



Do We Even Need the Keystone XL Pipeline?

Description

The prospects for **TransCanada's** (TSX:TRP, NYSE:TRP) Keystone XL pipeline received a major boost last week after a study from the U.S. State Department found no major environmental objections to the mega project. The report had been a key hurdle for the 1,800 kilometre pipeline which has been deemed essential to the development of the Alberta oil sands.

But is the pipeline as critical as the media has made it out to be? Five years ago this was certainly true. Keystone was the only option on the table. But as the United States dithers on its decision to approve the project, new exit avenues are emerging and Keystone is becoming less and less relevant with each passing day.

In December, the **Enbridge** (TSX:ENB, NYSE:ENB) Northern Gateway pipeline took a big step forward. The National Energy Board recommended approval of the project on a few conditions. If constructed, the pipeline will ship 525,000 barrels per day, of bpd, of bitumen from Edmonton, Alberta to Kitimat, British Columbia by 2018.

Kinder Morgan's TransMountain Expansion could be up and running even sooner. The project, which runs along a similar route to Northern Gateway, could begin shipping 590,000 bpd by 2017.

TransCanada is also pushing forward on its Energy East project, involving a conversion to oil service of its gas Mainline that could start delivering Alberta oil as far as New Brunswick by 2018. TransCanada already finalized agreements with prospective shippers and if approved Energy East would single-handedly replace Keystone XL.

Major Existing Crude Oil Pipelines and Proposals

Pipeline	Capacity (bpd)	Target In-Service Date
Enbridge Alberta Clipper Expansion	120,000	

Enbridge Alberta Clipper Expansion	230,000	
Trans Mountain Expansion	590,000	
TransCanada Keystone XL	830,000	
Enbridge Northern Gateway	525,000	
TransCanada Energy East	1,100,000	

Source: Canadian Association of Petroleum Producers

Then there're are all of the proposals that receive much less media attention that are currently in the works.

Enbridge is pushing several initiatives including the reversal of its Line 9 route that would begin shipping crude east to refineries in Quebec, the twinning of the Spearhead and Seaway pipelines, and eliminating bottlenecks in the Chicago. The company estimates that these projects could add one million bpd of takeaway capacity by the end of 2015.

Combined with growing crude-by-rail transit, and there's adequate capacity to accommodate surging oil sands production.

Let's be clear: the Keystone XL pipeline is still important to the development of the oil sands. But the project is no longer the make or break factor that the media and some environmentalists make it out to be.

Foolish bottom line

Yes, it will be hard to fill the Keystone gap in the short-term. But looking out past 2016 the transportation outlook for the oil sands looks much better. And over the long run, Canadian producers would be better off diversifying their marketing options anyway.

CATEGORY

1. Investing

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