

2011

The Keystone XL Pipeline Project

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Perrin, Richard K. and Fulginiti, Lilyan, "The Keystone XL Pipeline Project" (2011). *Cornhusker Economics*. 501.
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CORNHUSKER ECONOMICS

The Keystone XL Pipeline Project

Market Report	Yr Ago	4 Wks Ago	2/4/11
<u>Livestock and Products,</u>			
<u>Weekly Average</u>			
Nebraska Slaughter Steers, 35-65% Choice, Live Weight.	\$84.58	\$105.29	\$105.50
Nebraska Feeder Steers, Med. & Large Frame, 550-600 lb.	115.22	147.34	149.05
Nebraska Feeder Steers, Med. & Large Frame 750-800 lb.	98.21	126.83	126.32
Choice Boxed Beef, 600-750 lb. Carcass.	139.34	165.81	172.40
Western Corn Belt Base Hog Price Carcass, Negotiated.	64.08	70.45	80.09
Feeder Pigs, National Direct 50 lbs, FOB.	*	*	*
Pork Carcass Cutout, 185 lb. Carcass, 51-52% Lean.	68.59	78.35	88.95
Slaughter Lambs, Ch. & Pr., Heavy, Wooled, South Dakota, Direct.	*	161.00	*
National Carcass Lamb Cutout, FOB.	243.26	352.13	347.71
<u>Crops,</u>			
<u>Daily Spot Prices</u>			
Wheat, No. 1, H.W. Imperial, bu.	3.72	6.87	7.87
Corn, No. 2, Yellow Omaha, bu.	3.36	5.68	6.55
Soybeans, No. 1, Yellow Omaha, bu.	9.01	13.21	13.91
Grain Sorghum, No. 2, Yellow Dorchester, cwt.	5.21	9.46	10.95
Oats, No. 2, Heavy Minneapolis, MN, bu.	2.26	3.89	4.15
<u>Feed</u>			
Alfalfa, Large Square Bales, Good to Premium, RFV 160-185 Northeast Nebraska, ton.	135.00	140.00	140.00
Alfalfa, Large Rounds, Good Platte Valley, ton.	87.50	72.50	72.50
Grass Hay, Large Rounds, Premium Nebraska, ton.	82.50	*	*
Dried Distillers Grains, 10% Moisture, Nebraska Average.	104.00	186.00	197.50
Wet Distillers Grains, 65-70% Moisture, Nebraska Average.	33.75	65.00	67.25
*No Market			

Prior to Canadian Prime Minister Harper's visit to the White House last week, the United States Department of State released the EnSys study¹ of the controversial Keystone XL pipeline project proposed to run through Nebraska's sandhills. The release ignited new debates amid concern that the U.S. Department of State would soon decide whether to grant a permit for the pipeline. The Nebraska Unicameral is considering bills to provide more constraints on pipeline construction. Below is a summary of information about this project that could affect many Nebraskans.

What is Keystone XL?

Actually, it is the XL extension, or Phase IV, that is at issue in Nebraska. This is a 36-inch pipeline to transport Alberta crude oil, primarily from tar sands through Montana, South Dakota, Nebraska and Kansas into Oklahoma, with a capacity of 0.5 million barrels per day (mbd), larger than the other pipelines from Canada. By way of contrast, total U.S. consumption has been about 21 mbd, with imports of 8.5 mbd of which 2.0 are from Canada, 1.3 from Mexico, 1.1 from Saudi Arabia, 0.9 from Venezuela and 0.8 from Nigeria. U.S. ethanol production is nearing 0.9 mbd. The XL extension would enter Nebraska near Burton and exit near Fairbury, following a 357 mile route including five pumping stations.² The total cost of the extension is about \$7 billion.

Who is Behind Keystone XL?

The pipeline would be built and owned by TransCanada Corp., a publicly traded Canadian pipeline and power generating company. TransCanada also owns the Keystone pipeline running from north to south in Eastern Nebraska, with a 0.4 mbd capacity. Another pipeline, the Kinder Morgan Express-Platte extension, crosses the state from west to east and has a capacity of 0.4 mbd. At this point, the U.S. Department of State has final authority to approve the XL extension.

Why Do They Want to Build It?

TransCanada wants to build the pipeline because they expect a satisfactory return on their investment. Oil production in Alberta is scheduled to double, oil that can be shipped into the U.S. at a competitive price. Current pipeline capacity from Canada is adequate for a decade or more, but pipeline configurations have reportedly led to congestion and low prices in the Midwest which could be improved with this construction. The project itself is unlikely to have any significant effect on total world production or consumption. Given current consumption trends, Canada would likely ship its extra production to Asia if the XL extension were not built, resulting in just a geographical reallocation.

The EnSys study, commissioned by the U.S. State Department, estimates that under current trends with the pipeline the U.S. will increase its Canadian imports by 2.6 million barrels per day by 2030. Given that production and imports from Mexico and Venezuela are projected to dwindle, the study concludes that the alternative to Canadian petroleum is an increase in U.S. dependence on imports from the Middle East. These projections assume a continuation of current U.S. energy policies. Opponents of the pipeline point out that the existence of the pipeline would undermine U.S. efforts to replace petroleum consumption with renewable fuels.

Environmental Impacts

The potential Nebraska environmental impacts of the pipeline include scarring of sandhills' landscapes and related wildlife disruptions, but more importantly, the risk of contaminating waterways, soils and perhaps the High Plains Aquifer itself, due to oil spills. TransCanada claims to have adequate plans for remediation of the construction sites and for responding to leaks.³ The adequacy of those plans and the quality of the pipeline components have been challenged by opponents, however.⁴ In July, the Environmental Protection Agency (EPA) called for a more exhaustive environmental impact statement,⁵ which the State Department has not yet received.

The risks of spills is real. Just within the past year the U.S. has experienced pipeline ruptures at Talmadge Creek, Michigan and Red Butte, Utah, damaging several miles of waterways; and pump station leaks occurred at Ft. Greeley and at Prudhoe Bay on the Alaska pipeline.

Much of the opposition to the pipeline derives from opposition to the environmental impacts of tar sands petroleum itself. The California Air Resources Board calculates that its carbon footprint is 30 percent higher than conventional petroleum,⁶ and the mining processes have scarred the landscape in Alberta and polluted waterways and adjacent lands.⁷ Pipeline proponents counter this argument by pointing out that Canada expects to triple its tar sands production for the world market,⁸ regardless of the Keystone XL. Opponents reply that the

U.S. should not collaborate in developing this "dirty" energy source by encouraging its use here. (Canada is the third largest per-capita greenhouse gas polluter, it has exceeded its Kyoto target by 30 percent, and it has recently joined Japan and Russia in opposing the extension of the Kyoto agreement beyond 2012.)

Impact on the Nebraska Economy

Construction and maintenance of the pipeline would contribute an unknown amount of jobs and tax returns to the Nebraska economy. A study by Perryman,⁹ commissioned by TransCanada, estimates that construction and development would contribute 7,551 person-years of temporary jobs in Nebraska, \$9.5 million to state revenues and another \$1.8 million to local government revenues. They estimate the long-term (100 years) present value of increased property taxes at \$152 million. Although we have not carefully assessed the validity of this analysis, some of its assumptions strike us as optimistic. For example, the National Wildlife Federation shows that the employment figures in this report are 65 percent higher than those estimated by the Department of State.¹⁰ The study makes no attempt to evaluate economic losses that might occur because of oil spills, scarred landscapes, water contamination, etc.

Considering the potential benefits and costs alluded to above, we do not support the project. While there is room for disagreement on this policy issue, supporters have yet to make a clear case that benefits to Nebraska would offset the costs and risks.

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- ³ <http://www.transcanada.com/docs/Key Projects/SandhillsNativeRangeland.pdf>
- ⁴ See, for example: <http://plainsjustice.org/> and http://dirtyoilsands.org/dirtyspots/category/keystone_xl/obamas_choice/
- ⁵ http://www.downstreamtoday.com/news/article.aspx?a_id=23434
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- ⁷ Proceedings of the National Academy of Science, September 14, 2010, Vol. 107 No. 37 16178-16183.
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