

AI Monaco speech to the Canadian Club

Toronto, ON

May 18, 2022



Introduction

Thanks Kent.

When the opportunity to be here came up, I was excited about it. Still am today, but for a different reason. We're in a different world and it gives me a chance to talk about the critical issue of the day.

For all of us, the return to normal has been thrown off the rails with rocketing inflation and high energy prices, a looming recession, battered supply chains and a food crunch, and an incomprehensible war in Ukraine. This is not how we planned our return.

I'm going to talk about energy today, not because that's the business I'm in, but because it's even more important to all of us in this new world.

Energy pervades everything, it drives our economies and competitiveness and it's the essence of our social well being.

I'm not prone to the dramatic, but I'm emphatic about this: we've just crossed a major inflection point in energy markets and we're in an energy crisis. Even if the war ends tomorrow, energy markets will not be the same.

Before the discussion with Brian, I'll set a bit of context around how we got to this inflection point, the outsized role Canada (actually, North America) can play in the future of global energy and the energy transition itself, and how Canada can seize the opportunity.

To anchor those themes, it's important to provide some perspective on where we come from on energy.

Our Perspective

At Enbridge, we see ourselves as Canadian champions, but we're the largest midstream infrastructure player in North America with half our assets south of the border.

We've invested roughly \$100 B over the last decade.

Our asset mix is diversified, and we serve the biggest markets - 170 million people in the US northeast, southeast and pacific northwest; 15 million in Ontario and Quebec; and we move two thirds of Canada's oil exports across the border.

We started building our wind and solar business over 20 years ago, before it was fashionable, investing \$8B, and we're a leader in Hydrogen, RNG and CCUS.

We're putting another \$4B to work in renewables through 2025, including three more mega-scale offshore wind projects in Europe, and we're now building our first floating offshore wind project off the south coast of France. We were the first in our sector to set interim and net zero emissions goals, we've reduced intensity and absolute emissions by 27% & 20% since 2018, and we're an ESG leader in our space.

All of this gives us great insight into global energy fundamentals and the energy transition. And hopefully it gives you a sense of how we look at the future of energy and our approach to the transition.

In essence, our role is to provide the energy people want and need every day, while building a bridge to a cleaner energy future.

With that backdrop, here's how I think about energy.

Evolution of Energy Markets

For much of history, the world was *obsessed* with finding enough energy to improve our standard of living, while fueling industrial growth. Energy was scarce and we weren't fussy about how we got it, so long as it delivered heat, fuelled cars and planes, and made products we use every day.

New energy technology changed all that, unleashing massive unconventional resources. Incredible abundance translated to cheap, reliable energy. And that gave consumers the power to choose what energy they wanted and increasingly, sustainable, lower-carbon energy.

So, consumers expect low cost, reliable and cleaner energy. Yes, they want it all, *and* the customer is always right.

As sentiment shifted, and the energy transition leaped forward, a conundrum emerged. How to meet growing energy demand while limiting the planet's warming to well-below 2 degrees. Both are musts!

It's challenging to conceive when draws on energy are certain to increase as the global population reaches 10 B, we see greater urbanization, and developing countries drive to improve living standards.

Pre-Ukraine, reconciling these two realities was the global challenge, and we moved in the right direction: governments implemented energy efficiency policies; we're pricing carbon directly or via regulation; carbon markets are developing; capital is flowing to low carbon sectors; we're incentivizing R&D of cleaner energy; and businesses are committing to net zero targets.

The biggest change I've seen is that the industry doesn't need to be convinced about the need to lower emissions. They get it!

Inflection Point

As the recovery started, the energy demand-supply gap widened – of course, prices rose. Normally, supply responds to price signals but that didn't happen. Severe underinvestment in both conventional and low carbon energy was the main culprit, which in turn exacerbated inflation, caused pain at the pump, and increased home heating and electricity prices.

The moment Russia invaded Ukraine, we reached an energy inflection point. This single event dramatically brought energy security back into the spotlight, right alongside affordability, reliability, and climate.

This is likely to get worse.

This inflection point means that energy markets will now need to reflect a national security risk premium in two ways: First, putting the economic drivers aside, we'll need more energy than we thought, pre-Ukraine. Think of that as an energy security supply buffer. Second, we will need to see greater diversification of supply sources to reliable providers. We will manage security risk with an energy supply buffer and greater diversification.

The impact of the inflection point will be broad and global as energy trade flows adjust, regardless of when the war ends.

Right about now, you may expect me to say we'll need more oil and gas. The reality is we need both conventional *and* low carbon supply to increase, and we need that to happen faster. At the same time, our climate goals remain non-negotiable.

In my view, any way you look at it, natural gas is an incredibly important part of solving the worsening conundrum. Even before the war, Europe amended its clean energy definition to include natural gas. With the war, the US expedited LNG exports, and volumes are now expected to increase by 3X over the next 2 decades.

On low carbon, \$25T will need to be invested – with renewables comprising the lion's share, supplemented by RNG, hydrogen and carbon capture. Today, we're willfully below required investment levels in both conventional and low carbon energy.

Let me expand on this a bit.

Future of Energy Markets – securing the energy transition

If we're going to meet Paris goals, and assure energy security and reliability, we simply need to embrace all forms of energy. The key is to leverage existing infrastructure. Here are some examples:

Down the road in Markham, we're piloting a first-of-its-kind green hydrogen facility. There, we produce hydrogen from renewables and blend it into our natural gas system, so, we're able to heat homes and power industry with clean energy.

As a company that moves 20% of the natural gas consumed in North America and 10% of the gas exported off the continent, blending even 10% hydrogen into the system would make a huge difference.

At our Ingleside export terminal in the Gulf Coast, we're adding on-site solar to power our operation ... net negative emissions. And we're developing hydrogen and ammonia there to export clean energy.

We're working on multiple renewable natural gas projects which capture methane from landfills, displacing conventional gas.

We're building solar farms at our pump and compressor stations, powering them with renewable energy.

We're developing a carbon capture hub in Alberta that will eliminate 4MT annually from power and cement industries. And five Indigenous nations will be co-owners in the hub.

The inflection point also means that North America will play a much larger role in global energy markets, and here's why.

The North American Advantage

This continent produces energy more reliably, sustainably, and at lower cost than anywhere else. As Canada and US energy systems are heavily integrated growing US exports provide Canada with a great opportunity to fill the gap. For example, LNG breakeven prices in Canada and the US Gulf Coast are \$6-8, compared to \$30+ prices in Asia and Europe.

The economics are only half the story. If you look at ESG scores for the 10 largest global producers, Canada, and the U.S are #1 and #2. This explains why LNG exports in the US Gulf Coast are booming, and the US will likely be the world's biggest LNG exporter this year.

That happened strikingly fast ... the U.S. was an LNG importer only a few years ago. They're moving quickly to do something about the global energy crisis.

Canada missed the first LNG window so we're behind, but we can catch up. Canadian companies have done every bit as good a job in developing natural gas ... technology, cost, and sustainability wise. And proximity to Asia gives us a 2-4-week shipping time advantage vs the US Gulf. And colder weather helps, too.

Other than one project, which isn't scheduled to come on until 2025, we haven't been able to capitalize on our advantages, mainly because of the challenges in building infrastructure.

Equally important, we've yet to embrace the fact that Canadian energy can have a significant impact on reducing global emissions. Canada is already leading in reducing the 1.5% of global emissions created within our borders. But if we really want to lead the energy transition, then Canada must set its sights higher – on the 98.5% of global emissions outside of Canada.

The single biggest factor in the U.S. reducing its emissions by 20% since 2005 has been ... guess what? ... natural gas. It's a similar story here in Ontario – where we've replaced coal-fired generation. This Canadian formula can be replicated globally ... where China, for example, has 1,100 coal plants.

We should be proud that LNG Canada will have 35% lower emissions than the world's best facilities, and 60% lower than the global average. By leveraging one of the cleanest electricity systems in the world (80% non-emitting sources), we can make our LNG even cleaner.

There's another prize – exporting affordable, secure, and sustainable LNG comes with a huge opportunity to advance Indigenous economic reconciliation. As Chief Councillor Crystal Smith of the Haisla Nation put it, LNG affords Indigenous people a 'share and a say' in the energy future.

What Needs to Happen to Realize this Vision?

To sum up, we're in an energy crisis.

The inflection point we've just crossed means that energy security and affordability will matter a lot more, along with climate. Global supply needs to grow, and *grow faster* to meet demand and provide the security and diversification buffer we need. We need to ramp up investment in both conventional and low carbon supply.

The North American advantage existed before Russia invaded Ukraine. Now it's time to use it. Today, we're in great position to gain global market share. We have the resources, skills, and technology, we're focused on lowering emissions – net zero by 2050, and we're developing low-carbon incentives to drive hydrogen, RNG and CCUS.

In Canada, it's clear we need to capitalize on our energy advantage. We have a world-class energy system and the know-how to export the most sustainable energy, world-wide. That means getting serious about natural gas, which can make a real difference, both in terms of energy emissions and security.

We can leverage the infrastructure of today as a bridge to creating the energy systems of the future. And we can do all of that while advancing Indigenous reconciliation right here at home.

The time has come to take a fresh look at Canada's role in the energy transition; the responsibility, and opportunity, is today, and we need to get after it.

The bottom line is Canada is one of the world's lowest-cost, most reliable and sustainable global energy providers, and that's exactly what the world needs today and in the future.

Thank you.