As America Hesitates on Keystone, Canada Is Moving On

Description

U.S. President Barack Obama continues to kick the Keystone decision down the road.

On Friday, the U.S. State Department announced that it is extending the government's comment period on **TransCanada's** (TSX: TRP)(NYSE: TRP) controversial Keystone XL pipeline. This move likely postpones a final decision on the project until after the November 4 mid-term elections.

Fortunately, Canada hasn't stood still while Obama hesitates. So many new pipeline options have emerged that Keystone's relevance is declining with each passing day.

Enbridge (TSX: ENB)(NYSE: ENB), the company responsible for exporting over two-thirds of Western Canada's crude oil to the United States, has been silently expanding its pipeline network. Some of the firm's major initiatives include eliminating bottlenecks in the Chicago area, reversing its Line 9 to begin shipping bitumen to refineries in Quebec, and twinning the Seaway and Spearhead pipelines to increase volumes to the Gulf coast. These efforts are expected to add one million barrels per day, or bpd, of takeaway capacity by the end of 2015.

Bitumen pipelines to Canada's west coast are slowly gaining momentum. Last December, a panel of federal regulators granted conditional approval to Enbridge's Northern Gateway proposal, opening the door for the Federal government to give the final say on the project. If given the green light, the pipeline would deliver an additional 525,000 bpd of Alberta oil to Kitimat by around 2017

This month the National Energy Board scheduled public hearings on **Kinder Morgan's** Trans Mountain Pipeline expansion. If approved, the amount of crude oil shipped between Edmonton and Burnaby would triple to 590,000 bpd by 2017.

TransCanada is also optimistic on the prospects for its Energy East project. The company has proposed converting its cross-country gas mainline to start delivering 1.1 million bpd of Alberta oil to refineries in Montreal and Saint John by 2018. If approved by regulators, it would single handedly replace Keystone.

Yes, it will be hard to fill Keystone's void, especially in the short-term. However, the build-up of crude-by-rail should hold the industry over until new pipeline routes are secured. According to a recent report by investment dealer Peters & Co., crude-by-rail capacity in Western Canada is expected to nearly triple from 550,000 bpd today to 1.5 million bpd by 2015.

All of these factors are already starting to alleviate the bitumen glut. Over the past year the discount for Canadian Western Select versus West Texas Intermediate has been cut in half to less than $19 per barrel. Additional transit capacity could reduce this gap further.

As expected, higher bitumen prices are bullish for Canada's oil industry. Over the past three months, analysts have raised their full-year estimates for oil sand behemoths **Suncor** (TSX: SU)(NYSE: SU) and **Imperial Oil** (TSX: IMO) by 5.3% and 8.0% respectively. But with Bay Street is just beginning to bake this development into their forecasts, those numbers could rise even more.

Foolish bottom line

Five years ago, it was unthinkable that the Alberta oil sands could be developed without the Keystone XL pipeline. However, Canada is demonstrating that it can survive without the project. With new transit options emerging, Obama's hesitation makes Keystone less relevant as the months tick by.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:ENB (Enbridge Inc.)
2. NYSE:TRP (Tc Energy)
3. TSX:ENB (Enbridge Inc.)
4. TSX:IMO (Imperial Oil Limited)
5. TSX:SU (Suncor Energy Inc.)
6. TSX:TRP (TC Energy Corporation)

Category

1. Investing

Date
2025/07/06
Date Created
2014/04/21
Author
rbaillieul