

“Bitumen Bubble” is Baloney

The Redford government is blaming the ‘bitumen bubble’ for its budget woes. They are saying the low price of bitumen is why Albertans need to once again brace themselves for cuts to health care, education, municipalities, seniors and more.

The ‘bitumen bubble’ Redford refers to is the difference between the price we get for our bitumen – known as Western Canada Select (WCS) – and the price of internationally traded oil – West Texas Intermediate (WTI).

This bitumen bubble has been around for a while. The government budgets on the fact that there will be one. The *real* problem with the government’s budget woes is the fact that the Progressive Conservatives delivered a budget last year that was overly optimistic.

By all accounts, the price difference between what we get for our bitumen and the price of internationally traded oil will shrink in the year ahead.

The government said that times were good before the election – too good, it turns out – and now they’re going to have to break their promises and cut key public services after the election.

The real problem with this government’s budget isn’t lack of pipeline access or bad forecast, it’s a broken revenue system and no plan to upgrade our bitumen to higher-value products.

Dreaming in technicolour: Government projections far too optimistic in 2012

The 2012-13 Budget assumed bitumen prices (WCS) that are well outside the historical norm. The government forecasted the differential to be about \$16 US/bbl, or 16.1% of WTI – the same as the lowest differential every recorded in 2009. Given oil sands production projections, as well as projections for US production using unconventional methods, these projections were unrealistically confident.

2012-13 Budget Assumptions¹
WTI: \$99.25 US
WCS: \$83.28 CDN (\$84.72 US)
Differential: 16.1% or \$15.97

In 2011, the ERCB forecast the differential to average 21% from 2011 to 2016.²

¹ <http://www.finance.alberta.ca/publications/budget/budget2012/fiscal-plan-tables.pdf>

² <http://www.ercb.ca/sts/ST98/st98-2011.pdf>

The differential has been wider in the past (on the average)

The 'differential' between WCS and WTI has been around for a while, yet this is the first time a finance minister has raised it as a drag on the economy. In 2005 and 2006, the difference in price between WTI and WCS was far larger than it is now, yet Alberta was enjoying massive surpluses.

Note: there may have been 'record-level' spot market differences (a 'record' \$42.50/barrel discount in December 2012³), but on a year-to-year basis, the differential has been larger in other years.

	WTI ⁽¹⁾	WCS ⁽²⁾	WCS Differential ⁽³⁾		FX ⁽⁴⁾
	US\$/bbl	US\$/bbl	US\$/bbl	% of WTI	US\$/C\$
2005	\$56.56	\$36.24	(\$20.32)	36.3%	\$0.8260
2006	\$66.22	\$45.04	(\$21.18)	32.5%	\$0.8818
2007	\$72.31	\$49.62	(\$22.69)	30.8%	\$0.9343
2008	\$99.65	\$79.59	(\$20.05)	22.4%	\$0.9428
2009	\$61.80	\$52.14	(\$9.66)	16.1%	\$0.8798
2010	\$79.53	\$65.30	(\$14.23)	17.9%	\$0.9710
2011	\$95.12	\$77.97	(\$17.15)	18.1%	\$1.0114
2012	\$94.20	\$73.17	(\$21.03)	22.2%	\$1.0008

Source: http://www.baytex.ab.ca/files/pdf/Operations/Historical%20WCS%20Pricing_January%202013.pdf

The differential will tighten - the bitumen bubble will not last

By all accounts, the 'record differential' in the market for WCS will be temporary.

PIRA, a respected energy market analysis company, forecasts that the WCS differential will tighten to about US\$22/bbl by June 2013, then to US\$13/bbl by the Q4 2013.⁴

Greg Stringham of CAPP says some U.S. refineries are converting to handle heavier grades of crude, which should increase markets for Alberta bitumen, thereby narrowing the differential.⁵

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³ http://business.financialpost.com/2013/01/11/canadian-crude-price-discount-to-wti-hits-41/?_lsa=57bd-f38b

⁴ <http://www.baytex.ab.ca/files/pdf/Operations/Q4%202012%20Heavy%20Oil%20Pricing%20Update.pdf>

⁵ <http://www.globaltvedmonton.com/albertas+royalty+regime+to+take+steep+hit+as+oil+prices+sputter+energy+minister+warns/6442792604/story.html>