Fuel Focus

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Fuel Focus One Year Anniversary

NRCan's bi-weeky publication was launched one year ago to provide regular and timely information and raise awareness on gasoline pricing issues. How are we doing so far? You can provide your comments on the Fuel Focus website under "Contact Us".

National Overview

Canadian Retail Gasoline Prices Almost Unchanged from Last Week

The average Canadian retail gasoline price declined slightly to 106 cents per litre for the week ending July 3rd, down 1.3 cents per litre from our last report. This represents a decline of 2.5 cents per litre from the same period last year.

Although wholesale gasoline prices increased slightly, retail pump prices decreased moderately; thus tightening refinery and marketing margins. Prices are expected to remain fairly firm as demand for gasoline in North America is strong especially over the July 4th American holiday, and U.S. gasoline inventories remain low, some 9% below historical averages. Moreover, crude oil is also expected to remain fairly robust given geopolitical tensions.

Diesel fuel prices increased marginally 0.3 cent per litre from last week to 98 cents per litre, but are still more than 3 cents per litre lower than at this time last year. Furnace oil prices remained virtually unchanged at 84 cents per litre compared to the previous week and to the same period a year ago.

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

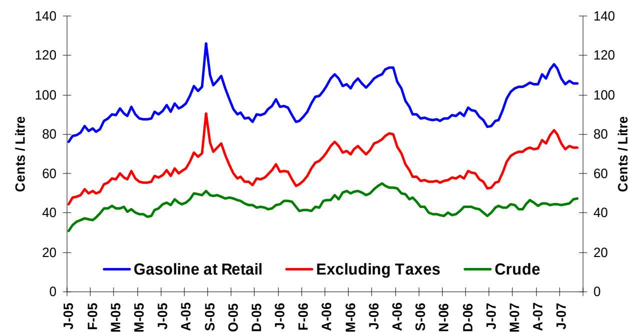
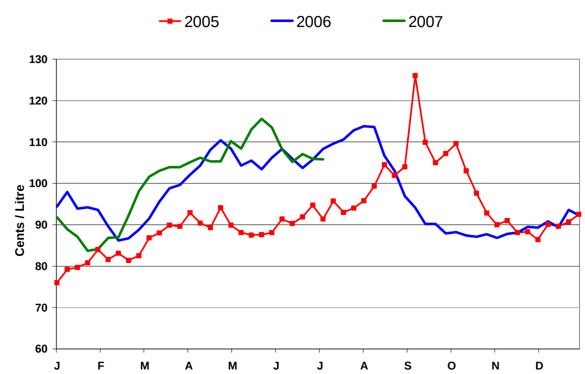


Figure 2: Weekly Regular Gasoline Prices



Recent Developments

- **Inflation 2.2% Higher in May:** Rising gasoline and owned accommodation costs accounted for most of the 2.2% increase in May compared to the same period last year. On average, gasoline prices rose 5.5% in May. Between January and May 2007, gasoline prices increased 26.3% on average across the country (See also Figure 2). Prices were strongest in Alberta (+31%) and Ontario (+29%). Statistics Canada, The Daily, June 19, 2007.
- **P.E.I. Reduces Gasoline Tax Rate:** Prince Edward Island's gasoline fuel tax rate moved downward effective June 28, 2007, declining 4.4 cents per litre to 15.8 cents a litre while diesel taxes remained unchanged at 20.2 cents per litre. http://www.gov.pe.ca/pt/taxandland/

Changes in Fuel Prices

	Week of:	Change from:	
¢/L	2007-07-03	Previous Week	Last Year
Gasoline	105.8	-0.1	-2.5
Diesel	97.9	+0.3	-3.4
Furnace Oil	84.3	0.0	0.0

Source: NRCan

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Natural Resources Canada / Ressources naturelles Canada
Canada

Retail Gasoline Overview

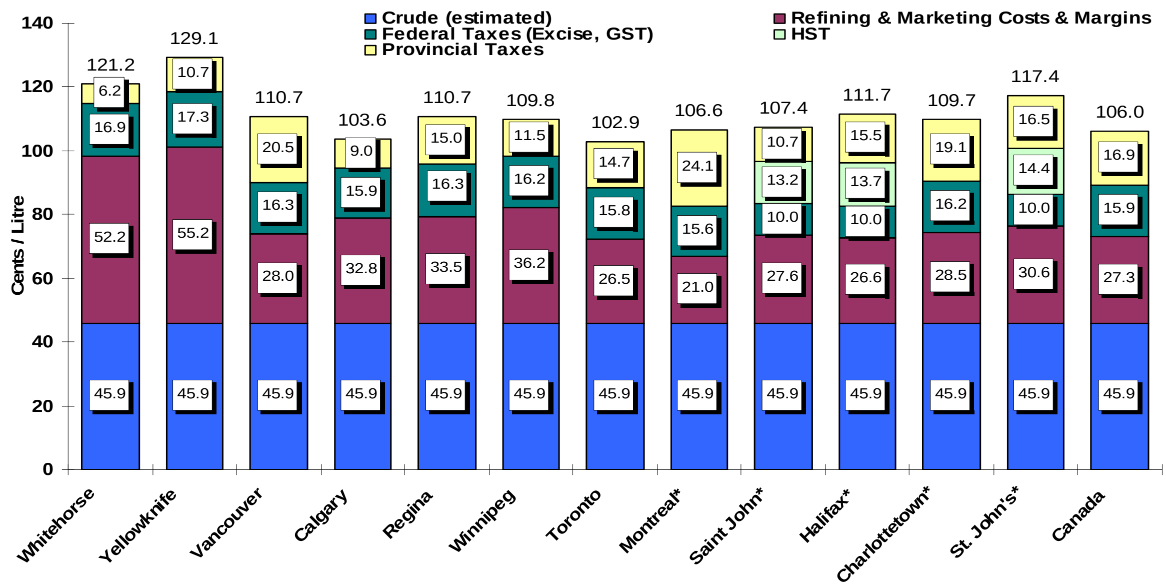
The four-week average Canadian gasoline price for the period ending July 3rd was 106 cents per litre, a decrease of nearly 3 cents per litre from the last report on June 22th. This represents a slight increase of 0.4 cent per litre from the same period in 2006.

The four-week average crude oil prices increased by nearly 2 cents per litre to almost 46 cents per litre compared to two weeks ago. However, crude oil prices are 4.4 cents per litre lower than at the same period last year.

Refining and marketing costs and margins declined on average 4 cents per litre, since the last report, accounting for 27 cents per litre of the total pump prices. Montreal registered by far the lowest refining and marketing costs and margins at 21 cents per litre.

Retail gasoline prices in Western cities (Vancouver to Winnipeg) decreased in the range of 1 to 5 cents per litre, when compared to those in the last report, while prices in Eastern cities (Toronto to St. John's) declined similarly in the range of 1 to 4 cents per litre.

Figure 3: Regular Gasoline Pump Prices in Selected Cities
4-Week Average (May 15 to July 3, 2007)



Source: NRCan ** Regulated Markets*

Retail Gasoline Pricing Considerations

Wholesale gasoline is a commodity that is traded on the open market. As such, its price can change by the minute, which may influence the cost structure for a retailer. While the wholesale costs are a significant factor in retailer prices, the retail pricing decision also is heavily influenced by market conditions and local competition. Ultimately, movements in wholesale gasoline prices influence the cost structure of a retail facility, but competition for customers will dictate the store's profitability.

Retailers may react to wholesale market conditions using various strategies. For example, a retailer may seek to maintain consistent margins, matching its retail price with variations in the wholesale cost based upon a certain formula. However, this strategy may result in a retailer pricing gasoline contrary to the prevailing competitive market conditions. Conversely, a retailer may seek to remain competitive in the marketplace, in spite of wholesale market conditions. This may enable the retailer to maintain customer counts and overall revenue by setting competitive prices, but would lead to reduced or even negative margins. This type of retailer is focused on the complete market cycle, trusting that market forces will result in an average positive margin on gasoline sales over time. With either strategy, gross margins are likely similar over the course of a year.

Source: Excerpts from the National Association of Convenience Stores 2007 Gas Price Kit.

Wholesale Gasoline Prices

Wholesale gasoline prices increased moderately in six of the ten selected centres for the week of June 28th, compared to the previous week. The notable exceptions were Montreal, Toronto, Vancouver and Seattle where prices declined by less than 1 cent per litre. Overall, price changes ranged from a decline of less than 2 cents per litre to an increase of nearly 2 cents per litre.

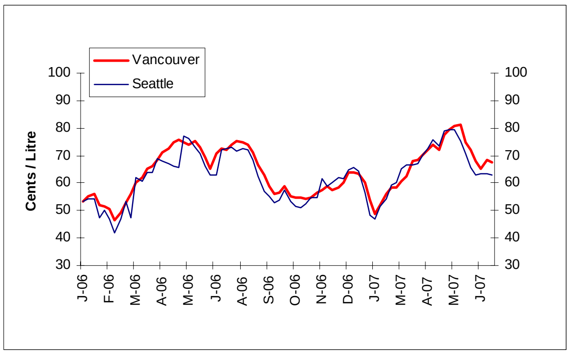
The upward pressure on wholesale gasoline prices has resulted mainly from apprehensions related to lower U.S. inventory levels at a time when the demand for gasoline continues to grow.

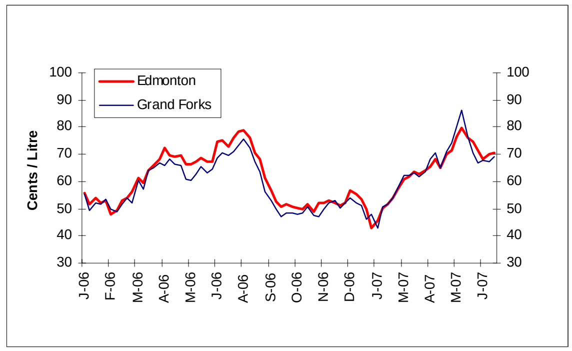
Eastern markets in both Canada and the United States have registered a slight price increase in the last two weeks prices ranged from 64-68 cents per litre. Western wholesale gasoline prices also increased in the range of 1 to almost 3 cents per litre, with the exception of Seattle where prices declined by less than 1 cent per litre and ranged from 63 to 70 cents per litre.

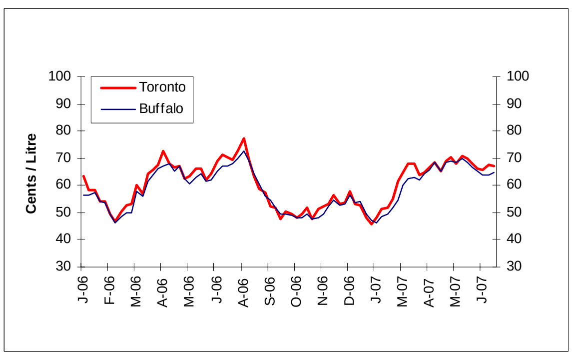
Overall, prices decreased in most selected centres compared to last year at the same period. These decreases ranged from less than 1 cent to almost 7 cents per litre.

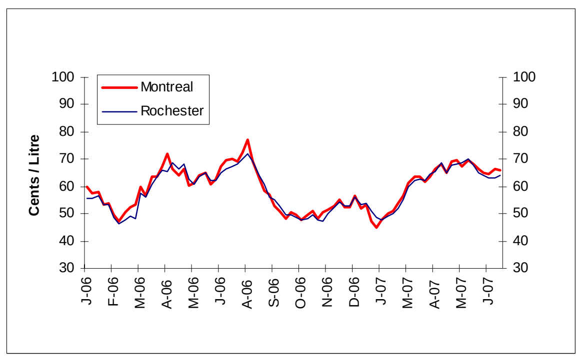
Figure 4: Wholesale Gasoline Prices

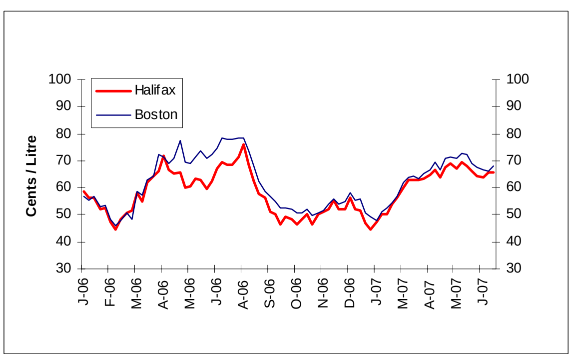
Rack Terminals Prices for Selected Canadian and American Cities on June 28, 2007 (Can ¢/L)











Sources: NRCan, Bloomberg Oil Buyers Guide

Gasoline Market Fungibility

A fungible commodity refers to products that can be traded or substituted for an equal amount of a like product, usually to satisfy a contract. In both Canada and the United States, gasoline refining and distribution systems were originally designed to facilitate the efficient flow of gasoline to all regions allowing the same gasoline formulation to be sold in all markets. However, the multitude of unique gasoline formulations required in specific markets, particularly throughout the U. S., including changes in fuel standards requiring vehicles to run on ethanol blends or biodiesel, means that the gasoline refining and distribution system may not be as fungible or interchangeable as it used to be. This in turn, raises concerns over the availability of supply when refinery or distribution problems arise.

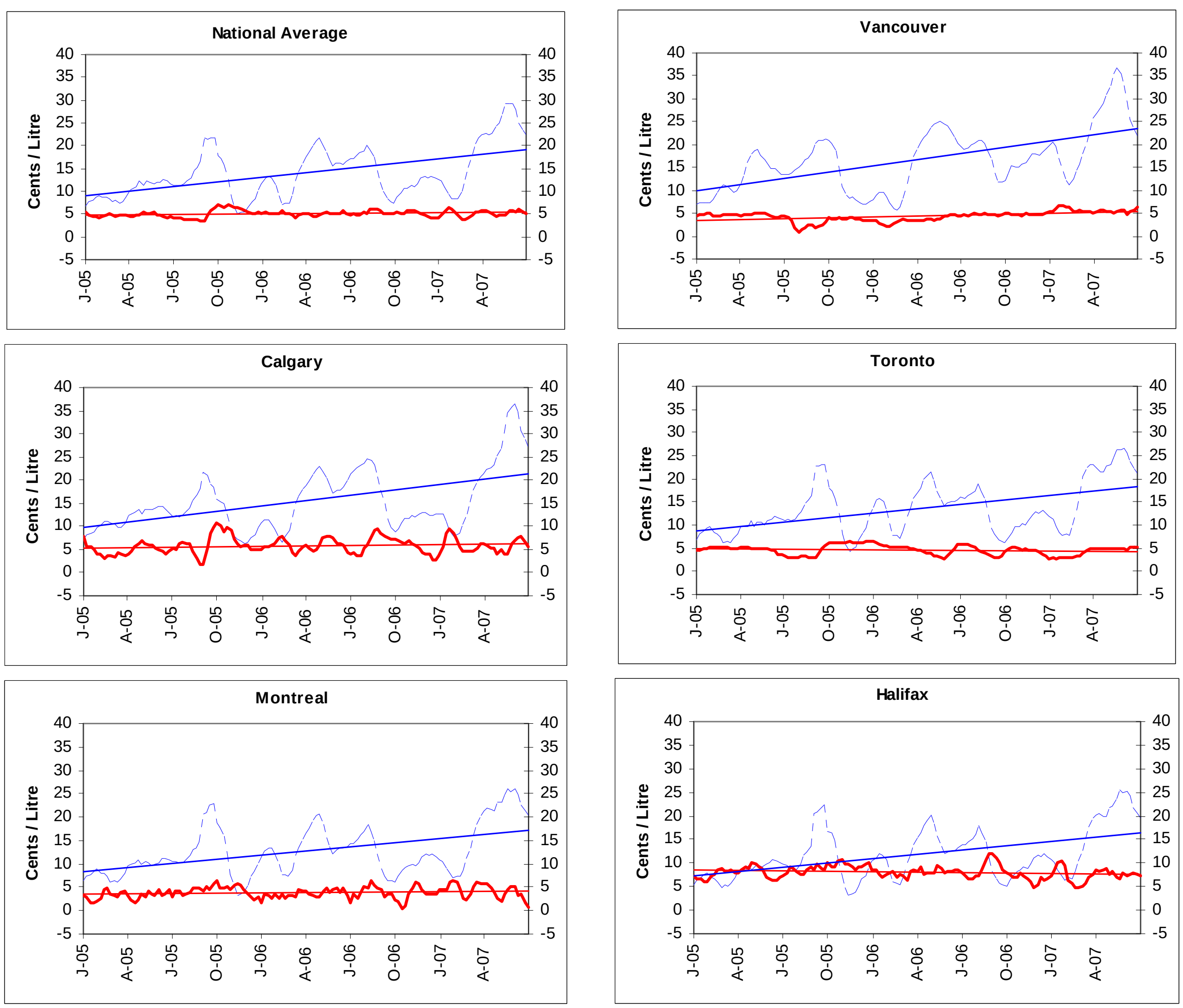
Refining and Marketing Margins

Four-week rolling averages are used for the refining and marketing margins for gasoline shown in Figure 5 for the period ending July 3rd. After rising in the first five months of the year to a high of 29 cents per litre, refining margins have since declined in the last four weeks, averaging around 22 cents per litre across Canada.

Refining margins increased dramatically in the last few months reflecting the supply/demand imbalance for gasoline across North America. A number of refinery maintenance operations have been completed and units are now coming back on line adding more supply of refined products and further reducing market supply constraints.

On the other hand, marketing margins, on average about 5 cents per litre, have remained stable nationally as indicated by the trendline. The most notable decline in the last few weeks has been in Montreal where pronounced retail competition has reduced marketing margins to below 1 cent per litre.

Figure 5: Refining and Marketing Margins
Four-Week Rolling Average Ending July 3, 2007
------- Refining Margin —— Marketing Margin



Source: NRCan

Crude Oil Overview

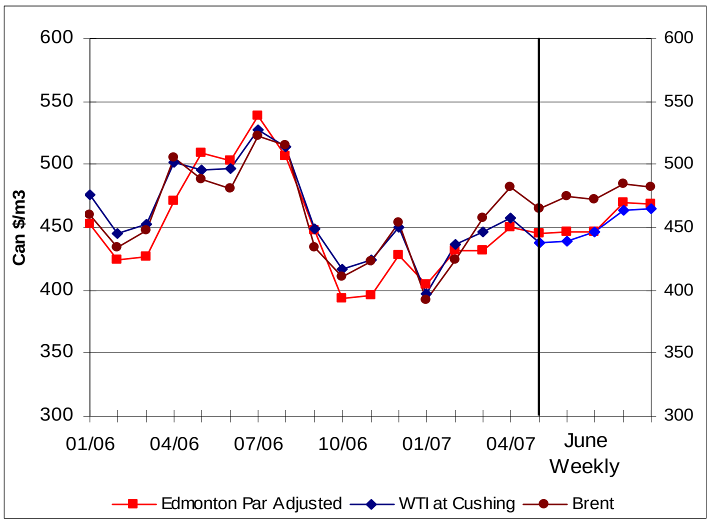
WTI and Brent Benchmark Crudes Continue to Converge

Crude oil prices ended the week of June 29th in the \$465 to \$482/m³ range (\$US 69 to \$US 72/bbl). While the price for Brent decreased slightly, WTI had a moderate increase, and surpassed \$US 70/bbl on the NYMEX on June 28th. However, this is not readily apparent in Figure 6 due to the appreciation in the Canadian exchange rate over the past few weeks.

As the refining industry struggles to bring production back to normal, U.S. inventories of crude oil are well above the five year average. Although inventories of refined products have recently increased, they are still well below normal for this time of the year. The current price for crude oil reflects the fact that once the refining industry returns from maintenance and starts drawing on crude oil inventories to meet the demand for refined products, supply may be further constrained unless there is additional crude oil introduced to the market.

Geopolitical concerns in oil producing countries continue to have a considerable effect on the world price of crude oil. The anticipation of a labour strike by Nigerian oil workers brought oil prices up temporarily the week before last. The strike only lasted a few days, and crude oil prices dropped by almost a dollar following the resolution of the dispute. Late last week, militants bombed a pipeline used to transport crude oil to the Baghdad refinery, further underscoring the volatility in the region.

Figure 6: Crude Oil Price Comparisons



Changes in Crude Oil Prices

Crude Oil Prices	Week ending: 2007-06-29		Change from: Previous Week		Change from: Last Year	
	$Can/m³	$US/bbl	$Can/m³	$US/bbl	$Can/m³	$US/bbl
Edmonton Par	468.55	69.78	-1.30	-0.15	-48.82	-3.66
WTI	464.61	69.19	+1.48	+0.26	-47.46	-3.50
Brent	481.70	71.66	-3.15	-0.50	-24.13	-0.14

Source: NRCan

Global Strategic Petroleum Reserves

Strategic petroleum reserves refer to crude oil inventories held by the government of a particular country, as well as private industry, for the purpose of providing economic and national security during an energy crisis. At the moment the U.S. Strategic Petroleum Reserve is one of the largest strategic reserves, with much of the remainder held by the other 25 members of the International Energy Agency (IEA). Recently, other non-IEA countries have begun creating their own strategic petroleum reserves, with China holding the largest of these new reserves.

According to a March 2001 agreement, all 26 members of the IEA must have a strategic petroleum reserve equal to 90 days of oil imports for their respective country. Only net-exporter members of the IEA are exempt from the reserve requirement. The exempt countries are Canada, Denmark, Norway, and the United Kingdom. Denmark and the United Kingdom have both recently created strategic reserves due to their requirements as European Union members.

Currently reserves held by IEA member countries are about 114 days of net imports. This means that if 10% of all imports were disrupted, these stocks would be sufficient for a period exceeding 3 years.