



Will We Ever See a New Oil Sands Pipeline Built?

Description

Add **TransCanada Corporation's** ([TSX: TRP](#))([NYSE: TRP](#)) Energy East pipeline to the growing list of proposed oil sands pipelines facing opposition. The company, which has been trying to build the Keystone XL pipeline for years, is facing pushback from Quebec's largest natural gas distributor as it seeks to convert an underutilized natural gas pipeline into one that will transport oil. This latest pushback for an oil sands pipeline has TransCanada once again joining peers **Kinder Morgan Inc.** ([NYSE: KMI](#)) and **Enbridge Inc.** ([NYSE: ENB](#)) with a multibillion oil sands pipeline project that might never be built.

The issue with Energy East

TransCanada's current plan for its \$12 billion Energy East pipeline would see it convert an underutilized natural gas pipeline into one that would transport oil from the oil sands. The problem with this, as natural gas distributor Gaz Metro sees it, is that converting the natural gas pipeline into an oil pipeline would lead to natural gas shortages in Quebec during the peak winter months. This will yield higher natural gas prices and impede Quebec's economic growth.

However, TransCanada sees that converting this pipeline to oil would instead remove the 20% excess natural gas capacity in the eastern network that had been destined to be exported to the U.S. Given that the U.S. now has plenty of natural gas thanks to the Marcellus Shale it no longer needs Canada's natural gas. That being said, some sections of the pipeline are at full capacity during peak winter periods so a workaround solution would need to be found to ensure an adequate supply of natural gas for eastern Canada. That workaround solution could tack another billion dollars onto the project's cost making its economic viability less certain.

Opposition is mounting from all directions

Oil sands pipelines are facing opposition no matter which direction the oil would flow. TransCanada proposed to send oil to the south with the Keystone XL pipeline, but that has faced opposition for years from environmental groups. Now it's looking east and finding new opposition from natural gas distributors. Meanwhile, both pipeline projects heading west, Kinder Morgan's Trans Mountain

expansion and Enbridge's Northern Gateway, are facing opposition from First Nations who don't want these pipelines built on their lands as well as British Columbians who don't want the oil being shipped through dangerous coastal waters.

This is why oil sands producers like **Cenovus Energy Inc.** ([TSX: CVE](#))([NYSE: CVE](#)) are increasingly relying on rail options to get oil out of Alberta and into refineries. While Cenovus Energy has committed to shipping oil on all four of these proposed oil sands projects, it's also increasing its access to rail as a backup plan. The company began receiving the first of 825 rail cars last year and has now secured 30,000 barrels per day of loading capacity in Hardisty and Edmonton to ship oil by rail throughout the U.S. and Canada. Still, that's a far cry from the up to 450,000 barrels per day of pipeline capacity commitments it has on Keystone XL, Energy East, Trans Mountain, and Northern Gateway.

Suncor Energy Inc. ([TSX: SU](#))([NYSE: SU](#)) has also added 80,000 barrels per day of rail capacity to take its oil to coastal markets. However, with the four major pipeline projects representing 600,000 barrels per day of access for Suncor, it will need to add a whole lot more rail over the next 2-5 years in order to make up all that access that might not be built.

Investor takeaway

Given the growing access to rail capacity, it will be interesting to see if oil sands producers begin to plan for a future that no longer includes this additional pipeline capacity. Given that all four major pipelines, heading in three different directions, are facing opposition from a number of different sources, it certainly poses the question of whether another large oil sands pipeline project will ever be built. It's a risk that seems to be growing with each passing day.

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