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ENB.TO - Enbridge Inc 2013 Guidance Conference Call

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PRESENTATION

Operator

Good afternoon, ladies and gentlemen. Welcome to the Enbridge Inc. 2013 guidance conference call. I would now like to turn the meeting over to Jody Balko, Vice President, Investor Relations and Enterprise Risk.

Jody Balko - *Enbridge Inc - VP of IR and Enterprise Risk*

Thank you. Good afternoon and welcome to the Enbridge Inc.'s 2013 guidance call. With me this afternoon are Al Monaco, President and Chief Executive Officer; Richard Bird, Executive Vice President, Chief Financial Officer and Corporate Development; Steve Wuori, President of Liquids Pipelines; and John Whelen, Senior Vice President and Controller. This call is webcast and I encourage those listening on the phone lines to view the supporting slides which are available on our website. A replay and podcast of the call will be available later today and a transcript will be posted to our website shortly thereafter.

The Q&A format will be the same as always. We'll take questions from the analyst community first and then invite questions from the media. I would ask that for everyone's benefit, you wait until the end of the call to queue up for questions and that questions are limited two per person. Please re-enter the queue if you do have additional queries. Lastly, I would also remind you that Jonathan Gould and I will be available after the call for any follow-up questions that you may have.

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Before we begin, I'd like to point out that we may refer to forward-looking information during the call. By its nature, this information applies certain assumptions and expectations about future outcomes so we remind you it is subject to the risks and uncertainties affecting every business, including ours. This slide includes a summary of the more significant factors and risks that might affect future outcomes for Enbridge, which are also discussed more fully in our public disclosure filings available on both the SEDAR and EDGAR systems. With that, I will now turn the call over to Al Monaco.

Al Monaco - *Enbridge Inc - President & CEO*

Thanks, Jody, and good afternoon, everyone. First of all, let me apologize for what appears to be a late [cross] of the news release items that we had. Not sure what happened there but we'll hopefully make sure that, that doesn't happen again. Today, though we're very pleased to provide the highlights of three positive items that reflect the strong outlook we have for Enbridge. These are an increase in the quarterly dividend, our 2013 earnings guidance picture, and a significant development on our crude oil market access strategies.

That is, of course, that we are proceeding with the $6.2 billion Light Oil Market Access Program which I'm going to come back to in a few minutes. We've also had two other announcements in the last month that I'll recap this afternoon to give the fuller picture of what's been happening here. All in all, 2012 is shaping up to be a very strong year on a number of fronts, including some $14 billion in new secured capital investments that will drive earnings growth for years to come.

Earlier today -- now we're on to slide 4. Earlier today, our Board of Directors approved an increase in the quarterly dividend to $1.26 per share which equates to an annualized increase of just under 12% for 2013. This increase reflects management's and the Board's confidence in both our near-term and medium-term outlook and our ability to grow earnings and cash flow -- excuse me. As shown in the chart that you have, we continue the string of strong dividend growth which illustrates the predictability of our financial performance and the strength of the business model. Based on the $1.26 per share dividend in our earnings expectations for the next year, our dividend payout ratio is consistent with 2012 and remains near the top end of our payout range policy of between 60% to 70% of earnings.

On to the next slide, you can see we have our 2013 EPS guidance range relative to our 2012 guidance and 2011 actual results. As you see, we expect EPS to be in the range of $1.74 to $1.90 per share. The midpoint of that range would generate a two-year annual growth rate of just under 12%, which are the first two years of our five-year plan. So if we can achieve that, it would represent another strong industry-leading year for EPS growth in 2013. Now, this is particularly notable in that 2013 will be a very large capital spend year and we won't see the earnings contribution from many of the large projects currently under construction until 2014 and beyond. Richard is going to provide some details on our expectations for 2013 in a few minutes.

Let me now spend a few moments on recent Liquids Pipelines' activity beginning with the Edmonton to Hardisty Mainline Expansion. Now this will be a 36-inch line that will tie into our Alberta Clipper line at Hardisty and be capable at moving up to 800,000 barrels per day. The initial capacity will be 570,000 barrels per day. This is a very important outcome in that the expansion will provide much needed capacity required by industry.

Significant production growth is expected in Western Canada and a lot of that crude is destined for Edmonton, so adding this capacity between Edmonton and Hardisty is going to meet the demand that is expected in Edmonton and the patterns that we'll see between Edmonton and Hardisty. We expect to have that project ready for service as early as mid-2015 and the line will be built within existing [right-of-way].

As you saw earlier today, we're moving forward with a $6.2 billion Light Oil Market Access Program and we did provide a glimpse of that at Enbridge Day in early October. This is a collection of projects which together will serve to connect growing light oil supplies from the Bakken Play in North Dakota and from Western Canada to premium refinery markets in the US Midwest and Eastern Canada. This is the largest yet of our Market Access Program so far, exceeding even the $5.8 billion capital for the Gulf Coast Access Program. The return profiles are similar, so we'll be a strong contributor to our earnings growth outlook in the second half of the decade.

Now, this program was included in our 2012 strategic plan on a 100% basis, so it's fully provided for in the funding plan that we presented at Enbridge Day. However, as important as this program is financially, it's even more important strategically for us and provides significant benefits for our shippers. It will ensure that most of the light oil production in our [cachment] area has an attractively priced pipeline connected destination

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market which can be accessed at favorable cost and on a timely basis. A good example in part of this program that we're announcing today is the Southern Access Extension. This is a new pipeline connection from Flanagan, which is the terminus of our Southern Access Line to the Patoka hub.

As you know, we've been developing this concept for awhile. We're pleased today to have firm commercial underpinning through a long-term capacity agreement with an anchor shipper and that's going to allow us to proceed with the project. Accessing the Patoka hub is critical for our shippers because Patoka provides a launching point to move light crude to Eastern PADD II, where there's significant light oil refining capability. Just as a final point on this Light Oil Market Access Program, it's also intended to meet all of the needs of the Quebec refineries. To be clear, this program does not involve moving any crude through Quebec to markets on the East Coast of the Canada or the US. We have other plans for serving those markets.

And speaking of other plans to serve East Coast markets, here is the first of those, our Eddystone Rail Terminal Joint Venture. We don't think pipelines are always the best solution to every market all the time and the East Coast is a case in point, and Eddystone Rail, the JV we have there, is an example of an alternative logistical solution that we're developing to serve East Coast refinery demand.

Our objective is to secure commitments of at least 80,000 barrels per day of rail offloading at the terminal from which several refineries can be supplied by local pipeline or barge including the East Coast of Canada. We anticipate that most of this volume will originate from our rail-loading facility at Berthold, North Dakota, which we've explained before, though we are also looking at other potential pipe-to-rail sites on our pipeline system. The Eddystone Facility can be expanded to 160,000 barrels per day but we don't think even that will be sufficient to meet the demand, so it is only one facet of the broader East Coast Market Access Program we're developing.

So just to wrap up now, let me put these recent announcements in the context of our overall capital program and outlook. We came into the year with $12 billion of commercially secured projects in execution. During the first three quarters, as you see, we steadily added to this portfolio, reaching $18 billion by our Enbridge Day Investor Conference in early October.

As you can see here, the fourth quarter has eclipsed the first three, with a further $8 billion of secured projects that we just went through. This brings our enterprise-wide commercially secured total to $26 billion of capital to be invested from 2012 to 2016. So just to pause and reiterate, commercially secured projects of $26 billion, these are new and attractive projects. And the point being, that we now have a great deal of confidence that we'll be able to continue to deliver very strong earnings over the five-year plan but also that into the latter half of the decade and beyond.

As we indicated on Enbridge Day, our total potential inventory of projects out to 2016 is $35 billion and you see that captured on this slide. So with these fourth quarter projects now, we've essentially shifted $8 billion from the highly probable category to commercially secured. That now leaves just $4 billion left to go in the highly probable category. And let me remind you, that on the $5 billion of risked unsecured capital that you see there, while we have accounted for the financing part of that, we don't assume any cash flow until after 2016.

So in terms of the growth capital which supports our long-term EPS growth outlook to 2016, a good chunk of it is in hand. What you see here is a massive program by any measure, and that's exactly why we're focused on execution, specifically on the financial and human resources to get this project done. We feel confident in our major projects capability and are ahead of the curve in financing and Richard is going to bring you up to date on that as well.

I'll conclude with a recap of the financial outlook which is represented by the chart we showed at Enbridge Day. Our progress, since Enbridge Day, certainly reinforces our confidence in not only achieving a 10% annual growth rate but also the potential to achieve a 12%-plus average growth rate in EPS through 2016. And given the commercial model that supports these investments, it also reinforces confidence that we'll be successful in extending an industry-leading growth rate well into the second half of the decade. All the factors we previously identified that would drive growth beyond 2016 are still in play and they are outlined on the slide there including a further addition to our stable tilted return growth investments. So with that, let me turn it over to Richard to expand on that and provide some further granularity on the earnings guidance.

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

Thank, Al, and good afternoon, everyone. I'll start with a little more color on the earnings growth guidance and once again, the main engine of growth is our Liquids Pipelines segment, with significant uplifts coming from the Mainline, from Regional Oil Sands System and from the Seaway pipeline. The Mainline earnings will continue to be driven by volume growth. We do continue to see strong Western Canada supply growth recovering from the third quarter dip which was due to plant turnarounds.

And then in addition, picking up new supply as Kearl comes on stream and along with various other sources of supply growth in 2013. We won't be able to take full advantage of this in either the fourth quarter of this year or the first quarter of next year due to the effect that pressure restrictions and maintenance associated with our operational risk management plan are having on our effective capacity. We should be through the brunt of this by the second quarter with strong throughput numbers thereafter.

The Regional Oil Sands System will benefit from a full year of earnings on the Wood Buffalo pipeline and the Wapasu pipeline expansion as well as increased Athabasca volumes flowing from Christina Lake and the second quarter start-up of our Suncor Bitumen blend project. The Seaway pipeline will benefit from the combined effect of a full year of operations and the expansion from 150,000 barrels per day to 400,000 barrels per day in the first quarter of next year. Our Gas Distribution segment, as a whole, will see another flat year. Enbridge Gas Distribution itself will be on a cost-of-service year in 2013 with a very modest improvement in earnings but that's offset by a further decline in the contribution from Enbridge Gas New Brunswick from the full year effect of the economic expropriation by the provincial government.

Our Gas Pipelines Processing and Energy Services segment will experience a decline in earnings in 2013. This is largely lower earnings from Auxable as increased volumes won't be enough to offset lower fractionation margins as our 2012 hedge position comes to an end. Green Energy will also be down a little due to the assets transferred to Enbridge Income Fund. Sponsored Investments will contribute to growth in 2013. Some of this comes from the Liquids Pipelines component of Enbridge Energy Partners but most of it comes from the assets transferred into the Income Fund.

Our Corporate segment, of course, is a cost center on a net basis and a somewhat higher cost center in 2013 than in 2012, and this largely reflects our use of preferred share issuance to cover our equity funding requirements. So although a healthy boost to earnings and EPS for 2013, especially, that's the case considering that we'll be carrying a record high level of work in progress, capital investment which won't be making a cash flow contribution until later years.

Moving to slide 13, the fourth quarter has been another very active one on the funding and liquidity front in support of our growth plan. We bolstered both our equity base and our debt balances as well as adding significant further bank credit capacity, which is now over $12 billion of bank credit capacity and something we're continuing to expand. So for the year, as a whole, over $6 billion worth of capital markets funding in addition to very significant additions to our liquidity. Our overall funding plan for the $35 billion capital program hasn't changed since I reviewed it at Enbridge Day other than that we continue to progress on schedule with its implementation.

And I'll wrap up with an update on our project returns and profiles picture on slide 14. And this was a perspective that I covered at Enbridge Day to explain that many of our projects no longer follow the conventional cost-of-service flat return profile which has an annual return in every year which approximates the full-life DCF return. That was once the case for most of our projects and no longer the case any more. A number of our projects now have commercial terms which produce a tilted return profile where the first full-year return is below the full-life return, and it takes a few years to climb up to and then eventually exceed the full-life return.

This is one of the factors contributing strong momentum to our earnings growth in the second half of the decade once these projects have been in service for a few years. The two most pronounced examples of this that I gave at Enbridge Day were our Eastern Access and US Gulf Coast Access Projects, the first two rows in the table. Both of these will generate a DCF return on equity in the low double-digits over their economic lifetime. But they won't reach that level on an annual basis until four and five years, respectively, following the first full year in service. And that, of course, is driving growth right through the second half of the decade.

Of the two recently announced large projects that Al discussed, the Edmonton to Hardisty Expansion, the smaller of the two actually has a return profile similar to the conventional cost-of-service model, achieving its low double-digit full-life return right out of the gate, or at least the bottom end of that return, but no further contribution to growth following that first-year bump to any appreciable degree. It's not a perfectly flat return

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profile but it's much flatter than the other projects listed on the schedule. On the other hand, the $2.8 billion that Enbridge will invest in the Light Oil Market Access Program will have a similar return profile to the two earlier Market Access Programs, and that's the last row on that chart. So that's all for me, so now we'll open the lines for questions. Operator?

QUESTIONS AND ANSWERS

Operator

We will take questions from our analyst community. For everyone's benefit, please limit yourself to one question, and relay the follow-up as appropriate, and return to the queue for additional lines of questioning.

(Operator Instructions)

Linda Ezergailis, TD Securities.

Linda Ezergailis - *TD Newcrest/Waterhouse Securities - Analyst*

Congratulations on this new project announcement.

Al Monaco - *Enbridge Inc - President & CEO*

Thank you, Linda.

Linda Ezergailis - *TD Newcrest/Waterhouse Securities - Analyst*

I have a question with respect to your slide 10. I'm wondering if you could break down the $26 billion of commercially secured projects by year from 2012 to 2016 to help us with our modeling?

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

Well, we'll certainly commit to do that. Maybe we could catch you offline. It's not something we have right here at our fingertips, if that's okay. Can we do that after?

Linda Ezergailis - *TD Newcrest/Waterhouse Securities - Analyst*

Thank you. If we could do that today that would be great, thank you. And then I guess implicit in that will be embedded the $2.8 billion announcement. Can I have a follow-up question or should I move back in the queue?

Al Monaco - *Enbridge Inc - President & CEO*

Sure, go ahead.

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Linda Ezergailis - *TD Newcrest/Waterhouse Securities - Analyst*

Okay, so can you just explain to us the main driver of the range in your guidance, is it mostly volumes on the Mainline and to a lesser extent commodity prices as it might affect your marketing and Auxable businesses?

Al Monaco - *Enbridge Inc - President & CEO*

Yes, I would say it's, by far, the biggest item as we noted on one of the slides there, certainly the Liquids Pipelines business which is driven by volumes, and of course, new facilities coming into service particularly on the regional side, oil sands side as well as on Seaway. So I'd say it's volumes, Seaway and then regional projects come into service.

Operator

Ted Durbin, Goldman Sachs.

Ted Durbin - *Goldman Sachs - Analyst*

Trying to understand this, again, this return profile and how it's tilted. It may be one way I can ask it is, how much are these returns dependent on the pull-through on to the Mainline and in the CTS? Or maybe to say it again, how would the project returns look if they were just standalone and you didn't have the CTS pull-through?

Al Monaco - *Enbridge Inc - President & CEO*

Richard is going to take that.

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

Yes, it's Richard. I don't really know how they'd look in that situation, Ted, because we've never modeled them that way. We've always modeled them, I guess, as true to reality as we can which is what's the all-in effect of spending that capital tolls on the pull-through downstream systems, incremental Mainline capital required to support the throughput on those downstream systems, and incremental revenue associated with the volumes that move on the Mainline system. So we haven't really disaggregated it the way that you're describing.

Ted Durbin - *Goldman Sachs - Analyst*

Yes, I guess I'm just wondering if you have to back the -- if Bakken, for whatever reason, is going to back up some of the stuff coming out of Western Canada, have you thought about that knock-on effect or is that not even an issue in your mind?

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

Generally, any time we do our modeling, we're looking at what the capacity of the system is, what the sources of supply and their origin points and destination points are, and making sure that any incremental volume benefits that we play up on the Mainline are consistent with that physical configuration.

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Ted Durbin - *Goldman Sachs - Analyst*

Got it, okay. And then if I can just ask about a follow-up on the execution piece, which is obviously important here. I'm wondering how you're going to manage the labor costs, particularly in the Bakken, obviously it has been pretty active there, just what's your plan there for making sure you hit your cost and your timing objectives?

Steve Wuori - *Enbridge Inc - EVP - Liquids Pipelines*

Hi, Ted. It's Steve Wuori. Our major projects group, of course, has been active in the Bakken with the Bakken Expansion Program, Bakken Access Program, and the Berthold Rail. I think we have some pretty deep contractor relationships there and actually, all the way along the Mainline. So we are leveraging those to the full extent that we can in terms of the year on work that we're able to give contractors and therefore, more stability in their rates and pricing.

Al Monaco - *Enbridge Inc - President & CEO*

You're still right though, Ted. I mean, there's obviously some uncertainty about these. I think that the key to this, though, is in the cost estimation process. Obviously, we've got some good experience there with previous projects but also a fairly robust methodology for determining contingencies. So yes, we've got some risk there but we've got some good processes and experience, too.

Operator

Matthew Akman, Scotiabank.

Matthew Akman - *Scotiabank - Analyst*

I just have one question on the earnings guidance and then a question on the growth initiative that you announced. Richard, on earnings guidance, you talked about some volume drag from some integrity work you're doing on the Mainline. Especially in Q1, I'm just wondering if you could quantify roughly the volume impact of that?

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

I can't do that, Matthew, and we're not really going to get into quarterly granularity. But we will -- the way we're seeing supply come back, we won't be able to take full advantage of that either, even in the fourth quarter of this year or in the first quarter of next year.

Matthew Akman - *Scotiabank - Analyst*

Okay. Moving to the expansion project, I guess $2.8 billion of it is at Enbridge and $3.4 billion, is it EEP? Is that correct?

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

Yes.

Matthew Akman - *Scotiabank - Analyst*

I'm just wondering, lately, the rating agencies have been a little bit nervous at EEP about the capital spend. I'm just wondering how your conversations have been going with them? I guess, have you talked to them about this project or has EEP talked to them about this project?

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

Yes, absolutely. This project is fully reflected in the discussions that we've had with them and the capital and cash flow projections that we've had with them and so our current agency ratings, I think, fully reflect this project. And yes, it does impose significant financing requirement on the partnership but it's financing a pretty attractive return, very stable capital. If anything, the rating agencies like the shift in the business mix that results from this further investment in the Mainline System.

Al Monaco - *Enbridge Inc - President & CEO*

And of course, Matt, I'll just add another point. Obviously, we've geared the, I guess, sharing of the investment between EEP and Enbridge based on our thoughts around EEP's financing capacity. But as we've noted, EEP does have an ability to pair down and then claw back as well so they have a bit of flexibility there.

Matthew Akman - *Scotiabank - Analyst*

Okay, great. Thanks guys, congrats. Those are my questions.

Operator

Andrew Kuske, Credit Suisse.

Andrew Kuske - *Credit Suisse - Analyst*

Just on the rail, how big do you think that business could be for you, from a capital allocation basis, if we look out over the next, say, five years or so?

Al Monaco - *Enbridge Inc - President & CEO*

I'll take the first one then maybe Steve can add. As far as the rail-loading and unloading facilities, I think that the capital allocation there is probably not large. I think the more important aspect of it is that rail is complementary to us in that it can effectively extend the Mainline and other lines to premium markets that we can't reach yet by pipeline. So I think that's more of the strategic benefit there and doing that, it pulls through volumes on the mainline. I think that's the biggest factor. Steve, do you have anything to add there?

Steve Wuori - *Enbridge Inc - EVP - Liquids Pipelines*

Yes, I think that's right, Al, and if you look at the capital it tends to be in the high tens, very low hundreds of millions of dollars for loading or unloading facilities for unit trains. So it really is the effect of volumes being able, frankly, to offer service to the customers that are very desperate to get to better markets. That really is what the rail move is all about as opposed to very large capital.

Andrew Kuske - *Credit Suisse - Analyst*

Now do you really see this business as being the stopgap measure for the time being and then getting a better sense on who the players are, where a lot of the volumes are going? And then that gives you better insight to where the future pipeline moves might be?

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Al Monaco - *Enbridge Inc - President & CEO*

Yes, I think it is the stopgap measure because based on where the regional prices, or the basis between the key points, definitely there's a yearning to get rail involved in moving volumes to markets that can't be met right now, or at least not right away. And then markets for example, like Philadelphia, as we've illustrated here, that pipelining is going to be tough to get to Philly. So I think it is a very good stopgap for the interim.

Andrew Kuske - *Credit Suisse - Analyst*

And then if I may, just to one slightly different question and it just relates to the tilt and years to attain the full-life ROE. Really, what's driving this? I would argue it's a little bit of an extension of the years but if we went back 10 years ago, you're earning very robust returns out of the gate. They might not have tilted up over time and then now, a little bit returns, and there's essentially a little bit below what you'd like to target and then they tilt up fairly dramatically. Is it competition driving that or just the commercial terms in your designs of shippers?

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

Well, it's definitely the commercial -- it's Richard, Andrew. It's definitely the commercial terms that are driving that where these projects typically have escalating tolls where your conventional cost-of-service model as your rate base depreciates away have declining tolls. We also, in a number of cases, have contracts which have growing contractual commitments over time so the volume commitments increase as we go through time. As to the why for that, I guess it's something that is attractive to the shippers and something that with the strong base earnings growth that we've already got -- the foundation of earnings growth that we've already got through the first five years. We concluded we could afford to be responsive to that shipper desire to have that flexibility so that's what's driving it.

Al Monaco - *Enbridge Inc - President & CEO*

I guess though, Andrew, in addition to that. I think Richard's covered it but what really gives us the comfort on the profile and the volume profile is the downstream take and the downstream commitments and we've got downstream commitments on the Mainline, both are to the Gulf Coast. Now we have it into Patoka and of course, into Eastern Canada, so it's really those downstream pulls that give us confidence about the profile.

Operator

David McColl, Morningstar.

David McColl - *Morningstar - Analyst*

just zooming into 2013, I'm just wondering if we can get a little bit of an update on the Seaway pipeline, specifically I'm wondering, or I guess I should say, the timing to really ramp that up to full capacity, is it still something we'd see in early 2013? Just wondering if you can really try to pin that down a little bit more. Thank you.

Al Monaco - *Enbridge Inc - President & CEO*

Yes, well, what we can pin it down to is what we've said publicly, David, which is first quarter. I don't think we can be any more specific than that, but we -- let's put it this way. We have a pretty good degree of confidence in the first quarter.

David McColl - *Morningstar - Analyst*

Okay, just to follow-up just for clarification. Is it going to move at 400,000 barrels pretty quickly, in terms of hitting that in the first quarter or will it ramp up over a couple of quarters?

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Al Monaco - *Enbridge Inc - President & CEO*

I think it's going to be pretty quick. The capacity will be available in the first quarter and based on the nominations that we're seeing and the supply that's moving into Cushing and available [to move], my guess is it will be ramping up right away. Is that how you see it, Steve?

Steve Wuori - *Enbridge Inc - EVP - Liquids Pipelines*

I do.

David McColl - *Morningstar - Analyst*

(multiple speakers) -- on your sound bite, Steve, on how many barrels are nominating for the very small amount of spot space that currently exists?

Steve Wuori - *Enbridge Inc - EVP - Liquids Pipelines*

Well, I'm not sure this month but generally about 4 million barrels a day are nominated to systems like Seaway and Ozark. And so that just tells you that there is an intense desire to move crude out of Cushing.

Operator

Robert Kwan, RBC Capital Markets.

Robert Kwan - *RBC Capital Markets - Analyst*

Just one question on guidance and then on the light oil side, but with the gas pipelines processing energy services, you had presented at Investor Day that Cabin had a two-year ramp. I'm just wondering how steep is that ramp if you're thinking about starting to book into '13 and then over that two-year period?

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

The ramp on pretty well all these projects starts in mid- to high-single-digits in the initial year of service and then if it's two years, as it is in the case of Cabin, it's hitting its low double-digits full-life rate of return within that period. So that gives you a feeling for the steepness of the ramp.

Robert Kwan - *RBC Capital Markets - Analyst*

Okay, I'm just -- but that, I guess, in and of itself, is not enough to offset what you're seeing in terms of the decline out of Auxable?

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

No, it's not.

Robert Kwan - *RBC Capital Markets - Analyst*

Okay, and just turning to the light oil side and the Sandpiper side there, I'm just wondering what you saw as why Sandpiper was successful versus, say, Bakken Express? Was it really the rolled-in toll structure?

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Al Monaco - *Enbridge Inc - President & CEO*

Well, that's probably a good one in that we have seen in the Bakken that producers as apt to make long-term commitments for a number of reasons. But I think the real driver for this project is the fact that once you're moving East and now with access into Flanagan and then Patoka, you are really hitting the light oil markets and then further east at Patoka. That's really the main driver as opposed to other markets like Cushing, for example, where you probably don't want to see more light barrel showing up there if you're a producer. So I'd say it's market-destination driven. Did you have a follow-up, Robert, or are we on to the next question? Hello? Is the Operator there?

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

We can hear papers in the background so somebody must be able to hear us as well, so --.

Al Monaco - *Enbridge Inc - President & CEO*

Maybe somebody has queued into the --

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

Yes, somebody --

Steve Wuori - *Enbridge Inc - EVP - Liquids Pipelines*

Whoever's paper we can hear is probably queued into the line and no one else can get in while they're queued in.

Steve Paget - *FirstEnergy Capital - Analyst*

Yes?

Al Monaco - *Enbridge Inc - President & CEO*

Hello? Steve Paget, is that you?

Steve Paget - *FirstEnergy Capital - Analyst*

Can you hear me?

Al Monaco - *Enbridge Inc - President & CEO*

Yes.

Steve Paget - *FirstEnergy Capital - Analyst*

Excellent, and I'm very sorry. I'm very sorry. I'm not shuffling any papers but that's why I didn't think it was me. If ROEs on tilted return projects go up in the later years, is it possible that some shippers or potential shippers could go to the regulators and say, and point out that returns have gone up and -- or have shippers been able to defend this structure before the regulators?

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

I could take a stab at that I guess. These are contractually established returns, the implications of the commercial structure in those contracts is lower returns in the early years and higher returns in the later years so could somebody do that? I wouldn't say we've never experienced a shipper trying to use the regulator to cut a better deal but generally, the regulators, in our experience, haven't been very receptive to that.

Al Monaco - *Enbridge Inc - President & CEO*

I think especially true when you look at the make up of the shippers on the Gulf Coast Access and Eastern Access Projects. I suppose it's always a risk like Richard says, but in this case, we've got some pretty notable shippers.

Steve Paget - *FirstEnergy Capital - Analyst*

Well, that's good news. A follow-up question for Richard is, or Steve, maybe is -- are shippers accepting this type of structure because cost-of-service would, of course, include interest costs and if those -- as we keep hearing interest rates are going to go up, it is a matter of when. Are shippers concerned about interest rates and want to get away from an interest rate base or a service cost that would include the cost of interest rates?

Steve Wuori - *Enbridge Inc - EVP - Liquids Pipelines*

It's Steve, Steven. I haven't heard that specifically. Maybe there are some shippers who have that in their mind as they look at the long-term trend of interest rates. I think they are much more interested in what it will cost them and therefore, how much of their balance sheet they will need to reserve for getting their product to market. And so I think there are -- these are negotiated terms and it doesn't necessarily get into the granularity that a cost-of-service build-up would. So I -- the short answer is, I haven't heard anyone say that, that's one overriding concern they have.

Al Monaco - *Enbridge Inc - President & CEO*

I guess this model does align their toll payments with the volumes which ramps up with their production profile as opposed to maybe a pure cost-of-service which would have higher tolls in the front end. That's another potential driver, I guess.

Steve Paget - *FirstEnergy Capital - Analyst*

And probably the strongest, you're saying?

Al Monaco - *Enbridge Inc - President & CEO*

That's how we would see it, but I guess there could be other reasons.

Operator

Paul Lechem, CIBC.

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Paul Lechem - *CIBC World Markets - Analyst*

On just -- on the ROEs on these projects again. When you give your full-life ROE, since it's on the Edmonton to Hardisty Expansion, does that contemplate the expansion and capacity from the 570,000 barrels per day up to the 800,000 barrels per day, the ultimate capacity? Or is it just on the initial amount and if so, how -- if it doesn't include the expansion, how should we think about the ROEs on the expansion to ultimate capacity?

Al Monaco - *Enbridge Inc - President & CEO*

Go ahead, Richard.

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

Sure. So it's just based on the 570,000 barrels per day. And in terms of the returns on expansion of that, assuming that would occur within the period of our CTS agreement, which, I think, it would be quite likely to, that would be the subject of a yet to be had discussion with our Mainline shippers as to how that would be remunerated. The capital costs would be relatively modest and would probably be easily carried by the volumes (inaudible) by that expansion.

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

So we would be targeting -- there's a general framework under the CTS for incremental capital expenditures that depending on the risk that's being taken, they should generate a return on the equity component of the investment of between 11% and 15%. So it's quite likely we would be within that range just based on the additional revenue from the volumes that would flow on expanded capacity.

Paul Lechem - *CIBC World Markets - Analyst*

Right, I mean it was more a generic question on my part in that you have other pipelines, such as the Athabasca twin that have the similar initial capacity and then an ultimate capacity. So just generically, would we expect higher ROEs on the expansion part of the project rather than the initial build-out?

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

I think in the case of the Mainline, it's going to be bounded by that 11% to 15% range. As a general rule, particularly, when we move away from the Mainline, I think where we've allowed incremental capacity, there's an opportunity to generate a higher return on the lower cost incremental capacity on those systems. I wouldn't say that's likely to be the case on the Mainline.

Paul Lechem - *CIBC World Markets - Analyst*

Fair enough. And then Al, you seemed to allude to further opportunities to -- for investment to build-out your Eastern Access initiatives and then also beyond Patoka potentially, now that you guys are getting down there with the Southern Access Extension. So how do we think about those opportunities and how is -- maybe ridiculous to ask this just given you've done another $6 billion, but is that included, are those opportunities included in your current $4 billion of still highly probable but unsecured projects and then the risked unsecured? Is that still in there and then timing-wise, how should we think about further potential announcements?

Al Monaco - *Enbridge Inc - President & CEO*

Okay, well, let me answer that last part first. They are not included in the highly probable category but maybe let me just back up more generally. As far as the East Coast, we've got this beachhead now with the rail project into Philadelphia. There could be more opportunities, as I said, for

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rail-loading and offloading facilities that help us effectively extend our system, but as far as the East Coast, we won't be getting any more granular than that at this point. As far as your question around what happened south of Patoka, I think we've indicated before, and Steve did at Enbridge Day as well, that we do have some thoughts about moving further south and accessing the Eastern part of the US Gulf Coast markets, which would be another great market for light crude especially. So that's all in the thinking and projects we're developing.

Steve Wuori - *Enbridge Inc - EVP - Liquids Pipelines*

I think it's important to mention, too, that the project at Patoka, Southern Access Extension doesn't rely on going beyond Patoka to the South. There are markets in Eastern PADD II that are served out of Patoka, that this project now gives access to the Bakken and Canadian light barrel through, so I think that's how we would look at Patoka. It's a good near-term opportunity with Southern Access Extension. It could lead to other opportunities further south later.

Operator

John Edwards, Credit Suisse.

John Edwards - *Credit Suisse - Analyst*

Just -- it's John Edwards with Credit Suisse. Just curious on the Sandpiper project. When you think construction would begin on that, and I think you indicated it's going in service in 2016. So is that $2.5 billion about how it's going to phase in, I guess, in terms of that spending?

Steve Wuori - *Enbridge Inc - EVP - Liquids Pipelines*

Well, we have a Petition for Declaratory Order in front of the FERC. Now that's going to take a little bit of time to work its way through and then with other permitting, the construction of that distance is probably a year, about a year to a year-and-a-third or a half in total, so you can back off from early '16 to -- we'll also be looking at what's best done in the winter months. And what can be done effectively in the summer months but I think you'd probably look at construction some time in late '14.

John Edwards - *Credit Suisse - Analyst*

Okay, great and then just, if I may, just a couple of quick ones here. Just -- the Eddystone Rail Terminal, what's the contract durations on those? I didn't see that if you had broken out the capital spending for that and the in-service on those.

Al Monaco - *Enbridge Inc - President & CEO*

The spending is $70 million, ultimately, but at this point, we're not going to get into the details of the commercial support here as we're just working on that and finalizing. So there are no further details right now. Sorry about that, John.

John Edwards - *Credit Suisse - Analyst*

Okay, and then just the last one, with all these capital projects, any thoughts about if any of these projects would be dropped down into the partnership?

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Al Monaco - *Enbridge Inc - President & CEO*

Well, of course, the funding arrangement here for a good chunk of this, the $3.4 billion will be spent by EEP, and Enbridge will have a piece of those. I suppose the Enbridge piece that we're investing in could potentially be dropped down at some point. We don't see that happening in the immediate term so that's our view on that.

Operator

Pierre Lacroix, Desjardin.

Pierre Lacroix - *Desjardins Securities - Analyst*

Just a clarification on slide number 8 when you talk about Eddystone and the East Coast market access. You have arrows going all the way through to Saint John basically, it's not -- you don't have anything in terms of contract arrangement as of Eddystone related to Saint John rail as of yet, right?

Al Monaco - *Enbridge Inc - President & CEO*

That's correct. I think the arrows in this chart on 8 are meant to be reflective of the strategy and how we see the potential markets. There could be rail facilities, offloading facilities and loading facilities at various spots here, so really at this point, this is just more conceptual as far as what we think the best markets are to attack here.

Pierre Lacroix - *Desjardins Securities - Analyst*

Okay, I understand. I don't know if you would be willing to comment a bit on why there is no arrow from Montreal to there or is this too early to talk about it, or --?

Al Monaco - *Enbridge Inc - President & CEO*

When you say to there, you mean New Brunswick?

Pierre Lacroix - *Desjardins Securities - Analyst*

Yes, exactly.

Al Monaco - *Enbridge Inc - President & CEO*

We do not have a project and I think I clarified this in my comments. We do not have a project to New Brunswick. And that's why we've emphasized, I think that our beachhead into the East Coast US at Philly is where we're going and that's what we're focused on right now.

Operator

Juan Plessis, Canaccord Genuity.

Juan Plessis - *Canaccord Genuity - Analyst*

Congratulations on your announcements today.

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Al Monaco - *Enbridge Inc - President & CEO*

Thank you.

Juan Plessis - *Canaccord Genuity - Analyst*

Richard, wondering if you might be able to share with us what CTS scale factor or scale factor range you're assuming in your earnings guidance for 2013?

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

No change from our last update on that subject, so it looks like it's pretty stable. It will vary up and down by quarter but where we left you guys, I guess, it was at the end of the second quarter we did an update on that is about what we figure is a reasonable number to use moving forward.

Operator

Robert Kwan, RBC Capital Markets.

Robert Kwan - *RBC Capital Markets - Analyst*

Sorry about that earlier. I don't know what happened, but just the last thing I wanted to ask on Sandpiper was, without having long-term contracts, was that just a function of your work on how you think the Bakken volumes are going to flow? Or was there a greater comfort that, with a relatively small extension north across the border, you're effectively backed up by Alberta supply?

Al Monaco - *Enbridge Inc - President & CEO*

Well, let me take a stab at that, Robert. First of all, I think, really, as we discussed before, the confidence we have here relates to, obviously, the supply push out of the Bakken in terms of the supply profile. And if you look at what the current capacity is in the Bakken and what our project would add, which is in the 225,000 barrel a day capacity range, we're not really in the upper edges of the production profile that we see. In fact, we're quite a bit aways from a lot of estimates out there that are quite a bit higher than ours. So I guess what I'm saying is we're relatively conservative on the supply profile that we see out of the Bakken.

Secondly, we've got a very competitive pull, we believe to the key markets and probably the third one is, once again, the destination is all important here. And obviously, the best priced markets for this type of crude are probably, though they are east of the Chicago area, and that's where the configuration really is for light oil refineries that works best for the Bakken. So I think it's a combination of those things that gives us the confidence.

Operator

Linda Ezergailis, TD Securities.

Linda Ezergailis - *TD Newcrest/Waterhouse Securities - Analyst*

Can you just confirm the duration of this light oil Market Access Program agreement? Does it expire with the current CTS and would potentially be rolled in into a next-generation CTS or is there some sort of a longer duration?

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

I'll take a stab at that. So, the overall program has a lot of elements to it, some on the common carrier pipes and some on standalone contracted pipes. So generally, the contracted pipes, Southern Access Extension in line 9 have contracts, which would be significantly longer than the duration of the CTS agreement. But to see -- but with respect to the Mainline components, the aspects of the agreement that relate to that, the surcharges and so forth, would be for the term of the CTS agreement and along with the base Mainline system that would be up for renegotiation in 2021.

Linda Ezergailis - *TD Newcrest/Waterhouse Securities - Analyst*

Thank you and just a follow-up, the returns that you've provided, helpful in the slide, are related to the Enbridge Inc. direct investment. Can you comment on the returns that you expect? And I guess, at some point later tonight, I can try to calculate it myself but the returns that you would expect from the partnerships, $3.4 billion investment in your share in that at the Enbridge Inc. level?

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

Well, I guess the comment I could provide right off the cuff is if you go back to the Enbridge Day, there's a piece of that which I went through on how our sponsored investments work and the power of the GP incentive, the returns that we would earn on -- through that GP incentive and EEP would be very, very high because we're putting in virtually no capital, 2% of the equity capital for, on the margin, 50% of the cash flow. So on a return basis, you get silly kinds of numbers. From an earnings uplift, you get a nice earnings uplift for very little capital deployment.

Operator

David Noseworthy, CIBC.

David Noseworthy - *CIBC World Markets - Analyst*

Just a quick question with respect to your terminal facilities. With Edmonton-Hardisty Mainline Expansion of $1.8 billion and the $0.6 billion regards to your light oil market access, what portion of that is with respect at the Enbridge Income from that level?

Al Monaco - *Enbridge Inc - President & CEO*

None. That's all Enbridge Inc. actually, Enbridge Pipelines but Enbridge Inc. for this purpose.

Operator

At this time, we would like to invite members of the media to join the queue for questions.

(Operator Instructions)

Winfried Fruehauf, W. Fruehauf Consulting.

Winfried Fruehauf - *W. Fruehauf Consulting - Analyst*

A few years ago, Enbridge proposed to ship oil to the State of Maine and from there, to the US East Coast and ultimately, Gulf Coast. Whatever happened to this project?

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Al Monaco - *Enbridge Inc - President & CEO*

That project is no longer on the books, Win. As we've said earlier, we don't have any plans to access the East Coast market through that project or any other way at this point through New Brunswick.

Winfried Fruehauf - *W. Fruehauf Consulting - Analyst*

What about the Gulf Coast market?

Al Monaco - *Enbridge Inc - President & CEO*

I'm sorry?

Winfried Fruehauf - *W. Fruehauf Consulting - Analyst*

What about the Gulf Coast market which was the major market that Enbridge was targeting at the time?

Al Monaco - *Enbridge Inc - President & CEO*

Right. Well, what superseded everything, of course, was that we had a significant move into the Gulf Coast with our Flanagan South and Seaway projects, which effectively allow shippers in Western Canada to go all the way through into the Gulf, while at the same time, seeing optionality at the refineries on the way down. So that's really, I guess, what superseded everything.

Winfried Fruehauf - *W. Fruehauf Consulting - Analyst*

Okay. Have you an expansion of Seaway on your radar screen?

Al Monaco - *Enbridge Inc - President & CEO*

Yes, we have. Well, if you mean an expansion to the base Seaway, yes, we have approved and are proceeding with a twin of Seaway.

Winfried Fruehauf - *W. Fruehauf Consulting - Analyst*

No, I mean another one beyond the twin.

Al Monaco - *Enbridge Inc - President & CEO*

No.

Operator

Scott Haggett, Reuters.

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Scott Haggett - *Reuters America - Media*

I just want to talk a bit about the light volumes you're seeing from Canada. You're saying a 100,000 from Cardium and et al. Are you factoring in no synthetic growth or is that built into the other lines?

Steve Wuori - *Enbridge Inc - EVP - Liquids Pipelines*

It's Steve, Scott. We're factoring in modest synthetic oil growth. We know that there are some plans but there aren't any new upgraders being proposed. We're always watching that very closely to see if there's expansion of existing upgraders and so on. So there's a modest amount in our forecast of that but most of what you see there, of course, is the actual through the drill bit, drilling in the shale plays such as the Cardium and the Viking.

Operator

As there are no further questions, I would like to turn the call back to Jody Balko for any closing remarks.

Jody Balko - *Enbridge Inc - VP of IR and Enterprise Risk*

Thank you, Derek. We have nothing further to add at this time, but I'd remind you that Jonathan Gould and I are always available for follow-up questions that you may have. Thank you and have a good day.

Operator

Ladies and gentlemen, that concludes today's conference. We thank you for your participation. You may now disconnect. Have a great day.

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