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Canadian oil sands producers stay defiant in face of price slump

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By Nia Williams

CALGARY, Alberta, Jan 20 (Reuters) - Canada's oil sands companies are perilously close to operating at a loss after six months of plunging crude prices, yet many say they have no plans to cut production at their vast projects in northern Alberta.

On the contrary, Syncrude and Canadian Natural Resources Ltd are planning to boost production, in the expectation economies of scale will cut their cost per barrel.

With U.S. crude diving below $45 a barrel last week, companies including Syncrude Canada, Suncor Energy Inc and Imperial Oil Ltd are getting close to operating costs exceeding outright Canadian crude prices.

But these oil sands giants, which have billions of dollars sunk in existing projects, say they have no intention of shutting down operations, preferring to generate whatever cash they can from sales.

A favourable exchange rate is also providing some relief, as producers pay costs in Canadian dollars and receive more valuable U.S. dollars for their crude.

Syncrude forecasts operating costs at C$45.69 ($38.07) per barrel in 2015. Oil sands crude trades at a discount to the West Texas Intermediate benchmark and the outright synthetic price dropped below $42 a barrel at one point last week.

Siren Fisekci, spokeswoman for Canadian Oil Sands Ltd , the largest-interest owner in the project, said Syncrude would ramp up rather than scale back output.

"Syncrude has operated for 35 years and at other prices in the crude oil cycle," Fisekci said. "We'll put as much production as possible through the plant."

CNRL, which produces 128,000 bpd of synthetic crude at its Horizon project, expects oil sands mining operating costs of C$34-$37.00 ($28.33-$30.83) a barrel this year.

It is forging ahead with an extra C$6 billion of investment to double capacity at Horizon by late 2017 and targeting operating costs of C$25-$27 a barrel.

Spokeswoman Julie Woo said at this point it would be more costly to defer the expansion. Instead the company has deferred a new thermal project, decreed a hiring freeze and cut back 2015 spending.

Imperial Oil, owner of the 110,000 bpd Kearl mine, does not upgrade most of its bitumen and receives an even deeper discount on its crude. The outright price of Western Canada Select, the de facto heavy crude benchmark, slumped to just above $33 a barrel last week, nearing Imperial's 2013 per barrel operating cost of C$32.30 ($26.91).

Oil sands operating costs are above those of most conventional resource plays because of their energy intensity and the spiralling cost of labor in Canada's north.

Andrew Leach, professor of energy policy at the University of Alberta, estimates operating costs per barrel for mining projects have quadrupled in the past decade as producers compete for workers to build and operate huge facilities in a sparsely populated region.

In comparison, Saudi Arabia can produce crude for just a few dollars a barrel.

Leach said oil sands producers tend to assume that operating costs will come down each quarter as technology and efficiency improve, another factor discouraging companies from cutting output.

"Rightly or wrongly the psychology within most operations is 'Costs are high for now but we will sort it out'," Leach said. "You would need a significantly lower price with pretty long running expectations that it will continue to see (production) cuts."

THERMAL THRIFT

Thermal projects - which pump steam into underground reservoirs to liquefy bitumen so it can flow to the surface - tend not to upgrade bitumen and are also feeling the pinch.

Canada's largest oil and gas company Suncor Energy lumps operating costs for oil sands mining and thermal projects together and forecasts C$30.00-$33.00 ($25.00-$27.50) a barrel in 2015.

Suncor expects to sell 120,000-140,000 bpd of bitumen this year and 285,000 to 315,000 bpd of synthetic crude.

The company kept 2015 production forecasts unchanged last week even as it announced 1,000 job cuts and slashed capital spending by C$1 billion.

"It's hard to imagine us cutting or shutting in production as 80 percent of our costs in oil sands are fixed," said Suncor spokeswoman Sneh Seetal.

Small oil sands companies are in more trouble. Struggling Southern Pacific Resource Corp had operating costs of C$46.03 ($38.35) for bitumen in the third quarter of 2014 and said on Dec. 30 it will miss an interest payment on its debt.

But whether operating at a profit or loss, companies are loath to switch off the steam at thermal projects, as it can take weeks to get the reservoir back up to optimum pressure.

During the last oil crash in 2008/09 the only company to shut in production was Connacher Oil and Gas when outright WCS was close to $25 a barrel. The company's share price has struggled to recover ever since. (Additional reporting by Scott Haggett; Editing by Jeffrey Hodgson and Tomasz Janowski)
