



National Overview

Retail Pump Prices Increased 7 cents per Litre from Two Weeks Ago

Since the last report on April 11, 2008, gasoline prices increased 7 cents per litre, bringing the average Canadian retail gasoline price on April 22nd to \$1.23 per litre. Prices are nearly 18 cents per litre higher compared to the same time last year.

The rising gasoline pump prices relate to the underlying price of world crude oil and to higher North American wholesale gasoline prices. These forces have currently pushed the retail pump price to its highest level since the price of \$1.26 a litre on September 6, 2005 subsequent to outages caused by Hurricanes Katrina and Rita. While retail gasoline prices have maintained a strong upward momentum compared to previous seasonal trends, they still do not fully reflect the crude oil price increase in recent weeks.

Diesel fuel prices continue to command a premium over gasoline as prices increased by 2 cents per litre to a record high of \$1.33 per litre the week of April 22nd. Overall, current diesel fuel prices represent an increase of 33 cents per litre compared to the same period last year.

Recent Developments

- **Gasoline Sales Up:** Canadians consumed 6.6 billion litres of gasoline in the first two months of 2008, an increase of 2.8% over the same period in 2007. Diesel fuel sales increased 3.2% to 4.5 billion litres for the same period, while furnace oil declined 12% to 1.1 billion litres. (Statistics Canada, The Daily, <http://www.statcan.ca/Daily/English/080411/do80411b.htm>)
- **Hydrogen Buses in Charlottetown:** Two new hydrogen-fuelled buses will soon start shuttling passengers around Charlottetown as part of a Canada-wide pilot project. The buses run on a hydrogen combustion engine producing no hydrocarbon waste or greenhouse gases. The Government of Canada is investing \$275,000 in the project, and the Province of Prince Edward Island and Air Liquide Canada are contributing \$100,000 and \$175,000 respectively. <http://www.nrcan.gc.ca/media/newcom/2007/2007123-eng.php>
- **Inflation Rise 1.4% in March:** Consumer prices rose 1.4% on average in the 12 months to March 2008, the fourth consecutive month in which the rate of growth has decelerated. Prices at the pump rose by 8% between March 2007 and March 2008, less than half the rate of growth of 17% posted the previous month. The price of fuel oil and other fuels surged 30% in the 12 months to March 2008. The biggest increases in fuel oil and other fuels occurred in provinces east of Ontario, where prices rose between 28% and 37%. (Statistics Canada, The Daily, <http://www.statcan.ca/Daily/English/080417/do80417a.htm>)

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

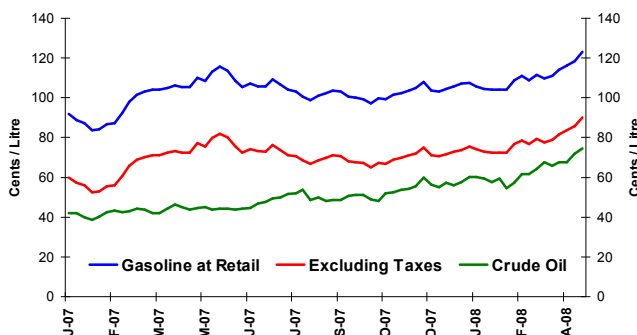
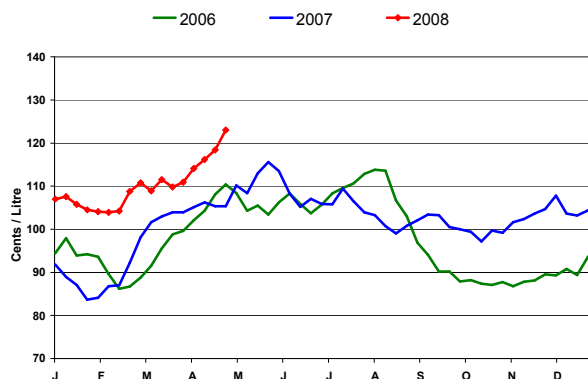


Figure 2: Weekly Regular Gasoline Prices



Changes in Fuel Prices

¢/L	Week of:	Change from:	
	2008-04-22	Previous Week	Last Year
Gasoline	123.0	+4.5	+17.7
Diesel	133.0	+2.3	+33.1
Furnace Oil	122.4	+2.8	+37.0

Source: NRCan

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Supplement: Offers an analysis of what is driving gasoline pump prices up by comparing the various components of retail gasoline prices.





Retail Gasoline Overview

The **four-week average** regular gasoline pump price in selected cities across Canada was \$1.18 per litre for the period ending April 22, 2008, an increase of 5 cents per litre since the last report.

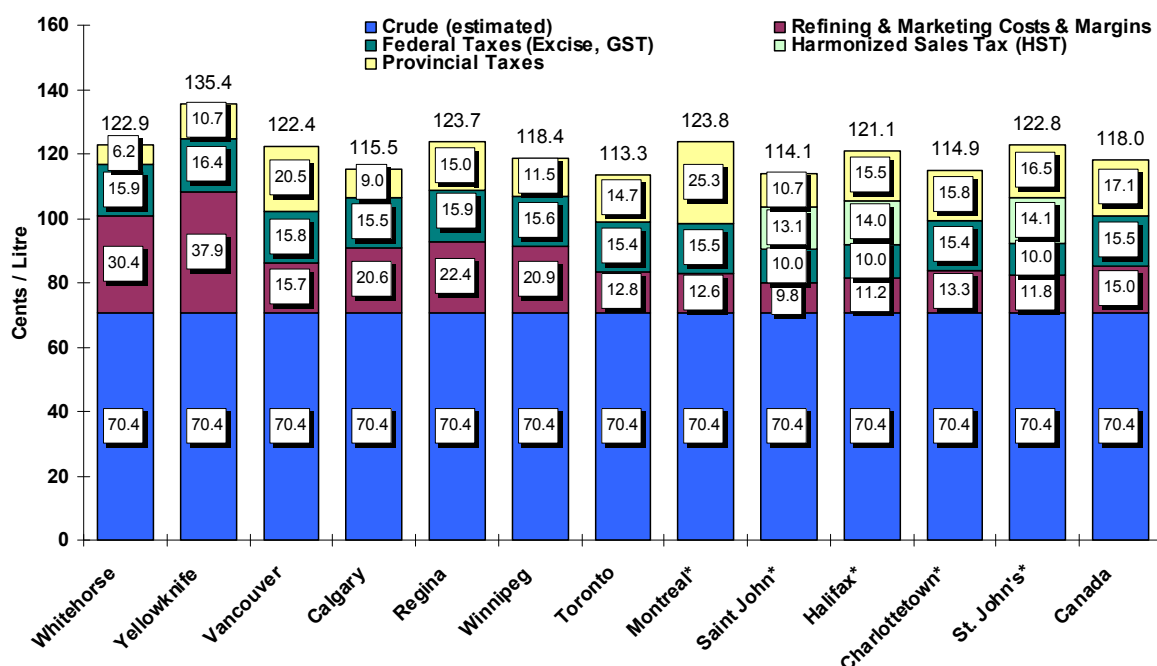
The four-week average crude oil price increased by 3 cents per litre to 70 cents per litre compared to two weeks ago. This represents a 26 cents per litre increase from the same period last year.

Retail gasoline prices in Western centres increased between 3 to 5 cents per litre when compared to those

of the previous report two weeks ago. Price increases in Eastern centres ranged between 2 to 6 cents per litre.

The four-week average refining and marketing costs and margins increased by 1.6 cent per litre to 15 cents per litre of the total pump price from two weeks ago. Margins in Eastern centres are significantly lower than the Canada average, while those in Western centres are higher due to tight supplies in Western Canada. Overall, refining and marketing costs and margins in Canada have declined significantly by 13 cents per litre compared to last year.

**Figure 3: Regular Gasoline Pump Prices in Selected Cities
4-Week Average (April 1 to 22, 2008)**



Source: NRCan

* Regulated Markets

Trends in Motor Gasoline Consumption

According to a study by the U.S. Energy Information Administration released in April 2008, income growth rates have less of an impact on recent trends in gasoline consumption than in the past, motivating drivers to conserve by driving less and purchasing more fuel-efficient vehicles. High gasoline prices and a slowing U.S. economy have resulted in reduced gasoline demand in recent months.

In fact, many of the socio-economic factors that drove gasoline consumption growth to average over 4% a year in the 1950s and 1960s do not have the same influence today partly due to demographic changes. Population growth has slowed from 1.6 to 1.0% a year; the baby boomers are beginning to pass the peak driving years; and the market for automobiles has approached saturation so that income growth, which averaged over 2% per year up until the late 1970s, no longer drives an increase in the average number of vehicles per capita.

Source: Energy Information Administration, Short-Term Energy Outlook Supplement – April 2008
http://www.eia.doe.gov/emeu/steo/pub/special/2008_sp_o2.pdf.





Wholesale Gasoline Prices

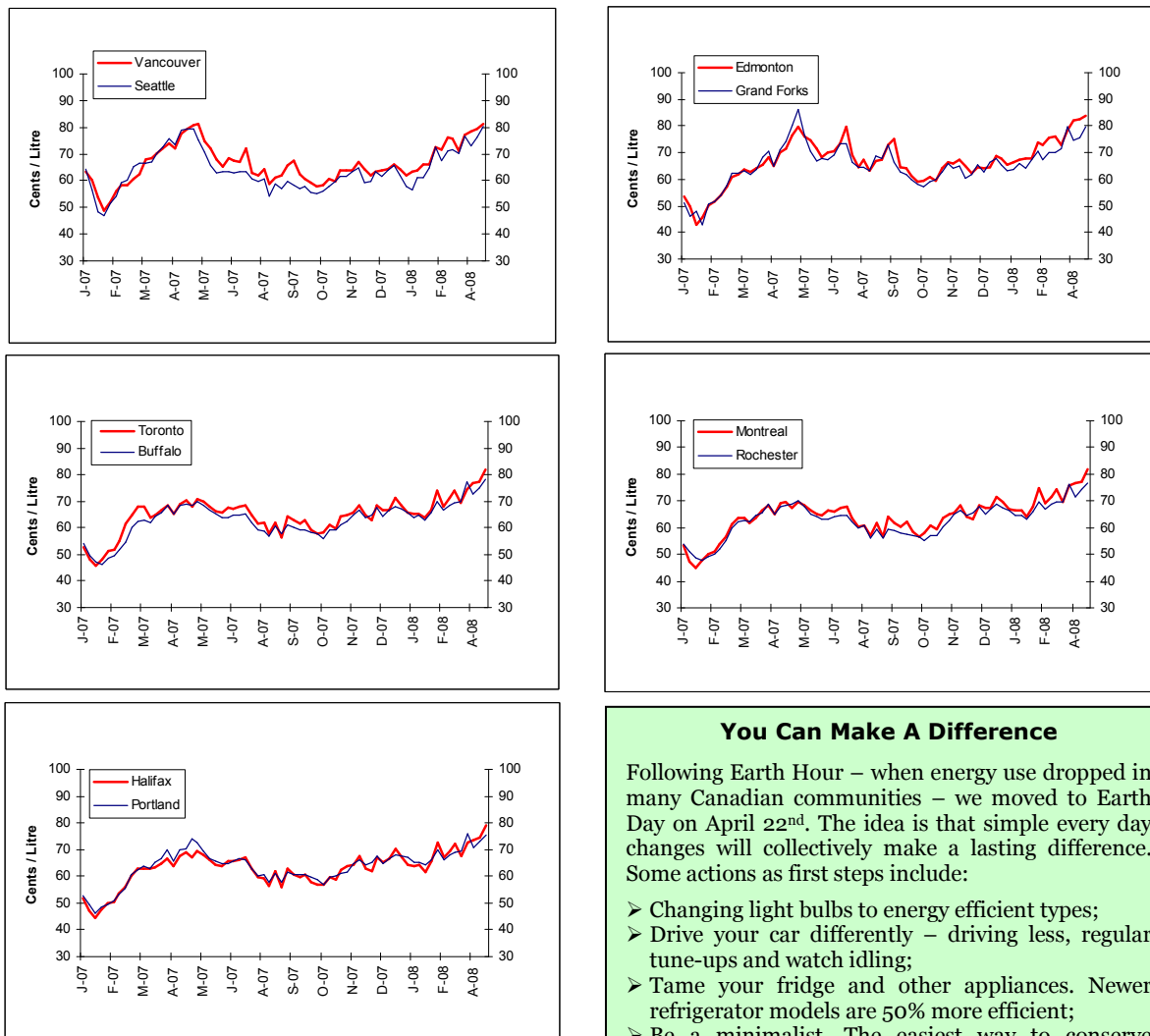
Wholesale gasoline prices increased in all selected centres for the **week of April 17th**, compared to the previous week. Overall, price changes ranged from an increase of less than 1 to 5 cents per litre. This is also a significant jump from four weeks ago with price increases ranging from 6 to 13 cents per litre.

Eastern markets in both Canada and the U.S. have registered increases ranging from 2 to 5 cents per litre, compared to the previous week, ending the period in the 76 to 82 cents per litre range.

Wholesale gasoline prices in Western centres also rose between 1 to 4 cents per litre, ending in the range of 80 to 84 cents per litre. Canadian centres registered higher increases in the last three weeks than American centres. This is due to the continuing tight markets in Western Canada.

Overall, wholesale prices in all selected centres are well above last year's level with increases ranging from 7 to 19 cents per litre, compared to the same period last year.

Figure 4: Wholesale Gasoline Prices
Rack Terminals Prices for Selected Canadian and American Cities ending April 17, 2008
(Can ¢/L)



Sources: NRCan, Bloomberg Oil Buyers Guide

You Can Make A Difference

Following Earth Hour – when energy use dropped in many Canadian communities – we moved to Earth Day on April 22nd. The idea is that simple every day changes will collectively make a lasting difference. Some actions as first steps include:

- Changing light bulbs to energy efficient types;
- Drive your car differently – driving less, regular tune-ups and watch idling;
- Tame your fridge and other appliances. Newer refrigerator models are 50% more efficient;
- Be a minimalist. The easiest way to conserve energy is to use less.





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 April 22, 2008.

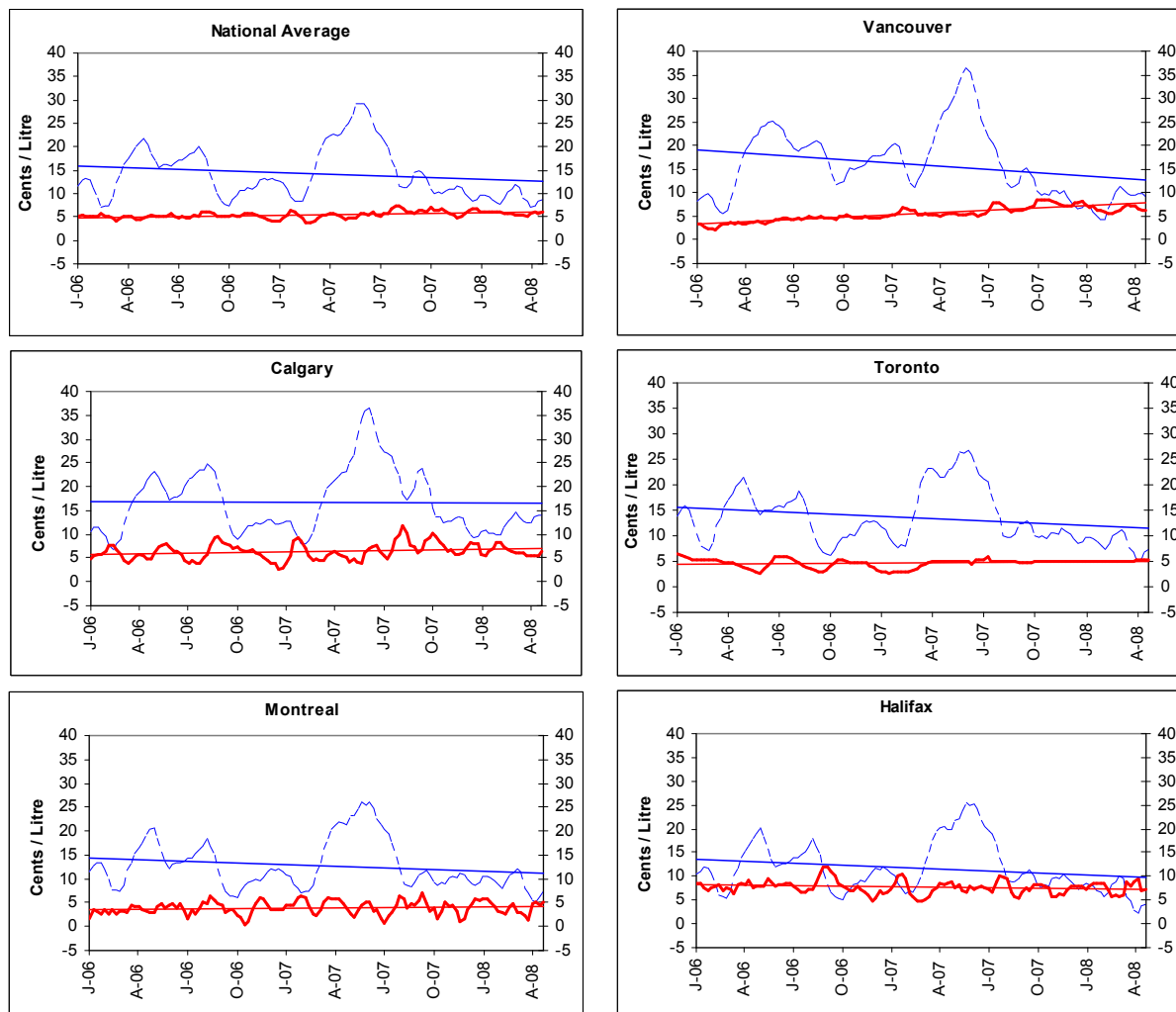
Overall, refining margins for gasoline have been declining, with mild fluctuations, since the third quarter of 2007. These reductions reflect the fact that average wholesale prices, in general, have not increased as significantly as crude oil prices. The well-supplied gasoline market contrasts with the constraints experienced last year at this time due to

various refinery maintenance closures and unexpected outages.

The marketing margins continue to fluctuate in specific centres as these movements are influenced by local market conditions. Nationally, the trendline indicate that marketing margins remain around 6 cents per litre. Marketing margins in the five centres below ranged from a low of 5 cents per litre to a high of 7 cents per litre.

Figure 5: Refining and Marketing Margins
Four-Week Rolling Average Ending April 22, 2008

----- Refining Margin — Marketing Margin



Source: NRCan





Crude Oil Overview

Crude Oil Continues to Set Record Highs

For the week ending April 18th, 2008, crude oil prices averaged between \$712 and \$743/m³ (\$US113 to \$US118 per barrel). Compared to the previous week, prices have increased between \$22 and \$25/m³ (\$US4 per barrel). Crude oil prices have nearly doubled since this time last year.

Crude oil prices have once again hit record highs, this time approaching \$US120 per barrel with apparent ease. While there are many factors that continue to affect prices, at the heart of the rise is a tight market for crude oil and further declines in the U.S. dollar against other international currencies.

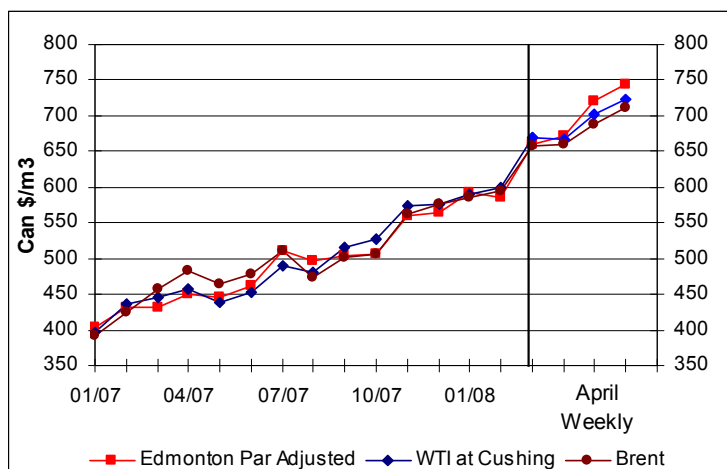
With the futures market in backwardation (contracts for oil in further months are less expensive than current prices), refiners have less incentive to hold inventories.

During times when the futures market is in backwardation, refiners typically draw down inventories as they could anticipate paying less for crude in the future.

A decrease in inventories typically signals a tight market to traders who subsequently bid up prices. To add to the supply side uncertainties, a surprise decline in Russia's oil production in the 1st quarter of 2008 resulted in a price jump when the data was released on April 15th.

Since the last Fuel Focus report, the U.S. dollar has declined further against other international currencies causing U.S. domestic prices to increase. Many traders continue to use commodities such as oil to hedge against the decline.

Figure 6: Crude Oil Price Comparisons



Canadian Investments in the Petroleum Industry

Between 1998 and 2006, investment in Canada's oil and gas industry has tripled from \$17.5 billion in 1998 to \$53 billion in 2006. Canadian petroleum companies have tended to finance these expenditures by reinvesting profits.

Furthermore, over the last nine years, investment in Canada's oil sands industry has increased nearly ten-fold from \$1.5 billion in 1998 to \$14.3 billion in 2006 and is expected to have grown to \$17 billion in 2007 when the final data is available.

Both federal and provincial governments have benefited from a healthy expansion of the oil and gas industry through increased payments to government such as increased corporate taxes, royalties, and licence fees. Between 1998 and 2005, Canadian oil and gas industry payments to government increased 5 fold – from \$5.3 billion in 1998 to \$27 billion in 2005. The total employment impact (direct, indirect and induced jobs) from the upstream oil and gas industry is estimated at more than 500,000 jobs.

Source: Canadian Oil Market Review of 2006 & Outlook to 2020, NRCan.

Changes in Crude Oil Prices

Crude Oil Types	Week ending: 2008-04-18		Change from:			
			Previous Week		Last Year	
	\$Can/ m ³	\$US/ bbl	\$Can/ m ³	\$US/ bbl	\$Can/ m ³	\$US/ bbl
Edmonton Par	743.23	116.74	+21.90	+3.90	+303.33	+54.75
WTI	723.77	113.69	+22.30	+3.95	+276.63	+50.68
Brent	711.73	111.79	+24.70	+4.32	+241.33	+45.50

Source: NRCan





What's Driving Gasoline Pump Prices Up?

With record high world crude oil prices, many consumers are wondering what is happening to gasoline prices. The chart below compares the various components of retail gasoline prices for the first quarter of 2008 to the same period in 2007. Overall, retail gasoline prices rose to \$1.08 per litre, from 93 cents per litre, up 14 cents per litre in this period of time. Crude oil, by far the largest component of the total gasoline pump price, rose nearly 19 cents per litre in the first quarter of 2008 compared to the first quarter of 2007. Globally, the combination of rising world oil consumption and a host of other market and non-market factors are putting upward pressure on oil prices. As shown in the chart below, crude oil rose to 61 cents per litre in the first quarter of 2008 compared to 42 cents per litre in the first quarter of 2007, representing 57% and 45% of the pump price respectively. This increase also represented a 44% increase in the crude oil price for the same period year-over-year. However, not all of this increase is reflected in retail gasoline prices. Higher than normal gasoline inventories and softening demand in the U.S. have dampened gasoline price increases. (For more information on [Gasoline and Crude Oil Market Dynamics](#), please consult Volume 2, Issue 3 of Fuel Focus).

With respect to refining and marketing costs and margins, this component declined by more than 4 cents per litre in the first quarter of 2008 compared to the same quarter last year. The refining margin is influenced by overall supply conditions which in turn are influenced by demand, product inventories and refinery outages. The marketing margin represents the difference between the wholesale and retail prices of gasoline excluding taxes and must pay for the costs associated with the operation of a service station.

A significant factor in the higher refining margins in the first quarter of 2007 was the number of refinery closures for maintenance throughout North America, combined with unplanned outages, resulting in temporary supply constraints. Federal and provincial taxes remained essentially unchanged at 32 cents per litre. For the federal portion, the taxes dropped by 1% as a result of the GST reduction in 2008.

Average Regular Gasoline Pump Price Components in Canada
First Quarter 2008 vs. 2007

