Oil sands mine construction slows to a crawl

Rudy Herndon Moab Sun News | Posted: Thursday, February 11, 2016 9:20 am

PR Spring Mine site

Canadian company U.S. Oil Sands is slowing down the pace of construction work at its PR Spring Mine in the Book Cliffs north of Moab. [Photo courtesy of U.S. Oil Sands]

As crude oil prices continue to hover around historic lows, the Canadian developer of a proposed oil sands mine in the Book Cliffs is scaling back the pace of construction activity at its PR Spring project.

Calgary-based U.S. Oil Sands announced last week that field work at the project site about 70 miles north of Moab will slow down as the company tries to line up additional financing for the mine.

U.S. Oil Sands CEO Cameron Todd said his company no longer expects to begin commercial-scale production in the first quarter of 2016 – a projected start-up date that had already been pushed back from its previously announced goals.

“We don't have a firm date in mind anymore,” he told the Moab Sun News.

The Calgary Herald initially reported that the company halted work on the controversial project, leading other media outlets to follow suit. But the company's hometown newspaper has since revised its initial article to say that the pace of construction work at PR Spring has merely slowed down.

“We haven't halted the project, and we have no plans to halt the project,” Todd said. “They've retracted that article.”

Construction work on the project is about 85 percent complete, and Todd said the company's costs to date have come in under budget. It also has more than $10 million in the bank, which will keep it going well into 2017 in the event that commodity prices remain low for a prolonged period, according to a project update.

However, U.S. Oil Sands has not completed its previously announced deal for $10 million in royalty financing, so Todd said the company decided to reduce its operating costs. It hopes to make the most of its time during the current industry-wide downturn by reaching out to investors and raising more money for the project, he said.

“We're going to make sure that we're in position at the right point in time by lasting through that,” he said.

Living Rivers Conservation Director John Weisheit of Moab said he doesn't see how the project can ever turn a profit, and he believes the company is simply playing “investor games.”

As he sees it, the company is really focused on marketing its proprietary oil sands extraction process, which uses a biodegradable, citrus-based solvent to separate oil from sands. But with crude oil prices as low as $27.50 per barrel earlier this week, Weisheit questions whether the company's plans make economic sense.

“It's about proving their technology, and what if that fails?” he asked. “What if the break-even point requires $100 per barrel of oil?”

Thanks to hydraulic fracturing – or “fracking” – and other innovations in drilling techniques, oil companies around the globe are currently producing about 1 to 2 million barrels per day more than consumers are using. With a glut of oil on the market, prices have tanked from their 2008 peak of $147 per barrel.

Jennifer Spinti, a research assistant professor at the University of Utah's Department of Chemical Engineering, is not an economist by training. But she said that energy companies may have many reasons for pursuing their projects: They may, for instance, want to test the commercial feasibility of a particular production process that's applied to an unconventional resource.

Generally speaking, if a company is not able to generate enough cash flow to meet its financial obligations to its employees, lenders and investors, it ultimately will not survive, she said.

“Nevertheless, if the purpose of a project is not to sell a product on the open market for a profit but rather to demonstrate that something can be done, the company may not need to worry about market prices or trends in the near term,” she said.

Spinti and others recently completed a study that examined conventional oil and gas development in the Uintah Basin. Graduate student Jon Wilkey looked at various constraints that could be used in a predictive model of future development, including air quality, labor availability, water availability and permitting time frames.

“He found that none of these were hard constraints, meaning development could continue as water and labor resources were reallocated, air pollution control equipment was installed and development moved to lands where the landowner was willing to work with the developer to move steadily through the permitting process,” she said.

In a nutshell, Spinti said that the future price of oil and gas is the main driver of development in Wilkey's predictive model.

“So, in the end, I think the price of oil will determine the success or failure of conventional and unconventional oil production projects around the world,” she said.

In the longer term, Todd believes that neither the record highs of past years nor the current lows are sustainable. He said he's hopeful that oil prices will eventually level off to a “rational balance point” that lands somewhere in between the two extremes.

“We're optimistic for the long haul, and prepared to withstand a difficult environment to get to the long haul,” Todd said.

While he'd prefer to see higher oil prices, he maintains that current prices have not affected U.S. Oil Sands' current financial position because the company is still in the pre-production phase. Still, he acknowledged that the company is feeling the impacts that have hit the fossil-fuels industry in the Uintah Basin particularly hard.

Two of U.S. Oil Sands' major contractors shut down their Utah operations entirely, delaying the project's construction timeline.

At the height of construction activity, about 100 people worked out at the project site. But the on-site workforce has since shrunk to an unspecified – but much smaller – figure.

U.S. Oil Sands itself still has 16 or 17 employees in Utah, and about the same number of employees at its headquarters in Calgary, he said.

“We're retaining the same staff count in Canada and the United States,” Todd said. “I think that they're all happy to be working in what has been termed one of the worst recessions in our industry's history.”

With the industry in recession and energy developers seeking taxpayer funds to build a highway through the Book Cliffs, Weisheit takes it as a sign that U.S. Oil Sands and its neighboring oil shale projects have no money to speak of.

“They need public funds, and they're giving (Democratic presidential candidate) Bernie Sanders a hard time about socialism?” he asked.

If the project advances to the commercial-scale phase, Weisheit is concerned about the carbon footprint that it could have on the planet: Compared to conventional fossil fuel projects, oil sands developers generate about four times as much greenhouse gases that contribute to global climate change.

“We're going to run out of this stuff anyway, and they're going to turn Utah into a wasteland,” he said.

With more and more interest these days in wind and solar power, he thinks the company's investors need to know that there are other ways to meet the world's energy needs.

“All of these investors are spending all of this money to prove a technology that's going to hurt the atmosphere,” Weisheit said. “Why not spend that money on technology that doesn't?”