Sides clash over need for pipeline

By Paul Hammel
WORLD-HERALD BUREAU

LINCOLN — A lawyer opposed to the Keystone XL pipeline says the oil industry's own figures show that the project isn't needed, because there is a surplus of crude oil pipeline capacity from Canada to the United States.

Paul Blackburn, a Minneapolis attorney who has been advising environmental groups in Nebraska, said that if crude oil production from Canada's tar sands region continues to rise at historical rates, current import pipelines can handle all the oil until at least 2030.

Adding the 700,000 barrels-a-day Keystone XL could extend that date another two decades, Blackburn said.

"The truth of the matter is, I think there are other, cheaper ways to deal with our energy needs than this," Blackburn told a gathering of anti-pipeline activists on Friday. "Right now there's too many pipelines chasing too little oil."

Officials with Keystone XL developer TransCanada and the Canadian oil industry both disputed Blackburn's analysis, saying it misses the point.

Shawn Howard of TransCanada and Greg Stringham of the Canadian Association of Petroleum Producers said that while there is excess pipeline capacity from Canada, that will disappear in a few years. In the short term, they said, the Keystone XL solves an impending shortage of heavy crude oil at the cluster of refineries along the Gulf Coast.

Blackburn said it doesn't matter what the future demand for oil is on the Gulf Coast, because it appears that Canada cannot fill up the pipelines is has now.

Howard expressed frustration that those outside the oil industry, like Blackburn, think they know more about the industry than those within it.

"Why would companies sign 18- to 20-year contracts to move oil where it's not needed? Why would we invest money if it wasn't needed?" he asked. "This is an attempt to throw everything (negative) at the pipeline and see if it sticks."

Whether or not the U.S. needs the oil from Canada is a big question in whether the U.S. State Department will approve the pipeline. That department must decide if the Keystone XL is in the national interest.

One of the main arguments advanced by pipeline officials is that it's better to buy oil from a friendly ally like Canada than from the unstable Middle East and unfriendly governments such as Venezuela.

But Blackburn said there appears to be no need, for several years, for more pipelines from Canada. He said oil companies have to pay federal tariffs for pipelines even if they don't use them; thus, consumers could end up paying more at the pump.

A study commissioned by the State Department backs up statements made by both Blackburn and the Canadian officials.

A December 2010 report by Ensys Energy, a contractor hired by the federal government, found that with or without the Keystone XL there would be an overall surplus of pipeline capacity to the U.S. until after 2020. If, as anticipated, Canada builds new pipelines to its West Coast, that surplus would extend to 2025 or even 2030, the Ensys Energy report stated.

The report adds, however, that Gulf Coast refineries are facing a short-term need for heavy crude oil because of expected loss of supply from Venezuela and Mexico. Many Gulf Coast refineries are set up to process heavy crude oil, unlike refineries elsewhere. And heavy crude is what comes from the tar sands of Canada.

Much of the pipeline surplus is caused by the completion of two new Canadian pipelines in 2010: the Keystone; a 590,000 barrels-a-day project built by TransCanada that crosses eastern Nebraska; and the 450,000 barrels-a-day Alberta Clipper, owned by Enbridge, which provides a connection to refineries in the Chicago area.

Both of those pipelines are running under capacity.

A June 2011 report from the Canadian Association of Petroleum Producers indicated that the Keystone was operating at 31 percent of capacity in the fourth quarter of 2010. Blackburn said that as of the second quarter of 2011, use of the Keystone pipeline was up to 56 percent, while Howard, the TransCanada official, said the pipeline is now operating at 67 percent or higher.

Blackburn said that the producers association has consistently overestimated increases in production of oil from the tar sands region, which hasn't kept up with recent pipeline expansion. Some oil companies, he said, sued last year to get their pipeline fees lowered, contending the new capacity was not needed.

The overcapacity to the Midwest, Blackburn estimated, is adding 5 cents per gallon to the cost of gasoline.

Pipeline advocates say a key purpose of the Keystone XL is to bypass Cushing, Okla., a pipeline junction with a surplus of oil, and get it to the Gulf Coast, where refineries are operating under capacity and need more oil.

But Blackburn said that can be solved less expensively than building a $7 billion pipeline from Canada. Options that have been discussed include shorter pipelines from Oklahoma to Texas, or reversing existing pipelines that now carry crude oil northward so they can transport Canadian crude oil southward.

Canadian oil officials said that pipelines don't operate at 100 percent capacity immediately and that the current surplus should disappear in a few years. They said that because it takes so long to plan and build pipelines, a short-term surplus is a natural result.

"We don't build something and hope we can fill it," said Trans-Canada's Howard. "We've been approached by a number of companies. They need oil."

Increasing the supply of oil to the Gulf Coast, the world's largest area of refineries, will help consumers, he argued, because increased supply results in lower prices.

Stringham of the Canadian oil producers said the surplus to the Midwest refineries will probably continue for four to five years, but that the Gulf Coast is facing a shutoff in a couple of years, for political reasons, of heavy crude oil from Venezuela. Mexican production of heavy crude oil, he said, is dropping faster than expected.

"Canada's heavy crude is a perfect substitute," Stringham said.

Contact the writer: 402-473-9584, paul.hammel@owh.com