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Enbridge Inc.

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Jeremy: Thank you, everyone, for joining us this morning. We're very excited to be joined by AI Monaco, CEO of Enbridge, having served since 2012 through a period of enormous growth at Enbridge and transformation. Congratulations on all the progress.

We're going to have a fireside chat presentation, walk through different aspects of the story. We'll kick right into questions here. AI, thank you for joining us.

AI Monaco: Sounds good. Thanks for having us.

Jeremy: At the analyst day, I thought Enbridge said some interesting remarks as it relates to ESG. It's important to get the pace of energy transition correct when thinking about investments. I was wondering if you could touch on that a bit, what you were thinking there.

Enbridge stands out versus the midstream peers, if you will, looking at those, given the existing renewables platform. Wondering what advantages that provides.

AI: It's a good question on [laughs] how you make sure you get the transition right, reason being, of course, is we got a lot of capital in the ground and we put a lot of capital at work, so we've got to make sure we get it right. I don't think there's much disagreement that the transition will happen. The question is, what's the right pace?

For us, we look at signposts, basically, that we track very carefully. The degree of policy change that we're seeing from governments is a big one. Degree of adoption, EVs, and other things like that. We put all that into the hopper and we make a call on how fast things are going.

The key thing is at Enbridge Day, as you recall, we laid out essentially what is a two-prong strategy. The first part of that is to continue to invest in conventional assets. We think there's a long runway for conventional assets. The last probably three or four months have demonstrated why we got to get this right, because things change quickly.

If anything, our view is that the conventional runway has been extended even further. The other part of the strategy, of course, is to be slightly ahead of the curve, if you will, on low-carbon investments, whether that's RNG, hydrogen, carbon capture.

The link between the two here is that our current assets are going to be absolutely critical to that transition. Whether you're thinking of any of those three, it's about transportation and storage. Being disciplined about the pace is critical. Again, given recent events, the two-prong strategy that we've got is playing out exactly as we intended.

You mentioned renewables. It is a differentiator in our sector. We started renewables probably, it's over 20 years ago now. We built it like we typically do things, a slow disciplined way, got some great assets to start with, and built it up slowly over time. The important thing for us was building the skills and capabilities.

We started out new in that area, but certainly, development skills, operating skills, execution skills, which have to be built over time. We're in very good shape there. We've now parlayed this. This is one of the things about strategy is that if you can build optionality into your business by doing things in a disciplined way, they pay off.

We didn't anticipate this paying off in this way, but we're now deploying that expertise to the rest of our business. We have a net-zero commitment. We use a lot of power in our business, whether it's transmission of gas or liquids pipelines in pumps that we're using on-site solar facilities now.

We're parlaying that ability into the other part of our business. The transition is important that we get right, and we've got the right balance.

Jeremy: Maybe pivoting towards capital allocation, something that's been topical in the space for some time, on the first quarter call, Enbridge reiterated the capital allocation philosophy. There's been a touch of volatility in the market recently. [laughs] Curious if you could update us there with regards to thoughts on CapEx versus buybacks and capital allocation in general.

AI: I'd have to say the discipline, again, is important. There hasn't been a change in how we're looking at it, even though certainly, you'd have to say over the last three or four months. The fact of the matter is that energy security, as everybody knows here, has ramped back up to the top of the list, along with affordability and reliability.

That's a big change in the dynamic. I do feel that this has been a real inflection point in energy

markets. Any way you look at it, if the war would end tomorrow, even if that happened, we are going to see a permanent change here, in terms of how people look at energy security going forward.

In terms of allocation, though, as I said, no real change here. Number one priority is to make sure the balance sheet is in great shape. We're very happy that we're down at the bottom of our target range of 4.5 to 5. We've done a decent job with that, and that's the major priority.

Number two, continue to grow the dividend. That's important for us as part of our value proposition. Then, of course, in order to grow in the future, continue to invest capital. Where it makes sense and focused on return of capital in the conventional projects. Perhaps later on in the decade, you'll see a ramp-up in lower carbon.

Those are the key attributes of capital allocation. In addition to those opportunities, we compare everything we do to buying back shares. Certainly, retaining capacity for future opportunities, so continuing to keep our debt low. Perhaps even going below the range is a possibility.

Asset M&A, where we see good opportunities, we'll pluck those off. We did something like that when we bought Ingleside. It was a sizable opportunity at around four billion. We decided to go after it. It fit extremely well, in terms of the strategy we wanted to play out on exports.

If you look at that now in combination with our LNG capability and opportunities set, which I'm sure we'll get into, we are well-positioned from an export infrastructure point of view. The future, given where especially the last three or four months have gone, is going to be in exports of North American energy.

Jeremy: That's helpful. I want to dive in a little bit deeper when it comes to the capital expenditures. When you're thinking about traditional midstream versus energy transition projects, how do you evaluate those two? Are the parameters the same? Any differences there? Wondering your thoughts.

AI: Straight up, same way. We go through the same, I'll call it pedantic critical investment criteria that we traditionally do. Any kind of project, whether it's a conventional or a low-carbon. It's very important that you build up your one hurdle rate for each and every project and evaluate them consistently.

In terms of the lower-carbon front, or the net-zero angle, let's say, in some respects, a key to that

is making sure that you're building in the cost into your financial models and your capital investment opportunity outlook to ensure that you captured, what is the reality today? We've got to have net-zero.

Any project that we do, we'll have to ensure that we're building in capital or up-cost in order to achieve that goal. We're very disciplined around that opportunity. A good example of this is Ingleside, getting back to that one.

When we went into that, not only were we able to include solar capability on that site. The site uses about six megawatts. We're building a 60-megawatt solar farm on-site, so we'll be able to sell the rest of the power into the grid.

We looked at the transition scenarios that could play out. We're buying a long-term asset, 20-, 30-, 40-year life. You want to test that against transition scenarios when things go faster or slower in lower-carbon. What we concluded, in terms of the capital investment review, is that in any scenario we could come up with, a reasonable scenario, that it was going to be around for a very long time.

Why is that? Great competitive position, in terms of where it's located. Access to water. The cost from the basin to the terminal, and then for the terminal itself. Very competitive. It moves about 20 percent of the US exports right now for crude oil. You've got to determine whether or not the asset's going to be able to withstand changes.

We concluded very, very strongly that it'd be around for a very long time. Evaluating in your capital investment model where things may go and testing the resiliency is important.

Jeremy: Coming back to the natural gas pipelines, as you touched on a little bit earlier, wondering if you could update us with regards to the opportunities that you see there across your platform, but specifically, US Gulf Coast LNG exports, potentially West Coast Canada exports. How is Enbridge positioned there?

AI: Getting back to what we said earlier about what's happened in the last three to four months, it's very clear that we were pretty certain about the opportunity set for natural gas to start with. It's what led to our acquisition of Spectra back in 2016.

You'd have to agree that it's even more positive today for the natural gas story, particularly given what Europe has done around the repower, given what it said about natural gas, in terms of its

taxonomy and how it's a sustainable fuel going forward. We're pretty excited about it, and we've got a great position to capitalize on.

In terms of the opportunity set, maybe the thing to do is to talk about it in two general terms. On the Gulf Coast, we've got the Texas Eastern system, as you know, Jeremy, with, call it a east to west header system all the way from Louisiana down to Brownsville in Texas. We feed four LNG facilities today, and that's been because of our position and our low-cost ability to access these facilities.

The bigger story, given recent events, is the fact that we've secured two additional projects to feed new LNG plants once those get FID'd. NextDecade, of course, is a big one. Of course, Texas LNG is there as well. In both cases, we're in good position to feed those once they get FID'd. It's more positive today than it has been, even over the last year or so.

Looking forward to that. There's probably a couple billion dollars there, Jeremy, of opportunity, in terms of capital deployment in the not too distant future. As I said, they're locked in. We've won that business, and now we're waiting for FIDs.

On the West Coast, think of it the same way, except it's a north-south header system in our West Coast transmission business. Obviously, Western Canada, behind the Gulf Coast in terms of LNG development, but we think it's coming.

Regardless of that, we have a new expansion opportunity, T-North, which is roughly a billion dollars, which is more addressing the local egress challenges, let's call it that, in that part of the world. Then, we've got Woodfibre, which is getting close to FID, which is a smaller LNG project, but certainly a good one, particularly given it's got great First Nation support.

If that one goes, there's probably another couple billion dollars of expansion on our T-South system. Good opportunity set on LNG. Roughly, this probably totals up to about six billion dollars in opportunity here. Again, it reflects the power of having pipe in the ground. The power of having optionality to provide low-cost service to new ventures like LNG.

Jeremy: Pivoting to gas to oil, the mainline volume has proved resilient throughout the pandemic. I was wondering if you could touch on the drivers there. We're all curious, with oil and gas prices where they are, almost everything in North America is economic to produce. When do you expect the supply response to come through?

AI: On the Western Canada?

Jeremy: Yeah.

AI: First of all, in terms of the resilience of this, this is a great point you raise. If you go back to the COVID situation, we were running just about full. That's because the refineries that we deliver into are the most globally competitive. Their margins were high enough to sustain even lower prices at the time. We were running just about full.

That's a big part of our resilience is the markets we deliver into and the refineries. Another part of the resilience is the basin itself. It's been around for a long time and will be for a very long time still. The producers there have done a tremendous job, in terms of getting their cost structure down. You're looking at about \$30 per barrel cash costs.

If you look at full-cycle cost in Western Canada, roughly 55 to 60. Point being, you're going to see the oil sands around for a very long time, particularly, again, given the discussion we had earlier about where we are, in terms of global energy. Get back to your other part of the question.

Jeremy: It was mainline resiliency. You talked about the supply response, so you touched on Western Canada being very resilient there. Maybe continue with mainline here. Obviously, a big question with regards to CTS versus cost to service or what path is going forward here.

Could you update us on that in what would each path mean as far as investments or Enbridge's strategy?

AI: Let's start with where we're at with our discussions with our customers. It's pretty clear that from what we've heard so far, they would prefer to stay in a CTS or an incentive rate making, which we've been in pretty much now for the last three decades.

The reason that's the case is it creates a huge amount of alignment between US. Over the last decade, we've had this recent version. We've added a million barrels a day of capacity at very low cost, which has helped our shippers and improved the netbacks overall out of the basin. We're incented to do that.

We're incented to manage all the things that they don't want to manage, frankly. Power costs, interest rates, foreign exchange, integrity management, those are all things that we manage under this agreement. For that, we get a commensurate return.

The other form of agreement here, if those discussions are not fruitful, would be cost to service. Honestly, we're a little bit, I won't say agnostic, but we could certainly go the cost to service route here, in that they take on all of those risks that I was mentioning. The discussions have gone well so far.

There's a lot of information exchange between us and our customers to make sure they transparently understand what our return has been in the past. They understand all of those components and variables that I've talked about, which is important that they get. We shared with them how we see the future unfolding.

It's probably too early to tell which one of those we end up in, but a good discussion so far. We should hopefully have a decision as to which route to go to file, probably in the summer.

In terms of the capital investment, I'd say the CTS, as I was alluding to earlier, form is probably more conducive, in that we're incentive to optimize, incrementally expand. As I said, that would be aligned with what they want to do. In that situation, you've got a toll that's essentially supporting return on capital and new investment.

In a cost to service, you're, again, recovering on the additional capital in a conventional mechanism, which essentially would result in higher tolls. That's another reason why they're probably preferring the CTS arrangement. Hopefully, that answers your question.

Jeremy: Yeah. This summer, we'll get some resolution here?

AI: At least on which way we're headed. The discussions are good right now. A lot of back and forth. That takes time for them to make their assessment. Remember, this is a collective group of a lot of shippers, so there's different points of view. We'll see where it works out.

Jeremy: We eagerly await. Maybe pivoting towards a CCS here, if we could. Enbridge was recently awarded a hub by Alberta here. Wondering if you could talk through your strategy on CCS with this hub, who current customers are, who could customers be in the future? Curious on that.

AI: I must say this is a real gem of a project. Our two anchor partners right now are Capital Power and Lehigh Cement. Interesting, not conventional oil sands players. That's the first part of it.

If you look at the entire Wabamun region, there's probably 20 megatons of CO2 that is up for capture, not just from those two. Those two contribute roughly four megatons, which would be one of the largest projects in the world on its own.

Having a big area like that, if you can get an anchor customer or two, which we think we have, then scaling up beyond that would be helpful, in terms of reducing their overall cost. We were successful in being selected by the Alberta government in this first round, which was a good surprise for us.

We're working away to now determine whether the port space is going to be viable. It's a technical review at this point. Once we do that, if it passes the test, then we'll be awarded port space by the government. Great opportunity.

In terms of how we would approach this business model-wise, the key to this, everybody has got to remember that this is a cost to industry. Whether it's power companies, cement companies, or oil sands developers, capturing carbon is a cost.

Where we come in expertise-wise is transportation, and storage, and bringing a utility investment model, I can call it that, whereby we bring our low-cost capital to bear. Essentially, it's almost like any other project we do, instead of bringing production, they're bringing CO2.

If they can commit to deliver CO2 and they can get comfortable with the commercial underpinning of that, and we get comfortable, then we've got almost that utility-like business. That works well from their perspective, because it will result in the lowest cost. Having existing infrastructure, of course, is very important in this, and that will help.

Jeremy: That's helpful. Maybe pivoting back towards Ingleside. It seems like Ingleside is quite the Swiss Army Knife of opportunities. I'm wondering if you could touch on the low-carbon opportunity set there at Ingleside.

AI: You're probably right. That's a good descriptor. We thought maybe there was one or two slivers or knives in the packet, but it's a full set for sure as we get more into it. The core of that business, of course, is going to be oil exports. Great customers there. We have a very positive view of oil exports going forward.

On the low-carbon front, this is where optionality comes in again, because recent events have

prompted a whole new set of opportunities. There's probably a couple of new things that could come up. Certainly, NGO exports is one of them.

This is a very large site, and there's about 500 extra acres of room. Again, situated in an ideal position on the coast there to open access water. That is one element of it.

The bigger news recently is something we came up with with Humble Oil, who have joined us in an opportunity here. Basically, think of it as a full value chain low-carbon opportunity. If you work from the back end, where you're potentially producing hydrogen at the site and exporting ammonia, that is a big potential for this site going forward working with Humble.

If you work back, the source of that, being a blue hydrogen opportunity, is natural gas. Texas Eastern just happens to be sitting right alongside Ingleside. Of course, with that comes carbon capture. This whole region is very sound technically, from a port space perspective, onshore or offshore.

Think of natural gas, carbon capture, all the way through exporting of ammonia, and moving hydrogen, and producing hydrogen on-site. It's pretty exciting.

Jeremy: I'm going to keep running with that Swiss Army Knife analogy. Maybe pivoting to offshore wind, Enbridge is unique versus other midstream peers, having a very established position here, particularly in Europe.

Wondering if you could update us on your thoughts there with regards to, how big could this opportunity set be over time, knowing that there's more competition today than there was in the past? Industry has not stood up in North America yet, so curious for your thoughts.

AI: Maybe a little bit of background here. We've got three offshore operating projects right now, one in the UK and two in offshore Germany. As I said earlier, we've begun this a number of years ago.

We've got four projects now in construction. Three offshore West Coast of France, and one on the southern coast of France. These all are predicted to come into service between end of this year and 2024. It's good cash flow coming our way in the next few years here. Construction is going fairly well right now.

In terms of the opportunity set, this is another area of discipline that you got to maintain. We've

participated, honestly, Jeremy, in a lot of auctions as of the last couple of years. It's, to say the least, very frothy, whether you're talking about a new development or existing assets. Valuations have come down, so that presents an opportunity going forward.

We've been very careful not to overpay or be overzealous here. We've got enough going with those projects that I referred to. A couple more in development in Dunkirk, and then expansion of an existing facility that we don't need to stretch here while we're in this frothiness market, and, of course, supply chain issues and so forth.

We're in good shape right now. The big opportunity in the next horizon in this space is floating offshore wind. That's the south of France one that I mentioned. We're just doing a pilot project right now. If that's proven out, we've got roughly 750 megawatts with our partner, EDF, that we can develop.

Of course, that will be promulgated throughout Europe if it's proven out, which the technology here is not anything Earth-shattering. It's been done for ages in oil and gas. A big opportunity there, too, but we need to keep our discipline.

Jeremy: Discipline is obviously very important here. Maybe pivoting towards hydrogen a bit here. If you could update us on the Markham blending project there. What do you think about the timeline for hydrogen when this could make sense or be a more meaningful opportunity?

AI: Going back to what we were saying, this is a good example of being ahead of the curve. We were into this back in 2016/'17 with design. This is a green hydrogen facility.

For everybody in the room, essentially, what we're doing is taking off-peak wind and solar power from the grid, so power that would go otherwise lost, capturing it, and essentially converting it through electrolysis into hydrogen. We've done that phase, proved that out.

The latest phase, which we started a few months ago on operation, is essentially taking that hydrogen and blending it into our gas distribution system. It's only two percent to start with, but think of this as a green hydrogen stream ending up in the franchise through our distribution system.

If you think about our two TCF per year of send-out, the opportunity here, even at two percent, is large. If we can prove this out, which it looks like we will, it's a big opportunity going forward. That's on the gas distribution side with green hydrogen.

There's a whole bunch of work going on, as everyone knows, on the transmission side. That'll probably take a little longer to prove out. If you can imagine, again, the thousands of miles of pipe that we have, and the fact that hydrogen will need to be transported distance-wise, then, again, a good opportunity longer-term. It's part of the transition.

Again, to come back to what I said earlier, being able to use existing infrastructure and parlaying that into low-carbon opportunities and investments is going to be great for us.

Jeremy: We're down to our last minute or so. I don't know if there's any...

AI: Already?

Jeremy: [laughs] Time flies when you're having fun. I don't know if there's any final thoughts that you wanted to share with the audience, or things that we didn't touch on that we should have.

AI: The one thing that sticks out to us is how there's been an exponential increase here in the natural gas opportunity set. Yes, it's LNG, but more generally, we're excited about what's next for natural gas. It's very clear to us anyway that you need to look at Europe as one example.

You're going to need more diversity of supply sources, and you're going to need a sheer amount, larger amount of energy generally, and gas is going to be a very critical part of that any way you look at it. Having half of our assets in natural gas and having a real good opportunity set that is already in progress, we're pretty excited about that.

Jeremy: Great. We're excited to see everything that is going to unfold here. Thank you very much for taking the time today. Thank you all for joining us.

AI: Thank you.



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