Fuel Focus

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National Overview

Marginal Drop in Overall Retail Gasoline Prices to 99 cents per Litre from Last Week

The average Canadian retail gasoline price decreased slightly by 0.5 cent per litre to 99 cents per litre the week of October 23, 2007, compared to the previous week. However, this represents a 2 cents per litre increase compared to the last report on October 12, 2007.

Retail gasoline prices have been somewhat stable in the last three weeks despite the upward pressure of wholesale gasoline and world crude oil prices. The current rise in world crude oil prices, to a record level of $90 US per barrel, is mainly due to a mix of fundamental market factors such as lower inventory levels and tight refinery capacity and non-fundamental factors such as increased trading by speculators in crude oil markets and the heightened geopolitical concerns over the Turkish / Iraq incursions. Interestingly, crude oil prices are 12 cents per litre higher than a year ago which coincides with similar year-over-year price increases for gasoline, diesel and furnace oil.

Diesel fuel prices increased by 0.7 cent per litre to more than $1 per litre from last week. This represents an increase of 11 cents per litre compared to the same period last year. Furnace oil prices rose by 1 cent per litre to 86 cents per litre up almost 10 cents per litre from a year ago.

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

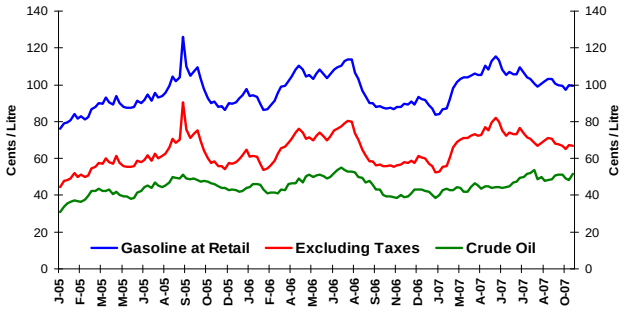
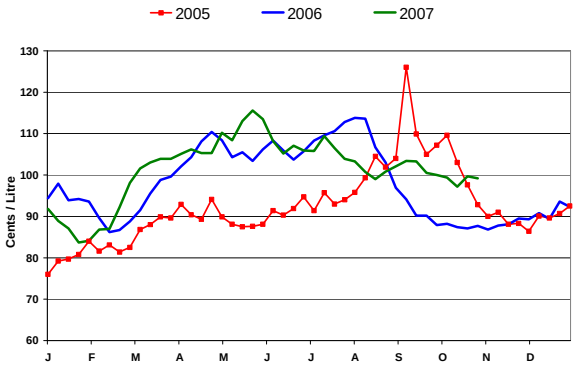


Figure 2: Weekly Regular Gasoline Prices



Recent Developments

- **Economy 1, Environment 0**: Highlights from the third annual report of the *Canadian Environmental Sustainability Indicators* found that the indicator of ground-level ozone, a component of smog, has increased over time and while greenhouse gas emissions (GHG) have remained at the same level in 2005 as in 2004, they are still significantly above the 1990's levels. However, GHG intensity declined in 2005, but total emissions increased over the 1990 to 2005 period due to increased economic activity. (Statistics Canada, *The Daily*, http://www.statcan.ca/Daily/English/071015/d071015b.htm)
- **Vehicle Sales Up 2.8% in August**: New motor vehicle sales increased 2.8% in August, partly offsetting a three month decline. Ontario and Quebec accounted for almost 95% of this increase. Truck sales outperformed passenger cars, accounting for 85% of the total vehicles sold. (Statistics Canada, *The Daily*, http://www.statcan.ca/Daily/English/071015/d071015a.htm)
- **Ethanol Fuel Debate**: A recent CIBC World Markets report concluded that adding ethanol from corn to the U.S. fuel pool will do little but drive food prices skywards. Meanwhile, a recent poll revealed that the majority of its respondents believed that higher oil prices, not ethanol, are to blame for the rising cost of food while 48% had not heard about ethanol's impact on food prices and the environment. http://research.cibcwm.com/economic_public/download/feature1.pdf

Changes in Fuel Prices

	Week of:	Change from:	
¢/L	2007-10-23	Previous Week	Last Year
Gasoline	99.2	-0.5	+11.5
Diesel	101.5	+0.7	+11.3
Furnace Oil	86.2	+1.0	+10.4

Source: NRCan

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The ten leading world oil producing companies and reserve holders in 2006.

Retail Gasoline Overview

The **four-week average** Canadian gasoline price for the period ending October 23rd was 99 cents per litre, a slight decrease of 0.4 cent per litre from the last report on October 12, 2007. However, this represents an increase of 11 cents per litre from the same period in 2006.

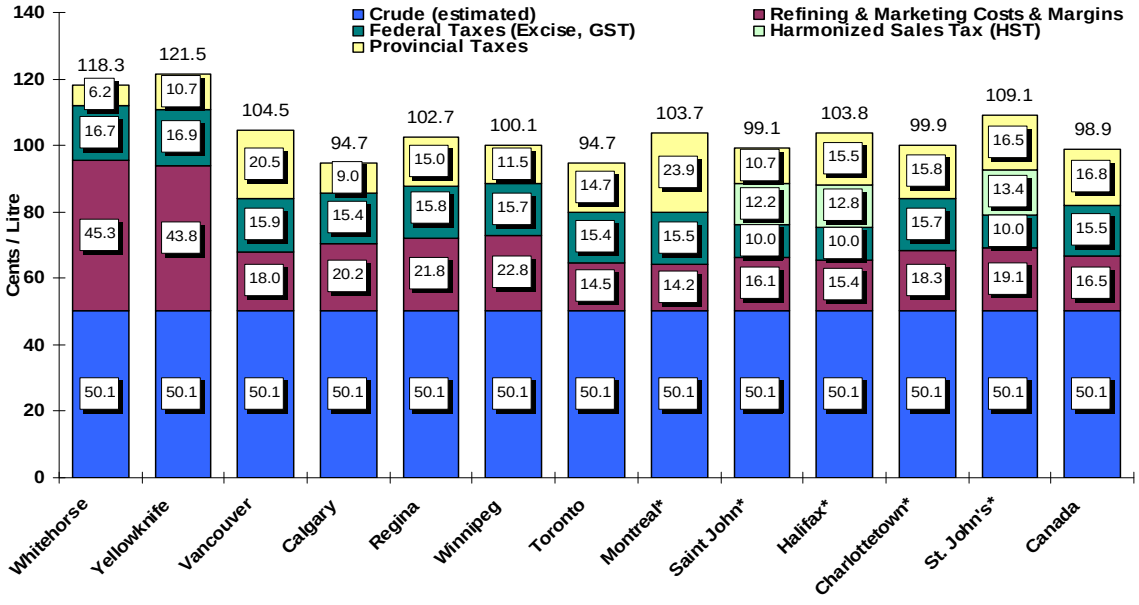
The **four-week average** crude oil prices decreased by 0.5 cent per litre to almost 50 cents per litre compared to two weeks ago. However, crude oil prices are nearly 10 cents per litre higher than at the same period last year.

Overall, Canadian consumers have been insulated from the rise in world crude oil prices by the increase in the value of the Canadian dollar. In fact, had it not been for the rise in the Canadian dollar, gasoline prices could have been 35 cents per litre higher in September reaching almost $1.40 per litre.

Retail gasoline prices, when compared to those in the last report, declined in most centres in the range of 1 to 4 cents per litre, except for Montreal which registered an increase of 4 cents per litre rebounding after a period of intense price competition. Overall, the Western cities (Vancouver to Winnipeg) declined nearly 3 cents per litre while and Eastern cities (Toronto to St. John's) declined only slightly by 0.4 cent per litre.

The refining and marketing costs and margins component remained unchanged in all centres from two weeks ago at more than 16 cents per litre.

Figure 3: Regular Gasoline Pump Prices in Selected Cities
4-Week Average (October 2 to 23, 2007)



Source: NRCan

** Regulated Markets*

Why do Gasoline Prices Differ From one Station, or City, to Another?

Various factors can affect gasoline prices from one region or area to another. However, recent studies have shown that one of the primary drivers for gasoline pricing is the average throughput, or sales per outlet in a particular market. An outlet with lower sale volumes may have to charge a higher price to generate sufficient revenue to cover the outlet's fixed operating costs. Because the retailer with the lowest marginal cost often sets the price for a particular market, the average throughput helps to explain why outlets in small communities tend to have higher prices than retail outlets in large centres.

The number of outlets for a given population size can also be very important in determining the size of the retail margin in a particular market. More people visiting a retail outlet provide an opportunity to sell more ancillary products. In fact, big box retailers such as Wal-Mart and Costco view low cost gasoline retailing as a way to attract customers to their stores and increase their ancillary sales. The emergence of these retailers has reduced the retail margin on gasoline in several Canadian cities. Other prevailing conditions in a marketplace include the availability and proximity of supply, the different costs of operation and consumer demand and preferences. These are also important factors in establishing the price at the pump. More information is available on our website at:
http://fuelfocus.nrcan.gc.ca/reports/2005-07/understanding/retail_prices_e.cfm

Wholesale Gasoline Prices

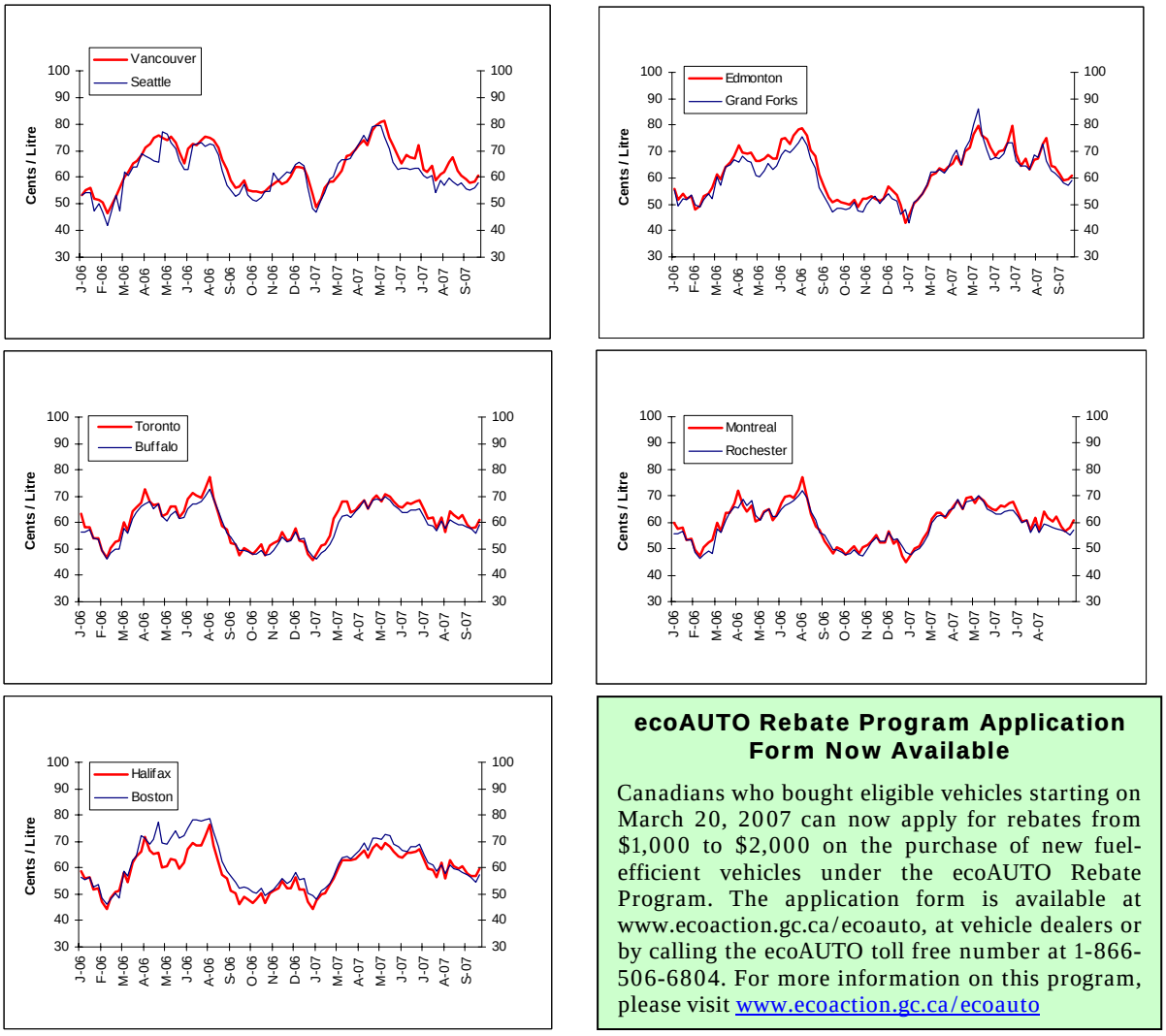
Wholesale gasoline prices increased in all selected centres for the **week of October 18th**, compared to the previous week. Overall, wholesale prices, influenced by the record high crude oil prices, have increased in the range of 1 to nearly 3 cents per litre.

Wholesale prices, in Canadian and American centres, increased by 1 to 4 cents per litre in the last two weeks, partially offsetting the declines of the previous few weeks. However, prices remain 1 to 3 cents per litre lower than they were four weeks ago.

Eastern markets in both Canada and the United States have registered price increases ranging from 2 to 3 cents per litre, compared to the previous week, ending the period in the 57 to 61 cents per litre range. Western wholesale gasoline prices also increased in the range of 1 to 2 cents per litre ending on October 18th in the range of 58 to 61 cents per litre.

Overall, prices in all selected centres are well above last year's level. The increases ranged from 12 cents per litre in Toronto to 6 cents per litre in Vancouver.

Figure 4: Wholesale Gasoline Prices
Rack Terminals Prices for Selected Canadian and American Cities on Thursday October 18, 2007



Sources: NRCan, Bloomberg Oil Buyers Guide

ecoAUTO Rebate Program Application Form Now Available

Canadians who bought eligible vehicles starting on March 20, 2007 can now apply for rebates from $1,000 to $2,000 on the purchase of new fuel-efficient vehicles under the ecoAUTO Rebate Program. The application form is available at www.ecoaction.gc.ca/ecoauto, at vehicle dealers or by calling the ecoAUTO toll free number at 1-866-506-6804. For more information on this program, please visit www.ecoaction.gc.ca/ecoauto

Refining and Marketing Margins

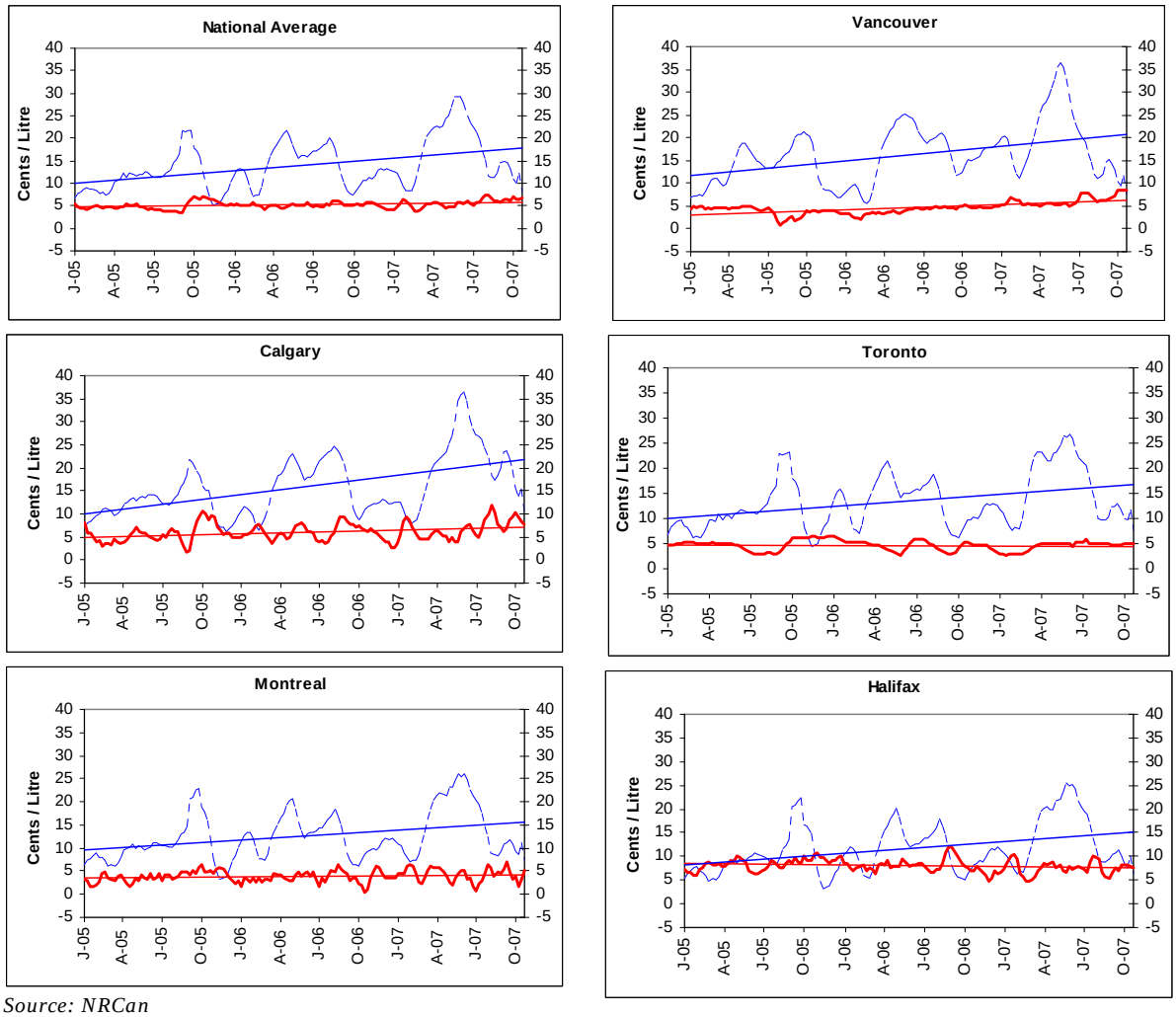
Four-week rolling averages are used for the refining and marketing margins for gasoline shown in Figure 5 for the period ending October 23rd.

These refining 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 a profit for the refiner. Refining margins generally rise when supply of gasoline is tight and demand rises, such as during of the summer driving season. Conversely, the opposite tendency also applies near the end of the season.

Following the steady rise throughout most of the year, refining margins continue to decline reaching its lowest level this year at around 8 cents per litre reflecting a supply/demand rebalancing across Canada and the United States. On a year-to-year basis Eastern centres rose by nearly 3 cents per litre while the two Western centres had a similar increase of 4 cents per litre.

Vancouver and Calgary have experienced the widest fluctuations in refining margins, ranging from a high of 36 cents per litre to a low of 8 cents per litre so far in 2007. Of the five centres, Halifax registered the lowest margin at 6 cents per litre.

Figure 5: Refining and Marketing Margins
Four-Week Rolling Average Ending October 23, 2007
Refining Margin — Marketing Margin



Source: NRCan

Crude Oil Overview

Crude Oil Nears US$90 Per Barrel

For the week ending October 19th, crude oil prices averaged between $515 and $537/m^3 (US$84 to US$88 per barrel). All prices are up from the previous week with Edmonton Par seeing the largest gains with an increase of $38.20/m^3 ($US6.73 per barrel).

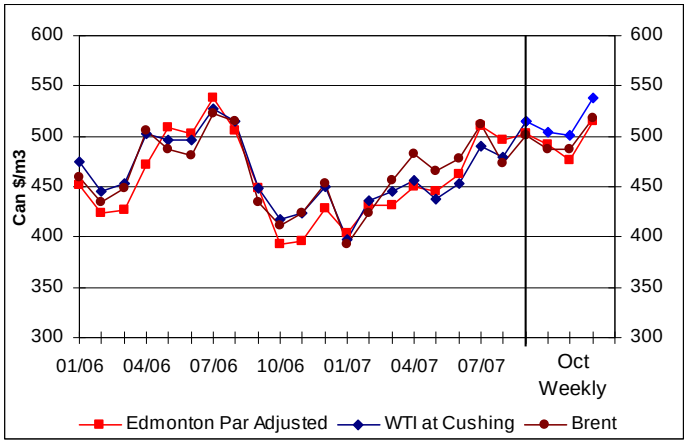
On October 18th, crude oil prices on the NYMEX passed $US90 per barrel in after-hours trading. While prices have not yet closed above this level, there is no indication that prices will drop significantly in the short term. Despite the record high prices, when adjusted for inflation U.S. crude oil prices are still below levels experienced in the early 1980's.

The possibility that a military invasion of Northern Iraq by Turkish forces could disrupt oil production in the region has added to the already delicate situation in the Middle East, adding further to the geopolitical premium on crude oil prices.

OPEC continues to argue that with growing U.S. inventories of crude oil, the market is well supplied. The secretary general of OPEC stated that "market speculators, persistent refinery bottlenecks and seasonal maintenance work, ongoing geopolitical problems in the Middle East, and fluctuations in the U.S. dollar" have been the driver of increased prices, not a lack of OPEC supply.

With hurricane season extending until the end of November, there is still a possibility that a tropical storm could disrupt oil production and add further pressure to crude oil prices.

Figure 6: Crude Oil Price Comparisons



Changes in Crude Oil Prices

Crude Oil Prices	Week ending: 2007-10-19		Change from:			
			Previous Week		Last Year	
	$Can/ m^3	$US/ bbl	$Can/ m^3	$US/ bbl	$Can/ m^3	$US/ bbl
Edmonton Par	515.15	84.19	+38.20	+6.73	+122.70	+29.20
WTI	537.55	87.84	+35.86	+6.37	+121.36	+29.54
Brent	517.51	84.57	+30.56	+5.49	+103.40	+26.55

Source: NRCan

Heating Oil Forecast

According to the U.S. National Oceanic Atmospheric Administration, winter in the lower 48 States is forecast to be 4% colder compared to last winter but 2% warmer than the 30-year average (1971 to 2000). As a result heating fuel consumption is projected to increase.

While only 7% of the 107 million U.S. households depend on heating oil for winter fuel, most are in the Northeast where 32% of households use heating oil as the primary heating fuel. In that region, the average household is projected to pay 22% more than last winter as a result of a 16% increase in prices and a 5% increase in consumption. Another factor that has been pushing heating oil prices higher over the last few years has been the growing global demand for diesel (See Fuel Focus Volume 2, Issue 19, Understanding Differences in Retail Gasoline and Diesel Prices). Heating oil and diesel are both distillate fuels. Increased economic growth in countries such as China and India has raised the demand for distillates and, therefore, added a premium to the price.

In comparison, Canadians consumed approximately 4 billion litres of heating fuel in 2006. Of the 13 million households in Canada, 10% depend on heating oil for winter fuel. Given the colder climate in Canada and the proximity to the large American market, Canadian consumers may also experience an upward pressure on prices. However, this situation may be partly offset by the fact that Canadian refiners produce heating fuel in sufficient quantity to meet the expected cold weather demand, hence adequate inventory levels often result in fewer price fluctuations.

Sources: EIA, Short-Term Energy and Winter Fuels Outlook, October 2007; This Week in Petroleum, October 11, 2007; and NRCan

The Ten Top World Oil Producing Companies

In our previous report (Volume 2, Issue 20, October 12, 2007) we looked at the top 15 oil producing countries. In this issue we look at the ten largest world oil producing companies and reserve holders in 2006. Notably, national oil companies dominate the list while only three private sector oil companies rank in the top ten. Many of the national oil companies are former private sector companies that were nationalized in the 1970s. There is a great deal of corporate concentration in the world oil industry. The ten largest companies shown below control close to 68 % of the world's proven oil reserves.

Saudi Aramco and National Iranian Oil Co. lead the list of oil producers and reserves holders with a combined production of 4.6 billion b/d (barrels per day) and combined oil reserves of 396 million b/d. By comparison, total Canadian crude oil production is 968 million b/d, or approximately 30% of what the world's largest oil company produces.

Company	Annual Oil Production (Million Barrels)	Rank	Company	World Oil Reserves (Billion Barrels)	Rank
Saudi Arabian Oil Company (N)	3,248.5	1	Saudi Arabian Oil Company (N)	259.9	1
National Iranian Oil Company (N)	1,405.3	2	National Iranian Oil Co. (N)	136.3	2
Petroléos Mexicanos (N)	1,332.0	3	Iraq National Oil Company (N)	115.0	3
Petroléos de Venezuela (N)	935.5	4	Kuwait Petroleum Corp. (N)	99.0	4
British Petroleum (P)	903.4	5	Abu Dhabi National Oil Co (N).	92.2	5
Abu Dhabi National Oil Company (N – United Arab Emirates)	894.3	6	Petroléos de Venezuela (N)	80.0	6
Exxon Mobil Corporation (P)	832.0	7	National Oil Corporation Libya (N)	41.5	7
Petro China Ltd. (N)	830.7	8	Nigerian National Petroleum Company (N)	36.2	8
Nigerian National Petroleum Company (N)	810.3	9	OAO Rosneft (N -Russian Federation)	15.9	9
Kuwait Petroleum Company (N)	803.0	10	OAO Lukoil (P- Russian Federation)	15.2	10
Total	**11,995**			**891.2**	
Crude oil production from all of Canada's oil companies	968.0		Canada's total oil reserves	179.2	

Note: P = Private Sector Oil Company; N = National Oil Company

1 barrel = 0.15898 cubic metre

Source: *Oil and Gas Journal*, September 17, 2007 and NRCan