TransCanada Corporation Has 3 Options if Keystone XL Is Rejected

Description

It's looking increasingly likely that Keystone XL will be rejected by President Barack Obama. This leaves **TransCanada Corporation** (TSX:TRP)(NYSE:TRP) with three alternatives. Below we take a look at each one in no particular order.

1. Sue

According to unnamed sources, TransCanada may challenge President Obama's decision, claiming that it violates the North American Free Trade Agreement. If successful, this option could allow TransCanada to proceed with the pipeline or claim damages. Notably, the company has spent $2.4 billion on the pipeline so far, equal to just under 8% of its total market value. So, there's a lot to gain from a NAFTA challenge if it ends up being successful.

That being said, a NAFTA challenge would be a major uphill battle. The United States has never lost in such a scenario, going 13-0. Worse still, the process would be costly and time consuming. And finally, it would antagonize U.S. regulators, which certainly isn't in TransCanada's best interests. We still don't know exactly what this case would look like, much less the outcome, but this option already looks like the worst one for TransCanada.

2. Wait

Depending on the outcome of the 2016 presidential election, there may be a more Keystone-friendly president in the White House. If that ends up happening, TransCanada could simply refile its application. All it has to do until then is wait patiently.

Here's the good news for TransCanada: if a Republican wins the presidency, then Keystone will be approved immediately. All the major candidates are strongly in favour of the pipeline. But that's a big if. There are a lot of factors working against the Republicans, most notably, the early success of Donald Trump. Demographic trends are also working in the Democrats' favour.

In any case, it’s far too early to make any predictions about a November 2016 election. We’ll just have to wait and see.

3. Modify

TransCanada has yet another option: it could modify its application. The company has done this before. Back in 2012, it split its Keystone project into two legs, one of which started at Cushing, Oklahoma, and ended at the U.S. Gulf Coast. This leg didn’t require President Obama’s support because it did not cross the border with Canada. Such a tactic could possibly be used again.

Part of Keystone’s capacity was reserved for barrels produced in the Bakken formation in North Dakota. The Bakken is desperately in need of greater pipeline infrastructure, and has been relying on crude by rail (a more expensive and dangerous method) in the meantime. So, TransCanada could eliminate the portion of Keystone that crosses the border, opting instead to serve the Bakken only.

This isn’t a perfect solution either. The company would likely have to scale down the project, which may make it harder to add a leg for the oil sands later on. But if Hillary Clinton wins the White House in 2016, it may be TransCanada’s best option.

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