



Imperial Oil Limited Actually Wants to Build Another Oil Sands Project

Description

Canada's oil industry has been hit harder than most during the downturn because many of its development projects are much higher cost than those of the rest of the world. In fact, it takes billions of dollars and several years just to bring an oil sands project online. It could take years before a producer sees a return on that investment.

Most oil companies have simply stopped investing in new oil sands projects. However, **Imperial Oil Limited** (TXS:IMO)(NYSE:IMO) announced last week that it has plans to move forward with a new project, pending regulatory approval.

One giant leap of faith

Last week Imperial Oil filed plans to build a 50,000-barrel-a-day facility that's being dubbed Midzaghe (a Dene word for owl). The project is expected to cost \$2 billion to build. If approved, construction would begin in 2019 with first oil not expected until 2022. In many ways, the filing is a bet on the future of not just the Canadian oil sands, but on both higher oil prices and improved demand for oil.

This project would actually follow closely behind Imperial's Aspen project, which was first filed at the end of 2013; it was put on pause amid the crash in crude oil prices. That project, which is a 45,000-barrel-a-day project, recently had its filing updated to reflect a new process that Imperial plans to use for oil sands extracted below ground known as in-situ production.

A next-generation project

Imperial Oil plans to use a relatively new process called steam-assisted gravity drainage, or SAGD. Unlike oil sands mining, a SAGD project typically uses steam that's injected below ground to melt the bitumen, so it can flow through a well bore. This technique uses a lot of water and natural gas to produce steam, which increases its carbon footprint.

But Imperial Oil plans to use solvents, such as natural gas liquids like butane and propane, to reduce the amount of water and natural gas used to extract the bitumen. In fact, the company believes that this new process will reduce greenhouse gas emissions by 25% compared to existing projects. The

solvents reduce the need for pressure and high temperatures, thus allowing more oil to flow while using less energy.

Solvents aren't new to the oil sands industry. Imperial Oil, **Suncor Energy Inc.**, and **Cenovus Energy Inc.** have all piloted solvent-based projects in the past. What is new this time around is that Imperial Oil will be building the first large-scale commercial project using solvents in an effort to push down both production costs and greenhouse gas emissions.

Reducing costs and emissions are of growing importance, given what has happened to oil prices over the past few years as well as what will happen with carbon emissions in the future. In fact, due to new climate change policies in Canada, there will be a \$30 per tonne carbon tax beginning next year that companies now have to factor into the equation.

Why this matters for Imperial Oil

Taking the next step forward on this project is important for three reasons.

First, it is a tangible move to bring a new technology from concept to reality, which demonstrates the company's ability to innovate. Second, it shows a path forward to growing production from the oil sands in the future. Finally, it shows that oil sands producers can attack the dual challenges of costs and climate by moving forward with a project that addresses both issues.

The bottom line is that Imperial Oil clearly isn't giving up on the oil sands, even though times are pretty tough right now.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

1. NYSEMKT:IMO (Imperial Oil Limited)
2. TSX:IMO (Imperial Oil Limited)

Category

1. Energy Stocks
2. Investing

Date

2025/08/22

Date Created

2016/03/15

Author

mdilallo

default watermark