OIL SANDS:

Utah project, one of few in U.S., is put on ice

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A U.S. oil sands development was paused last week, as weak oil prices continue to discourage projects young, old and unborn.

Calgary, Alberta-based U.S. Oil Sands Inc. said it will delay its pilot project in Utah, one of the only oil sands projects in the United States.

The complex is 85 percent complete, the firm said, but two key contractors have left Utah and financing is difficult to raise right now. CEO Cameron Todd said the company is preparing for when oil prices recover.

"We are well-positioned to rapidly emerge from the current downturn and complete our work," he said in a statement.

Glutted oil markets yesterday pushed benchmark oil prices into the low $30s per barrel. The global oversupply of oil, estimated around 2 million barrels per day, has inventories brimming. Now, uncertainty about the economy is just the latest factor to discourage new oil investments.

Utah's oil sands have been studied for decades but never developed like the massive reserves in Alberta. The Bureau of Land Management **estimates** 12 billion to 19 billion barrels of in-place resources.

"It was one of those things that should oil prices be always just a little bit higher, they could kind of make it work," said Ryan Duman, senior analyst for lower 48 research with Wood Mackenzie. "It was never quite a real commercial project for any operators."

U.S. Oil Sands is one of two Canadian companies trying to make Utah work. Incorporated in 2003, the firm has spent the last decade gathering permits and cash for its Utah venture. It has fended off groups that oppose oil sands and wanted environmental safeguards (***EnergyWire***, July 22, 2015).

Last year, with construction mostly done, U.S. Oil Sands' pilot -- a mere 2,000 barrels per day -- looked to be on track. The plan was to scale up to five times that level after the initial phase.

But as West Texas Intermediate prices fell from over $60 a barrel into the $40s, the production date was pushed back to 2016.

Now the project is on ice, pending higher prices and new financing. U.S. Oil Sands will also need to replace two contractors that left Utah due to the oil crash.

The company says its technology costs less than Canadian oil sands and causes less environmental harm. The process requires digging up sand from pits, then mixing this sand with a solvent to release bitumen, which can be turned into oil.

The firm uses pictures of oranges in its documents because it says it uses a "biodegradable solvent extracted from citrus fruits."

It says its process recycles about 95 percent of its water and doesn't require massive wastewater ponds.

All of these attributes mean a smaller, greener, cheaper form of oil sands than exists in Alberta, U.S. Oil Sands says.

But without a pilot project, these claims are difficult to prove, experts said.

"The fact that an exploratory, capital-intensive project gets shut down is not surprising, especially if key contractors have backed out," Jennifer Spinti, an associate professor of chemical engineering at the University of Utah, said by email.

Spinti pointed to a 2013 study that offered a very rough comparison to U.S. Oil Sands' current project. That study, which she and other researchers conducted, found a 0 percent rate of return even at $76 per barrel of oil.

Duman of Wood Mackenzie said it can be dangerous to commit to an oil sands project at these prices.

"If you're going to try and start up a project and prove commercial production, it's not going to be advantageous at $30 crude," he said. "Once you get it going, you're kind of in it for the long haul."

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