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North America Crude Takeaway Sufficient — for Now

North America has sufficient pipeline takeaway capacity to accommodate oil production at least through the end of the decade — with one important caveat.

Echoing the rhetoric of midstream giants such as Enbridge, speakers at last week's Crude Oil Quality Association (COQA) virtual summit said that in both Canada and the US, there is no need to add to the list of ongoing pipeline projects. That is, assuming current Canadian projects come to fruition.

"The Covid crisis combined with ... increasing focus on greenhouse gas (GHG) emissions and the environmental, social and corporate governance (ESG) movement ... has really changed things," said Martin Tallett of Solomon Associates. "It doesn't look like any more capacity is needed until the late 2030s."

Indeed, Enbridge CEO Al Monaco has said midstream players need to pivot from new projects to revamping existing infrastructure (OD Feb.12'21). To wit, some players have abruptly canceled new pipeline projects (OD Apr.8'21).

The situation facing crude pipelines is similar to that facing North American refiners: after an aggressive buildout to accommodate burgeoning supplies of unconventional crude from shale and Canada's oil sands, the industry finds itself with little room to expand and significant pressure to downsize.

The impetus comes not only from an anticipated decline in regional demand and the destructive impacts on both demand and supply from the Covid-19 pandemic, but also from regulatory and investor pressures amid an accelerating energy transition.

Basin by Basin

The balance of anticipated production versus takeaway capacity tightens as one moves from the US Gulf Coast to the oil sands in Alberta, Canada.

Underlying that trend is anticipation that, while US crude production will rebound from Covid-19 and continue to grow, it will not return to its pre-pandemic maximum near 13 million barrels per day.

Inland plays near the ports of Houston and Corpus Christi, Texas, like the Permian Basin and Eagle Ford Shale, have plenty of pipeline market access, maybe more than enough. Surging production in these areas and quality concerns from overseas buyers precipitated a flurry of newbuild capacity that ended only in late 2019 (OD Jan.11'21).

"On the Permian side we have a case of significant overbuild with potentially pretty low utilization on pipelines in the years to come," Tallett said.

Pipeline takeaway capacity from the Nymex pricing point of Cushing, Oklahoma, also expanded dramatically in the wake of the shale revolution, with the reversal of the Seaway Pipeline and construction of TC Energy's Gulf Coast project.

In North Dakota's Bakken play, the completion of the controversial Dakota Access Pipeline (DAPL) resolved the regional imbalance to the extent that state officials now see just 16% of output leave the state by rail. Prior to DAPL, rail could account for the majority of crude shipped out of the state.

Canada In Focus

The situation becomes more fraught north of the US border in Canada. Currently, the market anticipates that Enbridge's Line 3 expansion will come into service late this year, adding some 370,000 b/d in takeaway capacity.

In late 2022, the Trans Mountain expansion will add another 590,000 b/d and give oil sands producers more direct access to tidewater at the port of Vancouver.

Together, these pipeline projects will accommodate Canadian

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production for the foreseeable future, according to multiple sources, including Alberta Energy Minister Sonya Savage (OD Apr.7'21).

Both projects have, however, experienced significant political opposition and regulatory hiccups that have repeatedly delayed in-service dates. And both continue to face stiff opposition from environmental and indigenous groups.

Just last week, insurance provider Argo Group International confirmed it will no longer underwrite the Trans Mountain

project when the policy expires in August since it no longer fits Argo's "risk appetite" (OD Jun.4'21).

Meanwhile, Enbridge is locked in a legal dispute with the state of Michigan over its Line 5 pipeline.

Should that line be forced to shut down, or should either Line 3 or Trans Mountain projects be canceled, Canada will once again see a shortage of takeaway capacity.

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