Media backgrounder: Economic and political implications of Trans Mountain's new $12.6 billion price tag

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Soaring costs

On February 10, Trans Mountain Corporation released a new estimate for the Trans Mountain Expansion (TMX) project, putting construction costs at $12.6 billion. This is a 70 per cent increase over the $7.4 billion estimate when the government bought the pipeline from Kinder Morgan in 2018, and a 133 per cent increase in costs since the project was first proposed ($5.4 billion in 2013).

Public support for Trans Mountain plummets as costs rise

A new Nanos poll shows the political support necessary to press on with Trans Mountain evaporates once public spending exceeds $12 billion. Only 16 per cent of Canadians say they are comfortable with the federal government spending more than $12 billion of taxpayer money to build TMX. 43 per cent believe Trans Mountain should not cost taxpayers any money at all. That number climbs to 59 per cent in Quebec.

Canadians are also uncomfortable building Trans Mountain with borrowed money: 50 per cent don't think Canada should incur debt to complete the project, versus 35 per cent in support and 15 per cent who are unsure.

The hidden $3.9 subsidy no one is talking about

Taxpayers gave a $3.9 billion dollar windfall to oil companies including BP, Imperial and Total when Trans Mountain failed to pass on rising construction costs to its customers through increased toll rates.

When the federal government approved TMX for a second time in June 2019, the new approval triggered a clause in Trans Mountain's contract with its customers (the oil companies who will ship oil on the new pipeline) that allowed it to present an updated budget and pass on the majority of increased construction costs to these shippers in the form of higher toll rates. Trans Mountain declined to do so, and neither its federal government owners nor the Canadian Energy Regulator intervened. This means that Trans Mountain absorbed the majority of the cost overruns beyond the original $7.4 billion budget. At a new estimated cost of $12.6 billion, that works out to a $3.9 billion taxpayer subsidy.[1]

This shows that the project is not operating on a commercial basis, contrary to Finance Minister Morneau's ongoing claims. Shippers are not being asked to cover the share of higher construction

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[1] Trans Mountain's 20 year contracts with shippers are still built on the $7.4 billion budget from 2017 that was relied upon when the original project certificate was issued. According to the contracts, cost overruns beyond $7.4 billion are broken into capped costs (76%), which must be absorbed by Trans Mountain, and uncapped costs (24%), which can be passed on to shippers through higher tolls. 76% of the cost overrun from 7.4 to 12.6 billion is $3.9. Uncapped costs do include higher risk items such as the price of steel pipe, and the cost of the Burnaby Tunnel.

costs that would be expected under normal market conditions, which will affect the rate at which the investment can be paid off. This undermines the possibility and profitability of any future sale. Trans Mountain's supporters claim its viability is proven by shippers being willing to enter long term contracts to use the pipeline, but we now know that they are doing so at below-market rates that are underwritten by Canadian taxpayers.

Mythical profits: TMX no longer economically viable

Trans Mountain has a long history of rising costs and delays. More of the same can be expected as construction attempts to get underway, due to the unique risks that Trans Mountain faces, as well as delays and cost overruns common to all major infrastructure projects.

A Parliamentary Budget Officer assessment found that "completing the project one year behind the planned schedule would reduce the value of the TMEP by $693 million. Similarly, a 10 per cent increase in construction costs would lower its value by $453 million." The PBO also said that if construction wasn't completed by December 2021, the pipeline would be uneconomical to build. Trans Mountain now says construction will be completed by the end of 2022, well past the PBO date.

The government promises to use profits from TMX to plant trees and fund clean energy, but evidence suggests TMX is likely to lose rather than make money. Trans Mountain posted a net loss of $36 million in its first seven months of public ownership, and the federal government has not been able to point to any studies or calculations to back up its claim of future revenues from TMX. Parent entity CDEV's June 30 Second Quarter report admits that TMX is a risky project with no guaranteed economic returns. The report also expresses concern that it may not be possible to secure financing to complete the project. Ian Anderson recently confirmed that Trans Mountain Corporation now needs to negotiate new financing from the federal government to cover the increased construction costs.

An opportunity to change course

Ian Anderson confirmed that $2.5 billion has been spent on the expansion project to date, leaving at least $10 billion in future construction costs. Only a fraction of pipe has actually been laid in the ground. The majority of the detailed route in B.C. has not yet been approved, and the majority of provincial permits have yet to be issued. Trans Mountain still faces very significant risks to complete construction, including legal challenges and civil disobedience, the potential impacts of which are illustrated by the nationwide unrest surrounding the Coastal Gaslink Pipeline.

Canada's deficit is projected to grow to $26.6 billion by the end of the fiscal year in March, up from $18 billion in 2018-2019. There is still time for the federal government to change course, avoid further debt and safeguard billions of taxpayer dollars which could otherwise be lost on a stranded asset. These funds could be used now, directly, to support Alberta energy workers, Indigenous economic development and clean energy projects.

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