

## Relative calm sends gas prices to 5-month low



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The peak of hurricane season looms just around the corner, reminding drivers of last year's post-Katrina jolt at the pumps -- but consumers across Canada, so far, are finding a welcome relief when they fill up.

In its weekly [pump price survey](#), Calgary-based consultancy group M.J. Ervin & Associates found that prices across Canada have dropped substantially, with the average cost of a litre of regular gas at 96.9 cents -- the lowest level in five months.

"And we have seen (prices) dropping for a few weeks now, every time you go to fill up your gas the news is better," said CTV business editor Linda Sims.

The downward swing is a reversal from this time last year when hurricane Katrina pounded refineries in the U.S. Gulf Coast, knocking out about 10 per cent of U.S. refining capacity.

That resulted in a huge increase in the wholesale cost of gasoline and sent gas prices in Canada soaring as high as \$1.39 a litre.

This week, hurricane fears calmed after Ernesto lost much of its punch as it veered away from those refineries and weakened to a tropical storm.

That, combined with crude inventories maintaining a healthy level, resulted in oil prices dipping to their lowest level in more than two months.

Michael Ervin, president of M.J. Ervin, said a drop in demand in gasoline typically occurs at this time of year as drivers go back to work, kids go back to school, "and with that, people are putting away their RVs and SUVs."

"And with that demand drop, refineries frankly are able to better keep up with the demand and in turn the commodity price comes down," Ervin told CTV Newsnet from Calgary.

"Although refiners would love to see the high prices at wholesale, they can't sustain that because the market simply drops the price and they don't have any say in it."

### Cost disparity

Despite the drop in the average price of gas, Sims warned there are still "huge swings across the country."

On the east coast, prices are as high as \$1.24 per litre in Labrador City and it's \$1.15 in Gander, NL.

"But in southern Ontario we have really seen the prices fall. The average for the Toronto area is about just under 90 cents," said Sims.

In fact, prices were seen as low as 76 cents at a gas station in Brampton, west of Toronto.

Experts have even more good news for consumers, predicting that pump prices will continue throughout the fall and winter.

"That's the normal pattern when we look at wholesale prices of gasoline along with retail prices," said Ervin.

"And although volatility of crude prices can certainly add a bit more spice to what happens at the pump, fundamentally the changes we've seen at the pump have not been driven by changes in crude pricing -- but by the volatility of the wholesale price itself of the refined product, of gasoline."

So then what accounts for the disparity in gas prices across the country?

Ervin says the biggest difference lies in the difference in the wholesale price of gasoline between



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eastern and western Canada.

"Eastern Canada and central Canada have always had the ability, when supply was tight and is tight in the summer, to import gasoline from Europe and mitigate the wholesale price that way."

But in western Canada, "we're talking about a landlocked region which relies entirely on its own refining infrastructure to meet that demand -- and they don't have the ability to bring gasoline in from elsewhere and lower the price."

Ervin said he expects that difference to dry up within the next few weeks as demand for gas drops in western Canada as well, and with that, there should be an improvement in the wholesale price.

Sims added, however, that while oil supplies are currently healthy, another hurricane could suddenly develop and the volatile politics of the Middle East could intensify, affecting oil prices.

On Wednesday, U.S. oil futures climbed back to \$70 US a barrel, up 30 cents US as the market waited to see if Iran, a major exporter of oil, would meet a looming United Nations deadline to halt its atomic fuel program.

But "tensions in Iran are going to be there a while," Olivier Jakob of Petromatrix told *The Globe and Mail*, and "for now there's nothing that says there's going to be any threat to our supply."

In fact, some experts predict oil prices could drop another \$20 a barrel if the relative calm holds.

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