

# Canadian Oil Bottleneck Means Cheaper Gas for Some

Jeff Brady, National Public Radio, 3-30-11

Part 2 of a two-part series on the impact of Canadian oil in the U.S.

Mention the words "foreign oil" and most people think of the Middle East, but the largest supplier of foreign oil to the U.S. is actually much closer.

Canada ships about 2.5 million barrels of oil to the U.S. every day, and much of that comes from the oil sands of Alberta. It's shipped via pipeline to the Midwest, and often lands at the end of the line in Cushing, Okla., a town where incoming oil supplies have backed up enough to start changing area market conditions, keeping prices in the middle of the country lower than on the coasts.

## 'We're Taking A Haircut On Every Barrel'

Lately, the price difference between Cushing and the coasts has been about \$15 a barrel.

"We're taking a haircut on every barrel of oil we sell in Oklahoma, relative to the price in the global marketplace," says Mickey Thompson, chairman of the Crude Oil Committee for the Oklahoma Independent Petroleum Association.

With oil around \$100 a barrel, it's difficult to feel *too* sorry for small oil producers in Oklahoma. They're making good money, but they could be making more. And as they learned in 2008, oil can drop back down to \$30 a barrel in a matter of months, so it's important to make money when they can.

Oklahoma produces about 185,000 barrels of oil a day, but that \$15-a-barrel "haircut" is costing the state's economy more than \$2 million every day.

"These little-bitty pumping units across Oklahoma are hugely important to jobs and to our tax base," Thompson says, "so we're going to fight like hell to keep ourselves in business."

## How To Clear The Bottleneck

Thompson says more oil needs to be moved out of Oklahoma to clear the state's bottleneck and reduce supply.

TransCanada, which builds and operates energy infrastructure in North America, wants to build a pipeline — the Keystone XL — all the way from Alberta's oil sands down through Oklahoma, to refineries on the Gulf Coast. They're waiting on a special permit from the State Department to begin construction, but permit approval has been delayed because of complaints from residents of the areas that would see new pipeline construction.

According to the company, if they had the permit, construction would be happening right now.

"We would already be halfway to Houston by now," says Robert Jones, a vice president with TransCanada. "We've bought the pipe. We've issued contracts to award the construction and we're shovel-ready."

The Keystone XL pipeline is controversial because it would haul crude oil that has been mined or steamed out of the ground, creating more greenhouse gases than traditional oil production.

The State Department recently announced it would conduct another environmental review and then make a decision on whether to allow the pipeline by the end of the year.

## Spreading Cushing's Wealth Around

Meanwhile, oil continues to flow into Cushing, Okla., where dozens of enormous storage tanks are under construction.

Cushing has fewer than 10,000 residents, but you can drive around for hours and still not see all the huge tanks there.

Some balk at Canadian oil's proposal for an increased presence on American roads and farmland.

"If you were to fly over Cushing, I'm not sure that you wouldn't miss the community for all the tanks," says Brent Thompson, executive director of the Cushing Chamber of Commerce.

The growing oil supplies in Cushing have led to a decrease in prices. That means refineries are paying less for oil and, as a result, so are drivers — the region has some of the lowest gasoline prices in the country.

"Those of us living in Denver and living in the Rocky Mountain areas are benefiting from the bottling up of crude from Cushing," says Philip Verleger, a Colorado resident and professor of management at the University of Calgary in Alberta.

Verleger, who monitors oil and gas markets closely, says if the Keystone XL pipeline is built, prices may rise in Colorado and throughout the Midwest. But the rest of the world will benefit from all that oil making its way to the Gulf Coast and on to other markets, like China.

"This is another source of crude oil supply to the world market," Verleger says. "For the world, it will mean crude oil prices are slightly lower."

For most people, the savings at the pump will be only a fraction of a penny. But to a complicated and dynamic oil market, billions of dollars are at stake.