



Former Canadian Resident and Oil Baron Puts the Keystone Pipeline in Terms Even the U.S. Government should Understand

Description

A man who once called Canada home for a short time still has kind us Canadians. T. Boone Pickens has been preaching energy independence in the United States for several years now. A major part of his plan includes leveraging the country's massive natural gas reserves, but it does not overlook such other obvious options such as increasing oil production and accepting generous offers from friendly energy rich neighbors like Canada. These efforts would decrease the necessity for oil from less friendly countries.

The citizens of the United States are still waiting on a decision from President Obama as to whether or not the Keystone Pipeline will be allowed to cross the border. Lobbyists from both sides are lined up in an attempt to sway the decision.

During an [interview at the Milken Institute Global Conference](#), Mr. Pickens broke down this seemingly monumental decision into what appears to be very simple terms.

Mr. Pickens stated, "It would be somewhat like your neighbor telling you that they wanted to fix your turkey for you for Thanksgiving and had a beautiful thirty pound turkey and you knew they could cook and you said... Well, let me think about it for a while whether I take the turkey or not. Well that's the Keystone Pipeline, I mean it is Thanksgiving turkey for us (the U. S.). It's for us."

It really seems simple when you think about it that way. However you then have officials like U.S. Representative Henry Waxman making a statement that he was not going to let the oil from the Ft. McMurray oil sands be produced because of the CO₂ emissions from that production. This was according to Mr. Pickens during a conversation he had with Rep. Waxman. Of course Mr. Pickens quickly set him straight letting him know, "Canada doesn't even know who the hell you are. Congressman from California? Canada is another country. They don't care whether you want CO₂ or whatever; they don't pay any attention to you."

Mr. Pickens views Canadians as proud people and patient people that feel kinship to the United States, "but they are not fools". He is certain if the U.S. does not approve this pipeline it will simply

head west sending these vast resources to China. Canada is giving the U.S. first dibs and many would benefit from Obama's approval.

The beneficiaries

The biggest benefactor to the United States accepting the turkey from Canada is without a doubt, the United States. This explains why Mr. Pickens appears so dumbfounded by the comments of Rep. Waxman and the constant foot dragging by the U.S. government to approve the pipeline.

Of course, there are many companies in Canada that stand to benefit from the pipeline, and investors of course stand to benefit from their success.

From a company standpoint, the most obvious beneficiary would seem to be the owner and operator of the pipeline, **TransCanada Corporation** ([TSX: TRP](#)). When completed, the entire Keystone pipeline system is expected to have a capacity of 1.4 million barrels of oil per day which is enough capacity to handle 33% of Canadian oil exports. This \$14 billion investment is expected to produce \$1.7 billion of contracted EBITDA once it is completed. The Keystone XL when completed will account for 830,000 barrels of this capacity and \$5.3 million of the total investment.

In addition to pipeline operators like TransCanada, the producers stand to gain from the additional takeaway capacity as they focus on growing production.

If you are looking for experience, oil sands pioneer **Suncor Energy Inc.** ([TSX: SU](#)) is certainly worth a look. The company was the first to develop the oil sands and produced 276,000 barrels per day in the second quarter of this year which was down from 309,200 in the prior year due to both planned and unplanned events. Suncor has approximately 6.1 billion barrels of reserves and 17.8 billion barrels of contingent reserves in the oil sands.

A more pure play in the oil sands is **MEG Energy Corporation** ([TSX: MEG](#)). The company's production of over 32,000 barrels per day comes exclusively from its oil sands projects. The company is currently executing a strategy to increase production to 80,000 barrels per day by 2015 making additional takeaway capacity important to this focused oil sands player. MEG has an estimated 2.6 billion barrels of proved and probable reserves with an additional 3.4 billion barrels of contingent resources.

For a higher yield with exposure to the oil sands, one might take a look at **Cenovus Energy Inc.** ([TSX: CVE](#)). The stock is currently yielding roughly 3.3% and grew its oil sands production in the second quarter by 17% to 93,797 barrels per day. The company's production is more balanced then MEG with approximately 45% of oil production coming from conventional methods. Cenovus currently has proved and probable reserves of 2.4 billion barrels and contingent reserves totaling 9.6 billion barrels.

Investors that like a fully diversified approach should take a closer look at **Imperial Oil Limited** ([TSX: IMO](#)). Imperial is a fully integrated energy company with exploration, production, refining and marketing operations. During the second quarter the company produced approximately 216,000 barrels of oil from its oil sands operations. Imperial recently expanded its interest in the oil sands when it agreed to buy a 27.5% interest in the Clyden oil sands lease comprised of 226,000 gross acres. Imperial has approximately 2.84 billion barrels of proved oil reserves in the oil sands and an additional 599 million barrels thanks to its 25% interest in the Syncrude joint venture.

Final thoughts

It is still unclear whether or not President Obama and the U.S. will approve the Keystone XL. Either way, Canada will produce and export this vital resource. Regardless of who is on the receiving end, the Canadian pipeline operators and oil sands producers stand to gain from increased exports which are expected to expand. Even with the Keystone XL pipeline being brought online, it is expected that new pipeline capacity will be required by 2017 in order to take away the additional production.

So is approving the Keystone XL really as simple as Thanksgiving turkey? I think it is.

Another way to play

Though oil and gas tend to grab most of the attention when it comes to energy, there is another way to play this space. Uranium – the key ingredient in nuclear power – has the potential to be *the* energy source of the next 100 years.

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1. Investing

TICKERS GLOBAL

1. TSX:CVE (Cenovus Energy Inc.)
2. TSX:IMO (Imperial Oil Limited)
3. TSX:SU (Suncor Energy Inc.)
4. TSX:TRP (TC Energy Corporation)

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