



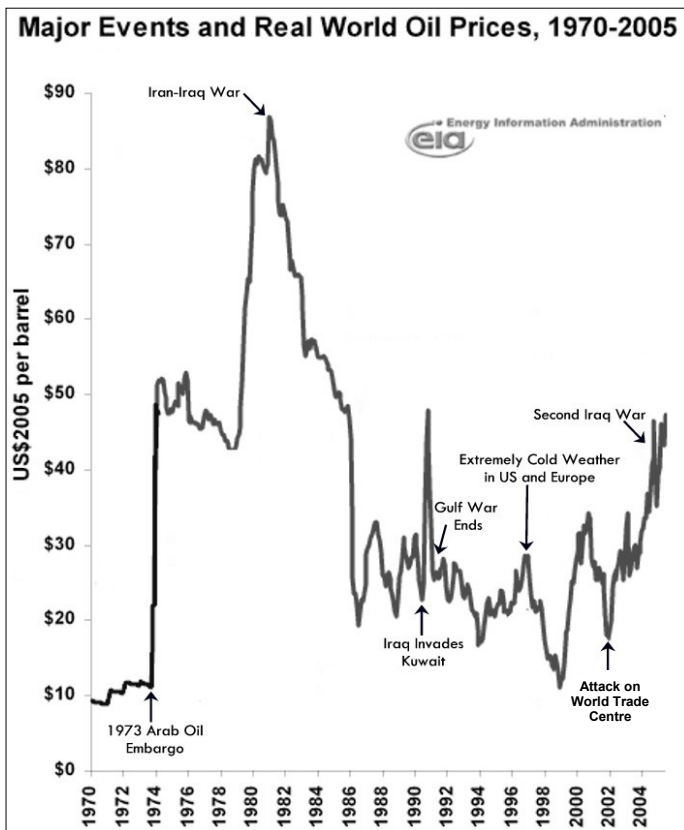
# talk about oil prices

April 2009

## How is the price of oil determined?

- Crude oil prices are primarily determined by worldwide supply and demand. Additional factors contributing to crude oil prices include:
  - ♦ weather related events like hurricanes.
  - ♦ war and political unrest in some major oil producing regions.
  - ♦ OPEC (Organization of the Petroleum Exporting Countries); and,
  - ♦ the value of the U.S. dollar (the currency at which crude oil is traded globally).

Because gasoline is refined from oil, the price you pay at the pump generally follows the ups and downs of the oil markets.



## What is OPEC?

- The Organization of the Petroleum Exporting Countries (OPEC) is a permanent, intergovernmental Organization, representing 14 countries including Iran, Iraq, Kuwait, Saudi Arabia, Venezuela, Qatar, Indonesia, Libya, United Arab Emirates, Algeria, Nigeria, Ecuador, Angola and Gabon.
- Because its members produce over 40% of the world's crude oil and have more than two-thirds of the world's estimated crude oil reserves, OPEC has significant influence on world oil prices. OPEC members are also the only countries that have "spare production capacity" and the ability to bring more oil into production relatively quickly.
- OPEC's objective is to co-ordinate and unify petroleum policies among Member Countries, in order to secure fair and stable prices for petroleum producers; an efficient, economic and regular supply of petroleum to consuming nations; and a fair return on capital to those investing in the industry.

## Non-OPEC Producers

- Other countries who are not members of OPEC but are major producers of oil include:
  - ♦ Canada
  - ♦ China
  - ♦ Mexico
  - ♦ Norway
  - ♦ Russia
  - ♦ United Kingdom
  - ♦ United States

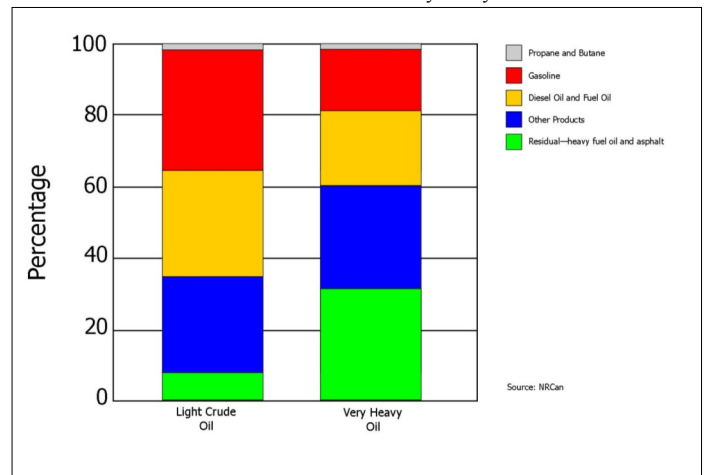


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## What is the world price for oil?

- Crude oils command different prices because they vary in quality which also means the value of the products that can be made varies from crude to crude.
- The benchmark price for oil is based on particular crude - West Texas Intermediate (WTI). This is relatively expensive crude and its price is higher than the price of much of the crude that Alberta produces as WTI reflects a lighter type of crude that is excellent for extracting a larger portion of gasoline.
- Due to the heavier weight of our oil and the transportation costs, Alberta's conventional oil is sold at a reduced rate.
- During the last 4 years, Alberta's non-heavy crude oil has been trading at an average of 94% of the West Texas Intermediate (WTI) benchmark crude (within an 86%-100% range) while our heavy crude oil has been trading at an average of 64% of WTI (within a wide range of 38%-83%) due to the quality difference compared to lighter crudes.
- Alberta's bitumen (the ultra heavy type of oil found in Alberta's oil sands) has been trading at an average of 55% of WTI during the same period (within a wide range of 26%-80%).

- The following chart is an example of the percentages of products that can be extracted from a barrel of convention light crude oil and what can be extracted from a barrel of very heavy oil.



## How does the Department of Energy predict oil prices for the provincial budget?

- Historically, oil prices have been volatile and as a result, no one can predict with any certainty what the price of oil will be. In Alberta's Budget 2007 oil was forecast at \$61.83 per barrel. Five years ago, it was less than half that price. Analysts are split on whether current prices can be maintained in the long term.
- Alberta Energy prepares its oil forecast by assessing market fundamentals such as supply and demand and then compares that number with other oil and industry analysts.
- Private-sector forecasts collected by Alberta Energy indicated an average oil price of around \$85 a barrel for 2008 and \$77.61 for 2009 – and those were calculated in March 2008.