

COMMENTARY

“This is the first time where we have not had sufficient opportunity to comment,” the regional head of the NPS, Michael Snyder, told the New York Times. He said the NPS was usually given one to three months to comment. The NPS soon identified 93 of the original 233 leases as problematic.

Prospects for the future

The day after the Times article appeared, the official in charge of Obama’s transition team, John Podesta, announced on national TV that the incoming president might try to reverse some Bush administration decisions.

“They want to have oil and gas drilling in some of the most sensitive, fragile lands in Utah. They’re going to try to do [this] right as they [are] walking out the door. I think that’s a mistake,” he warned on Fox News Sunday.

The auction was then somewhat scaled back on November 25 after a hurried two-day meeting between the two

government agencies. The leasing of almost 38,000 acres (156 square km) – or 23 parcels and parts of three more parcels – was deferred.

NPS officials have since said that they still have concerns. The deferment only included the most “sensitive, extraordinary cases,” the NPS’s Snyder told the Washington Post.

Just before the deferments were announced, eight senators had written to the US Interior Department, which oversees the two squabbling agencies.

“This ill-advised fire-sale of leases, which could irreparably harm the air, water and wildlife of three beloved national parks, should be halted,” said Senator Maria Cantwell, a Democrat, and the other senators.

What happens next is unclear. The Obama administration would actually find it hard to reverse the leases once they have been issued, although it could impose new restrictions or suspend all drilling in the area, a potentially

explosive issue.

Because of that, the NRDC and other environmental groups may sue before the auction to halt the leasing on as many as 100 parcels. The suit would cite the BLM’s allegedly faulty process of drawing up the Utah resource management plans rather than the proposed leases on individual parcels.

For its part, the BLM has said that its deliberations have been proper and that leases are not actually issued anyway until “all protests on those parcels have been satisfactorily resolved. In some cases, protests will be granted and bid money will be returned.”

In the past, protests have more often been granted for one or two leases, not a whole swathe. The BLM also pointed out that its list of parcels for the auction would not be final until “approximately seven days” before the lease date. That is on or about December 12. ■

Project engineering and EPC in the oil sands

Alberta’s oil sands have been buffeted by uncertainty in recent times but it is not all doom and gloom

By Ashok Dutta

- **Projects have been delayed as a result of the global slowdown**
- **Service providers on the frontline of cuts, but opinions differ on the impact**
- **Projects being broken up into phases, raw material costs coming down**

Of late, the news in Alberta has been inundated with headlines screaming that the province’s multi-billion dollar oil sands projects have either been put on the back burner or cancelled.

With oil prices down by around two-thirds in five months, it is not just major companies operating in Canada’s oil sands sector but even giants such as Saudi Aramco that have applied the

brakes to some mega developments.

The prime reason being cited for this has been the global economic slowdown, which will result in reduced short-term demand for energy.

The impact has been felt across Alberta, where an estimated C\$327 billion (US\$264 billion) are planned to be invested over the next 15 years to more than double the crude oil output.

In early November, Royal Dutch/Shell said it would defer until 2009 a final investment decision (FID) on the second-phase development of the Athabasca Oil Sands Project (AOSP), intended to add another 155,000 barrels per day of new capacity. The project carried an estimated price tag of at least C\$8 billion (US\$6.5 billion). ►►

COMMENTARY

A week later, Calgary-based integrated major Petro-Canada followed suit, announcing that the FID on its flagship 280,000-bpd Fort Hills project would be put off until early 2009.

In late November, Shell said that it had withdrawn a regulatory application to move ahead with the proposed 100,000-bpd Carmon Creek in-situ project in Peace River.

In the past six weeks, several junior Calgary-based oil companies have been also shuffling their feet on FIDs for their planned projects.

The story, though, does not end there.

Outlook

It is not all gloom and doom in Calgary's oil industry. Lay-offs are certainly underway, but some in the engineering and contracting community claim there is still a rosy picture.

"There is no panic at all," said Vista Projects' founder and president, Alex Campbell. "We are witnessing a slowdown in spending, but this is probably best defined as a rationalisation of financial resources. Oil sands are the future of the province and will continue to be so. With the US as our neighbour and major consumer, Alberta will be the safe source of supply. We will see [a return] of investments."

The statement is encouraging, as Campbell has been in the Calgary business for a long time, seeing both bust and boom. Vista Projects' speciality is steam-assisted gravity drainage (SAGD).

"When we started, the conditions were similar to what [they are like] now. There was also a downturn. At that time [1985], conventional crude oil was a major area of activity, but oil sands are now big business," he said. "From an engineering standpoint, a vast majority of the projects were tendered and it was more competitive. Today it is more [about] strategic alliances and projects being

tendered on cost-reimbursable basis."

Given the frenetic pace of investment in the oil sands sector, the past few years have resulted in a shift in the way engineering, procurement and construction (EPC) contracts are awarded – rather than open tendering, clients are now awarding mega-contracts on a negotiated basis.

Changes have also taken place in the contracting strategy of clients.

"Fixed-price EPC bidding is non-existent now and the [engineering, procurement and construction management] EPCM model is more prevalent. A project is now being broken up into several packages and this has yielded results. With five or six contractors working on a similar project, there is a competitive spirit," Campbell said.

For their part, companies have also shown a willingness to assume – to an extent – the risk of executing projects and also help contractors in the procurement of equipment and supplies. The downturn may have taken its toll, at least for a while, on Alberta's oil sands sector. However, there are some positive aspects.

"It will not be a contractors' market anymore. [The market] will go through some adjustments and we will see price rationalisation. It has started off with EPC and EPCM contractors but soon vendors, suppliers and equipment manufacturers will also be brought under the purview"

Costs

"We will see a substantial reduction in the price of steel, piping, equipment and related commodities," he said, without giving a figure, adding that it would still take a while before the cost of manpower drops.

Rising project costs – primarily owing to the cost of materials and manpower – have proved to be a major stumbling block for oil sands operators. Along with this pressure has been a push by clients to implement projects on a fast-track basis.

"We have been operating from hand to mouth. But, now, we will get a head start. This will allow us to procure the equipment and prepare the various construction packages. Until recently, as soon as drawings were ready, the client would be keen on us breaking ground on the project. We will now get a breather," he said.

But, it is not all good news for EPC and EPCM contractors.

"It will not be a contractors' market anymore," said a WorleyParsons director in Houston, Peter Bell. "[The market] will go through some adjustments and we will see price rationalisation. It has started off with EPC and EPCM contractors but soon vendors, suppliers and equipment manufacturers will also be brought under the purview."

Techint Engineering & Construction's commercial manager, Rodrigo Campos, said: "We are bracing for more changes to come. In the past two years of the boom, we have maintained profit margins of a healthy 10%. Project deliverability was an issue, but we hope to get a better grip on it now."

Times are certainly changing in Alberta's oil sands and, just as there were pressures during the boom times, so too there will be challenges to navigate during this bust. ■