

**Hearing before the
Energy and Water Development Appropriations Subcommittee on
“Energy Supply and Constraints in Western North Dakota”**

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Mr. Chairman and members of the Subcommittee, thank you for the opportunity to offer Enbridge’s views on issues related to pipeline capacity in North Dakota and the Midwest and how such capacity is an important component to North American energy security.

Enbridge is a transporter of energy, and does not produce or refine crude oil. We also have a significant presence in natural gas processing, distribution, and transportation; provide petroleum liquids rail and trucking transport; and through our wind and fuel cell businesses are positioned to contribute to North America’s alternative energy sector. However my comments today will focus on our crude oil, common carrier, interstate FERC-regulated pipelines with which I am most familiar. Since 1950, Enbridge has operated what is now the world’s longest liquid petroleum pipeline, expanding to now comprise nearly 9,000 miles of pipe spanning over 3,000 miles from the Northwest Territories, through North Dakota, serving Great Lakes refinery markets and beyond. Enbridge acquired the Portal Pipeline system over a decade ago, which we now call the Enbridge North Dakota System. In 2007, Enbridge transported over 1.9 million barrels per day (bpd) of crude oil and natural gas liquids in the Upper Midwest. Our mainline system – the cross-border system connecting western Canada to the Midwest – transports over 10% of U.S. imported supply from Canada, America’s largest and most secure trading partner.

In the last two years, we have phased-in a number of crude oil pipeline expansions, to ultimately add 1.2 million bpd of capacity to our mainline system; extended our reach from Alberta to the Cushing hub; announced plans to extend to Gulf Coast markets; and expanded our North Dakota system from 80,000 bpd capacity to current levels of 110,000. With the completion of Phase VI in 2010, we expect our North Dakota system to reach 161,000 bpd of capacity. The Enbridge system provides access for North Dakota producers to the majority of refineries in PADD II and as far as the Gulf Coast, home to over 40% of America’s refinery capacity.

This committee receives regular updates from the Energy Information Administration and is already well-aware of forecasts that show several key trends. First, the production in the Midcontinent areas of Kansas, Oklahoma and surrounding states continues to decline. Second, we are all too familiar with the disruptions in supply from unstable nations or disruptions caused by storms in the Gulf Coast. Conversely, production from Alberta’s oil sands will increase from the current level of 1 million bpd on the market to grow to over 3 million bpd. Following Senator Dorgan’s request, the USGS now estimates the reserves in the Bakken shale to exceed 4 billion barrels. So while Midcontinent production is falling, America can tap supplies in our own back yard to reduce our reliance on imports from overseas. Further, despite increased use of alternative fuels and improved conservation,

petroleum demand continues to grow over the long term. Combined, these factors drive the need for major enhancements in our transportation infrastructure to connect regions of growing supply to refinery markets.

Together, this has prompted a number of projects to expand and extend the pipeline infrastructure. Enbridge alone has over \$12 billion in approved projects, many of which are already under construction. And we have another wave of investment right behind this that proposes another \$12 billion or more in investments. Enbridge recognizes the importance to producers of extending our gathering lines and expanding the capacity of our North Dakota transmission pipeline. Last year, we added 30,000 bpd of capacity to our North Dakota System and are now investing another \$150 million to phase in another 51,000 bpd of capacity by 2010. But it is not enough to just expand our North Dakota System which ends at Clearbrook, Minnesota – a hub that has no refineries. Through interconnections to other pipelines, North Dakota volumes can move to Minneapolis or through the Enbridge mainline system to Wisconsin, Chicago, and Cushing. We have announced projects to extend service to the east coast and, with a joint venture with BP, a network of existing and new lines to reach the Gulf Coast by 2012. Thus, the expansion of Enbridge's mainline system east of Clearbrook is imperative so Canadian production has transport options around the state and North Dakota producers have unconstrained access and flexibility to not only reach refineries along the Rockies, but serve most markets east of the Mississippi.

Turning attention back to North Dakota, Enbridge has received regulatory approvals for Phase V and is expecting FERC review of our Phase VI tariff rate filing. We received approval from the North Dakota Public Service Commission for Phase VI expansion. Indeed, Enbridge has appreciated the efficient regulatory process in North Dakota and the support we have received in undertaking pipeline expansions in the state.

Further expansion and debottlenecking of our North Dakota system is now under consideration should Bakken production continue to outpace capacity. We are considering all options, including rail links and up to the most expensive, longer term, solution of adding a second transmission line parallel to our existing line to northern Minnesota. Our discussions with shippers are aimed at developing the right-sized, right-priced, and right-timed expansion for take-away capacity into the future. We must keep in mind that as a common carrier, we are obliged to provide service to all without discrimination and must balance the transport needs with the long term support needed to recoup millions in investment.

However even with expansion of the North Dakota system, to get beyond northern Minnesota to tap refinery markets throughout the Midcontinent, Enbridge needs to complete expansions on our mainline system, specifically the Alberta Clipper project that will add initially 450,000 bpd of capacity over and above what can now move east of Clearbrook. This capacity is vital for North Dakota production to access refinery markets throughout the Midwest and beyond. Subject to the U.S. federal regulatory approval of the Alberta Clipper project, that new 36-inch pipeline can also be easily expanded in the future to reach 800,000 bpd with added horsepower, so we are in good shape to step up to meet anticipated capacity needs in the short-to-medium term on our mainline system.

Opportunities are all too often coupled with challenges. So, while this is an unprecedented era of pipeline expansion opportunities, Enbridge also needs to call attention to some of the

hurdles faced when trying to match the needs of the market in a very challenging regulatory regime and when we are so often faced with public skepticism of energy projects.

Commercial Challenges: While it may seem that meeting our customer's needs should come easily, our customers – producers, marketers and refiners – sometimes compete, so designing a system expansion that can be agreed to by all interests can be challenging. That is why Enbridge has attempted to be proactive to plan solutions for tomorrow's needs. We are completing an enhanced forecasting model for the entire Williston Basin which, when complete, will further enhance our ability to predict pipeline capacity demand and gain consensus from all stakeholders to meet the region's energy transportation requirements. Enbridge is up to this challenge.

Regulatory Challenges: While FERC has risen to the challenge of adapting policies to recognize the need for pipelines to recover the costs of investments, FERC's role does not extend (as it does for natural gas pipelines) to the siting, certification or lead federal agency for environmental assessments for new interstate liquid pipelines. Rather, there is a plethora of federal and state permitting requirements for liquid pipelines. The best way to illustrate this regime is to summarize the process for the two major projects that most affect North Dakota take-away capacity.

As a transmission system, our expansions in North Dakota have been subject to approvals by the Public Service Commission. Enbridge appreciates the transparent, streamlined regulatory proceedings of North Dakota and Minnesota. Actually we'd like to urge other states, such as Illinois, to follow a similar regulatory model. As I said before, the capacity of pipelines in distant states affect North Dakota producers who need to reach diverse refinery markets. Thus, Enbridge and others have worked, for instance, with the Interstate Oil and Gas Compact Commission (IOGCC) leadership to develop recommendations for effective, publicly transparent, and streamlined state regulatory regimes for approving pipeline routes, capacity, public need and state environmental assessments.

However, the Alberta Clipper expansion project on Enbridge's mainline, which is important to North Dakota producers' ultimate market access, is still undergoing more protracted state and federal regulatory approvals. The project is a new 990 mile, 36-inch pipeline along our existing route from Alberta to Wisconsin, with its 450,000 bpd of capacity easily expandable to 800,000 bpd. The North Dakota PSC approved our application for the pipeline that crosses the NE corner of the state in a record six months and the Minnesota Public Utilities Commission is expected to approve a Certificate of Need, a Routing Certificate and complete the state's environmental assessment by October, about a sixteen month process. The Canadian portion of the project, spanning three provinces, was approved by the National Energy Board in 16 months and construction began last week on the Canadian portion. The federal approvals in the U.S. are still pending the completion of an Environmental Impact Statement led by the U.S. Department of State, who stepped up their role as lead agency following the Executive Order 13337 in 2004. While the initial goal was to have approvals to allow winter 2008/2009 construction in some wetlands, Enbridge is hopeful that the current target of March 2009 approvals of the final EIS is met. Thus the U.S. federal approvals for the project will take just under two years, if the current schedule holds. It is vital that capacity east of Clearbrook, Minnesota be added through the completion of the Alberta Clipper project so North Dakota volumes landing at Clearbrook have unconstrained outlets to refinery markets throughout the Midwest.

Public Scrutiny: Enbridge has built over a thousand miles of new pipeline in the last decade so we appreciate the value of getting public input early and often during a project to help identify and resolve many issues of concern. The public is often frustrated, however, by a confusing array of public meetings, formal regulatory intervention processes and means to offer their written comments. And sometimes the need to connect supply sources with refineries requires a route that a vocal minority of the affected public opposes. This is especially true when environmental interest groups organize or negotiations for the pipeline right-of-way result in an impasse and the pipeline company seeks to use the state's power of eminent domain. Of course, when crossing sovereign Tribal Lands, there is no process for resolving an impasse in securing the right-of-way. While the private sector is stepping up to the investments needed in energy infrastructure, it is wise to appreciate the challenge presented by trying to satisfy both energy market needs and the public affected by the project. Even a well-planned project with proactive, responsive public consultation can be stopped in its tracks by intense opposition.

Project Costs and Financing: When planning and securing support for a major expansion, shippers need to know what transportation rates they are committing to fund the expansion. Staying true to project capital estimates is expected and is managed by experienced companies. However, as a multitude of projects in North America compete for materials and labor, we've seen costs rise significantly. For instance, in 2008 the price of pipe increased approximately 40% and the cost of other steel products, such as valves and pumps increased an average of 50% over the last two years. Labor costs and availability of experienced welders and construction workers is tight and Enbridge has seen increases in mainline contracting and labor go up by some 5-10% each year over last decade. In addition to competition for construction labor, many in the industry are facing the challenge of retaining our own energy-experienced technical and business professionals. We appreciate the continued attention to many of these issues by the Senate Energy Committee over the last year.

In conclusion, Enbridge has devoted significant efforts to try to match pipeline expansions to the needs of the market. We remain committed to working with shippers on future expansions as the promise of production from the Bakken formation is realized. Enbridge also has over \$12 billion in projects underway, with double that on the drawing board, to expand our North American pipeline network so that growing volumes produced in both North Dakota and western Canada can reach a variety of refinery markets. The net effect of this infrastructure investment is less dependence on crude oil from unstable nations outside North America.

But these opportunities come with challenges. Pipelines need shippers to align on the right project at the right time. Regulatory processes that require parallel and sometimes multi-year efforts at the state and federal level should be streamlined. Enbridge, and others in the private sector, need to rise to the challenge of increasing costs, public scrutiny, financing and the frequent intervention by environmental interest groups. It is Enbridge's view, however, that the public and private sector must work together to better streamline regulatory processes.

Energy security requires a host of solutions including alternatives and conservation. While we are still dependant on fossil fuels, U.S. energy security is enhanced with access to

growing supplies from Bakken as well as from western Canadian Production. Enbridge, and others in the pipeline sector, need to continue to work collaboratively with customers, regulators and elected officials to ensure projects can be completed with the right balance of input from the affected public and the need for swift approvals to meet the needs for secure supplies of energy.

This concludes my testimony, Mr. Chairman and members of the Committee. I would be happy to answer any questions you may have.