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## Introduction

Thank you....

I'll start with a few non-debatables:

There are significant risks to Canada if we can't gain better access to markets while windows of opportunity are still open.

The U.S., our only customer, has higher growth in oil production than the next highest 9 countries combined.

U.S. production will surpass crude oil imports for the first time in 18 years and refined product exports set a record of 3.5 mmbpd.

We're seeing the effects on constrained pipeline capacity on producer cash flows and the knock-on effects on fiscal budgets.

And there's the related impact of discounted pricing on upstream valuations, and the effect that could have on the future oil sands development.

We know that economic benefits alone are not enough to achieve public support. Energy development requires public trust and confidence that we are acting responsibly.

With those out of the way, I'll use my time to talk the broader implications of the current environment.

I'll focus on three issues that I believe are critical for industry and government leaders.

The first is the vastly different role that pipelines play today -- we're at the forefront of the debate on energy issues and that creates new expectations of us as companies and as leaders.

Should that be the case? Are we up to it? And how are we doing so far?

Second, we know opposition to the development and transportation of energy is leading to higher costs.

What are we doing about that?

Finally, I'll touch on yet another dynamic that's evolved – the increasing involvement by provincial governments in balancing energy benefits and risks.

Is this a good thing? And as project proponents, how do we deal with that?

## **On the role of pipeline companies today...**

In the past, transportation has been viewed as an important part of the energy value chain but not a critical one.

That's obviously changed.

At the heart of this is both a supply push and demand pull for new capacity, which is driving a reconfiguration of the North American pipeline grid.

Whereas crude used to migrate from coastal to inland markets, the grid is now being reversed to flow oil and gas from inland to coastal markets.

Why.....because that's where our barrels can get access to LLS, Brent and Maya pricing.

Equally important, the sting of price discounts is driving producers to want a cushion of excess pipeline – effectively they are willing to take out some insurance to make sure they have access to markets.

That's pretty clear if you look at the sheer number of pipeline projects on the books, fully backed by shippers.

At the same time, these projects are the subject of attack because they enable upstream development.

Five years ago, I'm not sure that a panel that featured four pipeline CEOs would have been much of a draw.

So, it's now falling more and more on pipeline companies to convince stakeholders of the merits of the energy we move.

While that might seem like the tail wagging the dog, it's our new reality.

And it leaves us with no choice. We have to lead.

As it turns out, we're positioned to do that.

If you look through it all, we're seeing pipeline companies playing a large role in bringing together the energy value chain in a cooperative, coordinated approach.

Our presence here today is proof that we can't be anonymous (we'd all agree we're anything but).

We need to be active participants in this debate and we need to be passionate about it.

So, how does a pipeline company handle this responsibility and do justice to its customers, government and other stakeholders?

## Safety

First, we're upping our game on safety and reliability.

Despite a pretty good track record (99.999% of barrels delivered safely over the past decade), we're changing the way think about it.

While we know that incidents can sometimes happen – our mindset today is that we need to keep striving for zero.

In other words, the approach is that all incidents can be prevented.

This is the same way that industries like aerospace and nuclear approach the challenge.

That's where we need to get to.

Part of that formula is to not meet, but rather exceed regulatory requirements.

We need to hold ourselves to a measure of world class safety and environmental performance.

The public demands world class and wants regulators to confirm it – so do we.

Over the past three years alone, we've undertaken the most extensive inspection and preventative maintenance program in the history of the North American pipeline industry . . . far exceeding any regulatory requirements.

By the end of this year, we'll have completed 500 in-line inspections across our systems and 10,000 verification digs.

In case you were wondering, the costs are not generally recoverable from our customers.

We established a corporate-wide leadership group, which I chair, that brings together our operations, pipeline integrity and safety people across our organization.

We've created a new team responsible for Enterprise Safety & Operational Reliability.

And we now have a Safety and Reliability Committee of the Board to strengthen oversight at the highest level.

### Engagement

In engaging our stakeholders, transparency is at a new level.

Let's use our Line 9 project to illustrate how we approach our new role in the energy value chain.

Five years ago, the reversal of a pipeline would have been a non-event.

Today, benign projects like Line 9 incite significant public interest and even protests at our facilities and hearing rooms.

But despite pockets of vocal opposition, we've earned very good support.

From the outset, we took a different approach to public engagement.

Where we used to focus on those directly impacted, the discussion about that project is part of the public policy discourse.

That's been hastened by information travelling faster and farther.

To meet that challenge, we're engaging earlier, more often and at all levels.

We've taken a show-and-tell approach.

This includes taking people out to integrity dig sites, where they could see and touch the pipeline.

And our people can convey the care we take in operating safely.

And we talk about how the economic benefits of the project contribute to the well-being of communities and what we're doing to be environmentally responsible.

Another example is Northern Gateway.

We've had an unprecedented level of engagement with communities, engaging directly with 17,000 stakeholders and Aboriginal groups through:

- 2,000 meetings
- 400 community presentations, 80 open houses, community technical meetings, public forums, and
- numerous aboriginal business summits.

Of particular note are our Community Advisory Boards, where people share their views and provide us with advice.

CAB input over the past four years has enhanced the project.

We altered the route in several locations to reflect community expertise about local conditions.

And, we baked in additional safety measures like valve spacing, thicker wall pipe, more horizontal drill crossings.

One question we get is why we don't engage directly with our opponents.

I would love to do that, but the reality is that most environmental groups are not open to discussion unless it involves halting development.

But we continue to try and we now have a Chief Sustainability Officer that is focused on building constructive relationships.

We may not be able to change the mind of our fiercest critics of energy . . .

. . . but we need to recognize that the environmental movement as a whole reflects a wide spectrum of values.....

.....some of which reflect the values of key stakeholders like employees, communities and shareholders.

### Coalitions

One final thought on this issue and that is the need to build coalitions.

We're starting to see increasing support where it counts.

In Quebec, much of the broad public understanding of the issues is due to the work of a Quebec Coalition in support of the Line 9B project.

The Coalition was formed by people representing the community that want to see the project proceed, safely and responsibly.

The key is that, as credible third-parties, they're able to advocate effectively and broaden public understanding of the project.

**Let me now turn to the implications of the current environment on costs.**

To put things into perspective, consider this:

In 1950, we built our original Line 1 pipeline from Alberta to Superior, Wisconsin.

This 1,900-km pipeline was constructed in just 150 days at a cost of \$90 million.

By contrast – the regulatory process alone on Gateway has taken roughly 1,300 days.

Now, we've gotten way more advanced and diligent in building pipelines.

But even with that and adjusting for inflation, the costs of building that same line today would be double (financing costs).

This reality is challenging in that we already operate in a high-cost basin and we need to hit market windows, so schedules are important.

To deal with that, we've been actively managing our cost structure in two major ways.

## Supply Chain and Project Management

We've created an industry leading supply chain cluster that takes a long view of our requirements for....

.....construction, labor and equipment on a scale we can command at stable and competitive prices.

On our key input – pipe -- we've secured very low-cost pricing for the past 6 years by baseloading a high-quality mill.

We've also developed world class project management capability that's recognized by likes of Exxon, Chevron, Marathon and Suncor.

In an environment where cost, schedule and safety are paramount, it's critical that we have that major projects execution capability.

## **Government Involvement/Policy Environment:**

Finally, we have an entirely new dynamic playing out with growing regional and provincial involvement in federally regulated projects.

How we incorporate that input in the process is critical to getting projects done.

And it goes to the heart of how we govern and regulate energy development in Canada.

This is a substantial challenge for pipeline companies, but here's where I come from on this.

Regardless of who's regulating what, the punch line is that the public demands strong oversight on infrastructure.

We don't take decisions around our energy infrastructure projects lightly – and frankly, neither should the public.

In my view, Provincial input is a great complement to the federal regulatory process because it broadens engagement and public involvement.

Provincial work can support the NEB process rather than challenge or undermine it.

Obviously the processes and timing need to be coordinated with federal review.

But let's not sell ourselves short, we have a very stringent Federal regulatory process.

Provincial involvement can make us better and put us on par with countries like Norway....

.....which achieves top marks for economic growth, safety and environmental sustainability.

This dynamic is also part of increasing movement towards a Canadian energy strategy.

I'm encouraged by the tone and tenor of interprovincial discussions and increasing levels of cooperation.

Our political leaders are advocating for Canada's energy industry, which includes the safe development of infrastructure projects.

Premiers Redford and Alward in particular have been championing market access, taking a collaborative approach.

BC, Quebec, Ontario, Saskatchewan – all engaged in good, productive dialogue and working groups.

They are trying to get to yes.... our job is to help them get there.

## **Market Access – we are making progress**

I'll conclude with even more optimism.

We're all focused on the day-to-day challenges of securing market access.

But in the big picture..... we're making progress.

Over the next 2 – 3 years, we ourselves will bring on 1.7 million bpd of new market access capacity.

And that's just to open up prime markets in North America that our production doesn't reach today.

The strategy is simple and twofold.

First, marry up Canadian heavy barrels with heavy refining markets in the Midwest and U.S Gulf Coast.

Then move light barrels to eastern Canadian and U.S. markets.

Second, "show those barrels to as many refineries along the way as possible".

We're putting \$36 billion of capital to work to open new markets, most of which is commercially secured.

Importantly, we're capitalizing on existing pipe in the ground and ROW, which minimizes our environmental footprint and we can get crude flowing to market sooner at a lower cost.

Beyond that, on Gateway we're within weeks of the Joint Review Panel decision.

We're confident there can be a path to yes as well on Gateway as we've seen some positive signs.

It's clear that people get the benefits and the imperative to diversify markets with Gateway or TMX.

But what we need to demonstrate – and what we are absolutely committed to do -- is constructing the safest most environmentally secure pipeline ever built.

Finally, I was speaking in London a couple of weeks ago about the issues we've been discussing today.

My main takeaway from those outside of Canada was the unique role they believe we can play as a global energy leader. . .

. . . built on our abundant energy resources, a rigorous and transparent regulatory regime and a world class industry committed to responsible and sustainable development.

In some ways it's ironic to be talking about the pipeline imperative.

But, without pipelines, we wouldn't have been able to enjoy the economic development we've enjoyed over the last few decades.

And how we tackle the challenges we're facing now....

....the rising expectations of regulators and the public, maintaining our competitiveness and collaboration across Canada...

.....will be critical to enabling us to continue that prosperity.

So let's make it happen.