Research

Keystone's Big Win

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Summary

- The Trump Administration announced the approval of the Keystone XL pipeline which will create job growth and contribute to the overall U.S. GDP.
- Over the past 9 years, delays alone have cost the U.S. over $180 billion in unrealized economic activity.
- With today's price of crude at $53.03, Keystone earnings before interest and taxes would equate to roughly $44 million dollars a day or $1.6 billion each year.

Overview

On March 24th, 2017 President Trump announced the approval of the Keystone XL pipeline. This is the third time since 2008 that TransCanada has applied for such a permit. In February 2015, President Obama vetoed legislation authorizing the construction of the Keystone XL Pipeline citing environmental concerns, despite a 2014 State Department review which concluded that the proposed pipeline would not increase greenhouse gas emissions by a significant amount[i].

Presidential Memorandum

On January 24th 2017 President Trump issued a Presidential Memorandum pursuant to Executive Order 13337 Regarding the Construction of the Keystone XL Pipeline which cites that:

The Secretary of State has delegated authority to receive applications for Presidential permits for the construction, connection, operation, or maintenance, at the borders of the United States, of facilities for the exportation or importation of petroleum, petroleum products, coal, or other fuels to or from a foreign country, and to issue or deny such

Presidential permits. As set forth in those executive orders, the Secretary of State should issue a Presidential permit for any cross-border pipeline project that ‘‘would serve the national interest.’’

The Memorandum specifically invited TransCanada to ‘promptly’ resubmit their application for the construction of the Keystone Pipeline that had been denied under the Obama Administration in 2015. TransCanada re-submitted their application 2 days later on January 26, 2017 to the Department of State.

Alongside the Presidential Memorandum for Keystone XL, President Trump signed an Executive Order Expediting Environmental Reviews and Approvals for High Priority Infrastructure Projects. According to a previous American Action Forum (AAF) report this will streamline environmental reviews for all infrastructure projects, but creates a special mechanism to focus on “High Priority” projects. “High Priority” projects are to be designated by the Chairman of the White House Council on Environmental Quality (CEQ) within 30 days of a request by the Governor of a State or the head of any executive department or agency. In addition to this Executive Order, President Trump also created a memorandum regarding the construction of American pipelines which would require all new, retrofitted, repaired and expanded pipelines inside the borders of the United States to use materials and equipment produced in the United States. Although the Keystone Pipeline does not meet these requirements, most of the steel and raw materials for the project had already been purchased before this order came into effect and were in essence grandfathered in.

By the Numbers

The nearly 1,700 mile pipeline will run from Montana to Nebraska and estimates show that the line will carry around 830,000 barrels of oil a day to crude refineries along the gulf coast. With today’s price of crude at $53.03 that would equate to roughly $44 million dollars a day or $1.6 billion each year. The capital cost of the U.S. portion of this line that runs from the U.S.-Canada Border to Steele City, Nebraska is estimated to run $5.3 billion dollars and is being financed through a combination of internally generated funds, bank financing and access to capital markets[ii].

A previous American Action Forum report cited that due to the construction delay, over $175 billion in economic activity was unrealized between 2008 and 2015, when the project was once again vetoed by the Obama Administration.

The State Department noted that the new pipeline will support at least 42,100 jobs and create 50 permanent jobs of which 35 will be full time and 15 will be temporary

contractors[iii]. The State Department report also stated that these jobs will account for nearly $2 billion in wages which would average approximately $47,000 per employee[iv].

According to TransCanada's filing, the proposed project would "provide substantial economic benefits to the U.S.", those include:

- A contribution of $3.4 billion to the U.S. GDP
- revenues generated by construction camps alone
- $55.6 million in total estimated property tax in its first year of operation which will spread across 27 counties in 3 states
- $66 million in sales and use taxes revenue from the initial construction.

Road Block?

There is one large roadblock standing in the way of the completion of this project and that is Nebraska, which has yet to approve the project. The Nebraska Public Service Commission must approve the project before any construction can begin. The pipeline has been a hot button issue for Nebraska with activists protesting the construction citing environmental concerns and opposition to the use of eminent domain. According to a recent article by the Washington Post, the average review process by the Nebraska Public Service Commission is seven months, meaning that an ultimate decision probably won't be rendered until October.

Conclusion

The expected economic, environmental, and strategic benefits of the Keystone pipeline outweigh its costs. After nearly 9 years and more than $180 billion in lost economic activity, the Trump Administration has demonstrated a commitment to move it forward.

[i] https://www.americanactionforum.org/research/executive-orders-presidential-memorandums-energy/

[ii] https://keystonepipeline-xl.state.gov/documents/organization/267737.pdf

[iii] International Business Times

[iv]

http://www.ktvq.com/story/34998969/trump-approves-keystone-pipeline-daines-states-support