Risk Warning: Surprise CER Decision Adds Extra Uncertainty to Enbridge (TSX:ENB)

Description

Only last week, the potential uncertainty that an investment in **Enbridge** (TSX:ENB)(NYSE:ENB) could add to a stock portfolio already looked quite high. That situation has since escalated, with two developments confirming that the stock might not be suitable for the strictly low-risk shareholder at the moment.

Two midstream curveballs at once

The first development is that the Minnesota Pollution Control Agency denied Enbridge a permit for the proposed Line 3 project before the weekend. The water permit is key to the proposed 340-mile pipeline and now requires a number of points to be satisfied before re-application. Without it, the Line 3 pipeline won't be able to proceed.

The second is that the Canada Energy Regulator (CER) has halted Enbridge's Mainline open season. The CER has taken action in response to Enbridge's intention to switch from monthly contracts to locking oil shippers into long-term agreements.

The CER said of its decision: "The Commission has concerns regarding the fairness of Enbridge's open season process and the perception of abuse of Enbridge's market power."

Enbridge responded Monday by reaffirming its intentions, asserting that the majority of its customers supported changes to the Mainline system. Guy Jarvis, the executive vice president of Liquids Pipelines stated, "Friday's decision by the CER is a departure from the decades of precedent and commercial practice in our industry."

He added: “Although the CER decision results in a change to the process of securing commercial support through an open season in advance of the regulatory application, it does not change our plans to respond to the desires of our customers for priority access to Mainline capacity, toll certainty, and access to the best markets that contract carriage offers.”

Energy investors will be watching Enbridge closely this week. While a sell-off could open a value opportunity and a higher dividend yield, which was sitting at 6.18% at the end of last week, would-be pipeline investors will have to ask themselves whether they want to add uncertainty to a passive-income portfolio at such a fraught time in the markets.

From one market leader to another

A wide-moat alternative to Canada’s biggest midstream energy giant would be one of Canada’s biggest banks, a leading telecom stock, or even a key consumer staples stock. **Nutrien** could fit the bill, as it, like Enbridge, commands a market-leading position in a classically defensive sector. The pays a decent enough yield of 3.62%.

Nutrien is a strong choice for long-term passive income, and a stack of shares in the world-beating potash miner and agri supplier is a buy-and-hold option for anyone planning or adding to a low-risk personal portfolio. However, even Nutrien has its risks. Weak demand for fertilizer at the moment has led potash producers, Nutrien included, to reduced output since August.

The bottom line

An investor looking to swap out Enbridge stock for something less nerve-wracking doesn’t necessarily need to stick to the oil patch if their main investment strategy is focused simply on wide-moat, dividend-paying businesses. Market leaders in other industries should be able to fill the gap, with stocks like Nutrien offering solid, long-term income with less volatility than oil stocks but comparable levels of growth and yield.

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