

from the Vector Pipeline was earned in 2000, also because the investment base increased as construction neared completion.

### **Aux Sable**

Enbridge owns a 21.4% interest in the Aux Sable facilities, which process natural gas delivered through the Alliance Pipeline. Aux Sable commenced operations on December 1, 2000 and initially will process up to 1.6 bcf/d of natural gas. These facilities generated a loss for the period as a result of the unfavourable differential between natural gas and natural gas liquids prices. Given current economic conditions, the Company expects these losses to continue in 2001.

## **Outlook**

### **Liquids Pipelines**

Volumes of liquids transported are forecast to increase in 2001. Increased drilling activities by producers due to the sustained improvement in crude oil prices should result in increased production in the Western Canadian Sedimentary Basin (WCSB). Although fluctuations in volumes do not impact the majority of net earnings from the Enbridge System due to provisions in the ITS, the Company's other liquids pipelines benefit from higher volumes.

### **Enbridge System**

In 2000, the Company announced that it would proceed with Phase II of the Terrace expansion program, which will increase capacity of the Enbridge System by 40,000 barrels per day. This expansion will add 123 kilometres (77 miles) of 914-millimetre (36-inch) pipeline over three separate construction segments located between the Hardisty, Alberta and the Kerrobert, Saskatchewan terminals. Phase II will be constructed and operated by Enbridge. Construction is expected to commence in the last half of 2001 with an in-service date in the first half of 2002. The expansion is expected to cost \$120 million, most of which will be expended in 2001. A decision to proceed with the third phase of the Terrace expansion is subject to ongoing discussions with CAPP. Phase III involves construction of 193 kilometres (120 miles) of new 914-millimetre (36-inch) pipeline on the Lakehead System between Clearbrook, Minnesota and Superior, Wisconsin. Phase III would increase capacity by approximately 140,000 barrels per day.

Increased volumes will improve utilization of the SEP II expansion. The negotiated contract with CAPP provides for a rate of return

that changes with utilization, subject to a minimum and maximum rate of return of 7.5% and 15.0%, respectively. During 2000, Enbridge earned a 7.5% return on SEP II.

The ITS allows Enbridge and its customers to share in cost savings achieved by the Company. To ensure continued savings for customers and increased returns for shareholders, the Company will continue to focus on operational excellence.

### **Lakehead System**

Expansions on the Enbridge System and increases in volumes shipped are expected to have favourable effects on the financial results of the Lakehead System. Since earnings from the Lakehead System are volume-sensitive, increases in volumes should have a positive impact on net earnings. Volumetric impacts are mitigated by the size of the Company's investment in Lakehead, which, at the end of 2000, was 15.3%.

CAPP has approved the Griffith Lateral project from Mokena, Illinois to Griffith, Indiana. This extension will allow for better access to the Chicago market and provide operational flexibility.

### **Enbridge Athabasca System**

Earnings from the Enbridge Athabasca System will be favourably impacted in 2001 and beyond by two significant projects. First, the Company expects to complete construction of additional tankage facilities at Fort McMurray during 2001 that will generate additional earnings. In addition, new facilities will be built to transport up to 30,000 barrels per day of bitumen produced by Petro-Canada from its MacKay River project, near Fort McMurray, to the Athabasca terminal, beginning in late 2002. At the terminal, bitumen will be blended with diluent and up to 60,000 barrels per day of blended product will be transported on the Enbridge Athabasca System to Hardisty, Alberta.

The Enbridge Athabasca System is the only liquids pipeline directly linking both the Athabasca and Cold Lake Oil Sands deposits with the pipeline transportation hub at Hardisty. With a capacity of 570,000 barrels per day, the pipeline is well-positioned to carry more of the region's oil sands and heavy oil production in the future.

### **Capital Expenditures**

The Company plans to spend approximately \$250 million for capital expenditures in 2001, primarily related to the expansion of the liquids pipelines systems.