

Post-Kyoto
thoughts
from the

Inside

BY WILL GIBSON

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Rob Andras
SENIOR DIRECTOR, CORPORATE COMMUNICATIONS,
PETRO-CANADA

PHOTOGRAPH BY JOHN GAUCHER



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SENIOR DIRECTOR, CORPORATE COMMUNICATIONS,
PETRO-CANADA

What changes do you foresee in your operations to reduce emissions? If you've already started, what are the changes, what are your costs, your anticipated ROI (or when you expect to recoup the cost in savings in your operations)?

"We already have a really good track record on emissions reduction. We are a member of the Voluntary Challenge & Registry, a joint industry-government body that has really pursued emission reduction through the 1990s until now.

"We have actually reduced our emissions one million tonnes annually since we started working on this in 1990. That one million tonnes is the equivalent of taking 150,000 mid-sized cars off the road. And in that time, we've seen 23% growth in total production.

"In 2001, our total greenhouse gas emission levels were 15% below 1990 levels, at 5.9 million tonnes (CO² equivalent). We have won awards for our efforts, including being a gold-level reporter for reporting on our emissions performance.

"We've reduced our emissions by going through a logical set of steps. That includes tuning engines and furnaces, minimizing flaring and fugitive emissions and all that kind of stuff. We've been looking at improving our energy efficiency wherever we could.

"Because we run a large suite of facilities, including three refineries and several gas plants, we're looking throughout our operations to reduce even more emissions. We are encouraged that we will be able to obtain additional detail from the federal government for additional mega-projects to go ahead.

"As for costs, there isn't sufficient information unless there is more detail regarding what the climate change regime will be as it applies to mega-projects after 2012.

"In terms of some of the measures that we've already taken to reduce emissions, some have required investment but not all of them. We insulated buildings, tightened valves and improved fuel efficiency, but we haven't calculated an aggregate figure of costs or what our return-on-investment would be."



Pierre Alvarez

PRESIDENT, CANADIAN ASSOCIATION OF
PETROLEUM PRODUCERS (CAPP)

What do you expect will be the impact of the Kyoto Protocol on the Alberta and Canadian economies?

"The controversy surrounding the Kyoto Protocol centres largely on the anticipated costs and benefits of the federal government's implementation plan and so far, about the only thing you can say with any certainty about Ottawa's plan is that it doesn't provide a lot of certainty.

"The problem is it's impossible to accurately determine the economic impact of Kyoto. There are too many gaps in Ottawa's plans and too few details to allow industries or provinces to do precise long-term calculations.

"Notably, the initial Kyoto period only extends to 2012. Multi-billion dollar oil sands projects, for example, have life spans measured in decades so a project announced today would hardly be up and running before the current Kyoto deal comes to an end. Then what happens?

"The federal government provided some clarity to the oil and gas industry by capping the price of CO² emission credits at \$15 a tonne and ensuring reduction targets will be no more than 15% of 2010 business-as-usual scenarios. However, that adds up to a \$250-million-a-year tax on an industry that already pays a premium on its federal taxes.

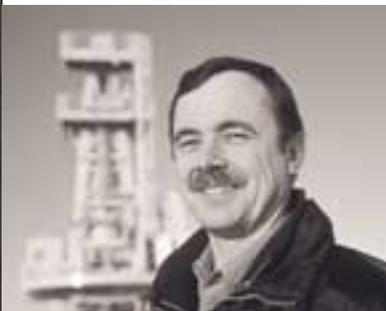
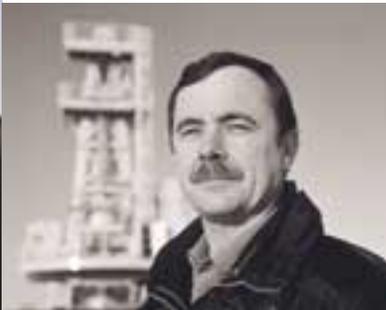
"Canada is also the only country with a growing energy sector that is forcing its oil and gas industry to absorb an additional financial burden associated with reducing emissions. Kyoto will add costs in hydrocarbon basins that are already some of the highest-cost places to produce oil and gas in the global market. Any extra cost can make an industry uncompetitive internationally and this remains CAPP's key concern with Ottawa's approach to climate change.

"If costs prove to be too high in the oil sands — or the Arctic or Atlantic Canada — it will drive investment elsewhere. Capital spending in the Canadian energy sector is about \$25 billion a year and if Kyoto curbs that investment, there will be consequences for regional development as well as federal and provincial social programs."



“When you travel the world and you see all the countries where smokestacks are spewing emissions, you come back and compare that to our emissions in Canada, (you see that our emissions) are marginal.”

Roman Konowalec
AREA MANAGER, NATIONAL OILWELL



PHOTOGRAPHY BY DUSTIN DELFS

Roman Konowalec

AREA MANAGER, NATIONAL OILWELL

While there was a lot of concern initially over the implementation of the Kyoto Protocol, what is your sense of the impact the protocol will have on the oil and gas service sector over the next five years or so?

“The Kyoto Accord will definitely have a very negative impact on National Oilwell’s domestic and North American market for consumables and parts. The distribution wing of National Oilwell does supply consumables and expendables such as valves, pistons and other parts for a lot of rigs that operate in North America and that side of our business will be hurt by Kyoto. And I think that will hold true for any company in the oil and gas service sector.

“But Kyoto, if anything, will have a positive effect for our manufacturing side, which essentially produces oil rigs for offshore and international markets.

“It will spur demand for more customers in the offshore and international markets because they will see the Kyoto Accord as an opportunity to increase their production and get a bigger chunk of the pie from the companies in countries that have signed on to Kyoto and have to cut output and production.

“For me, that is the strangest thing about this whole debate. When you travel the world and you see all the countries where smokestacks are spewing emissions, you come back and compare that to our emissions in Canada, (you see that our emissions) are marginal.

“The biggest problem with Kyoto is not knowing what the rules are going to be. It needs to be explained better by the federal government, but I don’t think they know themselves. That’s going to have an impact on how we, as a company, make decisions. And I believe that uncertainty will spread through this entire (oil and gas service) sector.

“Even though it might not necessarily hurt National Oilwell because we have a huge operation south of the border and about 90% of our sales are international, I believe the Kyoto Accord will ultimately be bad for Canada, and certainly, it will hurt the oil and gas service sector in Alberta.”



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“The industry gave a lot of hard talk about the effects of the treaty when they pointed out the language in the Kyoto Protocol literally. They were telling people, ‘Your jobs are at stake here.’”

Gordon Jaremko
EDITOR, OILWEEK



Gordon Jaremko

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How do you think the oil and gas sector handled the Kyoto issue? Were they reactive or proactive? Were they caught off guard, as some would lead us to believe? Do you think the perception of the Canadian public towards the oil and gas sector has changed and if so, how?

“I think the industry handled the Kyoto Protocol well. The best measure of that is the letter that Natural Resources Minister Herb Dhaliwal sent out to them over Christmas, where he basically told them the sting of the policy as far as the oil and gas sector is concerned. That included significant promises to cap the cost of reducing greenhouse gas emissions. From a practical point of view, the industry has sort of diluted the effects of the policy.

“The industry’s reaction was both proactive and reactive. It was reactive in the sense that the industry turned around and gave a lot of hard talk about the effects of the treaty when they pointed out the language in the Kyoto Protocol literally. They were telling people, ‘Your jobs are at stake here.’

“On the other hand, there was a very proactive response. The industry went to the Alberta government and got the kind of definition from the Alberta government that they wanted on emissions.

“The oil and gas industry has been acutely aware of the global warming thing through the 90s. There has been a fair amount of work done within the industry, and not just casting doubts on the science. It has had an effect. You notice it because of all the work that the industry has done on their compressors to reduce emissions.

“It won’t be a zero impact but it won’t be the end of the industry either.”

Dr. Joseph Doucet
REGULATORY ECONOMICS PROFESSOR,
UNIVERSITY OF ALBERTA



Dr. Joseph Doucet

PHOTOGRAPH BY JOHN GAUGHER, DUSTIN DELFS



“The industry is quite willing to participate in greenhouse gas reduction if we can plan for it. In fact, we already have some strategies here to reduce greenhouse gas.”

Real Doucet
VICE PRESIDENT, OIL SANDS
CANADIAN NATURAL RESOURCES



Real Doucet

“When you get past the political lobbying to the technical level of the industry, it has done a lot of work to kill two birds with one stone. They’ve worked to reduce costs and reduce emissions. The push to reduce the carbon dioxide emissions has also turned into a quest to find efficiencies.

“But the industry’s public image has taken a beating over Kyoto, especially outside of Alberta. It did not get any better for sure because the strong reaction, for somebody in Toronto, (they’d likely) say, “This is a smokestack industry and they don’t want to change.”

Dr. Joseph Doucet

H. & R. DRILLING PROFESSOR OF REGULATORY
ECONOMICS, UNIVERSITY OF ALBERTA

What do you expect will be the financial impact – specifically with regards to investment in the oil and gas sector, particularly the oil sands – as a result of the Kyoto Protocol in the short term and the long-term?

“In both the short and long term, I think that the impact of the Kyoto Protocol on investment will be somewhere between the predictions of the two opposing camps. It won’t be a zero impact, but it won’t be the end of the industry either.

“There are many cost challenges facing the oil and gas industry besides the Kyoto Protocol. If we

look at oil sands developments, there have been cost overruns on many projects. Those cost increases, which are due to project management and labour shortages, those issues are at least as important if not more important on the investment climate than the effect of the Kyoto Protocol or climate change regulations. The reason that they are important now is the clarity of the federal government’s implementation strategy, being that Ottawa will limit the company’s responsibility to \$15 per tonne of carbon dioxide and set the limit to quantity restriction of carbon dioxide emissions to 15% of the total.

“I think that it is dangerous and ill-advised to compare the Kyoto Protocol and its potential effect on investment with the National Energy Program. The two are not the same.

“The Kyoto Protocol will be a part of the overall assessment of companies who are investing in a project. It’s clear that it could play a role, but it’s important to note it is not the only impact and it won’t kill all investment in Canada.

“It would have been more acceptable for the industry if the U.S. would have stayed in the Kyoto Protocol because they are our largest trading partner. But obviously, it won’t change the decision made by the federal government. And, as for the impact on investment, many U.S. companies are either taking voluntary measures to reduce emissions or they are being forced to reduce emissions through state legislation.”

Real Doucet

VICE-PRESIDENT, OIL SANDS
CANADIAN NATURAL RESOURCES LTD.

In light of the ratification of the Kyoto Protocol, what do you think is the future of oil sands in Canada?

"The future, as we see it today, is somewhat uncertain. The main reason for this is the uncertainty created by the federal government by signing the Kyoto Protocol without a plan for implementation. That leaves us with some questions. How will the implementation happen? What will the industry have to bear in terms of reductions or credits that it will have to buy? Will it be in the form of a tax or a penalty or will we be forced to absorb a project that reduces emissions for greenhouse gases? There has not been a canvas for us to implement into an economic model.

"We have done a lot of lobbying to the federal government to try to get it to sit down with us and iron this out. We've heard Prime Minister Chrétien saying this won't hurt the economy, but the message isn't the same when we meet with the bureaucrats. The oil and gas industry needs the federal government to put down some numbers to see if we can live with this agreement. At this point, there is a little poking and prodding, but there are only two numbers published so far.

"The two numbers published that have been committed to by the federal government are a cap on the dollar per tonne of emission, which is \$15 per tonne, and the percentage of greenhouse gas emissions that would be subject to reduction, which is 15%. But these numbers are only valid until 2012. And these oil sands projects all have a lifespan of 25 to 50 to 75 years. By 2012, most of these investments will have barely started. Right now, having this cap until only 2012 does nothing for us because our project has a lifespan of 35 to 40 years beyond that.

"The industry is quite willing to participate in greenhouse gas reduction if we can plan for it. In fact, we already have some strategies here to reduce greenhouse gases. The problem is we don't know what level the federal government is going to impose on us." □

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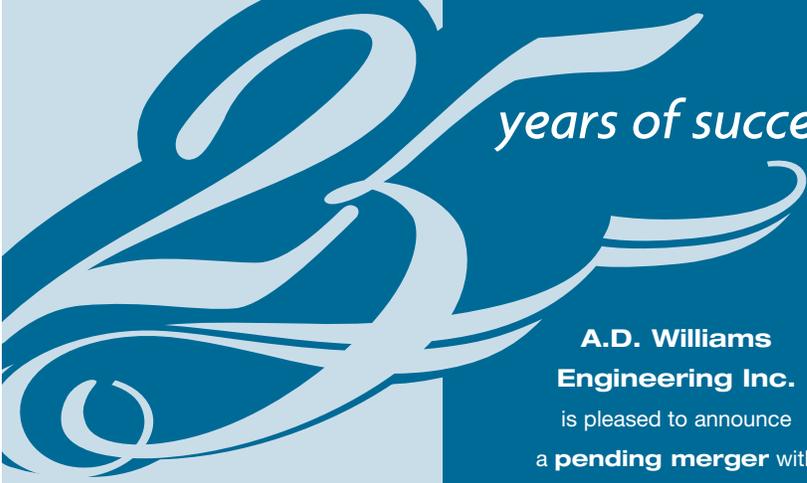
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