Written Submission for the Pre-Budget Consultations in Advance of the 2019 Budget

Submitted by Enbridge

August 1, 2018

About Enbridge Inc.

At Enbridge, we connect people to the energy they need to fuel their quality of life, and we've done it safely and reliably for more than 65 years. A North American leader in delivering energy, Enbridge has been ranked on the Global 100 Most Sustainable Corporations index for the past nine years. Enbridge operates the world's longest crude oil and liquids transportation system. Enbridge transports 28% of the crude oil produced in North America, and moves about 23% of all natural gas consumed in the United States. We're also a North American leader in the gathering, transportation, processing and storage of natural gas, and we have an increasing involvement in power transmission. Enbridge is Canada's largest natural gas distribution provider, with about 3.7 million retail customers in Ontario, Quebec, New Brunswick and New York State. Enbridge has interests in nearly 3,000 MW of net renewable generation and power transmission capacity, based on projects in operation or under construction.

Life takes energy and Enbridge exists to fuel people's quality of life. For more information, visit www.enbridge.com.

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Recommendation 1: That the government work with industry on Bill C-69 and improve regulatory certainty.

Recommendation 2: That the government ensure Canada has a globally-competitive tax environment.

Recommendation 3: That the government address competitiveness challenges from the layering of carbon and climate regulations.

Introduction

Enbridge is pleased to provide comments on this year's topic, *Economic Growth: Ensuring Canada's Competitiveness*.

There are three actions Enbridge recommends that the Federal Government do to improve Canada's competitiveness:

1. Work with industry on Bill C-69 and improve regulatory certainty;

2. Ensure Canada has a globally-competitive tax environment; and

3. Address competitiveness challenges from the layering of carbon and climate regulations.
   - Canadian companies must compete globally against locations with lower costs and fewer regulatory burdens.
   - Large companies like Enbridge, which operate in multiple jurisdictions, face increasingly complex carbon and climate regulations (compliance and oversight).

Context

The collective impact of the Federal Government's policy changes and the associated regulatory uncertainty is already having an adverse effect on Canadian competitiveness.

- RBC President and CEO Dave McKay has further warned that a "significant" investment exodus to the U.S. is already underway – particularly in energy and clean technology sectors – and that this flight of capital is likely to be followed by a loss of talent, which means missing out on the next generation of engineers, problem solvers, and intellectual property in Canada.[1]
- Scotiabank recently noted that the "lack of pipelines and massive discounts for Canadian heavy oil could cost the economy $15.6 B this year".[2]
- Uncertainty is forcing energy companies and investors to look elsewhere to invest long-term capital, such as Exxon, which recently announced USD $50 B in investments for Permian Basin production in the U.S.[3], while at the same time exiting offshore exploration in Newfoundland.
- The OECD said U.S. corporate tax cuts have hurt Canadian competitiveness, reinforcing the negative hit from NAFTA uncertainty. "The government should review the tax system to ensure that it remains efficient - raising sufficient revenues to fund public spending without imposing excessive costs on the economy - equitable and supports the competitiveness of the Canadian economy."[4]
- According to the C.D. Howe Institute, Canadian energy producers "are at a severe policy-induced competitive disadvantage relative to producers in US states."[5]

[1] http://business.financialpost.com/news/economy/investment-outflow-from-canada-already-underway-in-real-time-rbc-head
[2] Geoffrey Morgan, Financial Post, February 21, 2018
[3] Joe Carroll, Financial Post, January 29, 2018
[4] https://globalnews.ca/news/4348160/canada-oecd-corporate-taxes-cut/
[5] Benjamin Dachis, C.D. Howe Institute, Commentary No. 501: Death by a Thousand Cuts? Western Canada's Oil and Natural Gas Policy Competitiveness Scorecard, February 1, 2018

About Enbridge

Enbridge is the largest energy infrastructure company in North America with consolidated assets totaling over C$160 billion as of September 30, 2017, covering the most important and growing energy demand markets and supply basins. Enbridge's diversified portfolio of business platforms and $31B capital program makes us a critical part of the investor base. With assets in multiple jurisdictions, we make investment decisions to do business where it makes sense to do so.

Enbridge pursues crude oil infrastructure opportunities that meet our Canadian customers' needs and provide access to growing global markets. However, following the Federal Government's denial of Enbridge's proposed Northern Gateway Project, our focus has now shifted from West Coast Canada pipeline access to securing a U.S. Gulf Coast export terminal presence. This is one example of our shift in business strategy to respond to Canada's competitiveness crisis.

Clear and transparent regulatory processes and timelines are essential for attracting the long-term capital investments that create jobs, support economic growth, and deliver the energy that Canadians need. Continued uncertainty will further deter private investment, limit Canada's competitiveness, and undermine Canada's ability to develop and export its natural resources for the benefit of all Canadians.

Recommendations

1. Regulatory Competitiveness and Bill C-69

The Federal Government introduced Bill C-69, which proposes major legislative changes regarding federal environmental assessments and regulatory reviews. When the Government released the proposed reforms, it stated: "A clean environment and a strong economy go hand in hand." It spoke of a more efficient and predictable process, with more timely decision-making. In outlining the benefits for companies, the Government stated: "With these better rules, companies would have more clarity about what is required of them, and project reviews would be more predictable and timely, encouraging investment in Canada's natural resources sectors…"[6]

Enbridge remains committed to supporting the Federal Government's objective to restore public trust and help get Canada's resources to market. That said, we continue to have major concerns with Bill C-69. Rather than providing the clarity, predictability and certainty promised to companies, the proposed *Impact Assessment Act* (IA Act) would make overall timelines longer and would significantly increase uncertainty for designated pipeline projects. This could have the unfortunate result of steering energy investment outside of the country. The Bill also does not adequately address the primary problem facing pipeline projects today – individual project reviews are delayed by broader policy discussions and are ultimately subject to a political decision at the very end of a long and expensive regulatory process. This puts Canada at a significant disadvantage relative to other countries and puts investment in Canadian projects at risk, along with the new jobs and economic opportunities promised to Canadians.

The top priority must be getting the Project List right. Only the largest federal projects (e.g. 500 km non-contiguous right-of-way) with the greatest potential impacts should fall under the IA Act for joint review. "Designating" smaller projects would be debilitating to our industry.

Recommendation: Work with industry on Bill C-69 and improve regulatory certainty.

[6] Government of Canada: https://www.canada.ca/en/services/environment/conservation/assessments/environmental-reviews/environmental-assessment-processes/companies.html

2. Competitive Tax Environment

Tax is a critical part of the overall competitiveness picture: (1) tax environment is a major push / pull factor for industry when deciding where to make long-term capital investments and (2) tax is a (domestic) policy lever that governments can effectively use to incentivize capital investment. Once U.S. regulations have been issued and there is more clarity on the impacts of U.S. Tax Reform to U.S. domestic companies and foreign multinationals, it will be important for Canada to ensure its tax regime is competitive. The OECD said "The government should review the tax system to ensure that it remains efficient – raising sufficient revenues to fund public spending without imposing excessive costs on the economy – equitable and supports the competitiveness of the Canadian economy."[7]

Focus for Canada should include:

- Lowering corporate income tax rates, if necessary to be competitive. The reduction should be evenly split between the two levels of government.
- Accelerating depreciation provisions similar to those in place in the United States, giving businesses an immediate 100 per cent tax write-off on qualifying capital asset purchases.
- Wholesale reform to modernize and simplify Canada's Income Tax Act.

Recommendation: Ensure Canada has a globally-competitive tax environment.

3. Layering of Carbon and Climate Regulations

The cumulative impact of government action (e.g. policy package included within the Pan-Canadian Framework on Clean Growth and Climate Change, including the Clean Fuel Standard, Methane Regulation and Output Based Pricing System), along with external factors (e.g. taxes relative to the U.S., NAFTA and tariffs), are making Canada a less attractive place to invest.

Enbridge recognizes carbon pricing as one mechanism for influencing energy consumption and the achievement of Canada's GHG emissions reduction goals. That said, climate legislation like the Pan-Canadian Framework on Clean Growth and Climate Change must be understood as part of a broader suite of issues that is impacting Canada's competitiveness.

- Clean Fuel Standard (CFS) – The proposed Federal CFS is an example of the layering on of compliance obligations. Enbridge is recommending an exemption for natural gas distributors due to duplicative impacts on customers, utility administration, and provincial economic regulators.
- Methane Regulations – The Pan-Canadian Framework on Clean Growth includes a target to reduce methane emissions by 40-45% below 2012 levels by 2025. Policymakers implementing methane regulations must consider impacts on emissions-intensive, trade-exposed industries, which may be competing against lower-cost jurisdictions with less-stringent methane regulations (the U.S., in particular).

In "Speed Bump Ahead: Ottawa Should Drive Slowly on Clean Fuel Standards"[8], the C.D. Howe Institute notes federal policymakers must examine the inherent limitations and potential economic costs of a clean fuel standard system. A Clean Fuel Standard (CFS) could have a large economic cost relative to explicit carbon emissions pricing, especially on energy-intensive, trade-exposed sectors.

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[7] https://globalnews.ca/news/4348160/canada-oecd-corporate-taxes-cut/

[8] Benjamin Dachis, C.D. Howe Institute E-Brief Speed Bump Ahead: Ottawa Should Drive Slowly on Clean Fuel Standards, July 19, 2018

By way of example, implications of 'layering' implicit carbon pricing regulations, such as the CFS or Methane Regulation, translate into greater costs for industry and consumers, particularly in jurisdictions where an explicit carbon pricing mechanism, such as Cap and Trade or a Carbon Levy already exists. Energy affordability is a major concern, and the impacts of additional implicit carbon pricing costs must be carefully weighed to ensure energy remains affordable for households, and businesses remain competitive with other jurisdictions that may not face the same regulations. Emission reductions must be approached in a manner that balances the environment, the economy and energy affordability.

Recommendation: Addressing competitiveness challenges from the layering of carbon and climate regulations.

Conclusion

North America has a tremendous opportunity to become a leading exporter of energy, as global energy demand is forecasted to rise by 30 percent to 2040. As a single bloc, North America's competitive advantage is based on low-cost energy supply, deeply integrated supply chains and labour markets, and technology to reduce global GHG emissions.

Canada must position itself to leverage this integrated market. However, an increasingly uncertain investment climate (e.g. stalled NAFTA negotiations, retaliatory tariffs, regulatory uncertainty including Bill C-69, higher corporate tax, increasing costs related to the layering on of carbon and climate regulations) is forcing energy companies and investors to take a hard look at where to deploy long-term capital.

Enbridge appreciates the opportunity to provide input to Budget 2019. As North America's largest energy infrastructure company, we remain ready to engage with the Government on these issues and positioning Canada as a premiere destination for capital and investment.