SPOTLIGHT

A Joint Venture by
RBN Energy and **East Daley Capital**

TC Energy

TC Energy Corp.

Company Challenged to Refocus Growth Plans After KXL Setback

U.S. presidential transitions always bring policy changes, but few have been as dramatic and swift as the shift in energy policy that came with the inauguration of Joe Biden on January 20, 2021. The Trump administration's hydrocarbon-friendly policies that promoted America's fossil fuel energy dominance were swept away as the new president elevated climate change and energy transition initiatives. Those initiatives included a presidential order that makes global warming a pillar of U.S. national and foreign affairs, establishes a National Climate Task Force, creates a Cabinet-level position for climate czar John Kerry, and establishes deadlines for curbing greenhouse gas emissions. These major long-term policies are backed by specific actions directed at the oil and gas industry, including a 60-day suspension of new leases, contracts, or drilling permits on federal lands, a review of oil, gas, and coal royalties accounting for the economic impact on climate change, and a goal of eliminating fossil fuel subsidies by 2022. But the most-headline grabbing salvo, issued just hours after Biden was sworn in on January 20, is an executive order that revoked the Presidential Permit for the proposed Keystone XL pipeline designed to transport 830,000 barrels a day (Mb/d) of oil sands production to U.S. markets. The move may have signaled a death knell for the project that was the focus of a more than decade-long battle between environmentalists and industry supporters.

This Spotlight report focuses on TC Energy, the major Canadian midstream firm that owns and would operate Keystone XL, and it addresses the impact of the decision to cancel the pipeline. The company, formerly TransCanada Pipelines, and then-partner ConocoPhillips first proposed Keystone XL as an expansion of the then-under-construction Keystone Pipeline, which began transporting 591 Mb/d of crude oil in 2010-11 from Hardesty, AB, to Steele City, NE, and then on to hubs in Patoka, IL, and Cushing, OK. In 2015, President Barack Obama rejected a cross-border Presidential Permit for Keystone XL and vetoed a Congressional bill authorizing construction. But President Trump heralded his new oil-friendly approach by approving the permit in January 2017. Garnering the support of Canadian First Nations and the Alberta government, TC Energy announced a final investment decision in March 2020 and commenced construction that was abruptly halted on January 20, 2021. Keystone XL, which represented more than a third of the company's C$37 billion growth capital program, was expected to boost annual EBITDA by nearly C$2 billion, trigger multiple related terminal and other infrastructure expansions, and would substantially increase TC Energy's commodity diversification.

The company said the revocation will trigger a “substantial” impairment of its investment on the project, which are estimated at more than C$2 billion. More meaningfully, the elimination of its cornerstone project leaves TC Energy heavily weighted towards natural gas infrastructure, especially its U.S. Natural Gas Pipeline segment, the company’s largest, which is facing significant contract roll-offs and major rate case redeterminations in an overbuilt market. The C$2.8 billion sale of Ontario gas-fired generation has shrunk its Power and Storage segment. The company now faces a need to refocus its corporate capital growth initiatives to drive continued EBITDA and distribution growth over the next five years.

East Daley’s Conclusions Include:

- Despite the suspension of the major Keystone XL Pipeline project, TC Energy Adjusted EBITDA is forecast to increase 7% from C$9.4 billion in 2020 to C$10.1 billion in 2023.
- Canadian Natural Gas Pipelines Adjusted EBITDA will rise 22%, or C$570 million, to C$3.1 billion as C$9.1 billion in growth projects increase natural gas deliverability from Western Canada by 40%.
- Adjusted 2023 EBITDA for U.S. Natural Gas Pipelines is estimated at C$3.6 billion, flat with 2020, as current brownfield expansions offset declines on certain systems from contract roll-offs and reductions from rate case hearings.
- Mexico Pipeline 2020 EBITDA was boosted by a US$56 million one-time payment upon completion of the Sur de Texas pipeline. EBITDA will decline to C$731 million in 2021 and remain relatively stable through 2023 as declines in the value of the Mexican peso offset higher revenues from completion of two current pipeline projects.
- Liquids Pipeline EBITDA is forecast to decline 9% from C$1.7 billion in 2020 to C$1.6 billion in 2023 on volume attrition from overcapacity on the southern part of the Keystone System and substantial weakness in Liquids Marketing margins.
- Steadily rising realized prices from the refurbishment of Bruce Power’s nuclear units will fuel a 50% increase in EBITDA from C$677 million in 2020 to C$1.0 billion in 2023.
- Growth capital expenditures will decline steeply from C$7.9 billion in 2020 to C$1.5 billion in 2023 as the company completes its current slate of C$20 billion in secured growth projects.
- The company expects its growth projects will allow 5-7% annual dividend increases. With Keystone XL off the table, the company’s long-term growth opportunities will likely be limited to expansion of its Western Canadian infrastructure and continuation of the Bruce Power Life Extension program.

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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 bottoms-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. 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. Our combined teams leverage deep experience to analyze publicly available data 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 reports are 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.