



## Enbridge Inc.

### *Midstream Giant Continues Shift to Regulated Pipeline/Utility Business Model*

The recently concluded mid-year earnings season revealed that midstream earnings and forward guidance have been remarkably stable in the face of plunging oil demand, with 20 of 28 midstream firms maintaining or raising their original 2020 outlooks. These companies collectively decreased their 2020 EBITDA guidance by just 1.8% between January 1 and August 13, a vivid contrast with exploration and production companies and oilfield service firms, which reduced 2020 guidance by 60% and 30%, respectively. This near-term stability is provided by fee-based business models and contract protections such as minimum volume commitments. However, the midstream industry is not immune from the impact of Covid-19 and other market factors that could erode performance beyond the near term. These concerns are reflected in the volatility and weakness in midstream equity prices, with the Alerian Midstream Energy Index (AMNA) down approximately 25% for the year. The disconnect between near-term performance and longer-term fundamentals suggests a benefit for companies that implement strategies to shed as much risk as possible from their portfolios.

This Spotlight report focuses on Calgary-based Enbridge, Inc., the largest North American energy infrastructure firm, which since December 2017 has instituted the highly defensive strategy of transforming itself into a pure regulated pipeline and utility company. Founded more than 70 years ago to carry Alberta crude oil to Western Canadian refineries, the company subsequently became the predominant transporter of Western Canadian crude, including oil sands output, to the U.S. and eastern Canada. Enbridge added gas transmission, gathering, and processing assets, a large Ontario gas distribution utility, and renewable power facilities, but liquids pipelines dominated its portfolio. Its US\$46.6 billion merger with Spectra Energy in early 2017 added a major network of gas transmission pipelines and complementary utility assets that balanced Enbridge's portfolio between oil and gas. Since late 2017, the company has shed nearly C\$10 billion in assets that do not fit its pure regulated pipeline/utility model. The company's second quarter 2020 earnings report showed the benefits of the shift, as Enbridge reported that Adjusted EBITDA rose over the year-ago quarter, driven by higher earnings in the regulated gas transmission, gas distribution, and renewable power sectors. But Liquids Pipeline segment results, which represent more than half of total EBITDA, fell because it still faces one major hurdle to its transformation: converting its premier asset, the Mainline pipeline that transports two-thirds of Canadian crude oil to the U.S., from a common carrier basis to a take-or-pay contract system. While the company's growth outlook is strong through 2022, its contested petition for approval from the Canada Energy Regulator (CER) is becoming more critical in sustaining long-term EBITDA as competing Canadian export pipelines such as the Trans Mountain Pipeline Expansion may come online as early as 2023.

**East Daley's Conclusions Include:**

This Spotlight report draws on the in-depth analysis and projections of East Daley Capital to forecast the future performance of Enbridge's Liquids Pipeline segment considering the regulatory challenges it faces as well as the outlook for North American crude oil infrastructure. East Daley's conclusions include:

- In the face of the Covid-19 pandemic, Enbridge's 2020 Adjusted EBITDA is forecast to increase 4% to \$13.8 billion. Earnings will rise to \$15 billion in 2021 and \$15.9 billion in 2022 before dropping back to \$15 billion in 2023.
- Driving the 2020-2022 growth is a 24% increase in Liquid Pipelines Adjusted EBITDA accelerated by the completion of the C\$8.2 billion Line 3 Replacement, which we anticipate will be fully functional in late 2021 after Minnesota regulatory approval of the final uncompleted leg.
- Assuming Enbridge does not receive approval for the switch to a contracted basis for the Canadian Mainline, Liquids Pipeline earnings will fall by nearly C\$1 billion as the competing Trans Mountain Pipeline Expansion draws volumes from the Mainline and downstream systems.
- Adjusted EBITDA for the remainder of the company's assets, including Gas Transmission, Gas Distribution, and Renewable Power, will increase 5% from C\$6.5 billion to C\$6.8 billion in 2021, then remain stable through 2023.
- The company is likely to seek buyers for its remaining non-regulated midstream assets, the largest of which is its 50% interest in its DCP Midstream joint venture with Phillips 66.

# East Daley to Launch Canadian Coverage

*Reduce risk by looking at similar Canadian assets that have trading liquidity and unique risk factors*

- **TC Energy, Pembina, and Enbridge** represent one third of total North American midstream market capitalization
- The November election and potential impacts to regulations have investors looking North due to the uncertain U.S. landscape
- Due to limited growth potential, Canadian and the U.S. commodity supply economics could dramatically shift - WSCB basin will be included in coverage

**Contact [sales@eastdaley.com](mailto:sales@eastdaley.com) to pre-purchase Canada now and get an exclusive invite to our client-only September 16 webinar for further details. Launch is September 22.**



***This Spotlight Report from RBN Energy and East Daley Capital is available for individual purchase or as part of RBN's Backstage Pass premium content service at [rbnenergy.com](http://rbnenergy.com).***

***For more information on individual or group subscriptions, send an email to [info@rbnenergy.com](mailto:info@rbnenergy.com) or call 888-613-8874.***

**The *Table of Contents* for “Spotlight: Enbridge, Inc. – Midstream Giant Continues Shift to Regulated Pipeline/Utility Business Model” is included on the following page.**

**Table of Contents**

**Enbridge Inc. - Introduction** ..... Error! Bookmark not defined.

**1. Spotlight Reports from RBN Energy and East Daley Capital** ..... - 5 -

    1.1 What is Spotlight? ..... - 5 -

    1.2 How can I get Spotlight?..... - 5 -

**2. Enbridge Inc. Company Overview**..... - 5 -

    2.1 How It Got Here: Enbridge Inc.’s Strategic Milestones..... - 6 -

**3. Enbridge Inc. Company Strategy and Challenges** ..... - 10 -

    3.1 Enbridge Inc. Financial Performance ..... - 11 -

**4. Enbridge Inc.’s Liquids Pipelines Segment** ..... - 12 -

    4.1 Key Takeaways ..... - 12 -

    4.2 Overview of Liquids Pipeline Assets ..... - 12 -

        4.2.1 *Legacy Canadian Mainline/Lakehead/Expansion*..... - 14 -

        4.2.2 *Regional Oil Sands Pipelines*..... - 17 -

            4.2.2.1 Athabasca Pipeline ..... - 17 -

            4.2.2.2 Waupisoo Pipeline ..... - 17 -

            4.2.2.3 Woodland Pipeline ..... - 17 -

            4.2.2.4 Wood Buffalo/Athabasca Twin Pipeline..... - 17 -

            4.2.2.5 Norlite Diluent Pipeline..... - 18 -

            4.2.2.6 Other Regional Oil Sands Pipelines ..... - 18 -

        4.2.3 *Gulf Coast and Mid-Continent Pipelines*..... - 18 -

            4.2.3.1 Flanagan South Pipeline ..... - 19 -

            4.2.3.2 Seaway Pipeline ..... - 20 -

            4.2.3.3 Spearhead Pipeline..... - 21 -

            4.2.3.4 Southern Access Extension ..... - 22 -

            4.2.3.5 Other Gulf Coast and Mid-Continent Pipelines..... - 22 -

        4.2.4 *The Bakken Infrastructure* ..... - 22 -

            4.2.4.1 North Dakota Pipeline System ..... - 23 -

            4.2.4.2 The Bakken System..... - 23 -

        4.2.5 *Express-Platte System*..... - 24 -

            4.2.5.1 Express Pipeline ..... - 24 -

            4.2.5.2 Platte Pipeline..... - 25 -

        4.2.6 *Other Pipelines* ..... - 25 -

            4.2.6.1 Southern Lights Pipeline ..... - 25 -

            4.2.6.2 Other Liquids Pipelines Segment Assets ..... - 26 -

- 5. **Enbridge Inc.’s Gas Transmission and Midstream Segment**..... - 26 -
  - 5.1 Gas Transmission and Midstream Financial Performance ..... - 26 -
- 6. **Enbridge Inc. Gas Distribution**..... - 28 -
  - 6.1 Gas Distribution Financial Performance..... - 28 -
- 7. **Renewable Power** ..... - 29 -
  - 7.1 Renewable Power Financial Performance ..... - 29 -
- 8. **Energy Services**..... - 29 -
  - 8.1 Energy Services Financial Performance ..... - 29 -
- 9. **Financial Outlook**..... - 29 -

**1. Spotlight Reports from RBN Energy and East Daley Capital**

**1.1 What is Spotlight?**

Spotlight reports provide a deep dive into the fundamentals that shape the outlook for midstream energy companies. Our goal is to provide a comprehensive, fundamentals-based view of our Spotlight companies based on a bottom-up analysis of their assets and operations. We tear apart their asset structure to reveal what volumes are flowing, what rates are (and can be) charged, how they are exposed to commodity price risk, how their assets fit together, and what aspects of their operations provide competitive advantages in today’s extremely volatile energy marketplace.

Spotlight is a joint venture of RBN Energy, LLC and East Daley Capital Advisors, Inc. We have joined together with the support of Oil & Gas Financial Analytics, LLC to provide a comprehensive, detailed insight into the companies we select for our analysis. We use publicly available data, combined with the deep experience of our combined teams to get to the answers that can be overlooked in the more high-level assessments that are in the marketplace today. Instead of such a high-level approach, we get into the micro-level detail, integrating fundamentals data, market data and company data in a comprehensive model that provides a clear picture of the company and its prospects.

As with all energy fundamental analysis, Spotlight reports rely on estimates and approximations of volumes, throughputs and fees. No non-public data from the subject company or any other source has been used in the preparation of this report.

**1.2 How can I get Spotlight?**

Spotlight is available to RBN Backstage Pass subscribers. Non-subscribers may purchase individual company Spotlight reports separately. For more information about Spotlight, go to [rbnenergy.com/spotlight](http://rbnenergy.com/spotlight).