

Poweralternatives: TomCo Energy Hopes To Build Momentum On Its Utah Oil Shale Leases As Its Pathfinder Technology Partner Gets Construction Greenlight

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TomCo Energy, which is developing oil shale leases in Utah, found itself in a state of limbo of 2013. The AIM-quoted company is shadowing its technology partner Red Leaf Resources, which along with French oil giant Total is finally gearing up to start construction work on a neighbouring lease. TomCo doesn't plan to start its own construction effort until the Red Leaf Resources/Total project, known as Seep Ridge, de-risks the technology and delivers a convincing proof of commercial viability.

This has meant the AIM small-cap has effectively been on hold until privately-held Red Leaf was ready to move forward – and its plans to have an early production system up and running by now were derailed when it decided to over-permit its project to head off any environmental objections.

Red Leaf's technology, known as EcoShale, is a zero discharge facility and didn't technically require a ground-water discharge permit. But vehement opposition from Living Rivers, a Sierra Club affiliate, meant the company decided to gold-plate its application by acquiring one anyway. This required additional water-bore drilling work, form-filling and consultation, which accounted for most of last year until in December 2013 Red Leaf had all its permits.

"They are now moving forward, and will be moving first soil in Q2, construction will start in Q3, firing the capsules in Q4, ready for first oil in Q1 next year," says TomCo CEO Paul Rankine, who has a background in mining and fund management.

While these developments will be closely watched by TomCo, the key milestone for the AIM company will come in Q2 2015 when Total is due to make its final investment decision on Seep Ridge. The French oil giant is paying 80 per cent of the first US\$400 million spent to commercially develop Seep Ridge project for a 50 per cent stake. The investment will come in two phases: the first involves a US\$200 million spend on an early production system to prove the commercial scalability of the EcoShale process before Total makes an FID on the remaining US\$200 million. This agreement, of US\$320 million for a 50 per cent stake, gives an implied valuation of US\$640 million or US\$5.38 per boe; by contrast, as Rankine is keen to point out, TomCo's current EV valuation is US\$0.32 per boe.

Closing that valuation gap, of course, is going to hinge on Red Leaf delivering proof of concept through its EPS to secure the Total FID. This endorsement of the technology and the commerciality of the project would kick-start TomCo's financing effort to begin its own development work on its 100 per cent owned Holliday Block, where there's a JORC measured resource of 126 million barrels of oil. The AIM company is already benefiting from Red Leaf's pathfinder experiences: it has used Red Leaf's permit applications, including its responses to Living



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Rivers opposition, as the template for its own applications and used the same consultants for the site specific work, and hopes to get tentative approvals around mid-year.

Living Rivers are concerned that these developments will contaminate groundwater that will eventually leach into the Colorado River. Yet Rankine believes such fears are unfounded, pointing out that only three of the water bore-holes drilled close to the oil shale found water, and that the water was minimal and high in arsenic.

"The water was very meagre and very contaminated and it's also 950 feet below the surface and the permeability of the rocks is such that if there was a contaminant on the surface it would take 3,000 years for it to permeate down," explains Rankine, adding that the water wells will be kept open to allow for ongoing testing for contaminants as work gets underway.

Of course, one of the attractions of the EcoShale technology is that it uses minimal water and the spent oil shale is dry so the risk of groundwater contamination should be low. The oil shale is mined and placed in a series of large clay-lined capsules that are slowly heated to release the oil from the shale – it is the slow heating that makes EcoShale a less expensive and energy-intensive process than in-situ extraction techniques being pioneered by the likes of Shell and ExxonMobil. Collection pipes at the top and bottom of the capsule recover wet gas and oil, after which the spent capsules are sealed to prevent water contamination. The eyesore of open mining and stacked spent capsules doesn't sound pleasant but as Rankine points out, this is desert scrub 60 miles from the nearest population centre.

"The local council is really really supportive of us and the State is also very keen on us moving forward," he reports.

The company's burn rate until Total's FID in Q2 2015 is US\$1.8 million and at the time of its results in November it had £1.3 million (US\$2.17 million) in cash. It does have additional financing options should it need them: it holds US\$5 million of Red Leaf stock, which, now that the company is moving into the construction stage and eyeing an IPO on the NYSE, is looking a lot more liquid, as well as a liquidity facility with Windsor Capital, which Rankine says is a more cost-effective way of raising capital than discounted placings that carry high commissions. After the hiatus of 2013, it certainly seems as if there's momentum building for these oil shale pioneers in Utah. For Rankine, it helps that Red Leaf, increasingly confident now that its permits are in place, is willing to engage publicly, having hired a PR and IR to help ready for an NYSE listing, which should bring more transparency and credibility to its operations.

"It's always quite difficult when a public company is partnered with a private company," he concludes of last year's meagre newsflow. The hope is that 2014 will bring a ready stream of news as Red Leaf reaches key milestones and builds credibility for TomCo's follow-on project.

Analysts are Fox Davies Capital certainly anticipate this. "2014 should prove a very interesting and potentially transformational year for the company," said the analysts.
