Enbridge Inc. Has a New Plan for Profits as Pipelines Projects Remain Derailed

Description

Enbridge Inc (TSX: ENB)(NYSE: ENB) is working on a solution for the glut of oil in Canada that has been caused by a lack of new pipeline takeaway capacity. Among its plans is to construct a new 120,000-barrel-per-day rail terminal in Cushing, Oklahoma, through its American MLP subsidiary **Enbridge Energy Partners, L.P.** (NYSE: EEP). It's just the latest step Enbridge is taking as it tries to figure out how to make money by moving oil out of Canada and into refineries around the world.

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Following the money train

Oil pipeline companies trying to build new oil sands pipelines are facing opposition from all directions. This is forcing them to look for alternative options to keep the oil flowing. The option that seems to be rising to the top is rail, which is an interesting twist given the fact that rail is actually a competing option to pipelines. However, given the exponential increase in oil shipments over the past few years, we're seeing pipeline companies make investments to capture some of these rail profits for their investors.

Enbridge is joining the fray as its Northern Gateway pipeline project remains at risk. However, what's interesting is that the rail option it's considering would focus on oil being shipped into the U.S., which is an entirely different direction than oil would flow if the Northern Gateway pipeline is built. The reason for this is because the company isn't looking at rail as a replacement for its pipelines, but as an option to enhance its own pipelines.

Location matters too

This is pretty clear when we realize that Cushing is an important location for Enbridge, and the oil shipping industry in general. It's a top oil storage hub and Enbridge actually owns 20 million barrels of oil storage capacity in the region. So its consideration of Cushing for a rail terminal makes sense given its importance as an oil storage hub.

However, the location is important because of its proximity to other oil pipelines, in particular the recently expanded Seaway pipeline. That pipeline, which Enbridge jointly owns with **Enterprise Products Partners** (NYSE: EPD), was reversed so that oil now flows south toward the U.S. Gulf Coast. By putting a rail terminal in Cushing, Enbridge can give shippers an option to get oil from

Canada to the Gulf Coast, which is what **TransCanada's** (TSX: TRP)(NYSE: TRP) Keystone XL pipeline was designed to do. While Enbridge's rail terminal wouldn't completely replace the proposed capacity of Keystone XL, it could potentially cut into the oil supplies that would have been shipped by the project earnings fees for Enbridge instead of TransCanada.

Investor takeaway

Oil pipeline companies are beginning to look more strategically at using rail options to capture advantages as new oil sands pipelines remain delayed. We see this with Enbridge, which is trying to enhance its options to ship oil to Cushing, Oklahoma, so that the oil could then be shipped on its Seaway pipeline. This will enable the company to not only make a little money on rail, but also enhance its own pipelines to make sure those are flowing at capacity, which could provide future expansion opportunities.

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