

Option to build a West Coast pipeline linked to C\$34 billion in shareholder gains

The opportunity to invest is valuable today but construction should only proceed if conditions are favourable. The final investment decision should be delayed until there is better information about the expected long-term heavy oil demand in Asia and more clarity about Canada's relationship with the U.S. If the decision is to build the pipeline, it should be financed by private investors.

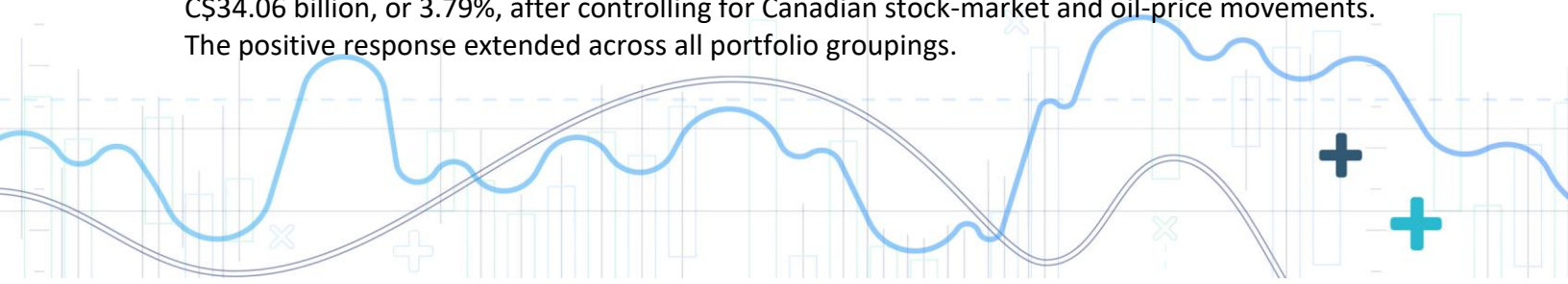
By Yrjö Koskinen and Nga Nguyen

A forthcoming Institute for Sustainable Finance study of four Canada-Alberta pipeline announcements links the May 15, 2026 implementation agreement to C\$34 billion in abnormal shareholder gains for Alberta-based energy companies, after taking into account the increases in overall stock and oil prices. Its central interpretation is that investors valued a more credible option to build a pipeline to the West Coast. However, that does not establish that actually building it makes economic sense. Construction should proceed only if projected commercial conditions after 2035 are favourable. Thus, creating the option and exercising it are two distinct decisions.

The study examines four event dates: the November 27, 2025 agreement establishing political support; the May 15, 2026 agreement setting an implementation timetable; the July 2 project submission and route and ownership announcement, assessed using July 3 trading; and the July 13 announcement linking oil-sands production growth with emissions reductions. May 15 was the only event associated with a broad, statistically significant positive stock market response across both models.

Why May 15 changed investor expectations

The November agreement left financing, approvals and shipper demand unresolved. The May agreement supplied concrete milestones: a pipeline application by July 1, pursuit of national-interest designation by October 1 and, conditional on designation, conditions for construction and development by September 1, 2027. This clearer pathway could make future export capacity increases more credible while leaving the decision to build open. Producers could gain access to more buyers and better prices; transportation and service firms could gain business. Across 70 TSX-listed Alberta energy companies, the estimated three-day abnormal gain was C\$34.06 billion, or 3.79%, after controlling for Canadian stock-market and oil-price movements. The positive response extended across all portfolio groupings.



The July details may already have been anticipated, or their benefits and costs may have offset each other; neither July event produced a significant overall response.

The practical implication is to preserve flexibility. A final investment decision should wait for better information about Asian demand for heavy oil after 2035, the pace of electrification in Asia and the evolution of U.S.–Canada relations. The final investment decision shouldn't be made any earlier than end of 2028.

The real option behind the valuation gains

A real option is the opportunity to undertake a physical investment without being obliged to do so immediately. Like a financial option, it preserves a choice: proceed when conditions are favourable and refrain when they are not. Here, exercising the option means committing capital to pipeline construction. Keeping it available requires approvals, route access and commercial arrangements rather than a standardized financial contract.

This flexibility matters because pipeline construction is costly and largely irreversible. Capital cannot readily be recovered if demand disappoints. Waiting allows proponents to learn about future demand, shipping commitments, toll revenues and costs before committing. By making the development pathway and the option to build more credible, the May 15 announcement could have increased the expected future benefits to energy companies, which investors could recognize in share prices immediately.

Even if building today had a negative net present value - expected operating cash flows worth less than construction costs - the option to build later could remain valuable. Stronger demand, firmer shipping commitments or lower costs might make investment attractive later on. Proponents could then proceed, while deferring or abandoning construction if conditions remained unfavourable. Preserving the opportunity is worthwhile only if its expected value exceeds the planning, approval and other costs of keeping it available.

Higher expected revenues, lower construction costs and more time to decide generally increase option value. Greater variability in future project cash flows can make flexibility more valuable: proponents retain favourable opportunities while avoiding construction in adverse circumstances. This does not mean all uncertainty helps. Lower expected demand or a greater risk of losing approvals can reduce the value of the opportunity.

What should be clearer before a decision to build

The investment decision should be informed by better evidence on three questions. First, will Asian refiners demand enough Canadian heavy oil after 2035, at prices that support the full cost of supplying it? Second, how quickly will electrification in Asia change transport-fuel demand and the resulting demand for crude oil? Third, how will U.S.-Canada trade and political relations

affect the reliability and attractiveness of existing export markets and the value of diversification? These are decision criteria, not forecasts established by the event study.

Better information does not require waiting until 2035 or eliminating all uncertainty. It means using emerging evidence, credible demand scenarios and binding shipper commitments to test whether construction is justified. Waiting also postpones revenues and can bring higher costs, competing capacity elsewhere or expiring approvals. Proponents must compare investing now with retaining flexibility; even a positive net present value may not justify building immediately if the option to wait is worth more.

What the findings establish

The market evidence supports a real-options interpretation but cannot isolate that mechanism or attribute all gains to the pipeline, because the announcements bundled several policy measures. The C\$34 billion estimate is an abnormal equity-value gain for existing energy companies, not a measure of net economic and social benefits to Canada. It does not include climate damages due to increased carbon emissions. Importantly, the case for preserving an investment opportunity should not be mistaken for a case to exercise it immediately or even later.

The forthcoming ISF study is “What Did Stock Markets Think of the Proposed West Coast Bitumen Pipeline? Evidence from Four Event Studies”, by Yrjö Koskinen (University of Calgary and the Institute for Sustainable Finance at Smith School of Business, Queen’s University) and Nga Nguyen (Université du Québec à Montréal). The study compares observed energy portfolio returns with returns predicted from stock-market and oil-price movements.