Is TransCanada's Keystone Pipeline Obsolete?

Description

Once touted as the key to solving Canada's growing oil transportation bottlenecks, **TransCanada's** (TSX:TRP, NYSE:TRP) Keystone pipeline is fast shaping up as the "pipeline no longer required." Long delays in the approval of the crucial northern leg of the pipeline have caused Canada's oil industry to look elsewhere for solutions to resolve transportation bottlenecks.

Changing dynamics in the consumption of Canada's oil, along with the industry's need to access crucial energy markets in Asia, have further added to the pipeline's irrelevance.

But the urgent need for the construction of more oil transportation infrastructure is underscored by the expected rapid growth in crude production. Earlier this year, the Canadian Association of Petroleum Producers forecasted that crude production would increase 53% to 4.9 million barrels per day by 2020.

Other players are stepping in to fill the gap

Already, **Enbridge** (TSX:ENB, NYSE:ENB) has seized the opportunity with a range of proposed pipeline developments, the most crucial being the Northern Gateway pipeline. Once complete, this pipeline will allow Canada's oil companies access to critical Asian energy markets.

Enbridge has also scheduled nine pipeline extension and expansion projects for 2014, which should increase the transportation capacity of its network by 1.88 million barrels of crude per day.

Midstream companies like **Keyera** and **Gibson Energy** are also stepping in to fill the gap. Both have their own infrastructure networks and are expanding transportation and storage facilities in anticipation of oil and gas production continuing to grow.

Finally, Canada's rail industry is also well-positioned expand its transportation of crude. The rail industry continues to boost its transportation capacity by purchasing more specialized rolling stock and developing new terminals focused on transporting crude. Last month, **Canadian National Railway** stated that moving crude by rail is one of its fastest-growing businesses.

U.S. domestic production = falling demand for Canadian oil

The U.S. is the key export market for Canadian crude, taking around 98% of all oil produced. But U.S.

demand is set to fall — the International Energy Administration expects the U.S. to eclipse Saudi Arabia and become the world's largest oil producer by 2017.

The shale oil boom has caused this rapid rise in U.S. domestic oil production. Along with growing energy efficiency, the boom will result in the U.S. becoming almost self-sufficient, according to the International Energy Agency.

This point further highlights the growing irrelevance of the Keystone pipeline, which is intended to transport Canadian crude to its key customers, U.S. Gulf Coast refineries.

Diminishing U.S. demand will force Canada's oil industry to find alternate export markets. The most obvious is Asia, where China is now the world's largest net oil importer. The International Energy Agency has also forecasted that southeast Asia oil consumption will more than double by 2035, making it a key export market.

The easiest way for Canadian oil producers to access Asian markets is via the west coast of Canada. Once crude and natural gas is transported there, it can be shipped by tanker across the Pacific Ocean to ports in Asia — which underscores the importance of Enbridge's Northern Gateway pipeline, set to run from Bruderheim in Northern Alberta through Northern British Columbia to the deep-water port of Kitimat.

Foolish final thoughts
Growing U.S. energy self-sufficiency and declining U.S. demand for Canadian crude indicates that the Keystone pipeline is fast becoming obsolete. That's particularly true with infrastructure players such as Enbridge, Keyera and Gibson along with Canada's major rail companies stepping in to fill the transportation gap.

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Date
2025/09/14
Date Created
2013/11/27
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