Enbridge Inc Turns to Rail as Pipeline Projects Remain Delayed

Description

Canada's energy industry continues to seek solutions to get its oil out of the country and into the hands of refiners. With key pipeline projects like **TransCanada Corporation's** (TSX: TRP)(NYSE: TRP) Keystone XL and **Kinder Morgan Energy Partners LP's** (NYSE: KMP) Trans Mountain Pipeline facing delays, rail is increasingly becoming the transportation option of choice to fill the gaps. Not wanting to miss out on an opportunity to earn profits for its investors, **Enbridge Inc** (TSX: ENB)(NYSE: ENB) recently announced that it was investing another U.S.$150 million to bolster its rail options.

The workaround

Enbridge's latest rail terminal would be located in Oklahoma and would handle 140,000 barrels of heavy Canadian crude oil per day. It would be built adjacent to the southern point of its Flanagan South Pipeline in the state and would basically be a workaround to get oil out of Canada and into the U.S. Gulf coast refining market. Oil would leave Alberta by train and head to the new unloading terminal. It would then be unloaded into Flanagan and head south on the pipeline to the Gulf coast.

The project would be Enbridge's fifth trail terminal. It currently operates three terminals in the U.S. and Canada, which handle 190,000 barrels of oil per day. In addition to that, the company is building a fourth terminal in Manitoba that should begin operations early next year. Together these terminals are working to get more oil flowing out of Canada, as there simply isn't enough capacity on the pipelines to get the oil from the oil sands region to refineries in the U.S. This is impacting prices, as the price of Canadian oil has traded at a large discount to oil prices around the world.

Temporary solution?

The question that remains to be answered is if these rail terminals will be just a temporary solution or part of the long-term logistics of the oil trade. Right now rail is filling in the gap between pipeline capacity and production. However, if all of the proposed pipeline projects are built, there will be much more pipeline capacity than oil production.

In fact, by 2018 the combination of rail capacity and pipeline projects by Enbridge, Kinder Morgan, and TransCanada could bring Canada's oil export capacity to more than eight million barrels per day.

That's well above the more than five million barrels of oil production per day producers are predicting by 2018. While it's highly unlikely that all of these pipeline projects will be built, if even half of the projects never get built, there would still be more than enough pipeline capacity to make these rail terminals unnecessary. That could make Enbridge's new rail terminals obsolete in just a couple of years.

Investor takeaway

That said, Enbridge is taking advantage of the current situation to provide at least a temporary solution as the industry waits for additional pipelines to be constructed. While these train terminals might not be part of the long-term solution, Enbridge isn't going to let someone else take these easy profits. Furthermore, it is within the realm of possibility that rail is more than just a stopgap measure. That's why the company is making a shrewd move to bolster its logistical options, even if these profits do turn out to be temporary in nature.

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