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U.S. Refiners Don't Care if Keystone Gets Built

Railroads and Rival Pipeline Firms Are Making the Keystone Pipeline Less Necessary.

By Ben Lefebvre
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U.S. companies that refine oil increasingly doubt that the controversial Keystone XL pipeline expansion will ever be built, and now they don't particularly care.

Railroads are carrying soaring amounts of crude from Canada down to refineries along the U.S. Gulf Coast, reducing the need for the TransCanada Corp.TRP.T_+0.46% project, which is still awaiting approval from the U.S. government after two years of delays.

Meanwhile, a rival pipeline company, Enbridge Inc., ENB.T_-0.09% is expanding existing pipes to carry Canadian crude south—and it doesn't need federal permission because it's using existing pipeline rights of way. In addition, so much oil is sloshing around the U.S. from its own wells that refiners don't need lots more heavy crude from the north to keep busy.

"Keystone XL has been back-burnered for so long that any relevant parties have been able to make plans as though the project never even existed in the first place," says Sam Margolin, an analyst at Cowen & Co.

TransCanada designed the proposed conduit to ship 830,000 barrels a day of heavy crude from western Canada, as well as lighter-grade oil from North Dakota shale fields, to the U.S. refining complex along the Gulf of Mexico.

The cross-border Keystone project, billed as a way to reduce heavy oil imports from Venezuela and Mexico, requires a permit from the U.S. State Department.

Concerns about the pipeline's possible environmental impact and legal skirmishes over the company's use of eminent domain to acquire land along the pipeline's proposed route have also bogged down the project.

TransCanada says that the case for building Keystone XL remains strong and that it hopes the U.S. State Department will decide whether to grant the construction permits by the end of this year .

But refiners are moving ahead with other plans. Valero Energy Corp. VLO_-0.46% had signed to receive oil from Keystone XL when the project was first announced and spent billions of dollars upgrading some of its U.S. Gulf Coast refineries to turn heavy Canadian crude into gasoline and diesel.

But it says it no longer considers the pipeline critical to its business. The company is now expanding rail terminals at its refineries in Benicia, Calif.; St. James, La.; and Quebec to receive more crude oil shipments, including heavy Canadian crude. Part of the reason is the long wait for Keystone. "If we just sat around and waited for Washington, we'd never get anything done," Valero spokesman Bill Day said.

Nearly 200,000 rail cars in Canada carried crude oil or fuel during the first seven months of 2013, up 20% from the year before, according to the latest data from the American Association of Railroads.

Refiners along the U.S. Gulf Coast are also taking advantage of the boom in light, sweet crude coming out of Texas and North Dakota. That oil is easier to process than heavy oil from Canada, Venezuela and Mexico, and as the supply has increased, the demand for heavy crudes at many refineries has diminished.

Enbridge, TransCanada's cross-town rival, plans to spend $2.4 billion to expand several pipelines in its Lakehead system by 2014. Such an expansion would bring 1.2 million barrels a day of crude oil from Canada and North Dakota to the Midwest, where it could then be shipped to the Gulf Coast via the Seaway pipeline that Enbridge owns with Enterprise Products Partners EPD +0.85% LP.

Oil producers in Canada are still pushing for Keystone. Imperial Oil, an affiliate ofExxon Mobil Corp., XOM +0.91% and other companies have argued that they need the pipeline to give them more access to the U.S. Gulf Coast, which is one of the few places in the world able to handle large volumes of heavy crude oil. The Canadian Association of Petroleum Producers says that without the pipeline, production from oil sands will exceed shipping capacity by 2016.

But even as they hope for the project's approval, some producers in Canada are making other plans. Cenovus Energy Inc. CVE.T +1.68% has signed contracts to send 200,000 barrels a day to Canada's east coast via TransCanada's Energy East pipeline and 175,000 barrels a day to the country's west coast on pipelines run by Kinder Morgan Canada and Enbridge Inc., spokeswoman Rhona DelFrari said.

"The long wait for the Keystone XL decision has created uncertainty for the oil industry," Ms. DelFrari added. "We're not putting all our eggs in one basket."

—Chester Dawson
contributed to this article.

Corrections & Amplifications

Cenovus Energy Inc. has commitments to ship 175,000 barrels of oil a day of oil to Canada's west coast via two pipelines, including a proposed line that will be operated by Enbridge Inc. A previous version of this article incorrectly said an existing Kinder Morgan pipeline would carry the entire amount.

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