

May 2, 2013 Thursday

## US sees record natural gasoline exports to Canada

**BY:** Michael McCafferty

Total US natural gasoline exports reached a record volume of 179,000 b/d in February as Canada's thirst for oil sand diluent ramped up.

The export volume represented an 84.1% increase from January and 25% increase from February 2012, a monthly Energy Information Administration report showed. Total US production of natural gasoline was 311,892 b/d in February, the data showed.

Nearly all of the US natural gasoline exports, roughly 96%, left through the Midwest region for Canada on the Southern Lights diluent pipeline with some traveling by rail, sources said. The 180,000 b/d Southern Lights pipeline is owned by Enbridge and originates near Chicago, Illinois and terminates in Edmonton, Canada.

Canadian bitumen producers prefer natural gasoline, a natural gas liquid, as a diluent as opposed to condensates because the lower API of natural gasoline allows for lower diluent blending volume. In the medium term, Canadian thirst for natural gasoline as a diluent is set to continue, industry sources have said.

Similar to other NGLs, exporting natural gasoline presents an important takeaway avenue for burgeoning US production. However, unlike lighter NGLs that will exit the US via waterborne exports out of the Gulf Coast, natural gasoline will move north on land to Canada.

A Canadian Energy Research Institute report published at the end of 2012 indicated that 2013 demand for diluent will be 340,000 b/d. CERI also estimated that Canadian supply in 2013 will be 138,000 b/d. Therefore, there is a substantial gap in the Canadian diluent market, which is being filled with US natural gasoline exports.

Canadian diluent production will not match demand over the next seven years. For example, CERI estimates that Canadian diluent demand will rise to 670,000 b/d in 2020 while Canadian diluent production will rise modestly from 138,000 b/d to 148,000 b/d.

Several pipeline projects are currently under way in the US to take advantage of this growing export opportunity. Enterprise Product Partners recently completed a binding open season to move diluent on its TEPPCO line into the Chicago area. The response from the open season has not been released, but Enterprise said in an earnings call this week that, "Market participants should look for positive information out of the open season."

The TEPPCO line, similar to Explorer and Capline, will connect to the Southern Lights and Cochin lines. The Gulf Coast sent 75,642 b/d to the Midwest region in February, most of which traveled on the Explorer and Capline pipeline systems, according to sources.

Diluent shipments on Kinder Morgan's Cochin line could begin as early as July 1, 2014, and will provide 95,000 b/d of diluent capacity, according to Kinder Morgan's website. The south-to-north Explorer line will move Gulf Coast diluent into the Cochin line at Kankakee, Illinois, after which Cochin will move diluent into the Edmonton area.

US natural gasoline production is forecast to increase to roughly 450,000 b/d by 2020, according to Peter Fasullo of En\*Vantage Inc. Therefore, if Cochin and Southern Lights are running at full capacity, export ratios are set to increase from current levels of 57% to 61% of total production.