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Project Profile

How to spend \$20 billion - Oilsands investment projected to reach record levels in 2012

By Deborah Jaremko

Canada's oilsands sector—and indeed, the country's entire oil and gas industry—is headed for record capital investment in 2012, according to the Canadian Association of Petroleum Producers (CAPP), and data collected by JuneWarren-Nickle's Energy Group. But the oilsands specifically is nearing the limits of comfortable development without high inflationary pressures, says Martyn Griggs, CAPP's manager, oilsands. CAPP is forecasting approximately \$20 billion in new oilsands capital investment this year, and Griggs says that while the spend could be greater, increases will come with additional challenges, particularly around labour.

“I think \$20 billion is now a record. It certainly has been climbing since we had the financial downturn in 2007 and 2008,” he recently told *Oilsands Review*. “The maximum I ever got to for all of oil and gas including oilsands was \$50 billion, and for 2012 I'm now showing that number to be \$55 billion.”

CAPP forecasts capital expenditures through tracking of company disclosures and surveys of its membership, as well as analysis of government-run statistics such as Statistics Canada's summaries of past spend rates.

“We don't go project by project or company by company. We tend to say, look, what does the market bear? What's the availability of labour out there... We've been spending \$17 or \$18 billion in prior years, and it was \$19 billion in 2011. Where do we see the run rates going in the future—is it going to be significantly more or something similar? Right now we see the burn rate to be very similar to prior years, maybe with a slight increase,” Griggs says. “If you add up all the [plans of] individual companies you'll probably come to a number quite significantly bigger, because each company has its blinker view of the world of what they're going to achieve. In reality the market probably can't build \$30 billion a year because there simply aren't the resources out there to do it. The ones that have their contracts in place are more likely to go ahead.”

The unemployment rate in Alberta is currently about 4.9 per cent, which equates to near-full employment, he points out, adding that the oilsands industry is already stretched in some areas such as engineering and trade skills. However, other sectors in the province, such as hospitality and agriculture, are not yet experiencing the major challenges they did during the last energy boom in 2005-2006.

“If the [capital spend] rate increases significantly, then we could end up being in that same position in the next year or two,” says Griggs. “Are we at the limit of capacity? The oil and gas industry and oilsands in particular will find a way of getting the people it needs, so if the burn rate was to, say, exceed \$20 billion, let's say to \$21 billion, that's a five per cent increase. You've got to get the people and the materials from somewhere, so you'll probably start looking outside of Alberta. And that's when the inflationary issues will start coming into play because you're trying to bring people in, whether it's from the U.S. or even further afield. I wouldn't say that you've hit a ceiling. There is no ceiling, but it becomes that much more difficult to spend

over and above \$20–\$21 billion in the short term, i.e., the next 10 to 12 months, without causing disruption to the broader economy.

2012 Company Capital Budget (million \$)

Company	2012 Capital Budget
Athabasca Oil Sands Corp.	419.0
BP P.L.C.	610.0
Canadian Natural Resources Limited	3,775.0
Canadian Oil Sands Limited	1,460.0
Cenovus Energy Inc.	1,640.0
Chevron Canada Resources	275.0
China National Offshore Oil Corporation Limited	363.3
Connacher Oil and Gas Limited	20.0
ConocoPhillips Canada Limited	1,225.0
E-T Energy	25.9
Grizzly Oil Sands ULC	124.5
Gulfport Energy Corporation	41.5
Harvest Operations Corp.	215.0
Husky Energy Inc.	30.0
Imperial Oil Limited	938.5
Japan Canada Oil Sands Limited	210.0
Laricina Energy Ltd..	402.6
Marathon Oil Corporation	275.0
MEG Energy Corp.	1,370.0
Mocal Energy Limited	187.7
Murphy Oil Company Ltd.	1877
Nexen Inc.	1,000.0
Pengrowth Energy Corporation	59.0
Petrobank Energy and Resources Ltd	12.5
PetroChina International Investment Company Limited	491.5
Royal Dutch Shell PLC	825.0
SinoCanada Petroleum Corporation	339.0
Suncor Energy Inc.	4,060.0
Teck Resources Limited	220.0
	20,807.20

2012 Project Capital Budget Detail (million \$)

Company	Project	2012 Capital Budget
Athabasca Oil Sands Corp.	In Situ Birch	45.0
	In Situ Dover	15.0
	In Situ Dover West	131.0
	In Situ Grosmont	1.0
	In Situ Hangingstone	227.0
	Total Announced	419.0
BP P.L.C.	In Situ Sunrise	610.0
Canadian Natural Resources Limited	In Situ Kirby (South) Phase 1	710.0
	In Situ Primrose / Wolf Lake	710.0
	Mining Horizon	2,355.0

		Total Announced	
			3,775.0
Canadian Oil Sands Limited	Mining Capitalized Interest		81.0
	Mining Syncrude		1,379.0
		Total Announced	
			1,460.0
Cenovus Energy Inc.	In Situ Christina Lake		525.0
	In Situ Foster Creek		700.0
	In Situ Narrows Lake, Grand Rapids & Telephone Lake		415.0
		Total Announced	
			1,640.0
Chevron Canada Resources*	Mining Athabasca Oil Sands Project		275.0
China National Offshore Oil Corporation Limited*	In Situ Long Lake & Kinosis 1A		331.0
	In Situ Long Lake & Kinosis 2		32.3
		Total Announced	
			363.3
Connacher Oil and Gas Limited	Total		20.0
ConocoPhillips Canada Limited*	In Situ Christina Lake		525.0
	In Situ Foster Creek		700.0
		Total Announced	
			1,225.0
E-T Energy	In Situ Poplar Creek		25.9
Grizzly Oil Sands ULC	In Situ Algar Lake		124.5
Gulfport Energy Corporation	In Situ Algar Lake		41.5
Harvest Operations Corp.	In Situ Blackgold		215.0
Husky Energy Inc.	In Situ Tucker		30.0
Imperial Oil Limited*	Mining Syncrude		938.5
Japan Canada Oil Sands Limited	In Situ Hangingstone		210.0
Laricina Energy Ltd.	Total		402.6
Marathon Oil Corporation	Mining Athabasca Oil Sands Project		275.0
MEG Energy Corp.	Total		1,370.0
Mocal Energy Limited*	Mining Syncrude		187.7
Murphy Oil Company Ltd.*	Mining Syncrude		187.7
Nexen Inc.	In Situ Hangingstone		70.0
	In Situ Long Lake & Kinosis 1A		615.0
	In Situ Long Lake & Kinosis 2		60.0
	In Situ Other non-operated projects		5.0
	Mining Syncrude*		250.0
		Total Announced	
			1,000.0
Pengrowth Energy Corporation	In Situ Lindbergh		59.0
Petrobank Energy and Resources Ltd.	In Situ Dawson		12.0
	In Situ May River		5.0
		Total Announced	
			12.5
PetroChina International Investment Company Limited	In Situ Dover		22.5

	In Situ	Grosmont	1.5
	In Situ	MacKay River	467.5
		Total Announced	491.5
Royal Dutch Shell PLC*	Mining	Athabasca Oil Sands Project	825.0
SinoCanada Petroleum Corporation*	Mining	Syncrude	339.0
Suncor Energy Inc.	In Situ		1,830.0
	Mining	Base operations	1,780.0
	Mining	Syncrude*	450.0
		Total Announced	4,060.0
Teck Resources Limited*	Total	Fort hills	220.0
			20,807.2

* Budget calculated based on percentage share of oilsands projects.

Disclosure: This budget summary does not include undisclosed oilsands owner plans including those of: Alberta Oilsands Inc., Andora Energy Corporation, BlackPearl Resources Inc., CNOOC Limited, ConocoPhillips Canada Limited, Devon Canada Corporation, E-T Energy Ltd., ExxonMobil Canada Limited, Inpex Canada Limited, Ivanhoe Energy Inc., Japan Canada Oil Sands Limited, Koch Exploration Canada Corporation, Northern Alberta Oil Ltd., N-SOLV Cororation, Oak Point Energy Ltd, Occidental Petroleum Corporation, Oilsands Quest Inc., OSUM Oil Sands Corp., Paramount Resources Ltd., Pengrowth Energy Corporation, PTT Exploration & Production, SilverBirch Energy Corporation, Southern Pacific Resource Corp., Statoil, Sunshine Oilsands Ltd., Total E&P Canada Ltd., and Value Creation Inc.

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