Can Westport Capitalize on BC's LNG Plans?

Description

It's no secret that British Columbia has put its financial hopes and dreams into the development of its liquefied natural gas (LNG) reserves. As the province invests more and more into the industry an infrastructure begins to take place, and the ability for companies to take advantage of this new infrastructure rises.

Take for example **Westport Innovations** (TSX:WPT)(NASDAQ:WPRT), developers and manufacturers of natural gas-operated vehicles and engines (direct and hybrid). If the promised infrastructure develops as planned, it very well could spark some very good times for Westport.

Currently Westport has OEM agreements in North America with **Ford** (NYSE:F), **Cummins** (NYSE:CMI), and **Paccar Inc** (Nasdaq:PCAR) subsidiaries Peterbilt and Kenworth. That means warranties will not be affected and vehicles can still be serviced at upgraded dealerships and repair facilities.

The benefits

The biggest draw for companies and fleet managers to make the switch to Westport's systems comes in the potential savings in using natural gas over diesel. Westport and its heavy duty customers have seen savings of at least 25% in fuel costs after conversion to a 15L tractor/trailer system (95% CNG, 5% diesel mix). This is a huge savings potential for companies looking to scale back on costs. Depending on location, the cost of natural gas can sway 25% to 50% below diesel, which is a huge margin considering the mileage traveled by heavy duty vehicles.

Westport recently touted on its blog that AAA Oklahoma has seen a $400,000 savings since converting 23 of its 56 vehicles to a Westport system. This has averaged out to savings of $1,400 per month per Ford F250 (bi-fuel engine), and $1,600 per month per Ford F650 (dedicated CNG engine).

Another advantage comes when companies are attempting to foster a more "green" reputation, and Westport's diesel replacement engines operate without sulfur and emit 20% to 30% less greenhouse gas emissions.

The costs

The biggest deterrent faced by companies and fleet managers to make the switch to a Westport engine is the availability of refueling sources, and the cost to upgrade its engines and facilities.

However, Fortis BC, a division of **Fortis Inc** (TSX:FTS), has stepped up and offered several incentives to BC companies to make the switch to natural gas engines including

- 100% of engineering costs and up to 50% of labour costs toward the construction or improvements of maintenance facilities.
- Up to $2,500 for the retrofit or purchase of a new light duty vehicle
- 60% of the incremental capital cost between a qualifying natural gas medium and heavy-duty vehicle and the cost of an equivalent diesel vehicle.

Foolish bottom line

Between government investments and incentives from the primary natural gas supplier in BC, the cost to convert is falling more and more. In a province that advertises itself as being “green” and environmental, Westport and its systems could play a vital role in how companies operate in BC. Although the province’s “grand plan” is still another five years from fruition, the time might be now to look into the potential of Westport upgraded vehicles operating in BC and across North America.

CATEGORY

1. Investing

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2. NASDAQ:WPRT (Westport Fuel Systems Inc.)
3. NYSE:CMI (Cummins Inc.)
4. NYSE:F (Ford Motor Company)
5. TSX:FTS (Fortis Inc.)

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