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Enbridge, Inc. (ENB)

Q2 2023 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, welcome to the Enbridge, Incorporated Second Quarter 2023 Financial Results Conference Call. My name is Abby and I will be your operator for today's call. At this time, all participants are in a listen-only mode. Following the presentation, we will conduct a question-and-answer session for the investment community. [Operator Instructions] Please note that this conference is being recorded.

And I will now turn the call over to Rebecca Morley, Director of Investor Relations. Rebecca, you may begin.

Rebecca Morley

Director-Investor Relations, Enbridge, Inc.

Good morning and welcome to the Enbridge second quarter 2023 earnings call. My name is Rebecca Morley, and I'm the Director of the Investor Relations Team. Joining me this morning are Greg Ebel, President and CEO; Pat Murray, Executive Vice President and Chief Financial Officer. And the heads of each of our business units: Colin Gruending, Liquid Pipelines; Cynthia Hansen, Gas Transmission and Midstream; Michele Harradence, Gas Distribution and Storage; and Matthew Akman, Renewable Power.

As per usual, this call is being webcast and I encourage those listening on the phone to follow along with the supporting slides. We'll try to keep the call to roughly one hour. And in order to answer as many questions as possible, we will be limiting questions to one plus single follow-up if necessary. We'll be prioritizing questions from the investment community. So, if you're a member of the media, please direct your inquiries to our communications team who will be happy to respond. As always, our Investor Relations team will be available following the call for any follow-up questions.

On to slide 2, where I'll remind you that we'll be referring to forward-looking information during today's presentation and question-and-answer period. By its nature, this information contains forecasts, assumptions and expectations about future outcomes, which are subject to the risks and uncertainties outlined here and discussed more fully in our public disclosure filings. We'll also be referring to non-GAAP measures summarized below.

And with that, I'll turn it over to Greg Ebel.

Gregory Lorne Ebel

President, Chief Executive Officer & Director, Enbridge, Inc.

Thank you, Rebecca. And good morning, everyone, and thanks for joining us. I'm excited to be here today to review our strong second quarter results and provide a business update. I'll start off by doing a mid-year check in on some of our key priorities that we laid out for you at our Investor Day. I'll then take you through some updates from our four businesses and provide highlights from our 22nd Annual Sustainability Report. I'll also highlight how our industry-leading diversified cash flow profile underpins our strong balance sheet and will continue to support Enbridge as a first-choice investment opportunity.

Pat will then walk you through the financial performance, our capital allocation priorities and growth outlook. Lastly, I'll close with a few key takeaways. And as always, the Enbridge team is here to address any questions you may have. Q2 was a really good quarter for Enbridge. We saw a high utilization across our assets and had strong financial results consistent with our expectations. This performance puts us on track to meet our full-year EBITDA and DCF per share guidance.

Our balance sheet is in great shape. We have a high investment grade credit rating, and we exited the quarter at 4.5 times debt-to-EBITDA. The very low end of our target range of 4.5 times to 5 times. We are pleased to have reached a settlement in principle with shippers on the Mainline Tolling early in the quarter, which was great news for us, our customer and the industry overall. We will provide an update on next steps when we discuss our business units.

On growth, we made good progress on our US Gulf Coast crude oil strategy by extending and upsizing Flanagan South's open season where we saw very strong interest for customers for that pipeline service.

We also sanctioned new storage capacity with Enbridge Houston Oil Terminal or EHOT, enhancing the competitive profile of our Mainline System to deliver Canadian oil to the US Gulf Coast. We have filed a partial settlement on our utility rebasing application which includes important matters and has been verbally approved by the OEB panel. We expect a final outcome on 2024 rates by Q4. This will provide benefits to our investors and customers and will support Ontario's population growth, energy affordability and economic growth in the province.

We continue to see growth opportunities in our renewable business and anticipate reaching FID on certain US onshore development projects by year-end. And we're pleased that NextDecade reached FID on Phase 1 of their Rio Grande LNG facility. We are in the process of obtaining necessary permits and regulatory approval for our Rio Bravo Pipeline project and plan to start construction in 2025. We've executed over CAD 1 billion of accretive tuck-in M&A year-to-date.

In liquids, we increased our ownership and acquired operatorship of Gray Oak Pipeline, which delivers crude to our world-class export facility at Ingleside.

In gas transmission, we enhanced our North American LNG export strategy by closing the Tres Palacios natural gas storage acquisition and acquiring Aitken Creek natural gas storage facility, which we expect to close in Q4.

Lastly, we continued to sustainably return capital to our shareholders. All in all, a great start to the year and as mentioned, we are on track to achieving our financial guidance and we are making good progress on our growth commitments which include all forms of energy across our premier franchises. We continue to believe that all forms of energy will be required for years to come. Natural gas and oil will remain critical components of our energy supply in all energy transition scenarios that balance the energy trilemma of reliability, sustainability and affordability.

Our asset network is large, diverse and unmatched, providing opportunities to grow each of our base businesses while our customer relationships, diversified asset footprint and capabilities open up new opportunities for lower carbon investment.

Now, let's take a closer look at some of the recent highlights in our business units, which support our low-risk pipeline utility model. Let's start with liquids. In liquids pipelines, the Mainline System remains highly competitive. We saw record volumes in the first half of the year and extended and upsized a binding open season for the Flanagan South Pipeline. FSP will approach being 90% long-term contracted, reinforcing strong utilization of Mainline infrastructure, delivering barrels into Chicago and downstream infrastructure serving the US Gulf Coast including Seaway Pipeline and Enbridge Houston Oil Terminal.

And liquids system really is one of a kind. It provides attractive transportation access to approximately 75% of North America's refining capacity. As mentioned, we reached a win-win-win Mainline Tolling agreement in principle with our customers in May. This was the result of committed engagement and negotiation by both our team and the shipper representatives. The settlement will provide utility-like returns and alliance with customers' desire for safe, reliable service at a competitive toll. A key feature of the agreement is a performance cover that will allow Enbridge to earn a return on equity between 11% and 14.5% on a capital structure of 50% equity and 50% debt.

This collar mechanism incentivizes us to control costs and to maximize throughput to earn in the upper part of the ROE range, while also providing some downside protection in the event of extreme volume disruptions.

Cash flows generated by the asset will be protected from inflation with O&A and power expense escalators set to begin in mid-2024 with annual increases thereafter. In terms of next steps, we expect to jointly finalize the settlement with industry and submit an application for its approval to the Canadian (sic) [Canada] (00:08:49) Energy Regulator by October, with the expectation that the new tolling settlement could be approved and implemented later this year.

Now, Line 5 has made a few headlines over the past few months, so I thought I'd spend a few moments addressing our position and what's happening in Wisconsin. We are pleased that the Federal District Court agreed that Line 5 continues to operate safely and is critical infrastructure delivering life-saving energy to millions of consumers downstream. Three years ago, we filed for a 41-mile re-route in Wisconsin to relocate the pipeline off the Bad River Band's land. We believe the pipeline can be relocated in the three years provided, regulatory approvals are obtained in a reasonable timeframe. And as a reminder, the new Mainline Tolling agreement also provides support for investment in both the Line 5 re-route plant in Wisconsin and the tunnel project proposed in Michigan. Line 5 continues to operate safely and reliably, and we look forward to working with the Bad River Band regulators and other stakeholders to relocate Line 5 with no service disruption expected.

Looking at a Permian strategy, the Enbridge Ingleside Energy Center is turning out to be an all-purpose Swiss Army knife. It is indeed a one-of-a-kind terminal with the largest crude export capacity in North America. Onsite storage and a suite of lower carbon development opportunities, including renewable power. We've seen record quarterly volumes at the facility and our Gray Oak Pipeline confirming our belief that a full pass service for our customers from the Permian to Tidewater is a highly attractive competitive offering.

In March, we signed an LOI with Yara to jointly construct a blue ammonia production facility at Ingleside that is backed by a long-term offtake agreement. We're also planning to construct a carbon capture and sequestration hub in the region, as part of our previously announced partnership with Oxy Low Carbon Ventures. A key competitive advantage of the term loan is ownership of two pipelines, Cactus II and Gray Oak that deliver Permian crude to the facility. We are looking to expand Gray Oak Pipeline by up to 200,000 barrels per day with an open season planned for later this year. Additional capacity will provide customers with access to low-cost integrated value chain that provides operational synergies and the lowest cost to Tidewater from the Permian.

Now, let's move on to some of the exciting developments in our gas transmission business. In the US, we are excited about NextDecade announcing a final investment decision on the first three trains to export LNG from their Rio Grande LNG facility at the Port of Brownsville. Now, this allows us to advance our Rio Bravo Pipeline project which will supply 100% of the feedstock gas to the terminal as a key part of our US Gulf Coast strategy. We are in the process of obtaining necessary construction permits and notice to proceed from FERC for the project with commercial operations expected in 2026. We recently closed our acquisition of the 35 Bcf Tres Palacios gas storage facility, further supporting LNG customers along the Gulf Coast. We've seen re-contracting rates move significantly higher and permitting is underway to expand the facility by up to 6.5 Bcf, and we will work with our customers to deliver more capacity in the next 12 to 24 months.

Currently, we provide service for 15% of the export capacity on the Gulf Coast through four LNG facilities operating in the region, and we expect to grow that position to about 30% of the market share by 2030. In the US Northeast, we've identified significant and scalable expansion capability on Texas Eastern, which cuts through the heart of the Appalachian Shale. Our Appalachia to Market projects are a perfect example of this and we look forward to helping Appalachia Gas reach the growing markets for all gas in all directions.

In Canada, the engineering work on Woodfibre LNG is progressing on schedule, and we expect to set our preferred returns early next year. On our Westcoast Pipeline System, we're progressing CAD 5 billion of investment on the T-North and T-South systems to feed Westcoast LNG terminals and other industrials in the Pacific Northwest. On T-North, we'll be looking to re-launch a binding open season for a second expansion of that BC Pipeline system by year-end.

You recall that we were acquiring Aitken Creek gas storage. Closing is on track to occur later in 2023. This asset is well positioned and will enhance our service offering to our customers and support our LNG export strategy in British Columbia.

So, now let's take a look at our gas distribution business. We are expecting another strong year of customer growth. We're on track to achieve more than 42,000 new customers with 21,000 added year-to-date. Ontario's population is expected to grow by over 2 million people over the next 10 years, making natural gas critical to meeting customer energy demand.

On the industrial side, there are few economic alternatives to natural gas to meet demand, and we're seeing tremendous growth opportunities across all sectors. On the rebasing application, we have held the settlement hearing for a new incentive rate application for the period of 2024 to 2028. We negotiated a partial settlement on important matters such as operating rate base and operating costs with recommended approval by the OEB staff. There are still some important items that need to be settled including equity thickness and depreciation. But we expect a regulatory decision by year-end and plan to enact new rates on January 1, 2024.

Our focus on cost optimization and reliable service has allowed us to consistently achieve above-the-base ROE, as you can see in the chart on the right. We have a long track record of working under incentive rate mechanisms, providing quality, safe service and predictable rates for our customers while also allowing us to achieve premium returns within the parameters set by the regulators.

The Ontario government recently announced, and I quote, natural gas will continue to play a critical role in providing Ontarians with a reliable and cost-effective fuel supply for space heating, industrial growth and economic prosperity. With developments in energy efficiency and low carbon fuels such as RNG and low carbon hydrogen, the natural gas distribution system will help contribute to the province's transition from higher carbon fuels in a cost effective way, end quote.

We agree with the Ontario government and believe renewables will also grow rapidly and be critical to meeting global emissions targets. But renewable growth cannot be sustained without being closely intertwined with the natural gases' intermittency and peak sales phase for consumers.

Speaking of renewables, let's take a look at some of the developments in our renewable business. We're making good progress on our French offshore wind projects under construction. Over 1 gigawatt of new generation is expected to be online by 2025. At Fécamp, the first turbines have been installed. And at Provence Grand Large, all floaters have been secured. We are tracking on time and budget, with both projects expected to be fully in service by the first quarter of 2024. Calvados continues to make good progress and is tracking on time and budget.

In North America, we have more than 4.5 gigawatts of onshore projects in development. A portion of these projects will come online by 2025, with some expected to reach FIDs later this year. All projects have to pass our strict risk-return parameters, so don't expect us to make undisciplined investments just for the sake of growth.

Our behind-the-meter strategy is continuing to gain traction. Our first solar self-power project came online in 2021, and we now have six in service, three of which came online in 2023 with more than 30 megawatts of capacity. With technology improvements, rising renewable energy credits, prices and tax incentives, more of these developments are producing strong returns and help reduce our emissions footprint.

On that note, we published our 22nd Annual Sustainability Report. So, let's move on to that next. The report highlights our long-standing focus on sustainable practices and our industry-leading performance across environmental, social and governance issues. We expanded our methane reporting, included more detail on Scope 3 emissions; enhanced our Climate Lobbying reporting and outlined progress made on our Indigenous Reconciliation Plan. We're making good progress on the targets we laid out. To-date, we have reduced our GHG emissions intensity by 27% compared to a 2030 target of 35% and have achieved 18% of our net zero emissions goal for 2050.

In our workforce, diversity/inclusion remain a focus, with 31% identifying as women and 25% as racial and ethnic groups. We're making good progress on these priorities and remain committed to such improvements. On governance, our board is more diverse than ever. Our Chair is Pamela Carter, an accomplished black woman who brings extensive experience and sound business judgment. Across the company, we have integrated emission reductions consideration into our day-to-day operations, capital allocation processes, and aligned executive compensation to performance against our ESG strategies.

Our low-risk business model continues to deliver predictable results in all market cycles. So, let's walk through our first-choice value proposition. Enbridge has an industry-leading cash flow profile which supports our resilient business model. Our cash flow is diversified across four large businesses, and approximately 98% of our expected 2023 EBITDA is underpinned by regulated assets or long-term take-or-pay contracts. About 51% of that is what we call take-or-pay plus, meaning the assets are underpinned by long-term agreements with inflation protection and cost sharing provisions, including the new Mainline Tolling settlement which will now have a collared floor ROE about [ph] 40% to 70% (00:19:49) of our EBITDA is low risk and utility like with limited variability.

Earnings from these regulated assets have a prescribed rate of return on deemed equity thickness. So, our high-quality cash flow profile has little to no commodity exposure and volume risk while having a high degree of assets earning regulated returns with costs pass-throughs. This underpins our low-risk business model, which is very similar to a utility allowing us to carry somewhat higher leverage than our peer midstream peers. 95% of our customer base is investment grade and 80% of our EBITDA comes from assets with built-in inflation protection against rising cost. This cash flow predictability supports our strong access to capital and allows us to maintain our strong investment grade credit rating.

Financial conservatism remains a key priority, and it's a hallmark of how we've delivered consistent returns for shareholders. We've actually delivered attractive total shareholder returns of approximately 12% per year for more than 20 years, driven by capital appreciation and consistent dividend growth. And as we just highlighted, our diversified low risk pipeline utility model produces reliable cash flows to support these returns, maintain a strong balance sheet and extend our dividend growth track record.

Over the medium term, we expect to grow EBITDA by about 5% per year by incorporating conventional infrastructure investments as well as finding lower carbon opportunities throughout the business. Sustainably returning capital to shareholders is also a key part of our value proposition, and we expect that to continue in the future. So, now let me turn things over to Pat to walk you through our quarterly financial results, our capital allocation priorities and our growth [ph] program (00:21:41).

Patrick R. Murray

Chief Financial Officer & Executive Vice President, Enbridge, Inc.

Thanks, Greg, and good morning, everyone. I'm excited to walk you through our second quarter results. Strong operational performance resulted in an 8% increase in EBITDA year-over-year. In liquids, the Mainline performed well again. We had a new record for Q2 throughput with [ph] extra volumes (00:21:59) averaging almost 3 million barrels per day, up over 200,000 from the same quarter in 2022.

The Mainline also benefited from the recognition of a lower provision against the in term CTS-IJT toll total this quarter, as compared to the same period last year. After we came to agreement in principle on the Mainline Tolling and knew the exact impact on the in-term toll, we didn't need to accrue as much of a provision in the second quarter as we had previously.

Finally in Liquids, contributions from higher ownership in the Gray Oak and Cactus II Pipeline increased the US Gulf Coast and Mid-Continent results. At GTM, our lower ownership interest in DCP Midstream as a result of the transaction with Phillips 66 impacted our results year-over-year. This was partially offset by the acquisition of the Tres Palacios storage facility and favorable re-contracting on our US gas Transmission and Storage assets.

Our utility business was down in the quarter, but this was primarily due to the timing of storage and transportation margin. As noted in Q1, this is reversing some favorability from earlier in the year and will continue into the back half of this year. Our Renewable business benefited from Saint-Nazaire coming into service at the end of last year, but that was partially offset by slightly lower wind resources and lower European power pricing.

At Energy Services, a number of our transportation commitments expired during Q1, and market backwardation has improved compared to the same period in 2022. Below the line, higher interest rates on floating rate debt and timing of maintenance capital as well as higher controlling interest distributions from our strategic new partnership with the Athabasca Indigenous Investment Group partially offsets the stronger operational performance of the business. Our results are driven by the diversity and scale of our assets and highlight the low-risk nature and predictability of our financial and operational performance.

So, with a great first half of the year, let's talk about how we're tracking to our guidance. I'm pleased to be reaffirming our 2023 financial guidance again this quarter. We expect strong utilization and operating performance across all of our businesses to continue. However, as we expected, the lower Mainline Toll coming in effective July 1 and higher financing costs due to increased interest rates will be minor headwinds, and we expect these to play out primarily in the third quarter.

As we think about the rest of the year, let me remind everybody about the seasonality in our business. Q1 and Q4 are typically our strongest financial quarters due to higher gas flows during winter on both our gas transmission and distribution systems. As well, we experience higher deliveries on our liquids system outside of turnaround season. In terms of risk management, we've had almost all of our US dollar DCF exposure at around CAD 1.37, and our floating rate debt exposure, it's much less than 5% now. This increases our confidence at our financial projections for the balance of the year.

Now, let's look beyond this year to our medium-term outlook. We're also happy to reaffirm our medium-term outlook, and there is no change to what we laid out at our Investor Day. The first bucket of growth will be a big focus of our company over the next little while. We've recently settled on new tolling frameworks for BC Pipeline and Texas Eastern. We're in the process of finalizing the Mainline Tolling agreement and the utility rebasing is expected to be in place for January 2024. Although these agreements are similar to their predecessors, we're incentivized through all of them to optimize under each agreement, which will help us to achieve our low capital growth rate.

In the second bucket, we're advancing opportunities to build out our secured organic growth projects with NextDecade reaching FID on Rio Grande LNG. We added the Rio Bravo Pipeline to our secured backlog. On the open season front, we advanced our FSP and Texas Eastern open seasons and are still planning a T-North I by year-end. Finally, we continuously look at opportunities for both organic growth and opportunistic tuck-in M&A. We continue to execute the strategy put forward to Enbridge today and will effectively allocate capital to deliver growth. So, let's talk about those capital allocation priorities.

As I step into the CFO role, I want to reiterate that our capital allocation strategy is unchanged. Our number one priority is maintaining a strong, flexible balance sheet. Q2 debt-to-EBITDA was 4.5 times. And we expect to exit 2023 within the lower half of our target range, leaving us room to execute on our secured capital program. We continue to return capital to shareholders through a sustainable and growing dividend and opportunistic share repurchases. Our financial flexibility and predictable cash flow provides us with approximately CAD 6 billion a year of investment capacity and will allocate capital only to the best opportunities in front of us. So, let's turn to that secure growth program.

Today, our secure growth program sits at CAD 19 billion. It is diversified across our businesses and the regions that we operate and is expected to be deployed over about the next five years, which helps to mitigate against inflationary cost pressures. New to our backlog this quarter is the addition of the Rio Bravo Pipeline, with construction expected to begin in 2025. NextDecade's FID on the first three liquefaction trains of Rio Grande LNG was the trigger for us to continue construction planning on this project. When we announced this project, our original cost estimate of CAD 1.2 billion was for a two-train build, we're currently refining our three-train engineering estimate and expect to update our capital cost by year-end. We expect to place approximately CAD 3 billion of capital into service for 2023 and already announced CAD 1.1 billion of tuck-in M&A year-to-date with the final one closing, that being Aitken Creek, later this year. Now, I'll turn it back to Greg to wrap up.

Gregory Lorne Ebel

President, Chief Executive Officer & Director, Enbridge, Inc.

Thanks, Pat. And as we wrap up here for questions, I want to leave you with a few key takeaways. Enbridge's resilient, low-risk business model is supported by our scale, diversification and high-quality cash flows which positions us to withstand market volatility and deliver predictable results. Returning capital to shareholders remains a key focus through sustainable dividend growth and opportunistic share repurchases. We're confident in our ability to achieve our growth outlook by optimizing the business, adding to our visible growth backlog and executing additional tuck-in M&A. Our premium growth profile incorporating conventional infrastructure investments and lower carbon opportunities supports dividend growth, long-term shareholder returns and positions us as a first-choice investment opportunity. Thank you. And now let's open the lines for your questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. We will now begin the question-and-answer session. [Operator Instructions] And we will take our first question from Jeremy Tonet with JPMorgan Chase. Your line is open.

Jeremy Tonet
Analyst, JPMorgan Securities LLC
Q

Hi. Good morning.

Gregory Lorne Ebel
President, Chief Executive Officer & Director, Enbridge, Inc.
A

Good morning, Jeremy.

Jeremy Tonet
Analyst, JPMorgan Securities LLC
Q

Just wanted to track, I guess, results this year seems like a strong first half where there was about just almost CAD 8.5 billion of EBITDA and want to square that versus the guide of CAD 15.9 billion to CAD 16.6 billion. Do you see yourselves tracking the high end of the guidance or above, or should we be thinking about items in the second half that would make the second half lower than the first half? Anything to think about there.

Gregory Lorne Ebel
President, Chief Executive Officer & Director, Enbridge, Inc.
A

Yeah, maybe I'll start there, Jeremy. Good question. Yeah, well, that's a very strong first half of the year. I think as Pat laid out, we've got a few little headwinds for the last half of the year. So, I think being right in the middle of that range is the right place for us. Remember, the fourth quarter is a big quarter for us. So, whether it's weather or volumes, those will impact where we finally land. So, don't want to get ahead of the fourth quarter of Mother Nature, but feeling good about the quarter where we are for the year, these projects coming in. So, I think sticking in the middle of that range is probably the right place to be today. But again, let's see how the fourth quarter goes. That can be a benefit sometimes.

Jeremy Tonet
Analyst, JPMorgan Securities LLC
Q

Got it. That's helpful...

Operator: And we will – I apologize. Go ahead.

Jeremy Tonet
Analyst, JPMorgan Securities LLC
Q

Just one more question, if I could. We've seen some big moves in the kind of the midstream landscape, strategic action by competitors, consolidation, among others. Just wondering if you have any updated strategic views for Enbridge moving forward. Anything to call out there.

Gregory Lorne Ebel
President, Chief Executive Officer & Director, Enbridge, Inc.

A

Well, Jeremy, I think we're in a great spot. I think what you're seeing out there is that breadth matters, size matters, the portfolio matters. I think increasingly you're starting to see that premium valuation should go to companies that can play all parts of the energy evolution. So, we've got the liquids business, we've got the gas transmission business and the distribution business, and renewables and increasingly some new energy technology. Those are increasingly, both vertically and horizontally, connected. And we think that's going to matter more and more. So, you think about the renewable business, as we said, doesn't survive without a good strong gas business, of which, as you know, we serve 20%, 25% of the volumes. The liquids business increasingly connected not only on the export side, but things like ammonia, blue ammonia and CCS. That's important to have that all together.

The LNG export business, you need transmission on that front. And then, on the distribution side of things, things like hydrogen or renewable natural gas, not only a benefit on the transmission side, but also for GTS. So, I think there may be some companies – there are definitely some companies that do not have that type of portfolio breadth. But when you do, I think you're in a sweet spot there. So, I wouldn't read too much into some people selling assets and such, I don't think people have the same type of portfolio set-up that we have. And I think the market's coming to us from that valuation perspective.

Jeremy Tonet
Analyst, JPMorgan Securities LLC

Q

Got it. So, just to be clear, no split in the outlook going forward here.

Gregory Lorne Ebel
President, Chief Executive Officer & Director, Enbridge, Inc.

A

Look, we're always looking at that. But I do not see – again, I'd go back. There doesn't seem – there seemed to be a dyssynergy for a company like Enbridge, which actually, again, has that complementary aspects of multiple parts of the business. So, again, the liquids business has elements that are actually connected to things like ammonia and CCS and the gas business. And the distribution business has connections to New Energy Technologies. So, I do not see that. Of course, we're always looking at making sure that we've got things structured to get premium valuation.

But I think the market has recognized we deserve a premium valuation because of that vertical and horizontal integration that goes on today. If that changed, we'd look at them. But I just don't see that today for a company of our breadth, size and diversity, and frankly, low-risk diversification as well.

Jeremy Tonet
Analyst, JPMorgan Securities LLC

Q

Got it. Thank you very much.

Gregory Lorne Ebel
President, Chief Executive Officer & Director, Enbridge, Inc.

A

Thanks, Jeremy.

Operator: And we will take our next question from Robert Catellier from CIBC Capital Markets. Your line is open.

Robert A. Catellier
Analyst, CIBC World Markets, Inc.

Q

Hi. Good morning and thanks for the presentation. I just wanted to focus on the liquids side a little bit here and specifically how the Ingleside terminal is being leveraged to – effectively to pull through volumes from the rest of the system. And maybe you could just touch on the competitive situation for the export terminals, please.

Gregory Lorne Ebel
President, Chief Executive Officer & Director, Enbridge, Inc.

A

Well, Colin is right here. So, I'm just going to turn it over to Colin.

Colin K. Gruending
Executive Vice President & President-Liquids Pipelines, Enbridge, Inc.

A

Sure. Thanks, Greg. Hey, thanks, Robert. Yeah, you're exactly right. So, the Ingleside terminal is our kind of our flagship anchor asset for a Permian strategy, meant to be differentiated, highly competitive from a number of reasons, as you know, dredged up distance to blue water-loading rate. We're now dredged and we can load VLCC up to 1.6 million barrels per day. So, and all of these drops nickels and dimes off the marginal barrel and competitive netback for our customers.

And then, as we've got capacity, as we've talked about to expand the storage and the docks there. That's all in our plan. And then, the vertical integration, which Greg just kind of spoke about more broadly, we've got that going on in the Permian as well with Gray Oak. Now, we've taken operation with Gray Oak, we've expanded a little bit. We've got. We do have offerings in the market here in Q3 at both Ingleside and Gray Oak for expansions. Watch for those and got our eye out for further tuck-ins along the value chain. So, I think during the quarter, Ingleside exported a quarter of US oil and record volumes. So, it's all trending favorably, Robert.

Robert A. Catellier
Analyst, CIBC World Markets, Inc.

Q

So, Colin, just to clarify, I'm curious the extent to which the possible offerings in the market for Ingleside in the second half are contingent on a successful line against health open season.

Colin K. Gruending
Executive Vice President & President-Liquids Pipelines, Enbridge, Inc.

A

No, they're disconnected.

Robert A. Catellier
Analyst, CIBC World Markets, Inc.

Q

Okay.

Gregory Lorne Ebel
President, Chief Executive Officer & Director, Enbridge, Inc.

A

Yeah. Ingleside largely being driven by the Permian rate...

Robert A. Catellier
Analyst, CIBC World Markets, Inc.

Q

Right.

Gregory Lorne Ebel
President, Chief Executive Officer & Director, Enbridge, Inc.

A

...and Flanagan largely by the Canadian crude. So...

Colin K. Gruending
Executive Vice President & President-Liquids Pipelines, Enbridge, Inc.

A

You might be thinking about EHOT, Robert, which where we've sanctioned, we're going to build that at the terminus of Seaway which would interact with Flanagan South and Seaway.

Robert A. Catellier
Analyst, CIBC World Markets, Inc.

Q

Right. Thank you.

Gregory Lorne Ebel
President, Chief Executive Officer & Director, Enbridge, Inc.

A

Thanks, Robert.

Colin K. Gruending
Executive Vice President & President-Liquids Pipelines, Enbridge, Inc.

A

Thank you.

Operator: And we will take our next question from Linda Ezergailis with TD Securities. Your line is open.

Linda Ezergailis
Analyst, TD Securities, Inc.

Q

Thank you. Just looking forward to the second half of the year and thinking about your investment capacity, you've announced about CAD 1.1 billion of M&A and now the Rio Bravo Pipeline. Do you expect to announce approximately CAD 6 billion of new secured capital opportunities this year? And if not, might that inform what level of opportunistic share buybacks? Or do you expect those capital commitments to be a little bit lumpy year-over-year, some years more over CAD 6 billion versus less?

Gregory Lorne Ebel
President, Chief Executive Officer & Director, Enbridge, Inc.

A

Yeah, I think the way to think about that, Linda, and Pat can chime in here too. You're right, we kept this CAD 6 billion of capacity on the balance sheet each year, half of that's going to ROE to secure projects. So, think about that in future years that go to Rio. That doesn't go against the CAD 3 billion of capacity. We have to do things like opportunistic share buybacks, which we did a little bit of that in the second quarter or acquisitions like the billion dollars we've done year-to-date. But inevitably, the first CAD 3 billion unsecured projects is going to be a little bit lumpy, but I'd separated out more in that sense. So, think about CAD 6 billion, three for secure projects and three for other opportunistic pieces. Pat, I don't know if you'd add anything to that.

Patrick R. Murray
Chief Financial Officer & Executive Vice President, Enbridge, Inc.

A

Yeah, I think going on – I'd add to that is that in that kind of second bucket of CAD 3 billion, those will be a little bit lumpy, opportunistic as we go through them. And we're not going to do anything just to fill that bucket. We're going to make sure we pick the best projects. You think of Rio Bravo, which we just added, that spend will be a couple of years out primarily. So, it's not really impacting our capacity in the current year. And so, we'll continue to look at various capital allocation purposes to see where we can spend some of that – some of those dollars. But it can be a little lumpy, Linda, just what are the opportunities out there and what's the timing of spend as we go forward.

Linda Ezergailis
Analyst, TD Securities, Inc.

Q

Okay. Thank you. Just as a follow-up quickly, what are you seeing in terms of opportunistic tuck-in acquisitions in terms of volume, quality, pricing, nature? Where they are on the value chain and geography? Any observations in terms of how things are trending on that front would be appreciated.

Gregory Lorne Ebel
President, Chief Executive Officer & Director, Enbridge, Inc.

A

Yeah, well, fortunately, given our size and breadth and as we talked about this balanced portfolio, we get to see everything. I mean, people come to us and show us assets all the time, which allows us to be really picky and make sure that anything we do, actually it fits right down that fairway of low-risk pipeline, utility-like cash flows and solid returns and accretion. So, we're seeing everything. Now, you saw in the first half of the year picking up pieces from joint venture partnerships, things like Gray Oak and Cactus II, we picked up pieces and then the two storage assets, very complementary as well. Some of those are being sold by corporate, some of them are being sold by PEs that maybe need a monetization or liquidity event. And we've got that, as you mentioned, that CAD 3 billion of capacity to be able to execute on those.

So, I'd say they're right across the board. I don't think there's any part of the energy value chain where people aren't trying to think through how to trade out assets. Sometimes they need to do that. That's opportunistic for us as well from a pricing perspective. And then, of course, as long as it fits into that value proposition that we have, low-risk utility pipeline side, we feel we've got the ability to go out and execute.

Linda Ezergailis
Analyst, TD Securities, Inc.

Q

Thank you.

Gregory Lorne Ebel
President, Chief Executive Officer & Director, Enbridge, Inc.

A

Thanks, Linda.

Operator: We will take our next question from Robert Kwan with RBC Capital Markets. Your line is open.

Robert Kwan
Analyst, RBC Capital Markets

Q

Morning.

Gregory Lorne Ebel
President, Chief Executive Officer & Director, Enbridge, Inc.

A

Morning, Robert.

Robert Kwan
Analyst, RBC Capital Markets

Q

Let me start on cap – oh, good morning. So, just – if I can just start with capital allocation. So, you push back to this M&A for – and desire for large scale deals, but just on the tuck-in M&A and you have executed on that this year, do you see the tuck-in acquisitions solely being linked to that CAD 3 billion of discretionary annual capital allocation or could you see that those tuck-ins in aggregate being at a level that would require external equity?

Gregory Lorne Ebel
President, Chief Executive Officer & Director, Enbridge, Inc.

A

Yeah. Well, I guess I'd say, I don't think that's been our focus today. Look, we've got that CAD 6 billion in investment capital a year, and some of which can be used for acquisition. And that gives us a lot of flexibility to do the transactions that we've seen to-date that made that low-risk accretive pipeline utility-like deals. I don't see us doing big corporate deals, but – and I guess we're always open to things. But that's – I think the tuck-in route to-date has been the right one for us.

Robert Kwan
Analyst, RBC Capital Markets

Q

Got it. If I can turn to guidance. And so, you're highlighting that the lower Mainline Toll is a headwind. But then, you also noted in the results that you took a lower provision against the Mainline IJT in the second quarter. Can you just talk about the dynamic there? And if the lower toll is a headwind for Q3, why is it not for Q4 and for that matter into 2024?

Patrick R. Murray
Chief Financial Officer & Executive Vice President, Enbridge, Inc.

A

So, I think maybe I can take that, Robert. It's Pat. So, on the provision side of things, if you think about the timing of when the agreement in principle kind of came to be that April, end of April timeframe, we got more clarity on kind of what the interim toll amount would be. And as a result of that, we were pretty well provided by the end of Q1. So, I didn't have to book as big a provision for Q2 here before the toll goes down a little bit on July 1. So, that was really just getting us kind of trued-up to what that difference would be in relation to the interim toll.

And then as you talked about, go forward, if you step back to when we announced the actual transaction, it was well within where we were looking for this year, we kind of laid out a waterfall to help understand how we get to the level we have. It'll be a little bit lumpy this year, like you're noting, in that the toll will go down a bit for Q3, Q4. Really, probably all we're noting in Q3 specifically is like Q3 tends to be a little bit of a lower volume period as well, but Q4 most usually pops back up. And then, the agreement was right in line with what our views were of 2024 and 2025 when we guided back in – I guess, it was early December last year.

Robert Kwan
Analyst, RBC Capital Markets

Q

Okay. That's great. Maybe I'll take some of that offline. Thank you.

Operator: And we will take our next question from Theresa Chen with Barclays. Your line is open.

Theresa Chen
Analyst, Barclays Capital, Inc.

Q

Good morning. Wanted to touch on your Tres Palacios expansion and just generally your long-term outlook for natural gas storage, especially in the US Gulf Coast. How much can you further expand by? How do you see yourself positioning in this integral in portion of the value chain as we go forward? And do you see more tuck-in opportunities here?

Gregory Lorne Ebel
President, Chief Executive Officer & Director, Enbridge, Inc.

A

Yeah, we're big storage fans for sure. So, good question. And Cynthia, you want to take that?

Cynthia L. Hansen
Executive Vice President & President-Gas Transmission and Midstream, Enbridge, Inc.

A

Sure. Thanks, Theresa. We, of course, are very excited about the opportunities. We have the ability currently to expand Tres Palacios by 6.5 Bcf. There's an expansion in one of the caverns that's coming into service this fall. So, that positions us well. As you mentioned, in that Southern Texas area, these assets, the southernmost of salt storage dome in that area. The other thing we really liked about the Tres Palacios assets was the header system that ties in and that interconnectivity that that gives us into that market.

When it comes to that ability to continue to expand, we are looking at that. We're also looking at how we can optimize with the rest of our assets and how low operate the Tres Palacios assets. So, how can we do [ph] wheelies (00:45:10), how can we do park and loans, that kind of things as we look to optimize the operations there. And we'll continue to look at whether we can do some small upgrades to the existing infrastructure there to increase our storage capacity as well.

So, the other thing that, as we've noted before, we've seen is that the pricing has started to be a little bit more positive in storage. So, we're continuing to monitor that, and we think in the long term, there will be incremental opportunities to invest in incremental storage in Texas, in particular.

Gregory Lorne Ebel
President, Chief Executive Officer & Director, Enbridge, Inc.

A

I think that big ambient temperature swing that the LNG players have to manage is really starting to show the value of storage there too. So, if you talk to the Chenieres and folks like that, I think they'd verify just the thesis that Cynthia just laid out. So, good time to have bought those assets in, good to have the flexibility to do that. And I think it's going to match up really nice with a lot of Cynthia's assets. The other thing I think when you think about storage assets as we move to – forward with carbon capture and sequestration, that's going to put premium valuation on storage as well, too. So, like the assets that we have in the several hundred Bcf of storage that we've got right across North America.

Theresa Chen
Analyst, Barclays Capital, Inc.

Q

Thank you. And then, turning to the liquids side. Can you talk about the timeframe for the Gray Oak expansions that you're running open season in the fall? And I believe it's primarily pump work. How quickly can the 200,000 barrels per day come online? And are you still contemplating a further extension from Sweeny to the Houston area?

Colin K. Gruending
Executive Vice President & President-Liquids Pipelines, Enbridge, Inc.

A

Yeah, Theresa, it's Colin. Yeah. So, I think you're right. We've been sounding the market on quantum and destination. Recall, Grey Oak is a bit unique [indiscernible] (00:47:15) and the Houston Sweeney area, so it's kind of unique that way. We plan to launch that officially here in Q3. So, it's still on track and up to, I think, 200,000-barrel a day expansion. And we're looking at in-service dates in early 2025.

Theresa Chen
Analyst, Barclays Capital, Inc. Q

Thank you.

Gregory Lorne Ebel
President, Chief Executive Officer & Director, Enbridge, Inc. A

Thank you.

Operator: We will take our next question from Patrick Kenney with National Bank Financial. Your line is open.

Patrick Kenny
Analyst, National Bank Financial, Inc. Q

Yeah. Good morning. I'm wondering if you could provide any comments on Alberta's announcement here to pump the brakes on approving renewable power projects and whether or not you're seeing a growing trend of political and regulatory pushback across some of the other jurisdictions in which you operate. And if this heightened focus on affordability and greater reliability might cause any slowdown in reaching FID on your renewable backlog. Or on the flip side, increase your desire to own natural gas-fired generation assets going forward.

Gregory Lorne Ebel
President, Chief Executive Officer & Director, Enbridge, Inc. A

Yeah, definitely. And Matthew's on the phone. So, I get him to respond. But I think you've kind of just made the thesis yourself the way you want to have all aspects of this energy value chain, and also why governments are really given a thoughtful approach about how are they going to be able to manage this transition. So, I believe – Matthew, you're right here, so why don't you take that one?

Matthew A. Akman
Executive Vice President-Corporate Strategy & President-Power, Enbridge, Inc. A

Hey, Pat, thanks for the question. Yeah, we don't have anything in Alberta under late development that gets held back by this. And so, it doesn't affect the FIDs. Those would be in the US, where we have a very robust lead development program. And the next up there would be in ERCOT area. But bigger picture, I think for the renewable business, you're right. I think some of the reclamation and timeline issues aren't just in Alberta, I mean other places. So, I think there's going to be a real advantage for larger companies with scale and financial strength, which is what we've got. And so, I think that positions us well. I think reliability is another theme. And yeah, I mean, we're going to need more battery storage, but also gas-fired power. We don't have any intentions to invest in that. But you can't take gas-fired power out of the equation. You need it for backup and reliability for a long time. And I think just more generally, this just shows the pace of transition is not unconstrained. So, that's why we love our renewable business. But obviously, like Greg said, it's great to be diversified across conventional, which has a very long life and the renewable stuff. Greg?

Gregory Lorne Ebel
President, Chief Executive Officer & Director, Enbridge, Inc. A

The only other thing I'd add is, Colin's business is one of the largest power users and just about any jurisdiction we operate in. So, this focus on for affordability is really important to us and makes our liquids lines increasingly competitive. And even where there's elements which – things like the Mainline, there's elements of pass-through on power. We want to make sure that whatever that power is, however it comes, that its cost competitive across jurisdiction in North America.

So, I think this balanced approach of government and starting to focus on affordability, security and reliability makes sense. And again, I just want to reiterate, that's exactly how we've structured the company for a long time to be able to react to those pieces and create value right across that value chain.

Colin K. Gruending
Executive Vice President & President-Liquids Pipelines, Enbridge, Inc.

A

Hey, Pat. Colin jumping in, couple of examples, so liquids pipelines interacts with 75 utilities across 20 provinces and states, and we see this tension everywhere, right. Affordability, competitiveness. But we also want to green the grids. So, yeah, we got a front row seat to that everywhere.

Patrick Kenny
Analyst, National Bank Financial, Inc.

Q

Okay. That's great. Thanks for all those comments. And then just a quick one for Pat here. Just on the rising financing costs. Curious how you're thinking about your rate reset pressures within your capital stack. If there might be any refinancing opportunities coming up or perhaps other levers you might be able to pull to help mitigate the headwinds on distributable cash flow.

Patrick R. Murray
Chief Financial Officer & Executive Vice President, Enbridge, Inc.

A

Yeah. I mean, it's a fair question with rates continuing to go up. It's something we look at the optimization of our overall capital structure, our overall interest cost. we have a pretty disciplined hedging program that we use to make sure that we're risk managing with the out years of our plan look like, we'll continue to do that we'll look for opportunistic times to hedge like we saw a bit in Q1 when there was a bit of upside in the banking market in the US. It was a great time to put some hedges on it. We're probably in a lower rate than we had expected, but we'll look at the whole set, Pat, just to see what the most opportunistic and most efficient way of managing our capital is. And look, the press will play into that or the hybrids.

Gregory Lorne Ebel
President, Chief Executive Officer & Director, Enbridge, Inc.

A

And Pat, just to remind you that right across most of our businesses, definitely in things like the gas pipelines in the Westcoast, gas transmission – gas distribution, Colin's business, many places we have interest path spreads, right? So, yeah, there's always a little bit on that front, but we've got a lot of coverage. There may be a little time lag, but ultimately it goes into that regulated rate of return and that's so prominent across the portfolio.

Patrick Kenny
Analyst, National Bank Financial, Inc.

Q

Thanks, everybody. I'll leave it there.

Gregory Lorne Ebel
President, Chief Executive Officer & Director, Enbridge, Inc.

A

Thanks.

Operator: We will take our next question from Rob Hope with Scotiabank. Your line is open.

Robert Hope
Analyst, Scotiabank

Q

Good morning, everyone. Just one for me. In the prepared remarks, you mentioned your expansion of Texas Eastern through Appalachia to meet the demand in all regions. As you take a look at the increasing LNG demand off the Gulf Coast as well as increasingly congested pipelines, how would you view your pipelines ability to continue to draw back volumes from kind of the Northeast all the way down to the Gulf Coast and kind of what expansions are you looking for?

Cynthia L. Hansen
Executive Vice President & President-Gas Transmission and Midstream, Enbridge, Inc.

A

Yeah. Thanks for that question, Rob. Our assets, they are in a great location and we are supporting both in the US Northeast as well as the Gulf Coast. We continue to look at how we can optimize that infrastructure. Greg pointed out the Appalachia to Market II that we're currently doing to optimize in Pennsylvania. We had an open season that we're still working with the customers on Appalachia to Market III. So, that whole idea of continuing to look at these brownfield opportunities where you can optimize the system with a little bit of looping, some changing of the compression, that kind of opportunity. And we're always working with our customers when it comes to how do we make sure the infrastructure that we have is optimized and there will be opportunities to look at how we can put those incremental volumes in. At some point, we will see both with the increased demand for LNG export, a need for new pipe infrastructure. Fortunately in that area, Louisiana and Texas, there will be opportunities that you can pipe that infrastructure in. In the US Northeast, we'll continue to look at how we can optimize the overall capacity when it comes to providing that flexibility, particularly through peaking. So, there are opportunities for the winter storage with small projects there. So, a lot of work to look at how we can optimize our infrastructure and add more capacity.

Robert Hope
Analyst, Scotiabank

Q

Thank you.

Operator: And we will take our next question from Praneeth Satish with Wells Fargo. Your line is open.

Praneeth Satish
Analyst, Wells Fargo Securities LLC

Q

Thanks. Good morning. If I look at the CapEx backlog, I mean, clearly, the focus here is on natural gas and renewables CapEx. There's kind of less spending earmarked for Mainline. So, I guess just how do you think about conceptually the desire to maintain rate base at Mainline versus letting it decline and spending that capital elsewhere? I know you have the ROE collar that that protects you, but just curious how you think about that.

Colin K. Gruending
Executive Vice President & President-Liquids Pipelines, Enbridge, Inc.

A

Yeah, Praneeth. It's Colin here. And so, I think there's ongoing rate base investments. We probably haven't built them a lot in this chart per se, but I mean, a good example would be the Line 5 re-routes that we've talked about earlier in Wisconsin and Michigan. Those will be included in rate base. And I think we disclosed that as part of the

Mainline Tolling agreement. So, that's a pretty, pretty good example. So, there'll be heated investment along the way, maintenance capital and growth capital in that regard.

And I think there's also opportunity to expand the Mainline here. Again, we withdrew those from the mainline negotiation, but we'll bring those back to the fore here. Once we have approved the – the regulators approve the Mainline deal. I think whether you think about is insurance egress or just actual egress, other systems should go down. And we've seen what happens to netbacks in the basin when that happens. So, that's still very much a strategy we have and our customers are interested in that as well.

Gregory Lorne Ebel
President, Chief Executive Officer & Director, Enbridge, Inc.

A

We're still strong believers that through the end of the decade, you're going to see 500,000 barrels a day, call it, in growth out of Western Canada. Our pipeline, as Colin points out, travels by 75% of all the refineries. We can get people to the Gulf Coast. I think there's going to be plenty of opportunity. And obviously, we're going to do those in the most capital efficient way that serves the customer. But I have no doubt we're going to continue to see that growth, particularly when the alternatives they don't have as competitive a toll structure and be have a lot more difficulty in adding incremental volumes versus what we can do with that system.

Praneeth Satish
Analyst, Wells Fargo Securities LLC

Q

That's helpful. And then, as my follow-up, when you look at your Permian strategy, you mentioned a couple times the potential for tuck-ins. I guess, what gaps do you see in your strategy at this point where you feel like you need to do additional M&A? And what would acquiring an asset do for you versus contracting for space on third-party lines and saving on that CapEx? I guess maybe if you could just talk through the benefits of acquiring versus leasing capacity at this point.

Gregory Lorne Ebel
President, Chief Executive Officer & Director, Enbridge, Inc.

A

Yeah. I think both can work. I think we generally like operatorship, I'll tell you obviously, you see that in things like picking up pieces of Gray Oak and taking on the operatorship. I think that allows us to optimize across the value chain, both for our investors, but even equally important, if not more important, for our customers. So, I think we'd prefer to do that. You could see I mean, generally we like large, large diameter pipe and I guess you can get back – we don't have as much gathering, but we're pretty careful on that type of investment on the Permian side. We can also look at can you do more out of Ingleside? Could you do some on the NGL side or other products from an export perspective? Again, making sure we don't get caught up in any commodity risk, and we can structure this pipeline. But – and that'd be my initial take. Colin?

Colin K. Gruending
Executive Vice President & President-Liquids Pipelines, Enbridge, Inc.

A

Yeah. You got it. And the lease option is very much on the table. We could lease our way into the Houston market. We're currently still thinking about connecting Gray Oak over to EHOT. But yeah, I think you're right, we're not hell-bent to spend capital. We're interested in returns on capital. So, there aren't any gaps per se. But we're going to optimize the system and grow and protect the franchise.

Praneeth Satish
Analyst, Wells Fargo Securities LLC

Q

Thank you.

Gregory Lorne Ebel
President, Chief Executive Officer & Director, Enbridge, Inc.

A

Thank you.

Operator: We will take our next question from Ben Pham with BMO. Your line is open.

Ben Pham
Analyst, BMO Capital Markets Corp. (Canada)

Q

Hi. Thanks, good morning.

Gregory Lorne Ebel
President, Chief Executive Officer & Director, Enbridge, Inc.

A

Good morning Ben.

Ben Pham
Analyst, BMO Capital Markets Corp. (Canada)

Q

Maybe I'll start off on – hi, good morning. Maybe I'll start off on funding and maybe we can potentially rank order the sources of capital if you do hypothetically exceed that at CAD 6 billion and that's an opportunity.

Gregory Lorne Ebel
President, Chief Executive Officer & Director, Enbridge, Inc.

A

Sure. I'll start. Well, first half is the organic growth along our system is probably our best return. If we can add ways to increase the volume without putting a ton of capital to work right across our entire system, whether it's on the liquids side, the gas transmission side or even on distribution, our renewables repower. Because if I would say that's the first call because that's got the greatest return. Then, if you – then our major projects that you've got the large secure projects now, they take a longer time to go from investment to cash flow. So, we want to balance those. And then, you look at the type of M&A we've done to-date, stuff that is complementary additive and that we can do in a value-enhancing price. And mix it into our system in the way that we've been able to do with a lot of assets. And I would point to everything going back to Ingleside, to the Permian pipelines, to Tres and Aitken Creek. We've got a long history of being able to do that.

And then, if we can't find those or the values aren't compelling, we look at things like buying back stock. So, that's kind of the hierarchy and way I would look at it. And it all starts with where do we think we can get the biggest bang for our buck in terms of return on capital and growing the business and extending out and enhancing that low-risk utility like pipeline-like asset base. So, that's the way we look at it. That's the way everything gets filtered through. And I think it's been pretty successful in attracting that premium valuation. Pat, I don't know if you want add more.

Patrick R. Murray
Chief Financial Officer & Executive Vice President, Enbridge, Inc.

A

Well, I think from a funding perspective, one thing I think then we can think about is it could be a little lumpy, a little bit higher in one year, a little lower in another year. We're right at the bottom of our debt-to-EBITDA range which gives us the capacity to do some things. So, that mix that Greg's talking about helps the funding as well because we've got some that'll be drag out over a few years, maybe back end of our plan. We can do some things earlier in the year through these kind of tuck-in acquisitions. So, we feel really good about the funding plan we've got and the optionality and we'll be selective in what we do to make sure that we're doing the highest return, most strategic projects to us as an organization as we move forward.

Ben Pham
Analyst, BMO Capital Markets Corp. (Canada)

Q

Can you comment – the follow-up, is copper recycling – I know that's not been a huge, huge focus for you guys, I mean you've done some opportunistic alliances. Is that still an effective way to fund projects? And so, there's a year where it may be exceeding that CAD 6 billion.

Gregory Lorne Ebel
President, Chief Executive Officer & Director, Enbridge, Inc.

A

Yeah, we've got a list we're always looking at, Ben. And I think since 2018 we've done CAD 10 billion of that. Things like Rocket not only provide a funding element, but perhaps first and foremost, help us to make sure we're that first choice partner for various stakeholders. And in that regard, things like Rocket for indigenous communities. So, that's definitely always something on the list. And if someone else is going to value an asset at a higher valuation that we look at, we think nothing about pulling that trigger. That's the benefit of being a very large, wide breadth, wide portfolio entity. You've got multiple levers to pull on and you're not forced to pull on anyone. And so, that's why we're focused on not only growing the earnings of the company and the distributable cash flow, keeping the balance sheet in that 4.5 to 5 range, and as Pat says, we are at the low end and also making sure that when we need to, we can pull the trigger on divestitures.

Ben Pham
Analyst, BMO Capital Markets Corp. (Canada)

Q

That's great. Thank you.

Gregory Lorne Ebel
President, Chief Executive Officer & Director, Enbridge, Inc.

A

Thank you.

Operator: And we will take our final question from Brian Reynolds with UBS. Your line is open.

Brian Reynolds
Analyst, UBS Securities LLC

Q

Hi. Good morning, everyone. Maybe just a quick follow-up on some of the prior strategic announcements. There's a big focus on costs to help remain more competitive on tolling and to bring some value to the bottom line. So, curious if you could just talk about how Enbridge is looking at its broader cost base to remain competitive and perhaps how the Mainline-Flanagan was done in a way to remain competitive with peer pipes. Thanks.

Gregory Lorne Ebel
President, Chief Executive Officer & Director, Enbridge, Inc.

A

Yeah, that's definitely a constant focus here. Whether it's in the distribution business, even though that cost structure ends up flowing through to rate payers, we think there is – you cannot go wrong by being the lowest cost provider. And we sure aren't arrogant to think that we're that on every single day, but definitely something that we're looking at right across the business.

And I think we're actually – things like the Mainline Toll actually incentive to make sure that we do that, so that we are in a most competitive position from a cost and service offering perspective, GTM as well. And as we get these assets and we tuck to them and integrate them, they may be coming from PE or smaller player that has less ability to get those synergistic benefits. It's not a huge element, but when you think of our 4% or 5% growth focus. We often put that chart out that shows the first 1% of that growth comes from optimizing our costs and volumes and rate structures and regulatory side of things. So, it's a big element for us, and we constantly need to look at and make sure that we're ready for the next 75 years. To be quite honest, next year's, the company's 75th anniversary as Enbridge. And so, making sure that we're even better positioned for the next 75 is very much in focus the company right now.

Colin K. Gruending
Executive Vice President & President-Liquids Pipelines, Enbridge, Inc.
A

Greg, you guys talk for a double click on a couple of the examples within the costs P&L. Enbridge has a mature supply chain function, had one for many years across all our businesses. I think that's been helpful on quality and price power costs, right, get our power use down through optimize flows, and modernizing pumps through to some rate base growth. And working with, we talked about earlier, electric utilities to find that right tension around affordability, reliability and green in the grid. We've got a mature – a major projects organization, right, that allows us again to optimize quality and price of our capital program. So, just a couple of examples there, Brian, on the details around maintaining and improving our cost structure across all four businesses.

Gregory Lorne Ebel
President, Chief Executive Officer & Director, Enbridge, Inc.
A

I think it's important not just to focus – we focus on cost a lot, but also the revenue side, which is helpful not only for our shareholder bottom line, but also our customers to optimize the amount of volume, Colin can get through the liquids line, the availability of the gas system, especially at peak periods, and Cynthia's business, the availability of our wind assets to make sure that they're up and running when the wind and solar is blowing. So, we focus on both the cost and the revenue optimization side as an enterprise on a daily basis.

Brian Reynolds
Analyst, UBS Securities LLC
Q

Great. Appreciate all that all that color. And then, as my follow-up. Just yesterday evening, we saw updated commentary around seeing my client due on August. Just kind of curious if you could just update us with your view of whether this is included in your current guidance expectations? And then, just an updated view on timeline of when you expect volumes to migrate from rail back onto your system. Thanks.

Gregory Lorne Ebel
President, Chief Executive Officer & Director, Enbridge, Inc.
A

Yeah. That's all built into our forecasts. We've been respecting TMX's public disclosures all the way along. If it is delayed, that's pretty little upside to our plan in 2023, maybe 2024.

Operator: And ladies and gentlemen, this concludes the question-and-answer session. I will now turn the call over to Rebecca Morley for final remarks.

Rebecca Morley
Director-Investor Relations, Enbridge, Inc.

Great. Thank you. And we appreciate your ongoing interest in Enbridge. As always, our Investor Relations team is available following the call for any additional questions that you may have. Once again, thank you and have a great day.

Operator: Thank you, ladies and gentlemen. We appreciate your participation. This concludes today's conference and you may now disconnect.