Higher oil prices needed to meet planned surplus

Projections for 2012 depend on oilsands surge, oil price rising to $89.50 a barrel

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Syncrude's Mildred Lake plant north of Fort McMurray and other oilsands plants will pay more to province.

Photograph by: Chris Schwarz, The Journal, File, Edmonton Journal

Alberta is counting on higher energy prices to help the government break free of deficits by 2012, with royalties from the oilsands doing most of the heavy lifting for the first time.

The province hopes the world oil price will climb to $89.50 a barrel from Tuesday's $73.75 within two years in a choppy energy marketplace, picking a spot between a wide range of estimates from industry analysts. The government also expects a modest recovery in natural gas prices to $5.50/Gj by 2012.

If these numbers don't materialize, projections for a $505 million surplus in 2012 will evaporate.

The province forecasts non-renewable resource revenue to climb to $7.3 billion this year and as much as to $10.3 billion by 2012, but the oilsands portion of that is set to soar from $3.2 billion to $5.1 billion by 2012.

By comparison, royalties from natural gas are predicted to edge up to $2.28 billion from this year's estimate of $1.8 billion, a far cry from last year, when higher-priced gas brought $5.8 billion into government coffers.

Conventional crude oil royalties will move very little, from a forecast $2.1 billion this year to $2.2 billion in 2012.

The move by oilsands to the head of the queue for revenue generation is in line with long-term projections that the province will receive $850 billion in oilsands royalties over the next 43 years.

However, the upcoming oil and gas competitiveness review may alter some of the estimates.

That review is now expected to be released next month, and revenue changes linked to it -- such as lower royalties -- will be part of first-and second-quarter financial updates, said Finance Minister Ted Morton.

He said the purpose of the competitiveness report is to stimulate investment in the oil and gas sector, and create a larger industry.

"When you grow the pie and you take a smaller slice, our revenues should still be good," Morton said.

"We are not taking a smaller slice of a static pie, because the whole purpose is to bring back and renew business confidence."

Major shale gas finds in the United States and northern B.C. have helped push down gas prices, bringing down provincial revenues with them. Industry observers expect royalty changes will encourage development of Alberta's substantial shale gas formations, which have been largely ignored by drillers enticed by better deals in B.C.

Morton agreed that volatility makes forecasting tricky, but he said he'll stick with his goal of a balanced budget by 2012 regardless.

"Our goal is a balanced budget by 2012. If circumstances change, which of course they could, we'll do what it takes to still get to the destination that we've been given," Morton said.

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Treasury Board president Lloyd Snelgrove agreed that previous energy prices have varied widely.

"We live in a volatile world. If we need to make corrections along the way, we'll take what necessary steps we have to. But it is a little inappropriate now to guess what might happen (to energy prices) if something else doesn't happen."

Gary Leach, executive director of the Small Explorers and Producers Association of Canada, thinks the province is on the right track with its revenue estimates.

"I think they aren't far off what the industry is expecting. And using a basket of forecasters allows them to choose a reasonable spot."

However, he thinks upward pressure on the Canadian dollar could erode the rise in crude prices and add more instability to estimates.

Greg Stringham, a vice-president of the Canadian Association of Petroleum Producers, said new shale finds will add some uncertainty to natural gas price estimates, but he agrees the price forecasts used in the budget are reasonable.

"The fundamental price of oil is in the $70 to $80 range, and there is some potential upside to that, so $89 is within the range."

In the budget, the government notes the price spread between conventional oil and raw bitumen has narrowed substantially, from previous historic levels of 40 to 50 per cent to about 71 per cent. The current prices are even tighter as Texas refiners purchase more and more Alberta bitumen to replace diminishing crude shipments from Mexico and Venezuela.

The good news is higher bitumen prices mean firms can more quickly pay off construction costs and start contributing at least 25 per cent in royalties But upgraders, which profit from wider price differentials, are hurt.

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