Report on Business

West Coast crude exporters call for bigger pipeline

After a sudden spike in shipments, Kinder Morgan and Enbridge say a larger pipeline dedicated to bringing oil sands production to tidewater could help reduce Canada's oil dependency on the U.S. market

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Shipments of oil off Canada's West Coast have shot up in the past few months, setting the stage for a potential acceleration of plans to export Alberta's oil sands crude to Asia.

After virtually disappearing in 2003, crude exports from Kinder Morgan Canada Inc.'s Westridge Marine Terminal rose to 70,000 barrels per day last year, and spiked to 134,000 barrels a day in March, setting a 50-year record.

Several factors drove the fast rise, including problems with refineries elsewhere in Canada and a market contango, where the price of oil futures exceed spot prices, giving companies an incentive to load crude onto ships for later delivery in hopes of turning a greater profit.

But Ian Anderson, president of Kinder Morgan Canada, said the growth in West Coast exports – the company has set four monthly records in the past two years – points to the need for a larger pipeline dedicated to bringing oil sands production to tidewater, where it can help reduce Canada's oil dependency on the U.S. market.

Mr. Anderson made the comments in a presentation to investors at the TD Newcrest unconventional oil conference in Calgary yesterday.

Both Kinder Morgan and Enbridge Inc. (ENB-T 38.83 0.09 0.23%) have proposed large pipelines to move oil from Fort McMurray to the British Columbia coast, but have said such capacity will not likely be needed until 2015. Neither company has yet contracted with shippers for its project, although Enbridge received $100-million last year from oil sands players and refiners in Singapore and Japan, to push its pipeline proposal through the regulatory approval process.

Mr. Anderson said the fact that such shipments are already growing today – in the past year, some Canadian crude has been sent for refining to Chile; Asia also took between five and ten million barrels – is proof that there is a need for such a line.

“We're seeing record movements over the dock this year. And might that push us to expansion sooner? And increase dock capacity? It very well might,” Mr. Anderson said.

Kinder Morgan has already nearly doubled the size of ships it loads with crude, from Panamax size ships to Aframax vessels capable of loading 650,000 barrels. In the next few years it is also contemplating the use of Suezmax vessels, which can hold a million barrels of oil, and can shave $1.50 per barrel from the price of shipping to Asia.

Enbridge believes premiums paid for crude overseas mean oil sands producers will pocket $5 to $6 in extra profit for every barrel they send to Asia rather than the United States.

“That right there is the critical issue,” said Al Monaco, Enbridge's executive vice-president of major projects. “It's being able to access other markets to maximize price.”

The Canadian Association of Petroleum Producers has, however, published statistics showing that U.S. refinery demand will exceed the production of Canadian crude until past 2025 – based largely on declining volumes from Mexico and Venezuela – and some in the oil sands believe a West Coast connection simply isn't needed.

“It's going to be a very competitive market for those barrels in the U.S. alone,” said Chris Bloomer, chief operations officer at Petrobank Energy and Resources Ltd. “So I don't think there is a crying need to develop an offshore market for oil sands production.”