Imperial Oil Limited Turns to Technology to Survive the Oil Downturn

Description

Canada's oil sands have been really hit hard by the oil downturn. That's largely because oil is expensive to extract, and when combined with the lack of export pipeline capacity, even more pressure has been put on crude prices.

That being said, new technology has the potential to bring down the costs of future projects, so companies like **Imperial Oil Limited** (TSX:IMO)(NYSE:IMO) can still have a viable long-term future in the oil sands region, even if oil doesn't return to $100 a barrel.

A needed boost

Imperial Oil is working on two technologies that have the potential to double the output of new oil sands projects without breaking the bank.

The first technology is a modified version of the steam-assisted gravity drainage technology that is used to get to heavy oil that's deep within the earth and can't be mined. The modified version would add solvents to the mix, which would improve oil flow, so more oil can be produced. Early tests show that Imperial is seeing a nearly 30% increase in production from this innovation.

Imperial Oil isn't the first oil sands producer to use solvents to aid in oil sands production. **Cenovus Energy** (TSX:CVE)(NYSE:CVE) and **ConocoPhillips** (NYSE:COP) have also been early leaders in testing solvents to aid in the recovery process.

This method increases the recovery rate while accelerating its production rate, and simultaneously reduces greenhouse gas emissions while using less water. All of these benefits lead to more oil for less money.

More efficient

The other technology that Imperial Oil is testing is new generators that burn less natural gas to create the steam needed to melt the heavy oil below surface. In burning less natural gas, it would reduce the cost of production, while also reducing greenhouse gas emissions. This is something that the

ConocoPhillips/Cenovus Energy partnership is also testing; ConocoPhillips noted in an investor presentation that it has seen a $13 per barrel reduction in costs via the early pilot test.

For Imperial Oil, such reduction in costs and improvement in production flow would enable its seven proposed oil sands projects to deliver much more production than previous projects. It estimates that its next phase of projects could produce 55-75,000 barrels a day, which is up from the 30-40,000 rate at current generation sites.

Having said that, due to the oil market downturn, the company doesn't expect to commit to new projects just yet, which means the first of those seven potential projects, Aspen, will not produce oil until at least 2020.

Investor takeaway

Imperial Oil isn't giving up on growing production in the oil sands, simply because there's just so much oil there to be recovered. That's why it and others in the region are looking for ways to get their costs down, so that the oil is much more competitive in the global marketplace.

Producers are making a lot of progress as two new technologies, which could push costs down and recovery factors up, are on the cusp of being commercial. That being said, we're still a few years away from seeing these technologies drive returns because the oil downturn and a range of other issues will likely lead to few projects moving forward in the near term.

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