

# Weekly Energy Report

## PETROLEUM COMMENTARY

### U.S. Inventories — MMBbls

5 Day Week Ending:	Fri Mar 08
<b>Crude</b>	<b>UP 2.6</b>
<b>Gasoline</b>	<b>DOWN 3.6</b>
<b>Distillates</b>	<b>UP 0.1</b>

### U.S. Product Demand

5 Day Week Ending:	Fri Mar 08
<b>Gasoline Demand</b>	<b>UP 1.1%</b>
<b>Distillates Demand</b>	<b>UP 1.0%</b>
<b>Jet Fuel Demand</b>	<b>DOWN 3.3%</b>

### U.S. Refinery Production vs. Demand MMbbl

Product	Production	Demand	Shortfall
Gasoline	8.9	8.5	-0.4
Distillates	4.3	3.6	-0.7

### U.S. Refinery Utilization

<b>81.0%</b>	<b>DOWN 1.2%</b>
--------------	------------------

### North American Rig Count\*

Week Ending:	March 08 2013
<b>U.S.</b>	<b>1,752 DOWN 11.2% VS. LASTYR</b>
<b>CAN</b>	<b>580 DOWN 11.5% VS. LASTYR</b>

\* This is an indicator we use to measure the likelihood of crude prices remaining over the base of \$85/bbl

### Canadian Ultra Low Sulfur Diesel Rack Prices (CAD/L)

Location	Mar 14	Mar 7	Change
Halifax	\$0.9020	\$0.9300	-\$0.028
Montreal	\$0.9200	\$0.9460	-\$0.026
Toronto	\$0.8950	\$0.9130	-\$0.018
Winnipeg	\$0.8910	\$0.9040	-\$0.013
Edmonton	\$0.8830	\$0.8960	-\$0.013
Vancouver	\$0.8990	\$0.8990	\$0.000

### NYMEX Futures Pricing Crude & Natural Gas

Most Recent Settles	Wed Mar 13, 2013
Crude—U.S./BBL	\$92.52
Nat. Gas—U.S./MMBtu	\$3.680
U.S./CAD Exchange Rate	\$0.9734

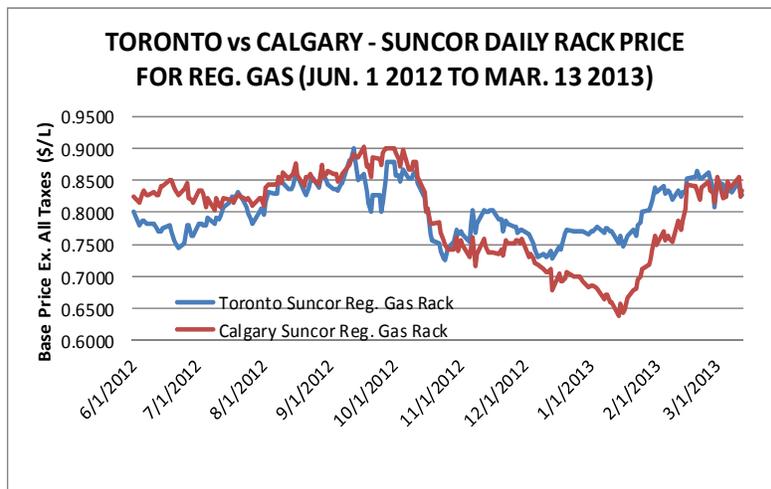
### Sr. Petroleum Analyst, Roger McKnight, In His Own Words

I decided to branch out on my own and re-name myself, *Right, Wrong and Rant Unlimited*, which sounds so legal, it scares me to death!

I couldn't find anybody called *Right*, and had an even tougher time with the name *Wrong*; and when I think about it, they probably wouldn't agree on anything anyway. My recruiting lasted 23 minutes to no avail, so I decided to make my first corporate decision and be all three people.

I am basically going to be the muttering fool in the corner so listen up, my fellow *muttereas* (new word # 82)

*Mr. Right*: It's good to be right. If you refer to our Energy Report of January 17, 2013, we pointed out that the gasoline rack differential from Calgary to Toronto was, at that time, \$0.112/L with Calgary on the low side. We predicted that this would be corrected with the western prices edging up to match those in the east. From the graph below we see that this has, in fact, happened with virtually no difference today in the two locations' racks.



I am now going to stick my neck out and say that gasoline prices across the country will not spike noticeably from now to mid- April. A year ago crude was \$106/bbl, and today it's \$91/bbl, yet pump prices are about the same as last year. When I do the crack spreads they are 50% higher than last year; so what I am saying here is that the oil companies are happy with the increase in refining's bottom line and will not need to cause pump panic as they usually do during this timeframe.

*Mr. Wrong*: It's bad to be wrong. To those of our clients in the west, please be patient because there is a lesson to be learned here. In the east, Shell had a pricing/cardlock access agreement with Irving whereby Shell cards could be used at Irving cardlocks while the same held true for Irving cards at Shell sites. *Wrong decision*. This arrangement was in place well before the closure of Shell's Montreal refinery. The closure, 18 months ago, resulted in Shell being short on supply with no friends. They were forced to sell their retail gasoline operations in Quebec and the Maritimes; and their commercial/home heating business to Bluewater who eventually sold out to Red Deer based Parkland Industries. The dissolution of the pricing/supply arrangement with Irving means that Shell's cardlock network in the east has been decimated from a total of 73 sites to just 16 or a loss of 78%.

More importantly, to the transportation sector it eliminates a purchase option. Where will Shell accounts migrate to now? Running out of choices as there are really only two with adequate coverage.....Ultramar and.... you guessed it, Shell's former buddy, Irving.

The lesson to be learned here for those commercial consumers across the country is this: Do NOT rely on one supplier but have a secondary/backup arrangement in place.

In the case I have just explained, it is an outright closure of a refinery that is causing probable higher prices in the east but refineries are moody, complicated pieces of engineering that are accident-prone, which can, and has resulted in allocation when they go down, and we don't want to go down with them.

*Mr. Rant* is late again – apparently he's in Washington trying to make sense out of the thought processes at the White Wash House. I will keep my business open for another week and give him a chance to explain himself and the decision making mechanisms on both sides of the border, and both ends of the XL pipe.

-The Grouch

# NATURAL GAS AND ELECTRICITY

## Canadian Natural Gas Summary

### Approximate AECO Term Prices (CAD/GJ)

TERM	14-Mar-13	7-Mar-13
Rest of Month	\$3.41	\$3.25
Apr 1 2013 to Aug 31 2013	\$3.45	\$3.29
Nov 1 2013 to Oct 31 2014	\$3.72	\$3.69
Apr 1 2013 to Oct 31 2013	\$3.48	\$3.31

### Approximate Sumas Term Prices (U.S./MMBtu)

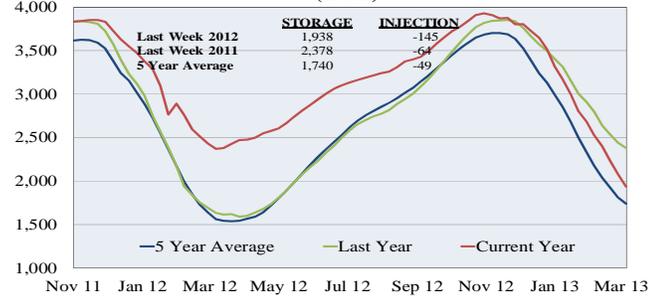
TERM	13-Mar-13	6-Mar-13
Apr 1 2013 to Oct 31 2013	\$3.34	\$3.20
Nov 1 2013 to Oct 31 2014	\$3.77	\$3.71

**Natural Gas** - Someone's been wishing for colder weather with a four leaf clover! Poor Saint Patrick will be wearing a green scarf and mitts on his day of celebration.

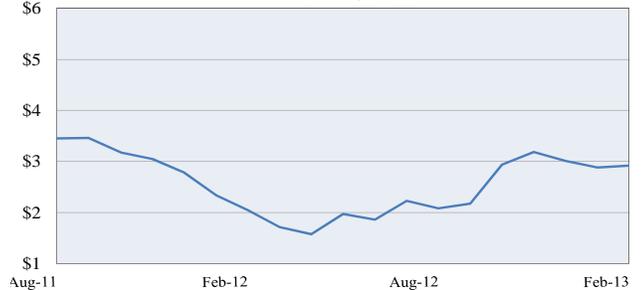
This week's EIA report showed a net drop of 145 bcf to natural gas inventories for the week ending March 8<sup>th</sup> 2013, compared to a withdrawal of 66 bcf last year at this time, and a 5 year average withdrawal of 74 bcf. Current Inventory levels are 440 bcf below last year at this time, but remain 198 bcf above the 5 year average. Recent weather forecasts suggest that heating demand will remain stronger than it has in recent years through the last weeks of winter. In the two highest gas consuming heating regions (Northeast US and Midwest US), colder-than-normal temperatures are forecasted. We expect the differential between current inventory levels and the five year historical average to shrink fittingly as colder weather continues to boost demands above historic norms.

With the release of the EIA report and forecasts for colder weather, the NYMEX prompt month price has rallied to the highest it's been since late November 2012, sitting at \$3.772/MMBtu. Across the border, the daily average AECO price for March 13<sup>th</sup> came in at \$3.18/GJ and has been trending upwards this week. We expect the rally in prices to continue until the cold weather finally let's up.

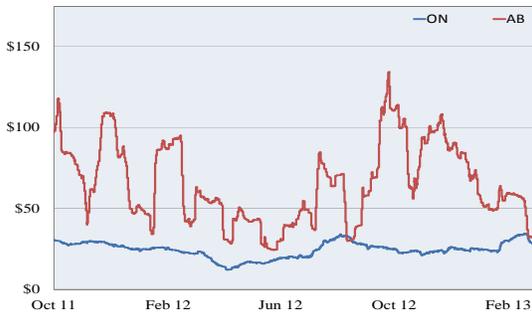
### Natural Gas Inventory (BCF)



### AECO Daily Spot Average CAD\$ / GJ



### ON & AB 30-Day Average Hourly Power Prices \$ / MWH



### Approximate Indicative Term Prices (Large Volume Trades)(CAD/MWH)

	13-Mar-13	6-Mar-13
ON Q3-2013 7x24	\$33.00	\$32.00
ON Q3-2013 5x16	\$38.50	\$37.50
ON Cal 2014 7x24	\$31.50	\$31.00
ON Cal 2014 5x16	\$36.50	\$36.00
AB Q3-2013 7x24	\$69.00	\$67.50
AB Cal 2014 7x24	\$53.50	\$53.00

**Alberta Electricity**— Alberta electricity prices are infamous in regards to their volatility. This price volatility is connected to the provinces dependency on coal-fired generation (approximately 60% of total generation), as the source of relatively lower priced power. Numerous coal outages have inflated peak power prices this month, bringing the weighted average pool price for March to \$128.13 /MWH (a far cry from February's weighted average of \$29.12 /MWH). Weekly coal outages averaged 900 MW in February, while the first week in March they averaged 1,675 MW and the second week 1,700 MW.

Hydro power in Alberta, currently contributes only 2% of overall generation. Hopefully this will change in the not so distant future. The Alberta Legislature and the Canadian Hydropower Association say Alberta has the potential to produce 11,000 MW of hydro. The development of hydro facilities would reduce market volatility, and meet the need for increased base-load electricity supply. Good reasons for the province to push forward.

## Canadian Electricity Summary

**Ontario Electricity**—A great American troubadour once scribed, "The answer my friend is blowing in the wind". This type of sentiment may be a bit of an anachronism to a more contemporary generation, but to renewable energy producers, this phrase has relevance.

Not only wind, but solar powered generation has enjoyed unlimited access into Ontario's electricity grid. Approximately 2,700 megawatts of wind and solar power feed into the grid at a contracted price (current contract offers are \$115 /MW for wind and \$350 to \$549 /MW for solar). Wind and solar production is expected to triple by 2016. That makes for a lot of expensive energy, which will inevitably trickle down to end-user costs via the Global Adjustment.

Moreover, we cannot turn on Mother Nature's tap to coincide with demand for electricity (wind generation is strongest at night, demand of course is not). When the wind decides to blow when the grid is saturated, overall excess power is sold out of province. If the hourly market price is lower than the overall contracted value of generation being exported, and it often is, then power is exported at the expense of the Ontario consumer.

Waiting for these contracts to phase out as a means of relief is impractical, as most have a 20 year term. So, thanks to changes in dispatch rules, the IESO (Independent Electricity System Operator) will be able to "Just Say No" to wind and solar power by the end of 2013. As a result, the IESO estimates \$200 million a year in reduced costs. These new dispatch regulations will also be applied to nuclear generation, to address the current glut in base-load supply. The reduction in over-supply of electricity will inevitably help lower the cost of power in Ontario.