

November 8, 2024



Trans Mountain Pipeline – 2024 Report



OFFICE OF THE PARLIAMENTARY BUDGET OFFICER
BUREAU DU DIRECTEUR PARLEMENTAIRE DU BUDGET

The Parliamentary Budget Officer (PBO) supports Parliament by providing economic and financial analysis for the purposes of raising the quality of parliamentary debate and promoting greater budget transparency and accountability.

In June 2022, PBO released a report assessing the Government of Canada's 2018 decision to acquire, expand, operate, and eventually divest of the Trans Mountain Pipeline system.

Given that the Trans Mountain Expansion Pipeline began commercial operations on May 1st, 2024, this report provides a current financial valuation of the Trans Mountain Pipeline system and estimates the valuation's sensitivity to several key factors.

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Highlights

PBO calculated the current present value (PV) in 2024 for the Trans Mountain Pipeline system under two different scenarios.

PBO estimates that a scenario where the initial contracts are renewed has a current value of \$33.4 billion, while a reversion to a cost-of-service scenario has a current value of \$29.6 billion.

Whether the Government records a profit or a loss on the eventual sale of the Trans Mountain Pipeline system will depend on what someone is willing to pay for it. This can depend on a wide range of factors, such as the number of potential buyers, their cost in raising the required capital, when and how it will be sold, market conditions at the time of sale, whether it will be an arms-length transaction, and/or whether certain groups will be prioritized in the sale.

Summary

Parliamentarians continue to have interest in the Government of Canada's 2018 decision to acquire, expand, operate, and eventually divest of the Trans Mountain Pipeline system.¹

Since PBO's previous report published in 2022, there have been important developments, most notably:

- the completion of the Trans Mountain Expansion Project (TMEP), which began commercial operations on May 1st, 2024; and,
- the total project cost estimate for the TMEP increased from \$21.4 billion to \$34.2 billion.²

The Parliamentary Budget Officer (PBO) updated its model using a similar methodology with new data in conjunction with relevant publicly available information. The analysis provides a current financial valuation using a discounted cash flow (DCF) method on a go forward basis. The analysis does not include previous sunk costs, such as the purchase price or capital expenditures prior to 2024.

Given the uncertainty of the service and tolling framework after the initial 20-year contracts, PBO calculated the current present value (PV) in 2024 for the Trans Mountain Pipeline system under two different scenarios. This is not meant to indicate that these are the only possible or likely scenarios, but are meant to provide an idea of how the value could be impacted by the future service and tolling framework.

PBO estimates that a scenario where contracts are renewed has a current value of \$33.4 billion, while a reversion to a cost-of-service scenario has a current value of \$29.6 billion. However, there is also uncertainty in some of the underlying assumptions on pipeline utilization, tolls and discount rate, all of which can impact the valuation.

Ultimately, whether the Government records a profit or a loss on the eventual sale of the Trans Mountain Pipeline system will depend on what someone is willing to pay for it. This can depend on a wide range of factors, such as the number of potential buyers, their cost in raising the required capital, when and how it will be sold, market conditions at the time of sale, whether it will be an arms-length transaction, and/or whether certain groups will be prioritized in the sale.

Introduction

1.1. Key developments since 2022

Parliamentarians continue to have interest in the Government of Canada's 2018 decision to acquire, expand, operate, and eventually divest of the Trans Mountain Pipeline system.

Since PBO's previous report published in 2022, there have been critical developments, most notably:

- the completion of the Trans Mountain Expansion Project (TMEP), which began commercial operations on May 1st, 2024; and,
- the total project cost estimate for the TMEP increased from \$21.4 billion to \$34.2 billion.³

In response, the PBO has proactively undertaken a follow-up to the June 2022 report to provide updated financial analysis of the Trans Mountain Pipeline system.

1.2. PBO assessed Trans Mountain with new data and assumptions

The PBO requested updated projected future cash flows for the Trans Mountain Pipeline system from the Canada Development Investment Corporation (CDEV), the crown corporation holding the Trans Mountain assets. CDEV provided all requested information to PBO, but the information was classified as commercially confidential. The data's confidentiality did not inhibit PBO's work to model the data, assess the value of the Trans Mountain Pipeline system, or publish analytical results in this report.

Using a similar methodology and model from its June 2022 report, PBO updated its model with new data in conjunction with relevant publicly available information. This includes using cash flows for 40 years after TMEP's in-service date, which is consistent with the methodology used in PBO's previous reports.⁴

However, given that the TMEP is now operational, and the Government's intention to eventually divest from these assets, PBO's analysis provides a current financial valuation

using cash flows on a go forward basis. This is more reflective of what a potential sale price could be, which would most likely be based on the sum of its expected discounted future cash flows. This does not include previous sunk costs, such as the purchase price or capital expenditures prior to 2024. For this analysis, a Discounted cash flow (DCF) method was used to estimate the value of an investment using its expected future cash flows. These cash flows are discounted back to the present value to account for the time value of money.

PBO's analysis includes cash flows up until 2063. This is consistent with the methodology used in PBO's previous report, which included cash flows for 40 years after TMEP's in-service date.

While most of the Trans Mountain Pipeline system's capacity is earmarked toward committed contracts for the first 15 to 20 years of operation, once they expire, it is uncertain what kind of service and tolling framework will prevail.

As shown in the illustrative example from the Canada Energy Regulator's (CER) recent Energy Futures 2023 report, by the early 2040s, there could be considerable spare pipeline capacity, depending on the scenario used to assess how future climate action might affect Canada's energy future.⁵ If there is an abundance of excess capacity, shippers may not be compelled to re-enter into committed contracts.

In that case, one option could be that the Trans Mountain Pipeline system would revert to a cost-of-service tolling framework. In such an outcome, the total tolls charged to shippers would equal the total cost to Trans Mountain to provide service, including a regulated return on the base rate. A reversion to a cost-of-service toll framework in the 2040s would be less lucrative for Trans Mountain Corporation and lower the present value accordingly.

Given this uncertainty, for the purposes of this report, PBO calculated the current present value in 2024 for both a scenario where contracts are renewed and a reversion to a cost-of-service tolling framework scenario. This is not meant to indicate that these are the only possibilities, as other options could include less of the pipeline's capacity committed to similar contract service or an alternative negotiated settlement. However, the analysis shows how the value of the Trans Mountain Pipeline system could be impacted by the service and tolling framework used after the initial 20 years of operation.

Based on this new information and data, Table 1 outlines key PBO assumptions which informed the calculation of the current financial value of the Trans Mountain Pipeline system under these two scenarios.

Table 1

Key assumptions on Trans Mountain's projected cash flows

	Assumptions
Trans Mountain Pipeline system utilization under contracting	Contract utilization: Full Spot utilization: Near term ramp up to 96% total utilization in long term ⁶
Tolls	Preliminary Interim Tolls
Discount Rate	8.0%

Source:

Office of the Parliamentary Budget Officer.

Note:

For this analysis, PBO used the Preliminary Interim Tolls currently approved by the CER. However, there is still uncertainty on what the final approved tolls will be, as well as the exact timing of the decision. Given this uncertainty, PBO has included changes to the tolls in its sensitivity analysis.

The discount rate used in the analysis was taken from CDEV's 2023 Annual Report, which used a discount rate of 8.0% as part of its impairment testing as of December 31, 2023. The discount rate reflects the current market assessment, at that point in time, of the time value of money and the risks specific to the assets.⁷ The discount rate may change as market conditions and risks change over time.

PBO's assessment was limited to examining the financial valuation of the pipeline assets. Any other economic costs or benefits associated with the pipeline were not included in this analysis.

Results

With these assumptions, PBO used a discounted cash flow (DCF) analysis to determine the current present value (PV) in 2024 for the Trans Mountain Pipeline system, based on the future cash flows it is expected to generate under two different scenarios. As mentioned above, this is not meant to indicate that these are the only possibilities. It is meant to provide an understanding of how the uncertainty regarding the service and tolling framework after the expiration of the initial committed contracts could impact the current valuation of the Trans Mountain Pipeline system.

Table 2 provides the current DCF for the two scenarios:

- Contract renewal scenario; and,
- Reversion to a cost-of-service tolling framework scenario.

Table 2

Present value of Trans Mountain Pipeline System

	\$ billions
Contract renewal scenario*	\$33.4
Cost-of-service scenario	\$29.6

Source:

Office of the Parliamentary Budget Officer.

Note:

* In calculating the PV for the contract renewal scenario, PBO assumed that all cash flows after the 20-year contracts expire would grow by 2%. This is consistent with the methodology used in PBO's previous reports, which included cash flows for 40 years after TMEP's in-service date.

These amounts do not include any sunk costs prior to 2024, such as the initial purchase price or additional capital expenditures.

The key assumptions underpinning PBO's financial valuation of the Trans Mountain are subject to risk and uncertainty. Changes to key assumptions underpinning the financial modelling will impact the value of Trans Mountain Pipeline system.

Similar with the previous report, PBO considered how the value of the Trans Mountain Pipeline system is impacted by changes to certain key assumptions:

- Pipeline utilization on the Trans Mountain system;

- Tolls charged to shippers; and,
- The discount rate used to value Trans Mountain's cash flows.

Table 3 provides a summary of the impact of changing each assumption individually and the associated present value.

Table 3

Changes in the present value of the Trans Mountain Pipeline system based on changes to key assumptions in Trans Mountain's projected cash flows, \$ billions

	Contract renewal	Cost-of-service
Pipeline utilization		
- 2.5 percentage points	-0.7	-0.5
+ 2.5 percentage points	+0.7	+0.5
Tolls		
- 2.5 per cent	-1.0	-0.7
+ 2.5 per cent	+1.0	+0.7
Discount Rate		
- 0.5 percentage points	+2.2	+1.6
+ 0.5 percentage points	-2.0	-1.5

Source:

Office of the Parliamentary Budget Officer.

Note:

These figures were calculated assuming that for any given change in a specific assumption, all other assumptions remain the same.

Based on the 2023 annual report published by the Trans Mountain Corporation (TMC), TMC has total assets of \$35.2 billion. Its liabilities represent \$26.9 billion, with the remaining balance of \$8.3 billion in Shareholder's Equity (Table 4).⁸

Table 4**TMC's Consolidated Balance Sheet, as at December 31st, 2023**

	\$ billions
Assets	\$35.2
Liabilities	\$26.9
Shareholder's Equity	\$8.3

Source:

Trans Mountain Corporation Consolidated Balance Sheet, as at December 31st, 2023.

Note:

These figures are presented on a US GAAP basis. TMC reports on US GAAP, while CDEV and the Government of Canada report on International Financial Reporting Standards (IFRS).

For both scenarios in PBO's analysis, the PV of these cash flows are less than the value of the assets on TMC's balance sheet. Therefore, if the Trans Mountain Pipeline system was sold in 2024 at either of the PVs calculated by PBO, after the outstanding liabilities are repaid, the remaining amount would be less than the Shareholder's Equity. TMC would have to write off the balance of the equity and record a loss. This would reduce the net income of CDEV, after potential accounting adjustments to convert to International Financial Reporting Standards (IFRS), and would then be recorded under the Government of Canada's financial statement under Other Revenues.

However, as discussed earlier in the report, there is uncertainty regarding what the future cash flows will be for the Trans Mountain Pipeline system, especially what the final tolls will be and what will occur once the 20-year fixed contracts expire. Additionally, if the pipeline operates for longer than 40 years, or if there is a salvage value, our estimate of the potential sale price could increase.

Ultimately, whether the Government records a profit or a loss on the eventual sale of the Trans Mountain Pipeline system will depend on what someone is willing to pay for it, which can depend on a wide range of factors, such as:

- How many potential buyers, and what is their cost in raising the required capital;
- When and how it will be sold;
- What are the market conditions at the time of sale;
- Whether it will be an arms-length transaction; and,
- Whether certain groups will be prioritized in the sale.

Notes

¹ For this analysis, the Trans Mountain Pipeline system refers to the assets under the Trans Mountain Corporation.

² [Canada Development Investment Corporation \(CDEV\) Annual Report 2023](#).

³ [CDEV Annual Report 2023](#).

⁴ PBO used cash flows up until the end of the 2063 calendar year.

⁵ The scenarios used in the CER's [Canada's Energy Futures 2023](#) report are a Global Net-zero scenario, Canada Net-zero scenario, and a Current Measures scenario.

⁶ The 96% long term utilization is consistent with what was provided as part of Trans Mountain's response to the CER's [Information Request No. 4](#).

⁷ [CDEV Annual Report 2023](#).

⁸ [Trans Mountain Corporation Consolidated Financial Statements, For the year ended December 31st, 2023](#).

RP-2425-021-S_e

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