



Cenovus Energy Inc. Dials Up Another Approval for an Oil Sands Project

Description

An oversupplied oil market is behind the recent plunge in crude oil prices. That plunge has taken oil stocks like **Cenovus Energy Inc.** ([NYSE: CVE](#))([TSX: CVE](#)) down with it. However, just because the short-term fundamentals are weak doesn't mean the long-term picture is bleak. In fact, Cenovus Energy's long-term future just got a little bit brighter as it received approval from the Alberta Energy Regulator to move forward on its wholly owned Telephone Lake oil sands project.

Drilling down into Telephone Lake

Cenovus Energy received approval for a steam-assisted gravity drainage, or SAGD, project that would have initial production capacity of 90,000 barrels per day. The project would be developed in two phases and could eventually be expanded to a total production capacity of 300,000 barrels of oil per day. Further, the project could produce at that rate for more than 40 years as it holds an estimated 2.6 billion barrels of oil.

The next step in the process is for Cenovus Energy to approve its own development plan of the project by making a final investment decision. That decision is expected to come next year, which would put the project on pace to deliver first oil by the end of the decade. Because of that long lead time, Cenovus Energy needs to look past the current noise in the oil market and make a decision based on a much longer-term outlook.

The key ingredient

Cenovus Energy has been testing its Telephone Lake property for a decade, drilling 300 test wells in the process. Through these tests the company has learned that the oil from the property can be extracted by using lower levels of steam than most other oil sands projects. In fact, Telephone Lake's [steam-to-oil ratio](#), or SOR, is expected to be 2.1 once the project is up and running. That would be the third best SOR in the oil sands region suggesting that Telephone Lake would produce very low-cost oil.

Low-cost oil production is Cenovus Energy's area of expertise. The company owns an interest in the top four oil sands projects as measured by SOR, which enable the company to enjoy ultra-low supply costs of US\$35-\$65 per barrel. Because of that the company can confidently invest to grow its oil

production even when future oil prices are uncertain as it can produce oil at a rock bottom price.

What's next for Cenovus?

With government approval of Telephone Lake now in hand we'll likely see Cenovus Energy green light the project next year even if oil prices remain weak. The project has a strong competitive advantage over most other oil sands projects due to its very strong SOR ratio, which will give Cenovus Energy the confidence to move forward despite the near-term uncertainty. Given that the project will take years to begin production, and then produce for nearly four decades, Cenovus Energy investors will benefit from the company taking the long-term view given how inexpensively it will produce oil from Telephone Lake.

CATEGORY

1. Energy Stocks
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