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Fuel Focus

National Overview

Moderate Increase in Retail Gasoline Prices from Last Week

The average Canadian retail gasoline price increased to $1.04 per litre for the week ending December 18th, up by 1 cent per litre from last week and also 1 cent per litre higher compared to two weeks ago. This represents an increase of 11 cents per litre from the same period last year.

Canadian pump prices moved upward as wholesale gasoline prices and crude oil prices firmed up. The four-week average crude oil price component of the retail gasoline price was 57 cents per litre, the highest in the last three years. Crude oil remains the highest cost component of retail gasoline price representing 54% of the total pump price. This is an increase of 15 cents per litre from last year at the same period.

Diesel fuel prices increased by 1 cent per litre from last week to $1.14 per litre, but are still more than 20 cents per litre higher than at this time last year. Furnace oil prices rose by nearly 2 cents per litre to $1.01 cents per litre compared to the previous week, up 21 cents per litre from a year ago.

Recent Developments

- **Gasoline Use Up in October:** Canadians consumed 35 billion litres of gasoline in the first ten months of 2007 – 3.3% more than the same period last year. In that same period, diesel fuel sales increased 5% to 23 billion litres while furnace oil rose nearly 8% to 3.5 billion litres. (Statistics Canada, The Daily, http://www.statcan.ca/Daily/English/071207/d071207c.htm)
- **New Refinery in Newfoundland & Labrador**: Newfoundland & Labrador Refining Corp. has selected a supplier for a refinery to be built in the Placentia Bay area. The facility, scheduled for startup in 2011, will be the first refinery built in North America in 23 years. It is projected to process 300,000 b/d of Middle Eastern crudes into transportation fuels for North American and European markets.
- **Quebec's Green Fund:** On November 30, 2007, the Government of Quebec announced the approval of legislation to levy a royalty on each litre of gasoline and diesel sold by the refiners operating in the province. The regulation implementing the levy is retroactive to October 1, and would contribute to a $200 million green fund to help reduce greenhouse gas emissions. http://www.mrnf.gouv.qc.ca/presse/communiques-detail.jsp?id=6616

This is the last issue of Fuel Focus for this year. Thank you for your comments. A 2007 Annual Review is planned for January 11 and the regular issue will resume on January 18, 2008.

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

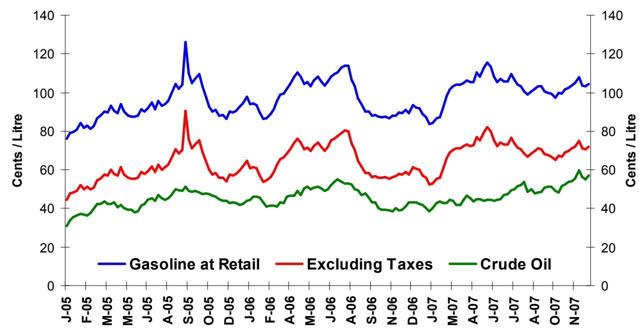
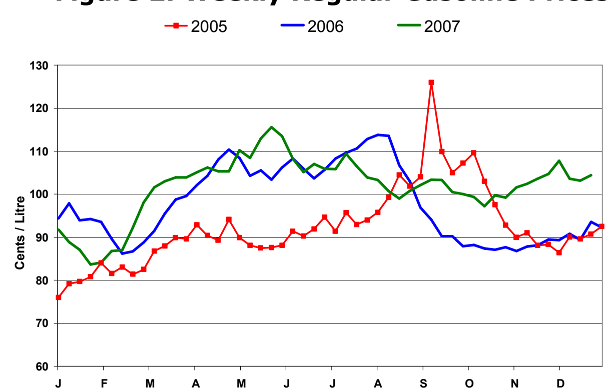


Figure 2: Weekly Regular Gasoline Prices



Changes in Fuel Prices

¢/L	Week of: 2007-12-18	Change from: Previous Week	Last Year
Gasoline	104.4	+1.2	+10.8
Diesel	113.7	+0.9	+19.9
Furnace Oil	101.3	+1.7	+20.9

Source: NRCan

In this Issue

Retail Gasoline Overview

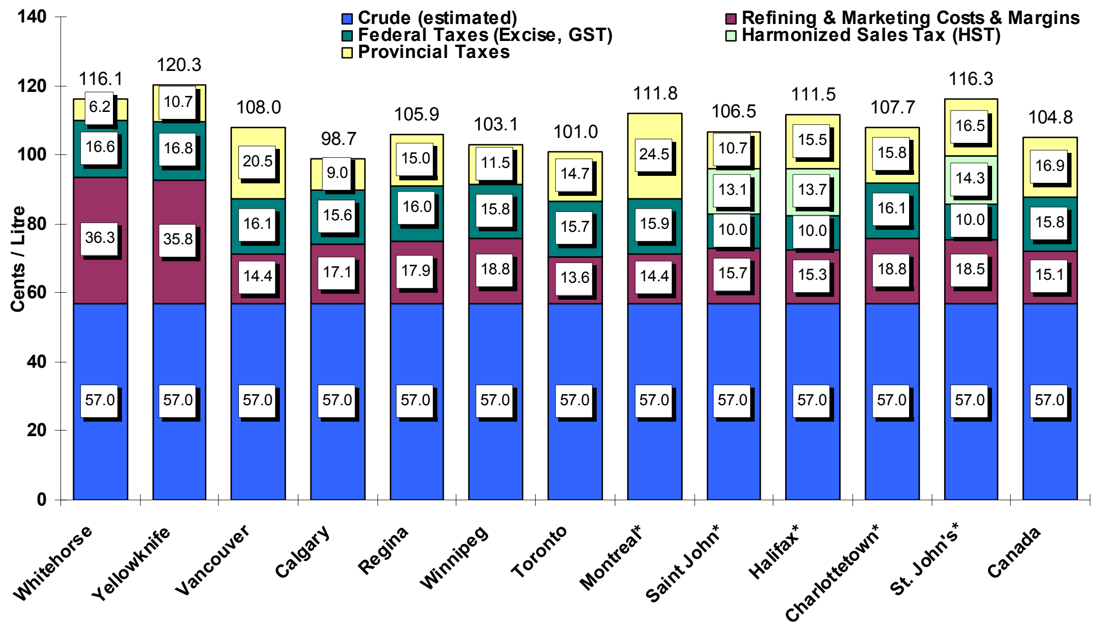
The **four-week average** Canadian gasoline price for the period ending December 18th was $1.05 per litre, virtually the same from the last report on December 7th, 2007. However, this represents an increase of 14 cents per litre from the same period in 2006.

The **four-week average** crude oil prices increased by almost 1 cent per litre to 57 cents per litre compared to two weeks ago. This represents the highest four-week average for the crude oil component in the last three years. Crude oil prices are 15 cents per litre higher than at the same period last year.

Retail gasoline prices in Eastern markets experienced changes ranging from an increase of 2 cents per litre in Montreal to a decrease of 1 cent per litre in Toronto, Saint John and Halifax. Similarly, price changes in Western centres ranged from a decline of 1 cent per litre in Regina to an increase of 1 cent per litre in Winnipeg.

Overall refining and marketing costs and margins declined almost 1 cent per litre. Five of the selected cities registered a decrease of nearly 2 cents per litre from two weeks ago.

Figure 3: Regular Gasoline Pump Prices in Selected Cities
4-Week Average (November 27 to December 18, 2007)



Source: NRCan ** Regulated Markets*

Natural Resource Wealth in Canada

A new Statistics Canada study released on December 10, 2007, indicates that Canada's natural wealth, defined as the estimated dollar value of its energy, mineral and timber reserves, increased 10% a year on average between 1997 and 2006. Energy, mineral and timber resources accounted for 17% of Canada's total natural resource wealth in 2006. Fuelled by soaring resource prices, the value of these selected natural resource reserves more than doubled, from less than $500 billion in 1997 to over $1 trillion in 2006, equivalent to more than $30,000 per capita.

Natural resource prices have grown substantially over the last 10 years. From 1997 to 2006, energy prices increased 12% a year, on average, while prices for minerals rose 7% and those for timber rose 2%. Changes in the size of Canada's natural resource reserves had nearly no effect on the growth in natural resource wealth in Canada from 1997 to 2006. Resource extraction was offset by the addition of new reserves and the regeneration of timber stocks.

The development of off-shore oil and gas and the oil sands in the late 1990s caused energy reserves to increase. By 2000, the energy reserve index stood 28% higher than in 1997. However, the index declined after 2000, and by 2006, it stood only 22% above its level in 1997. Overall, the natural resource extraction cost index increased 10% a year, on average, from 1997 to 2006, mainly as a result of increases in labour costs.

Source: Statistics Canada, The Daily, http://www.statcan.ca/Daily/English/071210/d071210a.htm

Wholesale Gasoline Prices

Wholesale gasoline prices increased in all selected centres for the **week of December 13th**, compared to the previous week. Overall, wholesale prices increased in the range of 1 to 5 cents per litre.

Wholesale prices, in most Canadian and American centres, increased by 3 to 4 cents per litre in the last two weeks, partially offsetting the declines of the previous few weeks, as a result of the continuing upward pressure from crude oil prices.

Eastern markets in both countries registered price increases ranging from 2 to 5 cents per litre compared to the previous week of December 6th. All Eastern centres ended the period in the range of 67 to 68 cents per litre.

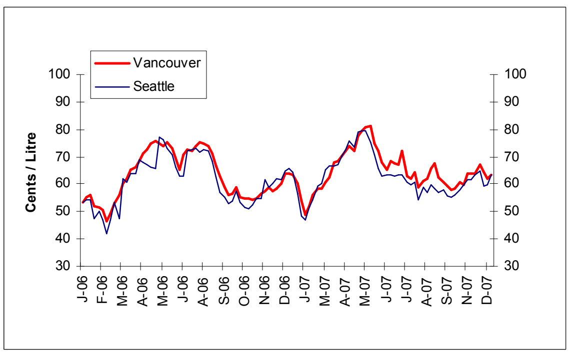
Prices in Western centres also increased in the range of 1 to 4 cents per litre from the previous week. Overall, prices ended at 63 to 66 cents per litre.

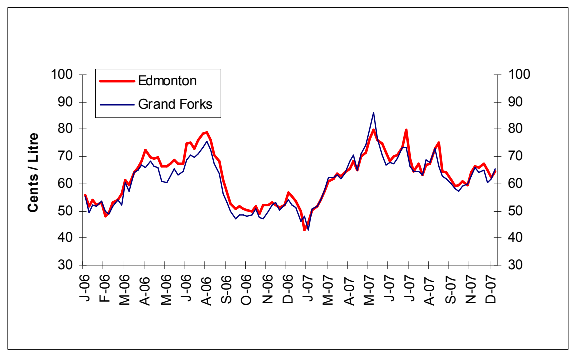
Overall, prices in most selected centres are well above last year's level ranging from 12 to 16 cents per litre higher than in 2006. However, Vancouver and Seattle increased only marginally by 3 and 2 cents per litre, respectively.

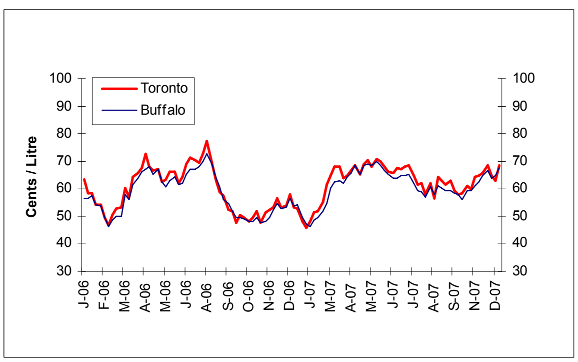
Figure 4: Wholesale Gasoline Prices

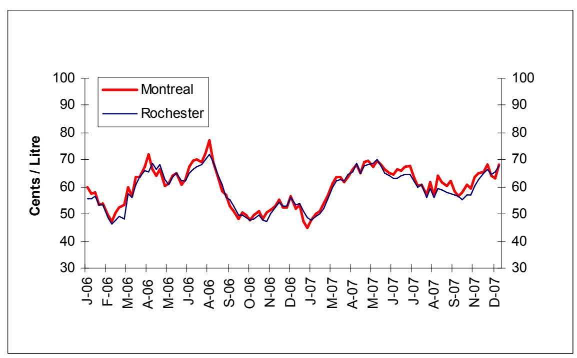
Rack Terminals Prices for Selected Canadian and American Cities on Thursday December 13, 2007

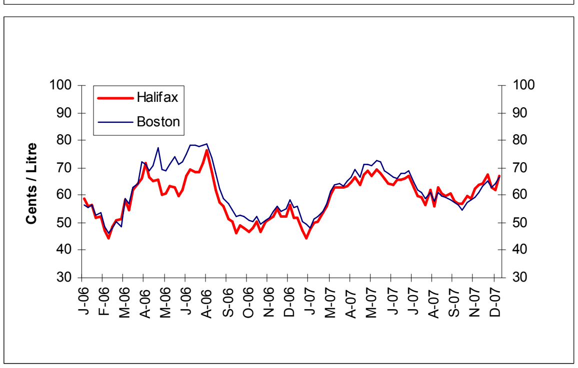
(Can ¢/L)











Sources: NRCan, Bloomberg Oil Buyers Guide

Warm Up by Driving

Once a vehicle is running, the best way to warm it up is to drive it. You need no more than 30 seconds of idling on winter days before driving away. Anything more simply wastes fuel and increases emissions.

Although it is important to drive away as soon as possible after a cold start (but not before the windows are defrosted!), you should avoid high speeds and rapid acceleration for the first five kilometres or so. The goal is to bring the whole vehicle up to peak operating temperature as quickly as possible while maximizing fuel economy. For more tips on winter driving, please visit: http://www.oee.nrcan.gc.ca/transportation/personal/driving/autosmart-maintenance.cfm?attr=8#winter

Refining and Marketing Margins

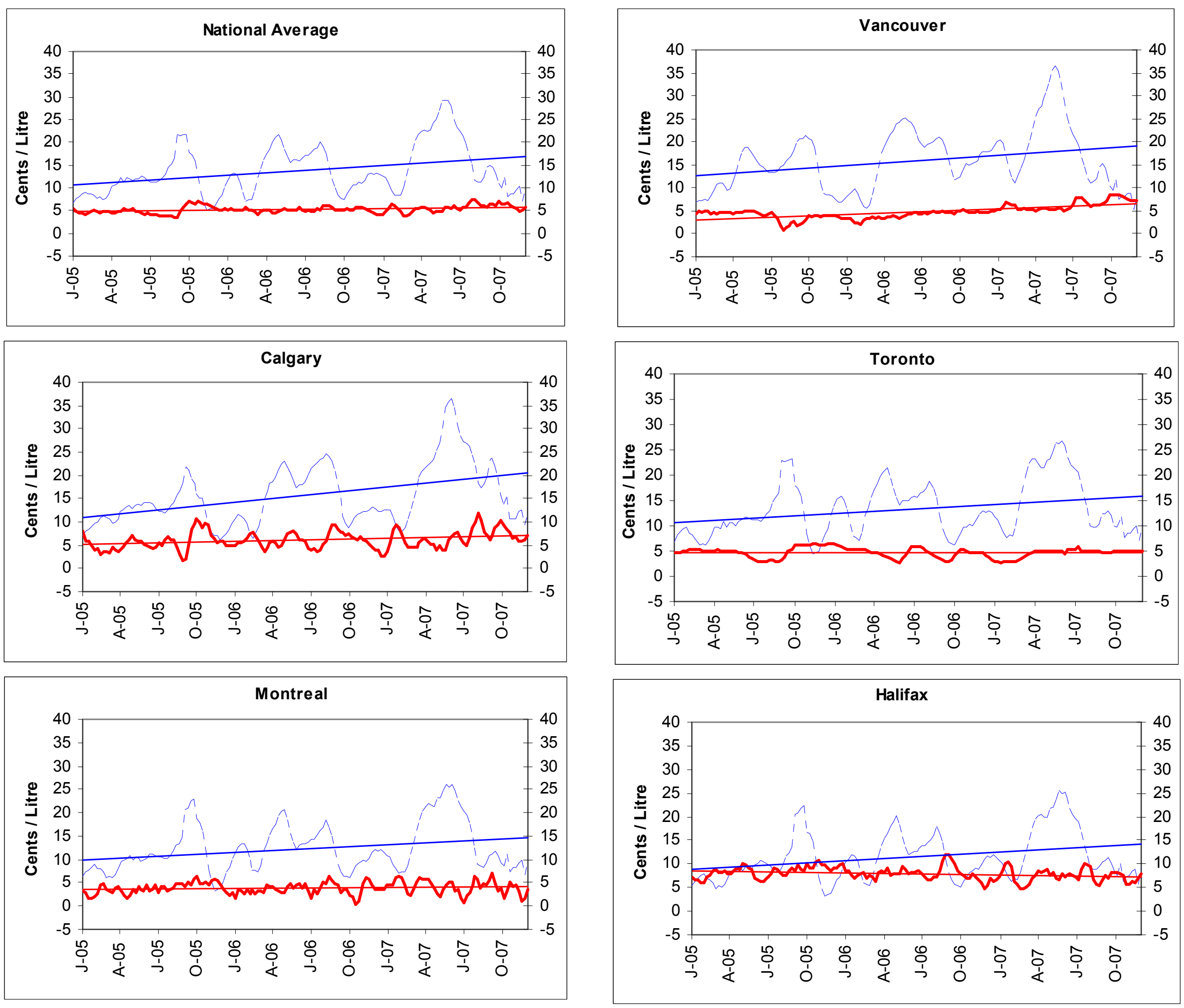
Four-week rolling averages are used for the refining and marketing margins for gasoline shown in Figure 5 for the period ending December 18th.

The refining margins downward slope is indicative of an increase in supplies. Adequate gasoline supply, along with reduced gasoline demand and higher crude oil cost, resulted in lower refining margins.

Western Canadian fuel markets remain exceptionally tight due to Shell Canada's Scotford upgrader partial shutdown a few weeks ago and of Syncrude's coker unit outage. However, the supply constraint has not, as yet, resulted in higher refining margins.

On a year-to-year basis, refining margins rose the highest in Calgary, by nearly 4 cents per litre, while all other centres (Vancouver, Toronto, Montreal and Halifax) registered an increase of 2 cents per litre.

Figure 5: Refining and Marketing Margins
Four-Week Rolling Average Ending December 18, 2007
------- Refining Margin ——— Marketing Margin



Source: NRCan

Crude Oil Overview

Crude Oil Remains at Around \$US90 per Barrel

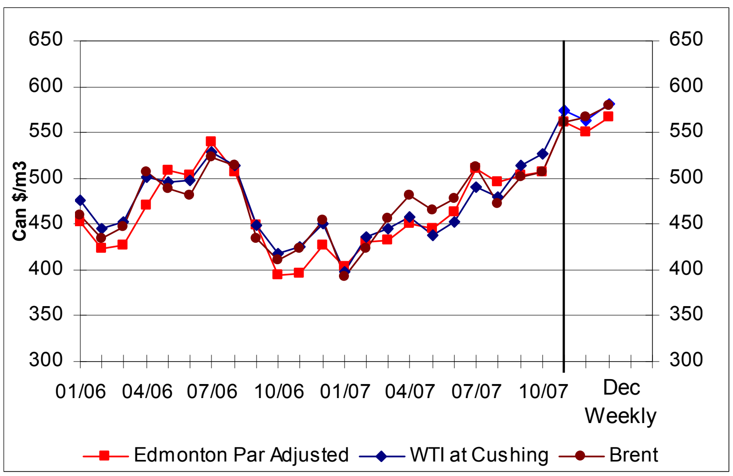
After reaching a record intra-day high of over \$US99 per barrel in late November, crude oil prices dropped significantly to about US\$90 per barrel and have stayed around that level since. For the week ending December 12th, crude oil prices averaged between \$567 and \$581/m^3 (\$US89 to \$US91 per barrel). Prices for all crudes increased moderately, week over week, with WTI seeing the largest increase of \$18.37 m^3 (\$US2.43/bbl).

As Canada is a significant producer and exporter of crude oil, the decrease in the price of crude on the international market to \$US90 per barrel has led to a slight depreciation of the Canadian dollar. This has been reflected in the fact that crude prices in the U.S. have stayed relatively stable while the price in Canadian dollars has risen over the past two weeks.

Reports of rising consumer prices in the U.S. seem to have helped crude oil stabilize at the \$90 per barrel level with traders assuming that increased prices will cause a decrease in consumer demand for petroleum products. This, along with a decrease in the Federal Reserve rate, has sent a signal to energy traders that there may be a downturn in the U.S. economy.

U.S. intelligence reports indicating that Iran ceased efforts to produce nuclear weapons as early as 2003, has removed a significant portion of the geopolitical premium inherent in recent crude oil prices.

Figure 6: Crude Oil Price Comparisons



Changes in Crude Oil Prices

Crude Oil Types	Week ending: 2007-12-14		Change from:			
			Previous Week		Last Year	
	\$Can/m^3	\$US/bbl	\$Can/m^3	\$US/bbl	\$Can/m^3	\$US/bbl
Edmonton Par	567.45	89.01	+16.65	+2.17	+139.85	+30.12
WTI	581.11	91.16	+18.37	+2.43	+131.56	+29.24
Brent	578.97	90.82	+12.10	+1.44	+126.30	+28.47

Source: NRCan

Lower Net Income on High Gasoline Prices

According to the most recent quarterly financial reports from the large U.S. refiners included in the Energy Information Administration's Financial Reporting System, profits from domestic refining and marketing were 54 percent lower in the most recent quarter (Q307) than they were a year earlier (see "Financial News for Major Energy Companies, Third Quarter 2007") despite higher motor gasoline prices this year.

So, why are motor gasoline prices so high? Mostly because of high crude oil prices, from which many of these companies derive little or no benefit. Refiners in the U.S. must either purchase crude oil from other U.S. producers, import crude oil that they produce abroad, or purchase crude oil produced abroad by others. The similarity extends to the Canadian refiners as well. The higher crude oil prices rise, the more overall costs for these companies increase. Further, they can't always pass along higher costs, as gross refining margins declined by 37 percent between the 2006 and 2007 third quarter data. This helps explain why U.S. refiners did not generate as much net income, even as gasoline prices were high.

Source: Excerpt from *This Week in Petroleum*, U.S. Energy Information Administration, http://tonto.eia.doe.gov/oog/info/twip/twiparch/071205/twipprint.html