



## Is Alberta's 'Bitumen Bubble' About to Re-emerge?

### Description

*By: Robert Baillieul*

Is Alberta's 'bitumen bubble' about to re-emerge? Doug Horner, Alberta's Minister of Finance, [warned that the discount for oil sands crude](#) is likely to increase when he told the press on Friday, "Our bitumen bubble has taken a bit of a holiday. But we're pretty certain that, like a bad penny, it's going to return."

With the province projecting a growing discount for Alberta oil, should investors be concerned as well?

### Another bitumen bubble unlikely...

There's been a lot of focus on the difference between the price of Western Canadian Select and West Texas Intermediate; the discount for Alberta bitumen exceeded \$40 per barrel last winter. However, as producers find innovative ways to access the marketplace, this spread has narrowed significantly. Investors should expect this trend to continue for a couple of reasons.

First, there's a lot of new pipe being laid. **Enbridge** (TSX: ENB, NYSE: ENB), responsible for shipping two-thirds of Western Canada's crude oil exports, has been quietly expanding capacity. The company has launched a series of initiatives including the reversal of its Line 9 route, eliminating bottlenecks to refineries in the Chicago area, and twinning the Spearhead and Seaway pipeline. Management projects that these efforts will increase export capacity by 1 million barrels per day by mid-2015.

Second, resistance to new pipeline proposals is falling. While **TransCanada's** (TSX: TRP, NYSE: TRP) [Keystone XL pipeline remains bogged down in political gridlock south of the border](#), the company is optimistic about its recently proposed Energy East project. If approved, Energy East will ship 1.1 million barrels per day of Alberta crude to refineries on the country's east coast. And while some analysts are concerned about political pushback from Quebec, Premier Pauline Marois [gave some upbeat comments](#) last week about the prospect of shipping bitumen through the province.

We've seen similar developments on the west coast. In July, Alberta's premier Alison Redford and British Columbia's Christy Clark [announced](#) that they would work together to "build new markets and

get the highest price possible for the resources owned by the people of our two provinces.” It’s a huge step forward as the two premiers try to resolve differences over bitumen pipelines — and it’s good news for the Enbridge Northern Gateway and the **Kinder Morgan** Trans Mountain Expansion proposals.

The following table helps provide an indication of some of the legacy pipelines that exist and their respective capacities, as well as the planned pipelines and what they bring to the table.

**Chart: Major Existing Crude Oil Pipelines and Proposals Exiting the WCSB**

| Pipeline                           | Capacity (000s b/d) | Target In-Service   |
|------------------------------------|---------------------|---------------------|
| Enbridge Mainline                  | 2,500               | Operating since 195 |
| Kinder Morgan Trans Mountain       | 300                 | Operating since 195 |
| Spectra Express                    | 280                 | Operating since 199 |
| TransCanada Keystone               | 591                 | Operating since 201 |
| Enbridge Alberta Clipper Expansion | +120                | Q3 2014             |
| TransCanada Keystone XL            | +830                | Q4 2015             |
| Enbridge Alberta Clipper Expansion | +230                | Q1 2016             |
| Trans Mountain Expansion           | +590                | Q4 2017             |
| Enbridge Northern Gateway          | +525                | Q4 2017             |
| TransCanada Energy East            | 1,100               | Q4 2017             |

Source: CAPP Crude Oil Forecast, Markets & Transportation

### ...and last but not least

The nation’s railways have rushed in to fill the gap in pipeline transit capacity. In the space of two years, the amount of [oil shipped by rail in Canada](#) has nearly tripled to almost 300,000 barrels per day. Without new pipeline capacity, that figure will likely continue higher.

With new transit capacity emerging through pipeline and rail, Alberta's bitumen will find a market and the spread isn't likely to widen further.

**although.....**

Of course, there're some obvious roadblocks in this optimistic assessment. Many of the options listed above are still *proposals*. Northern Gateway and the Trans Mountain Expansion still face a long political battle and it's still too early to tell how Energy East will play out. Fears of a crude-by-rail slowdown related to July's Lac-Mégantic derailment have also shaken the public's confidence in rail transit safety. And, surging production from the North Dakota Bakken is outcompeting Canadian producers for pipeline space.

If the bitumen bubble were to re-emerge, it would be non-integrated names like **Canadian Natural Resources** (TSX: CNQ, NYSE: CNQ) that would be the most negatively impacted. Unlike **Suncor** or **Cenovus**, Canadian Natural Resources has little upgrading or refining capacity to hedge against a wider differential. Given that that company exports mostly raw bitumen, it's more exposed to the changing spread than its integrated peers.

### **Foolish bottom line**

Investors shouldn't be too concerned about the Alberta government's oil price projections. The province has been routinely criticized for its over-optimistic guidance before. These cautious estimates are probably an attempt to address those criticisms.

However, the fate of the oil sands will rest on the industry's ability to access the market. Therefore, investors should pay less attention to the production reports from Fort McMurray, but rather the political rhetoric out of Vancouver, Montreal, and Ottawa.

Should all of the proposed pipelines come to fruition, it's not a stretch to think that oil from Canada could one day make its way to China. But what many don't realize is that Canada is already helping to power China by way of uranium – the key ingredient for nuclear power. To clue you into two of the best uranium companies in Canada, the Motley Fool has prepared a special **FREE** report titled "[Fuel Your Portfolio With This Energetic Commodity](#)". To receive your copy at no charge simply [click here](#) now!

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*Fool contributor Robert Baillieul does not own shares in any of the companies mentioned. The Motley Fool does not own shares in any of the companies mentioned.*

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