Have We Seen the End of Mega Projects in the Oil Sands?

Description

When **Suncor Energy Inc.** (TSX:SU)(NYSE:SU) sanctioned its $13 billion Fort Hills oil sands mine in late 2013, oil was well over $100 per barrel. However, since beginning construction, oil has done this:

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Suncor Fort Hills

There's no telling where oil will be when the project delivers first oil late next year. This newfound uncertainty combined with the high costs and long lead time of these mega projects will make it very tough for oil companies like Suncor Energy to green light another big oil sands mining project in the future. Instead, they'll likely take a much more measured approach to future development with a greater focus on modular SAGD developments instead of massive mining projects.

Suncor's new approach

While Suncor Energy is still very happy with its decision to sanction Fort Hills and has already boosted its stake in the project (and wouldn't mind increasing it even more), it's not likely to tackle another project like this again. In fact, CFO Alister Cowan recently said, "the years of large, multi-billion-dollar projects are probably gone." Instead, Alister said that Suncor would "more likely [invest in] smaller, more modular-type projects."

A good model for this approach is **Cenovus Energy Inc.** (TSX:CVE)(NYSE:CVE), which is developing its Foster Creek and Christina Lake projects in multiple phases. Cenovus Energy and its partner **ConocoPhillips** (NYSE:COP) are taking a manufacturing approach to these two developments having already completed 11 expansion phases thus far, delivering steady production growth for both companies over the past few years.

Both projects still have a number of additional future expansion phases that can be completed when oil prices improve. Further, the partners are working on a similar approach at Narrows Lake to develop it in modular phases as well.

Bite-sized investment

Imperial Oil Limited (TSX:IMO)(NYSE:IMO) also appears to be putting new mining projects on the back burner for now. That's really no surprise after the issues it had with its Kearl oil sands mining project. That project ran into a number of delays and cost overruns, driving its price up to $12.9 billion, which was $5 billion over its initial estimate. Needless to say, it would rather avoid another high-priced disaster like that, especially given where oil is right now.

Instead, Imperial Oil is hoping to drive future growth by focusing on SAGD developments. The company currently estimates that it can undertake more than seven development phases throughout its acreage position in western Canada. Each phase is only expected to cost $2 billion; the first project, Aspen, could potentially deliver first oil as early as 2020 if construction begins by the end of this year. That $2 billion price tag is a bit more palpable in the current environment than what it would take to build or expand another oil sands mine.

Investor takeaway

After what oil producers have been though the past couple of years, they are very unlikely to give the green light to another mega project in the oil sands for quite some time. Instead, when producers do finally dip their toe back into oil sands growth, expect to see the focus on modular developments, given that these come with a much lower price tag.

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