

# Imperial bumps up cost of Kearl oil sands project

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Imperial Oil Ltd. boosted the price tag of its Kearl oil sands mine by \$2-billion, the second major increase for the project and the latest cost increase to hit Alberta's energy industry.

Imperial said Kearl's first development phase will cost \$12.9-billion, up from \$10.9-billion estimated previously. And the latest estimate is 61-per-cent higher than the original calculation of \$8-billion.

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The energy company's latest financial setback is tied to delays in transporting equipment for the project, and the harsh winter in northern Alberta further slowed development.

Now some analysts are concerned Kearl could miss its expected production start this quarter.

Kearl's escalating budget is another indication of the difficulties facing the oil sands sector, which is grappling with higher costs for materials and labour, as well as discounted prices for heavy crude due to an oversupply caused by transportation bottlenecks – mainly pipelines – for exported oil.

Companies are reconsidering planned projects, as the industry re-calibrates spending to boost results that have often failed to impress investors. Suncor Energy Inc., for example, is weighing how and when to proceed with three undeveloped projects. It also withdrew its goal of hitting production of 1 million barrels of oil per day by 2020.

Imperial Oil, controlled by Exxon Mobil Corp., expects Kearl to produce its first drops of bitumen this quarter. This timeline has been pushed back before, and doubts remain about the current target. "We would not be surprised to see production not starting up until May," said Andrew Potter, an analyst at CIBC World Markets Inc.

“The bigger impact will likely be to the [Imperial/Exxon] reputation as a ‘premium’ operator,” Mr. Potter said in a research note.

The delay in transporting equipment resulted from a battle Imperial Oil lost in Idaho and Montana, where residents urged local officials to reject the company’s plans to move enormous, South Korean-made pieces of the Kearl project on their highways. Critics focused on traffic delays, as well as environmental concerns.

Imperial had to take more than 200 of the modules apart so they could be moved on an alternate route. They were later reassembled, a process which required hundreds of people. This pushed up costs and delayed the project, even though the company was previously adamant the damage would not be severe.

Imperial on Friday said it will now cost \$6.80 per barrel to develop the first and second phase of the project. That is a 10-per-cent increase from its last estimate of \$6.20 per barrel. The company originally predicted it would cost \$5 per barrel.

Imperial still expects a second phase of Kearl to ring in at \$8.9-billion, despite revisions to the first phase of the project. It has not released a cost estimate for the final phase of the project, known as “de-bottlenecking,” but it expects the development costs per barrel to be the same as the during first two phases.

This means the cost of the entire project will reach about \$31.2-billion, the company confirmed. The Kearl mine is expected to produce 345,000 barrels of bitumen per day by 2020, when it is running at full speed.