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Base Hits to Rebuild the Base of Industry (Chapter 5)

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*Canadian politicians, like baseball sluggers, often swing for the fences—announcing sweeping policy visions designed to grab headlines and secure legacy. But in baseball, as in policymaking, long-term success is more often built on a steady stream of singles and doubles. In today's **MLB**, only about 3% of plate appearances result in a home run. Reform, like baseball, is typically won by advancing runners rather than swinging for the fences.*

The lesson for Canada's economic strategy is clear: Ottawa must keep its eye on the ball by focusing on high-probability policy plays, rather than concentrating solely on rare moonshots. Such high-probability measures include streamlining regulation, accelerating project approvals, providing clear and bankable incentives for private capital, and investing in foundational infrastructure.

These policy "base hits" may not generate headlines, but they're the most reliable way to move the economy forward. They're precisely what's needed to close Canada's persistent valuation gap, rebuild industrial competitiveness, and re-attract long-term capital—one base at a time.

*With that in mind, the Economics & Strategy team, together with colleagues across the bank, is continuing its policy paper series into the 2026 season under the banner Rebuilding the Base of Industry (RBI). Much like an RBI in baseball drives runs across the plate to win the game, our RBI initiative aims to drive practical, high-impact reforms across the finish line. **With spring training underway, it is time to put some long-idle muscles back to work. Chapter 5 of the series makes the case for bringing Line 2 of the TC Mainline back into play after more than a decade of inactivity—restoring a direct flow of Canadian natural gas to Ontario and Quebec.***

#5: Eastbound and down! How TC's Mainline can fuel Canada's re-industrialization

Executive Summary: With TC Energy's (TRP) Natural Gas Mainline Settlement expiring at the end of 2026, the company is currently evaluating market support and technical feasibility for an expansion of its ~6.0 bcf/d Mainline into Eastern Canadian markets, including Ontario and Quebec. Line 2 has been inactive since 2013, representing an opportunity to bring it back into service for a relatively modest capital investment, including additional compression and/or looping through Ontario, adding 0.8+ bcf/d of capacity. To put this into context, the incremental natural gas supply would be enough to support the buildout of ~5.0 GW of new combined cycle power generation capacity (~20% of Ontario's peak demand). Ottawa's newly articulated defence industrial strategy, combined with a more unstable geopolitical backdrop, strengthens the case for eastbound gas infrastructure as a pillar of industrial resilience and national security. **It is also a national unity project: a stronger east-west energy corridor would anchor the Alberta-Ontario-Quebec industrial partnership, reduce reliance on foreign supply, and ensure Canadian resources power Canadian prosperity.**

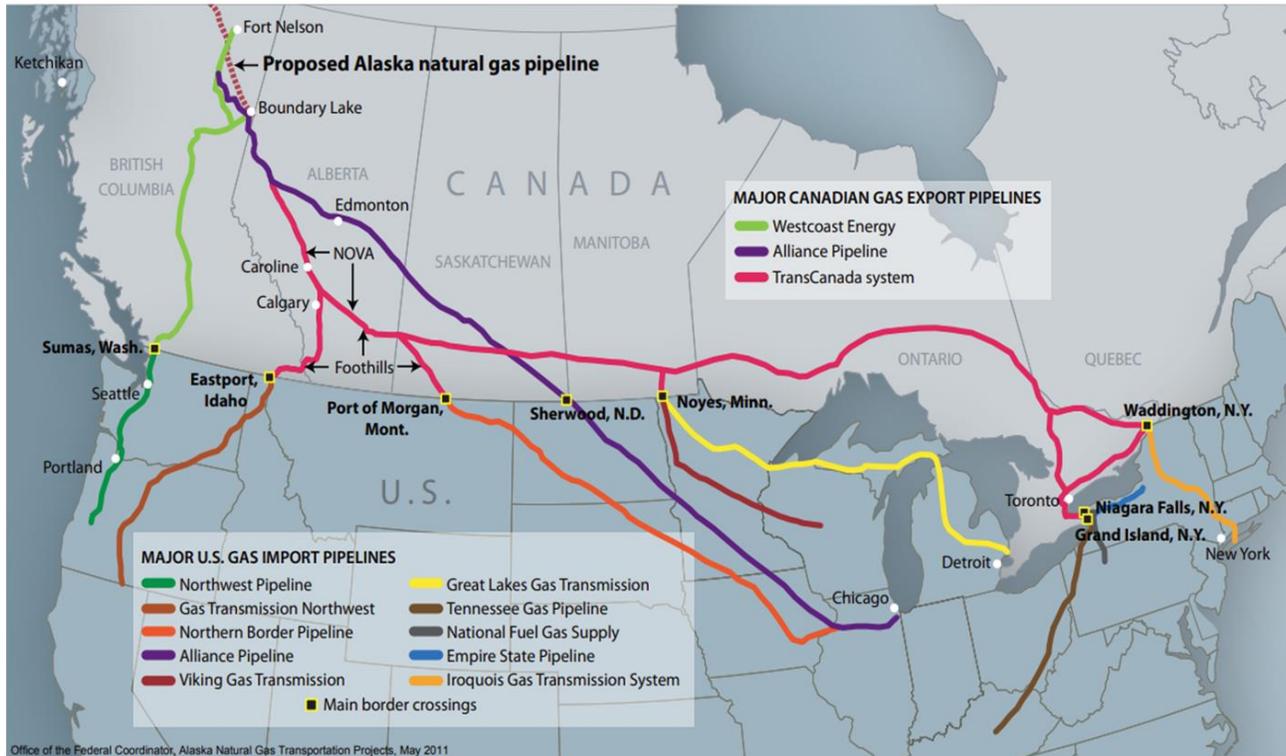
A. What's the mainline settlement renewal process?

- Commercially, the Natural Gas Mainline operates under a fully subscribed six-year settlement (2021–2026), providing for a regulated Return on Equity (ROE) of 10.1% on a deemed 40% equity thickness — equivalent to an unlevered Internal Rate of Return (IRR) of approximately 6–7%. Including incentives to decrease costs while increasing revenues under a beneficial sharing mechanism with its customers, TRP has been able to generate a relatively healthy realized ROE of ~15.0% since 2021 **according to the Canada Energy Regulator** (CER). However, this compares to TRP's U.S.-based contracted unlevered IRRs on gas pipeline projects in the low-double digit range, translating into a 400-600 bps pick up in realized ROEs. Combined with a much faster permitting and approval process south of the border, management's strategy to maximize shareholder value is to prudently prioritize its growth capital allocation of \$6-\$7 billion per year towards U.S. projects.
- That said, we believe with the right cost incentives and revenue sharing mechanisms in place, combined with the low-risk brownfield expansion opportunity, the 2027+ Mainline Settlement represents a timely opportunity for domestic stakeholders to showcase Canada's unified commercial competitiveness.

B. Poster child for Canada's major infrastructure projects

- The ~14,100 km Canadian Mainline, commissioned in 1958, consists of five natural gas pipelines originating at the Alberta border and extending eastward. Akin to a reverse telescope, five lines run through Saskatchewan, four into Manitoba (with one branching off into the U.S. Midwest), three into Ontario, and ultimately one line that runs into Quebec and TQM (accessing Atlantic Canada and Northeastern U.S.).

Canada-U.S. Natural gas pipelines & major hubs



Source: Office of the Federal Coordinator

- Although infrastructure exists to import gas into Ontario from the U.S., including the 1.5 bcf/d NEXUS Transmission pipeline connecting the Marcellus/Utica shale basins, we note a slightly lower toll for the Mainline of US\$1.08/mcf into the Dawn hub versus ~US\$1.13/mcf for NEXUS—a competitive economic advantage that could strengthen in favour of TC's Mainline assuming an expedited federal approval process (outside of the Major Projects Office), while potentially reducing tolls further across the system based on higher throughput being spread across a modest uptick in rate base.
- In our view, the commercial case for moving additional gas from the Western Canadian Sedimentary Basin (WCSB) — Canada's primary natural gas producing region — eastward is strong, particularly as Eastern Canada's demand for reliable gas supply grows alongside increased gas-fired power generation and broader electrification of the economy.

C. Downstream stakeholder dynamics

- Several gas utilities (LDCs; Local Distribution Companies) rely heavily on the delivery of WCSB gas via the ~6.0 bcf/d Mainline, including Manitoba Hydro, Enbridge Gas Ontario, and Énergir, as well as large industrial users and gas marketers across Central Canada. Importantly, when the current 2021–2026 settlement was signed, Ontario's natural-gas-fired generation was less than half of today's level, underscoring how materially the demand backdrop has shifted in just a few years (see chart).

Ontario: Gas-fired electrons at a record high

Electricity generation from combustible fuels



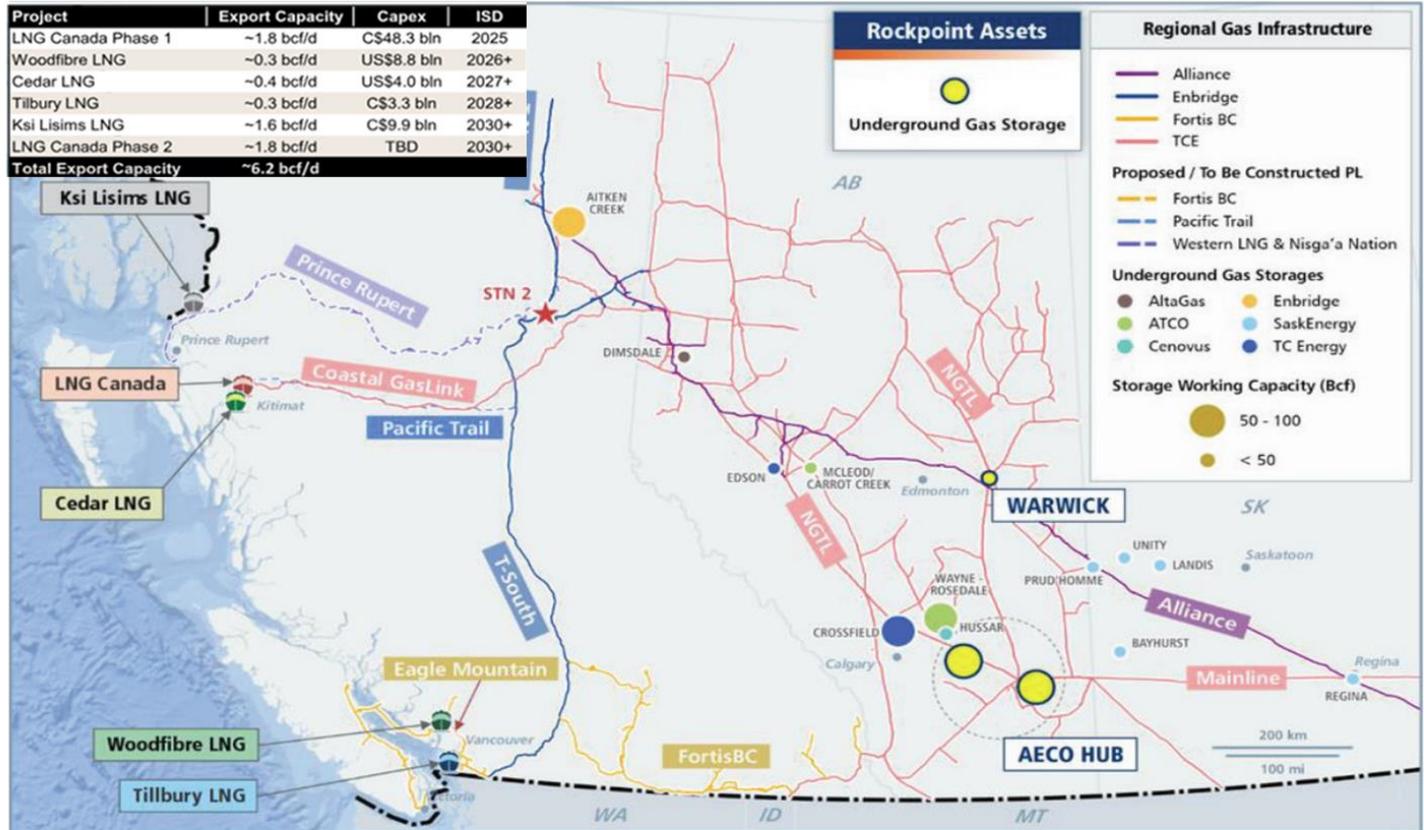
* Monthly data, 12-month moving sum
NBC Economics and Strategy (data via Statcan [25-10-0015-01](#))

- What was once framed narrowly as the “energy transition” has increasingly evolved into the “energy trilemma,” requiring policymakers to balance affordability, reliability/security, and decarbonization, rather than decarbonization alone. In that context, we expect sustained stakeholder support for the longevity — and selective optimization — of existing North American energy infrastructure, particularly assets that are already in place but underutilized.
- The Independent Electricity System Operator – the crown corporation which operates the electricity market in Ontario (IESO) projects Ontario power demand to rise by roughly 75% by 2050 (relative to a 2025 base), driven by industrial expansion, EV supply-chain manufacturing, data centres, and population growth. Given system reliability constraints, gas-fired generation is likely to remain an indispensable bridge during the multi-year build-out of transmission and nuclear capacity. Supplying approximately 5.0 GW of baseload gas-fired capacity would help Ontario navigate the gap before major nuclear investments enter service. Recall that Bruce Power (TRP: ~49%) is currently undertaking pre-FEED studies for its 4.8 GW Bruce C expansion, working towards a positive FID early next decade, and a 10-15 year construction period pointing towards an early-to-mid 2040's in-service date.

D. Upstream supply outlook

- From a gas supply standpoint, the WCSB is on pace to grow production by an impressive ~4 bcf/d (~25%) from 2019 levels towards ~20 bcf/d by 2026e, driving more than 10 bcf/d in 2026e of surplus volumes available for export. Of note, TRP's 2.4 bcf/d Coastal Gas Link (CGL) pipeline is expandable through adding compression towards ~5.0 bcf/d to support LNG Canada Phase 2 (ISD 2030+), which was recently deemed a National Interest Project. Meanwhile, the \$10 bln, ~1.6 bcf/d Ksi Lisims LNG project also recently received National Interest status and regulatory approvals, with operations potentially commencing beyond 2030, subject to timely pipeline construction. Overall, we see >6 bcf/d (~30% of current WCSB supply) destined for incremental domestic consumption (data centers / power generation, petrochemicals / oil & gas industry), as well as rising LNG exports.

Western Canada natural gas & LNG infrastructure



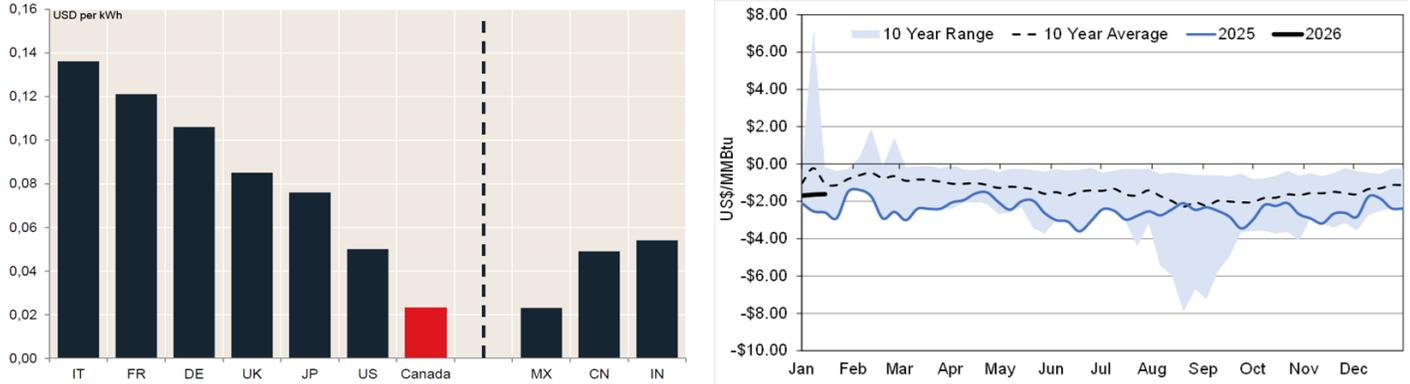
Source: NBC Capital Markets (Calgary)



E. What does all this mean for pricing?

- Canada's highly productive, yet landlocked WCSB, has resulted in a structural discount for domestic producers, which represents a structural competitive advantage for Canadian manufacturers. In fact, petrochemical companies such as Nova and Dow have long referenced their industry-leading ethane feedstock cost structures as their 'Alberta Advantage'. Moreover, this sustainable feedstock cost advantage as measured by the basis spread between AECO and NYMEX pricing has only widened over the years – currently averaging ~US\$1.65/mcf for 2026 YTD, >20% wider than the 10-year historical average of ~US\$1.35/mcf (charts).

Global natural gas prices for businesses and AECO-NYMEX basis spread



Source: NBC Capital Markets (Calgary)

- Although rising LNG exports will help to provide somewhat of a relief valve for surplus Canadian gas supply, we expect rising gas production will continue to be driven largely by liquids-rich economics across the Montney and Duvernay regions, maintaining a structural advantage for domestic consumers of associated natural gas volumes accessed through the relatively low-cost Canadian Mainline transportation system.

F. Conclusion

The Mainline renewal is not merely a regulatory proceeding — it is a strategic inflection point. It offers governments a rare opportunity to align infrastructure policy with Canada's long-term economic, energy, and defence priorities, while strengthening national unity through deeper east-west integration. Reactivating and optimizing existing capacity — rather than pursuing new greenfield corridors — is capital-efficient, operationally pragmatic, and likely to encounter fewer social and environmental hurdles.

Line 2 has been idled for more than a decade. In a period defined by energy security and industrial renewal, restoring it to service as part of the 2027+ Mainline Settlement would represent a measured, practical step — and a timely RBI in rebuilding Canada's industrial base.



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