

North America's energy future: Seeing the potential

Speech by

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Al Monaco

President and CEO, Enbridge Inc.

Al Monaco was appointed President and Chief Executive Officer on October 1, 2012. He is also a member of the Enbridge Inc. Board of Directors. Prior to being appointed President of Enbridge Inc. in February 2012, Mr. Monaco served as President, Gas Pipelines, Green Energy & International with responsibility for the growth and operations of Enbridge's gas pipelines, including the Gas Gathering & Processing operations in the United States, Enbridge's Gulf Coast Offshore assets and the Company's investments in Alliance, Vector and Aux Sable, as well as Enbridge's International business development and investment activities and Green Energy.

Mr. Monaco has more than 30 years experience in the energy business including the upstream oil and gas exploration, development and pipelines businesses.

Since joining Enbridge in 1995, he has held positions including Executive Vice President, Major Projects & Green Energy, and as President, Enbridge Gas Distribution; Senior Vice President, Corporate Planning and Development; and Vice President, Financial Services and Treasurer for Enbridge's U.S.-based master limited partnership.

Introduction

Thanks to the U of A for inviting me here. The U of A is a special place for Enbridge: single largest source of great talent for us; Edmonton is the operational hub for our liquids pipelines business; and it's home to 2,000 Enbridge employees.

Thanks as well to Andrew Leach.

I've come to know Andrew well over the past few years. He's obviously one of the most insightful people around on energy policy, but he also brings a pragmatic approach to his academic side.

Andrew also has real impact through his teaching of future leaders at the U of A. My son took a class from Andrew a few years ago and said it was the best class he'd taken. Problem was, it meant that I started getting some pretty tough questions at the dinner table.

I managed to wrangle an opportunity to speak to Andrew's class once, which was a lot of fun for me. Thankfully, Andrew refrained from asking me any questions during that visit. I can't escape Andrew's questions today but I'm looking forward to the discussion and your questions.

I'll start with the story around our acquisition of Spectra Energy, then cover 3 top of mind issues:

- The biggest opportunity I see for our industry – one that we should all be excited about – global energy exports;
- The changing and pivotal role of technology in energy;
- And what I believe is our new energy imperative – building public trust.

First, to the Spectra deal which we closed a couple of months ago.

Enbridge's story

The deal is the largest ever foreign acquisition by a Canadian company and it made us the largest energy infrastructure player in North America (headed right here in Alberta).

Here's what we look like today:

- We move nearly 30% of the North America's crude oil production and 20% of the natural gas;

- Our gas utilities in Ontario and Quebec serve more than 3.5 million customers;
- And we're one of Canada's largest renewable energy companies.

This is a strategic move for us because:

- It brought together the best liquids and natural gas infrastructure franchises under one roof;
- It gives us 6 platforms that will help us better serve customers across North America;
- We have the industry's leading capital program – \$28 billion in projects underway (that's on top of the \$33 billion we've invested over the last decade);
- Most importantly, it extends our ability to sustain and grow our business well into the future.

Let me share a few unique aspects of the deal.

First, many M&A transactions usually result from one of the two companies being in a weak position. That wasn't the case here – neither Enbridge nor Spectra needed to do a deal. (Spectra was a strong company in its own right)

That's important because you're not solving a short term problem but rather, capitalizing on your respective strengths. Spectra's management and board looked at it the same way which is why they took Enbridge stock as consideration in the deal. That way they could participate in the future upside of the deal and the synergies.

There needs to be strong cultural fit otherwise you risk destroying value (there's many examples of that). We spent a lot of time assessing that beforehand.

We had the advantage of working with Spectra over the years, so that gave us confidence that we had a similar approach to investing capital, operations, customers, safety and stakeholder engagement. Without that, you'd spend 5 years trying to bring that in line.

From time to time, we'd thought that a combination would add value. But around this time last year the stars aligned. Part of that was the changing energy landscape and our point of view on the importance of natural gas to the future of North American energy. Spectra gave us an immediate and scalable way to realize on that.

And then there's M&A deal execution. As you can imagine there's hundreds of things that need to happen, including managing:

- Cross border issues (tax, structuring, etc.);
- Rating agencies;
- Regulatory approvals, including competition review in both Canada and the US;
- Flowback (a new set of US shareholders);
- And, of course, confidentiality before the announcement.

We closed the deal in just under 6 months – a remarkable accomplishment for one of this size.

This was all about positioning Enbridge for the future. So let's now talk about how we see that future.

North America's Advantage

When you look at the big picture, there's not much debate that global energy demand will continue to grow (30% by 2040). With this level of consumption, we'll need all supply sources to meet demand (all of the above).

Conventional energy will still make up roughly 3/4 of supply through 2040. But the supply mix is shifting – renewables will grow the fastest and natural gas the most.

North America sits on the most abundant and economic gas resources in the world. That means lower energy costs for consumers, industry and business. Natural gas is ideal for electricity generation. And it has a huge positive impact on GHG emissions. U.S. emissions have declined to below 1992 levels – while the economy grew by 80%.

Against this backdrop, we've never been better positioned to capture what I refer to as our North American competitive advantage in energy.

That advantage comes from a combination of abundant resources, world class skills and technology, and capital that's way ahead of the rest of the world. And at the heart of that advantage is a highly integrated continental energy market.

The US and Canada have the largest, most integrated energy system in the world – power lines and pipelines move energy back and forth. And we have a highly integrated supply chain, where technology, skills and capital move quickly and efficiently at the lowest cost.

The fact is our energy relationship has delivered value for both the US and Canada – making us both more competitive, and essential to our energy independence and security. And the real juice here is that it puts North America on the verge of becoming a global exporter of energy - competing for a greater share of that growing energy demand.

The continent is just starting to realize its export potential:

- We're now exporting crude oil and hitting new records (1.2 mmbpd);
- LNG cargoes are now leaving the Gulf Coast every day, with more to come;
- Over the next 2 decades, North America could have the largest share of the global LNG market;
- And there's significant potential in growing natural gas liquids (NGL) export capability.

Future of energy / role of technology

That massive export opportunity is one aspect of our energy future; another is technology.

Technological advances unlocked vast unconventional resources for our transformation from importer of energy to net exporter.

Technology is enabling industry to be more efficient and competitive – and continues to enable better, faster resource capture and further cost reductions.

In the oil sands, new technologies are being piloted where producers will be competitive in a sub \$50/bbl world. Those same technologies will also lower emissions intensity by 35 to 75%.

It's technology that's going to allow traditional forms of energy to continue to play a leading role in our energy future.

At the same time, the market place for commodities and consumer choices are changing. You just have to look at Tesla and the recent shakeup at Ford – and the momentum around the potential of batteries, storage and electric vehicles.

There's no crystal ball around disruption and the pace of change. What we do know is that the transition to a lower carbon future is underway.

But it also means we need to innovate to stay competitive from both a cost – and a carbon – perspective.

That's driving our approach to technology at Enbridge. As I noted earlier, we're big investors in renewable energy – wind and solar, as well as development of energy storage and emerging technologies. We think having a portion of our portfolio that matches the overall global energy supply mix makes sense.

We're also applying technology in our pipeline business to make us more efficient and even safer. The pipeline business is seeing the same transformation as other parts of the economy. You don't see that day-to-day, but we're pushing that hard.

A few examples:

- We're using predictive models to optimize power usage, our biggest cost across Enbridge.
- Big Data platforms allow us to assess the billions of pieces of information from sophisticated tools to inspect pipelines.
- Visual aids like HoloLens that enable our engineers to see our pipelines inside and out, run scenarios and test their thinking.

This picture shows how this is being applied to our northern Alberta pipeline corridor where we can combine massive amounts of data on the pipes with monitoring ground movements - giving us more real-time information than has ever been possible.

I'd like to shift gears now and talk about the new energy imperative – building public trust.

Public engagement – trust

This issue was always important to the energy industry but production growth, drilling techniques and commodity prices were top of the list. After all we produce, move and refine energy commodities that are critical to everyday life.

But it's very clear that today, building public trust is critical to developing energy in a sustainable way so that we can capture the benefits of the energy advantage.

As the point of attack for opposition to energy, it's especially acute for pipeline companies even though we ourselves don't produce the energy we move.

Energy leadership today means more than being able to design and construct projects. It requires different skills – from me as CEO to our team in the field and in communities.

This is not a just about getting better at sharing “the facts” – it's about creating an emotional connection with people about energy. Part of that is messaging and social media but only a small part. For us, it's about genuine engagement in the community throughout the life of the project (not 3 years but 30 years).

Today, we take nothing for granted.

Our Line 3 project has involved our most extensive outreach ever with Indigenous communities and land owners.

It's not an exercise in checking the box on consultation or meeting regulatory codes. The guiding principle to our people that design projects or engage with communities is that we need to make our projects world class because that's what the public expects.

One focus is on building meaningful – and mutually beneficial – partnerships.

A great example is with the Canadian Association of Energy Pipeline Landowners. It hasn't always been that way – CAEPLA was formed by landowners unhappy with their interactions with pipeline companies. We've worked hard to better understand our landowners' concerns and build a better relationship where we can have constructive conversations.

On Line 3, that's included co-hosting workshops to bring our subject matter experts and landowners together. It's also meant hundreds of changes to our route in Canada and the US in response to what we've heard from stakeholders.

CAEPLA now publicly supports our project.

Today, it's also critical to establish partnerships with Indigenous communities that reflect cultural, social, economic and environmental dimensions. On the ground, that's meant everything from open houses and technical sessions on:

- engineering, environment and construction;
- procurement from Indigenous businesses to build their capacity;
- delivering training programs; and

- finding opportunities for our staff to participate in cultural activities to deepen our understanding of Indigenous culture and connection to land and water.

So that's a quick snapshot of:

- Our transformative deal to be NA's largest energy infrastructure company;
- How we look at the future of energy;
- And how we approach technology and building public trust.

I'll stop there – as I know Andrew has questions – as do you.

Back then, as now, our purpose is the same - to deliver the energy that fuels peoples' quality of life.

We talked about our 15,000 people and you've met the Board members. This slide is our leadership team. They bring tremendous experience, drive and ideas to the table. Please take a minute to meet them following the meeting.

Finally, one of the main goals we've had as we've brought Enbridge and Spectra Energy together is strong governance and ensuring the continuity of our business.

I'd like to acknowledge and thank those directors who have retired from both boards. It was members of both boards that also had the vision for the future that we've been talking about.

We'll now open the floor to questions.