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Oil & Gas

Deluge: Pipeline Proposals Shift into Overdrive

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Important Disclosures: See pages 9-10

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Deluge: Pipeline Proposals Shift into Overdrive

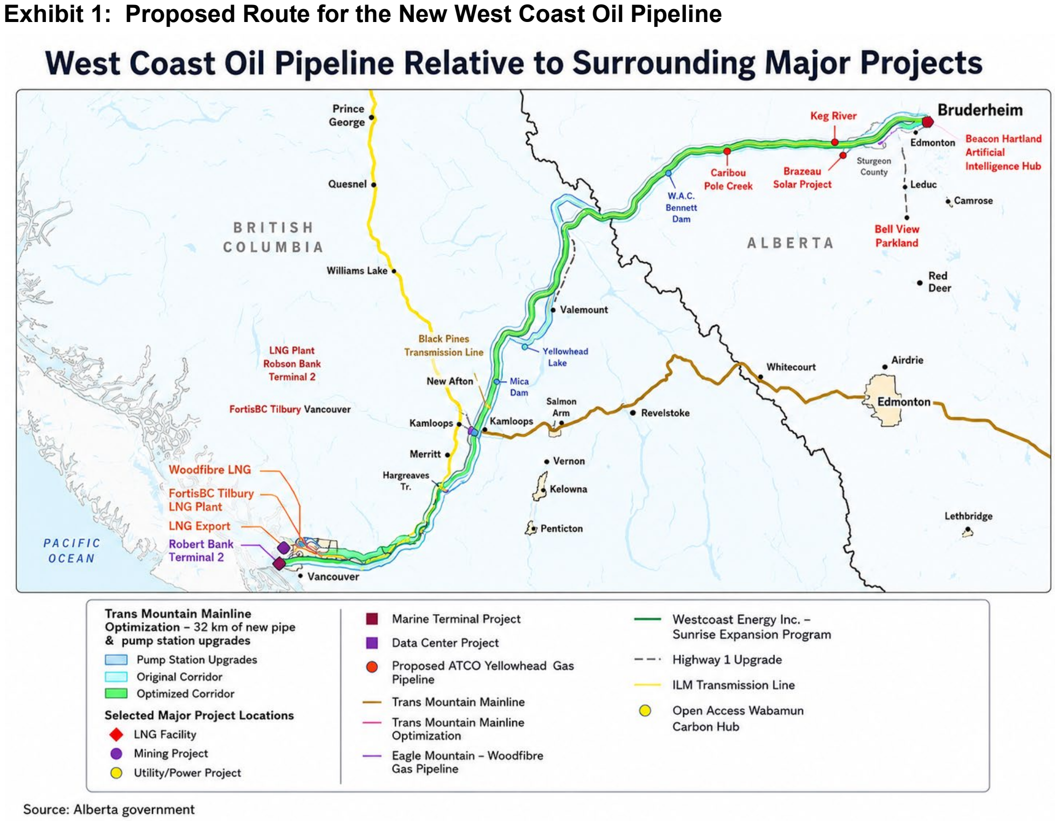
A flurry of pipeline announcements could be a catalyst to transform Canada's oil & gas sector after years of sluggish production growth. The Canadian and Alberta governments reached an agreement earlier this month to build a 1 million barrel per day (b/d) crude oil pipeline to Canada's West Coast. Within a week there was the announcement that Ontario and Alberta were proposing a 3,300-kilometre 500,000 b/d pipeline route across the country to lessen Canada's reliance on foreign markets.

The proposed West Coast pipeline would terminate at the Roberts Bank Marine Terminal which has the capacity to accommodate two VLCCs.

The proposal for the new Canada-Alberta pipeline has been submitted to Canada's Major Projects Office (MPO). If the MPO deems that the proposal is a "project of national interest" this could result in a shortened regulatory approval process. The proposed route for this new pipeline would follow the route of the existing Trans Mountain pipeline (beginning at Bruderheim, Alberta) to the Roberts Bank Marine Terminal which can accommodate Very Large Crude Carriers (VLCCs). Initially the project will be owned by the Trans Mountain Corporation (45%), the government of Alberta (45%) and Pembina Pipeline (10%).

The Roberts Bank Marine Terminal in British Columbia has the capacity to accommodate two VLCC tankers at the same time, a capacity of 1.9-2.2 million barrels (the existing Trans Mountain terminal is limited to Aframax tankers with a loading capacity of 550,000 barrels) offering significant offtake capability.

Exhibit 1: Proposed Route for the New West Coast Oil Pipeline



Source: Government of Alberta, Granite Point Research

The proposed Northern Shield Energy Corridor lacks federal backing and that of the province of Manitoba.

Ontario and Alberta also announced the proposed Northern Shield Energy Corridor a 3,300-kilometer pipeline that would connect Hardisty, Alberta with Sarnia, Ontario. The proposal is for 500,000 b/d but could expand to 800,000 b/d. But unlike the West Coast pipeline, the Alberta-Ontario proposal has no formal federal backing. Also, it is not yet clear that Manitoba, through which the pipeline would run, is supportive. The pipeline route follows that of a memorandum of understanding signed last year by Saskatchewan, Alberta and Ontario which committed the provinces to new trade and energy infrastructure. Ontario is now proceeding with a study to define estimated costs and examine commercial models and related development opportunities for the proposed energy corridor.

A significant portion of Ontario and Quebec's oil supply is delivered through the U.S. Midwest reducing Canada's leverage over its domestic energy needs.

An oil pipeline from Alberta to Ontario makes good political and strategic sense. Most of Western Canada's crude oil is transported by the Enbridge mainline pipeline system which crosses the U.S. Midwest before re-entering Canada at Sarnia, supplying markets in Ontario and Quebec. A significant portion of Ontario and Quebec's oil volumes flow through Enbridge's Line 5 which passes under the Straits of Mackinac, the waterway between Lakes Michigan and Huron. Despite being protected by the 1977 Transit Pipeline Treaty, the route has been subject to legal challenges over the years. In 2019, Michigan sought to shut down Line 5 due to age (73 years), calling it a "public nuisance" and "likely to cause pollution." Since 2018, Enbridge has been trying to replace the aging pipe with a tunnel, but this has faced years of permitting delays, opposition from Indigenous and environmental groups as well as litigation with replacement of this pipeline section unlikely before the early 2030s.

Exhibit 2: A West/East Pipeline Makes Good Strategic and Political Sense

Source: The Globe and Mail

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Will Oil Production Grow Enough to Justify New Pipelines?

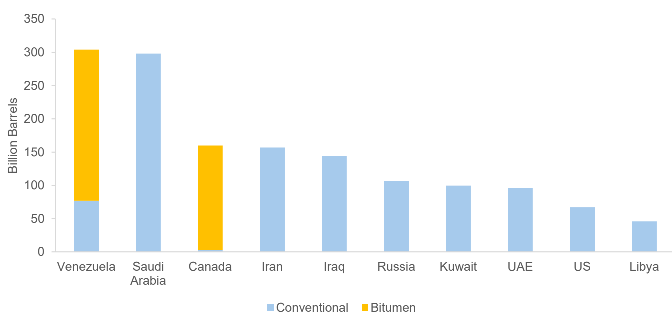
Alberta's stated goal is to double production over the next decade to 8 million b/d.

Alberta's stated objective is to double oil production to 8 million b/d over the next decade. While this is certainly possible, we believe a more likely scenario is that supply grows to roughly 6.5 million b/d in 2035 from 5.5 million b/d in 2025. Alberta does have the third-largest volume of proved crude oil reserves in the world. The province also has a backlog of excess capacity, approved and on-hold projects and projects where applications have been filed that could nudge Alberta's production toward the 8 million b/d mark.

Alberta has a potential ~3.8 million b/d incremental production potential that could represent an investment opportunity of more than $200 billion.

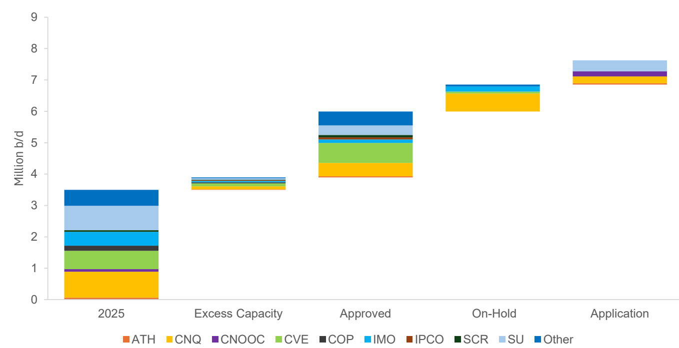
There is spare capacity at Alberta-based producers of ~370,000 b/d and approvals from the Alberta government for an additional 2.1 million b/d as well as 660,000 b/d of projects that are on-hold and more than 700,000 b/d of projects awaiting approval. **This ~3.8 million b/d of production potential could represent an incremental investment opportunity of more than $200 billion.**

Exhibit 3: Top 10 National Proved Reserves



Source: Energy Institute, Granite Point Research

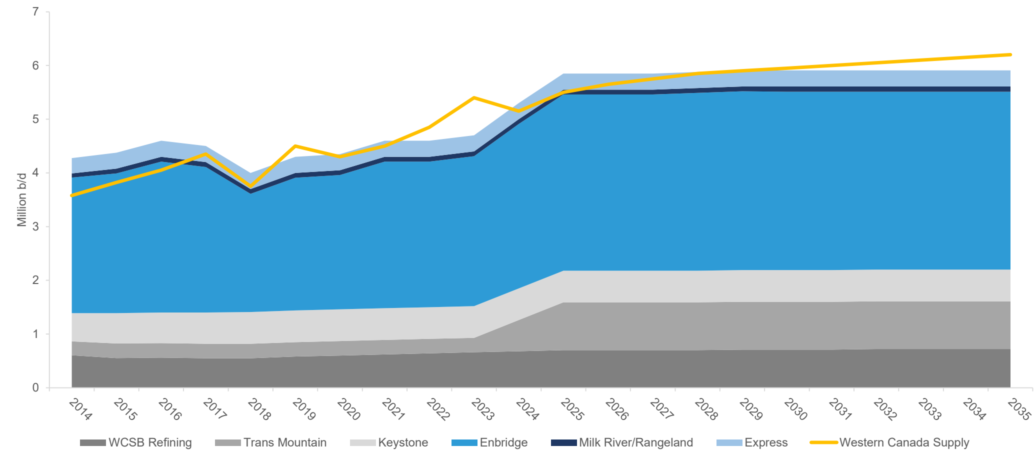
Exhibit 4: Potential Oil Production Additions



Source: Granite Point Research

We estimate that by 2035 minimum pipeline takeaway capacity from the Western Canadian Sedimentary Basin (WCSB) will need to be in excess of 5.5 million b/d, exceeding the current takeaway capacity of 5.1 million b/d. However, we believe that pipeline takeaway capacity will be far greater if additional pipelines, particularly those linking Canadian crude to Asian markets, get developed.

Exhibit 5: Western Canadian Sedimentary Basin Supply vs. Existing Pipeline Capacity



Source: Granite Point Research

Several Pipeline Projects are in the Works

Total takeaway capacity could be as much as 8,155,000 b/d if all current proposals were in-service.

There are several pipeline approvals already in the hopper such as Enbridge's approved 150,000 b/d optimization program. As well, the Trans Mountain and Express pipeline systems are expected to use drag-reducing agents to boost pipeline volumes. Additionally, South Bow has successfully completed an "open season" for its 450,000 b/d project and there is another ~700,000 b/d of optimization projects that could expand offtake capacity.

Exhibit 6: Existing and Proposed Pipeline Capacity

Operator	System	Project	Capacity 000 b/d	Timing
Enbridge	Mainline	In-Service	3,250	na
Enbridge	Express	In-Service	310	na
South Bow	Keystone	In-Service	590	na
Trans Mountain	TMPL	In-Service	890	na
Other	Other	In-Service	110	na
Total			**5,150**	
Enbridge		Optimization 1	150	2027
Enbridge		Optimization 2	150	TBD
Enbridge	Express	Optimization	75	2026
South Bow	Keystone	DRA	20	TBD
Trans Mountain	TMPL	DRA	90	2027
Trans Mountain	TMPL	Optimization	210	2028
Trans Mountain	TMPL	Peugot Expansion	60	2029/30
South Bow	TBD	Prairie Connector	450	TBD
Total			**1,205**	
West Coast Pipeline	**TMPL/PPL**		**1,000**	**2032/34**
Northern Shield Energy Corridor			**800**	**TBD**
Total			**3,005**	
Grand Total			**8,155**	

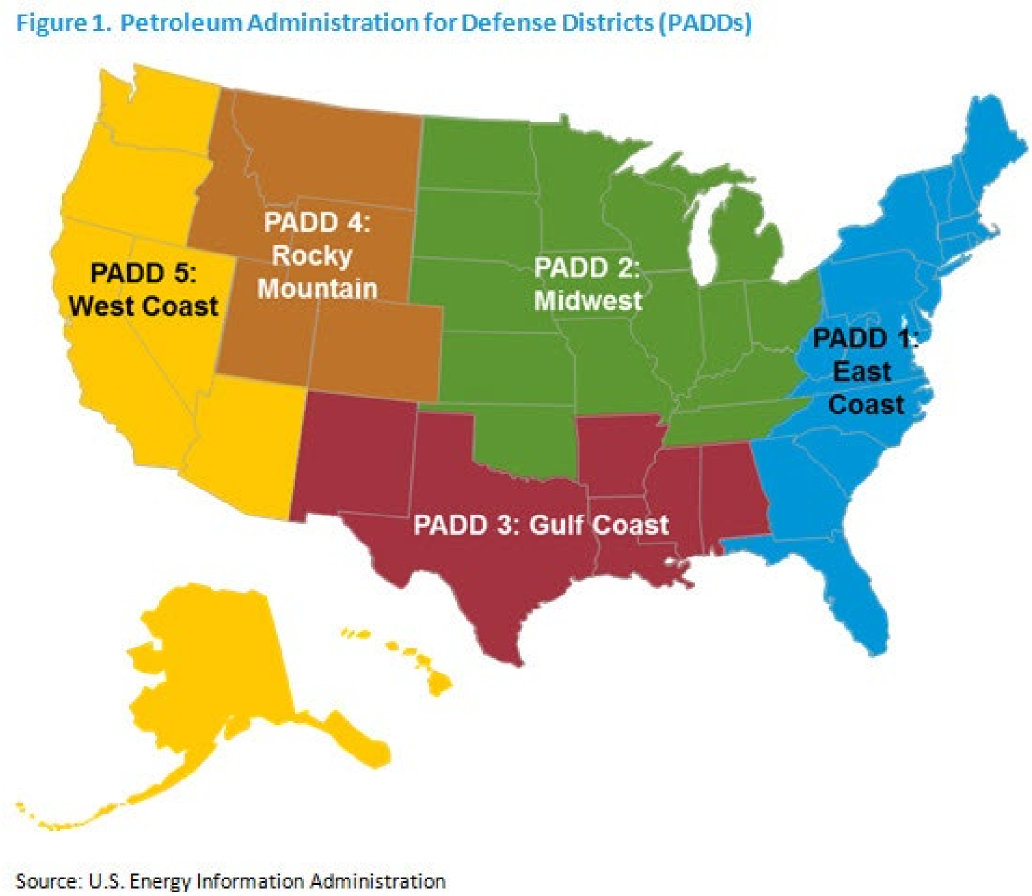
Source: Granite Point Research

Canada’s Oil Exports Go Primarily to the U.S.

Rising Venezuelan volumes represent a potential risk to the growth plans of Canadian producers.

The U.S. accounts for more than 90% of Canadian crude oil exports and 75% of the heavy crude oil imported into the U.S. Canada accounts for ~100% of crude oil exports into Petroleum Administration for Defense Districts (PADD) 2 and 4. Canada’s share of PADD 3 had been steadily increasing as Mexican exports decreased but that has started to reverse course as Venezuelan exports have increased and garnered an increasing share. With the opening of the Trans Mountain pipeline, Canadian deliveries to PADD 5 have increased.

Exhibit 7: More than 90% of Canadian Crude Oil Exports Go to the U.S.



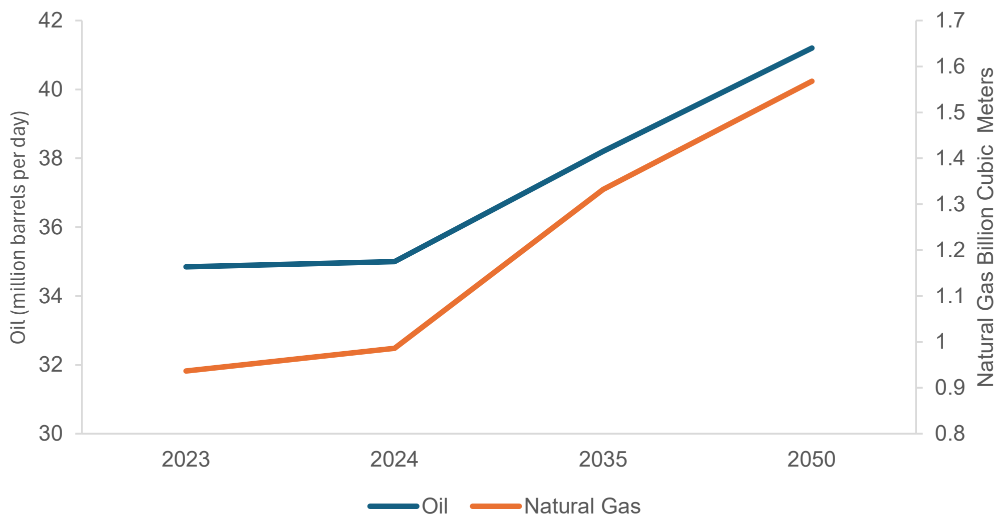
Source: U.S. Energy Information Administration

Asia Critical to Canada's Oil & Gas Growth Plans

China is the world's largest oil importer.

Asia is the world's largest energy market and Indian and Southeast Asian growth is just taking off. Asia is expected to grow demand for oil and natural gas for decades with oil demand expected to increase by over 20% between now and 2050 while natural gas demand is expected to surge by ~60% over the same period. Globally, the demand for extra heavy oil and bitumen such as those Canada produces is expected to increase by 40% over the next 25 years.

Exhibit 8: Asia's Energy Needs Are Growing Rapidly

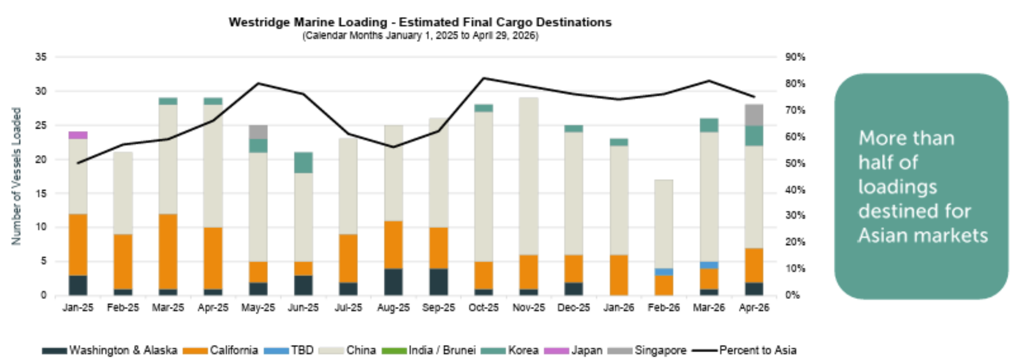


Source: IEA, Granite Point Research

China is now the largest single purchaser of oil from the Trans Mountain system.

The Trans Mountain expansion that was completed in May of 2024 has resulted in sharply increasing Asian export volumes through its Westridge Marine Terminal. More than half of the Westridge Terminal's exports are going to Asia, particularly China and South Korea. China is now the largest single purchaser of oil from the Trans Mountain system.

Exhibit 9: Westridge Marine Terminal – Estimated Final Cargo Destinations



WESTRIDGE MARINE LOADING
Estimated Final Cargo Destinations (May 1, 2024 to April 29, 2026)

Washington & Alaska	California	TBD	China	Korea	India / Brunei	Japan	Singapore	TOTAL
52	144	2	325	22	4	2	5	556

Source: Trans Mountain Corporation

Demand for Heavy Barrels Expected to Grow

Canada can ship oil and gas to Asia via its West Coast in about half the time it takes to ship oil from the U.S. Gulf Coast through the Panama Canal.

Electrification is partially displacing gasoline (light barrels) in Asia but not diesel, jet fuel or petrochemical feedstocks, giving heavy barrels (such as Canada produces) strategic value. China is pivoting into petrochemicals, trying to take share from Korea and Japan while India's oil imports are expected to grow by 1.5 million b/d by 2035. Both China and India seek steady supplies of heavy and sour crude, which today is supplied from the Middle East, Russia and Venezuela. This creates an opening for a stable Western supplier such as Canada, which today barely registers as a significant exporter to China and India, suggesting potential for growth.

Canadian crude shipped to Asia would receive Brent rather than WCS pricing — a significant revenue boost for producers.

With the completion of the Trans Mountain Pipeline (TMX), the price gap between Western Canadian Select (WCS) and West Texas Intermediate (WTI) has narrowed. Canadian crude shipped to Asia receives Brent pricing less US$2-$6 per barrel, and Brent trades at a premium to WTI.

If Alberta producers are able to double production (to 8 million b/d) all these pipelines could be supported but that may be a challenge. We believe that 1.5 million b/d of additional capacity in the next decade is likely (one million b/d of new projects plus 500,000 b/d of existing projects) with the additional growth dependent on investor interest. One million b/d of incremental oil sands production would require upstream investments of $50-$60 billion plus capital for CO2 emissions reductions.

If the political will was there, Canada could develop both the West Coast and the Northern Shield Energy Corridor pipeline projects as well as a number of private pipeline proposals.

New pipelines create important national infrastructure that provide Canada with greater control over domestic energy delivery and provide more diversity of end-use markets. Strategically and politically, there may exist a strong case for developing both the West Coast pipeline and the Northern Shield Energy Corridor pipeline given the shifting trade patterns we have been witnessing recently. If the various provinces and the federal government are willing to backstop these proposals financially, we may very well see Alberta production doubling over the next decade to meet the moment.

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RATING	COVERED COMPANIES
BUY	4
HOLD	
SELL	

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