THE PROGRAM

ENERGY PRICING

THE BLENDED OIL PRICE

The Canadian oil price will blend the different costs of oil from conventional wells, synthetic crude oil from the oil sands, heavy oil recovered by advanced technology, and imported oil. The result will be a weighted-average price for oil refiners and a blended price for Canadian consumers.

The wellhead price of conventional oil now is $16.75 a barrel. Starting January 1, 1981, that price will rise $1 every six months until the end of 1983. Thereafter, until the end of 1985, the price will rise by $2.25 every six months. Starting in 1986, the price will be raised at the rate of $3.50 every six months, until it reaches its appropriate quality-determined level relative to the oil-sands "reference price" (see below). If by 1990 the conventional oil price is still below that for reference-price oil, consideration should be given to a more rapid rate of escalation. By then the wellhead price of conventional oil will be four times present levels.

The "reference price" for synthetic crude oil from the oil sands will be the *lesser* of $38 a barrel, effective January 1, 1981, and escalated annually thereafter by the Consumer Price Index, *or* the international price.

Heavy oil produced by tertiary-recovery techniques will receive a supplement over and above the wellhead price for conventional oil, for a total price of approximately $30 per barrel, subject to the cooperation of the provinces. The supplement will be adjusted yearly by the Consumer Price Index.

The full cost of imported oil will be gradually blended into the price that all consumers pay, by extending the existing system of refinery levies.

When the system is fully phased in, all domestic refiners will pay a new Petroleum Compensation Charge to cover the cost of oil import compensation payments. Revenues from this levy will be used to pay refiners who use imported oil an amount sufficient to reduce the average cost of imported oil to the average cost of all oil used by Canadian refiners. This levy will incorporate the current Syncrude Levy, now at $1.75. It will be raised immediately to $2.55.

However, the shift will be gradual, so that price increases do not cause undue hardship for consumers and businesses. The phase-in of imported oil costs will occur at a rate that limits annual oil price increases to less than $4 in 1980. The wellhead price plus the Petroleum Compensation Charge will rise by $4.50 in 1981, 1982 and 1983. Under the blended price system, Canadian oil consumers will pay prices which, while rising substantially, will remain significantly below world prices. The blended price will never exceed 85 per cent of the international price or the average price of oil in the United States, whichever is lower.

Amendments to the *Petroleum Administration Act* will be required to establish the blended price system and a new institution, the Petroleum Incentives Board, that will run it.

THE NATURAL GAS PRICE

The Program's objective in natural gas pricing is to encourage production and to encourage consumers to switch from oil to gas.

In the past, wellhead price increases for natural gas have resulted from a policy of raising gas prices at Toronto by 15 cents per thousand cubic feet (Mcf) for every $1 increase in the wellhead price of oil. This policy will continue, but in 1981 there will be a one-year pause in wellhead price increases for gas sold into the domestic market.