Fuel Focus

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National Overview

Average Canadian Retail Gasoline Prices Reach $1.05 per litre

After three consecutive weeks above the $1 per litre mark, the average Canadian retail gasoline price increased 1 cent per litre to $1.05 per litre the week of November 20th. This represents an increase of more than 15 cents per litre compared to the same time last year.

Even though Canadian retail gasoline prices rose this week, prices have remained reasonably sheltered from the influence of the rise in world crude oil prices, in part, by the strength of the Canadian currency compared to the U.S. dollar, effectively easing some of the upward pressure from wholesale gasoline prices. Crude oil cost are now 15 cents per litre higher than last year and represents 52% of the total pump price, the highest cost component of the total pump price.

Diesel fuel prices increased by 2 cents per litre to $1.08 per litre from last week. This represents an increase of 20 cents per litre compared to the same period last year. Furnace oil prices rose by 1 cent per litre to 92 cents per litre up almost 15 cents per litre from a year ago.

Recent Developments

- **Petro-Canada Locks Out 260 Employees at its Montreal Refinery:** On November 17, 2007, Petro-Canada announced a lock out of its refinery employees of the Communications, Energy and Paperworkers Union. According to a company's statement, contingency plans are now in full effect to ensure the plant continues to run safely and efficiently while ensuring a steady supply of products to customers. (Petro-Canada, http://www.petro-canada.ca/en/media/54.aspx)
- **Shell Canada Refinery Fire:** On November 19, 2007, a fire at Shell Canada's 155,000-barrels-per-day Scotford Upgrader near Edmonton, Alberta interrupted production at the facility and reduced operations at its adjacent 98,000-barrels-per-day refinery. The Upgrader processes heavy bitumen from the oil sands into synthetic crude. The downtime, if extended, has the potential to tighten gasoline and diesel supply in an already tight Western market.
- **Gasoline Consumption up in September:** Canadians consumed 31 billion litres of gasoline in the first nine months of 2007 - 3% more than the same period last year. In that same period, diesel fuel sales increased 5% to 20 billion litres while furnace oil rose nearly 10% to 3.2 billion litres. (Statistics Canada, The Daily, http://www.statcan.ca/Daily/English/071109/d071109b.htm)

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

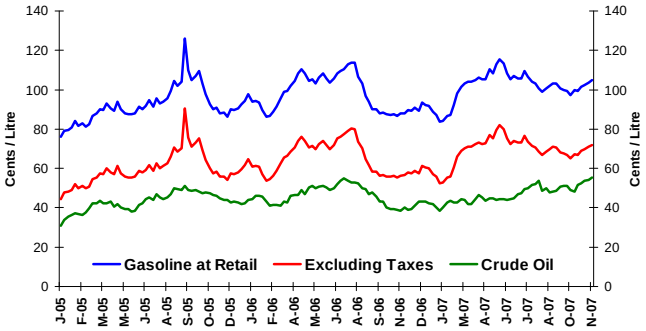
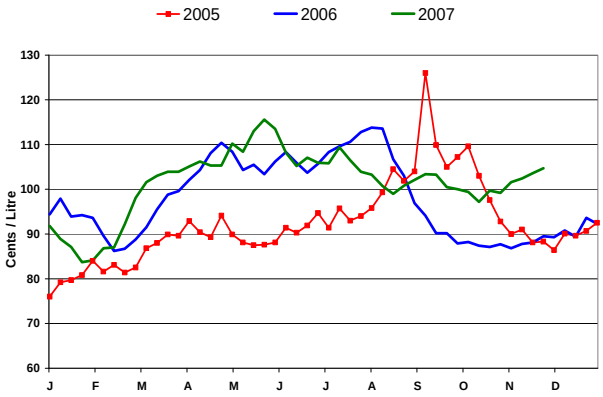


Figure 2: Weekly Regular Gasoline Prices



Changes in Fuel Prices

	Week of:	Change from:	
¢/L	2007-11-20	Previous Week	Last Year
Gasoline	104.7	+1.1	+15.2
Diesel	108.7	+2.2	+20.0
Furnace Oil	92.2	+1.1	+15.4

Source: NRCan

In this Issue

Fuel Focus Supplement:
With the winter heating season upon most Canadian regions, NRCan offers some ways to reduce your heating bill.

Retail Gasoline Overview

The average Canadian pump price in selected cities for the **four-week average** ending November 20th was $1.03 per litre, an increase of 2 cents per litre from the last report on November 9, 2007. This represents a 15 cents per litre increase compared to the same period in 2006.

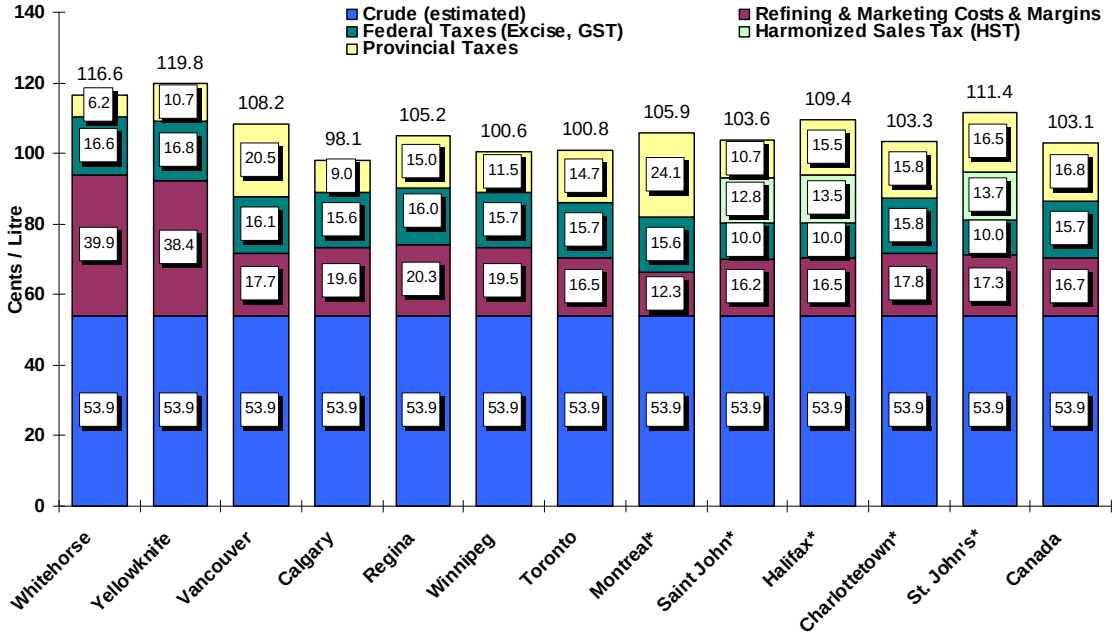
The **four-week average** crude oil price increased by 2 cents per litre to 54 cents per litre compared to two weeks ago. Crude oil cost now represents 52% of the total pump price, the highest cost component of the total pump price.

While crude oil cost have increased by 15 cents per litre since last year, refining and marketing costs and margins are virtually the same as they were for the same period in 2006.

Retail gasoline prices, when compared to those in the last report, increased in most centres in the range of 1 cent per litre to 4 cents per litre, with the exception of Montreal and Yellowknife registering a slight decline of less than 1 cent per litre.

Overall, retail gasoline prices in the Western cities (Vancouver to Winnipeg) increased 2 cents per litre when compared to those in the last report, while prices in Eastern cities (Toronto to St. John's) rose by 3 cents per litre.

Figure 3: Regular Gasoline Pump Prices in Selected Cities
4-Week Average (October 30 to November 20, 2007)



Source: NRCan

** Regulated Markets*

Diesel Engines are More Efficient Than Gasoline Engines. So Why aren't They Encouraged?

All new gasoline - or diesel - powered light-duty vehicles built for sale in Canada meet very similar stringent emission standards. Diesel vehicles are typically more fuel-efficient, and greenhouse gas emissions from these vehicles are correspondingly lower; this means that they offer an advantage from a climate change perspective. On the other hand, emissions of nitrous oxides (NOX) are usually higher from diesel, and diesel particulate matter (PM) has recently been declared toxic under the Canadian Environmental Protection Act (CEPA). In other words, diesel emissions can have a significant impact on human health and the environment.

PM and NOX emissions are generally much lower from gasoline-powered vehicles than from diesel vehicles. However, gasoline-powered vehicles tend to be less efficient, and therefore emit more carbon dioxide (CO2), total hydrocarbons (HC) and carbon monoxide (CO) from their tailpipes. The evaporative emissions from these vehicles are also typically much higher than for diesel vehicles, and the nature and impact of these emissions are not yet fully understood. Both fuels therefore have their advantages and disadvantages, and it is very difficult to quantify the trade-offs.

Source: Office of Energy Efficiency, Natural Resources Canada

Wholesale Gasoline Prices

Wholesale gasoline prices increased moderately in most markets surveyed for the **week of November 15th**, compared to the previous week, reflecting the continuing upward pressure of crude oil prices. The notable exceptions were Edmonton and Grand Forks which declined 1 and 2 cents per litre respectively offsetting the higher price increases of the previous week.

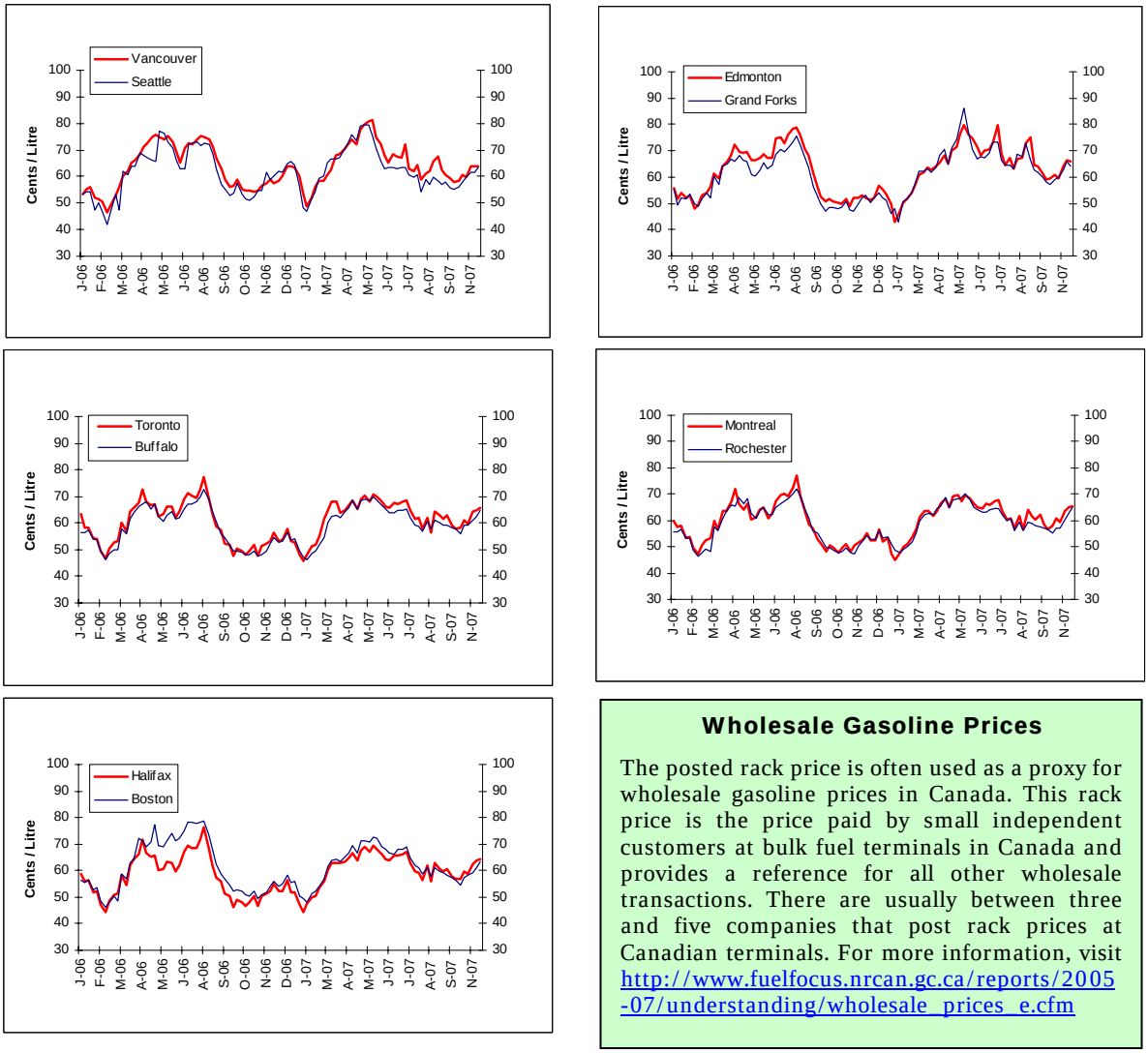
Overall, price changes ranged from a drop of 2 cents per litre to an increase of more than 2 cents per litre. This followed the overall upward momentum of the last **four weeks** where prices increased by 3 to 8 cents per litre in all centres.

Wholesale gasoline prices in Eastern markets in both Canada and the United States have registered increases ranging from less than 1 cent per litre to 2 cents per litre, compared to the previous week, ending the period in the 63 to 65 cents per litre range. Western wholesale gasoline prices ranged from a decline of 2 cents per litre to an increase of 2 cents per litre ending in the range of 63 to 66 cents per litre.

Overall, prices in most selected centres are well above last year's level with increases ranging from 12 to 15 cents per litre, compared to the same period last year. The exceptions are Seattle and Vancouver where prices are up by only 2 and 6 cents per litre respectively.

Figure 4: Wholesale Gasoline Prices

Rack Terminals Prices for Selected Canadian and American Cities on Thursday November 15, 2007 (Can ¢/L)



Sources: NRCan, Bloomberg Oil Buyers Guide

Wholesale Gasoline Prices

The posted rack price is often used as a proxy for wholesale gasoline prices in Canada. This rack price is the price paid by small independent customers at bulk fuel terminals in Canada and provides a reference for all other wholesale transactions. There are usually between three and five companies that post rack prices at Canadian terminals. For more information, visit http://www.fuelfocus.nrcan.gc.ca/reports/2005-07/understanding/wholesale_prices_e.cfm

Refining and Marketing Margins

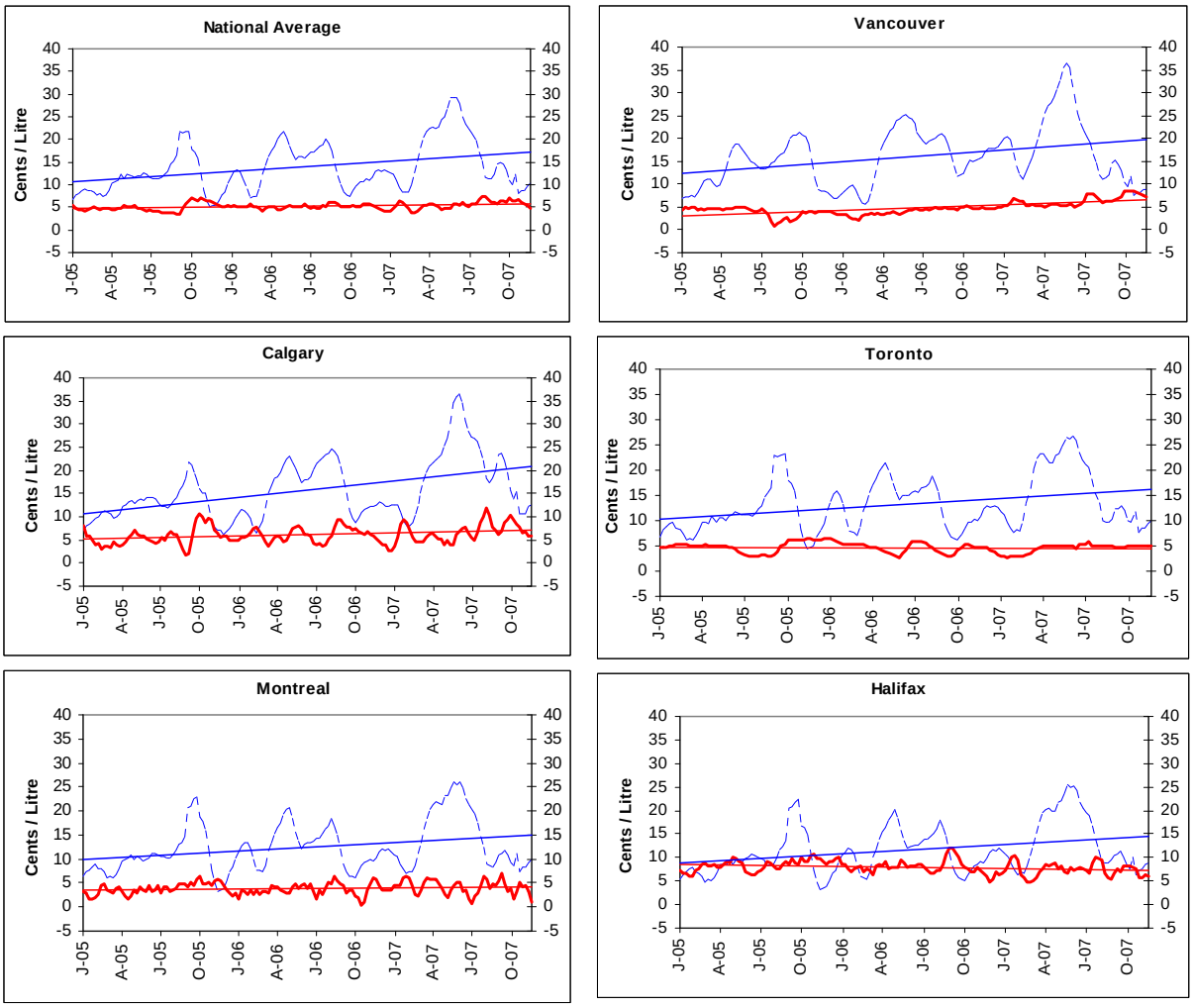
Four-week rolling averages are used for the refining and marketing margins for gasoline shown in Figure 5 for the period ending November 20th.

Refining margins declined 19 cents per litre in the last five months, from a high of 29 cents per litre in June to a current low of 10 cents per litre. These margins were pushed down, despite a surge in crude oil prices partly due to the reduced demand for gasoline and adequate supply of gasoline across North America. Gasoline prices did not keep up with the crude oil price increases which in turn pushed the refining margins down.

The refining margins shown here are derived numbers based on the difference between the estimated crude oil price and the wholesale price of gasoline at a point in time. While the analysis presented here is useful to track the trends in gasoline margins and to estimate how much of the price at the pump is going to the refiner, it does not represent overall refining margins.

Gasoline is only one of many products produced from a barrel of crude oil and generally accounts for about 30-35% of a refinery's output. As one of the higher-valued products, gasoline generates a disproportionate share of the revenues. Gasoline margins are offset by much lower margins on other products such as heavy fuel oil and asphalt, products that can often sell for less than the cost of the crude oil used to make them.

Figure 5: Refining and Marketing Margins
Four-Week Rolling Average Ending November 20, 2007
Refining Margin — Marketing Margin



Source: NRCan

Crude Oil Overview

World Crude Oil Prices Remain Strong

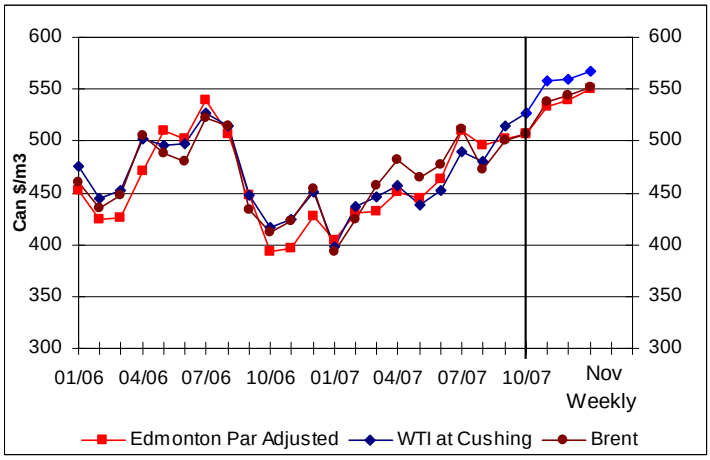
For the week ending November 16th, crude oil prices averaged between $551 and $568/m^3 ($US91 to $US94 per barrel). While all prices are up in Canadian dollars, due to a slight appreciation of the U.S. dollar relative to the Canadian dollar, prices have declined slightly in U.S. dollar terms. Edmonton Par saw the greatest gain with an increase of $11.32/m^3.

While prices in U.S. dollars have declined since last week, crude oil once again reached a record high on the NYMEX. On November 6, 2007 crude oil closed at $US96.70 per barrel surpassing the high of $US95.53 per barrel of November 2, 2007. As this report was released, crude oil was trading around $US99/bbl on the NYMEX.

Many analysts have speculated over the past few weeks that oil prices may reach $US100 per barrel before the end of the year. While the fluctuation in the U.S. inventories and continuing geopolitical issues can justify some price increases, there is very little in the realm of traditional economics of supply and demand fundamentals that can explain the increasingly unpredictable nature of today's crude oil markets.

With hurricane season coming to a close November 30th, the risk of severe weather disrupting oil production is becoming less of a threat.

Figure 6: Crude Oil Price Comparisons



Changes in Crude Oil Prices

Crude Oil Prices	Week ending: 2007-11-16		Change from: Previous Week		Change from: Last Year	
	$Can/m^3	$US/bbl	$Can/m^3	$US/bbl	$Can/m^3	$US/bbl
Edmonton Par	550.57	90.84	+11.32	-1.33	+158.83	+36.17
WTI	567.77	93.68	+7.48	-2.08	+148.19	+35.12
Brent	552.15	91.11	+7.54	-1.98	+138.14	+33.32

Source: NRCan

From the Middle-East to Wall Street

In the last few years, as world crude oil prices moved upward, OPEC made periodic announcements of production increases to reduce the price of oil. However, these announcements seem to be strongest at limiting price collapses and seldom prevent oil price spikes. So what happened to change OPEC's ability to influence world oil prices?

Along with higher oil prices came a larger participation of non-commercial traders into the oil commodity market. These traders are neither oil producers nor users of oil, and include investment banks and hedge fund companies. In an attempt to diversity their portfolio and maximize investment returns, these organizations will buy crude oil futures contracts on short or long term options depending on whether they anticipate that oil futures contracts price will decline in the short-term or increase and benefit from a rise in commodity prices.

In 2003, speculators accounted for 3.5% of the oil futures market, while in 2004 their level of participation had increased six-fold to 20%. By the fall of 2007, increased speculation in commodity markets, in conjunction with the devaluation of the U.S. dollar and new geopolitical concerns, saw prices rise to over $90 per barrel. Hence, the futures market prices for crude oil currently appear to have the potential to outweigh OPEC's production increases, resulting in a shift in oil price setting away from the Middle-East to Wall Street.

Residential Heating Oil
Ways to Reduce Your Heating Bill

As we enter the winter heating season, heating fuel costs become top of the mind for many residential homeowners. Canadians consumed approximately 4 billion litres of heating fuel in 2006. The graph below indicate that approximately 93% is used in Eastern Canada (Ontario, Quebec and the Atlantic provinces). Since the average capacity of a household tank is about 1,000 litres, even half the tank can cost $400 - $500 per delivery. Although these expenses are only incurred for a few months, some homeowners can find it difficult to make the payments.

To alleviate some of this burden, consumers may want to talk to their heating oil dealer about participating in a budget plan to help stabilize their monthly bill. Most heating oil suppliers offer a number of payment options to help manage heating costs. Many heating oil suppliers also offer capped or fixed price protection programs, which can help keep costs down.

One way to guard against rising heating oil prices is to lock in at a predetermined price. Many suppliers offer a fixed price contract for the duration of the heating season. There may be an up-front fee of about $25-$75 for this option. This feature allows the consumer to lock in heating costs at a particular price. Locked-in prices are usually slightly higher than the variable price at the beginning of the heating season. This is because heating oil prices normally increase as the demand rises in the coldest months of the season and begins to decline again as the weather warms up.

Another option available to many customers is a capped price. This offers the consumer a variable price that can change according to market conditions but it guarantees that the price will never exceed a certain maximum. This allows the user to benefit from lower prices but protects against unexpected price spikes above the capped price. An up-front fee also applies to this option and the capped price can be expected to be higher than the fixed price option.

Finally, a third option, for qualified customers, is to opt for an equal billing plan. The supplier will estimate the annual consumption of oil for the household, based on average temperatures and historical use, and spread the costs out over 10 or 12 months of equal monthly payments. This allows the homeowner to anticipate the monthly heating bill and have more certainty in monthly expenses.

A home energy audit will ensure that the furnace and appliances are running efficiently before the season begins. Conservation gains can also be achieved by weatherizing a home. NRCan offers information on home improvements and grants for residential property owners at: http://oee.nrcan.gc.ca/residential/personal/home-improvement.cfm?attr=0

Heating Oil Demand in Canada in 2006