TransCanada Corporation Cancels Energy East: Is Growth in the Industry Dead?

Description

TransCanada Corporation (TSX:TRP)(NYSE:TRP) announced today that it would officially be cancelling its Energy East pipeline project. The pipeline was expected to transfer oil from Alberta all the way to New Brunswick and lessen the dependence on foreign oil in eastern provinces. In September, TransCanada announced it was making an application to suspend the project, so it could review its costs as a result of the National Energy Board's (NEB) decision to widen its review of the project and consider both upstream and downstream emissions from the pipeline.

As a result of a broader review by the NEB, the expected cost for the project would have increased and ultimately stalled the $15.7 billion pipeline.

Other projects in Canada have also run into problems

Kinder Morgan Canada Ltd. (TSX:KML) was approved a $7.4 billion project for expansion of the Trans Mountain pipeline between B.C. and Alberta in 2016, but it's now facing a court battle with First Nations groups trying to stop the expansion almost a year after the project was given the green light.

At the same time that the Trans Mountain pipeline was declared good to go, another project, the $7.9 billion Northern Gateway planned by **Enbridge Inc.** (TSX:ENB)(NYSE:ENB), was cancelled by the Liberal government, despite having support from many First Nations leaders. The decision overturned the project's previous approval by the Conservative leadership.

The problem with these three scenarios is that in each case, something different caused the cancellations. Even government approval, which supposedly takes into account the impact on First Nations, is no guarantee of a pipeline being built in Canada.

Could this discourage future pipeline projects?

Pipeline projects and expansions take time and money to plan and go through the approval process, and in the case of TransCanada, the cancellation will cause a hit of $1 billion (non-cash) on its books. Oil prices have been struggling to stay above $50, and with companies already cutting back on capital expenditures, a difficult approval process in Canada certainly isn't a big incentive to take on any big project. These scenarios create dangerous precedents and could stall growth in the industry.

If the Trans Mountain pipeline gets cancelled, then that would be $31 billion in pipelines failing to go through simply because of the difficulty in getting a project off the ground in Canada. The one saving grace for TransCanada is that its Keystone XL project is dependent on a more oil- and gas-friendly government south of the border, and the U.S. could be more appealing for companies looking to spend capital.

What this means for investors

Investors should be very careful investing in any Canadian oil and gas stocks for the long term, because reduced capital spending coupled with an unfavourable regulatory environment can make any real growth in Canada hard to find. The U.S. has a much better environment that encourages expansion, particularly if it benefits American jobs and workers. The oil and gas industry may be on its way to recovery, but U.S. companies might have better growth prospects than Canadian producers.

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