Enbridge (TSX:ENB) Told “No” to Open Season: What Does This Mean for Investors?

Description

Last week, **Enbridge Inc** (TSX:ENB)(NYSE:ENB) was told that it would not be able to proceed with its plan for open season on its Mainline pipeline. It’s a blow to the company but a win to the more than 30 parties that sent letters in protesting Enbridge’s strategy to secure long-term contracts on the pipeline.

Open season would effectively give Enbridge the ability to lock-in long-term agreements with shippers on its Canadian Mainline. That’s a big change from today, where shippers don’t require commitments with Enbridge to do so, providing them with flexibility.

Although 10% of the capacity would still have been available to those that didn’t make a long-term commitment with Enbridge, it would obviously have made it more difficult — and more costly — to obtain necessary volumes by shippers, especially on short notice.

Contracts could have created significant risks for companies

With Enbridge looking for contracts for as long as 20 years, it’s not a surprise that companies like **Canadian Natural Resources** and **Suncor** were not fans of Enbridge’s change in strategy.

While it would give Enbridge a lot of long-term stability and the safety in knowing that it would have contracts it can rely on for guaranteed volumes in place, it would create significant risk for those that entered into those binding agreements.

With the oil and gas industry in Canada being very unpredictable, the one thing many companies have been hesitant to do is to commit to long-term spending.

Many companies have cut back on capital spending in order to be more flexible and responsive to changes that happen in the industry, and making long-term commitments would undo that.

An open season process would effectively reward companies that are the most risk-taking as opposed to those with a more measured strategy.

Enbridge still looking to secure contracts

In a recent release issued by the company, Enbridge stated that it will attempt to receive the approval it needs from the Canada Energy Regulator (CER) to go ahead with its plans for contracting space on its pipeline out.

The company claims that "customers representing a significant percentage of capacity on the Mainline support the approach."

However, until Enbridge receives the approval from the CER, it will not be able to proceed as planned. At this point, it's too early to tell whether Enbridge will be successful, but with the CER taking into consideration the concerns of many big players in the oil and gas industry, it could be an uphill battle for the company.

Bottom line

At the end of the day, this news doesn't put Enbridge in a worse position. The company doesn't contract out space on its pipeline today and so at worst, the status quo remains intact unless approval is obtained from the CER.

While Enbridge shareholders would love to have some long-term guarantees in place for revenue on the pipeline, guarantees are one thing that haven't been prevalent when it comes to anything oil and gas-related in Canada.

The industry has been very volatile, which is why it's not surprising that companies would be opposed to making long-term commitments to access the pipeline.

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