

Alberta Wildfire Insured Losses Could Total \$7.3B, Covering Area Bigger Than NYC

By Scott Deveau, Robert Tuttle and Rebecca Penty | May 6, 2016

The wildfires ravaging Canada's oil hub in northern Alberta have rapidly spread to an area bigger than New York city, prompting the air lift of more than 8,000 evacuees as firefighters seek to salvage critical infrastructure.

The inferno around Fort McMurray has destroyed homes, forcing more than 80,000 people to flee, disrupted Western Canada's oil-sands operations and may become the costliest catastrophe in the country's history with insurance losses potentially reaching C\$9.4 billion (\$7.3 billion).

Responders Thursday were concentrating efforts on protecting key facilities such as the airport and the water treatment plant after the blazes grew to 850 square kilometers (328 square miles), ten times the size of Wednesday, Alberta Premier Rachel Notley said at a press briefing.

"That's where a lot of work has been going on to ensure the recovery can go along faster if the key infrastructure pieces are still in play," she said. "That ultimately has a major impact on the recovery costs down the road between the various levels of government and insurers."

Oil Sands

The wildfire is the latest blow to a province already grappling with the economic toll of a two-year oil price slump in one of the world's most expensive places to extract crude. More than 40,000 energy jobs have been lost in Canada since the price crash began in 2014.

Royal Bank of Canada estimated that as much as 1 million barrels a day of production was shut because of the blaze, or about 40 percent of oil sands output, as companies including Suncor Energy Inc., Cnooc Ltd.'s Nexen, Royal Dutch Shell Plc, and ConocoPhillips reduce production and open work camps to residents escaping blazes in the Alberta's biggest-ever evacuation. Inter Pipeline Ltd. shut part of its system in the province. The disruptions pushed up the price of oil sand crude.

Major oil sands sites are near Fort McMurray and are concentrated to the north while the fire is to the south. Fire danger to their operations is likely to be minimal.

More Evacuations

"Eighty percent of the oil sands are located deep underground and can only be extracted through an in-situ drilling process," Chelsie Klassen, a spokeswoman for the Canadian Association of Petroleum Producers, said in an e-mail. "The remaining twenty percent is minable from the surface and predominantly located north of Fort McMurray. Hydrocarbons can burn under the right conditions, however oil sands would burn at a much slower pace considering its composition with sand."

Changing weather patterns prompted Alberta's provincial government Wednesday evening to evacuate two communities more than 35 kilometers (22 miles) south of Fort McMurray — Anzac and Gregoire Lake Estates — as well as Fort McMurray First Nation, according to a tweet by the Regional Municipality of Wood Buffalo.

All Gone

“My house and everything I own is gone,” Mike Marchand, a crane operator for Suncor, said in a phone interview from Edmonton, where he evacuated with his family after the trailer park where he lives in Fort McMurray went up in flames. “I’ve never had anything like this happen.”

No deaths or injuries have been reported although 1,600 buildings have been damaged. Conditions remained extreme with a total of 49 fires burning and seven considered “out of control,” according to a government statement Thursday. More than 1,110 firefighters, 145 helicopters, 138 pieces of heavy equipment and 22 air tankers are fighting the fires.

A total of 25,000 residents of Fort McMurray, about 700 kilometers northeast of Calgary, fled north to nearby sites where companies are flying out workers and making room for evacuees. Shell has shut its 255,000 barrel-a-day Albion Sands mine and Suncor, Syncrude Canada Ltd. and Connacher Oil & Gas Ltd. have also reduced output from the region.

The firefighters’ efforts have managed to prevent major damage at the city’s airport when it was threatened by the blaze Wednesday, officials said. The airport is now being used to help to coordinate response efforts. The same efforts were underway at the water treatment plants, hospitals and major transportation coordinators, said Notley, who marked her one year anniversary of being elected to office Thursday.

Insurance Losses

There is no timeline for when residents might be able to return to their homes or estimates of the cost of the damages. The one hopeful sign was that the wind had shifted Thursday so it was blowing the flames away from the community, officials said.

Insurance losses could reach that high if nearly all homes, cars, and businesses in the Fort McMurray area were destroyed and owners filed a claim to insurers, according to a research note to clients from Bank of Montreal analyst Tom MacKinnon. He said it’s more likely that one-quarter to half of assets would be damaged, leading to total insurance industry losses of C\$2.6 billion to C\$4.7 billion, as much as quadruple the costliest Canadian natural disaster, flooding also in Alberta three years ago.

Unpredictable Fire

The annual wildfire season in Western Canada started early this year after a dry winter and low spring rainfall. Officials have yet to identify a direct cause for the inferno, which quickly strengthened Tuesday afternoon and caught emergency responders by surprise.

An out-of-control blaze in 2011 caused an estimated C\$700 million (\$545 million) in damage after burning 47 kilometers and forcing some oil and gas operations to shut around Slave Lake, also in northern Alberta. Oil sands operations belonging to Canadian Natural Resources Ltd. and Cenovus Energy Inc. were disrupted last year by a blaze near Cold Lake.

The current evacuation has been hindered by the unpredictability of the fire, which on Tuesday afternoon breached Highway 63, the main road in and out of Fort McMurray, south of the community.

Canada's Public Safety Minister Ralph Goodale pledged federal support for Alberta, while the national government dispatches military planes to the region. Fort McMurray faces a long road ahead to rebuild, Goodale said at a briefing. "The recovery from this situation is going to take a considerable amount of time."

Disaster Movie

Videos posted to Twitter as residents were trying to escape showed vast tracks of trees being swallowed by fire along Highway 63, the forest floor engulfed in flames and the sky thick with smoke. Helicopters flew overhead on their way to fight the fire.

Sheldon Dahl, a 36-year-old husband and father of three, braved flames that lapped at the sides of Highway 63 as he headed south through a sky of orange in his minivan, smoke seeping into the vehicle for the worst five-minute stretch of the drive leaving Fort McMurray.

"It felt like I was in a disaster movie," Dahl said. "It was surreal."