

# CSI : Alaska



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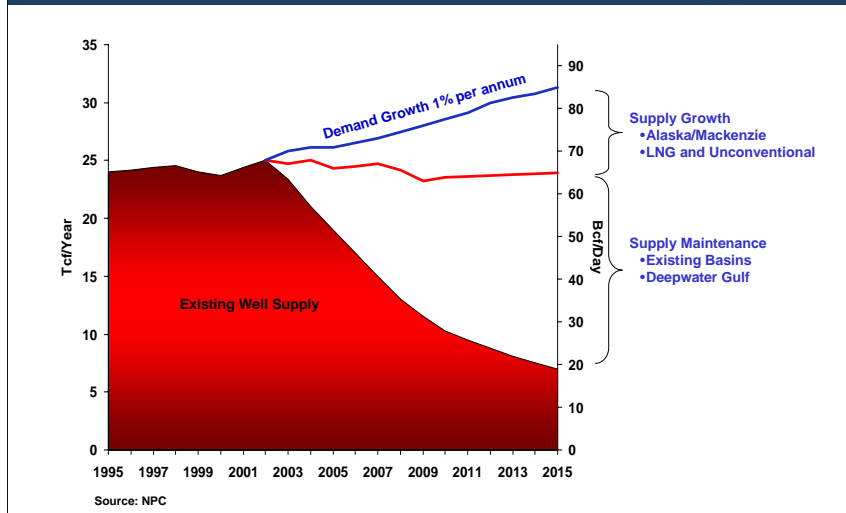
Meet Alaska  
Global Energy Markets: Alaska's Window of Opportunity  
January 27, 2005

Thank you very much for that kind introduction. And good morning everyone.

Let me quickly explain the title of my presentation. My remarks today are built on the CSI concept – Cooperation, Stability and Innovation – the key ingredients that are needed for an Alaska natural gas pipeline to become a reality.

They do not stand for Crime Scene Investigation, which I am told continues to be the most popular TV show of the day.

# Alaska Gas is Needed



We all know that the Alaska pipeline is not a new concept – the first serious attempt to develop one began over 30 years ago, and it’s been a part of Alaskan life ever since. So what’s different now? A lot of essential ingredients seem to be coming together at the right time.

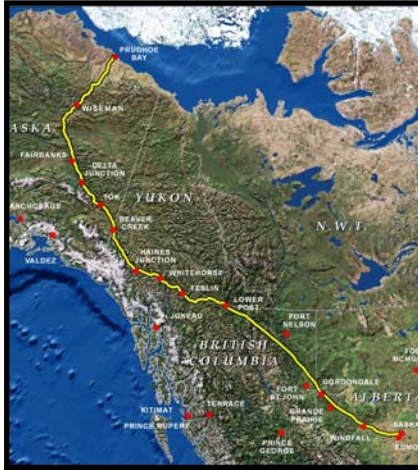
Energy prices are high once again: oil was over \$50 a barrel for a while, and natural gas has been over \$6 per million BTUs.

In North America, we are struggling to meet demand with existing reserves of natural gas, as demand continues to increase as a result of population growth and increased use of natural gas for electrical generation.

A supply/demand gap in the order of 15 bcf/day has been forecast to develop over the next 10 years. Now we all know that these kinds of projections have been made in the past, and have never truly developed, because new sources of supply do get added. In this case, one of the major new sources needs to be Alaska gas, which could close almost a third of that forecasted gap.

Alaska gas also will provide significant benefits for consumers across North America, and although it would supply only approximately 5% of North American demand, its impact is anticipated to reduce gas price volatility and prices for all North American gas.

- **C – Cooperation**
- **S – Stability**
- **I – Innovation**



So what is it going to take to make an Alaskan gas pipeline a reality this time? The answer is CSI – the three key components for Alaska to take advantage of the current window of opportunity.

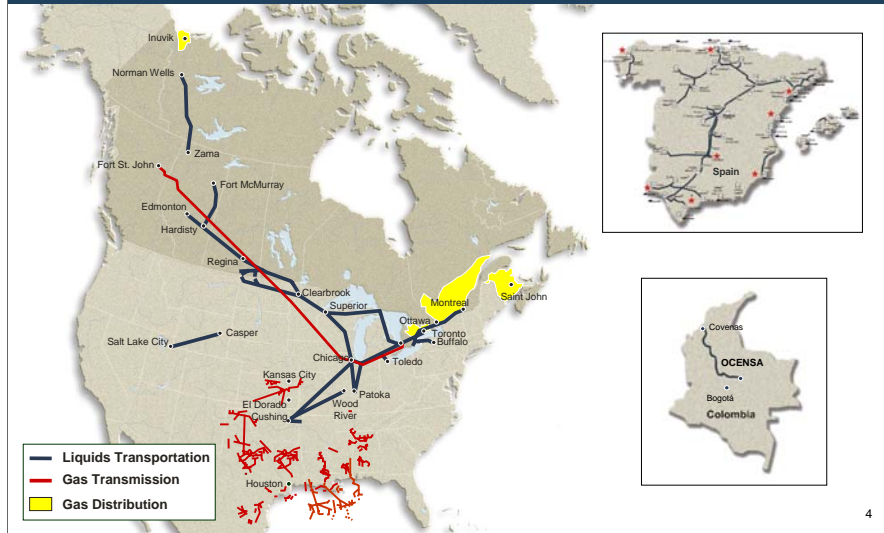
First, we must ensure that the project progresses in the spirit of Cooperation. A spirit where the talents and interests of diverse parties are taken into consideration.

Second, there must be a promise of Stability, both in the short and long term.

And finally, Innovation to come up with solutions to the significant challenges that exist.

I will elaborate further on these areas but first let me provide a brief introduction to Enbridge and hopefully with it give you some understanding of why I believe Enbridge has a role to play in the development of an Alaska pipeline project.

# Uniquely Qualified



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Enbridge is a Calgary-based Canadian company and a North American leader in energy delivery.

We operate the world's longest, most complex crude oil pipeline system and have been the major transporter of North American crude oil for 55 years.

We own Canada's largest natural gas utility, which began serving Toronto customers 155 years ago, and which currently delivers gas to 1.7 million customers in Ontario, Quebec, New Brunswick and northern New York.

We have major interests in the Alliance and Vector natural gas transmission systems which deliver gas from northeastern B.C. and Alberta to the Chicago hub and on into Ontario and the eastern U.S.

We also have significant U.S. investments. We are involved in gas gathering and processing in the U.S. Gulf Coast and Mid-Continent regions. We recently acquired the offshore gas gathering and transmission pipelines that deliver half of all the Gulf of Mexico gas production to the U.S. mainland.

And globally, we have interests in major pipeline facilities in Spain and Colombia.

## Substantial Northern Expertise



- Wellhead to Burner Tip service
- Natural gas production and distribution
- First in Arctic Canada
- Joint Venture with AltaGas & Inuvialuit Petroleum
- 75% employees indigenous descent

- First Canadian pipeline buried in permafrost
- 540-mile built in 1985
- 40% employees indigenous descent
- 19 years experience operating in permafrost

A great deal of what we do and have done relates directly to building and operating a Northern pipeline.

Our Alliance ownership provides recent experience in the development and operation of a very successful high pressure, liquids-rich, cross-border pipeline (a project which some of our competitors said was technically not sound, and in fact unsafe).

Our ownership of Enbridge Gas Distribution enables us to better understand customers and markets.

In the early 1980s we built the Norman Wells pipeline, and since then we have had 20 years of successful operating experience in continuous and discontinuous permafrost. We have learned much about operating pipelines in such conditions, and developed special expertise in this area.

Then in 1999, Enbridge partnered with the Inuvialuit Petroleum Corporation and AltaGas to bring northern gas to Inuvik.

Enbridge believes that it is exactly this mix of knowledge and experience that is needed to develop an Alaska gas pipeline.

## The Enbridge Approach to an Alaskan Gas Pipeline



- **The magnitude of capital investment and risk required will necessitate a partnership of producers, pipeline companies, Native organizations, the State of Alaska, market participants and other interested parties.**

That's why, in April 2004, Enbridge made an application to the Alaskan government under the Stranded Gas Act.

At the time of our filing, we stated that we wanted to take a leadership position within a broad coalition of commercial interests focused on bringing Alaska gas to market. We feel that the magnitude of capital investment and risk required will necessitate a partnership of producers, pipeline companies, Native organizations, the State of Alaska, customers and market participants, and other interested parties.

# Cooperation



- **Stakeholder Alignment**
- **Working Together**



Today's energy industry operates in a different environment than even just a few years ago. There are greater numbers of stakeholder groups than ever before, including all levels of governments, pipeline companies, producers, explorers, Native groups, environmental groups, and residents and communities near projects.

Cooperation among such diverse parties is required, but is increasingly harder to achieve. A successful investment of the magnitude of an Alaska gas pipeline assumes:

- Reliable, low-cost delivery to customers,
- A reasonable return on investment by owners, and
- Cooperative work with local communities to minimize impacts and optimize socio-economic benefits.

A failure of any one of these goals risks the project's success. Owners must stay competitive or customers – producers and gas users – won't commit to long-term contracts that will underpin the project. And responsible owners and customers know the long-term value of environmental and community responsibility that is vital for projects like this to move ahead.

All parties need to give due consideration to what is really required (both monetarily and from an information perspective), rather than just what would be optimum for them. In the end, policy makers and regulators must be willing to make some tough decisions because the net effect of giving virtually every stakeholder group a veto could be to undermine the "public good" and "public necessity" of this project.

## Cooperation: Market Participation



- **Market understands benefits**
- **Overcoming obstacles:**
  - Preliminary meetings held with downstream LDCs
  - Positive reaction to potential longer term commitments
  - Willingness to overcome regulatory challenges



Let me touch briefly on a couple of areas where I believe cooperation can, and must, occur. The first is market support.

Enbridge believes that the market has a role to play in the development of an Alaskan pipeline. Indeed, without a market there is no project.

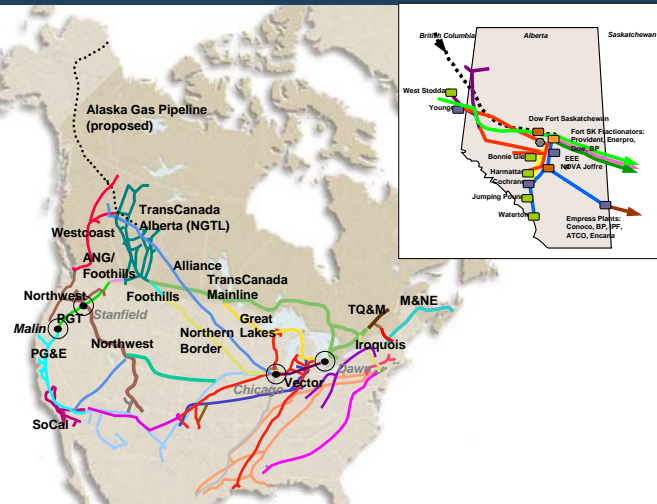
Enbridge has begun the process of working with and bringing together downstream market participants in both the U.S. and Canada who have the need for and the financial capacity to contract for long-term Alaska natural gas supply. Potential market participants include local distribution companies, power generation companies, large industrial users, marketers and other large consumers of natural gas. Of these market participants, it is expected that only the LDCs and large power generators will have the financial capacity and longer term planning to be able to undertake the required contractual commitments.

This is where the cooperation comes in. We need to create Lower 48 state and provincial government support for long-term Alaskan gas supply and capacity commitments. We need to convince regulators of the value of, and requirement for, LDC participation. Enbridge and others have already begun this process in Ontario through the Ontario Energy Board's Gas Forum. In addition, in the U.S., Enbridge is facilitating an initiative with state regulators and policy makers aimed at changing policies that discourage long-term capacity contracts in utilities' portfolios of gas procurement contracts.

# Cooperation: "South Of Sixty"



- Extension to Fort Saskatchewan
- Potential excess pipeline capacity
- Significant NGL processing capacity / value enhancement
- Alliance, Enbridge and other liquids systems can handle NGLs not processed and marketed in Alberta



Another example of cooperation involves optimizing existing pipeline systems and corridors to transport Alaskan gas from Alberta on to southern markets.

Construction of a pipeline from the North Slope to Alberta on its own will be a massive undertaking. Enbridge believes that using existing capacity and cost-effective expansions for transporting gas into the Lower 48 makes the most economic, environmental and public policy sense. This again requires cooperation to step back from individual agendas and take a look at the big picture for the best industry solution for shipping gas out of Alberta.

Alliance, for example, is a high pressure, dense-phase pipeline similar in technical specifications to the proposed Alaska gas pipeline. It is exceptionally well positioned and expandable to provide significant take-away capacity of liquids-rich gas from Alberta to the U.S. Midwest. We believe that TCPL and other existing pipelines also have important roles to play in providing take-away capacity of processed gas.

Gas processing to meet market needs is another key consideration. While there is the potential for processing in Alaska, no doubt the market will demand that a large amount of liquids be transported south of 60. Alberta has significant excess NGL plant processing capacity. Accordingly, Enbridge believes the Alaska pipeline should extend into the Fort Saskatchewan area, Alberta's petrochemical hub, which could lower processing costs and optimize netback value to producers and the Alaskan government.

In addition, there are several options for moving liquids out of Alberta. The Cochin pipeline, Alliance and Enbridge's crude oil mainline deliver NGLs to the U.S. Midwest, Ontario and Quebec.

# Stability



- **Regulation**

- **Costs**

- Steel
- Labor



There are two key areas where achieving Stability will be important but challenging. The first is regulation.

Although it's old news now, your own delegation to D.C. and Congress are to be commended for doing their part to create regulatory and legislative stability. The legislation passed last fall provides for specific timelines and regulatory clarity on dealing with near-term and future issues.

Enbridge understands key fiscal negotiations between the State and the producers are progressing, with the hope of getting an agreement in front of the Alaska legislature this session.

On the Canadian side, I am sure that many of you have read about the debate that is currently going on with respect to the utilization of the Northern Pipeline Act versus a more typical greenfield approach which would be subject to National Energy Board and Canadian Environmental Assessment Act oversight.

Enbridge is firmly of the view if the Canadian government relies solely on the NPA it will create project uncertainty and delay, if not stall it in its tracks. Our analysis indicates that there is less risk by utilizing a traditional NEB-led process that would provide a significant reduction in legislative, litigation and regulatory uncertainty. It would be a "clean" and comprehensive process in meeting all current regulatory, environmental and stakeholder requirements.

We want to ensure that the most economic and technically sound project is built. A greenfield project would also provide greater opportunity for multiple investor participation.

Enbridge has been actively engaging the Canadian Government and we are encouraged to see a commitment to bring the issue to resolution in the near future – stay tuned on this one.

Our view is that the government of Canada should avoid decisions that will limit commercial flexibility and meaningful stakeholder participation. The government should maintain regulatory neutrality and confirm that an application can be made under either a greenfield NEB or an NPA process and that feasible applications will be processed in a full, fair and unfettered manner.

This would be similar to the recent action by Congress that confirmed that either a FERC application or an application under the Alaska Natural Gas Transmission Act could proceed.

Costs also require stability. The competition for capital investment is global, and so is the competition for materials and labour.

The dramatic increase in steel prices over the last few years highlights the impact that global forces will have on the viability of an Alaska project. China's appetite for steel is huge and it does not appear that it will wane anytime soon. Project proponents will need to seek alignment with steel producers and pipe manufacturers, and cost effective supplies of pipe need to be acquired.

In addition, skilled labour will be at a premium, given the competition from other energy developments. Issues such as types of jobs, skill sets and training all need to be addressed. Gearing up to ensure qualified workers and indirect project support in Alaska through housing, materials and logistics support will be a key aspect of pre-planning.

# Innovation



- **Commercial Structure**
- **Design**
- **Consultation**
- **Permitting**
- **Construction**
- **Operations**
- **Off-takes for local use**



Last but not least is Innovation.

The size of this project requires risk sharing – which is best achieved by a consortium of owners. Unique to this project is the need to explore ways for a wide variety of key stakeholders to have equity ownership – such as Native Corporations and the State of Alaska.

The Alaska pipeline project has and will continue to push the advancement and use of new technologies in the pipeline industry. Given the size, scope and geographic challenges of the project, this is a necessity.

Undertaking a major international project of this magnitude will require unprecedented pre-planning, innovative steps to streamline a robust environmental permitting process and development of mitigation measures that minimize the environmental impact of construction in the North.

Collaboratively, the industry must develop and test new materials and construction techniques, to assess whether they can provide the best solutions.

Remote operations will challenge us to consider new station designs, to manage labour requirements and maximize the amount of gas that gets to consumers by minimizing the amount used to power pipeline compressors.

And finally, the legitimate desire of communities along the route to realize energy benefits from the project must be addressed. Enbridge has been assessing options for both Alaska and the Yukon and believes that innovative technologies or alternatives such as supplying electricity rather than gas may provide win-win solutions for all.



So to conclude, let me thank you again for the opportunity to speak here today. I am encouraged by the very real progress that has been made over the last few months on the Alaska project, and Enbridge intends to continue to do our part.

However, as I noted at the outset, we have been here before. And it will be important, as the “other CSI” theme song states, that “we don’t get fooled again”. We don’t want to see the window of opportunity close. This time we all want to see Alaskan natural gas moving to markets, and all stakeholders take satisfaction in making that happen.

Cooperation, Stability and Innovation will help to ensure that it does.

Thank you.