



Alberta plans \$7B refinery

Would be on par with giants in U.S. Gulf Coast

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CALGARY - The Alberta government and 16 industry sponsors are looking at building a giant, \$7-billion refinery complex near Edmonton, the first in North America in a quarter century.

The group, led by Alberta Economic Development, is getting down to the finer details of an ambitious strategy that started two years ago and could lead to a 300,000 barrels-a-day refinery and petrochemical complex that could be in operation as early as 2012.

The refinery would be the largest in Canada. It would be expandable to 450,000 barrels per day, putting it on par with the giant refineries of the U.S. Gulf Coast.

"There is a shortage of refining capacity in North America," said David Netzer, the Houston-based expert hired to fine-tune the plan, aimed at helping Canada's top energy-producing province squeeze the most value out of its booming oilsands development.

"People have seen the recent hurricanes in the U.S. Gulf Coast. They have 40% of the refining capacity and 80% of the petrochemical production in North America. It's by far better to distribute the capacity all across."

Plans call for the plant to be built near Red Water, a small community east of Edmonton. About 70% would be dedicated to processing bitumen (the tar-like substance derived from petroleum) into such fuel products as diesel, gasoline and kerosene. The remaining 30% would produce petrochemicals such as ethylene and propylene, used to make plastics, and synthesis gas for ammonia, used to produce fertilizer.

Diesel, the primary fuel product, would be shipped by pipeline to Prince Rupert on the B.C. coast for export to the Far East. Gasoline and kerosene would be exported to markets in North America, Mr. Netzer said.

No new refineries have been built in the United States in 30 years because of poor margins, community opposition and tough environmental permit requirements, said Steve Fekete, an expert with energy consultancy Purvin & Gertz. The last refinery built in Canada was Shell Canada Ltd.'s Scotford refinery, built in 1982 near Edmonton.

Recently, margins at existing refineries have improved and capacity has tightened, contributing to rising crude and gasoline prices. Hurricanes Katrina and Rita, which knocked off several refineries in the U.S. Gulf Coast and set gasoline prices on fire across the continent, showed how tight and how regionally focused the refining industry has become.

While companies thinking of building refineries have faced the not-in-my-backyard effect, the four municipalities surrounding the proposed complex near Edmonton are

among its most enthusiastic proponents.

Larry Wall, head of Alberta's Industrial Heartland Association, said the region has set aside a large land spread for industrial development. Already, it is the home of Shell's Scotford refinery and a fertilizer operation run by Agrium Inc. He said the association would like to see the area develop into a refinery hub on the same scale as the U.S. Gulf Coast, feeding off the huge increase in bitumen production from the Athabasca oilsands located 300 kilometres north.

"As a community, this type of initiative is about getting the most from every hydrocarbon molecule, and it's something we very much aspire toward," Mr. Wall said.

"We have this massive amount of production coming on stream," he said. "We can take \$12 to \$20 and create a job or two per barrel of bitumen, or we can create synthetic crude and spin off more jobs and get close to the benchmark crude price, or we can go to the next level and get \$68 to \$120 of incremental value and a spinoff of 15 to 20 jobs."

The study is backed by such industry heavyweights as Agrium, BP PLC, Canadian Natural Resources Ltd., Enbridge Inc., EnCana Corp., Nova Chemicals Ltd., Petro-Canada, TransAlta Corp. and TransCanada Corp.

"We are doing it because it is examining the potential for adding value to our resources contained in oilsands," said Alan Boras, a spokesman for EnCana.

Corey Bieber, a spokesman for Canadian Natural, said producers want to know whether lack of refining capacity impairs their ability to develop heavy oil. Production of bitumen is soaring because of large oilsands investment, but it gets sold at a heavy discount because it requires more processing in a tight market. Already, there are plans to build several upgraders in the province to elevate bitumen into a light, sweet oil.

"Does an integrated solution in Alberta make sense and does it fix that bottleneck?" Mr. Bieber asked.

The study undertaken by Mr. Netzer is the third in two years related to refining commissioned by the Alberta government. It will assess how to integrate a refinery with a petrochemical plant and define the best product slate. There are four refineries in Alberta and 15 in Canada.

The latest study was launched last week and is due for completion early next year.

An official with Alberta Economic Development said the refinery complex could take two years of design and planning and three to four years of construction.

He said the government hopes that once the study is completed, an industry group or company will step forward and build it.

"The margins on this look good enough that we don't believe finding someone to build it is going to be a problem," he said.

Last week, the U.S. House of Representatives approved a bill to encourage construction of new refineries, easing environmental protection rules despite the objections of many environmental groups.

Mr. Netzer said there are plans to build refineries in the United States, some advanced by Saudi Arabia and Kuwaiti interests, but, to his knowledge, none is as far along as Alberta's.

Judith Dwarkin, chief economist at Ross Smith Energy Group in Calgary, said after years of no investment, the bulk of new construction will likely emerge in the Middle East, where there is less resistance from communities.

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