

The Suncor / Petro-Canada Merger What the bottom line means for consumers

Chances are you've heard a lot in the media the last few days about the Suncor/Petro-Canada plan to merge. It seems the media has gone into an all out frenzy of information, and with that understandably, some facts get missed.

It's important to point out off the top that the "merger" is not yet a done deal. There is a lot to be worked out, still, it's big news and puts Suncor at a respectable number 5 of the top 10 oil companies in North America.

1. Exxon Mobil
2. Chevron
3. ConocoPhillips
4. Occidental Petroleum
5. Suncor
6. Imperial Oil
7. Apache
8. Canadian Natural Resources
9. Devon Energy
10. XTO Energy

Suncor's website reports the merged companies will share the following key characteristics:

A resource base with approximately 7.5 billion barrels of oil equivalent (boe) of proved (developed and undeveloped) and probable reserves, on top of an estimated contingent resource base of approximately 19 billion.

Strong cash flow from current crude oil and natural gas production of approximately 680,000 boe per day (boe/d).

A strong balance sheet, with a pro forma debt to capitalization of 29.6 per cent and a debt-to-cash flow ratio of 1.2.

An experienced management team, complementary cultures and leading environmental and social responsibility practices.

A high quality asset portfolio including: a suite of oilsands growth options for both mined and in-situ resource recovery, as well as value-added upgrading.

A position in every major oil development project on Canada's East Coast.

Low-cost international crude oil and natural gas production from the North Sea, North Africa and Latin America.

Refining capacity of 433,000 barrels per day (b/d) and a strong Canadian retail brand.

A solid platform for further development of renewable energy projects.

Still, this isn't really a merger per se, but a buyout.

The "M" word has been used to placate those of us who have the conception that Petrocan is still our "window on the oil industry."

However, that ended when the Federal government withdrew its influence, or interest in Petrocan some time ago, with the only proviso for this decision being that no single shareholder shall hold more than 20% of Petrocan stock.

Although Suncor says that this is a merger, it remains to be seen what the final interpretation will be.

In essence, this deal affects upstream, (exploration and production operations), and will have little or no effect on the downstream (refining and marketing side of the business).

In other words, retail, cardlock, and bulk prices will still follow market driven forces despite the media's view of another player being taken out of the picture and reducing competition, ultimately raising prices for the consumer.

What the media and consumers don't seem to be grasping is that prices of Canadian refined products are not made in Canada, but follow wholesale prices in the U.S., thanks to the terms and conditions under NAFTA.

So, from an upstream standpoint, this merger makes sense especially for the oil sands existing operations and any future projects.

Suncor has no refinery in Edmonton, but only upgraders to bring the bitumen to a refinery ready status, which can or will be now sent to the 138,000 bpd Petrocan refinery in Edmonton.

Currently, operation costs are approximately \$38 to \$40/bbl for existing oil sands facilities. This may be drastically reduced in that Suncor and Petrocan will now not be competing against each other for labour and materials at these facilities or on any new projects on the drawing board.

As for the downstream area of the business, some politicians have expressed the fear that the new company will close down refineries thereby increasing prices.

But we say just the opposite will happen because the existing merged refinery network will actually be upgraded to higher capacities in anticipation of increased oil sands production.

Suncor's presence in the retail service station market is limited to Southern Ontario with 427 locations whereas Petrocan is nation wide with 1,323 facilities.

The Petrocan logo will be retained with no rebranding to Suncor as this is a very expensive and time consuming process. There will however, of course, be closures of sites in Ontario where existing Sunoco and Petrocan facilities are on the same street corner.

Suncor's cardlock network is also limited to Southern Ontario with a few locations in the Oil Patch. Suncor's entry into the cardlock business was an afterthought and most locations are at existing retail service station locations, and were not designed for tractor trailer access.

Therefore, their only true 'truck-friendly' sites are the Fifth Wheel truck stops where they merely installed card readers on the fuel islands.

We foresee the closure of all of the Suncor cardlock facilities as the existing Petrocan network is the largest of all suppliers covering the entire country.

In Suncor's press release they state that this merger will result in cost reductions of \$300 million per year. Suncor and Petrocan employees total 6,798 and 6,088 respectively, and we suspect that the annualized saving will be a result of pruning back of the total workforce.

But it's all subject to governmental approval with the full transition to the new company taking two years. During this time, you can be assured of a fair amount of confusion on the part of Petrocan marketing strategies, and pricing – with people more concerned about keeping their jobs than paying attention to competitive pricing activities. Therefore, no major change to the competitive marketplace for the transport industry, but with the confusion there will be continuing issues surrounding price, and therefore, keeping a close watch is essential.

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