

Kinder Morgan looks west to Asian markets

Plans revived for northern leg pipeline

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A second large shipper of oil from Canada to the United States has confirmed interest is heating up between Canadian producers and refining customers in Asia and along the United States West Coast.

As a result, Kinder Morgan Canada began two months ago to ramp up internal planning work on a long-talked about -- but basically dormant -- northern leg concept for the company's ongoing Trans Mountain Expansion (TMX) project, according to chief executive Ian Anderson.

The proposed northern leg, a concept Kinder Morgan has had in the wings for years, would stretch between Valemont, B.C., to a deep-water port at Kitimat on Canada's West Coast, passing by Prince George on the way.

Kinder Morgan is currently in the midst of expanding its system between Edmonton and Vancouver, and will have completed the looping of its anchor line by the end of the year to boost capacity between Edmonton and Valemont to 300,000 barrels of oil a day.

Pat Daniel, the chief executive of Enbridge Inc., Canada's largest shipper of oil exports to the U.S., said last week that momentum is building from Alberta oilsands producers around the desire to expand their currently-narrow customer base from the U.S., in part due to growing concerns percolating south of the border about the amount of emissions created during the processing life of fuels derived from hard-to-get-at heavy oil sources, such as the oilsands.

The Canadian oilpatch's main lobby group, the Canadian Association of Petroleum Producers, last week took to task U.S. mayors, who had vowed to crack down on "dirty oil" at a recent conference.

In a letter sent the United States Conference of Mayors, CAPP pointed out that tougher guidelines on end-use combustion in the U.S. would have a more significant impact on greenhouse gas reduction than technological advancements upstream.

A handful of top executives from the Canadian oilsands, including Suncor Energy Inc. CEO Rick George, have since warned the U.S. that there are other potential customers around the globe for Canada's crude.

In an interview this week, Anderson offered a similar assessment to Daniel, his counterpart at Enbridge, saying interest in a deep-port, West Coast crude outlet is growing.

Anderson also talked about progress being made in Alberta around carbon capture and storage and the movement of carbon dioxide, via pipelines, from large emitters to either storage locales or to companies ready to use the CO₂ for enhanced oil recovery.

American Parent Kinder Morgan Inc. is the largest transporter of CO₂ in the U.S. The company links pure streams of CO₂ produced in the U.S. Rockies with oil producers in Texas.

Q: So what's your take on the "dirty oil" talk emanating from the United States and does it really pose a threat to the Canadian oilsands industry?

A: Our views are that ultimately producers will look for optional markets. They've always had that view, they will continue to have that view and the West Coast provides one of those options to access a number of markets, whether it's Asia, California or Washington State.

The political rhetoric coming out of the U.S. is just that, largely posturing (around a U.S. presidential election) and the right conclusions will be reached. I think it's important for the producers, the Alberta and Canadian governments to have their eyes on it and be responsive to it, though.

Calmer heads will ultimately prevail. In the long run, it's the largest market in the world and (Canada's oilsands) are right next door to it.

Q: Then has the mood at all changed on either side of the border about doing business together, with Canadian oilsands producers on one side and refiners based in the United States on the other?

A: I think there is increasing interest in the West Coast. I don't know if that is only or directly attached to the "dirty oil" conversations in the U.S. We're in the midst of expanding to the West Coast (Vancouver) today, we have our route to Kitimat as well, just like Enbridge does.

By this fall, we'll be looped right through those parks (Jasper National Park and Mount Robson Provincial Park) to Valemont and Valemont is the takeoff point to go to Kitimat.

That infrastructure is to serve a northern route as well, so we'll have pipe in the ground if that's where the market wants to go. My point being, there are more conversations occurring about getting oil to the West Coast.

Q: Why, from your standpoint, did the West Coast pipeline option turn quiet two years ago?

A: Supply contracts couldn't be reached and they (producers and customers) still aren't underpinning it. It's in the business development phase. What we saw in the last 12 months was a more concerted attention looking at the U.S. Gulf Coast and the pipelines responded. Now it's reverting back to the West Coast again, which is where it was a couple of years ago. The options aren't just Asia. They are the U.S. as well. But those offshore markets in China and Asia are being developed today and the business development of market takes time.

Q: How can a deep-water port be developed at Kitimat when there is an oil development moratorium in place that some believe includes a ban on oil supertanker traffic off the West Coast of Canada?

A: That's debatable -- whether the offshore moratorium on development includes, as it does in some people's minds, tankers. It's a political debate. We have an Aframax (a type of smaller oil tanker) sized facility in Vancouver that given the economics today on oil after transportation is facilitating producer business developments overseas.

Q: So why then have you been working with the B.C. government, First Nations communities and talking with Alberta producers about the TMX's northern leg in the last two months?

A: With all the Gulf Coast alternatives out there for consideration, what market access is the next wave? I think the West Coast is it and I think we're very well-positioned with existing assets and relationships to advance expansion to the West Coast. These are long-term efforts and you have to do a lot of planning before you seek your permitting.

Q: How large and how expensive would a northern leg pipeline be?

A: It would carry 400,000 barrels a day. We did a cost estimate 18 months ago but I wouldn't want to speculate now. We've seen pipeline construction costs, steel costs probably go up by 20 to 25 per cent in the last year to 18 months.

Q: What role is Kinder Morgan playing and what progress has been made lately around efforts in Alberta to create a system capturing, transporting and sequestering carbon emissions from the oilsands?

A: We're continuing to lobby the federal and provincial governments to adopt the recommendations of the carbon capture task force, which I sat on a year ago. At its core, it calls for a significant and sustained level of support from governments to build meaningful, large-scale carbon capture and storage facilities.

There are economic hurdles around this that will not be cleared easily. The costs of capture are significant. The pipeline sector is not the Achilles heel in this. We're also trying to work with emitters and producers who are interested in buying the CO₂ to advance real, large-scale commercial projects. It's about the political bodies needing to step up to close the economic gap.