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North American Energy Security: 2005 - 2012

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Slide 1 – Title Slide

Discussions about North American energy security are important, because continued security of supply is critical to the economies of both Canada and the United States, and to the citizens of both countries. Energy heats and powers our homes and hospitals and businesses, and fuels industrial and economic development.

Having said that, I think most industry analysts and observers pretty much agree on what must be done to ensure long-term supplies to meet growing North American demand. Basically it all comes down to the need for new, reliable sources of supply, ideally combined with more efficient energy uses and conservation.

For natural gas, that means gas from the North, LNG and coalbed methane, as well as continued production from conventional areas in Canada and the United States, including the deepwater Gulf and the Rockies.

For crude oil, it means continued imports for the United States and the prospect of significantly increased volumes available from Canada's oil sands.

All of which suggests the best solution to meeting North American energy needs involves a continental solution.

And that, to me, is just common sense. Look around the industry today and you'll see ample proof that the concept of a continental approach to energy is already at work.

One obvious sign is the healthy continental energy trade that already takes place across our borders.

Consider these statistics:

Last year, Canada exported more than 590 million barrels of oil, 3.5 trillion cubic feet of natural gas, and nearly 33,000 gigawatt-hours of electricity, all to the United States.

Slide 2 – Enbridge: Three Strong Businesses

As a leader in energy delivery, in North America and internationally, Enbridge is always focused on supply and demand, to ensure we are able to deliver our customers' oil and natural gas to the right markets at the right time. And we've been successfully doing that for a long time.

Our key assets include the world's longest and most complex crude oil pipeline, which delivers more than 2 million barrels per day to customers in Canada and the United States –- and which has been a reliable and secure source of supply for over 55 years. We also own and operate Canada's largest natural gas distribution company, which delivers gas to 1.7 million customers, primarily in Ontario, and has done so for over 155 years.

This slide illustrates our continental reach and competitive strength in each of our three key businesses – crude oil pipelines are in blue, natural gas transportation systems are in red, and natural gas distribution is in yellow.

As you can see, our assets pretty much cover the continent. So when discussions about North American energy focus on security of supply, and a continental approach to energy planning and development, that's our business and that's our expertise.

That's why my remarks today will focus on the Enbridge experience, and the Enbridge perspective on continental solutions to provide security of supply for our two countries.

Slide 3 – Enbridge Gas Transmission: Emerging Presence

The natural gas story has been pretty well covered today, so I will focus most of my remarks on the crude oil picture as it relates to today's topic of security of supply. I would, however, like to make a few remarks about natural gas.

At Enbridge, we have consolidated our ownership positions in the Alliance and Vector natural gas pipelines, both of which operated at capacity last year, and which are well positioned to ship Canadian and Alaskan gas to prime U.S. markets.

As I'm sure you all know, Enbridge is very interested in Alaska gas. As the only Canadian pipeline company with experience in building and operating pipelines in northern permafrost, and as a gas distribution franchise that is interested in contracting for northern gas, we feel we can make a significant contribution to the success of any Alaska gas pipeline.

We continue to work with the producers, the State of Alaska and other interested parties. We also continue to speak out on the need for a fair, open and competitive regulatory process to ensure the best pipeline is built to meet the needs of the consumers who require the gas and the producers who own the gas.

Our U.S. affiliate, Enbridge Energy Partners, continues to acquire natural gas pipeline assets in the Mid-Continent and Gulf Coast states, and will complete its new East Texas transmission pipeline in mid-2005, which will provide customers with greater access to the Carthage hub, an important outlet to major U.S. gas markets. We are very focused on the prolific Bossier and Barnett Shale gas plays with these projects.

Effective January 1st of this year Enbridge also acquired all of Shell's gas pipeline interests in the Gulf of Mexico, which include 11 gas transmission and gathering pipelines in five major pipeline corridors that transport approximately half of all deepwater natural gas production in the Gulf.

In the first quarter, we increased our interest in one of those corridors, the Garden Banks pipeline system, and we look to tie in other production to come on stream in later 2005 and 2006. The deepwater Gulf of Mexico is expected to remain a prolific production area for many years to come, and we hope to participate in future LNG regasification and delivery opportunities there.

We also continue to work on the Rabaska LNG project near Quebec City, which would provide much-needed additional gas supplies to the Quebec and Ontario markets, and could free more Western Canadian gas for export to the U.S. The Rabaska project team has been making steady progress, and support is building. A federal and provincial joint environmental review is under way. The Levis Municipal Council, which had previously opposed Rabaska, passed a resolution in support of the project. And Rabaska was recently voted economic priority of the year by the Greater Quebec City Regional Economic Forum

Slide 4 – Canadian Crude Oil Exports

Let me turn now to our crude oil pipeline business – which is expected to be our key driver of growth. We have five specific projects under way, all tied to the growing production from the Alberta oil sands and the need to broaden markets for that crude oil. And it all fits nicely into this forum's timeframe of North American energy security to 2012.

I'll begin with some of the oil fundamentals in North America. The United States imports about 60% of its crude oil needs – about 10 million barrels per day. Canada has become the leading source of those imports, and its market share is likely to grow. Enbridge alone exports about 56% of Canada's daily supply, and accounts for roughly 9% of daily U.S. demand.

Slide 5 – Enbridge: Crude Oil Pipelining
Regional Oil Sands Infrastructure

This next slide shows the catalyst for all of the current new-market initiatives – the Western Canadian supply "push". The map on the right shows where Alberta's oil sands basins are, as well as the location of specific existing and announced producer projects. The graph on the left shows the long-term supply growth that these projects support, including conventional light and heavy grades.

The net growth to 2010 approaches 1 million barrels per day of growth driven by the oil sands. And that's why all of Enbridge's current crude oil pipeline initiatives in North America are designed to ensure that there is sufficient pipeline capacity to transport that additional oil sands production.

Slide 6 – Enbridge: Crude Oil Pipelining Expanding to New Markets

Which brings me to this slide which shows our existing crude oil pipelines, and our numerous expansion projects. The first point I would note is that unlike many of the pipelines on this continent, this is a thriving and growing pipeline system that is positioned between growing long-life oil sands reserves and growing U.S. demand.

The second point that is illustrated by this map involves the various stars. The red stars are refineries currently receiving Canadian oil. The yellow stars are refineries not currently using Canadian crude – our role is to enable cost-effective access to those yellow stars.

Enbridge has a five-point plan for addressing these needs:

1. The Spearhead Pipeline to the Cushing market.
2. Southern Access expansion to PADD II.
3. Eastern PADD II access to Ohio and Kentucky.
4. U.S. Gulf Coast access.
5. The Gateway Pipeline to supply California and Far East markets.

These projects represent a combined capital investment opportunity of more than $4 billion.

The prime market for the additional crude oil supply is, and will continue to be, our neighbour, the United States. We won't forget that. At the same time, there is also a strong desire by Canadian producers to have options open to them to reach even broader markets, including those in the Asia-Pacific region, and interest on the part of Asian refiners. These are the pressures we are reacting to as we develop expansion plans.

First, let's talk about the projects to expand the U.S. markets.

In 2003, Enbridge acquired the Cushing-to-Chicago crude oil pipeline with the intention of reversing the flow of the system. We now have the regulatory approvals we need to begin the reversal of what we call the Spearhead Pipeline, to transport crude oil to Cushing, Oklahoma by the beginning of 2006.

The Southern Access project will be built and owned by our U.S. affiliate, Enbridge Energy Partners. Southern Access will involve construction of new 30-inch diameter pipeline segments within the existing Enbridge pipeline easement at various intervals between Superior and Delavan, Wisconsin. The expansion is planned to be in service in 2008 and will add 124,000 barrels per day of capacity to the Lakehead System.

As demand and growing supply from Western Canada warrant further enhancements, additional expansion may take place that would result in Southern Access being extended to Wood River, Illinois.

These initiatives, coupled with mainline expansion, will add additional capacity to Chicago, Wood River, points east, Cushing and the Gulf Coast. Overall, the new capacity will support nearly 600,000 barrels per day of growth in heavy oil production. That will go a long way to ensure that the pipeline capacity is in place as additional production comes on stream.

We also have projects under way in the oil sands corridor between Fort McMurray and Edmonton. During the first quarter of 2005, we entered into definitive agreements to provide pipeline transportation services for the Opti-Nexen project. We also have a preliminary agreement to provide similar services for the Surmont project.

As a result of volume additions from both projects, our Athabasca Pipeline from Fort McMurray to Hardisty, Alberta, will require expansion. The agreements also provide flexibility for the shippers to use a proposed new Enbridge pipeline – the Waupisoo Pipeline – to move crude oil directly to Edmonton.

That project, which could be on stream by mid-2008, in combination with the Athabasca project represents an investment opportunity of more than $800 million for us.

We also have our Gateway Pipeline project. Gateway has received a lot of attention lately, and it certainly is an exciting concept and opportunity for us.

The Gateway Pipeline would transport 400,000 barrels per day of Alberta oil production to a port on the west coast of British Columbia where it would be shipped by tanker to China, other Asia-Pacific markets, and California.

We expect approximately 200,000 barrels per day of that will move into China. We currently anticipate that California refineries will be interested in about 100,000 barrels per day of supply. And the remaining 100,000 barrels per day will most likely be placed in Japan, Korea and other markets.

A regulatory application would have to be made in 2006 to achieve a late 2009/2010 in-service date. First, though, definitive long-term agreements for the sale of crude will need to be negotiated. That is where our current focus is.

We also need to continue our consultation with the many aboriginal communities and other stakeholders along the proposed right-of-way, and we will work on our plans to ensure that this project meets the highest environmental standards.

Only when all of these matters are concluded in a manner which supports the commercial feasibility of the project will we be in a position to file a regulatory application.

We are certainly sensitive to and will closely monitor the broad concerns and dialogue around the notion of crude oil leaving the continent. But we also need to keep in mind that Canadian heavy oil often is priced at a deep discount to the WTI benchmark, in part because of lack of market options. It is quite possible that the Gateway option could cause new supply to be produced that otherwise may be considered uneconomic and remain in the ground – and additional long-term supply benefits everyone.

All of this adds up to exciting times for Enbridge. There are a lot of opportunities out there and we are working hard on all of them.

Our business is very competitive, and there is competition for every one of the projects I have just described. But because of the location of our assets and the work that we do in studying and analyzing North American energy supply and demand, we are well positioned to "have a horse in most of the races".

Slide 7 – Title Slide repeated

We work hard to anticipate our customers' needs and to be ready when our customers need the additional capacity.

As I said at the outset of my remarks, we care about – even obsess about – understanding energy supply and demand requirements, one year, five years, 10 years, even 50 years from now.

We're a low-cost operator, too. Recent industry statistics show Enbridge as the lowest cost crude oil operator in North America; the second lowest cost gas distributor; and very competitive in gas transmission.

All of which suggests Enbridge will have a key role to play in ensuring the continued energy security of North America for many years to come – just as we have for over half a century.

Thank you.