

An Albertan's plan to ease Kyoto pain

Head of oil organization says 'hardship' can become 'economic opportunity'

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CALGARY -- The oil and gas industry may never love the Kyoto environmental accord, but Eric Lloyd at least wants the industry to learn to live with it.

He says the oil patch can save a billion dollars every year by introducing up-to-the-minute technologies for reducing greenhouse gases, which have the happy side effect of slashing energy bills and the amount of wasted reserves.

Although he has a green streak, Mr. Lloyd is no environmental lobbyist. No, he is a petroleum engineer with three decades of experience -- and the head of Petroleum Technology Alliance Canada, whose members include most of the big names in the oil patch.

He has a blunt message about Kyoto, which comes into force tomorrow, for conventional oil and gas producers. "It's not a hardship, it's an economic opportunity," Mr. Lloyd says, adding that oil sands operations face a much stiffer challenge.

Others have made the argument that reducing greenhouse gases can save money, but Mr. Lloyd's number-crunching goes much further, with PTAC building a business case for the oil patch to reduce its emissions by 29 megatonnes.

The essential thrust is this: Spend up to \$4-billion in five years to save a billion every year, with environmental outlays paying for themselves after no more than four years, and as few as four months. Those expenditures would not only save money, they'd also meet the cutoff point the industry uses to assess the profitability of projects that produce oil and gas, meaning that a company would be better off after meeting its greenhouse gas target than if it had left the money in the bank.

Most of the savings, \$780-million, would come from reducing energy use in the exploration and production end of the industry, with such expenditures paying for themselves in less than three years. Reducing fugitive emissions, which are unplanned but small gas leaks during transport and processing, would save another \$141-million a year -- and those cuts would pay for themselves in just four to six months, PTAC says.

Reducing leakage from natural gas storage would save \$21-million a year, because the resource could then be sold for a profit. Similarly, reducing the flaring and venting of natural gas by 25 per cent would not only eliminate three megatonnes of greenhouse gas emissions, it would save \$68-million a year.

PTAC's numbers could even be on the conservative side, because they don't take into account the most recent runup in natural gas prices.

Also, if the oil patch were truly able to attain 29 megatonnes in reductions, it's possible that some companies would be in a position to sell emissions credits.

The industry agrees on some of these points, particularly on the benefits of reduced flaring and venting.

Pierre Alvarez, president of the Canadian Association of Petroleum Producers, says the recent increase in commodity prices means the economics are now tilting toward capturing that gas, rather than wasting it.

But he questions PTAC's larger assertion that the industry can turn a profit from reducing greenhouse gases. Some producers that have recently spent billions on machinery and equipment would be at a severe disadvantage if they were to immediately scrap it in favour of a slightly newer version -- in essence, paying the same bill twice, Mr. Alvarez says. If governments want older equipment replaced more quickly, he says, they should rejig capital cost allowances to spur such expenditures. However, even such measures have their limits, Mr. Alvarez says. "You do hit a point where you reach the limit of technology and economics."

Mr. Lloyd has no illusions that the oil and gas industry is about to become a Kyoto enthusiast, saying it has been a struggle to win people in Calgary over to his point of view. Although investments in emissions-reduction technologies will turn a profit, it will not be as big as that to be had from exploring for and producing oil and gas, he says. "They have bigger fish to fry."

And even this self-described environmental pragmatist says five years will be needed to achieve the targets he lays out -- leaving the industry very little leeway to meet Kyoto objectives.

Mr. Lloyd says he believes Canada is not likely to meet the letter of Kyoto's law, but it is necessary to start reducing greenhouse gases, even if the means and technology to do so may not be entirely clear at the moment.

"If you decide to go to the moon, you'll get there."

Billion-dollar savings

Petroleum Technology Alliance Canada says oil companies could save more than \$1-billion a year by cutting greenhouse gas emissions. Here are the steps to those savings:

\$21-million from reducing losses from the storage of natural gas by 25 per cent.

\$68-million from reducing natural gas flaring and venting by 25 per cent, and selling the gas instead.

\$141-million from a 75-per-cent cut in fugitive emissions, which are unplanned but small leaks during transport and processing.

\$780-million through reducing, by 15 per cent, the amount of energy used by the upstream industry.