ACTION WHA-00 DECONTROLLED/UNCLASSIFIED RELEASED IN PART E6
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INFO	LOG-00	EEB-00	AID-00	CEA-01	CIAE-00	COME-00	CTME-00
	INL-00	DODE-00	DOEE-00	ITCE-00	DOTE-00	EAP-00	EXME-00
	E-00	FAAE-00	UTED-00	VCI-00	FRB-00	H-00	TEDE-00
	INR-00	IO-00	LAB-01	L-00	VCIE-00	NRC-00	NSAE-00
	ISN-00	NSCE-00	OES-00	OMB-00	NIMA-00	EPAU-00	GIWI-00
	ISNE-00	SP-00	IRM-00	SSO-00	SS-00	STPD-00	STR-00
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TAGS: ENRG, EPET, ETRD, ECON, ELAB, SENV, CA
SUBJECT: PIPELINES GAINING MOMENTUM TO DELIVER OIL SANDS RAMP-UP TO U.S. GULF COAST

REF: CALGARY 0017

Sensitive But Unclassified -- Not For Distribution Outside USG Channels

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Summary
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1. (SBU) The race to connect growing production from Alberta's oil sands to the U.S. heartland and Gulf Coast refineries is

gaining speed. Four major Calgary-based pipeline firms are eager to bring their projects to fruition in light of industry forecasts that call for an increase in oil sands production from the current 1.2 or 1.3 million barrels per day (bpd) to 3 to 4.5 million bpd by 2015 to 2020 (reftel). Industry executives estimate that more than $20 billion in new and expanded pipeline construction will be needed to accommodate this oil sands growth, given that Canada's oil pipelines are nearly full and all spare capacity is expected to be spoken for by 2009. In fact, production may exceed pipeline capacity in 2009, depending upon how fast the first expansion is completed. Oilpatch executives, meanwhile, maintain that no "race" exists and that more than one pipeline will be needed to satisfy demand south of the border. Leaders in the pipeline, production and refining industries on both sides of the border are working overtime to keep production and pipeline capacity in balance, a complex and expensive dance. End summary.

Oil Sands Production Prompts Need for Pipeline Capacity to Double in 15 Years
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2. (SBU) Canada's oil pipelines ship more than two million barrels per day (bpd) of oil to U.S. markets along 22 cross-border oil pipelines, with exports valued at $40 billion per year. Most of that is crude destined for markets in the U.S. Midwest, but the heart of U.S. heavy refining capacity, best suited to Alberta's oil sands output, is located in Texas and, for the very near future, largely out of reach. The Calgary-based Canadian Energy Pipeline Association (CEPA), whose members transport 97% of natural gas and oil produced in Canada along 100,000 kilometers of pipelines throughout Canada and the U.S., claims that it will be necessary to double current investment in the pipeline network to about $20 billion in new and expanded construction over the next 12 to 15 years in order to accommodate Alberta's growing oil sands production.

3. (SBU) Four pipeline companies began seriously eyeing the U.S. Gulf Coast and its more than two million bpd of heavier crude oil refining capacity some three years ago. They include Calgary-based Enbridge Inc., the industry's oil pipeline heavy hitter, which operates the longest crude oil and liquids pipeline system in Canada and the U.S.; TransCanada Corp. (TCPL), which has more than 50 years of experience in natural gas collection and transport throughout North America and internationally; Kinder Morgan, a major oil transporter to the U.S. Pacific Northwest; and Altex Energy, a new, privately held

company considered the underdog by many. While the goal is the same, the difference is in the details - route, capacity, and project costs.

Enbridge "Clipper" and "Texas Access" Part of C$12 Billion Expansion Plans

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4. (SBU) Calgary-based Enbridge Inc. operates the longest crude oil and liquids pipeline system in Canada and the U.S. It is considered by some to be the heavyweight among the four competitors aiming to get more Alberta heavy crude to Gulf Coast refineries, though one should never understate TCPL's competence and ambition. Enbridge has 55 years of experience in the oil pipeline industry. Its system is comprised of approximately 13,500 kilometers (8,500 miles) of pipeline, delivering more than two million bpd of crude oil and liquids to markets across North America. The company's prominence was underlined in a negative manner during a tragic early 2008 pipeline explosion and fire that killed two workers on one of its oil pipelines in Minnesota, very briefly cutting off much of Alberta's U.S.-destined crude. In 2006, Enbridge announced major plans to increase capacity to Chicago, southern Illinois and markets south as part of an estimated total C$12 billion in North American pipeline expansions.

5. (SBU) The "Alberta Clipper" is the higher profile of the company's expansion plans but, by itself, is an incomplete system. The expansion consists of three components, with the Clipper comprising a 1,607-kilometer pipeline stretching from Hardisty, Alberta to Superior, Wisconsin, to be constructed concurrently with the "Southern Access" project, which has an in-service date of mid-2010. The Alberta Clipper complements Southern Access, a multistage expansion and extension of Enbridge's system from Superior, Wisconsin to Chicago and Patoka, Illinois that will initially increase export capacity from Canada by 400,000 bpd. The two will collectively add 1.2 million bpd of capacity out of Alberta. Enbridge sources tell us that aboriginal and other landowners are opposing the line, but anticipate the Environmental Impact Statement (EIS) will be completed by November 2008.

6. (SBU) "Southern Lights" is a reversal of an existing 90-mile Enbridge pipeline for south-to-north diluent service along with 674 miles of 20-inch diameter new pipe that will allow 180,000

bpd of condensate (which is used to dilute thick oil sands "bitumen" for shipping) to be imported to Canada from the US Midwest to be re-used for blend stock for heavy crude by mid 2010. Enbridge CEO Pat Daniel jokingly refers to this endless loop of diluent shipment (paid for by shippers in both directions) as a "pipeliner's dream." In addition, a new 313-mile, 20-inch crude line running from Cromer, Manitoba to Clearbrook, Minnesota along its existing corridor will increase crude oil capacity out of the Western Canadian Sedimentary Basin by 2008.

7. (SBU) In December 2007, Enbridge also announced plans to partner with ExxonMobil to construct a new 768-mile, 30-inch pipeline from Patoka, Illinois to the Texas Gulf Coast. The proposed $3 billion "Texas Access Pipeline" would carry Canadian crude from a receipt point in the vicinity of ExxonMobil's Patoka, Illinois crude oil terminal southward to existing terminals in Nederland, Texas. Enbridge held an open season for shipper commitments in March and we were told on April 14 that the company is currently in negotiation with shippers. The proposed line has an in-service date of 2011.

Gateway "Still has Legs"

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8. (SBU) Enbridge recently told us that the "Gateway" pipeline, aimed at delivering some 400,000 bpd of crude to a marine terminal at Kitimat, B.C. for tanker to China, Asia and California, still "has legs". The $4.2 billion proposal stalled in 2006 partly because of Chinese withdrawal from the project and to make way for more urgent expansions to the U.S. Gulf Coast, but Daniel announced in March that the company is in "commercial discussions" with shippers and had found support from other Asian countries that warranted sufficient support to move ahead with regulatory applications. (As an aside, we were also told by Enbridge officials that Gateway has come up against some public discomfort over a projected increase in tanker traffic that would ensue in the Kitimat region if the project comes to fruition.) In any case, Gateway's anticipated in-service date remains between 2012 and 2014.

TransCanada's "Keystone" First Foray Into Oil; Gains U.S. Permitting Approval

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9. (SBU) Calgary-based TransCanada Pipeline Limited (TCPL)

proposes constructing a 3,456-kilometer crude oil pipeline from Hardisty, Alberta to markets in the U.S. Midwest and south. The

"Keystone" pipeline has garnered serious attention from shippers and other industry players, and represents a marked departure from TCPL's historic natural gas business. Its network of wholly owned gas pipelines extends more than 59,000 kilometers, tapping into virtually all major gas supply basins in North America. TCPL is also a lead player in the proposed Mackenzie Valley gas pipeline, and is considered the frontrunner by some to construct the proposed Alaska Natural Gas pipeline after the State of Alaska accepted TCPL's application under the Alaska Gas Inducement Act.

10. (SBU) The proposed Keystone pipeline first surfaced exactly three years ago. Since then, the estimated cost of the proposal has ballooned from $2 billion to more than $5 billion. This pipeline would transport 590,000 barrels per day of Alberta crude oil from Hardisty, Alberta to U.S. Midwest markets at Wood River and Patoka, Illinois and to Cushing, Oklahoma. The Canadian portion of the project involves the conversion of approximately 964 kilometers of existing Canadian Mainline pipeline facilities from natural gas to crude oil transmission service and construction of approximately 373 kilometers of pipeline, pump stations and terminal facilities at Hardisty. The U.S. portion of the project includes construction of some 2219 kilometers of pipeline and pump stations, for which the company received its U.S. approval in March and which will allow TCPL to proceed with construction. Upon start-up in late 2009, Keystone will deliver 435,000 bpd to Wood River and Patoka, Illinois in late 2009, expandable to 590,000 bpd in late 2010. TCPL has contracts for the line with shippers totaling 495,000 bpd with an average term of 18 years. TCPL executives claim the beauty of Keystone is the re-conversion of depreciated natural gas pipe that will carry oil at a substantially lower cost than building a greenfield project.

"Keystone Phase 2"

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11. (SBU) With the ink barely dry on its Presidential Permit for the initial Keystone Pipeline, TCPL's CEO Hal Kvisle announced at the company's annual shareholder meeting on April 25 that TCPL is preparing to call an open season over the next two months for "Keystone Phase 2". Kvisle stated that the company has made "excellent progress" in talks with Alberta producers (notably ConocoPhillips, which is a major shipper on the first phase and a 50% owner) and U.S. Gulf Coast refiners. The line,

for the most part, is entirely separate and will exit southeastern Alberta's hub at Empress, travel southeast to a junction in northern Nebraska and from there head straight south, ending at Port Arthur on the Gulf Coast of Texas. With a capacity of 750,000 bpd, the line will be more expensive than the first phase considering more new pipe is required, the diameter is larger, and it is a greater distance. Kvisle claims that construction of Keystone would "roll into construction of the other", making it advantageous in terms of procuring pipe and contractors. The entire proposed Keystone system could move roughly 1.3 million bpd before the mid-point of the next decade.

Kinder Morgan's "Chinook" Quietly Surfaces
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12. (SBU) After working on plans for more than a year, Kinder Morgan Canada (KM), quietly put its hat in the ring in December 2007 with a proposal for a 3300-kilometer pipeline aimed at transporting 300,000 bpd from Alberta to the U.S. Gulf Coast, running through Wyoming and Oklahoma. [redacted] B4 It is a major player in oil transmission to the Pacific Northwest through its TransMountain pipeline from Alberta to the B.C. coast, where oil is moved by tanker to California or Asian markets. The TransMountain line is undergoing an expansion that could triple current capacity to some 850,000 bpd by 2011. KM

is also expanding its Express System from Alberta to Casper, Wyoming that will increase capacity there from 280,000 bpd to 300,000 bpd.

Altex Energy - Talented Underdog?
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13. (SBU) Altex Energy Ltd. is the newcomer and, by some accounts, the long-shot in this scenario, but founder and President Jack Crawford is no stranger to high risk pipeline projects. Crawford was one of several players behind the successful $5.8 billion Alliance natural gas "bullet" pipeline that runs from northeastern British Columbia to Chicago. That

pipeline came on stream in 2000, emerging from an idea that was famously scribbled on a napkin at the Calgary Petroleum Club just five years prior to full operation. Crawford has been eyeing the oil sands for nearly three years now with a proposal for a 3700-kilometer, $5.3 billion bullet line from Hardisty, Alberta to the U.S. Gulf Coast with initial capacity of 250,000 bpd, expandable to 425,000 bpd. While Crawford, in his typical low key fashion, had earlier admitted to us that the proposal had slowed somewhat due to a lack of shipper interest, he now claims that has changed, particularly among Gulf Coast refiners what have grown enthusiastic.

14. (SBU) Crawford says his company can undercut [redacted] B4

(TCPL maintains [redacted] B4

15. (SBU) Crawford tells us [redacted] B4

B4

Comment
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16. (SBU) If all goes well, and "well" means huge amounts of capital in a tightening market, securing shipper commitments, satisfying public and regulatory expectations about routing choices, environmental impact, and finding enough building materials and labor to put pipe in the ground, the industry could see significant additional crude reaching U.S. refineries in less than two years. TCPL, particularly with its State Department Presidential Permit in hand, should be the first past the gate, though Enbridge may not be far behind. Finally, while

TCPL appears ready to tackle a new bullet line challenge sooner than later, it is still too soon to predict with any accuracy when any more direct north-south point-to-point line will be built. For the immediate future, most company officials maintain that a less direct incremental capacity is the best and most economical way to deliver product from the growing Alberta oil sands to thirsty U.S. markets in a reasonable time frame.
HUFFAKER

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