STRATAS ADVISORS

Hither or Wither: Stratas Advisors Weighs Alberta's Options to Rail Crude to the U.S. or Cut Production

HOUSTON, March 14, 2019 /PRNewswire/ -- With the news from Minnesota that resulted in a one-year permitting delay for the new Line 3 replacement project envisioned by Enbridge Inc., Stratas Advisors took a hard look at the options for Alberta's heavy crude producing region. Stratas is making its findings available in a new report covering the future "fullstream" fundamentals up and down the value chain for Alberta's heavy crude producing region.

The report, "Hither or Wither: Will Canadian Producers Rail More to the U.S. or Cut Back?" features production forecasts, takeaway constraints, crude price forecasts and crude by rail economic analyses for key refining markets, and near-term crude import needs for key refining regions of North America.

The delay is happening during a critical time for the Canadian oil industry. It is occurring amid ongoing mandates by the government of Alberta for provincial operators to curtail crude production and amid plans by the province to lease rail cars to expand new takeaway capacity despite pipeline infrastructure constraints and weak WCS prices.

On the production side, the Stratas Advisors' upstream practice, directed by Stephen Beck, found that while the curtailment will cause a crude output drop in 2019, by 2020 "we see production back at pre-curtailment levels amid new project startups," he said. "The Line 3 delay leaves fewer transport options available to producers. Hence, rail will be an important outlet as the government gradually lifts production restrictions."

"Alberta has acted decisively to curtail producer output to reduce local crude stock overhangs in Alberta's storage facilities. Prices have more than doubled as a result of the first two months of the curtailment program," said Greg Haas, director of the Integrated Energy and Midstream practice at Stratas Advisors.

While moving crude by rail is often more costly than in pipelines, the research by Stratas Advisors shows, according to Haas, that "even at higher prices, railing Alberta's crude to key U.S. refinery market regions should be economically attractive through this year and next given the delay in the permitting and presumed startup timeframe for the only viable pipeline expansion. Our rail economics model shows significant arbitrage opportunity to back out higher-cost crudes imported via marine tanker to coastal refineries."

