



TransCanada Corporation Could Be Faced With an Interesting Dilemma in 2015

Description

This past week **TransCanada Corporation** ([TSX:TRP](#))([NYSE:TRP](#)) received some encouraging news on both of its proposed oil sands pipelines. Not only was a major road block removed from the path of the Keystone XL pipeline project, but its Energy East project received a big vote of confidence.

Here's a closer look at where the company now stands with both projects and why this could lead to a major dilemma for the company in the year ahead.

Keystone XL inches closer to the finish line

This past week was a key week for the long-delayed Keystone XL pipeline project. The most important news was the fact that the Nebraska Supreme Court reversed a lower court ruling that had blocked a route for the project. The ruling ended the project's legal challenge in the state and removed one of the last remaining road blocks for approval.

In addition, the U.S. Congress voted to approve the project for the tenth time since 2011. However, what's different this time is that the project isn't likely to face a road block in the U.S. Senate now that Republicans have gained control of both chambers of Congress. This likely means that the Keystone XL pipeline approval bill could hit President Obama's desk within the next few weeks. While the president has threatened to veto any bill authorizing the project, it's a growing possibility that a negotiated deal could be in the works that would appease both sides.

Energy East gets a key vote of confidence

Meanwhile, TransCanada's other major oil sands pipeline project, Energy East, received a key vote of confidence this week as Quebec's energy regulator called the project "desirable." This positive vote of confidence could help the project gain approval after it too has endured pushback from various opposition groups.

The original idea behind the project, which would move oil from west to east within Canada, was to avoid politics altogether as it was intended to be a less politicized alternative to the Keystone XL project. One of the ways it intended to avoid opposition was to use existing natural gas pipelines and

convert those to oil. Yet, this actually brought opposition from natural gas customers who worried that the pipeline would make natural gas prices more expensive in eastern Canada. However, a workaround to alleviate these concerns could remove those road blocks and put the project on pace to be approved.

Which direction should TransCanada turn

With both projects making forward progress, it could force TransCanada to choose between the two. With oil prices plunging it's unlikely that Canada will need all of its proposed oil pipeline capacity as quickly as it was once thought. Further, it's not likely that TransCanada will want to spend the massive upfront investments of \$12 billion for Energy East and the likely \$8 billion price tag for Keystone XL given the current uncertainty in the marketplace.

Instead, the company is likely to choose the project that is most needed both now and in the future, which in all likelihood would be Energy East. Clearly the U.S. doesn't really want Canada's oil, so building the Keystone XL doesn't make as much sense as it once did.

On the other hand, Eastern Canada could use this cheap oil for its refineries. Further, the oil could eventually make its way to the East Coast where it could be shipped to places like Europe, or even the U.S. Gulf Coast as an alternative route for Keystone XL volumes.

Given a choice, I think it's likely TransCanada would choose Energy East as that project just makes more sense at the moment.

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