



Oil Sands 105: What is Diluent and Why is it Important?

Description

Canada's [oil sands](#) (Oil Sands 101) contain an incredible amount of oil. [Energy companies](#) (Oil Sands 103) can extract that oil by way of [two completely different processes](#) (Oil Sands 102) depending upon how close the oil is to the surface. That said, there are many [environmental risks](#) (Oil Sands 104) to the process that could impact future production from the oil sands.

For investors, there are a lot of factors that could impact an investment in an oil sands producer. One area that few investors likely consider is the importance of diluent to the process. In this fifth and final part of our deep dive into the oil sands, we'll explore what diluent is and why it's important.

What is diluent?

Diluent is a diluting or thinning agent and it's really important to the oil sands. That is because the bitumen that makes up Canada's oil sands is too viscous or thick to be pumped through a pipeline. At cold temperatures bitumen has the viscosity that is somewhat like molasses. By diluting the bitumen it can more easily flow through pipelines to be refined and sold.

The typical diluent for the oil sands is natural gas condensate, though shippers also used refined naphtha or synthetic crude oil. Condensate is rather plentiful in America as drillers have focused on higher value natural gas liquids such as ethane and propane. These wells also typically contain a fair amount of condensate, which is also known as natural gasoline.

Why is it important?

Without some sort of diluent, **Suncor Energy** ([TSX: SU](#)) ([NYSE: SU](#)) and its oil sand producing peers could not get their oil to market centres. That's why, for example, we recently saw Suncor Energy team up with **Enbridge** ([TSX: ENB](#)) ([NYSE: ENB](#)) on two separate diluent related pipeline projects after it and its partners gave the [green light on the Fort Hills](#) oil sands project.

Enbridge is investing \$1.4 billion to build the Norlight Diluent Pipeline that will supply the region with the diluent it needs to ship the oil out. Enbridge is following that project with its \$1.6 billion Wood Buffalo Extension Pipeline that will transport the diluted bitumen from Fort Hill as well as Suncor's other

oil sands projects in the region.

Enbridge isn't the only company working to get diluent to the region. Earlier this year **Enterprise Products Partners** ([NYSE: EPD](#)) announced it would develop a project to ship diluent quality natural gasoline from Texas to Chicago where it could then be shipped to Western Canada on either Enbridge's Southern Lights pipeline or **Kinder Morgan's** ([NYSE: KMI](#)) Cochin pipeline. The connections to those pipelines is expected to come online by early next year.

Bottom line, ample supply of diluent is critical to getting Canada's oil out via major pipelines. This includes current export pipelines like those from **TransCanada** ([TSX: TRP](#)) ([NYSE: TRP](#)) which currently handles a third of Canadian oil exports, as well as future projects like its Keystone XL and Energy East or Kinder Morgan's Trans Mountain Pipeline expansion. Diluent coming into Canada means diluted bitumen can flow back out of the country.

Investor takeaway

Moving diluent will be an important fee generator for pipeline companies. Enterprise Products Partners and Kinder Morgan have both reversed the flow of underutilized pipelines in order to take advantage of the growing need for diluent in Western Canada. At the same time TransCanada and Enbridge will be transporting a growing amount of diluted bitumen produced by companies like Suncor and exporting it to the United States. It's just one of the many interesting opportunities to profit from the development of Canada's oil sands.

CATEGORY

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