Natural Gas is Shell's Fuel of Choice for the Oil Sands

Description

Royal Dutch Shell (NYSE: RDS-A) believes it has found a real win-win solution for its Canadian oil sands mining operations. The global energy giant is teaming up with **Caterpillar** (NYSE: CAT) on new mining trucks that will run on natural gas. By making the switch, Royal Dutch Shell can cut both expenses and emissions.

The plan is to have the Caterpillar built trucks deployed by 2016. Shell is just one of the mining equipment giant's customers that are increasingly asking for trucks that are built to run on natural gas. It makes a lot of sense, and will save a lot of cents as these giant mining trucks run around the clock while consuming an enormous amount of fuel. Further, because diesel doesn't burn as cleanly as natural gas Shell and others can really cut emissions by making the switch.

Caterpillar is really beginning to see the fruits of an agreement it signed with **Westport Innovations** (TSX: WPT) (NASDAQ: WPRT) last year. The deal to co-develop natural gas technology for off-road equipment like mining trucks looks to be a smart move for both companies. By combining Westport Innovations' technologies and expertise with Caterpillar's off-road engine and machine product know-how, the partners are poised to deliver a solution that mining companies need.

Massive opportunity

The opportunity for companies like Westport and Caterpillar to switch mining companies to natural gas is massive. The top ten global mining companies consume about two billion gallons of diesel each year. Further, with the growth of mining operations in Canada's oil sands that's only expected to grow.

Shell and its partners in the region are just one of many producers considering additional oil sands projects. While Shell has not made a final investment decision to expand its Jackpine Mine, other producers are approving projects. Recently **Suncor** (TSX: SU) (NYSE: SU) and its partners approved the Fort Hills oil sands mining project. The Suncor operated mining project is expected to produce bitumen for the next 50 years.

One of the issues that Suncor and others have faced is the steep cost of building these projects. Further, oil produced in Western Canada sells at a discount to world prices which negatively impacts the returns these projects produce. However, using natural gas to reduce costs will help improve margins. Which is why we'll likely see that fuel become the fuel of choice for oil sands miners in the future. It's cheap and abundant in Canada making it the perfect choice for producers.

Investor takeaway

Canada's oil sands have proved tougher to develop because of the lack of pipeline capacity as well as the pressure put on the industry by environmentalists. While Shell's move doesn't help the company get around the pipeline issues, it will help it reduce its emissions. While that alone won't ease the fears of environmentalists, it is a step in the right direction. That's why this really is a smart move by the company and one I expect we'll see others follow.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NASDAQ:WPRT (Westport Fuel Systems Inc.)
2. NYSE:CAT (Caterpillar)

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