National Energy Board | Office national de l'énergie

# Energy Outlook

SUMMER 2010

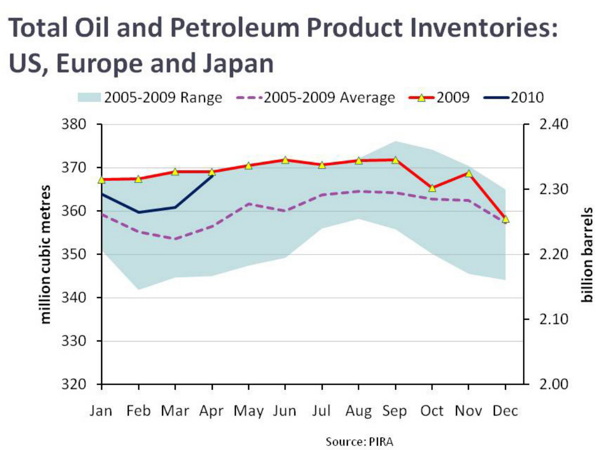
## *NEB Expects Moderate Energy Price Increases Over Last Summer*

Canadian consumers can expect that energy prices will continue to remain stable over the summer as energy demand will continue to increase alongside the global economy. In North America, the economic recovery is well underway, albeit at a more moderate pace than in many developing countries. As demand continues to grow, we expect energy prices be slightly higher than those seen last summer. However, prices will likely be stable. Energy price increases will be limited due to higher than normal energy inventories and adequate electric generation capacity. As energy demand recovers, Canadians can expect to have their energy needs well supplied over the next six months.

## *Crude Oil Market Overview - Global oil demand is growing, led by developing countries*

Overall, we expect crude oil prices to average US$75 to $85 per barrel over the summer. Key uncertainties to our outlook include ongoing financial market challenges, the impact of government stimulus programs on economic growth, weather and geo-political events.

World oil demand is poised to grow at 1.8 per cent in 2010, slightly above the historical rate.[1] Nearly all oil demand growth in 2010 is expected to come from non-OECD countries.

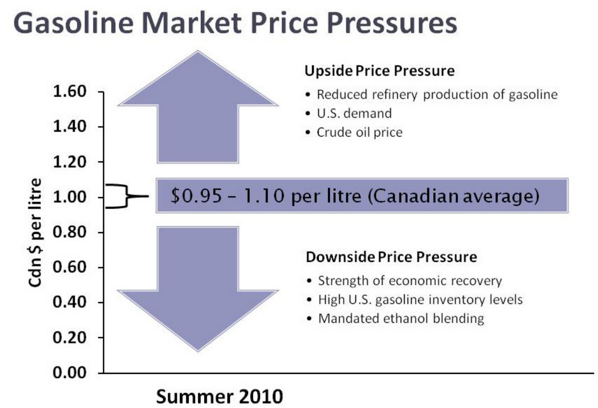



Global crude oil stocks have fallen from the very high levels of last year because of the return to economic growth and the decision by OPEC to substantially cut back production in 2008. Due to this reduction, OPEC spare capacity has grown and is currently estimated at a substantial 4 to 5 million barrels per day. This spare capacity, along with healthy global inventory levels has ensured that world oil markets are well supplied, mitigating the potential for upside price volatility.

1 Energy Information Administration, 2010

### *Gasoline Market Overview - Gasoline prices will likely be slightly higher than last summer*

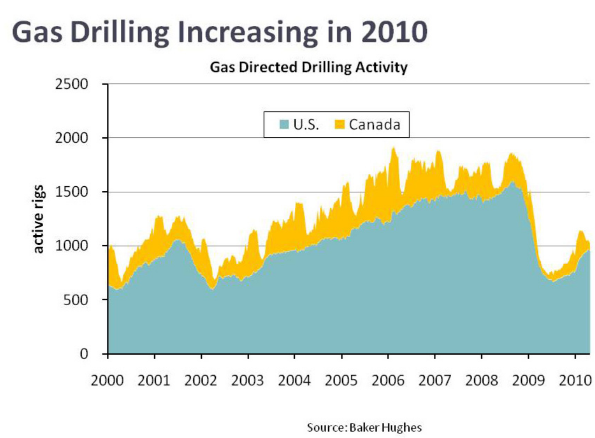
Gasoline prices are determined primarily by crude oil prices. In 2009, the slowing economy reduced the demand for petroleum products and, as a result, the price of gasoline dropped. This summer, gasoline prices will likely be slightly higher than last summer, in line with higher oil prices. Overall, we expect that retail gasoline prices in Canada will average $0.95 to $1.10 per litre over the summer. Prices can vary significantly across the country, a result of provincial differences in taxation and price regulations, regional refinery production, and transportation costs[2].




Gasoline inventories also play an important role in determining prices. This year, gasoline inventories are at five-year highs, which could help dampen the price impact from potential refinery disruptions and volatility in crude oil markets.

### *Natural Gas Market Overview – production and storage levels will help to moderate prices over the summer*

Over the summer, Canadian natural gas consumers will continue to benefit from relatively low natural gas prices. We expect natural gas to trade in the range of US$4 to $5 per MMBtu over the next six months. Factors that could increase this price forecast include: prolonged hot or dry weather, a stronger economic recovery, lower than expected liquefied natural gas (LNG) imports, or greater than expected production declines. Likewise, factors that could push prices lower include: higher than expected LNG imports, mild summer weather, or stronger than expected production.

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2 NEB, Gasoline Pricing - Energy Facts, 2010

We expect North American production to be stable over the next six months, while demand will likely increase compared to last summer as industrial gas consumption grows alongside the economy.

The current amount of horizontal drilling targeting natural gas in the U.S. has surpassed previous highs as producers continue to develop shale gas. The increased contribution from shale gas is likely to moderate declines in production from other areas and keep U.S. production levels similar to last summer. LNG imports are expected to increase, due to higher global LNG supply and slightly higher North American prices compared to last summer.

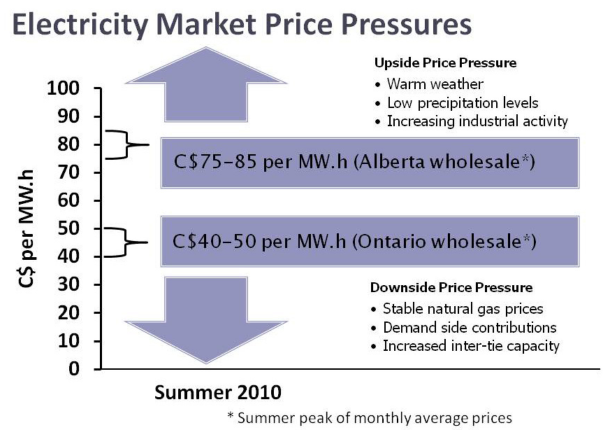
After falling about eight per cent last year, industrial gas consumption is expected to increase compared to last summer due to improving economic conditions. Industrial demand growth will likely be particularly strong in the chemicals and steel sectors. Last summer, natural gas demand for electric power generation increased consumption. In 2009, some electric utilities switched generation from older, inefficient coal plants to natural gas plants as low gas prices made it economic to do so. This summer, this effect is likely to be repeated, although to a smaller degree. This is due to expectations of a somewhat higher natural gas price than last summer and new, more efficient coal power plants coming online in the U.S. On the other hand, water levels in many hydroelectricity producing regions, such as B.C. and the Pacific Northwest U.S., are below normal as a result of recently low precipitation. As a result, these jurisdictions will require generation from other sources, including natural gas-fired plants. These two factors will likely offset each other and gas consumption for electricity power generation will likely be similar to last summer.

With natural gas production similar to last year's levels, larger than average storage inventories are expected to build over the summer months. However, the surplus is not expected to be as large as last year due to increasing demand. Also, approximately 5.6 billion cubic metres (200 Bcf) of storage capacity is expected to be added this year, reducing the likelihood of inventories nearing maximum capacity like they did last summer. We expect to see about 125 billion cubic metres (4400 Bcf) of natural gas in North American storage by the end of October, slightly lower than last year's historic high.

### *Electricity Market Overview – Canadian electricity supply to be adequate over the summer*

Notwithstanding signals of economic growth, overall electricity demand is down from historic levels. Notably, peak demand in eastern markets is forecast to be lower this summer than in the past few years. The lower level of demand makes the job of ensuring electric reliability easier due to stronger supply margins. Generation capacity additions over the summer are mostly gas-fired, with over 1 000 MW of new units coming online in Ontario and Alberta. By the end of the year, several new wind farms should be operational, representing about 800 MW of new renewable energy supply. There is a favourable outlook for Canadian electric supply this summer, as each jurisdiction will have adequate electric supply over the summer period.

With the intent of further increasing the supply of renewable energy in Canada, all jurisdictions have set targets or policies for procuring new generation sources and reinforcing their transmission systems. Notably, recent discussions involving federal policy makers indicate a forthcoming target for 90 per cent of Canadian generation to be sourced from low-emitting sources by 2020.




Investments in cleaner generation and additional transmission will contribute to increased electricity rates for consumers over the medium term. Every Canadian province has applied for increases to its regulated residential rates this year, with the possible exception of Alberta, whose regulated residential rates, which are set monthly, have tracked at levels lower than last year. In terms of wholesale electricity prices, our outlook is that prices in both the eastern and western markets will continue to increase over the summer period. The summer peak average monthly price should be in the ranges of $40-$50 per megawatt hour in Ontario, and $75-$85 per megawatt hour in Alberta.

Exports typically peak in the hot summer months, when Canada's hydro-electric jurisdictions export power. However, hydro resources will be constrained for most North American hydro markets, as year to date precipitation is below average in all Canadian provinces, and the current forecast is for hot and dry weather over the next few months. Also, there are continued refurbishments at major Canadian nuclear plants that decrease available supply for trade. The combination of the below-average hydro outlook, decreased nuclear supply, and recovering economic activity, leads to a trade outlook reflecting modest growth from 2009. Due to higher forecast wholesale prices the revenue associated with electricity trade should increase this year, after last year's 40 per cent reduction to $3 billion.