Fuel Focus

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National Overview

Average Canadian Retail Gasoline Price Reach $1.06 per Litre

The average Canadian retail gasoline price increased to 106.2 cents per litre for the week ending April 10th, up 1 cent per litre from last week. This represents an increase of 2.3 cents per litre since the last report two weeks ago.

Overall, the rise in Canadian retail gasoline prices continue to be amplified by upward pressure from the wholesale gasoline market which reflects the increased demand for gasoline and the drawdown of inventories in anticipation of the spring refinery turn around schedules. In addition, current wholesale gasoline prices reflect the increase volatility in crude oil prices, particularly when markets are tight and tensions in oil exporting countries deepen.

Diesel fuel prices increased by more than 1 cent per litre from last week to 100.3 cents per litre, but were still nearly 3 cents per litre higher than at this time last year. Furnace oil prices rose 1 cent per litre to nearly 86 cents per litre and were approximately 1 cent per litre higher than a year ago.

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

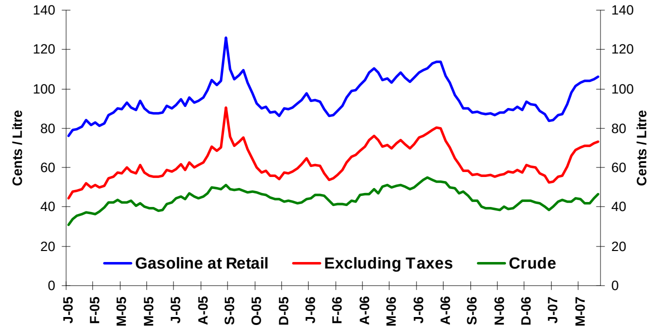
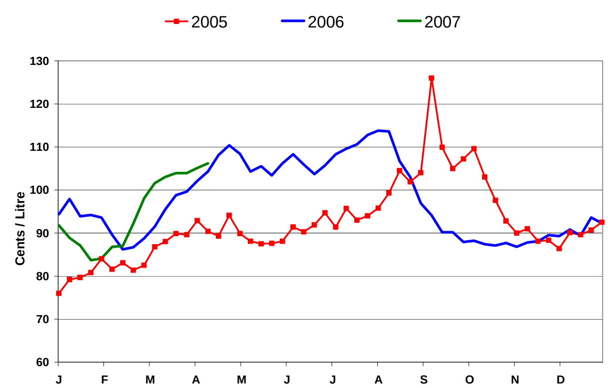


Figure 2: Weekly Regular Gasoline Prices



Changes in Fuel Prices

	Week of:	Change from:	
¢/L	2007-04-10	Previous Week	Last Year
Gasoline	106.2	+1.1	+1.9
Diesel	100.3	+1.4	+2.6
Furnace Oil	85.5	+0.9	+1.3

Source: NRCan

Recent Developments

- North West Upgrading of Calgary intends to build a heavy oil upgrader near Edmonton, Alberta. The Upgrader, producing light, low sulphur products and diluent, will have a total processing capacity of 37,725 cubic metres per day (231,000 b/d) of blended feedstock to be built in three phases. North West anticipates it will receive regulatory approval in 2007, with construction to begin immediately thereafter to achieve start up for the first phase in 2010. All three phases are expected to be completed by 2015.
- Prince Edward Island's gasoline fuel tax rate moved upward effective April 1, 2007, increasing 0.7 cents per litre to 21.5 cents a litre while diesel taxes increased 0.3 cents per litre to 20.3 cents a litre. The tax rate changed again on April 11, 2007, declining to 20.2 cents per litre for both gasoline and diesel fuel. http://www.gov.pe.ca/pt/taxandland/
- In the first two months of 2007, Canadians consumed 6.4 billion litres of gasoline, nearly 4% higher compared to the same period last year. This is due in part by the price difference between 2006 and 2007 as shown in Figure 2. Diesel fuel sales increased by 9% to 4.4 billion litres while furnace oil rose by 13% to almost 1.3 billion litres mainly due to the colder winter season compared to the same period in 2006. (Statistics Canada, The Daily)

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Retail Gasoline Overview

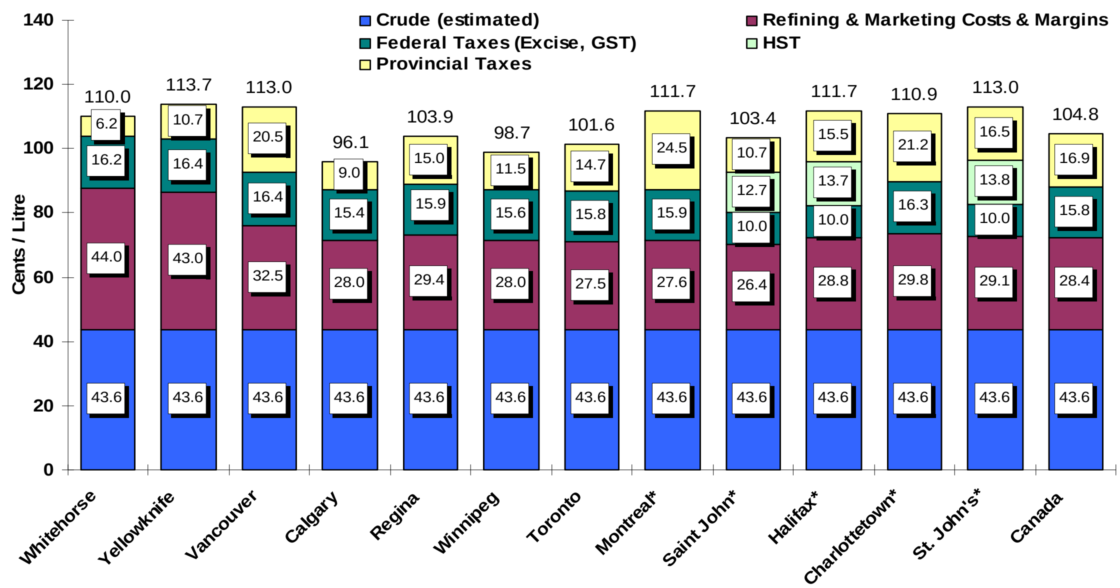
The four-week average Canadian gasoline price for the period ending April 10th was 104.8 cents per litre, an increase of 1.7 cents per litre from the last report on March 30th. This represents a 3.6 cents per litre rise from the same period in 2006.

As shown in Figure 3, the crude oil portion of the pump price components registered almost 44 cents per litre, an increase of 0.6 cent per litre from two weeks ago, and 0.6 cents per litre lower than the same period last year.

The gasoline refining and marketing costs and margins component, for the period under review, accounted for about 28 cents per litre of the total pump price, a marginal increase of nearly 1 cent per litre from the last report. Most centres showed an increase in refining and marketing costs and margins with Yellowknife and Vancouver the highest at nearly 5 and 4 cents per litre respectively compared to the last report two weeks ago.

All centres registered price increases when compared to the last report. Prices were higher in Western cities (Vancouver to Winnipeg) ranging from 1.6 cents per litre in Winnipeg to slightly more than 5 cents per litre in Vancouver, while price increases in Eastern cities (Toronto to St. John's) fluctuated in the range of less than 1 cent per litre (Toronto) to almost 3 cents per litre (Halifax).

Figure 3: Regular Gasoline Pump Prices in Selected Cities
4-Week Average (March 20 to April 10, 2007)



Source: NRCan ** Regulated Markets*

The Composition of Gasoline Retail Outlets in Canada

The marketing and retailing of gasoline is carried out by many firms, which can generally be divided into two types. The first type consists of outlets operated by the integrated refiner marketers who produce the gasoline, distribute it and market it, often through affiliate or licensed operators who own individual outlets. These companies provide gasoline to their own network and to other retailers under contract. The second type consists of the independent marketers. Independent marketers are those who do not own a refinery but either buy their product from Canadian refiners or import the gasoline. They tend to operate small numbers of outlets in specific locales, but some large networks exist.

While the major and regional refiner-marketers have been closing some of their low performance outlets, independent retailers have been increasing their presence in the gasoline market. The most notable new participants are supermarkets. Grocery chains such as Superstore and Safeway have entered the retail gasoline market. The supermarkets are known for their high-volume, low-margin retailing and are considered by many as an efficient and aggressive new source of competition in the industry.

Wholesale Gasoline Prices

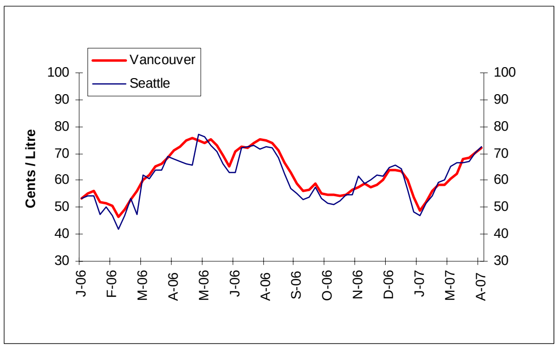
For the week of April 5th, wholesale gasoline prices increased in both Canadian and American centres, compared to the previous week. Overall, increases ranged from 1.3 cents per litre to almost 5 cents per litre.

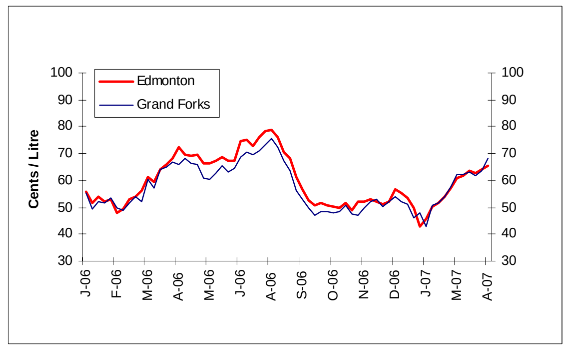
Since the beginning of the year, wholesale gasoline prices have, on average, surged by nearly 12 cents per litre. Wholesale gasoline prices continue to rise in most centres reflecting increased demand and declining gasoline inventory levels which are more typical for this time of the year as maintenance operations are taking place in many refineries in North America in anticipation of the higher summer demand for gasoline. As both Canadian and U.S. markets are closely linked, the wholesale price in Canada is, in large part, influenced by U.S. wholesale prices.

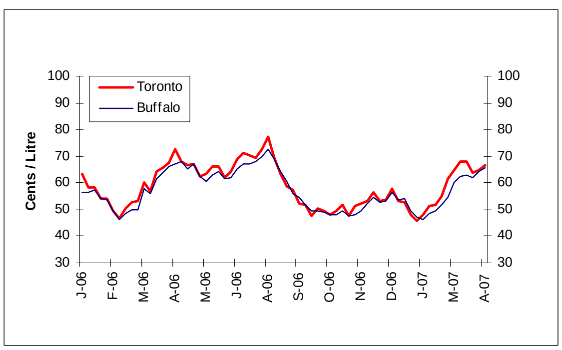
In the last two weeks price increases ranged from approximately 2 to 5 cents per litre in Canadian and American centres. Price increases are also in the range of less than 1 cent per litre to more than 8 cents per litre than they were at the same period last year.

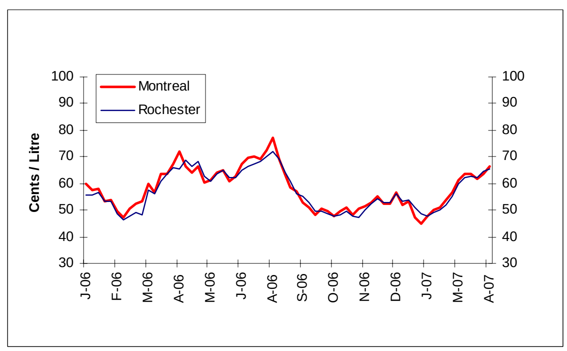
Figure 4: Wholesale Gasoline Prices

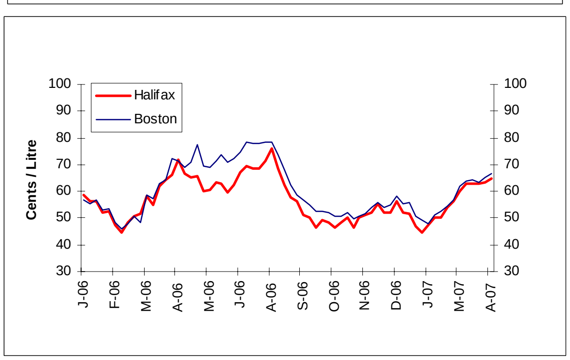
Rack Terminals Prices for Selected Cities on Thursday April 5, 2007 (Can ¢/L)











Sources: NRCan, Bloomberg

No Cost Actions Everyone Can Take Now

The first three simple tips listed below can save you up to 15% in fuel consumption immediately!

- ✓ Keep tires properly inflated to the recommended pressure.
- ✓ Use the car's air conditioner selectively.
- ✓ Observe the posted speed limits. It's safer and saves gas.
- ✓ Accelerate smoothly and brake gradually. It's safer, uses less gas and reduces brake wear.
- ✓ Properly maintain your vehicle. Replace air and oil filters as recommended.
- ✓ Minimize the amount of time your vehicle idles. For example, consider parking the car instead of using the "drive-up" lanes.

Source: Flex Your Power at the Pump, State of California.
http://www.fypower.org/save_gasoline/

Refining and Marketing Margins

Four-week rolling averages are used for the refining and marketing margins and costs for gasoline in Figure 5 for the period ending April 10th. The upward swing observed in the last six weeks is indicative of a tightening of supplies as refiners are moving towards normal spring maintenance and turnaround operations at various refineries.

At this time of the year refiners are converting their operations away from distillate production toward building up gasoline inventories in anticipation of the higher summer demand. This tends to temporarily limit the availability of supply, putting upward pressure on prices, which in turn increases refining margins until the market moves towards a more balanced situation.

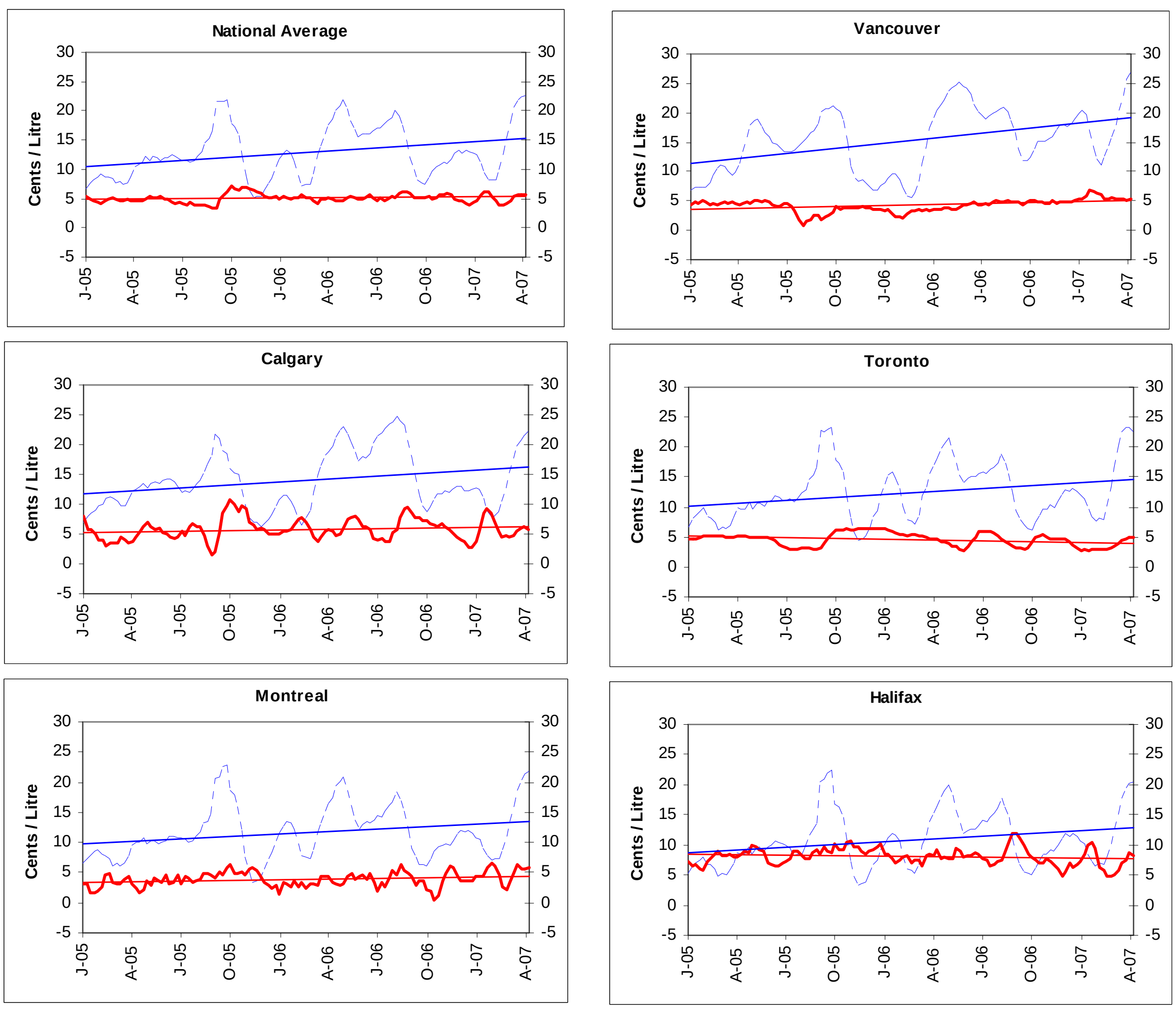
Marketing margins across Canada continued to be relatively flat as shown by the trend line. Although this margin represents a small component of the retail price, in general it is expected to cover all the costs associated with operating a retail outlet and include a profit.

Some of the costs associated with retailing gasoline are related to the volume of gasoline sold while other costs are fixed regardless of the volume sold. Larger urban outlets will then have a definite advantage as higher sales volumes will have a lower cost per unit sold, while the smaller outlets will need a higher margin to cover their retailing costs.

Figure 5: Refining and Marketing Margins

(Four-Week Rolling Average Ending April 10, 2007)

------- Refining Margin   —— Marketing Margin



Source: NRCan

Crude Oil Overview

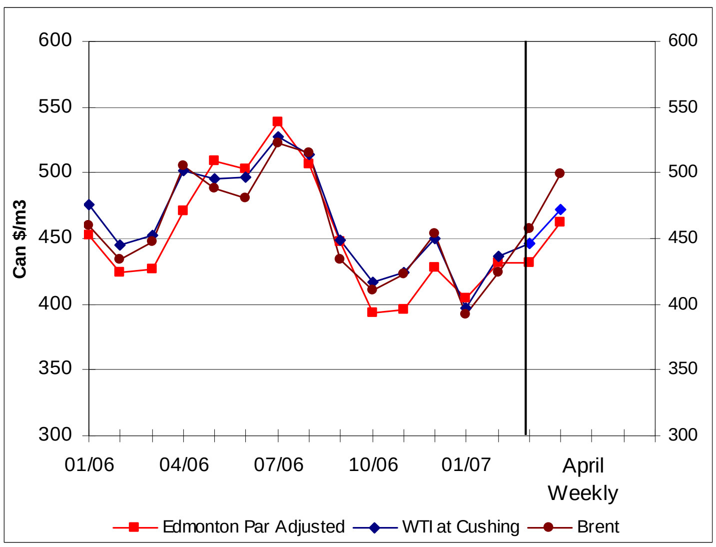
Widening Brent – WTI Spread Prompts Questions Among Traders

Crude oil prices ended the week of April 6th in the \$463 to \$499/m^3 range (\$US 64 to \$US 69/bbl) up from the previous week. Edmonton Par increased \$21/m^3 (\$US 3.09/bbl) from the previous week, while Brent continued to trade at a premium to WTI and Edmonton Par.

As shown in Figure 6, the price of WTI has been low relative to the price of Brent in recent weeks. Stocks of WTI in the U.S. have increased significantly to the point where there is little excess carrying capacity. This has caused the price of the WTI, and similar crude oils (such as Canadian Edmonton Par) to decrease in value relative to other crude slates. Since Brent has seen inventory declines in its primary market, Europe, and as it does not have a significant market presence in North America, it has managed to trade at a premium to WTI.

More recently on April 9th Iranian officials released British marines and sailors which reduced some of the tensions in international crude oil markets. Although it seems that the threat of military action against Iran has subsided, oil traders still believe there is still a "fear premium" in the price of internationally traded crude oil. If there was to be military action against Iran, some speculators believe that the fear premium could increase the price of crude oil.

Figure 6: Crude Oil Price Comparisons



Changes in Crude Oil Prices

Crude Oil Prices	Week ending: 2007-04-06		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	462.70	63.71	+21.10	+3.09	+3.13	+0.72
WTI	472.17	64.96	+2.74	+0.52	-17.28	-2.13
Brent	498.86	68.63	+19.88	+2.88	+10.00	+1.63

*Note that prices per barrel are reported in U.S. dollars

Source: NRCan

"Paper" Barrels

Oil is a tangible commodity traded widely all around the world and can move from one market to another easily by ship, pipeline or barge. However, in addition to all of the actual barrels of oil that are traded, there is a second market that trades in "paper" barrels. This simply indicates that oil is traded on "paper" based on a perceived monetary value of oil and there is not usually a physical exchange of the product. The two key markets where paper barrels of oil are bought and sold are in New York, on the New York Mercantile Exchange (NYMEX), and in London on the International Petroleum Exchange (IPE). In these futures markets, paper contracts for oil are bought and sold based on the expected market conditions in the coming months, or even years.

There are two types of buyers and sellers in the futures market: those that are actual producers or users of crude oil and those who buy futures contracts as an investment, without any intention of ever taking possession of the actual crude oil. The first group uses the futures market to protect themselves from price volatility by locking in either their costs or their revenue. The second group are investors who can make money by correctly guessing whether prices will increase or decrease in the future.

In the spot market, oil is bought and sold for cash and delivered immediately. The current spot price for oil is influenced by the futures market price because the futures price represents the market's collective view, at a given point in time, of where prices may be headed. Find out more. http://fuelfocus.nrcan.gc.ca/fact_sheets/oilmarket_e.cfm