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Intelligence MEMOS

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To: Pipeline Observers

Re: ASSESSING WEST COAST PIPELINE COMMERCIAL VIABILITY

Alberta's West Coast pipeline proposal was unveiled yesterday with federally owned Trans Mountain as the led proponent, with Pembina Pipeline Corp. as a junior – 10 percent – partner.

The difficulty in attracting more private capital to the scheme has many sources. We unpack the factors any business would need to weigh before committing its money.

A benefit of additional pipeline infrastructure is the potential impact on the differential – the price difference between what Canadian producers receive, Western Canadian Select (WCS), and the global benchmark West Texas Intermediate (WTI). However, it is unclear whether the proposed oil pipeline will reduce the differential, which stands at about $US18 a barrel this week.

This is due to several structural factors: Congestion of pipe capacity, quality of product, transportation costs, and market access.

The Trans Mountain expansion (TMX) showed the importance of removing congestion and shipping to new markets. It entered service two years ago, tripling the system to about 890,000 barrels per day (bpd), which drove the differential down from about $15 to $18 a barrel to a range between $11 and $13, on average.

With increased investor interest in the oilsands and proposed oilsands expansions projected to add about **400,000 bpd** a day by 2030, it is possible congestion in the system returns. Currently, Western Canadian production runs at roughly 4.5 million bpd against about 5 million of pipeline capacity. But pipeline operators are already managing this expected increase in production. Trans Mountain is adding a further 300,000 bpd through drag-reducing agents and mainline optimization, lifting its system toward about 1.2 million bpd by 2028, at a fraction of greenfield cost. And Enbridge's Mainline Expansion is adding approximately 250,000 bpd of capacity to its system by 2027. A new one-million barrel per day pipeline may be too much capacity for the system.

Capacity constraints also exist at tidewater. TMX ends in Burnaby which is an expensive place to load because it can't take the biggest tankers that dominate the global flow of oil with their 2-million-barrel capacity.

The largest tanker the Westridge terminal can accommodate is an **Aframax**, and the depth of Vancouver Harbour's Second Narrows means they can only take three-quarters loads, **roughly about 550,000 barrels**. A partly loaded tanker costs the same to charter as a full one, so freight per barrel runs higher. In 2024, some traders found it cheaper to send their Burnaby loads to be transferred onto a **VLCC** off California than to ship them directly on Aframaxes.

The Port of Vancouver **received approval** to dredge the channel so tankers can load closer to full, targeting 2027, possibly even 2028. However, the work won't expand the size or number of vessels. Even with the dredging, it's unclear whether Westridge could handle the volume of a new pipeline. It's also not easy to see how any new pipeline could win approval for a northern route, given the federal tanker ban in place and opposition from multiple BC groups.

Beyond these factors, private proponents and their shareholders may not want to spend the billions of dollars on the pipeline, with potential for cost overruns. TMX, owned by the federal government, came in around $34 billion, six times the initial estimate. Beyond that, there is the backdrop of a decade of conflicting signals about pipeline support from the federal government.

Shippers signed take-or-pay for roughly 80 percent of TMX's capacity before construction risk landed, and Trans Mountain just ran another open season, over April and May, to lock in more. An open season normally comes before any regulatory filing. The new line runs the sequence backwards: Alberta submits to the MPO, Ottawa designates it in the national interest by October 1, and construction could start September 1, 2027, begging the question of when an open season will occur to test the commercial viability of the new west coast pipeline.

It seems the firms with existing pipelines have easier growth options and opportunities in hand.

As Alberta and Ottawa seek to diversify Canada's markets for our oil it's difficult not to be reminded of the past ten years of political decisions which created perceptions and conditions that remain difficult to undo and persuade the private sector to join them in achieving their strategic objectives, beyond the business case.

Profitability is hard to see under all these circumstances.

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