More ND Oil Will Be Railed with No U.S. Pipeline

JAMES MacPHERSON,Associated Press

BISMARCK, N.D. (AP) — North Dakota oil drillers increasingly will rely on trains to move barrels of crude to market after the Obama administration's decision to reject plans for a pipeline that would run from Canada to refineries on the Gulf of Mexico, state and industry officials say.

"Pipelines are by far the safest and most economically efficient way to transport oil, but we are left with a limited number of options if pipelines are off the table," said Tony Clark, chairman of the North Dakota Public Service Commission. "Once the oil is flowing, it has to go somewhere."

Obama on Wednesday temporarily halted the $7 billion Keystone XL pipeline, saying an arbitrary deadline set by Republican lawmakers didn't give his administration enough time for review.

Calgary-based TransCanada Corp.'s 1,700-mile pipeline is designed to carry crude oil from tar sands near Hardisty, Alberta, through Montana, South Dakota, Nebraska, Kansas, Oklahoma and Texas. The pipeline also would move 100,000 barrels of crude daily, largely from North Dakota's burgeoning oil patch and some from Montana.

Billions of dollars of infrastructure improvements have been made in recent years to allow North Dakota's oil shipping capacity to keep pace with the skyrocketing production. North Dakota is the nation's fourth-biggest oil producer and is expected to trail only Texas in crude output within the next year.

Alison Ritter, a spokeswoman for the state Department of Mineral Resources, said the state's so-called takeaway capacity is adequate, though producers and the state were counting on the on the Keystone XL to move North Dakota crude.

Shipping crude by pipeline in North Dakota adds up to $1.50 to its cost, compared to $2 or more a barrel for rail shipments, producers say.

"Oil that would have moved by the Keystone XL is now going to shift to rail transportation," Ritter said.

While producers and state officials from both parties blasted the Obama administration's decision to block the Keystone XL, others in the Dakotas supported the decision. South Dakota's Rosebud Sioux Tribe had feared damage to water resources and cultural sites.

Wayde Schafer, a North Dakota spokesman for the Sierra Club, said Obama's decision was appropriate though oil that would have moved on the pipeline will be transported by environmentally riskier rail or trucks

"There is no question that oil by rail or truck is much more dangerous than a pipeline, but then again, you have to have adequate time and you have to site a pipeline appropriately or you're just asking for trouble," Schafer said.

"There is no good solution to the oil transportation problem and it's frustrating," he said. "What we need is to develop other energy sources other than fossil fuels."

Mile-long trains laden with North Dakota crude began running in 2008 when the state first reached its shipping capacity with existing pipelines and infrastructure, said Justin Kringstad, director of the North Dakota Pipeline Authority.

Rail shipments now account for about one-quarter of the more than 510,000 barrels produced daily in North Dakota and will increase exponentially with increased oil production and the shortage of pipelines, Kringstad said.

"If the (Keystone XL) is blocked or delayed, we still have to meet our transportation needs," Kringstad said. "It's pretty simple."

BNSF Railway Co. hauls about 75 percent of the oil that currently leaves North Dakota by train, Kringstad said.

The railroad is a unit of billionaire Warren Buffett's Berkshire Hathaway Inc., and Buffett is a longtime Obama adviser.

Neither BNSF officials nor Buffett at his Berkshire Hathaway office in Omaha, Neb., returned telephone calls from The Associated Press.

Billionaire oilman Harold Hamm, chairman and chief executive officer of Continental Resources Inc., said he believed Buffett had no influence in Obama's decision to block the pipeline. Instead, he called it a "lucky break" for Buffett.

"Warren is smart and I like his intuition. He is a friend of mine," Hamm said. "I don't agree with his political leanings and his liberal outlook on things. But certainly he's favored by this decision — it's easy to figure that one out."

Hamm's Enid, Okla.-based company is one the oldest and biggest operators in North Dakota's booming oil patch, which incorporates most of the Bakken and underlying Three Forks formations.

Hamm said most of his company's production already is shipped by rail. If the Keystone XL is not built, oil production will be slowed in North Dakota but the domestic oil will be more valuable without the competition from Canadian crude, he said.

"Frankly, our reserves are worth more with (Obama's) decision," Hamm said. "But I don't think it's a good thing for America. I am an oil and gas businessman but I'm an American first."

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