based on false or unsubstantiated claims and for whom it is difficult to evaluate the accuracy of the claims. Further information please call 1-800-348-5358 or visit:

<http://www.competitionbureau.gc.ca/internet/ind ex.cfm?itemID=2148&lg=e>





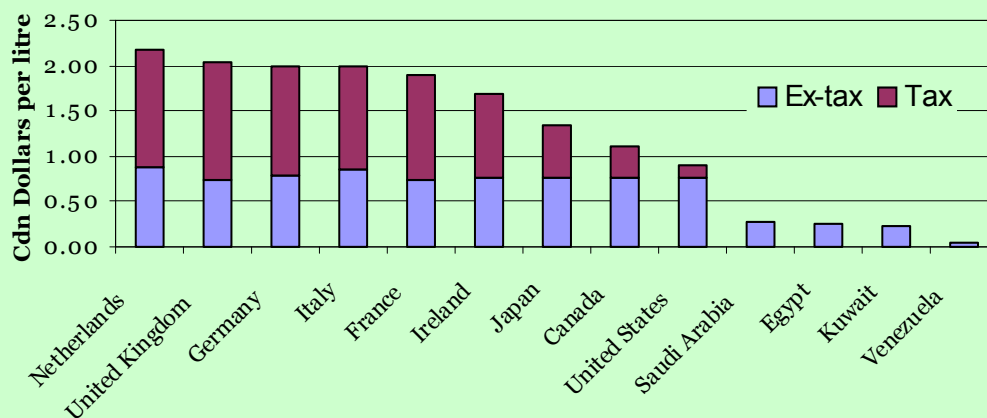
World Average Retail Gasoline Prices

According to an Ipsos Reid survey of Canadians, more than one third of the respondents considered Canada to have higher gasoline prices than those in Europe when in fact the price of gasoline in these markets is almost double that in Canada. In addition, 33% thought that gasoline prices in Canada were lower than in the U.S., the only industrialized nation with cheaper gasoline than Canada ¹.

In fact, an August 2006 comparison of retail gasoline prices in 64 countries resulted in prices ranging from \$2.18 per litre in the Netherlands to 4 cents per litre in Venezuela (where prices are heavily subsidized). Canada ranked 39th with an average price of \$1.11 per litre and the U.S. was 49th at \$0.85 cents per litre. For tax-included prices, most of the countries above \$1.77 per litre were European. Many of the former Soviet Union countries had prices between \$1.36 and \$1.77 per litre.

Overall, excluding taxes, pump prices are very similar from country to country, with most of the world's motorists paying approximately \$0.78 per litre before tax. Countries with very low gasoline prices, such as Saudi Arabia, Kuwait, Iran, Venezuela, Egypt and China, have significant government subsidies, often selling gasoline below the price of crude oil on the world markets. For example, Venezuela spends 17% of its total state revenue on fuel subsidies.

Retail Gasoline Prices in Selected Countries



Source: Energy D tente, Lundberg Survey, August 2006

¹ Survey commissioned by the Canadian Centre for Energy Information, June 2006.