Alberta's heavy oil prices

Overview

The price of oil, including Alberta's oil, is determined by supply and demand. A shortfall of oil in one part of the world can affect supply and, in turn, drive up its price. Too much supply, on the other hand, can drive the price down.

Other factors also affect oil prices. The **quality** of the oil and its **location** (how close it is to where it is needed) have a role in determining its selling price.

Impact of quality on price - heavy vs. light

There are many different varieties and grades of crude oil. Markets often refer to oil "benchmarks" to help compare the different varieties and grades of crude oil. Oil is then priced below or above the price of that benchmark based on how it compares in quality.

Heavier crude oils are usually thicker and more difficult to refine. Western Canada Select (WCS) is the benchmark for heavy crude oil in Alberta, including oil sands bitumen. WCS is a heavy crude oil blend that is cheaper than other crude oils produced in the world. At the time of this publication, WCS is priced at about $58 a barrel.

Lighter crude oils sell at higher prices than heavier crude. They are easier and less expensive to refine and can be used to produce more products. The benchmark price for oil most often used in North America is a grade of light, sweet crude known as West Texas Intermediate (WTI). At the time of this publication, WTI is priced at $94 a barrel.

Impact of accessibility to markets

The price of crude oil is also affected by the ability of producers to get it to upgraders and refineries, where it can be made into other products like gasoline. Even when comparing similar crude oils to one another—heavy to heavy and light to light—prices can vary.

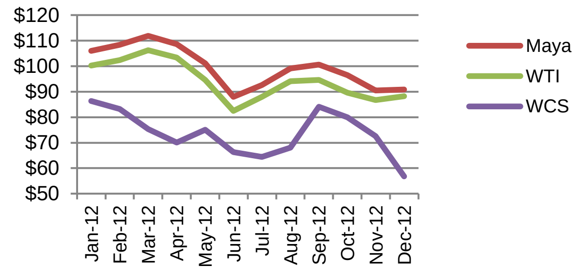
Example: Maya, a benchmark for heavy crude oil set in Mexico, is similar in quality to Alberta's WCS, but it sells for $43 more than Alberta's bitumen (as of publication), at $101 per barrel in the market.

Oil from Mexico has better access to international markets than landlocked Alberta. Alberta relies on existing pipelines and other transportation systems to get oil products to our largest customer, the United States. Current pipelines are already at capacity.

Rising oil production in Canada and the United States is also adding more pressure on those systems. Alberta's oil is selling at a lower price in order to compete with other heavy crude oils that have the advantage of being closer to other markets.

If Alberta's heavy crude oil producers had more ways to send their products to the coastal lines and to new markets, they would receive the same price as Mexican heavy crude oil. Using today's prices, that would mean $43 more dollars per barrel of crude oil.

Benchmark crude oil prices



As shown in the chart above, the price for Alberta heavy crude oil is consistently lower than the price of Mexican heavy crude oil and American light crude oil. In recent months the gap between those prices has been growing.

Alberta Government

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Impact on Alberta's energy revenue

Much of Alberta's provincial government revenue comes from royalties, which are paid by producers who have been granted the right to develop our natural resources. Royalties that are owed to Alberta are calculated differently for each resource, be it oil sands, conventional oil, coal, or natural gas.

Royalties help fund important programs like health, education and infrastructure. They ensure that Albertans receive a portion of the benefits that come from the development of the province's energy resources.

Rising crude oil production and a lack of transportation infrastructure to carry it to markets keeps Alberta's crude prices lower than the standard North American crude prices.

When oil producers get less money for their product, Albertans get less money in royalties.

Oil sands royalties

Today, about 60 per cent of Alberta's energy royalty revenue comes from the production of oil sands bitumen.

Oil sands royalties are calculated based on two factors:

- the value of the oil
- what royalty rate is applied

The amount of oil produced and WCS price determine the **value**. The lower the price of WCS, the lower the price Alberta oil sands producers get for their heavy crude oil.

The **royalty rate** applied is a percentage on a sliding scale which is based on the WTI price. Generally, the higher the price of WTI, the more producers pay in royalties.

The price of WTI is affected by the same factors that affect WCS's price. Currently, WCS is selling cheaper than it has in previous years compared to Brent, which is the world light oil price.

For more information on royalties, read our fact sheet, Talk About…Royalties on our website at www.energy.alberta.ca/Org/pdfs/FS_Royalties.pdf.

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