These 5 Oil Sands Projects Will Add 600,000 b/d to an Oversupplied Market

Description

Basic economic theory states that when a product's price falls, suppliers will inevitably cut back. Yet the oil sector has defied this logic so far, with supply remaining well above demand, despite plummeting prices.

The oil sands have been particularly resilient, with production continuing to grow, even as producers cancel projects left and right. And this is only the beginning. Investment dealer Peters & Co., which specializes in the energy sector, predicts that oil sands production will grow from 2.1 million barrels per day today to 2.75 million b/d by 2020.

Peters also identified the projects that will propel this growth. We take a closer look below.

The first wave

Peters identified three oil sands projects that will make up the "first wave" of new production: Kearl phase 2, Sunrise phase 1, and Surmont phase 1.

The Kearl project is jointly owned by **Exxon Mobil Corp.** and **Imperial Oil Limited** (TSX:IMO)(NYSE:IMO). Its second phase began producing at the beginning of this year, and will produce 110,000 b/d once it's fully ramped up.

Sunrise is owned by **Husky Energy Inc.** (TSX:HSE), and its first phase is expected to produce 60,000 b/d by the end of next year. The company also has regulatory approvals in place for phase 2, which would add another 200,000 b/d if the project gets the go-ahead.

Surmont is owned by two foreign companies, **ConocoPhillips** and **Total SA**. First steam on phase 2 was achieved in May, and the project is quickly being ramped up. By 2017, ConocoPhillips expects Surmont phase 2 to produce more than 100,000 b/d.

All of these projects have one big thing in common: the bulk of the spending came before oil prices plunged. So, it was far too late to call off the projects, even though it wouldn't make sense to buildthem again today. It's a pattern we're seeing throughout the world.

The second wave

Peters identified two projects as part of its "second wave": Fort Hills and Horizon.

Fort Hills is jointly owned by **Suncor Energy Inc.** (TSX:SU)(NYSE:SU), Total, and **Teck Resources Ltd.** (TSX:TCK.B)(NYSE:TCK). Investors have generally been cool to the project, since it has marginal economics even with higher oil prices. But project operator Suncor is seeing it through regardless, pointing out that depressed oil prices have resulted in falling construction costs. Fort Hills is expected to achieve first production and eventually ramp up to 180,000 b/d.

Horizon has been a remarkable success for **Canadian Natural Resources Ltd.** (TSX:CNQ)(NYSE:CNQ), and today produces roughly 110,000 b/d. Future phases will add another 140,000 barrels per day, and CNRL seems determined to press ahead, despite scrapping construction plans at other projects.

Combined, these projects would add another 600,000 b/d of supply by the end of the decade. It's something that should make energy investors very worried.

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Author
bensinclair