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S.D. Sits At Crossroads Of Oil Projects

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http://www.yankton.net/stories/102207/new_210741666.shtml

SIOUX FALLS -- As oil hovers around $90 a barrel, the race is on to more heavily tap into the world's second-largest oil reserve, and South Dakota -- a major ethanol producer that typically sits on the alternative side of the fuel industry -- is finding itself at the crossroads of two major oil projects. One is a 590,000-barrel-a-day pipeline with plans to deliver Canadian crude to Patoka, Ill. and Cushing, Okla. The other is a proposed refinery that would be the first new U.S. refinery location in more than 25 years. Supply for both projects would come from the Alberta oil sands of northern Canada, home to some 175 billion barrels of crude putting the region second only to Saudi Arabia in terms of the world's oil reserves.

U.S. refiners are converting their plants to handle thicker Canadian crude, and pipeline specialists such as Calgary-based TransCanada Corp. are looking to connect supply with demand. TransCanada plans to begin construction this spring on the Keystone pipeline, a 2,148-mile route passing through the Dakotas, Nebraska, Kansas and Missouri. Robert Jones, a TransCanada vice president and director of the Keystone project, said transporting crude oil by rail or trucks is less environmentally friendly than moving it underground. New pipelines are critical infrastructure if North America is to achieve greater energy independence, he said. "The U.S. refiners have to do something to respond to increasing energy demands in the U.S.," Jones said. "So their choices are import more oil offshore from foreign sources or look to Canada and have a reliable source of crude oil to supply the refineries."

Jones said TransCanada already has firm long-term compacts on nearly 500,000 of the 590,000 barrels that will be transported along the route each day. That means passage along Keystone is nearly booked, and the line won't be able to supply South Dakota's other potential oil project -- the Hyperion Energy Center. Privately held Hyperion Resources of Dallas wants to build a 400,000-barrel-per-day oil refinery in either Elk Point -- which sits less than 50 miles from the planned Keystone route -- or another undisclosed Midwest location. The refinery would be built to handle Canadian crude, and the most obvious way to get it to a refinery is by pipeline, J.L. "Corky" Frank, a Hyperion project executive, told The Associated Press. "Our 400,000 barrels a day that we'd require for our refinery would probably be more than enough to justify a separate line, in and of itself, to serve this refinery as well as any other potential customers that were on that line," he said.

Frank said the U.S. needs more refining capacity, and building refineries inland to shield them from weather-related catastrophes such as hurricanes makes sense. The Hyperion Energy Center would produce ultra-low sulfur gasoline and diesel and be one of the most environmentally friendly in the world, he said. Its price tag has been estimated at between $8 billion and $10 billion, but Frank said the industry is changing daily, so the final cost could be

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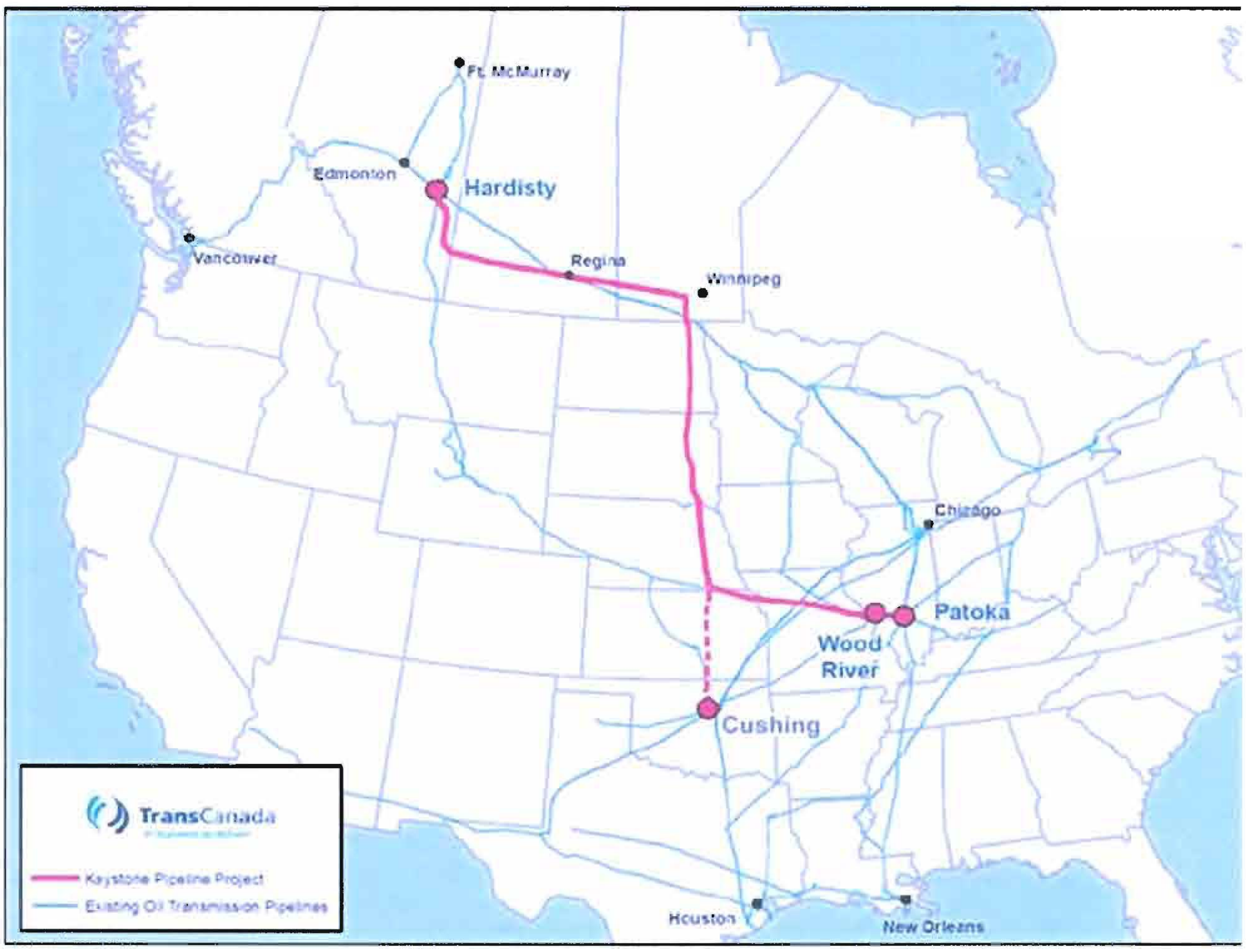
more or less. Frank said Hyperion is open to partnering with pipeline companies, producers and equity firms, but the company has yet to select a final site for the refinery and is keeping its options open.
"First thing you have to do before anybody wants to talk seriously about doing something is to have a site," Frank said. Throughout North America, companies are courting corporate partners to better tap into Canada's valuable resource.

TransCanada and Houston-based ConocoPhillips Co. signed an agreement in 2005 to use the Keystone pipeline to deliver crude to ConocoPhillips' Wood River, Ill. and Borger, Texas refineries, which are being expanded. The deal gives ConocoPhillips the right to up to a 50 percent ownership stake in the pipeline.



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In January, ConocoPhillips signed an agreement with EnCana Corp., a Calgary-based company specializing in recovery of oil sands bitumen -- the thick, gooey crude that's found in that part of the world.

The deal gives EnCana a 50-percent stake in ConocoPhillips' Wood River and Borger refineries in the U.S. in exchange for a 50-percent stake in EnCana's Foster Creek and Christina Lake oil sands properties in northeast Alberta. Encana spokesman Alan Boras said it's a win-win for both companies. "For us, we got access to the capacity to turn heavy oil into gasoline and diesel that goes to the market," Boras said. "And for ConocoPhillips, it got access to additional reserves so that its refineries can run efficiently and have a secure supply of oil." Boras said the partnership removes some of the market's price volatility. Canadian oil recovery companies typically get **20 to 30 percent less for their oil** compared to lighter crude, and that differential can climb as high as 50 percent when supply exceeds demand.

With a 50-50 partnership, the upstream partner makes more money when the crude is selling for more, and the downstream partner reaps the benefits when the price is cheaper. "So it integrated the business, and as a result you protected yourself or removed that risk of the volatility of price, both on each side of the equation," he said. The transition from foreign oil to Canadian crude was highlighted in 2006, when two pipelines typically used to move oil from the Gulf Coast area to northern Midwest points were reversed. **ExxonMobil reversed one of its oil pipelines so it could bring Canadian oil already running to Patoka, Ill. down to Texas. And Enbridge Inc., a major Canadian pipeline company, reversed its Spearhead Pipeline so oil could flow from Chicago to a major industry hub in Cushing, Okla.**, said Denise Hamsher, Enbridge's director of public and regulatory affairs in the U.S. "The economics being what they are, that secure supply is growing," Hamsher said.
Enbridge has several other major expansion projects in the works. One would expand its existing pipeline system, including pump station modifications in Alberta, Saskatchewan and Manitoba and new pipeline in Wisconsin and Illinois, to increase crude oil capacity to Midwest refineries and **beyond.** Another, called the Alberta Clipper, would construct a new crude oil pipeline from Alberta to Superior, Wis., to initially increase capacity to 450,000 barrels per day with potential growth to 800,000 barrels per day. **An additional pipeline running in the opposite direction along the same route would transport diluents -- light hydrocarbons used to thin Canadian crude so it can move through a pipeline -- up to Alberta.** Enbridge is teaming with ExxonMobil to assess the development of **a new pipeline project to transport crude from Patoka, Ill. to the Texas cities of Beaumont and Houston**. Other oil companies are also making moves in the industry: -- Houston-based energy company Marathon Oil Corp. is acquiring Western Oil Sands Inc. for $5.5 billion in a deal that would give the nation's fifth-largest refiner a 20-percent stake in the Athabasca Oil Sands Project. Shell Canada Ltd. and Chevron Canada Ltd. hold the remaining 60 percent and 20 percent stakes, respectively. Marathon stands to tap a net production of about 31,000 barrels of bitumen per day, increasing to more than 130,000 barrels per day by 2020. -- BP, which owns and operates a 600-mile long crude pipeline that moves oil from Oklahoma to Chicago, wants to reverse the line's flow if it can solicit enough long-term transport agreements. If demand warrants, the Viridian Pipeline could begin running north-south by the fourth quarter of 2009 with an immediate capacity of 100,000 barrels per day and potential for another 100,000 barrels, the company says.

AP researcher Rhonda Shafner in New York contributed to this report.

On the Net:
TransCanada Keystone Pipeline: http://www.transcanada.com/keystone/
Hyperion Energy Center: http://www.hyperionec.com/

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Encana Corp.: http://www.encana.com/
ConocoPhillips Co.: http://www.conocophillips.com/
Enbridge Inc.: http://www.enbridge.com/
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Conoco Has Big Plans for Alberta Oilsands, CEO Says

By Shawn McCarthy
20 Jul 2007 at 10:19 AM GMT-04:00 ***Resource Investor***

OTTAWA (CP) -- ConocoPhillips Co. [NYSE:COP] is prepared to spend billions of dollars on pipelines and refinery upgrades to allow it to process oilsands crude throughout its refinery network stretching to the U.S. Gulf Coast, the Globe and Mail reported on its website Thursday night.

Company chairman Jim Mulva said the extension of the pipeline network into the Gulf Coast would open a vast new market for Canadian oil sands producers and help ensure that oilsands projects that have already been proposed could go ahead.

The industry is worried, however, that federal and local governments on both sides of the border could create a regulatory logjam that would stall the planned investments.

Mulva said the rapid development of the Canadian oilsands is a key goal as the U.S. seeks to reduce its dependency on imported oil from outside North America, while still meeting rising gasoline demand at home. In a telephone news conference from Washington, Mulva said Conoco, the third-largest U.S. oil company, sees few hurdles in the way of the massive expansion of oilsands production, and is upgrading its fleet of refineries to handle the tarry crude.

* Last year, Houston-based Conoco and Calgary's EnCana Corp. [NYSE:ECA; TSX:ECA] joined forces to boost production in the oilsands, with Conoco gaining a 50% stake in oilsands projects such as Surmont and Christina Lake, while the Canadian company gained a 50% share in two of Conoco's refineries.

The two companies are already pouring in some US$5.3-billion to upgrade the Wood River refinery near St. Louis, and the Borger facility in northwest Texas to handle oilsands production. Now, Mulva said the company is considering extending pipelines and upgrading three refineries along the Gulf Coast to handle Canadian crude. Those facilities currently rely on declining U.S. production and imports from outside North America. *

"We're considering projects that we can do to upgrade capacity to the extent that we need to handle this type of oil at our Gulf Coast refineries," Mulva said, adding that the Canadian crude would replace dwindling U.S. production there. U.S.-based energy economist James Williams said access to the Gulf Coast would help ensure robust markets for vastly expanded oilsands production, **which could reach 3.5 million barrels a day by 2020.**

"There's no downside for Canada," he said. Not only would it provide a new market for

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production, but, in doing so, it would reduce the price differential that now exists between oilsands crude output and the benchmark light U.S. The prospect of an expansion of the U.S. market for Canadian crude comes just a week after Chinese oil officials pulled the plug on their involvement in the Gateway pipeline project that would deliver oil sands crude to the West Coast for delivery to Asian markets.

Industry insiders have long acknowledged that the Gateway pipeline project faced huge hurdles, because Alberta producers have shown a clear preference for the U.S. market, and the route would have required right-of-way deals with scores of native bands. Mulva said Conoco and EnCana expect to eventually produce 400,000 barrels a day of crude from two major oil sands projects, and will be looking to book pipeline space now. He said the industry as a whole will need additional pipeline capacity for roughly one million barrels within about five years.

TransCanada Corp.[NYSE:TRP; TSX:TRP] is planning to build the Keystone pipeline, which would connect Alberta with southern Illinois, near the Wood River refinery, with an extension into Oklahoma. It would have a capacity of 435,000 barrels a day in the initial stage to open in 2009, and 590,000 barrels a day for the final phase, which would be completed in 2011.

Enbridge Inc. [NYSE:ENB; TSX:ENB], is proceeding with the Alberta Clipper line that would carry 450,000 barrels a day into the U.S. Midwest. New pipeline construction would be required to ship the Canadian crude to the Gulf Coast, which is the refining hub of the U.S.

Mulva said the industry will need **accelerated regulatory reviews and permits** to get the pipeline built in time to meet the market demand. David MacInnis, president of the Canadian Energy Pipeline Association, said the expansion of the network to the Gulf Coast would be a major boon to Alberta oilsands producers. But he said the regulatory hurdles remain significant and could delay projects if the various jurisdictions don't work together to expedite the reviews.

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