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NEW PIPELINE TO SKIRT FRASER RIVER TO DODGE SURREY HOMES

Kinder Morgan has opted to bypass developed neighbourhoods of north Surrey where its existing oil pipeline runs in favour of a new route for its proposed twin – along the Fraser River next to the new South Fraser Perimeter Road.

While the route choice allows Trans Mountain pipeline planners to dodge possible conflict with hundreds of homeowners who live near the current line, it's likely to mean sharper focus on the environmental risk of a rupture that could send heavy crude oil into the river.

The map of the study corridor through Surrey was unveiled Friday, following a rollout of similar local details earlier in the week for Langley, Abbotsford and Chilliwack.

The completed \$5.4-billion pipeline twinning, if approved, would carry 890,000 barrels of oil per day – triple the current capacity – with most of the increase consisting of diluted bitumen for export via tankers through Burrard Inlet.



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While the new pipeline to Burnaby's Westridge Terminal would closely follow its 60-year-old predecessor through most of the Fraser Valley, it breaks with the past at about 224 Street in Langley, cutting north just after Fort Langley beside the meandering Salmon River to reach the CN Rail line.

The detour would allow construction crews to avoid the Walnut Grove neighbourhood that has sprung up since the original pipeline was built.

From there, the new route runs west along the rail line and the South Fraser Perimeter Road through Surrey to a new tunneled

crossing of the Fraser River downstream of the Port Mann Bridge.

Along the way it would tread along the edge of newly created Surrey Bend Regional Park and past industrial properties in Port Kells. But just two residential properties in Surrey are on the new route, compared to more

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than 200 on the existing right-of-way. "A lot has changed in the last 60 years," said Greg Toth, senior project director for the Trans Mountain expansion project. "Following the existing pipeline is not practical."

So much has changed that even the old Port Mann Bridge and the section of Highway 1 approaching it in Surrey did not exist when the original line was built from northern Alberta in 1952. Toth won't say what route is proposed north of the Fraser – that's to be revealed next Thursday.

But the Surrey map suggests it won't go through residential yards in Coquitlam, either. Instead of running through Coquitlam's Wildwood Mobile Home park and then to the north, as the

existing pipe does, the preferred new route would run from Cape Horn west along the CP Rail line, with two alternate routes toward Burnaby identified as the Highway 1 and Lougheed Highway corridors.

"Burnaby is similar," Toth said. "We're looking at co-aligning with highways, railways, other linear disturbance to enable the routing."

The company has identified two possible routes across the Fraser between the Port Mann and Pattullo Bridges.

In the event of an earthquake, Toth said models suggest both banks of the river will "flow towards the middle."

Asked what safeguards the company proposes against an oil spill into the river from a pipeline perched on the bank, Toth said thicker pipe is an option near the river as well as more

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closely spaced valves that allow an emergency shutdown of the pipeline.

"We will optimize the locations of the valves to minimize the potential spill volume."

He said the company has multiple methods to monitor and maintain the pipeline and has emergency responders based in Burnaby, trained for both land and water spills.

The study corridor ranges from 30 to 150 metres wide, depending on the location.

The company would by mid-2015 identify a smaller band within it for the actual 18-metre pipeline right-of-way.

During construction, crews would use a work zone up to 75 metres wide on one side of the pipeline or the other, although Toth expected crews can work in a

narrower space in urban areas.

The original Surrey right-of-way runs near the north side of Highway 1 and then west from 152 Street 1 along 108 Avenue before heading northwest through Bolivar Heights.

Surrey would collect more property tax from Kinder Morgan – about \$1 million a year instead of \$500,000.

Kinder Morgan is seeking community input on the proposed corridors. Maps and other details are available at talk.transmountain.com.

The B.C. government says the Kinder Morgan pipeline must meet all the same conditions for new heavy oil pipelines as for Enbridge's Northern Gateway project.

The existing pipeline was shut down for two days this month after the discovery of a minor

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ENBRIDGE SAYS ALBERTA OIL LINES STILL SHUT AFTER SPILL

Major oil Canadian pipelines that move almost 1 million barrels per day (bpd) of Alberta oil sands crude, much of it bound for the United States, remained shut on Monday after a spill on a smaller line was discovered on the weekend, a spokesman for operator Enbridge Inc said.

Enbridge, Canada's largest pipeline company, said on Saturday that 750 barrels of synthetic oil had spilled from the 17-km (11-mile) Line 37, which serves CNOOC Ltd's Long Lake oil sands project in northern Alberta. The rupture was spotted about 70 km (43 miles) southeast

of the city of Fort McMurray.

The spill, which may have been caused by the heavy flooding that has also paralyzed the Alberta city of Calgary, headquarters of Canada's oil and gas industry, forced Enbridge to shut two much larger lines as a precaution, threatening a serious disruption in the flow of oil sands crude.

The 345,000 bpd Athabasca pipeline, which carries dilbit blended crude to the Hardisty terminal in Alberta, and the Waupiso line, which can carry up to 600,000 bpd depending on crude viscosity, to Edmonton, Alberta, were both shut. An Enbridge spokesman said on Monday he was unable to give a timetable for resuming flows.

Those are two of the biggest lines that carry crude from the northern production centers around Fort

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McMurray to the storage and pipeline hub in Hardisty, Alberta, connecting to Enbridge's main export pipeline that runs into the United States.

Traders said the line closure had helped support U.S. crude oil futures on Monday, narrowing the Brent/WTI spread to around \$6.50 a barrel, the smallest gap since 2011. Brent crude was down 80 cents at \$100.11 a barrel, while U.S. WTI futures slipped 16 cents to \$93.53 a barrel.

On Sunday, Enbridge said around 60 workers were at the site of the pipeline leak; the area had been secured

and clean-up operations were underway. The leak was contained within Line 37's right of way, at a site with no major roads or human habitation nearby, the company said.

The spill threatens to fan growing criticism of the safety of the North American pipeline network and of expanding production of oil sands crude. A string of incidents in recent years have drawn new attention to oil shipments.

Separately, Spectra Energy said it had restarted its Express-Platte pipeline system on Saturday after shutting

the line as a precautionary measure on Friday after heavy flooding caused some communication issues.

The 280,000 bpd Express line carries crude from Hardisty to Casper, Wyoming, while the 164,000 bpd Platte line continues to Wood River, Illinois.

CANADIAN DOLLAR LOWER AMID STRONG CANADIAN, CHINESE DATA, OILPATCH CONCERNS

The Canadian dollar closed sharply lower Friday as the commodity sensitive currency failed to benefit from solid Canadian and Chinese economic data.

The loonie fell 0.62 of a cent to 100.83 cents US ahead of next week's Bank of Canada interest rate announcement.

Statistics Canada says that manufacturing sales increased by 1.7 per cent in November to \$49.9 billion. It was the highest level since May 2012 and better than the 1.1 per cent rise that economists had expected.

Other data showed that growth in China rose to 7.9 per cent in the three months ended in December, up from the previous quarter's 7.4 per cent.

For the year, the world's second-largest economy grew by 7.8 per cent, which was China's weakest annual performance since the 1990s.

The slowdown was due largely to government controls imposed to cool a real estate boom and surging inflation fuelled by Beijing's massive stimulus in

response to the 2008 global economic crisis. But it worsened as demand for Chinese exports dropped unexpectedly, raising the risk of job losses and unrest.

However, analysts say China could suffer a setback if exports weaken or if the government fails to maintain investment spending that is propping up its recovery.

Traders also looked ahead to the Bank of Canada's announcement on interest rates on Wednesday for any indications on when the central bank may start raising rates.

The central bank also releases its Monetary Policy Report on Wednesday.

The dollar wasn't alone in losing ground against the greenback. Other cyclical currencies were also lower, including the Australian dollar and the Norwegian kroner.

But doubts about the future strength of the Canadian oilpatch also helped put pressure on the currency.

"I think the whole notion of the hiccups in the oilpatch is part of the issue," said Mark Chandler, head of Canadian FIC strategy at RBC Dominion Securities.

Oilsands giant Suncor Energy Inc. is to make a decision on whether to go ahead with its Voyageur heavy oil upgrader early this year.

CEO Steve Williams has previously said that burgeoning U.S. oil growths in regions such as North Dakota is putting pressure on the economics of the multibillion-dollar upgrader, which has been shelved since late 2008.

"It's important to note that we have seen a lot of stories about the big gap between Canadian crude prices and West Texas Intermediate and broader world benchmarks," added Chandler, "and that's beginning to weigh a bit on the oilpatch story."

Heavy crude, like that produced in the oilsands, has historically traded at a discount to WTI, a U.S. light oil benchmark priced at Cushing, Okla.

Recently, that price gap has at times widened to roughly \$40 as pipeline bottlenecks prevent growing oilsands production from getting to the most lucrative markets.

Chandler also cited suspense over the future of the Keystone XL pipeline, which would carry bitumen from the Alberta oilsands to U.S. refineries in the Gulf of Mexico.

U.S. president Barack Obama rejected the pipeline last year, but invited TransCanada (TSX:TRP) to file a new application with an altered route that would skirt an ecologically sensitive area in Nebraska.

TransCanada did that and is now awaiting word on approval from the U.S. State Department.

Copper prices rose in the wake of the Chinese data. China is the world's biggest consumer of the metal, which is viewed as an economic barometer as it is used in so many applications.

The March contract on the New York Mercantile Exchange was up two cents to US\$3.68 a pound.

Oil prices maintained a jump of about \$2 over the past two sessions after inventory data showed a

sharp decrease in stocks last week. Prices also found support this week after Islamic militants seized an Algerian natural gas facility.

The February crude contract on the Nymex added seven cents to US\$95.56 a barrel.

February gold bullion was off \$3.80 to US\$1,687.50 an ounce.

CANADIAN M&A ACTIVITY PLUNGES 80% AS OIL MAJORS SHUN UNCONVENTIONAL RESOURCES

Oil majors were reluctant to open their cheque books to acquire Canadian assets in 2013, as low commodity prices and competition from U.S. basins conspired to ensure there was muted M&A activity in the world's third-largest repository of crude oil.

Canadian mergers and acquisitions plunged 80% last year to US\$10.2-billion compared to US\$50-billion in 2012, a five-year low, according to IHS Herold M&A data. Companies managed only 75 deals last year, 20% below 2012 levels.

It was not just CNOOC Ltd.'s purchase of Nexen Energy Inc. and Petronas Bhd acquisition of Progress Energy Corp. that skewed 2012 data, as the two landmark deals accounted only for less than half the total deal value for the year.

"There were more than \$25-billion of other deals in 2012, even if you exclude the two corporate deals," Christopher Sheehan, director, M&A Research at IHS Herold, said



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in a telephone interview from his Norwalk, Conn. office. "You had new Canadian government restrictions on foreign ownership after the CNOOC-Nexen deal last year, but other reasons were oil sands project costs, Canadian crude prices, and M&A competition from U.S.-based unconventional liquid plays."

Exxon Mobil Corp. and Imperial Oil Ltd.'s US\$720-million purchase of ConocoPhillips' oil sands assets was the biggest oil sands deal last year, IHS data shows, as Asian and American energy investors generally kept a low profile in Western Canada.

CANADA'S OIL OUTPUT TO MORE THAN DOUBLE BY 2030

Production to rise to 6.7 million from 3.2 million barrels per day, mostly owing to oil sands

Canada's oil production will more than double in the next two decades, rising from 3.2 million barrels per day last year to 6.7 million barrels per day by 2030, the Canadian Association of Petroleum Producers said in its annual forecast Wednesday.

The oil sands, which are located mainly in Alberta, will account for most of that increase — with production from those sources growing from 1.8 million barrels a day in 2012 to 5.2 million barrels a day by 2030.

Production from conventional sources will increase from 1.2 million barrels a day to 1.4 million barrels a day by 2030.

Oil from offshore sites in Atlantic Canada will remain roughly unchanged at 200,000 barrels

a day as existing sources dry up but new projects, such as ExxonMobil's Hebron and Husky's South White Rose, both oilfields off the coast of Newfoundland and Labrador, go online.

Canada's rising supply will feed a growing appetite for oil at home and abroad, a press release from the Canadian Association of Petroleum Producers (CAPP) said.

"Increasing Canadian oil supply is aimed at markets in Eastern Canada, traditional and new markets in the United States (displacing imports from less secure foreign sources) and growing markets in Asia," the release said.

Projections too optimistic: analyst

This year's forecast is only slightly higher than what was predicted last year, when CAPP forecast a doubling of production by 2030 to 6.2 million barrels a day.

The revisions are in part due to improvements in technology that have allowed oil companies to tap formerly "uneconomic" conventional oil resources, "reversing a significant declining production trend over the last decade," CAPP said.

But some analysts cautioned industry watchers to take CAPP's projections with a grain of salt.

The industry group is often overly optimistic in its projections, said Laura Lau, senior vice-president and senior portfolio manager at the Brompton Group.

"With oil sands, I actually would have expected [the forecast] to be lower, not higher," she said.

Given the government's recent restrictions on foreign ownership, which limit state-owned foreign companies' stakes in Canadian oil sands ventures to a non-controlling minority, and the difficulty many companies are having finding buyers for their properties, Lau said she has trouble seeing companies acquire the kind of capital they would need to meet CAPP's growth projections.

"A lot of companies have been trying to sell their oil sands properties and haven't been able to do it — some are even producing properties," she said. "They haven't been able to sell those — much less ones that are going to be built.

"That's why I think it's going to be more difficult on the oil sands side — not easier — to produce more."

Production projections require pipelines

CAPP's projections also rely on the assumption that Canada's producers will find a way to get their oil off the continent in order to diversify their export markets.

"That's the only way they can get to those numbers: more oil pipelines have to be built," Lau said.

It could be the contentious Northern Gateway pipeline or the equally fraught Keystone XL or the TransCanada Mainline, but somehow somewhere a pipeline will be built, she said.

"We don't know if it's going to the east or west coast," Lau said. "If it goes to the east coast, [the oil] tends to go to Europe; if it's west coast, it tends to go to Asia, but they all get the same oil price, so it doesn't matter,

as long as we get it off the continent."

Fracking boom already impacting prices

The pressure to decrease producers' reliance on the U.S. market has increased as Canada and other oil-producing countries have watched production in the U.S. rise dramatically thanks to the boom in shale oil and gas.

More and more companies have been tapping the country's shale deposits through a method known as hydraulic fracturing, or fracking. That has helped oil boost U.S. production to a 20-year high of more than seven million barrels a day and reduced the country's dependence on foreign energy sources.

"It hasn't really influenced global oil prices, but it's definitely influenced Canadian oil process," Lau said of the production boom south of the border.

The price fluctuations have the potential to influence Canadian oil sands production going forward, she said.

"If you have less revenue, you have less money to reinvest," said Lau. "Also, people get a little worried with that kind of volatility because these are very long-term projects, so you're making a bet on oil prices."

Last month, the Organization of the Petroleum Exporting Countries, which represents major oil-producing countries outside North America like Saudi Arabia, Nigeria, Iran and Venezuela, said it would keep its production steady at 30 million barrels a day.

It disappointed many of its members,



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which together account for about 40 per cent of global oil production, by not addressing the influence of the shale oil boom in the U.S., which threatens to cut into OPEC's exports.

In afternoon trading Wednesday, Brent crude oil was trading at \$102.82 US, and West Texas Intermediate crude was at \$93.74. Canadian oil sands oil, known as Western Canada Select, which trades at a steep discount because it has to be heavily processed, was trading at \$77.54

CRUDE-OIL FUTURES UP SHARPLY ON WORRIES OF SUPPLY DISRUPTIONS

Oil prices rebounded Monday on a potential decline in crude shipped from Canada, the U.S.'s biggest source of foreign oil.

Light, sweet crude for August delivery settled higher by \$1.49, or 1.6%, at \$95.18 a barrel on the New York Mercantile Exchange. It was the biggest dollar rise in prices since May 3. ICE North Sea Brent crude oil for August delivery settled 25 cents higher at \$101.16 a barrel.

The gap between Nymex and Brent crude narrowed to \$5.98 a barrel, the closest the prices have been since January 2011.

The gains in Nymex crude prices came after Canadian pipeline operator Enbridge Inc. (ENB, ENB.T) said it had shut down and isolated a pipeline north of Cheecham, Alberta, after detecting a spill of some 750 barrels of crude oil that it believes was caused by heavy rain and flooding.

Enbridge said it shut down all of its other pipelines in the area as well.

The region around Cheecham is a major center of oil-sands production, but it wasn't immediately clear how much oil was affected by the Enbridge pipeline shutdowns.

Canada accounted for about 28% of crude-oil imports in the week ended June 14. According to preliminary U.S. data, volume from Canada averaged 2.345 million barrels a day in that week.

"Oil can't go to market" and there is a need to find alternative sources of oil, said Andy Lipow, president of Lipow Oil Associates. "It is unclear how long the outage will be."

Analysts said oil refiners who rely on Canadian crude oil will instead look to Cushing, Okla., to meet their near-term needs. A glut of oil at Cushing has kept U.S. oil prices below Brent prices for some time. However, inventories at Cushing were recently at their lowest level in six months, according to data from the Energy Information Administration.

Traders also expect greater demand for the oil stored at Cushing now that a BP PLC (BP, BP.LN) refinery has restarted a reconfigured crude distillation unit in Whiting, Ind. The refinery has a capacity of 413,000 barrels a day, and analysts said this will add to regional refiners' needs for oil housed in Cushing, putting more upward pressure on prices.

Earlier in the session, crude-oil futures traded lower over fears that credit tightening in China would hurt demand from

the world's second-largest oil consumer. China's central bank had indicated that it wouldn't intervene to reduce the credit squeeze.

Meanwhile, gasoline demand was flat as stockpiles were at a "whopping 19 million barrels surplus against a year ago" during the peak summer driving season, said Jim Ritterbusch, head of oil-trading advisory firm Ritterbusch and Associates, in a note.

Front-month July reformulated gasoline blendstock, or RBOB, settled 2.41 cents lower at \$2.7376 a gallon. July heating oil settled 1.06 cents higher at \$2.8547 a gallon.

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