



National Overview

Retail Gasoline Prices Declined 1 Cent Per Litre Since Last Week

The Canada average retail gasoline price continued its downward slide ending the week of October 10th at 87.4 cent per litre. This represents a drop of approximately 1 cent per litre from last week and a half a cent per litre decline from two weeks ago. Gasoline prices are now 16 cents per litre lower than last year at this time.

The strong market fundamentals that have contributed to lower prices in the last six weeks continue to put downward pressure on gasoline prices. Higher inventory levels for gasoline and crude oil, the absence of severe weather related events as seen last year and no major concerns arising from oil producing regions have reduced concerns of supply disruptions. All these converging factors have resulted in a steady decline in prices of more than 26 cents per litre since early August as observed in Figure 2.

Diesel prices also fell moderately from last week to 90 cents per litre and more significantly by 1.5 cents per litre from the last report two weeks ago. Good news for the upcoming heating season, furnace oil prices dropped 3.3 cents per litre to 75 cents per litre over the past two weeks.

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

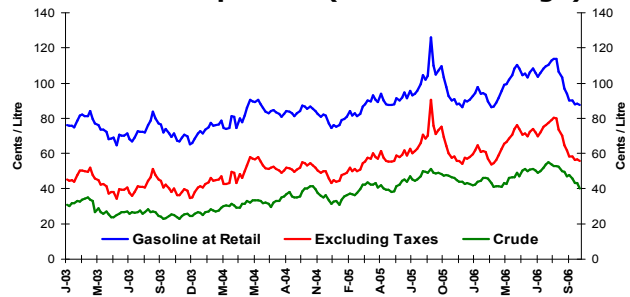
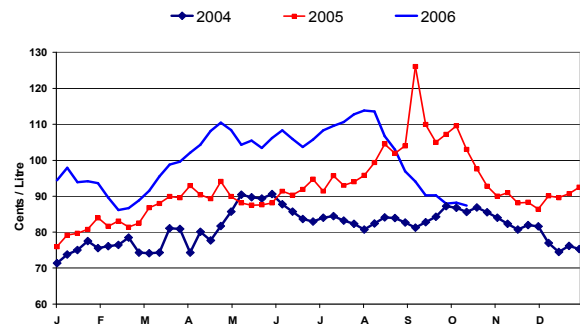


Figure 2: Weekly Regular Gasoline Prices



Recent Developments

- On October 1, 2006, gasoline and diesel fuel taxes in Prince Edward Island were reduced to 19.6 and 19.4 cents per litre, respectively.
- On October 3, 2006, the New Brunswick Government announced a reduction in the provincial gasoline tax of 3.8 cents per litre. At current prices it is expected that once the HST is factored into the tax cut, the total price drop will be 4.3 cents per litre.
- Also on October 3rd, the Nova Scotia Government announced a Nova Scotia Energuide for Houses program providing homeowners up to \$2,000 toward the cost of improving the energy efficiency of their homes. Further information is available at: <http://www.gov.ns.ca/energy/>
- NRCan released its *Canada's Energy Outlook: The Reference Case 2006*, a long-term projection of energy consumption, production and greenhouse gas emissions (GHG) from now until 2020. A brief outline and a web link to the full report are available on page 5.

Changes in Fuel Prices

¢/L	Week of:	Change from:	
	2006-10-10	Previous Week	Last Year
Gasoline	87.4	-0.8	-15.6
Diesel	90.0	-0.1	-17.0
Furnace Oil	74.6	-1.7	-15.2

Source: NRCan

In this Issue

<i>National Overview</i>	page 1
<i>Recent Developments</i>	1
<i>Retail Gasoline Overview</i>	2
<i>Wholesale Prices</i>	3
<i>Refining and Marketing Margins</i>	4
<i>Crude Oil Overview</i>	5
<i>Home Heating Oil – Part Four</i>	6

Fuel Focus Info Tips – This issue features the last of a 4-part series on home heating oil.





Retail Gasoline Overview

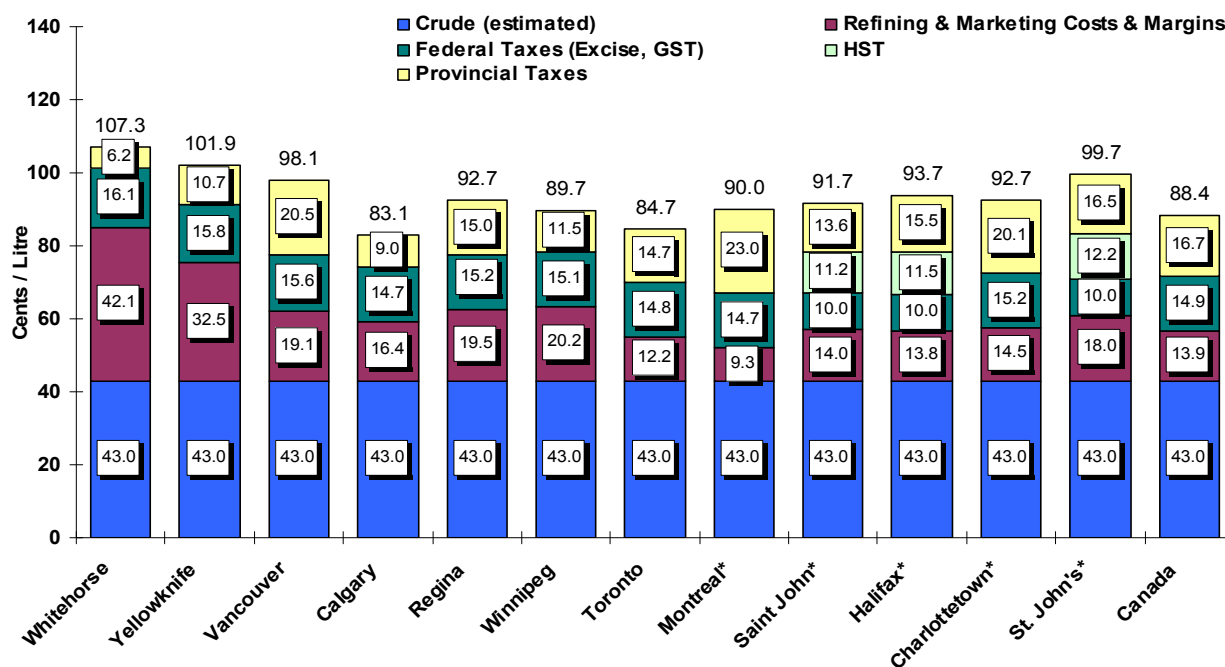
The average regular gasoline pump price in selected cities across Canada for the four week period ending October 10th was 88 cents per litre, a decline of almost 2.2 cents per litre from two weeks ago, and down from the \$1.11 per litre recorded during the same period in 2005.

The continued decline in retail gasoline prices is mainly due to a dramatic decrease in crude oil prices. A number of factors, such as higher gasoline inventories and reduced demand, have also contributed to the steady downward pressure on prices and this trend should continue, barring any unanticipated supply problems.

The four-week average crude oil price of 43 cents per litre declined 2.8 cents per litre since the last report, a decrease of 6.8 cents per litre from the same period in 2005.

Overall the average four week refining and marketing margin portion of the pump price increased approximately 1 cent per litre, partially offsetting the decline in crude prices. Margins increased 0.6 cent per litre in the western provinces (Vancouver to Winnipeg) while they declined 0.6 cent per litre in eastern provinces. Excluding taxes, Montreal registered the lowest pump price at 52 cents per litre and Whitehorse the highest at 85 cents per litre.

Figure 3: Regular Gasoline Pump Prices in Selected Cities
4 Week Average (September 19 to October 10, 2006)



Source: NRCan

* Regulated Markets

The Connection between Retail Gasoline and Wholesale Gasoline Prices

Generally, when the price of gasoline goes up or down the explanation often heard is that it is tied to the crude oil price gyrations. While retail gasoline prices are driven by crude oil prices, it is the wholesale gasoline market that has the largest impact on retail prices. Gasoline is a commodity in its own right and, just like crude oil, its price reacts to supply and demand pressures in local and North American markets. Wholesale gasoline prices can also be influenced by speculator reactions to political news or weather events that could change the supply or demand for gasoline. In addition, gasoline is a commodity that flows freely between Canada and the U.S., so Canadian wholesale prices are tied closely to the U.S. gasoline prices. Any significant disruption in gasoline supply in the U.S., a market 10 times the size of Canada, can have an impact on wholesale prices throughout North America. Last year's weather-related events are a good example of how the shutdown in a small percentage of the refining capacity created a tight supply situation in North America and affected Canadian wholesale gasoline prices.





Wholesale Gasoline Prices

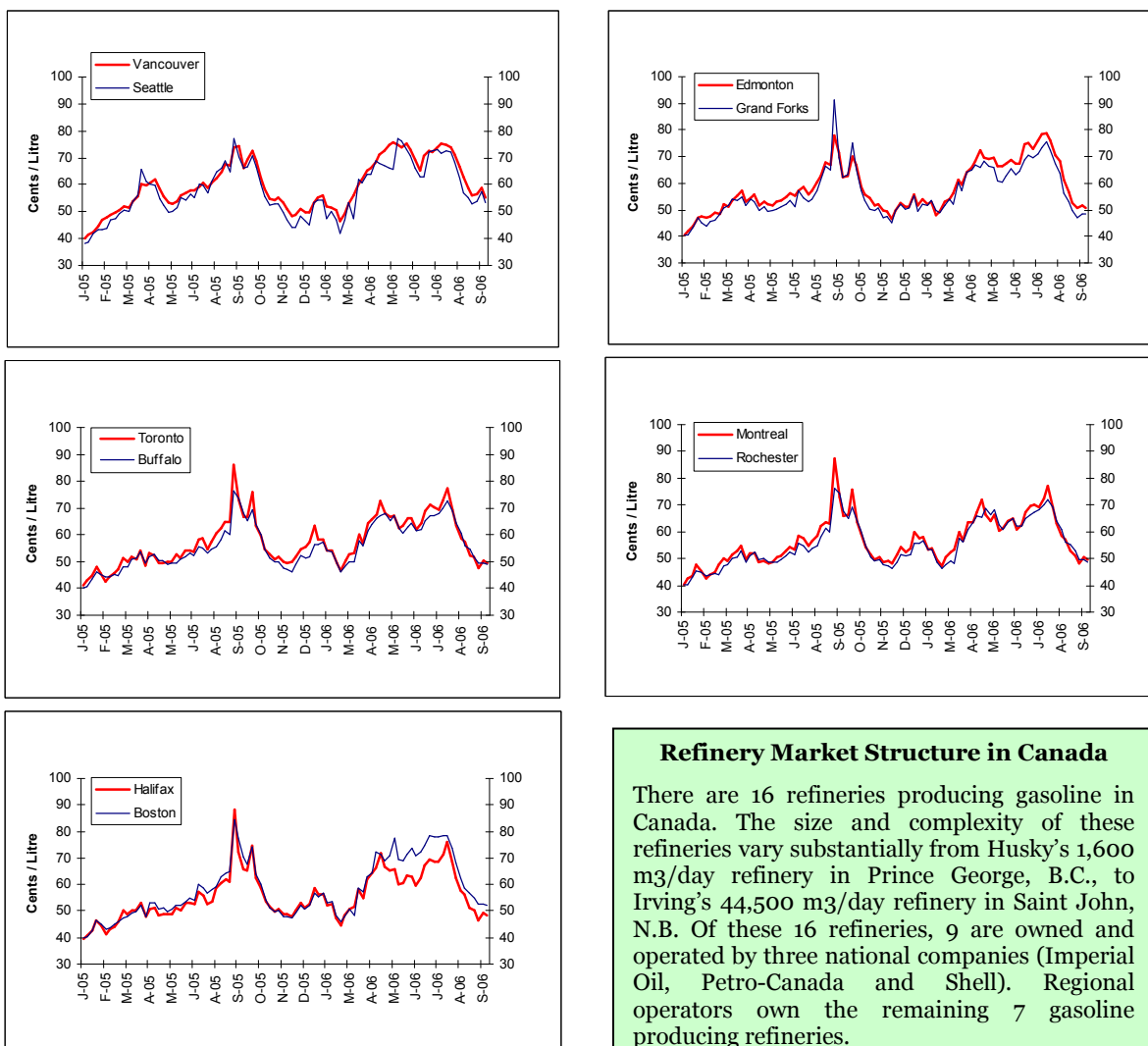
Wholesale gasoline prices declined on average 1.2 cents per litre for most of the selected Canadian and U.S. cities for the week of October 5th, compared to the previous week. In the last six weeks wholesale gasoline prices have declined approximately 8 and 7 cents per litre in Canadian and U.S. selected cities, respectively, mainly as a result of a continued decline in crude oil prices.

Canadian and U.S. wholesale prices are 14 cents per litre lower than last year at this time.

Last year's prices were exceptionally high due to the supply interruptions resulting from the hurricane damage.

The price differential between Halifax and Boston stood at 2.3 cents per litre while the Vancouver and Seattle price gap was 2 cents per litre for the week of October 5th. That week the latter cities showed the largest wholesale price decline of approximately 4 cents per litre, lagging earlier price decreases in other markets.

Figure 4: Wholesale Gasoline Prices (Weekly Average)
Rack Terminals Prices for Selected Cities ending October 5th (Can ¢/L)



Refinery Market Structure in Canada

There are 16 refineries producing gasoline in Canada. The size and complexity of these refineries vary substantially from Husky's 1,600 m³/day refinery in Prince George, B.C., to Irving's 44,500 m³/day refinery in Saint John, N.B. Of these 16 refineries, 9 are owned and operated by three national companies (Imperial Oil, Petro-Canada and Shell). Regional operators own the remaining 7 gasoline producing refineries.

Sources: NRCan, Bloomberg





Refining and Marketing Margins

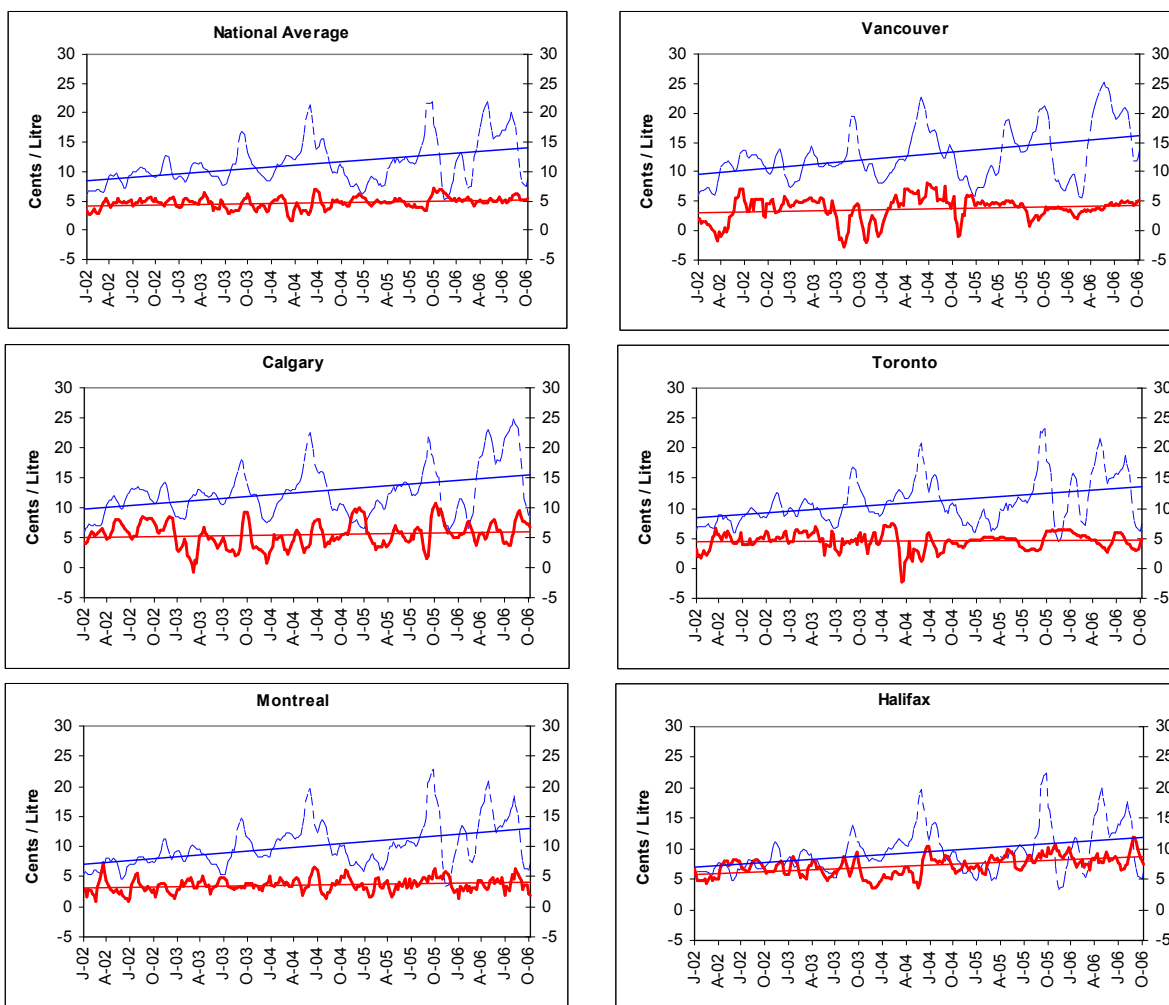
As illustrated in Figure 5, the refining and marketing margins recently lost some of their earlier strength as demand for gasoline wanes. The latest margin declines are indicative of ample gasoline supplies which correspond with the end of the summer driving season and the relatively stable situation in the world crude oil markets.

Refining margins, defined as the difference between the posted rack (wholesale) price of gasoline and the crude oil price, are indicative of the gasoline supply situation and other local market conditions. In turn, the local market conditions can have a considerable impact on short-term wholesale prices. This is due to

the fact that gasoline has very few substitutes, especially in the short term.

Margins must cover, among other things, the costs associated with transporting product through the distribution system. Some of the distribution challenges arise from the fact that petroleum products are refined in only a few geographic regions but they are consumed all across Canada. Of the western provinces, only Alberta and Saskatchewan produce more products than they consume. Manitoba, parts of British Columbia and most of the territories are supplied primarily from the three refineries in Edmonton. As a result of the distance the product must travel margins are higher in these areas.

Figure 5: Refining and Marketing Margins (Four Week Rolling Average)
----- Refining Margin — Marketing Margin



Source: NRCan





Crude Oil Overview

September 2006 - Largest One Month Drop in Crude Oil Prices

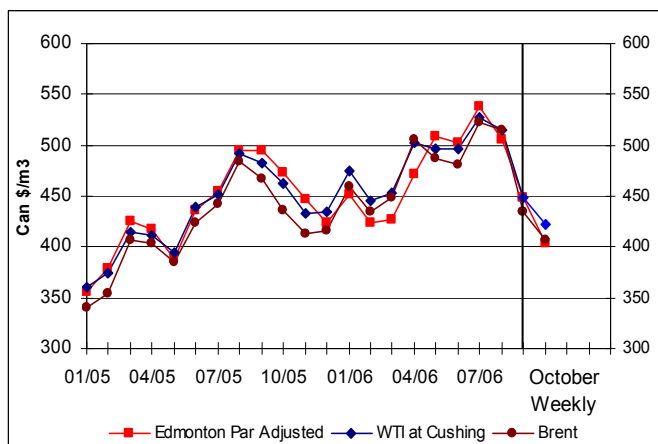
In September, crude oil prices recorded their single largest month to month drop in nearly two years. The steady decline in crude oil prices recently is partly attributed to political stability in oil producing regions and high inventory levels for gasoline and crude oil.

A number of factors could cause the current conditions to shift again in the coming weeks. The Organization of Petroleum Exporting Countries is discussing a production reduction in the fourth quarter, but with crude oil and product inventories at high levels this may not have much impact. Supplies should remain plentiful heading into the winter season and keep downward pressure on prices. In addition, the U.S. Department of Energy recently announced that it will hold off buying replacement oil

for the nation's emergency petroleum stockpile through the winter heating season in order to keep more supply on the market.

The three crude oil benchmarks declined the week ending October 6th as follows: Edmonton Par to \$404 per cubic metre (\$64 Cdn per bbl) down \$29 per cubic metre from the previous week and \$72 per cubic metre from last year; West Texas Intermediate (WTI) registered \$423 per cubic metre (\$67 Cdn per bbl), a decrease of \$17 per cubic metre from the previous week and \$45 per cubic metre lower than the levels at this time last year; and the Brent crude oil benchmark declined to approximately \$406 per cubic metre (\$65 Cdn per bbl), down \$9 per cubic metre from the previous week and \$36 per cubic metre lower than last year.

Figure 6: Crude Oil Price Comparisons



Changes in Crude Oil Prices

Crude Oil Prices (\$Can)	Week ending: 2006-10-06		Change from:			
			Previous Week		Last Year	
	\$/m3	\$/bbl	\$/m3	\$/bbl	\$/m3	\$/bbl
Edmonton Par	404.10	64.24	-28.75	-4.57	-71.74	-11.41
WTI	422.61	67.19	-16.54	-2.63	-44.99	-7.15
Brent	406.36	64.60	-9.29	-1.48	-35.65	-5.67

Source: NRCan

NRCan Releases Canada's Energy Outlook

Canada's Energy Outlook provides a reference outlook for Canadian supply and demand up to 2020. Since the last report in 1999 there have been a number of substantial changes which could have a significant impact on energy projections. The Outlook is particularly sensitive to key assumptions about economic growth and government initiatives to promote greater energy efficiency or increase the use of alternative forms of energy.

Some of the assumptions and results are as follows:

- Crude oil prices, in 2003 dollars, will decline to US\$45 per barrel by 2010;
- Total energy demand is projected to grow by 1.3 % per year;
- Transportation demand is expected to grow 1.6% per year despite vehicle efficiency improvements;
- Conventional oil production will decline, while output from oil sands will rise to 2.9 million barrels. Oil sands production will represent 80% of the total crude oil production in 2020;
- Total natural gas production is projected to peak in 2011 and then decline but will be somewhat tempered by an increase in coal bed methane production;
- GHG emissions are expected to rise from 758 megatonnes (Mt) in 2004 to 828 Mt in 2010 and 897 Mt in 2020.

The full report is available at: http://www.nrcan-nrcan.gc.ca/inter/publications/peo_e.html





HOME HEATING OIL – Part Four

Impact on Consumers of Heating Oil Prices

The increase in the price of crude oil over the past few years has resulted in a significant increase in the price of fuel oil which has led to an increase in the average heating bill. Depending on the region as well as the size and type of the dwelling, the cost of heating a Canadian home with heating oil can vary significantly.

Although the price of heating oil is the main factor contributing to the increase in annual heating costs, weather is an important dynamic in annual consumption. An unusually cold winter could result in an increase in consumption which will consequently increase the cost of heating a home. On the other hand, a mild winter (like 2005/2006) will result in a decrease in consumption and can offset the increase in heating prices.

The table below illustrates, for several different types of homes and for both low and medium efficiency furnaces, the average cost of heating a home with oil in the 2001/2002, 2004/2005 and 2005/2006 heating seasons (September-May). These heating costs are national averages, based on average temperature and degree-day calculations. Costs in specific centres will vary. Many factors can influence a homeowner’s annual heating costs. Even with stable fuel prices, a consumer’s annual heating bill can fluctuate significantly depending on the desired indoor temperature, whether a programmable thermostat is used and the general age and condition of the house, particularly the insulation. It is assumed that all these other factors remain constant and that only the fuel price changes. In addition, average annual heating costs have been estimated for a range of furnace oil prices ranging from 70¢/L to 100¢/L. On October 10th, the Canadian average price for heating oil was approximately 75 ¢/L.

Impact of Fuel Oil Prices on Annual Heating Costs

Fuel Price	2001/ 2002	2004/ 2005	2005/ 2006	70¢/l	80¢/l	90¢/l	100¢/l
	49¢/l	73¢/l	85¢/l				
Townhouse							
Low-efficiency furnace	\$754	\$1,123	\$1,308	\$1,077	\$1,231	\$1,385	\$1,539
Mid-efficiency furnace	\$649	\$967	\$1,126	\$927	\$1,059	\$1,192	\$1,324
Old Detached							
Low-efficiency furnace	\$1,915	\$2,854	\$3,323	\$2,736	\$3,127	\$3,518	\$3,909
Mid-efficiency furnace	\$1,648	\$2,455	\$2,859	\$2,355	\$2,690	\$3,027	\$3,364
New Detached							
Low-efficiency furnace	\$1,369	\$2,040	\$2,375	\$1,956	\$2,236	\$2,515	\$2,795
Mid-efficiency furnace	\$1,178	\$1,755	\$2,044	\$1,683	\$1,924	\$2,164	\$2,405

Related Links:

Heating Cost Calculator:

<http://oe.e.nrcan.gc.ca/equipment/english/page31.cfm?attr=4>

Find out the price of heating oil in your region by visiting the petroleum prices portion of our website:

http://www.oppi.gc.ca/prices_bycity_e.cfm?PriceYear=0&ProductID=7&LocationID=66,8,39,17#PriceGraph

