



This Could Be the Perfect Opportunity for Enbridge Inc.

Description

Editor's note: An earlier version of this article incorrectly hypothesized that Enbridge could assist Kinder Morgan with filling Trans Mountain's spare capacity. That's not the case — it had already contracted all of the capacity it could under current regulations.

Energy infrastructure giant **Enbridge Inc.** ([TSX:ENB](#)) ([NYSE:ENB](#)) is one of several major pipeline companies trying to build a major oil sands export pipeline. That said, like its rivals, the company's proposed \$6.5 billion Northern Gateway project has come under intense opposition from environmental groups and First Nations. It has become increasingly unlikely that the company will move forward with the project.

That said, Enbridge might have the opportunity to participate in a similar project. Doing so would allow it to walk away from Northern Gateway and still come out a winner.

A potential opening for a partner

The potential opportunity for Enbridge lies in the fact that fellow energy infrastructure giant **Kinder Morgan Inc.'s** ([NYSE:KMI](#)) might be looking for a partner to help fund the expansion of its Trans Mountain pipeline, which is the only oil sands pipeline to the west coast. The expansion would boost the capacity of the current 300,000 barrel-a-day pipeline up to 890,000 barrels per day.

Where the opportunity lies is in the fact that that project would cost Kinder Morgan at least \$6.8 billion according to current estimates. That is a hefty price tag for a company that's trying to cut its debt, so it can resume dividend growth. As a result, Kinder Morgan is open to bringing on an outside investor to help fund the project.

According to comments by CEO Steve Kean on Kinder Morgan's third-quarter conference call:

[The company] believe[s] that this project would make a very good candidate for bringing in other investors through a joint venture or other structure. It is an attractive project economically and there is substantial interest in it ... We've got a lot of options here

including self-funding so we are not committing to any one approach but we do think it's worth exploring the options at the right time.

While Kean notes that the company has options, given its current capital constraints, it certainly would make sense to offload a portion of the project's costs to a third party.

A win-win opportunity

This project would certainly make sense for Enbridge to pursue. First of all, as Kean mentioned, the economics of the Trans Mountain expansion project are very compelling, which is why it has already received interest from potential partners. As such, it is a project that should also interest Enbridge from an economic standpoint.

In addition to that is the strategic aspect. As mentioned, Enbridge's own westward oil sands pipeline is facing intense opposition. In fact, the courts recently reversed that project's initial approval, which is forcing Enbridge to start over. Because of that, the company is no longer considering it as part of its active development projects. The company could push the project further on to the back burner by swapping its pursuit of Northern Gateway with Trans Mountain.

That would be a similar path to the one taken by its MLP **Enbridge Energy Partners LP** (NYSE:EEP) when it paid US\$1.5 billion for a share in a joint venture building the Bakken Pipeline system. That system is currently under construction and is expected to be in service by the end of the year, though, like many other pipeline projects, this one is facing intense opposition that could delay that in-service date.

Still, because it joined that project, Enbridge Energy Partners no longer needs to move forward with its proposed Sandpiper project, which it had already pushed back until 2019.

Investor takeaway

Kinder Morgan's potential openness to finding a financial partner for its Trans Mountain pipeline expansion looks like the perfect opportunity for Enbridge. That is because the company could participate in an economically compelling western oil sands pipeline without having to continue the uphill battle on its Northern Gateway project.

Further, by potentially consolidating the customer contracts of both projects, it could likely improve the economics of Trans Mountain, enabling both companies to come out as big winners.

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Date

2025/07/02

Date Created

2016/10/28

Author

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