Greenwashing or Good Business? Enbridge and TransCanada Get Into Renewables

Canada's two biggest pipeline companies are getting into renewables in a big way. But is it enough to improve their standing in the eyes of their critics?

By Steven Threndyle
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Ask the average Canadian what they think of when they think of Enbridge and you'll get an answer that focuses, with varying degrees of affection, on its pipeline business. It's unlikely that you'd get anyone who would think of the bucolic farmland on Ontario's Bruce Peninsula. And yet, if you were driving around there, you'd see vast wind farms that are owned and operated by Enbridge. The only way you'd be able to tell, mind you, is if you got close enough to see the discreet company logos on each of the windmills. But make no mistake: Renewables are a growing part of its business.

"Enbridge and TransCanada are asking, 'Where is energy going to be in 25 years?' And to get that answer, you need to purchase, permit and develop renewable energy sources. The only way to get to know about renewables is to own some. You can't just read books about it."
– Steven Paget, director of institutional research for FirstEnergy Capital

The same is true of TransCanada, Canada's other major pipeline company, because if you head north from Kincardine on the shores of Lake Huron, you'll come across the massive 2,480-megawatt (MW) Bruce Power nuclear plant. It supplies one-fifth of Ontario's energy needs, and most Canadians – especially those in the western provinces – would be surprised to learn that TransCanada is the main shareholder in the privately owned Bruce Power utility. These are, to be sure, still just a fraction of each company's overall operational footprint. While Enbridge is committed to expanding its interests in wind, solar and other renewable technologies (including doubling its investment in the past three years from $2 billion to $4 billion), it's only a small slice of the company's $44-billion energy infrastructure growth program. Likewise, TransCanada's $5-billion investment in power generation pales in comparison to the billions it's sunk into new and existing pipeline projects.

But Sharan Kaur, TransCanada's spokesperson for project development and operations, says the renewables are a key part of the company's future. "We are committed to maintaining a diverse portfolio of generating capacity and continue to be at the forefront of research and in adopting new technologies to build, maintain, monitor and operate our energy infrastructure in a safe and environmentally sustainable way." The billions that TransCanada has invested in power generation in the past have left the company with an impressive array of low-emission projects, including 19 power generation facilities across North America that can generate power for 11 million homes. Fully two-thirds of TransCanada's power generation comes from low and non-emitting sources that include solar, natural gas-fired generation, nuclear, hydro and wind.

Its purchase of nine small solar operating facilities from Canadian Solar, which it picked up in 2011 for $500 million, cost less than one-tenth of the estimated bill on Keystone XL. Still, it will help the Ontario provincial government to achieve its goal of phasing out all coal-fired power plants and making a successful transition to alternate sources of energy – and it will help TransCanada grow its top and bottom lines. The energy from these plants is being sold to the Ontario Power Authority for a rate of $443 per MW hour as part of a 20-year power purchase - agreement, and it's a deal that illustrates the stable revenue stream that alternative energy projects can provide. Other TransCanada projects include a state-of-the-art natural gas-fired plant under construction in Napanee, Ontario, and the Cartier Wind Energy project in Quebec's Gaspé Peninsula, one of the largest wind farms in Canada. TransCanada's renewables reach even extends south of the border, with 13 hydro power facilities along the Connecticut and Deerfield Rivers in New Hampshire, Vermont and Massachusetts.

Enbridge is also active in the renewables space. Over the past decade, Enbridge has invested in more than 2,000 MW (gross) of wind-power capacity in North America and is now the second-largest wind energy generator in Canada. Enbridge currently owns or is building 14 wind facilities in North America with the potential to power up to 650,000 homes. The 300 MW Blackspring Ridge project near Lethbridge is Western Canada's largest wind facility and other wind farms are located in Texas, Colorado and Indiana. The company also has a growing portfolio in solar power, generating electricity with no emissions, no waste production and no water use. In 2012, Enbridge entered the U.S. solar energy market with its acquisition of the 50 MW Silver State North, the first solar project built on U.S. public lands. Located in Clark County, Nevada, Silver State North generates enough emission-free energy to serve the needs of about 9,000 homes. The company's green-investment strategy is also at work at Neal Hot

Springs, Oregon. This state-of-the-art, zero-emission geothermal power facility uses heat from the Earth to generate electricity. Its net production of 23 MW can supply the energy needs of about 20,000 homes and is currently delivering electricity to the Idaho power grid.

These kinds of long-term investments nudge both companies into the realm of being diversified energy producers rather than merely conduits for petroleum products looking to get to market. That's a smart long-term bet according to Steven Paget, the director of institutional research for FirstEnergy Capital. "Enbridge and TransCanada are asking, 'Where is energy going to be in 25 years?' And to get that answer, you need to purchase, permit and develop renewable energy sources. The only way to get to know about renewables is to own some. You can't just read books about it."

Indeed, Paget says, pipeline companies like Enbridge and TransCanada are ideally suited to the business of renewable energy. "Pipelines and utilities have many things in common that make - transitioning from transmission companies to energy providers possible. Like pipelines, renewables are complicated long-term projects that require access to secure financing. What makes them attractive is that in many cases the returns are stable due to the fact that the revenue stream is guaranteed by government-ordered contracts. Companies like Enbridge and TransCanada can accept high up-front costs in return for a stable, guaranteed rate of return."

Sometimes these investments will even work out where an energy-producing asset is purchased that depends on the spot market. "TransCanada's New England hydro plants are long-term, low-cost power producers that specialize in selling spot power," Paget says "The cost to develop these same assets would be much higher today." Wind projects, though, are potentially riskier. Superficially, they look fairly straightforward – purchase a wind turbine and sell the power into the grid at the spot price. But stationing wind turbines in the right place is making a bet on the weather – and uncertainty is rarely conducive to long-term investment. "They're like an ATM that only spits out money once the wind blows," Paget says. "There are a lot of up-front costs that can knock your equity return down to zero."

That said, while these investments in renewable energy will help Enbridge and TransCanada diversify their portfolios and improve their public image, they aren't enough for either company to pass muster with so-called ethical investors like Northwest and Ethical Investments. NEI is an investment firm that's co-owned by the Desjardins Group and the Provincial Credit Union Centrals, and manages over $7 billion in a variety of both traditional and ethical mutual funds. It vets companies before it puts them in its flagship Ethical Canadian Equity Fund, a process that involves a rigorous ESG (environmental, social and governance) risk analysis. And neither Enbridge nor TransCanada made the cut. "We're not looking for the perfect company," says Jamie Bonham, NEI's manager for extractives research and engagement, "but we do have baseline expectations. We are looking at companies who have a long-term energy transition strategy away from fossil fuels."

TransCanada's ownership of nuclear power precludes it from qualifying as an ethical investment, something that's a holdover from the early days when ownership in nuclear, military or tobacco companies was strictly forbidden. Enbridge, though, is a more complicated matter. Bonham is quick to praise Enbridge's significant involvement in renewable energy, and NEI's ethical funds held their stock at one time. But the company's pursuit of its Northern Gateway pipeline project gave NEI cause to sell – and a reason to be critical. "Around 2006, though, we felt that Enbridge was not respecting the rights of First Nations in British Columbia and we introduced shareholder resolutions to try and get the board to change their mind." That criticism, Bonham says, undermines any positive steps the company is taking on the renewables front – something that's an object lesson, perhaps, for both companies. "The good work that Enbridge is doing in renewables and becoming a diversified energy company is not enough to overcome our opposition to Northern Gateway. Regrettably, if they continue on that path, I don't think their investment in renewables will get the attention that it deserves."