

Are TransCanada Corp.'s Expansion Plans Doomed?

Description

Last month **TransCanada Corp.** ([TSX: TRP](#))([NYSE: TRP](#)) revealed its plans to spend \$46 billion between now and 2020. This announcement was met with mixed emotions as TransCanada was locked in numerous deadlocks with various governments and many believed that WTI crude had hit bottom at \$75 per barrel.

Fast forward a couple of weeks and WTI crude has fallen another \$20.00 per barrel, adding to the fears of the viability of TransCanada's capital program. Now we take a look at some of the political developments which could make or break TransCanada during this current economic turmoil.

The Obama Report

Last week the public got a rare quote from U.S. President Barack Obama when he made a guest appearance on *The Colbert Report*. When questioned about the Keystone XL pipeline, the president stated that it would not create American jobs, but only Canadian ones, and that it was more of a benefit to Canada than the U.S. This was followed by remarks about greenhouse gas emissions and the current legal dispute in Nebraska over the path of the pipeline.

This clearly suggests that the current administration has little to no desire to approve this pipeline and TransCanada might have to wait until the 2016 elections to see if the pipeline proposal has any chance of approval.

Growing tension between Canada and the U.S.

TransCanada's Keystone XL pipeline is not the only bone of contention between Canada and the U.S. as the U.S. government is now imposing Buy American policies on companies and government operations doing business in Canada. The most prominent issue is the rebuilding of a ferry terminal in Prince Rupert on land that the Alaska Ferry Service is leasing from the Canadian government.

The U.S. Federal Highway Administration is imposing Buy American rules on a project that is being built on leased Canadian Crown lands and the Canadian government is expected to retaliate by imposing the Foreign Extraterritorial Measures Act to block the policy.

This issue may not have a direct impact on TransCanada but it does reflect the souring of cross-border trade relations between the two countries and the Keystone XL could be used as a retaliation tactic.

Energy East

Some good news for TransCanada is that its Energy East pipeline expansion is getting closer to being approved. Thanks to some political pressure from Alberta and Saskatchewan, Ontario is now growing closer to supporting the project. Recently Ontario Premier Kathleen Wynne met with her Albertan counterpart and announced some clarifications on her province's greenhouse gas concerns about the Energy East project. Ontario is now only concerned about added greenhouse gas emissions from the

construction phase of the project in Ontario alone and not the entire project.

This is a major step forward for the \$12 billion project that will carry additional crude oil from Alberta to refineries in Quebec and New Brunswick which are currently dependant on foreign crude.

Aside from Keystone XL and Energy East TransCanada still has about \$13 billion in smaller Canadian projects which are slated to enter service by 2017.

The sentiment from TransCanada is that these current oil prices are insignificant compared the 20- to 30-year investment cycles pipeline and oil companies base their investments on. Cash may be tight over the next year or two, but oil prices will inevitably return to more profitable numbers. The hope now is that certain activist investors will not use this situation to carve up TransCanada.

CATEGORY

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