



Canada Turns to Alaska for Help With its Oil Pipeline Problem

Description

TransCanada Corporation ([TSX:TRP](#))([NYSE:TRP](#)) has been trying to build the Keystone XL pipeline that would take oil south through the continental U.S. for six years. Because of those delays it decided to try another direction and build the Energy East Pipeline to Canada's east coast, but that's now being pushed back as well.

Meanwhile, rivals **Kinder Morgan Inc.** ([NYSE:KMI](#)) and **Enbridge Inc.** ([TSX:ENB](#))([NYSE:ENB](#)) aren't having any luck with their west coast-bound pipelines through British Colombia. So, with all its other routes blocked Canada is now looking to oil-dependent Alaska for help in getting an oil pipeline built.

Finding the right path

According to a story on Bloomberg this week Alberta's Premiere Jim Prentice is having discussions with Alaska about building an oil pipeline through its state so that it can get its landlocked oil to global markets.

The plan would involve building a pipeline along the Mackenzie River valley and then west to an existing port on the U.S. coast where Alaska has been exporting oil for decades. The pipeline would cross through the Northwest Territories as well as Yukon, both of which are supportive of the idea.

In pursuing this option Canada could bypass British Colombia, which has proven to be less supportive of energy expansion. Not only has there been a lot of opposition to Kinder Morgan and Enbridge's proposed pipeline projects through British Colombia, but it has also not been overly friendly to proposed LNG terminals along its coastline. Because of that, one of Canada's few remaining options is to consider sending its oil 1,600 kilometers farther north in order to get it out of the country.

A lot at stake

Alaska is an interesting partner as it's a rival oil producer that's trying to revive its own oil industry. The state's oil production has declined over the years due to underinvestment as a result of higher taxes as well as environmental backlash. However, the state passed a new tax law recently that's intended to boost investment as well as its oil output.

Meanwhile, the state is also looking to take advantage of Canada's slow pace of developing LNG export facilities by launching its own rival project. Alaska is actually taking a 25% equity stake in a massive \$45 billion LNG project by pitching in 10% of the cost as well as other economic benefits.

In so doing it's joining big oil behemoths including **Exxon Mobil** ([NYSE: XOM](#)), **ConocoPhillips** ([NYSE: COP](#)), and **BP** ([NYSE: BP](#)) in developing the project. It's also being joined by TransCanada, which has signed on to build and operate the 800-mile natural gas pipeline to take gas from the North Slope to the liquefaction and export facility.

Canada, however, isn't seeing Alaska as a rival, but instead as a partner that knows the economic importance of developing its energy resources. Meanwhile, Alaska sees the benefits of partnering with Alberta on the project as the pipeline could provide an economic boost to the state. Further, the project could help further boost its own oil industry as the increase in oil exports out of the state could spur more investment in its oil reserves, which would be cheaper to export than oil coming all the way from Alberta.

Investor takeaway

Canada continues to seek ways to get its oil out of the country and into new markets. This is why it's now looking to partner with a key oil producing state in an effort to work together to increase oil output in both regions. It needs to do so because oil producers like Exxon, ConocoPhillips and BP aren't making as much money on Canadian crude as they can in places like Alaska meaning Canada runs the risk of losing their investments and expertise.

That being said, because this pipeline would cross an international border it would need a presidential approval, and given what has happened with the Keystone XL that could prove tough to obtain.

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Date

2025/06/29

Date Created

2015/02/13

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