Canada’s Oil Sands Keep Growing Despite the Risks

Description

Cenovus Energy (TSX:CVE) (NYSE:CVE) recently received approval from the Alberta Energy Regulator for its 100%-owned Grand Rapids thermal oil sand project. This is the fourth oil sands project that Cenovus has received approval to build, though it’s the company’s first 100%-owned project (it’s a 50% joint venture partner with **ConocoPhillips** (NYSE: COP) on the other three projects).

Drilling down into Grand Rapids
Grand Rapids is expected to produce about 180,000 barrels per day once it reaches full capacity, which won’t be right away as Cenovus will develop the project in multiple phases. The company believes it will be worth the wait as it estimates that there are 1.5 billion barrels of bitumen that can be extracted at Grand Rapids over the next 40 years. This project represents another long-term growth driver for the company as it executes on its plan to grow production over the next decade.

Cenovus Energy currently operates two producing oil sand projects in Foster Creek and Christina Lake. Both projects are 50% owned by ConocoPhillips and are still in expansion mode. Combined, these projects currently produce 240,000 barrels per day.

Cenovus Energy and ConocoPhillips are also constructing the first phase of the jointly owned Narrows Lake project, which is expected to begin production in 2017. Beyond these projects Cenovus Energy is also seeking regulatory approval for its 100%-owned Telephone Lake oil sands project. Needless to say, the oil sands are a big part of the company’s future growth plans.

Moving ahead despite infrastructure issues
The industry continues to move ahead with new oil sands projects despite a number of issues that continue to plague it, which is keeping the price of oil and profits low. One other recent example is that **Suncor** (TSX:SU) (NYSE:SU) and its partners approved the Fort Hills oil sands mining project late last year. The $13.5 billion project is expected to be fully operational by 2018. The hope is that by that time the industry will have sorted out some of its environmental and infrastructure issues.

Suncor was proactive when it came to some of the infrastructure issues when it approved Fort Hills as the company also signed agreements with **Enbridge** (TSX:ENB) (NYSE:ENB) to build two pipelines to support the project. While those projects will supply diluent and take away the diluted bitumen, it doesn't solve the industry's biggest problem, which is getting the oil out of Canada.

In the short term, producers have turned to moving oil by rail, but that's not a long-term solution given the costs and risks. Because of this both Suncor and Cenovus are gambling that major export pipelines will eventually be built to take away the increased oil production both companies will bring online in the future.

Foolish bottom line
While Canada's oil sands industry is taking a cautious approach to growing production, it's still banking on having enough takeaway capacity once these new projects being producing. There is a real risk that the infrastructure issues won't fully be addressed by the time these new projects come online.

This could impact the returns Cenovus and Suncor earn on the billions being spent to increase production capacity, which is why investors really need to keep an eye on these export pipeline projects. Those pipelines could make or break the returns investors earn from the oil sands.

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