

Ad

Wonkblog

The Senate is about to vote on Keystone XL. Does the pipeline still matter?



By **Steven Mufson** November 18 at 8:44 AM

Follow @StevenMufson

Climate advocates and representatives from the Rosebud Sioux Tribe in South Dakota protest against the Keystone XL pipeline in front of the home (center) of U.S. Senator Mary Landrieu (D-LA), chair of the Senate Energy Committee, in Washington on Monday. (REUTERS/Gary Cameron)

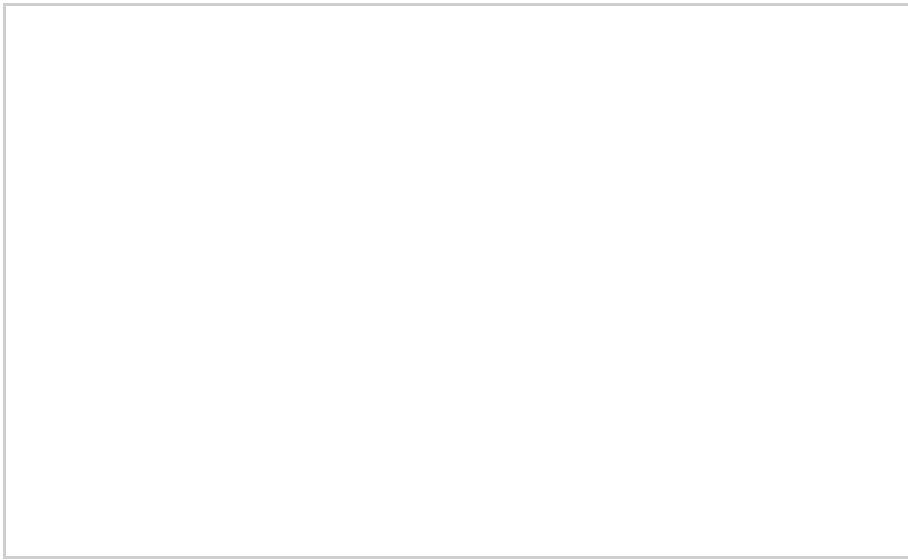
On Sept. 19, 2008, [newspaper headlines screamed](#) about the massive federal bailout plan to stem the widening financial crisis. Investors were fleeing to the safety of Treasury bonds, while Hurricane [Ike was bearing down](#) on the Gulf of Mexico, causing oil companies to shut down 90 percent of offshore wells and 10 onshore refineries.

In the middle of this chaos, here's an item that did not make headlines: TransCanada filed an application with the State Department to build a nearly 1,700-mile, \$7.6 billion

Advertisement

Keystone XL pipeline.

More than six years later — an eternity in the life of the economy — TransCanada is still waiting to find out the fate of the Keystone XL. On Tuesday, the Senate is expected to vote on a bill approving construction of the pipeline. It's still not clear which way the Senate will go since the vote is too close to call. Even if the Senate does approve the measure, President Obama is expected to veto it since the administration's review of the pipeline isn't finished yet.



While it's been waiting for a verdict on Keystone XL, the energy industry has undergone a huge transformation. Thanks to shale oil drilling, [U.S. domestic oil production](#) has jumped by almost 4 million barrels a day. The [number of rail cars carrying petroleum](#) went from an insignificant number to more than 16,000 a month. And the number of [miles of pipelines](#) carrying crude oil and refined petroleum products increased by 5,090 (through 2012) to 151,912 miles.

Given all that change, does the Keystone XL still matter?

From a business point of view, TransCanada says it does.

The Most Popular All Over

THE BALTIMORE SUN

Possible impact of Russell Martin's deal, Braves-Cardinals...

.....
SALON

The Elvis Presley coverup: What America didn't hear about the...

.....
SLATE

Help! What's Wrong With a 13-Year-Old Watching Me Giving...

TransCanada spokesman Shawn Howard says Keystone XL's original customers signed 18 to 20 years of binding contracts to transport oil sands crude from Alberta to Texas. The customers still see the pipeline with a capacity of 830,000 barrels a day as safer and cheaper than rail alternatives, and the modernized, upgraded refineries on the gulf coast as the place best capable of processing the thick low-quality oil from the oil sands.

“No one has walked away and we even have a waiting list,” Howard said in an e-mail. “These are the people who will pay for the cost of the pipeline through tolls and fees – and they have a lot ultimately invested and committed and they have a strong sense of the need and the demand in the market.”

Although U.S. crude oil production has soared with the shale oil drilling boom, the United States is still [a big net oil importer](#) – averaging more than 9 million barrels a day, according to the Energy Information Administration. Canada is the largest source of U.S. oil imports, and could supply more.

Valero, the nation's biggest refiner, said in [an investor presentation](#) at a UBS oil and gas conference in late May that western Canadian crude oil from oil sands were selling at more than \$15 a barrel discounts from similar quality crude from Mexico because transportation bottlenecks are forcing Canadian oil sands producers to pay high fees to railroads, which now carry more than a million barrels a day of crude, gasoline and diesel fuel.

President Obama suggested in comments last week that

Our Online Games

Play right from this page

Spider Solitaire

Genre(s): [Card](#)

Spider Solitaire is known as the king of all solitaire games!

52 card pickup

Genre(s): [Card](#)

Pick up cards as fast as you can!

Tri-Peaks Solitaire

Genre(s): [Card](#)

Reveal cards as you clear your way to the top!

Carniball

Genre(s): [Arcade](#)

This amusement park classic will bring back some joyous memories

Canadian crude oil would be exported after getting to the gulf coast. TransCanada and refiners say that's not the case. The Canadian oil sands crude would go into the mix of raw material. The vast majority of the refined products would stay in the United States, but a substantial minority would be exported.

Yet the Keystone XL permit has become much more than a simple business proposition and more than a long piece of steel equal to just 1 percent to the nation's existing web of oil pipelines. It has also become a powerful symbol.

That's been the work of climate activists — led in large part by Middlebury College professor Bill McKibbin and reinforced by some of Obama's biggest backers — who say that from a climate point of view the pipeline still matters. They have taken aim at Canada's oil sands, or tar sands, as particularly bad for the climate. That's because extracting oil from the sands not only means clearing swaths of boreal forest, it also requires large amounts of energy; the sands must be heated either after strip mining or through underground steam injection, adding about 17 percent to emissions.

The argument against the Keystone XL pipeline is that by providing relatively inexpensive transportation, the pipeline will facilitate more oil sands development. And oil companies — to the dismay of climate activists — have been planning large increases in output from Alberta's oil sands.

Earlier this year, Statoil and Total shelved oil sands projects. But just last week, the Canadian company

Cenovus said it received a permit from Alberta to expand its output by about 50 percent. And the [Alberta Energy Regulator](#) forecasts an increase in overall oil sands output from about 2 million barrels a day currently to about 4.4 million barrels a day by 2023.

Whether stopping the pipeline would actually stop the production projects remains a central issue. Supporters of the project say that if the pipeline is rejected, Canada will build pipelines to the east or west and send its crude elsewhere. But there is tremendous domestic Canadian opposition to those pipelines too, and they would not lead directly to modernized refineries like those on the gulf coast. They would need to be transported again by tanker.

If oil sands output were curtailed, the loss of oil supply could lead to higher global prices, but it's hard to calculate how much higher. At the moment, there is adequate supplies and oil prices have dropped about 25 percent in recent weeks.

The State Department's final environmental impact statement said that stopping the Keystone XL pipeline would not alter greenhouse gas emissions because oil sands producers would find other ways to ship the oil, such as railroads. It was a backhanded sort of statement of approval; since the pipeline would not be needed (and make no difference from an environmental point of view), it could go ahead.

But the State Department report also noted that if oil prices dipped below \$75 a barrel — the current level — some companies might reconsider expansion projects.

Ironically, one place where the pipeline makes little difference is in Louisiana. Sen. Mary Landrieu (D-La.) and Rep. Bill Cassidy (R-La.) are behind the respective Senate and House bills that attempt to compel the administration to issue a permit to TransCanada. The bill sponsored by Cassidy passed the House on Friday.

Yet Louisiana has no direct connection and few indirect ones. The pipeline does not run through any part of the state. Louisiana did not provide any of the [steel pipe](#), one of the biggest chunks of spending for the project.

Indeed, in 2012 TransCanada — with Obama's support — split the project in half, creating a southern leg that did not cross international borders and therefore only needed Army Corps of Engineer approval. It obtained the permits and completed the 485-mile segment — redubbed the Gulf Coast Pipeline. It has been carrying oil from Cushing, Okla., a major supply depot and reference point for the benchmark West Texas Intermediate grade of crude oil, to Nederland, Texas on the edge of Port Arthur.

What still hangs in the balance is the northern segment, which would run 1,170 miles from Hardisty, east of Edmonton, through Montana and South Dakota and end up at Steele City, Neb., where it would connect to an existing section completed as part of an earlier pipeline project, the first Keystone line. TransCanada's spokesman Howard said that the cost for that remaining segment has ballooned from \$5.4 billion to about \$8 billion, though part of that has been spent already to stockpile pipe and other equipment. Other parts of that total will be spent buying goods in other countries.

So why do so many lawmakers care? Two reasons. One, the pipeline has become popular; the vast majority of Americans support construction of the project. Two, it has become a symbol of devotion to energy security, jobs and the oil and gas industry. That's nothing new for Landrieu, who has lambasted Obama for the moratorium on drilling in the Gulf of Mexico after the BP oil spill; demanded a greater share of royalties from federal waters to states on the gulf coast; and pressed for faster approval of liquefied natural gas export terminals, among other things.

Lawmakers also say they care because of the jobs the Keystone XL project would create. Citing the State Department final environmental impact statement, the lawmakers say the project would create 42,000 jobs.

But it takes the economy less than a week to create that many permanent jobs. What's more, these pipeline jobs wouldn't be permanent. [The State Department report](#) uses the notion of "job years." So the project, which is expected to take two years to build, requires 3,900 job years for the construction workforce, or 1,950 jobs that last over a two-year period. Another 26,000 jobs (or 13,000 over two years) would go to suppliers of goods and services.

Once the project is completed, operations would require 35 permanent employees and 15 temporary contractors, the State Department report says.

The union movement is divided over the project. Construction unions back it. But others — such as transport workers or nurses — oppose it.

Bob Keefe, executive director of Environmental

Entrepreneurs, which promotes renewable energy projects, said “any way you measure, jobs from Keystone is miniscule and a false debate.”

And, he might have added, it’s also been a long debate. After six years, it’s still not over.

Steven Mufson covers energy and other financial news.
