Al Monaco

President, Enbridge Inc.

Comments to

The Toronto Board of Trade

June 18, 2012

Check against delivery

- Thanks Tony…and thank you everyone for attending this afternoon.
- When the opportunity arose to speak today, I jumped at the chance for a couple of reasons….one was that I have a lot of time for Accenture and the Board of Trade.
- Also as I'm normally speaking at this venue to investors and analysts, it gives me an opportunity to talk about another topic – a topic of national importance.
- My remarks will focus on a critical <u>energy</u> issue facing Canada. Now, there is a <u>bunch</u> of energy issues being discussed by industry, policy makers, pundits, and so on.
- They're talking about gasoline prices; oil sands development; fracking and even pipelines seem to garner daily headlines. *It used to be that nobody cared too much about pipelines.*
- Another important topic being discussed is the environmental consequences of energy.
- And more recently, the impact of resource development on the Canadian economy – which is being framed as "Dutch Disease".
- These are important issues; however the one subject that is the most consequential of all is <u>the rapid and dramatic shift taking place right now in world energy markets</u>.
- Despite a recent slow-down, global energy demand and economic growth will be driven by emerging markets like Asia, <u>not</u> North America and <u>not</u> Europe…. as has been the case for decades.

- In terms of the supply side of the energy equation, North America will become the fastest growing oil and gas supply region in the world. This is 180 degrees from where we were a short time ago.

- The wide swings in consumption and supply represent <u>the</u> most significant development in the global energy picture in recent times.
- These new realities drive what I believe is a strategic imperative for Canada – <u>which is the need to diversify its energy markets.</u>
- Diversifying our markets will require new energy infrastructure - at a time when there seems to be opposition to any <u>and all</u> energy projects.
- Oil and natural gas are our largest single export and yet we're selling those resources at a deep discount because we don't yet have the infrastructure to reach new markets.
- That discount equates to billions in lost revenues. As Canadians we should be concerned about that because energy is a critical component of growth and stability in Canada.
- At the personal level it hits all of us through jobs, our standard of living and building on the social safety net we want in this country.
- If we don't move quickly to access new markets, Canada risks missing a golden opportunity to forge greater economic development. If we don't move quickly, others will fill the gap!
- Although I'm a westerner, I'm speaking today as a Canadian….
- …. to discuss the dramatic change in the world energy picture, what it means for Canada and how best to capitalize on the opportunity we have in front of us.
- And what better place to be discussing the key issue of maximizing the value of Canadian exports than the Toronto Board of Trade?
- Let me first briefly outline why our Company has a view on energy issues.
- Enbridge is a large energy infrastructure player in North America.
- Our job is to connect oil and gas supply with demand….we do that through a network of pipelines and facilities to eastern Canada, and to the U.S. Midwest, Midcontinent and Gulf Coast.
- We deliver over 2 million barrels of oil every day to these markets, which represents 60% of U.S.-bound oil from Canada.
- And Canada is the largest supplier of oil to the U.S. accounting for 13% of oil imports.

- By now, you've probably guessed that oil represents Canada's number one export and is a key contributor to our GDP.
- We also operate a host of natural gas pipelines and processing facilities throughout North America. We're the largest natural gas distributor in Canada with 2 million customers in Toronto and Ottawa.
- And we own a growing portfolio of renewable electricity generation facilities.
- These positions give us a unique outlook on the North American energy picture.
- Here's how energy fundamentals have changed.
- The key driver of global energy and economic growth in the future is China and Southeast Asia, with GDP growth rates 2-4 times that of North America and Europe.
- At the same time, U.S. oil consumption will likely be flat at best; due to slower growth, fuel efficiency, and demographic changes that are leading to fewer vehicles and miles driven.
- On energy supply, the global shale gas revolution is now well understood.
- Natural gas is no longer viewed as simply a medium term transition fuel to hold us over until renewables kick in… it's now critical to meeting long term global energy demand.
- Gas will be a key fuel source for the future: it's abundant, responsive to demand, relatively low in emissions and it's cost effective to site in that it can be positioned near load centres.
- But the real game changer is growing North American <u>oil</u> production. In fact, at the forecast pace of growth, NA will be able to substantially reduce overseas oil imports.
- This is quite a sea change in that just a couple of years ago North America was facing reduced supply, a fear of peak oil and the need for ever-growing imports…imports that come with significant geo-political risks.
- There are many contributing factors to the sea change, but it really boils down to one thing: the application of new technology to energy development.
- It may seem odd to be talking about new technology for an industry better known for the brute force of extracting hydrocarbons from thousands of feet below the surface.
- But the fact is that technology has unlocked massive unconventional oil and gas reserves across North America.
- We've always known that these large unconventional reserves existed.

- But the key to unlocking that potential is the combination of horizontal drilling, reservoir stimulation methods and economies of scale.
- The result: today's energy business is more akin to a manufacturing process than it is about wildcat drilling.
- We're seeing explosive growth in energy production across the continent, in Alberta's oil sands; in the Bakken region of Saskatchewan and North Dakota; in Texas and in large unconventional natural gas resource plays.
- Canada has massive energy resources. We have the world's third-largest oil reserves at 175 billion barrels with ultimate potential of some 300 billion barrels.
- A recent forecast shows that Canadian oil production will double to about 6 million bpd by 2030. This would put Canada in the top three or four world oil producing nations.
- This is a strategic advantage in that almost 80% of the world's oil reserves are controlled by national oil companies. So Canada holds about half of the remaining "free-market" oil reserves.
- Canada is also the world's third largest producer of natural gas and it's estimated we have anywhere from 700 to 1,300 TCF of reserves.

  Energy accounts for about one quarter of Canada's exports with oil leading the way at about $70 billion in 2011…with natural gas at $14 billion and other energy products at $30 billion.
- Which brings me to the Canada-U.S. dynamic….
- Virtually 100 % of our crude oil exports are sold to the United States, and therein lies the problem.
- Because Canada's resources are landlocked with access to only one market, our oil and gas exports are being heavily discounted relative to world prices.

  We're isolated from the world market, and that makes us a captive supplier. Effectively, Canada is a price taker.
- And the double whammy is that our single market – the United States - has access to multiple sources of oil supply from around the world.
- To drive this issue home, have a look at this slide, which illustrates the price dislocation for Canadian natural resources.
- Canadian light oil is selling for $20 to $30 off world prices. If you do the math, that translates to lost value of some $60 million a day. A massive loss of value for Canadians.

- You don't have to be an economist to know that dependence on a single market is bad for our economy, whether we're exporting commodities (like wheat, coal, natural gas, forestry product), technology, services or widgets.
- It's the same story for Canadian natural gas; once again, you see the price dislocation that results from a lack of connectivity for our gas supply to world markets.
- Asian markets are clamoring for natural gas, including Japan, whose nuclear power plants are currently shut down for assessment.
- While the United States will continue to be the primary market for Canadian oil and gas, it's clear that Canada needs to diversify its energy markets.
- Every day that goes by without access to tidewater and world markets for our oil and natural gas is another day of lost opportunity for Canada.
- In response to this imperative, I believe we need to focus on three things:
    - First, we need to build infrastructure so we can connect growing supply to existing and new markets.
    - Second, and clearly linked to that, we need to ensure we develop our resources in a sustainable way.
    - And third, looking to the future, we need to invest in all forms of energy to meet future energy demand growth.
- Looking at each of these in turn…
- On building new infrastructure, we need to first connect growing supply to existing Canadian and U.S. demand centres.
- And then, we need to establish a gateway to that global economic engine for the future - Asia.
- I'll illustrate this by highlighting 3 key market access initiatives under way at Enbridge, which together total some $14 billion of investment.
- First, we are establishing a path for Canadian crude to access eastern Canada.
- In reversing the flow of one of our existing lines—Line 9 – Ontario and Quebec refineries will have access to lower-cost Canadian feedstock. These refiners are now fed by foreign imports.

- We're proud of this project as it delivers Canadian oil to Canadian refineries. And that means Canadian oil security.
- That's significant in that Ontario and Quebec currently derive 18% and 90% of their crude from offshore sources, respectively.
- It's a solution that protects Canadian jobs and increases tax revenue in the range of some $90 million/year for Quebec – that can go to education, healthcare and other programs.
- Importantly, this project requires no new pipeline construction, so it's a benign and economical way to address the changing needs of the market—a solution that makes sense for producers and eastern Canadian refineries.
- Even so, it's important that we talk to communities about their concerns…so far, we've reached out to nearly 4,000 stakeholders along the right-of-way.
- Our Gulf Coast access program connects Canadian oil supply to the mammoth U.S. refining centre, which has some 8 million bpd of processing capacity and is already configured to run Canadian oil.
- A couple of things to note:
- Reliable Canadian supply reduces U.S. dependence on foreign oil.
- And this new market access strategy utilizes existing energy corridors so we will minimize disruption to the environment and the industry's energy footprint, and…
- This multi-billion-dollar project creates thousands of jobs and generates millions in new tax revenue.
- To make the connection between growing Canadian supply with robust Asian demand, we're proposing to build Northern Gateway.
- The Gateway project achieves the goal of diversifying our energy markets, thereby maximizing the value of our resources.
- Economically, Gateway will contribute some $270 billion to Canada's GDP over 30 years, 63,000 person-years of employment during construction and some 1,200 long-term jobs.
- $270 billion translates into jobs and economic opportunity for Canada. Clearly Gateway is not only important in terms of our country's economic future—it is critical to helping Canadians protect our national interests at a time when a number of G8 countries and world markets are threatened by the European financial crisis.

- Gateway and the benefits it will generate is, in effect, an insurance policy on Canada's economic wellbeing.
- Gateway will be a world-class project in every respect—from environmental protection…to safety…to community consultation.
- That includes consultation with local communities including First Nations and Metis.
- To date we've held 2,500 public meetings, 120 open houses, 150 presentations, and 65 economic development workshops.
- Through that outreach, we've met directly with more than 17,000 people.
- In fact on Friday I participated in a meeting of five regional Community Advisory Boards in Vancouver. Each of these boards brings together a diverse range of community stakeholders to share their views about the project. It is a unique and effective way to gather valuable input from all the communities along the right-of-way.
- The advice and input obtained through this process has resulted in many enhancements to the Northern Gateway project, from environmental improvements to route changes.
- And on the regulatory side, Gateway is undergoing the most rigorous assessment that any energy project has ever had.
- The project will bring significant benefits to Aboriginal groups. In fact, we'll be co-owners of the project with First Nations and Metis.
- And aboriginals will also benefit from procurement opportunities and skills training that will be transferrable to other industries.
- Let me summarize the importance and significance of Gateway this way.
- Gateway capitalizes on several of Canada's inherent strategic advantages.
    - We have massive energy resources;
    - We have the technology and skills to develop those resources effectively;
    - And we have the Pacific coast advantage that gives Canada access to ½ of the World's population;

- In my view, Gateway is a project that is clearly in Canada's national interest. If Gateway isn't good for Canada, then I don't know what is.
- Having said that, we have a regulatory process that will make the assessment in an independent and thorough manner.
- The second leg supporting Canada's strategic imperative is sustainable resource development.
- Canadian resource developers are making progress on this front.
- Oil sands emissions declined 26% per barrel from 1990 to 2010; water and energy use is declining and good progress is being made on reclamation.
- Earlier this year, in a landmark collaborative effort, oil sands producers agreed to share their research and development in the areas of water use, land, greenhouse gases and tailings.
- This is a <u>big and progressive step forward</u> for an industry that is highly competitive and not used to sharing information, much less research into new technology.
- This progress is being driven in part as a response to public concerns.
- But, it demonstrates that industry understands that the economic benefits argument alone is not enough to make the case for oil sands development.
- For our part, Enbridge is fully committed to conducting our business in an environmentally sustainable way.
- Even though we are not a major CO_2 emitter, we set targets to lower our greenhouse gas emissions.
- In 2010, we had reduced our Canadian direct GHG emissions by more than 20% below 1990 levels, through upgrading facilities and equipment.
- We achieved these reductions at the same time as increasing pipeline throughput by nearly 50%.
- We've also committed to stabilizing our environmental footprint through our Neutral Footprint initiative.
- As of 2009, we're counteracting our environmental impacts by planting a tree for every tree we remove; conserving an acre of natural habitat for every acre we permanently impact and generating a kilowatt of renewable energy for every kilowatt of power our operations consume.

- This is a groundbreaking initiative that we think differentiates Enbridge as a company to invest in, partner with, work for, and welcome as a neighbor in communities.
- The 3rd element supporting Canada's strategic imperative is to develop all forms of energy, including renewables.
- While fossil fuels will be with us for a long time, we need to look to the future and develop <u>all</u> sources of energy to meet demand.

  We don't have the luxury—not yet, at least—of picking and choosing.
- Yes, renewables are partially subsidized but we don't expect to need subsidies forever; in fact, the cost of renewables has declined considerably, given improvements in technology.
- We ourselves have invested $2.5 billion primarily in wind and solar projects, which generate nearly 1,000 megawatts of emissions-free energy.
- These are solid projects that will position us for the future.
- Before concluding, let me touch on two subjects regarding opposition to energy development.
- First, let me emphasize that there is agreement from all corners that we need to be responsive to concerns about the environment
- ….and we need to continue to improve our track record….there's no doubt about that.

  <u>But, as I alluded to at the outset,</u> various groups are opposing any and every kind of energy project, whether it's nuclear, oil, natural gas and even renewable projects.
- If we simply say "no" to every project, then we need to ask those who oppose those projects what their solution is.
- Let's think about what our life would be like if we eliminated traditional sources of energy right now.
- We'd all agree that's not practical…. so we need to develop all our energy resources to meet energy demand in a sustainable way.
- We need to focus more effort on figuring out how to make <u>energy</u> projects better rather than on polarized positions.
- In short, we need a more of a balanced dialogue about our energy future.
- <u>Second,</u> there's been discussion lately about "Dutch Disease" and the impact of oil sands development on the rest of Canada.

- Yes, energy exports are one thing that can contribute to a strong currency…. and in countries with less diversified economies, that could make manufacturing less competitive.
- A number of studies have concluded that this is not a significant issue in Canada.
- For one thing, there are many factors that drive our dollar, including the fact that we attract investment to Canada because of our economic outlook and strong financial system.
- Energy is also exported from regions <u>across</u> Canada, including Quebec, and other sectors like mining and electricity; and yes, our manufacturing sector also generates exports.
- And relative productivity can also affect manufacturing competitiveness.
- On the other side of the Loonie, there are significant benefits generated by a strong Canadian resource sector.
- These include tax revenues, long-term jobs across Canada, broad economic growth, and technology development, all of which support our way of life and in particular our social safety net.
- In fact, cash generated in the oil and gas industry is reinvested into Canada's economy at a rate of $1 billion a week.
- My point is that whether it's the strength of western Canada's resource sector, Ontario's manufacturing sector, Quebec's wealth of hydro power, or oil and gas resources in Atlantic Canada…we should think about regional success as Canada's success! Those regional successes generate a strong and stable Canada.
- To sum up… global energy fundamentals have changed dramatically.
- North American oil production is growing rapidly and Canada is poised to become an even bigger player in the global energy picture.
- Today, as Canadians, we are leaving billions of dollars on the table because we're not realizing full value for our resources.
- That's driving an imperative for Canada to diversify our energy exports to new markets.
- We need to focus on building new infrastructure to connect supply to new markets; developing our resources sustainably….and working to develop all forms of energy.
- I may be somewhat biased, but I think we can look at Enbridge as a good example of where our energy economy needs to head.

- We’re responding to changes in the North American and global energy market by investing in the infrastructure necessary to meet demand.
- We’re listening to stakeholder concerns about the environment and doing something about it.
- And we’re investing in new forms of energy for the future.
- Energy and resource development play a critical role in our economy. So, let’s have an open dialogue about how energy generates wealth for all Canadians.
- We also need to listen to all perspectives so that we can improve these projects.
- Canada has successfully addressed significant energy challenges in the past, and I’m confident we can respond to the ones we’re facing today.
- As a country, we know from experience the tremendous benefits that infrastructure can bring to our economy and our nation.
- We’ve proven it time and time again - building transcontinental railways, nation-building pipelines and the St. Lawrence Seaway.
- And we can do it again with new energy infrastructure to reach growing markets.
- If we achieve this, Canada will become a global energy leader to the benefit of all Canadians.
- Let me close by re-iterating a point I made a few moments ago.
- Whether it’s oil sands development in Alberta; the forestry or natural gas industries in B.C.; Saskatchewan’s potash; manufacturing and mining in Ontario or resource development in Atlantic Canada—collectively it’s all about a stronger nation as a whole…where the sum is greater than it’s parts.
- I encourage everyone to think of regional success as a win for all of Canada.
- Thank you.