Oil prices tumble to record lows

Rudy Herndon Moab Sun News | Posted: Thursday, December 17, 2015 8:45 am

PR Spring Mine construction

Construction crews work on the foundation of a rotating mixer at U.S. Oil Sands' PR Spring Mine in the Book Cliffs north of Moab. While neighboring oil shale projects appear to be struggling, U.S. Oil Sands CEO Cameron Todd says his company is hoping to begin commercial-scale production of oil sands in early 2016. [Photo courtesy of U.S. Oil Sands]

Oil prices fell to their lowest levels in more than a decade this week, and while the tumble reverberated throughout the industry, it hurt some energy companies more than others.

“They're certainly affecting producers across the country,” said Richard Matteson, a communications and public affairs director with MDU Resources of Bismarck, North Dakota.

Matteson's company recently announced the sale of subsidiary Fidelity Exploration & Production, which had been actively developing oil and gas projects in the Big Flat area west of Moab. In recent months, however, the pace of that work has slowed down, according to Matteson.

“They're certainly not doing any additional development,” he said. “I think the wells that have been developed continue to produce.”

Now that MDU has sold almost all of Fidelity's assets, Matteson quipped that the decline in oil prices is no longer having the same impacts on the parent company.

“Not as much as they were,” he said.

Looking at the bigger picture beyond Moab, the extent of low oil prices varies, and can depend on everything from a project's geological setting to the different types of drilling techniques that companies utilize.

“It's very difficult to give you one price point and say it affects everybody the same way,” Matteson said.

Indeed, while many of its neighbors in the Book Cliffs appear to be struggling, Canadian company U.S. Oil Sands of Calgary is moving forward with the development of its controversial PR Spring oil sands mine near the Grand and Uintah County lines.

The company initially hoped to begin commercial-scale oil production in the final quarter of 2015, although U.S. Oil Sands CEO Cameron Todd said his company is now on track to reach that milestone in the first three months of 2016.

Todd said the projected holdup is not due to the first assumption that comes to mind – namely, a drop in oil prices. Instead, he said, it's the result of “nagging delays,” including a lag in equipment deliveries, as well as the final engineering work on its piping and electricity, among other things.

“There were some delays on some of the small stuff and less noticeable stuff,” he said.

While conventional oil producers typically plow their money back into new wells or associated projects, Todd compares the development of his company's open-pit mine to the construction of a car factory. Once it's there, he said, production will remain relatively flat, and it will be immune to the daily fluctuations in oil prices – or even annual changes.

“The prices of oil in any given year aren't going to impact the business very much,” he said.

Other businesses, however, appear to be feeling the effects of a year-long drop in oil prices.

Even before U.S. crude oil prices briefly tanked on Monday, Dec. 14, to less than $35 per barrel, Red Leaf Resources announced that it was holding off on its proposed oil shale development in the Book Cliffs north of Moab.

“They formally announced that they're going to postpone any development for two years,” Living Rivers Conservation Director John Weisheit said.

By virtue of the fact that Red Leaf acquired Australian company Ambre Energy, other plans for more than 33,000 acres of leased state lands in the Book Cliffs are also on hold for the time being.

TomCo Energy, which has a license to use Red Leaf Resources' patented oil shale extraction technology, submitted its application for small mining operations two years ago. Yet its plans are also frozen, according to Weisheit.

“The whole thing is stalled,” he said. “There's just nothing happening.”

Meanwhile, state-owned Estonian company Enefit has sent mixed signals about its plans to develop an oil shale project in the Book Cliffs.

Company CEO Hando Sutter told an Estonian broadcaster that Enefit has no business plan to continue its Utah operations, noting that the area is far from civilization and decent power grids. Moreover, he said, it would take the company a long time to transport the oil from the remote site to the nearest markets.

Despite its CEO's comments, Enefit's American subsidiary has said the project is still on track, although

Weisheit is inclined to take Sutter's word regarding the company's plans.

“The point is that absolutely nothing is going on out there,” he said.

As recently as June 2014, oil prices stood near a high of about $115 per barrel, although a global oversupply of oil brought those prices crashing down late last year. Energy analysts say the Organization of Petroleum Exporting Countries (OPEC) orchestrated the glut to gain the upper hand over oil producers in the U.S.

Matteson said the industry will always be subject to the market's whims, and he said that MDU sold its exploration and production arm precisely because its investors were not happy with the cyclical nature of the business.

“This has happened before, and it will happen again,” he said.

County resident Bill Love said he tried to complete an analysis to determine how much those prices would have to rise before Fidelity's West Fertilizer oil and gas project in the Big Flat area would make economic sense.

“I don't know what the price is to break even for the development of this field,” Love said. “It has to be somewhere above the current price of oil. Otherwise, they would be continuously developing or fracking.”

Beyond Grand County, the tumble in oil prices has hit the resource-dependent economies of Uintah and Duchesne counties hard, and Todd said his company has received hundreds of applications for a relatively small number of jobs.

“Obviously, in a resource-driven economy that's been hurting recently, we've had a lot of interest,” he said.

After a mini-hiring spree over the last 18 months, Todd's company now employs more Americans than Canadians, with a total staff of about 33 people.

Todd said his thoughts go out to neighboring companies that are suffering, but he said that U.S. Oil Sands is not among them.

“We're a little project with a little company, and we're not going to change the recessionary economy out there,” he said. “But we are a breath of fresh air and hope for local people.”

Weisheit chuckled at Todd's remarks.

“So in other words, they're not doing this to make a profit? They're doing this to be good neighbors?” he said. “That, to me, is exactly what a speculator would say.”

Other energy developers that have frozen or cancelled their plans are responding to market realities, Weisheit said, and Todd's company must do the same.

“U.S. Oil Sands needs to face this reality and go away,” he said.