

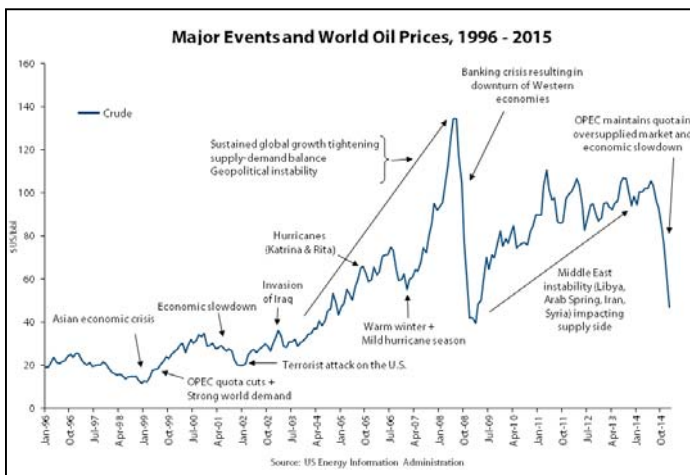
Oil Prices

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 12 countries: Algeria, Angola, Ecuador, Iran, Iraq, Kuwait, Libya, Nigeria, Qatar, Saudi Arabia, United Arab Emirates and Venezuela. The Organization has its headquarters in Vienna, Austria.
- Because its members produce approximately 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.



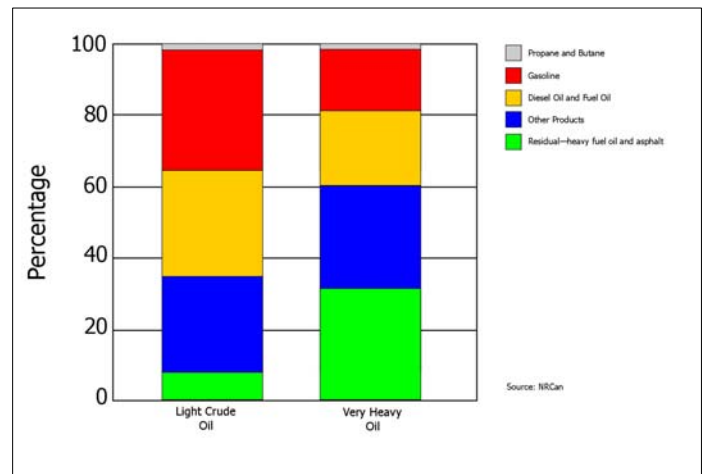
Non-OPEC Producers

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

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.

- 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 forecast oil prices for the provincial budget?

- Alberta Energy is responsible for forecasting non-renewable resource revenue, freehold mineral tax and net profits of the Alberta Petroleum Marketing Commission (APMC).
- Forecasting non-renewable resource revenue from sources like oil is determined by two factors: price and production.
- Alberta Energy compiles the best information and advice from energy analysts and compares our forecasts with banks, investment houses, and private forecasters. Many other government agencies use the same method.
- These forecasts are intended to be a realistic prediction of what year-end revenues will be.