

Oilsands Versus Offshore

Increased scrutiny of offshore drilling could have implications for oilsands operators

by Derek Sankey

As thousands of barrels of oil gush into the Gulf of Mexico following the April 20 explosion of the Transocean Ltd. deep-water offshore oil rig operated by BP Plc, energy leaders in Alberta have been abuzz about what the massive disaster could mean closer to home.

Major oil companies such as Imperial Oil and ExxonMobil Corp., Chevron Corp., Husky Energy, BP Canada Inc., ConocoPhillips Canada and others – all have a lot at stake. Many are invested in both Alberta's oilsands as well as the three offshore oil rigs currently producing off the east coast of Newfoundland: Hibernia, Terra Nova and White Rose. There is also the Sable Island natural gas project off the shores of Nova Scotia.

Some industry and political leaders have mused that in light of the Gulf disaster – and an ongoing closer examination of the real risks involved with offshore production – Alberta's oilsands could be a relatively clean alternative.

Federal Environment Minister Jim Prentice publicly stated the oilsands likely have lower environmental risks compared to offshore drilling, while Premier Ed Stelmach declared an oilsands spill would be easier to contain.

Environmental groups, not surprisingly, shot back. These well-funded groups have successfully – at least to some extent – tarnished the image of Alberta's oilsands in Washington and abroad, but also with the general public at home in Canada.

Ceres, a coalition of investors and environmental groups, released a study questioning if the oilsands might actually pose greater environmental and financial risks than offshore drilling. Expect the rhetoric to heat up as all sides in this debate try to get their messages across to lawmakers, the public and all stakeholders in a high-stakes topic.

The National Energy Board, meanwhile, has launched a full-blown review of Arctic offshore drilling, while regulators in Newfoundland have formed a committee to scrutinize Chevron's Lona O-55 well – the deepest exploration to ever be drilled in Canada – in the Orphan Basin off the coast. At 2,600 metres in the water northeast of St. John's, Chevron's project will face increased inspections and tests to ensure safety as it proceeds.

Oil companies aren't exactly lining up to speak out about the pros and cons of oilsands production versus offshore oil rigs when it comes to environmental, safety and financial risks. However, officials with Imperial Oil Ltd. have stated that although the company (along with others including BP and ConocoPhillips) has obtained a licence to explore offshore drilling in the Canadian Beaufort Sea, it has no immediate plans to do so.

It would likely be four or five years before Imperial would even possibly begin drilling there, and

Canadian regulators will have many questions before the likelihood of any activity getting underway in the Arctic.

Industry insiders have suggested the spill in the Gulf of Mexico puts Alberta's oilsands into a better light and could help position it for growth as an environmentally friendlier alternative to offshore drilling. Industry spokespeople from groups such as the Canadian Association of Petroleum Producers (CAPP), however, are not eager to be seen as taking advantage of what has become an environmental nightmare in the U.S.

All forms of energy development carry risks, from wind power to nuclear energy to oilsands, and officials have reiterated their line that those risks need to be carefully examined and fully understood. They shy away from comparing oilsands versus offshore directly, since the variables and factors involved with each type of energy development are vastly different from each other.

The Deepwater Horizon spill could, however, present some new hurdles for Enbridge Inc. The company is pushing ahead with plans to seek approvals for its \$5.5-billion Northern Gateway pipeline project, which would be able to carry more than 500,000 barrels of oil a day from Alberta's oilsands to the B.C. port of Kitimat.

Planned for completion in 2016 – assuming the many hurdles it faces can be overcome – the pipeline would open up a new export channel to markets in Asia. However, opponents of the project claim there is a risk of an oil spill on the ecologically-sensitive West Coast when the oil is placed in giant tankers. Enbridge, for its part, claims that modern tankers do not face the same risk that happened with the Exxon Valdez in Alaska and points out that hundreds of tankers have been carrying oil products around Kitimat for decades without incident.

The U.S. government, meanwhile, has postponed any Arctic drilling until at least 2011. Environmentalists say any oil spill in the Arctic would be virtually impossible to clean up due to the inherent challenges of operating in such a remote, northern region.

Alberta's oilsands industry still faces an uphill PR battle, regardless of what happens in the Arctic or off the East Coast of Canada. It has been so stigmatized by the lobbying efforts and media blitz from opponents who call it "dirty oil" that several groups have formed to counter that offensive. Aside from industry groups such as CAPP, the Small Explorers and Producers Association of Canada (SEPAC), the Petroleum Services Association of Canada (PSAC), and others are joining the effort to get the true facts about the oilsands out to lawmakers in Washington and Ottawa.

The Alberta Enterprise Group formed a few years ago and has sent delegations to both political centres to make the case for the oilsands as being an integral part of Canada's economy and America's energy future.

The In Situ Oil Sands Alliance (IOSA), meanwhile, is focused on developing "drillable oilsands technology" using the next generation of energy tools and technology, claiming its methods leave an even smaller environmental footprint than traditional mining techniques.

There is also a project underway at the University of Calgary's Schulich School of Engineering to help green Alberta's oilsands. Harvey Yarranton, the industrial research chair in heavy oil properties and processing, is on a \$2.6-million, five-year program to find ways to use less water and energy in the development of oilsands and heavy oil.

"Solvent-based and solvent-assisted recovery methods are attractive because solvent replaces some of the steam," explains Yarranton. "Less steam means less energy and water usage for each barrel of oil produced." The program is being funded by industry partners and the Natural Sciences and Engineering Research Council of Canada (NSERC).

Suzanne Fortier, president of NSERC, says Yarranton's research will help the industry become more environmentally friendly in its development of heavy oil and oilsands. "His research addresses fundamental questions that will assist the heavy oil and oilsands industry in development of more efficient and environmentally friendly methods of extraction and achieve greater economic impact for Canadians," s he says.

The industry is, of course, acutely aware that environmental regulations will likely tighten when the U.S. decides on a greenhouse gas emissions strategy – one that will undoubtedly be mirrored by Canada if and when it materializes.

Whether an accident in the oilsands region of northern Alberta would, in fact, pose a lesser, greater or similar risk to offshore drilling accidents is entirely up for debate and will continue to be an issue that could impact the region's growth in the future. Let's just hope the true facts are used to make that judgment – for the sake of the energy industry, Albertans and all Canadians who rely on this vast, important resource.