Enbridge's Northern Gateway Pipeline is One Step Closer to Approval

Description

In a rare piece of good news for Canada's oil sands industry, **Enbridge's** (TSX:ENB)(NYSE:ENB) Northern Gateway pipeline appears one step closer to becoming reality. The governments of British Columbia and Alberta have agreed to cooperate in order to facilitate the approval of the pipeline.

This leaves energy industry pundits now predicting that formal approval for the pipeline will be given by the National Energy Board before the year's end — good news for an industry battling inadequate transportation infrastructure and production bottlenecks, affecting access to key markets.

Just what is the Northern Gateway pipeline?
The Northern Gateway will be a twin pipeline, with one carrying crude and the other condensates. It will run for 1,177 km, from Bruderheim near Edmonton in Northern Alberta, through Northern British Columbia to the deep-water port of Kitimat. The capacity of the pipeline will be 525,000 barrels of crude and 193,000 barrels of condensate daily.

Enbridge expects that it will cost $5.5 billion to construct and analysts have predicted that on completion it will add around 2% in earnings to Enbridge's bottom-line.

Just how important is pipeline for Canada's oil industry?
This ability to access Asian markets is particularly important for Canada's oil industry because it is expected that demand from the U.S. will gradually diminish over time.

Since 2006 U.S. crude production has grown rapidly on the back of the explosive growth of the domestic shale oil industry. The U.S. Energy Information Administration recently reported that U.S. crude oil production hit a 24-year high in October 2013. For that period U.S. oil production also exceeded crude imports for the first time since February 1995.

The International Energy Agency also recently reported that it expects the U.S. through improved energy efficiency and the boom in unconventional oil to become almost energy self-sufficient by 2035. All of which emphasizes the importance of the Canadian oil industry being able to access alternate energy markets.

One of the most important markets is the Asian energy market and in particular China with China now the world's largest net importer of crude. The International Energy Agency also estimates that South East Asia's net oil imports are expected to double by 2035. Making the region a critical market for Canada's oil producers.

What does all this mean for investors?
The decision by both provincial governments to cooperate and establish a framework to promote approval of the pipeline is also positive news for investors. On completion the pipeline will reduce the transportation bottlenecks that are threatening the margins and profitability of Canada's major crude producers.

Allowing companies like **Suncor**, **Canadian Natural Resources**, **Imperial Oil** and **Cenovus** to grow oil reserves and production by developing existing assets and bringing new projects online. This will not only boost reserves and production volumes but also lead to higher profitability.

Any significant increases in asset values and profitability will translate into higher dividend payments and share prices for investors. Unlocking value for shareholders in an industry that has under-performed for some time.

It is also a boon for Enbridge, if approved the pipeline will allow it to cement its position as a leading provider of oil transportation infrastructure and further boost revenue and earnings.

Foolish takeaway
This is an important step for gaining final approval for the construction of the Northern Gateway pipeline and is a positive outcome for an industry struggling with inadequate transportation infrastructure. It will also provide access to vital high growth Asian energy markets and reduce dependency on the U.S. as Canada's key export market for crude.

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