Have Energy Players Found a Way to Go Green?

Description

Suncor Energy (TSX: SU)(NYSE: SU) and five partners are making a big splash to clean up the oil sands. The company is partnering with **Canadian Natural Resources** (TSX: CNQ)(NYSE: CNQ), **Husky Energy** (TSX: HSE), **Devon Energy** (NYSE: DVN), and two other big oil sands producers on a $165 million water technology development centre at Suncor's Firebag oil sands facility. It's an important project for Suncor and its partners, and one investors should keep an eye on.

The big splash

Suncor's water technology centre will be the first joint industry water project under Canada's Oil Sands Innovation Alliance, or COSIA. It will test water treatments and develop water recycling technologies. That makes it an important facility for two key reasons.

First, the bitumen produced from the oil sands is more carbon-intense than oil produced through conventional processes. Because of this it's loathed by environmentalists, which is why the industry faces so much opposition for pipeline projects. By recycling more water, as well as becoming more efficient with the energy it uses to turn that water to steam, the industry can remove one more item off of the laundry list of complaints that environmentalists have with the oil.

Second, the industry uses a lot of water for steam-assisted gravity drainage, or SAGD, which is one of the two processes to extract oil from the oil sands. It's an expensive process that could be made cheaper by recycling some of the water used to make steam, as opposed to continually sourcing fresh water. By developing new recycling technologies, the partners can then minimize freshwater usage, maximize the reliability of water for SAGD production, and eventually add higher-efficiency boilers. It's this potential cost saving aspect of the project that's important to investors.

Saving green by going green

Oil sands producers are finding that efficiency is a real key to improving project economics. This has producers tackling every aspect of production to improve efficiency in an effort to drive costs down. For example, Devon Energy is finding that solvents aid in more efficient usage of steam and can decrease the key steam-to-oil-ratio by 15%-50%. That has a big impact on project economics, as well as the

overall emissions of its SAGD facilities, as they will use less natural gas to produce the steam needed to extract the bitumen.

Meanwhile, Husky Energy and Suncor are investing heavily in technology to both reduce this ratio as well as improve the overall efficiency of SAGD projects. Husky Energy is currently evaluating 75 technologies at its Sunrise Energy project, while Suncor invests more than $175 million a year on research and development, with a good portion of those funds being invested in making its oil sands operations like Firebag more efficient.

The bulk of these developments are being made through COSIA. Canadian Natural Resources, which is a founding member of the alliance, notes that the industry has collaboratively developed 560 technologies at a cost of nearly a billion dollars through the alliance. These investments, which have been shared with all COSIA members, are reducing greenhouse gas emissions and improving the environment, while at the same time saving producers money and improving returns.

Oil sands producers are working together to improve the industry's carbon footprint. At the same time, these green investments are really paying off by reducing costs and increasing returns. The hope is that the water technology centre that Suncor Energy will operate can keep that momentum going by improving the industry's usage of water.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:CNQ (Canadian Natural Resources)
2. NYSE:DVN (Devon Energy Corporation)
3. NYSE:SU (Suncor Energy Inc.)
4. TSX:CNQ (Canadian Natural Resources Limited)
5. TSX:SU (Suncor Energy Inc.)

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mdilallo