

## Why Kinder Morgan Inc. Refuses to Give Up on Canada's Oil Sands

### Description

North America's largest energy infrastructure company, **Kinder Morgan Inc.** ([NYSE:KMI](#)), hasn't had a lot of success in Canada over the past year. Its current operations have been hampered by currency issues, while its future growth has hit a few snags. However, despite these issues, the company refuses to give up on the region as it still sees a lot of potential to profit from the future development of the oil sands.

### A minor drag

Last quarter, Kinder Morgan Canada's segment earnings slipped from US\$54 million in the fourth quarter of 2013 to US\$44 million. This wasn't the first time the U.S. company endured weakness north of the border last year as its full-year segment earnings in Canada were US\$182 million, which was US\$18 million less than it earned in 2013. Overall, the company noted that demand for capacity on its key Trans Mountain pipelines remained high; however, its earnings were impacted by an unfavorable foreign exchange rate.

Still, in the grand scheme of things, the company's Canadian operations are a very small part of its overall operations. In fact, currently just 2% of the company's segment earnings are expected to come from its Canadian segment in 2015. But this does not mean that Canada isn't a big part of its future.

### Backstopping the backlog

Kinder Morgan sees immense potential in helping to move Canada's oil from the oil sands region to the West Coast, where it can be exported either to Asia or the U.S. West Coast. This is why it's looking to spend US\$5.4 billion to expand its Trans Mountain pipeline from 300,000 barrels of oil per day to 890,000 barrels of oil per day.

It's a massive project that represents 30% of the company's project backlog over the next five years. Further, the expansion project is the single largest project in the company's backlog, making Canada its single largest growth driver as the US\$5.4 billion price tag is more than the company plans to spend in any of its other segments over the next five years.

Not only is the project important to Kinder Morgan's future, but the company also sees it as being important to Canada's future. The company noted that it had already signed up 708,000 barrels per day of its capacity under firm long-term contracts with 13 different shippers. So while the company is having issues getting the pipeline's route approved, its view is that the project simply must move forward.

This is why Kinder Morgan's future CEO Steve Kean told investors at the company's recent investor conference that,

This project is very much needed. It's good; we've got long-term contracts. That's

wonderful, but it's also very good to have enthusiastic customers. However you want to handicap the odds or the timing of other pipeline projects out of the area, we have got a good and, we believe, highly probable project that is going to give people an outlet for their existing production as well as the growth that will occur even under the current commodity price environment.

As Kean notes, this project is needed, which is why so much of its capacity has already been signed up by shippers. Oil companies in Canada need better access to markets for their oil, and this pipeline is a key to enabling them to have just that.

### **Investor takeaway**

Right now, Kinder Morgan is having a rough time in Canada. The strong U.S. dollar is eating into its income, and it's seeing a lot of opposition to the expansion of Trans Mountain. However, it sees the project as being vitally important to the future of the oil sands as well as to its own bottom line growth, which is why the company plans to press on with the project and see that it does finally get built.

### **CATEGORY**

1. Energy Stocks
2. Investing

### **TICKERS GLOBAL**

1. NYSE:KMI (Kinder Morgan Inc.)

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