FINAL TRANSCRIPT

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ENB.TO - Enbridge to Assist Enbridge Energy Partners With U.S. Alberta Clipper Funding Conference Call

Event Date/Time: Jul. 20. 2009 / 2:00PM GMT

THOMSON REUTERS

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PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to the Enbridge Incorporated conference call. I would now like to turn the meeting over to Mr. Vern Yu. Please proceed.

Vern Yu - *Enbridge Inc. - Investment Community*

Thank you, and good morning. With me this morning are Pat Daniel, President and Chief Executive Officer; and Richard Bird, Executive Vice President and Chief Financial Officer and Corporate Development.

Before we begin, I would like to point out that we may refer to forward-looking information during the call. By its nature, this information implies certain assumptions and expectations about future outcomes. So we remind you that it is subject to risks and uncertainties affecting business, including ours.

Our slides include a summary of the more significant factors and risks that may affect future outcomes for Enbridge, which are also disclosed more fully in our public disclosure filings, available both on SEDAR and EDGAR.

The call is webcast. I encourage those listening by phone to view the supporting slides on our website at www.enbridge.com/investor. A replay and podcast of the call will be available later today, and a transcript will also be posted to the website.

The Q&A format for this call will be similar to the rest of our recent calls, where the initial Q&A session is restricted to the analyst community. And once we are completed that, we will invite questions from the media.

I would finally like to remind everyone that both Pat Murray and I are available after the call for any detailed follow-up questions you may have. And with that, I would like to turn the call over to Pat Daniel.

Pat Daniel - *Enbridge Inc. - President, CEO*

Thanks, Vern, and good morning, everyone. Thank you for joining us for this discussion of the joint funding arrangements for the US segment of Alberta Clipper. At a high level, Enbridge will now assume responsibility for funding two-thirds of the $1.2 billion segment of Alberta Clipper to be built in the United States, in addition to funding the CAD2.4 billion Canadian segment.

I think it is best to think of this arrangement as a restructuring of the funding of Alberta Clipper to reflect the new realities of the current financial markets. It is a good result for both Enbridge and the Partnership relative to the other funding alternatives available at present. It doesn't change Enbridge's long-term earnings outlook, because our plans have always assumed the project would be funded effectively, either entirely by EEP or otherwise.

When it became apparent that EEP would not be in a position to fund the entire project effectively in the public equity market, we developed this alternative that we are talking about today. EEP's role as a sponsored vehicle is to be a low-cost source of funding for US growth opportunities within its scope of business. It served that purpose well until recently, and it remains Enbridge's preference for it to regain that position, which we believe this arrangement will facilitate.

Under normal circumstances, we would have preferred to see EEP fund the entire project in the public market and rely on the General Partner incentive distribution to provide growth to Enbridge. However, under the current financial market environment, especially for MLPs and with Enbridge's strong financial position, it has become clear that Enbridge would need to assist EEP with its funding requirement in some fashion or other, and we've talked to you about many of those alternatives.

The joint funding arrangement for U.S. Alberta Clipper is the best alternative for both Enbridge and EEP. First of all, for EEP, it avoids the significant dilution of existing units that would result from a large equity offering and it puts EEP in a position to secure its share of the funding for Alberta Clipper and its other growth investments on an accretive basis.

That's also good for Enbridge because it helps restore EEP's position as a low-cost source of funding.

So at this point, I'm going to turn it over to Richard Bird to review the financial and financing implications of the transaction, and then we will come back for Q&A. Richard?

Richard Bird - *Enbridge Inc. - EVP, CFO, Corporate Development*

Okay. Thanks, Pat. And good morning, everyone. As Pat said I'll focus on two things, the Enbridge financing implications of the joint funding arrangement and then the implications on our earnings per share outlook.

So first, I would just like to reiterate that Enbridge has ample financing capacity for this joint funding arrangement, and will have more than sufficient internally generated cash flows to handle the project's equity requirement. The US segment of Alberta Clipper has an expected cost of $1.2 billion to be in service by mid-2010, so roughly evenly divided between the balance of this year and the first half of next year. Enbridge will fund two-thirds, so about $800 million or about CAD9.25 million.

Our equity funding requirement -- looking at slide 4 in the slide deck for those of you that are following it, our equity funding requirement has evolved a fair bit in the last while, even before overlaying the additional funding for Alberta Clipper. We are nearing completion of our annual full bottom-up strategic plan and long-range forecast update, and so we have shifted to utilizing the numbers from that plan.

Notably for planning purposes, we have shifted the in-service timing of the Fort Hills project out by a further two years to 2014. So most of the corresponding capital is now moved out beyond 2012. With some new capital now included for the Kearl project and a few other minor refinements, our total planned capital expenditures for secured opportunities has been reduced from $12.5 billion to $11.2 billion for the five year period. That is before overlaying the Alberta Clipper US joint funding agreement.

With a combination of lower interest rates and favorable US dollar foreign exchange hedging actions, we are seeing stronger internal cash flow over this period, increasing funding from this source from $5.8 billion previously to $6.1 billion. That leaves $5.1 billion for a net funding requirement.

And the amount of this $5.1 billion that can be funded with debt while maintaining our cash flow credit metrics has increased to $4.3 billion because of the stronger cash flow. That leaves us with a net equity surplus of $1.9 billion for our commercially secured projects before Alberta Clipper US taking account of the equity that was generated by our recent asset sales and our DRIP program.

So turning to slide 5 and overlaying the additional funding for Alberta Clipper leaves us with about $1.5 billion of surplus equity available to accommodate other opportunities beyond Alberta Clipper.

Turning to slide six for the earnings per share implications, the additional Alberta Clipper investment is quite accretive to earnings per share in comparison to what would be the case if there were no project at all. However, that uplift will be offset at the Enbridge level by a lower contribution from our 27% interest in the partnership, and especially from our GP incentive. So the net result reinforces our 10% plus average growth rate through 2012. And with Fort Hills now in the post-2012 period with the securement of the Kearl project and other opportunities we are looking at, the growth trajectory post-2012 is continuing to firm up, and we certainly have the financial capacity to support it.

That pretty well sums up the financial aspects of the joint funding arrangement, so we can move now to questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Andrew Fairbanks, Bank of America- Merrill Lynch.

Andrew Fairbanks - *BAS-ML - Analyst*

Good morning, guys. I wanted to understand a little bit better the amount of required debt on the new plan versus what your thoughts were three months ago or so. Looking back around the first quarter, the net requirement for debt was 3.9 for new projects, and it is now 4.3, higher even though the total amount of capital spending prior to this transaction is lower.

So I guess my question is, what is driving your ability to bear higher debt on the capital you will put in place over the next four years? Is it the credit rating agencies being more amenable to adding more leverage to the projects or just trying to understand the factors that have shifted over the last three months.

Pat Daniel - *Enbridge Inc. - President, CEO*

Well, Andrew, I'll let Richard quantify this, but I think as we've mentioned in the past, our FFO-to-debt metric was the one that we were tightest up against with the rating agencies. And for reasons indicated by Richard, increased funds from operations bring that metric onside to the extent that we can tolerate the higher debt. And Richard, you may want to elaborate further on that.

Richard Bird - *Enbridge Inc. - EVP, CFO, Corporate Development*

Sure. That is exactly what is happening in the numbers. And in our discussions with the credit rating agencies, we have been managing and will be for a few years yet to come, while we're in this period of heavy spending, to a cash flow credit metric and to a minimum standard with respect to that metric that the rating agencies are prepared to accommodate before it returns to its more historical level.

So we're in pretty regular dialogue with the rating agencies as to what that metric has to look like. And with the additional cash flow that we now see ourselves generating, there is basically just room to shift the capital spending funding a little more towards the debt side and a little less towards the equity side. So that is what we are doing.

And as I said, our discussions with the rating agencies, they are pretty comfortable with that position.

Andrew Fairbanks - *BAS-ML - Analyst*

I see. That's great. Thanks. That's very helpful.

Operator

Robert Kwan, RBC Capital Markets.

Robert Kwan - *RBC Capital Markets - Analyst*

Good morning. Just in terms of the equity surplus for the new kind of pro forma $1.5 billion, can you talk about how that moves around between now and -- on an annual basis?

Pat Daniel - *Enbridge Inc. - President, CEO*

This is the $1.9 billion that we build over the five years. And again, I'll let Richard speak to that, because specifically about $1 billion of it is short-term 2009/2010, and then the remainder in the latter part. Richard, I don't know whether you've been able to provide any further details or not.

Richard Bird - *Enbridge Inc. - EVP, CFO, Corporate Development*

Yes, it is pretty well all available within the next year or two. And you could say it is really all available at [best] if we could hit our credit metrics this year and next year, if we were to immediately deploy capital against an asset that required a $1.5 billion net of Alberta Clipper equity requirement. So that would obviously be an asset somewhere in the $4 billion territory for collection of assets.

Robert Kwan - *RBC Capital Markets - Analyst*

But just to be clear, the pro forma $1.5 billion, pro forma after Clipper, you could pretty much deploy almost all of that immediately?

Richard Bird - *Enbridge Inc. - EVP, CFO, Corporate Development*

Yes.

Robert Kwan - *RBC Capital Markets - Analyst*

Okay. And then just the other question I've got is do you have any thoughts as to holding periods for this asset? Is this something that you would intend to roll back into the MLP in time, or is this something you just want to hold on to as part of the larger Alberta Clipper system kind of longer-term?

Pat Daniel - *Enbridge Inc. - President, CEO*

Well, I think we will just see how the market goes on that one, Robert. Our way of operating in the past was to put most of our US assets that fit right investment profile for an MLP into the MLP. And as you know, we have rolled assets down in the past. Again, that would be in a market where we've got a lower cost of capital vehicle in the MLP and hence would require a return to strength in the MLP markets. We are certainly in no rush to do it, and it's something that we will consider over time. But at this point, don't have any specific plans.

Robert Kwan - *RBC Capital Markets - Analyst*

Thanks, Pat. Thanks, Richard.

Operator

Steven Paget, FirstEnergy.

Steven Paget - *FirstEnergy - Analyst*

Good morning. Could you -- I believe we are very close to the final permitting stage from the US side on Alberta Clipper, with the comment period just ending on the State Department report, which was positive. Any idea when the final permit might be issued?

Pat Daniel - *Enbridge Inc. - President, CEO*

No, we don't know exactly what it is going to come out, Steven. We do expect it shortly, and anticipate being on schedule with regard to our construction of US Clipper. So it should be very soon now.

Steven Paget - *FirstEnergy - Analyst*

Thank you.

Operator

Carl Kirst, BMO Capital Markets.

Carl Kirst - *BMO Capital Markets - Analyst*

Thanks. Good morning, everybody. Just to clarify how we should view the longer-term earnings implications, I mean, this is sort of a completely net-net offsetting neutral, or should we think of this as somewhat accretive, but not yet wanting to quantify? I certainly understand that the GP dynamics of being less, just trying to make sure we've got our models roughly dead-reckoned.

Pat Daniel - *Enbridge Inc. - President, CEO*

It is basically neutral, Carl, but I'm going to let Richard just provide a little bit of the background around that.

Richard Bird - *Enbridge Inc. - EVP, CFO, Corporate Development*

If you can access chart number six, the long-term earnings per share chart, it is pretty much to scale. So if you look at the two arrows there, it is -- the investment -- the direct effect of the investment is accretive and fairly accretive. On the other hand, if you back out from that the contribution that we otherwise were expecting from the Partnership and from the GP incentive in the Partnership, that almost -- not entirely, but almost -- completely offsets the direct accretive effect. So the net result is a very small positive relative to the long-term guidance that we've previously provided of 10% plus five year average growth from a 2007 base.

Carl Kirst - *BMO Capital Markets - Analyst*

Fair enough. And then just one other question, if I could. With respect to page four, the rejiggered funding. I'm sure a lot is going into the new numbers, but is it directionally right that when we are looking at the shift in total CapEx, was the full $2 billion of Fort Hills in the number prior or just a percentage of that? I guess I'm trying to ultimately get into can you say how much of Kearl will be in through the 2012 timeframe?

Richard Bird - *Enbridge Inc. - EVP, CFO, Corporate Development*

I can't say that definitively, both for confidentiality reasons and also that number is moving around subject to scope definition. But all of the $2 billion for Fort Hills was previously within the 2012 Horizon. Most of it, but not all of it, is now moved out beyond that 2012 Horizon. So there is still some Fort Hills spending in 2012, based on our current in-service date expectations.

And then in addition to that, there is some Phase I Kearl spending and some other minor puts and takes, as well.

Carl Kirst - *BMO Capital Markets - Analyst*

Great. Appreciate the color. Thank you.

Operator

Sam Kanes, Scotia Capital.

Sam Kanes - *Scotia Capital - Analyst*

Thank you. You mentioned foreign currency hedging being quite a positive here short-term. I'm sure that was part of your strategy back when we were at $0.80, $0.81 or so. We are now at $0.90. I'm just wondering if you can talk about that and whether or not the 20% earnings-per-share interest -- or gain this year year-over-year is still valid, given where the currency is. It sounds like it is, and you may be in a quiet period, and I respect that, too.

Pat Daniel - *Enbridge Inc. - President, CEO*

Richard?

Richard Bird - *Enbridge Inc. - EVP, CFO, Corporate Development*

Sure. So yes, we have substantially hedged both this year and also out through 2012, and in fact out through 2013 at this point. A good part of our foreign exchange US dollar position generally at rates consistent with what you mentioned, Sam, back down in the $0.8, $0.81 territory. So yes, the 20% EPS growth -- or in particular the guidance range that we previously provided does incorporate and reflect that, both the long-term growth rate guidance and the term guidance. And with respect to where we are in that guidance, I think we will just hold off on that for the time being; no further update at this point in time.

Sam Kanes - *Scotia Capital - Analyst*

Thanks, Richard.

Operator

Next we will take media questions. (Operator Instructions) [Ross Payne], Wells Fargo.

Ross Payne - *Wells Fargo - Analyst*

If you could just give us a quick update on your thoughts on sale of non-core assets, just generally speaking and how sizable that may be in the future. Thank you.

Pat Daniel - *Enbridge Inc. - President, CEO*

At this point, we don't have a lot of assets in that category of non-core that we would consider disposing of. As you know, over the past year, we've exited our investment in Spain and our investment in Ecuador or -- I'm sorry -- in Colombia. Again, both of those being outstanding investments and very much part of what we thought would have been the ongoing future operation of the Company. But market conditions were such that we got offers that we couldn't refuse and decided to exit, and of course the funding was very timely in terms of the capital buildout of the crude oil system. But at this point, we don't have anything of significance that we would consider non-core that we would be looking to dispose of.

Ross Payne - *Wells Fargo - Analyst*

Thank you.

Operator

At this time, we will take media questions. (Operator Instructions) Jeffrey Jones, Reuters.

Jeffrey Jones - *Reuters - Media*

Thank you very much. I just wanted to know if from EEP's standpoint if this sort of said anything about a change in view of oil markets and the expansion of capacity going forward.

Pat Daniel - *Enbridge Inc. - President, CEO*

Jeff, no, it doesn't. This is strictly a financial transaction from the point of view of the Partnership and Enbridge, and doesn't reflect any change in outlook on the business. It is just under the conditions of the existing financial markets the best way to fund the project.

Jeffrey Jones - *Reuters - Media*

Okay. Thank you very much.

Operator

At this time, we have no further questions. I would like to turn the call back over to Mr. Vern Yu for any closing remarks.

Vern Yu - *Enbridge Inc. - Investment Community*

Thank you, everybody, for taking the time to listen in on the call. I just wanted to remind everyone that Pat Murray and I are available all day to answer any detailed follow-up questions. And we will talk to you soon.

Operator

Thank you for your participation in today's conference. This now concludes the presentation. You may now disconnect, and have a great day.
