

TransCanada's Keystone pipeline looks to expand to Gulf coast

July 3, 2007 - 18:17

By: JUDY MONCHUK

CALGARY (CP) - Buoyed by long-term contracts to ship an additional 155,000 barrels a day of oilsands crude from Alberta, TransCanada Corp. (TSX:TRP) announced plans Tuesday to expand its proposed Keystone pipeline to the U.S. Gulf Coast.

The proposed expansion, from Illinois to Cushing, Okla., would increase Keystone's transportation capacity to 590,000 barrels a day. Keystone's initial nominal capacity when it enters service in late 2009 is to move about 435,000 barrels of crude oil daily from Hardisty, Alta., to U.S. Midwest markets at Wood River and Patoka, Ill.

"This commitment from shippers clearly confirms the value of TransCanada's Keystone project as a cost-competitive way to link growing oilsands supply to U.S. energy markets," said TransCanada CEO Hal Kvisle.

"With this support, we expect to move to the next phase of the project, expanding the pipeline to the U.S. Gulf Coast," said Kvisle. "We plan to market capacity for this next expansion throughout the balance of 2007."

Production in Alberta's oilsands has been forecast to triple by 2010 to three million barrels a day. Limited refining capacity in Canada has created a strong demand for increased pipeline capacity to move the crude south.

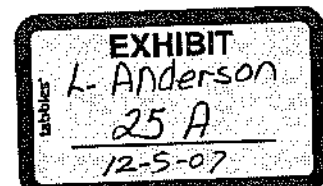
The expansion would make use of TransCanada's existing pipeline network, but will also include additional pump stations and construction of a 473-kilometre pipeline from the Nebraska-Kansas boundary to Cushing.

No price tag was attached to the proposal.

Calgary-based TransCanada said Tuesday it has now secured firm contracts to move 495,000 barrels a day in Keystone's initial phase. Transport deals for the crude, which is mined in northern Alberta, have an average duration of 18 years.

TransCanada always maintained expanding Keystone was a possibility if there was enough shipper interest.

"They see the supply coming (onstream) quicker so I think they've just accelerated the expansion," said Greg Stringham, vice-president of the Canadian Association of Petroleum Producers. "They had built in some additional growth potential, but I think the growth is being realized



Anderson Exhibit #25

faster."

Stringham expects that over the next year, expansion plans for existing pipelines and proposed projects will be pushed forward to handle the forecast demand.

"And we're going to need more beyond that," said Stringham. "Come 2013-2014 we're **going to need another round of pipelines** to move the oil that's anticipated. Once you've tapped out the (expansion ability) of the existing system, then you have to **start looking at new routes.**"

Direct routes from Alberta to Cushing and Houston are on the drawing board for several companies. It takes about five years for a pipeline project to be proposed, go through the regulatory process and be built.

Expanding Keystone, which is awaiting regulatory approval from the National Energy Board, was no surprise to analysts.

"While we ... were already including the extension/expansion in our financial model for TransCanada, the announcement nevertheless remains a positive insofar as it removes substantial execution risk from a total of US\$700 million in growth capital," said Daniel Shteyn of Desjardins Securities.

Last month, Enbridge Inc. (TSX:ENB) announced plans to partner with ExxonMobil Pipelines Co., and build a pipeline to ship Canadian oilsands crude through to Texas from Illinois.

That project could be in service by 2010.

At the time, industry observers said it appeared the processing scale was tipping towards refineries on the Gulf of Mexico. That refocus of refinery capacity would make the American oil and gas supply less prone to weather-related disruptions such as damage from Pacific Coast disasters.

The U.S. vulnerability became painfully obvious in the wake of hurricane Katrina in 2005.

TransCanada is one of the largest providers of natural gas storage in North America. It also has a network of 59,000 kilometres of wholly owned pipelines and taps into most of the major gas supply basins on the continent.

TransCanada has received regulatory approval to convert some 860 kilometres of natural gas pipeline to handle oilsands crude for the Keystone project.