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ENB.TO - Enbridge Inc Conference Call to Discuss $7 Billion Mainline Replacement Program

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PRESENTATION

Operator

Welcome to the Enbridge Incorporated conference call. My name is John, and I'll be your operator for today's call. At this time, all participants are in listen-only mode. Later, we will conduct a question-and-answer session. Please note that this conference is being recorded.

And now, I'll turn the call over to Adam McKnight. You may begin Adam.

Adam McKnight - ***Enbridge Inc. - IR***

Thank you, John. Good morning, and welcome to Enbridge Inc.'s Line 3 Replacement Program conference call. With me this morning are Al Monaco, President and CEO; Richard Bird, Executive Vice President, Chief Financial Officer, and Corporate Development; Guy Jarvis, President of Liquids Pipelines; and Byron Neiles, Senior Vice President, Major Projects.

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 the 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 the questions and that questions are limited to two per person. Please reenter the queue if you have additional queries.

I would also remind you that I will be available after the call for any follow-up questions that you may have.

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 implies certain assumptions and expectations about future outcomes. So, we remind you that 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 discloser filings available on both the SEDAR and EDGAR systems.

I will now turn the call over to Al Monaco.

Al Monaco - ***Enbridge Inc. - President & CEO***

Thanks, Adam. Good morning, everyone, and thanks for joining us to discuss our Line 3 Replacement Project. We're having to divide and conquer a bit here today. Steve Wuori, who was involved in the project obviously is on the other call with Enbridge Energy Partners this morning.

This is a very important project for us. It represents a major enhancement of our mainline liquids pipeline system. And at CAD7 billion, it's the largest project in our company's history.

As you'll see, it's well aligned with our priority on safety and operational reliability. We've been talking about that for some time. And it will contributed significantly to extending our industry-leading EPS growth rate well past 2017.

Most importantly, it comes with significant benefits to our customers. The increased reliability of throughput on our system will provide customers with greater surety of service to key markets.

So, what I'm going to do this morning is provide an overview of the project and the benefits. Guy will go through the commercial side, followed by Richard's comments on the financial aspects of the project, including an update to our funding plan. Then I'll cover our execution plan and finish up with the growth implications of this investment.

Stepping back just a bit on slide five here now, to put the replacement program in context, today, Line 3 is one of six crude pipelines in our mainline system right of way, moving crude oil out of Western Canada.

It runs through the two Alberta market hubs, crossing the border just past Gretna, Manitoba, and terminating at Superior in Wisconsin.

We've been maintaining the line in good order through our regular inspection and maintenance program. And that includes replacing sections of pipe. And those are the red ones that you see in the chart here. There's about 20 kilometers downstream of Cromer, another 28 kilometers downstream of Gretna, and then 29 kilometers into Superior.

We're doing that because, sometimes, it makes sense to replace an entire segment of pipe rather than some of the other maintenance alternatives we have. And over time, we plan to replace additional segments of pipe.

So, the Line 3 Replacement Program is going to supersede the current maintenance plan that we have by replacing all the remaining segments between Hardisty and Superior at the latest in high-strength steel and coating.

The cost of the project is expected to be CAD7 billion. And that will be funded by both Enbridge and Enbridge Energy Partners. Richard will go through that breakdown in a few minutes.

The replacement program is expected to be completed by the second half of 2017. The return of and on our investment here will be generated by a 15-year toll surcharge mechanism that will apply to the existing Canadian and US system.

Finally, we've received shipper support from both CAPP and our representative shippers' group under our mainline CTS arrangement.

Onto slide six, there are some very clear and powerful benefits flowing to industry here and to Enbridge from the project. First, it's important to note that the overall capacity of the entire system won't change because the system will already be in balance upstream and downstream of Superior.

So, what the Line 3 Replacement does is provide our customers with enhanced reliability and assurance of moving anticipated end-of-decade throughput levels on our system we anticipate of 2.6 million barrels per day. So, that's our forecast of throughput based on the supply outlook and pipeline capacity. So, you can think of this project as a buffer to deal with unplanned disruptions and maintenance and additional scheduling flexibility that shippers need.

That's very critical from our shippers' perspective because it ensures producers have highly reliable access to the best markets so they can get full value for their crude and so that refiners get access to the crude feedstock that they're looking for.

This, of course, also lines up very well with our number one priority, as I mentioned, safety and operational reliability for the customers.

Finally, this comes with positive investment attributes for Enbridge and Enbridge Energy Partners. First, it avoids CAD1.1 billion or so of maintenance capital through 2017 and then more after that that would've been spent on the line. So, this is very economically efficient.

We'll get a good return on a very large capital investment, which is consistent with our normal investment criteria on commercial underpinning. And given the magnitude and timing of the in-service date, it will contribute EPS growth starting in 2018 and for years thereafter.

So, with that overview, let me hand it over to Guy to cover the commercial details.

Guy Jarvis - ***Enbridge Inc. - President, Liquids Pipelines***

Thanks, Al. Good morning, everyone. As Al mentioned, the overall capital cost is current estimated at approximately CAD7 billion, which consists of CAD4.2 billion for the Canadian mainline and $2.6 billion for the US mainline.

These are preliminary estimates that will be superseded by detailed Class IV estimates to be completed in April.

From now to the completion of the program in 2017, we will save about CAD1 billion of integrity capital in Canada and about $100 million in the US with more significant savings occurring thereafter.

The agreements with our shippers establish surcharges to provide for return on and of the capital to be invested in Canada and the US. Canadian system tolls are governed by the International Joint Tolls and Canadian Local Tolls set out in our comprehensive toll settlement.

The benchmark Hardisty to Flanagan toll will be adjusted by a $0.80 surcharge for the first 10 years, decreasing to $0.75 for the last five years. The remaining rate base at that time would then roll into the base system rate base under whatever toll and principles apply to the base system at that time.

There would be a corresponding distance-adjusted surcharge on barrels moving within Canada. Should throughput ex-Gretna ever fall below 2.35 million barrels per day, there will be a CAD0.04 surcharge ratchet for every 50,000 barrels per day decline below that threshold.

The surcharges apply equally to all volumes, regardless of commodity type, and we would be adjusted for longer or shorter hauls. Upon finalization of the Class IV estimate, the tolls will be adjusted for 75% of any change in the cost.

There is also an additional receipt toll surcharge of CAD0.04 per barrel that is added to all Edmonton and Hardisty receipts.

The US system tolls are governed by the Facilities Surcharge Mechanism when it comes to new capital programs. The Facilities Surcharge Mechanism is a 154B cost-of-service methodology with a 55% equity thickness and, for the Line 3 Program, a fixed 10.75% return on equity.

The Line 3 Replacement Program will serve to enhance the reliability and flexibility of the mainline system capacity rather than to increase the effective export capacity of the system.

Following the Albert Clipper expansions, the ex-Gretna annual operating capacity of the system will be 2.85 million barrels per day. And a key point is that the system will be in balance into and out of Superior.

So, although following the replacement program Line 3 by itself could operate at its restored capacity, taken by itself, that will not increase effective overall system capacity ex-Gretna.

No such increase is really required because the capacity of 2.85 million barrels per day, if it is highly reliable, will accommodate anticipated late-decade throughput of 2.6 million barrels per day and even a little more if necessary.

The replacement program will ensure that we have the required high level of reliability.

And with those comments, I'll now pass it over to Richard.

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

Thanks, Guy. Good morning. First, some color on the returns on the incremental capital to be invested in this program. So, the US capital under the FSM whole principle, as Guy discussed, will earn a low-double-digits full-life return with a very slightly tilted profile under the 14 154B methodology that applies to the FSM.

The Canadian capital, which is remunerated by the IJT Canadian Residual Toll and the Canadian Local Tolls, will also earn a low-double-digit full-life return at the anticipated total system throughput of 2.6 million barrels per day ex-Gretna. And that comes with a tilted return.

So, Enbridge's combined return on both the Canadian capital and its share of US capital will be low double digits with a tilted return but will vary by -- up and down by up to a couple of hundred basis points, depending on system throughput ex-Gretna.

The annual return will commence with this tilted return profile in the high single digits in the first full year in service. And it will take about five years to reach the low double digits, continuing to increase thereafter for the remaining 10 years of the agreement.

Moving to slide 13, it's an update to our funding requirements to reflect the Line 3 Replacement Program. It also reflects a removal of Sandpiper joint funding by Enbridge, which was previously included but is now being provided by Marathon Petroleum. And it assumes that Line 3 US capital will be funded equally by Enbridge and Enbridge Energy Partners, though this will be up to the special committee to determine.

And lastly, it assumes that, for the time being, with this large addition to our secured capital program, we will high grade the remaining unsecured opportunities under development and defer CAD2 billion or discretionary growth capital.

So, on that basis, our capital expenditures at the Enbridge level through 2017 will increase by CAD1.8 billion to CAD37 billion. Our remaining debt requirements will increase by CAD1.2 billion to CAD13.8 billion, which remains very manageable across our three strong investment grade issuers.

Our remaining equity requirement for the remaining four years of the funding plan increases by CAD700 million to CAD2.7 billion, which is also [fully] manageable.

Moving to the next slide, it's an update to the way we are looking at optimization of our cost of equity. So, the main change on this slide is that the funding that's being released by the drop downs from Enbridge Energy Partners to Midcoast Energy Partners is now explicitly accounted for within the Enbridge Energy Partners funding plan and is enabling EEP to take a bigger slice of the Line 3 Replacement Program that it has for other recent jointly funded projects.

At the Enbridge level, we still have nearly CAD2 of potential sources of equity excluding any public offering for every CAD1 of requirement. So, we still won't execute on all of these alternatives, but we'll choose selectively from those that provide the lowest effective funding cost.

And over now to Al.

Al Monaco - ***Enbridge Inc. - President & CEO***

Okay. Thanks, Richard. Just make a few comments here on execution. Just given the size of Line 3 on top of everything else we're doing, we're obviously very focused on good execution of the capital program. And that's why Byron is joining us today.

But, let me spend just a minute on why we have confidence in our ability to execute Line 3 very well. And there's a few parts to this. First, since 2008, we've put over 30 projects into service, representing about CAD17 billion of capital, pretty much on budget. The slide actually indicates slightly under.

With that level of activity comes a great database of knowledge and experience and cost estimating, anticipating challenges and on-the-ground execution.

The Line 3 Project has been under development for over a year. And we've been applying the same disciplined process that has produced strong cost and scheduled performance to date.

This project's going to be managed by the same team who delivered Alberta Clipper in 2010 and numerous mainline and station projects since then. They've been very deeply involved in developing the design and estimate for this Line 3.

Another element of good execution is standardizing wherever you can, whether it's standard design for pumps, utilizing the same contractors, and engineering expertise.

We'll also be building in a corridor where we have years of experience. We know our landowners and communities along the right of way, and we've built good relationships. But, we are not taking anything for granted here.

In fact, the important focus for us will be an extensive engagement and consultation plan, which is now underway and allows us to I think listen very carefully to the feedback we're getting and addressing concerns as we go.

Lastly, our key supply chains have been established for some time and obviously well before we've sanctioned this project. A significant portion of the costs include mainline construction, as you see with the pie, pump station construction, pumps which have been secured through what we call frame agreements, which provides us with good availability and strength around unit pricing.

You'll recognize -- moving to slide 15, this slide here, which updates our 2013 to 2017 enterprise-wide growth capital program, we now stand at CAD41 billion of growth capital projects, which will be all in service by 2017.

That's going to contribute very nicely to earnings and cash flow along the way. In fact, at the quarterly call last month, we discussed the projects going in service this year and next, totaling CAD18 billion.

We've obviously had a good string of securing growth projects over the last couple years, as you'll see there. Of the CAD41 billion, CAD36 billion is commercial secured. And CAD5 billion represents a variety of projects that we're working on.

This inventory growth allows us to be very selective and high grade to the most financially attractive and strategically important opportunities within that CAD5 billion.

On slide 16, the table on the left updates our CAD36 billion secured project program between projects that have traditional return profiles and the upward tilt that Richard was referring to.

With Line 3, we now have almost CAD22 billion in upward-tilted return projects. Line 3 Replacement will have a fairly limited impact on 2017 EPS. And it will only be in service for the latter part of the year. And as we indicated, the return will start with a lower initial return, ramping up thereafter.

The magnitude of this incremental investment with a tilted profile will be very significant driver of post-2017 growth. And of course, this is the best kind of growth in that it requires no incremental capital.

So, we remain very confident in the 10% to 12% average EPS growth through 2017. And the addition of Line 3 provides further strong support for continuation of our industry-leading growth for years thereafter.

So, bringing this all together now on slide 17 in summary, the Line 3 replacement enables us to reliably accommodate the level of end-of-decade throughput, which we expect shippers are going to require from us.

Once again, this illustrates our focus on ensuring our customers can access the best markets for their crude, and refineries have reliable access to feedstock.

It provides us with a significant incremental investment that's right down the middle of our fairway for both Enbridge and the partnership in the US.

We can readily accommodate the incremental funding requirements, given reduced integrity spend and high grading of our projects in development.

From an execution perspective, we're confident we can deliver the project well, given our experience and supply chain management.

And finally, it's a great fit with our priority on extending the transparency of our industry-leading long-term growth rate.

With that summary, let me now turn it back to the operator for Q&A.

QUESTION AND ANSWER

Operator

Thank you. We'll now begin the question-and-answer session. (Operator Instructions). Our first question is from David McColl from Morningstar.

David McColl *- Morningstar - Analyst*

Good morning, everyone. Just want to ask some questions about how we should be viewing this as growth capital. So, obviously, we get the whole increased earnings through spending today versus the whole maintenance program. But, what I'm wondering is, is this a case of you've been underspending a little bit on maintenance in the past, and now you're looking at the line, realizing you might have to catch up and accelerate the line replacement?

Just wonder if you can kind of reconcile this here, spending CAD7 billion to save CAD1 billion. See what I'm getting at?

Al Monaco *- Enbridge Inc. - President & CEO*

Yes, I do. Actually, as we alluded to in the remarks, David, we've had a very extensive program for Line 3 over the years. And as we said, we have plans to continue that program going forward in absence of this project.

And we take a very long-term view to managing the overall system. So, in this case, there was a couple of drivers. The first one, obviously, is the increased reliability and flexibility for our shippers. There's a number of things that really drive that. There's instances where you have maintenance. So, you've got some additional buffer here to allow for that. You have unplanned maintenance, which this helps you manages well.

But, generally, there'll be more flexibility and scheduling benefits for the shipper. So, those are the things that come from it. And at the end of the day, given the planned maintenance spend, it just makes more sense to replace the line at this point rather than continuing on with the existing maintenance program.

So, that's how we look at the investment overall and the benefits that it provides.

David McColl *- Morningstar - Analyst*

Okay. That's fair. And a quick follow up then, just relating to the next steps here. Does this require a Presidential permit? We've seen the President kind of dither along with Clipper and Keystone XL. Is this one maybe at risk, or do you think because of the nature of what's being done it could be -- I don't want to use the word expedited, but wonder if you could talk about the steps.

Al Monaco *- Enbridge Inc. - President & CEO*

Yes -- no, it does not require a Presidential permit. Of course, Line 3 already operates under an existing Presidential permit. So, what we're doing here is restoring Line 3 to its original condition. So, there's no permit required. And as we mentioned, the project doesn't result in any increase in the effective capacity of the overall system.

So, we will require the normal permits related to this kind of project for replacement, but no Presidential permit per se.

David McColl - ***Morningstar - Analyst***

That's great to hear. Thank you.

Al Monaco - ***Enbridge Inc. - President & CEO***

You're welcome.

Operator

Our next question is from Linda Ezergailis from TD Securities.

Linda Ezergailis - ***TD Securities - Analyst***

Thank you. I'm looking at your disclosure from your Investor Day with respect to maintenance capital. And obviously, taking out CAD1.1 billion through 2017 is a big step. But, there's still some there. Are there any other steps that can be taken elsewhere on your mainline to further reduce that maintenance capital number?

And maybe you can also comment on where the pinch point or the bottlenecks have moved post the Line 3 replacement in terms of the next opportunities.

Al Monaco - ***Enbridge Inc. - President & CEO***

Yes, Linda. It's Al. Obviously, we look at the entire system in quite a bit of detail. We have integrity and maintenance plans for each one of them. We're quite happy with where we are on the rest of the line.

So, I think, yes, there's still some maintenance and integrity capital that is in the plan. And we think that's appropriate. And at this point, there are no other major investments like this that we foresee.

As far as your question on the pinch points, I'm not quite sure what you mean by that. Could you just maybe rephrase?

Linda Ezergailis - ***TD Securities - Analyst***

Well, maybe just give us an update, or maybe Guy can give us an update, on where you're at in debottlenecking the system generally because, obviously, there's different parts upstream and downstream that are being worked on in terms of reconfiguring batches and extending your network in certain -- to new markets, etc.

Guy Jarvis - ***Enbridge Inc. - President, Liquids Pipelines***

Yes, so, I'll take a crack at that, Al. So, as we've said in my comments and throughout here, the key issue as it relates to Line 3 is that, following the completion of the Alberta Clipper expansions in Canada and the work we're doing on southern access in the US, the system will be in balance at Superior.

And when we talk about that balance, that's a balance of capacities of the system. So, when you talk about pinch points, those pinch points actually move all the time. They're a function of the light and heavy crudes that are on our system. They're a function of what volumes of crudes are coming in at Edmonton, Hardisty, Cromer, or on locations on the lake-head system.

So, and the day-in, day-out shorter-term pinch points are a moving target at all times. But, I think, from a facilities and infrastructure perspective, what we're laying out here is a path that gets us to about as closely in balance from a capacity perspective as we could achieve.

Al Monaco *- Enbridge Inc. - President & CEO*

Yes, there's actually also some other things which you may be referring to as well, Linda. We talked about removal of some of the pressure restrictions on the rest of the system. We are making some good progress on comingling of certain crudes, improving the scheduling and how crude comes into the system and how it's moved out of the system, out of tankage. That's all progressing actually very well. And hopefully, that will all be in place by the end of this year to make sure that we're maximizing the availability of the system during this interim period here.

Linda Ezergailis *- TD Securities - Analyst*

Great. And just one detailed follow-up question, maybe for Richard. Can you confirm that your project returns do not include the avoided CAD1.1 billion sustaining capital, that that's kind of a separate number?

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

So, the project returns are the returns on the incremental investment. And so, if you think about what happens on the existing CTS because you have to understand the base you're working from, we would be responsible for all integrity capital between now and the expiry of the CTS ended 2021.

And at that point in time, the remaining portion of that capital that hadn't been depreciated, which would be the majority of it, would roll into rate base and would be available for recovery of return on and return of through whatever the successor to CTS might be at that point in time, as would any further integrity expenditures going on post 2021 on this line.

So, the way the returns have been calculated here is basically to look at what capital we are saving between now and 2021, so the CAD1.1 billion between now and 2017, plus additional capital between 2017 and 2021, and looking at what is our incremental investment here over and above that. That's the basis on which the returns have been calculated, with the nuance that all of that capital has been assumed to return to a cost-of-service return post 2021.

Linda Ezergailis *- TD Securities - Analyst*

Okay. Thank you.

Operator

Our next question is from Pierre Lacroix from Desjardins Capital.

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

Sure. Maybe if I could just follow on a bit on Linda's last question, so we would've earned no return until 2021 on that integrity capital. And so, the incremental capital that we are spending here is the difference between the CAD7 billion and that capital that we would've earned no return on. And that's the incremental capital that these returns [are based on].

Pierre Lacroix *- Desjardins Capital - Analyst*

Thanks, Richard. That was my question. In terms of potential capacity increase, now that you have a new pipe in the ground and those pumping stations, can we assume that the steps, if need be to increase capacity after that, including all the regulatory matters, will be the same as Alberta Clipper -- I guess it's 36-inch pipe, same size, and you have the just pumping stations and horsepower to bring capacity probably ultimately to 800,000 barrels if need be?

Al Monaco - ***Enbridge Inc. - President & CEO***

Maybe I could take that, Pierre. So, I guess in absence of what we said before about the project not increasing overall system capacity, this -- the investment does restore the capacity to about 760,000 barrels per day, strictly speaking, on the line itself.

That -- remember, the Line 3 stations are already in place. So, you can think of the 760,000 as I guess the majority of the capacity that would be there, given the stations are already in service.

Pierre Lacroix - ***Desjardins Capital - Analyst***

Okay. So, the capacity of Line 3 is 760,000 you're saying.

Al Monaco - ***Enbridge Inc. - President & CEO***

Correct.

Pierre Lacroix - ***Desjardins Capital - Analyst***

Okay. Perfect. And it was running at 400,000-ish?

Al Monaco - ***Enbridge Inc. - President & CEO***

Just under that actually, Pierre, 390,000.

Pierre Lacroix - ***Desjardins Capital - Analyst***

Okay. Perfect. So, that's good. In term of the cost sharing in case of overruns, can you discuss a bit about it and also that 15% cost overruns if the detail costs are -- whenever the detail costs are set. What's the rationale behind it?

Al Monaco - ***Enbridge Inc. - President & CEO***

Sure. Guy, you want to take that?

Guy Jarvis - ***Enbridge Inc. - President, Liquids Pipelines***

Yes, so, we've had this Class IV work underway for some time with our major projects group and with industry. Industry has agreed to fund the development costs related to that. And so long as the detailed estimate comes in at a number which is within 15% of the unclassified cost estimate, we will continue to proceed.

Should that detailed cost estimate come in greater than 15% above the unclassified cost estimate, industry can elect not to proceed with the project, and we would recoup the development costs around the engineering and whatnot that's been completed through future tolls.

In the event that the cost estimate increases above the unclassified estimate but within that 15% band, the way the deal is structured is that 75% of that cost increase would be reflected in the surcharges going forward.

Al Monaco - ***Enbridge Inc. - President & CEO***

I guess maybe just a further point where we're obviously quite a ways down the road on the Class IV estimate in that it's going to be finalized in April. So, that's coming up pretty quickly. And as Guy said, we're doing a lot of work on it. So, we're hoping that will be good for the April date for Class IV.

Pierre Lacroix - ***Desjardins Capital - Analyst***

So, I understand well, if we are two years down the road and that 15% is exceeded, what happens?

Al Monaco - ***Enbridge Inc. - President & CEO***

I think, just to clarify, as Guy said, once the Class IV is set and it falls within the 15% and there's no change to the commercial structure, then we would be at risk to the extent that we exceeded the Class IV. So, we would absorb the capital cost overruns, if that's your question.

Pierre Lacroix - ***Desjardins Capital - Analyst***

Yes, exactly. Thank you very much.

Al Monaco - ***Enbridge Inc. - President & CEO***

Okay.

Guy Jarvis - ***Enbridge Inc. - President, Liquids Pipelines***

And maybe just as a follow on, on that, the return structure for the project is consistent with us bearing the capital cost risk off of the Class IV estimate. So, (inaudible) high end of double-digit returns based on that Class -- the high end of low-double-digit returns based on that classed estimate. And 2.6 million barrels per day is consistent with the level of returns that we would look for on any project where we were taking capital cost risk off of a well-developed Class IV estimate.

Operator

And our next question is from Andrew Kuske from Credit Suisse.

Andrew Kuske - ***Credit Suisse - Analyst***

Thank you. Good morning. I guess the first question is to the degree that you can just talk about the economic versus the accounting life of your pipeline systems because this pipe is roughly 46 years old from the time it started to run. You probably depreciated over a 40-year period of time. Is this really a sign that the accounting life and the economic life on certain systems and Line 3 in particular is really roughly the same?

Al Monaco - ***Enbridge Inc. - President & CEO***

I guess that one's for me. I don't really think it's a sign of anything. This pipe could continue to operate with its current maintenance program for many, many years into the future if our shippers and ourselves were comfortable with the level of overall system reliability that maintaining it at its current operational capacity provides.

So, I don't think this decision really tells us anything about the accounting life versus the economic life versus the physical life, Andrew. I'm not sure I'm completely grasping your question. But, that would be my take on it.

Andrew Kuske - ***Credit Suisse - Analyst***

Maybe it becomes a little bit more apparent on the second part of the question on -- so, I guess, if you look at a couple of your systems are older than Line 3. And then so, I guess the question is in really two parts. So, why Line 3 now? And are there other replacement opportunities from a putting-capital-to-work standpoint on your older systems?

Al Monaco - ***Enbridge Inc. - President & CEO***

Yes, I think, Andrew, that, as we explained earlier, I think why Line 3 now is simply because, when we look at the overall plan maintenance and integrity and the size of it, combined with the fact that our customers would enjoy some additional flexibility and additional buffer and reliability to system, it makes sense from both of those perspectives to replace rather than to continue to maintain as we have been and continue for the next number of years. So, that's the basic logic of why now.

And as far as the other systems, as I said earlier, we do this analysis of the long-term integrity and maintenance plan on each one of the lines. And so, in this circumstance, we were just in a different position compared to the rest of the system.

Andrew Kuske - ***Credit Suisse - Analyst***

So, if I just may ask a point of clarification on -- is the buffer you're referring to, Al, is that really the 390,000 going up to 760,000-ish? Is that the main buffer among other factors?

Al Monaco - ***Enbridge Inc. - President & CEO***

Right. There's additional capacity available overall with respect to this line, which is going to give the shippers some additional reliability, flexibility around scheduling, as I've said, to avoid disruptions for maintenance or other unplanned disruptions, gives a little bit of increase there to allow for those circumstances.

Andrew Kuske - ***Credit Suisse - Analyst***

Okay. That's very helpful. Thank you.

Al Monaco - ***Enbridge Inc. - President & CEO***

Okay.

Operator

Our next question is from Ted Durbin from Goldman Sachs.

Ted Durbin - ***Goldman Sachs - Analyst***

Thanks. Just a point of clarification also. I think this is a light oil line right now. Would you consider this changing over to moving more heavy, or how are you thinking about what you'll move -- what sort of products will move through post the replacement?

Al Monaco - ***Enbridge Inc. - President & CEO***

Yes, you're right. It moves light today. I think in the future it -- we best characterize it mixed service, so both light and heavy. My leaning would be more to the heavier side, but it would move -- be able to move both.

Ted Durbin - ***Goldman Sachs - Analyst***

And then would the toll then change because, obviously, there's the operating -- sort of the power costs and whatnot are higher for moving heavy. How do you account for that then?

Al Monaco - ***Enbridge Inc. - President & CEO***

No, the toll actually doesn't change here. It's the same surcharge for either commodity.

Ted Durbin - ***Goldman Sachs - Analyst***

Okay. And then just talking about the sensitivity of the returns to volumes, maybe you could just walk us through how we should think about that. And will the US portion adjust under the IJT to different volumes? And so, is -- I'm just trying to understand, as the volumes change, what does that actual return profile look like?

Al Monaco - ***Enbridge Inc. - President & CEO***

Okay, Ted. Richard's going to take that.

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

So, breaking it down into parts, on the US capital, 50% of which we're assuming equal funding, 50% of which Enbridge will fund but with the caveat that that is subject to special committee of EEP deciding on that percentage, but that US capital, all of it will be tolled under the Facilities Surcharge Mechanism, which is basically a cost-of-service surcharge. We already have that mechanism for a number of the other projects.

And because it's cost of service, it carries no volume sensitivity associated with it. So, that's a low-double-digits full-life return with no volume sensitivity and with a very slight tilt under the 154B for cost-of-service methodology.

On the Canadian side of the border, their expected level of throughput, as Al and Guy both mentioned, towards the end of the decade is about 2.6 million barrels per day. Off of that case, we'd be looking at low-double-digit returns but towards the higher end of what we characterize as low-double-digit returns.

And as you move up and down around that 2.6 million barrels per day of anticipated throughput, the return will have some variability. We can -- we do -- we will have 2.85 million barrels a day of capacity. So, we could accommodate a little more than the 2.6 million. And returns would move up.

Conversely, although there is a power offset to that because, as we run the system closer to that capacity, (inaudible). And conversely, if volumes move down from the 2.6 million, returns would come down. Again, there's a power cost mitigation to that because power costs begin to drop off fairly significantly as you move away from that level of utilization.

So, within a plausible range, it's about plus or minus a couple of hundred basis points from the level of return at 2.6 million barrels per day, which down to a threshold of 2.35 million barrels per day would take you down at the bottom end of that to still a low-double-digits return but kind of at the bottom end of what you would characterize as double digits.

And below that level of 2.3 million barrels per day, the ratchet that Guy described kicks in and basically holds the return at that level if there were any level of throughput below that. It's certainly not something we would anticipate or expect. But, that mechanism is built in there.

Ted Durbin - ***Goldman Sachs - Analyst***

Great. That's very helpful. That's all from me. Thank you.

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

Okay. Thanks, Ted.

Operator

Next question is from Matthew Akman from Scotia Bank.

Matthew Akman *- Scotia Bank - Analyst*

Thank you. A few clean-ups here. I thought I saw maybe on the US side that there was an 11% ROE referenced. And here, you guys are saying 10.75%. I know it seems small, but am I missing something there?

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

10.75%. Sorry, what was the 11% reference that you mentioned?

Matthew Akman *- Scotia Bank - Analyst*

In the e-presentation, Richard. Is the ROE 10.75%, or is it 11% on 55?

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

So, the 154B regulated turn on equity is 10.75%. That's a regulatory return, an annualized regulatory return. And so, when we do DCF calculations for a full-life return, it'll come back to a slightly different number than that. It's possible that's what they were referring to.

Matthew Akman *- Scotia Bank - Analyst*

Okay. Yes -- .

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

-- Be much different. It'll be slightly -- .

Matthew Akman *- Scotia Bank - Analyst*

-- Okay. You guys -- I just want to confirm that you guys are still assuming KXL is going to happen within this timeframe when you look at your target returns?

Al Monaco *- Enbridge Inc. - President & CEO*

Yes, we assume and as we always have that XL will proceed. For our planning, we assume that it happens in 2016. So, yes, that's in our assumptions, Matthew.

Matthew Akman *- Scotia Bank - Analyst*

But, there's no contingency or a reopener in this particular Line 3 Replacement agreement for KXL, is there?

Al Monaco *- Enbridge Inc. - President & CEO*

No.

Matthew Akman - ***Scotia Bank - Analyst***

Okay. Thanks for that. And my last question is how we should think about this post CTS. There's a surcharge now. But, then do we just think about that surcharge being in place until post CTS and then it kind of goes up in the air until we determine what the new tolling framework is?

Guy Jarvis - ***Enbridge Inc. - President, Liquids Pipelines***

Yes, I think you've got it right there, Matthew. This surcharge is going to be in place for 15 years. We do need to renegotiate the CTS or another tolling arrangement in 2021. And then I guess 15 years down the road, we would be having another negotiation in terms of how the remaining undepreciated rate base of this Line 3 replacement goes into the overall system tolls.

Matthew Akman - ***Scotia Bank - Analyst***

So, Guy, just to clarify, does the agreement on the Line 3 run parallel to any future agreements? In other words, it supersedes actually the CTS and goes beyond that timeframe?

Guy Jarvis - ***Enbridge Inc. - President, Liquids Pipelines***

Yes, it supersedes the term of the CTS and kind of sits on top of the base toll that will be in place either through CTS or through whatever tolling mechanism CTS is replaced with.

Matthew Akman - ***Scotia Bank - Analyst***

Okay.

Guy Jarvis - ***Enbridge Inc. - President, Liquids Pipelines***

You could think of, in effect, the capital for this program is ring-fenced as a discrete capital program for 15 years with the base system continuing to be tolled on whatever toll principles we develop for CTS post 2021 with the one nuance that the integrity capital savings that I referred to since they would've rolled into the base under CTS, they will here as well. So, the integrity savings are a holiday, so to speak, for the shippers until 2021 and then roll into the base system.

Matthew Akman - ***Scotia Bank - Analyst***

Okay. Thanks, guys. Congrats on the project. That's all I've got.

Guy Jarvis - ***Enbridge Inc. - President, Liquids Pipelines***

Okay. Thanks, Matthew.

Operator

Our next question is from Robert Kwan from RBC Capital Markets.

Robert Kwan - ***RBC Capital Markets - Analyst***

Morning. If I can just come back to the Presidential permit or I guess lack thereof, have you sought Department of State confirmation that you won't be needing a permit for this?

Al Monaco *- Enbridge Inc. - President & CEO*

We've advised the Department of State I think is probably the best way to put it, Robert. As we said earlier, this is categorized as a maintenance project or replacement project to improve the reliability. So, it doesn't fit within the requirement to have a Presidential permit.

Robert Kwan *- RBC Capital Markets - Analyst*

Okay. Is it just because you're relying on the same volume that was originally proved, kind of how Clipper's been caught up, or are you actually going to use the existing physical Line 3 as it crosses the border, or is it something else?

Al Monaco *- Enbridge Inc. - President & CEO*

No, it will be a new line. But, the line operates under an existing Presidential permit.

Robert Kwan *- RBC Capital Markets - Analyst*

Okay. Just on funding, in the past, when you've kind of been facing the larger amount of capital, and I recognize very little of this falls in the current plan, but you've tended to get out in front of that and be prudent with common equity issuance, just given the 100% treatment and the amount of size you can get.

Just wondering how does this change your thinking on funding and using that product specifically, or could we see you get a little more aggressive on drop downs?

Al Monaco *- Enbridge Inc. - President & CEO*

So, the CAD2.7 billion equity requirement is up from what I guess we most recently had, but it's not outside our comfort range in what we think is manageable with the funding alternatives that are laid out on the slide that I went through, which I guess is slide 13.

So, without getting more aggressive on drop downs, there's plenty of dry powder there to cover CAD2.7 billion equity requirement. Whether we might get more aggressive on drop downs, there is a school of thought that there's an additional financial market arbitrage that might be available to us through becoming more still aggressive on drop downs. And that's something that we will look at as we do all potential financial strategy optimization tactics.

Robert Kwan *- RBC Capital Markets - Analyst*

All right. So, is it fair to say that the thought around common equity is unchanged from Investor Day, i.e. it's kind of a very -- don't want to say last resort, but in terms of what you've shown, it's a distance fourth?

Al Monaco *- Enbridge Inc. - President & CEO*

Yes, we're comfortable that CAD2.7 billion should be able to be accommodated through the options that are outlined on chart 13 without resorting to common equity, so long as we can get those all done at a more advantageous cost than common equity. And that would certainly appear to be the case as we stand today.

Robert Kwan *- RBC Capital Markets - Analyst*

And because you've mentioned that you're high grading the capital program, is it fair to say that anything else that might add to it's going to be just a really, really attractive project?

Al Monaco - ***Enbridge Inc. - President & CEO***

Yes, well, I think that's probably a fair assumption. On the high grading issue, I don't think it hurts from time to time to look at all those projects that we have in the hopper in that regard. We've got lots in front of us.

But, we're sort of stating things as we see them today at -- from time to time, we may see other projects come about. We'll have to reevaluate if that happens.

Robert Kwan - ***RBC Capital Markets - Analyst***

That's right. Thank you very much.

Al Monaco - ***Enbridge Inc. - President & CEO***

Okay.

Operator

Our next question is from [Sunil Sibal] from Global Hunter Securities.

Sunil Sibal - ***Global Hunter Securities - Analyst***

Hi, good morning, guys. Most of my questions have been asked and answered. But, I had just one remaining, if I may. I was wondering if you could provide some color on CAD2 billion of the deferred growth capital in terms of where are most of those projects coming from, which part of the business segments?

Al Monaco - ***Enbridge Inc. - President & CEO***

Sorry, could you just clarify the question again? I missed a part of it. So, could you make -- just repeat that last part?

Sunil Sibal - ***Global Hunter Securities - Analyst***

Yes, so, when we think about the CAD2 billion of growth projects that you're trying to defer, do you suppose -- are those projects mainly related to your spending plans in the US or Canada and liquids versus gas businesses?

Al Monaco - ***Enbridge Inc. - President & CEO***

Okay. Sorry, I missed the first part there. So, yes, the buckets I guess that we have for unsecured projects covers a number of areas within the liquids area, the gas transportation area and processing area, as well as our gas distribution business. So -- and as well as our power generation and transmission business.

So, that is an inventory of projects that we're looking at and covers all the areas through our business.

So, we won't get more granular on where the CAD2 billion's coming from. But, generally, it applies to all of our business units.

Sunil Sibal - ***Global Hunter Securities - Analyst***

Okay. That's all I have. Thanks.

Al Monaco - ***Enbridge Inc. - President & CEO***

Okay. Thank you.

Operator

Our next question is from [Winfred Fruha] from [Fruha Consulting]. Please go ahead.

Winfred Fruha - ***Fruha Consulting - Analyst***

Thank you. The life of Line 3 is compared with typical industry lives not really old, especially if one considers that this line has been properly maintained. And given that Enbridge is operating some older lines already, what in particular motivated Enbridge to pick this replacement for Line 3? In other words, what was the compelling evidence that led to the decision to proceed with a project?

Al Monaco - ***Enbridge Inc. - President & CEO***

Well, I think we referred to this earlier, Win. But, I guess, in a nutshell, the evidence is twofold. Number one, the customers sought some additional buffer and increased reliability, as do we. And the second part of that is, when we look at the profile of our maintenance and integrity program over the next several years, we felt it was more economic and certainly, from an operating point of view, preferable to replace the line at this point.

Winfred Fruha - ***Fruha Consulting - Analyst***

Well, what was the reason why industry pushed for an enhancement of reliability? Was there any evidence that we might see some line breaks along the way, or what is the compelling evidence that motivated them to come to Enbridge and ask for this replacement program?

Al Monaco - ***Enbridge Inc. - President & CEO***

It's a combination of things, Win, all rely -- all relating to the day-to-day operations, which obviously the producers are in a position where they want to make sure that they have access to all the markets, and they want to make sure that they have a buffer to do that.

I think we've learned in the industry over the years that having additional level of buffer to accommodate scheduling issues, flexibility around maintenance is preferable because the cost of not having that flexibility and insurance can be quite significant, as you know, if you don't have it in terms of the impact on pricing.

So, I think that's the approach the industry's taking. And we support it.

Winfred Fruha - ***Fruha Consulting - Analyst***

Why did industry not ask for the older lines for increase in that buffer?

Al Monaco - ***Enbridge Inc. - President & CEO***

Because in the case of the older lines, as I said earlier, based on our assessment at each one of those lines, the maintenance costs over the longer term are quite manageable. And the specific circumstances don't warrant it in those other cases, from an operating and flexibility point of view.

Winfred Fruha - ***Fruha Consulting - Analyst***

So, industry must've thought that, given your maintenance program, you just needed to do this replacement.

Al Monaco *- Enbridge Inc. - President & CEO*

Yes, as I said, that's one element of it, the efficiency from the longer term from a capital expenditure point of view is one element of it. And of course, the flexibility and reliability that comes with a brand new line is also very helpful.

Winfred Fruha *- Fruha Consulting - Analyst*

Okay. Thanks very much.

Al Monaco *- Enbridge Inc. - President & CEO*

Okay. Thank you, Win.

Operator

And a follow-up question from David McColl from Morningstar.

David McColl *- Morningstar - Analyst*

Hi, everyone. Just a real quick softball for you. What's the spending profile going to look like for this project in terms of 2015, 2016, and 2017?

Al Monaco *- Enbridge Inc. - President & CEO*

Boy, Richard, you have that handy?

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

Sure. It's backend weighted into 2016 and 2017, modest expenditures in 2014 and 2015. Most of the capital will fall towards the end of our five-year plan.

David McColl *- Morningstar - Analyst*

Okay. That's working now. Thanks.

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

Welcome.

Operator

And we'll now take questions from the media. And our question is from Jeff Jones from Globe and Mail.

Jeff Jones *- Globe and Mail - Media*

Yes, thanks very much. My question relates to the time during construction. Do you have a feeling on whether this will increase apportionment levels on the overall system while the work is going on? What do you intend to do with providing alternate routes for crude during the construction?

Guy Jarvis - ***Enbridge Inc. - President, Liquids Pipelines***

Yes, I'll take a crack at that. I think, given that we're going with the full replacement program and the target of it is increased reliability, we think that the impacts should not be significant on the ongoing operation of the existing Line 3 as the replacement is being constructed.

Jeff Jones - ***Globe and Mail - Media***

I'm just -- can you explain that a little bit further? I'm not sure how that would work.

Guy Jarvis - ***Enbridge Inc. - President, Liquids Pipelines***

Yes, well, we'll be -- we will be constructing Line 3 in the same corridor adjacent to the existing Line 3. The existing Line 3 will be maintained and operated in a safe manner throughout that entire duration. And I guess there'll be a bit of an implication to the way the systems operate in -- at about the time that we bring the new Line 3 into service. But, on an ongoing basis throughout the construction period, we wouldn't expect to see abnormal instances of apportionment that result because of this construction.

Al Monaco - ***Enbridge Inc. - President & CEO***

No, when we bring the line into service, we'll be purging the one while we're filling the one in parallel. So, it'll be very well-coordinated line fill and in service.

Jeff Jones - ***Globe and Mail - Media***

Okay.

Al Monaco - ***Enbridge Inc. - President & CEO***

As well, Jeff, don't forget we've got some additional initiatives underway, including the expansion of the Alberta Clipper program that happens over the next little while here and some other initiatives to improve capacity and through this period of time.

Jeff Jones - ***Globe and Mail - Media***

Thank you very much.

Al Monaco - ***Enbridge Inc. - President & CEO***

Okay, Jeff.

Operator

Our next question's from Jeff Lewis from the National Post.

Jeff Lewis - ***National Post - Media***

Hi there. My question was just answered. But, I have a -- just as a quick follow up, why is the line currently running at 390,000? Is that just a function of the size of the pipeline, or can you just clarify what -- why the volume is what it is today?

Al Monaco - ***Enbridge Inc. - President & CEO***

The volume runs at 390,000 because, under our current assessment of the line, that is the maximum operating capacity we can run at based on our engineering analysis of that particular line. And that's why we're running it there.

Jeff Lewis - ***National Post - Media***

Okay. And then can you just confirm that you're -- that the new line will be 36-inch?

Al Monaco - ***Enbridge Inc. - President & CEO***

Yes, for the most part. There will be a segment which is 34-inch, which will run across the border. For the most part, it'll be 36, remembering that 36 is the most conventional size of piping that's made today.

Jeff Lewis - ***National Post - Media***

And then just finally, what regulatory permits do you need for this project if you don't need a Presidential permit?

Al Monaco - ***Enbridge Inc. - President & CEO***

We will be filing for regulatory approval from both the National Energy Board and the FERC, remembering, of course, that we have received commercial support from the project from the shippers. So, those are the two.

Now, there will be some other customary regulatory permitting approvals required through states and particularly the Corps of Engineers on certain items as well.

Does that sort of cover it, Byron?

Byron Neiles - ***Enbridge Inc. - SVP, Major Projects***

It does, yes.

Al Monaco - ***Enbridge Inc. - President & CEO***

Okay.

Jeff Lewis - ***National Post - Media***

Okay. Thanks.

Al Monaco - ***Enbridge Inc. - President & CEO***

Okay. You're welcome.

Operator

Our next question is from Elsie Ross from Daily Oil Bulletin.

Elsie Ross - ***Daily Oil Bulletin - Media***

Morning. I'm just wondering if you could explain the flexibility a little more because I wasn't quite understanding exactly how it will provide increased flexibility.

Al Monaco - ***Enbridge Inc. - President & CEO***

Okay. Well, when we've got additional capacity on this particular line, it does allow for a little bit room to manage situations where you've got unplanned maintenance. It gives you a little bit more flexibility for planned maintenance, outages even, scheduling of crude and the timing of that crude coming into that system on the basis that customers prefer to see it go in.

And certainly, with this, you can do some shifting between lines, depending on the type of crude that's moving. So, those are the -- some of the things that will help provide that additional buffer to our shippers.

Elsie Ross - ***Daily Oil Bulletin - Media***

And that's because of the -- because most of it's going to be 36 as opposed to 34.

Al Monaco - ***Enbridge Inc. - President & CEO***

No, because the replaced line is allowed to -- or we can run it at its maximum capacity rather than the capacity it's currently running at.

Elsie Ross - ***Daily Oil Bulletin - Media***

Okay. So, what is the current -- what would be the maximum capacity then?

Al Monaco - ***Enbridge Inc. - President & CEO***

760,000 barrels per day.

Elsie Ross - ***Daily Oil Bulletin - Media***

Okay. That's the -- okay.

Al Monaco - ***Enbridge Inc. - President & CEO***

Yes.

Elsie Ross - ***Daily Oil Bulletin - Media***

Okay. Good. Thank you.

Al Monaco - ***Enbridge Inc. - President & CEO***

Welcome.

Operator

Our next question's from Lauren Krugel from Canadian Press.

Lauren Krugel - ***Canadian Press - Media***

Good morning. I was just hoping you can clarify something I think you sort of addressed on the call earlier. But, I'm just having trouble understanding why Line 3 at this point in time. Is it kind of a function of the age of the pipeline? Why this particular segment of the line and not one of the other five at this point?

Al Monaco - ***Enbridge Inc. - President & CEO***

Okay. Well, we -- as we mentioned earlier, we've had an ongoing integrity and maintenance program for Line 3 for the last number of years, as we do on every pipeline system. Obviously, our objective is to keep it in top-notch shape.

We've been doing that. We've been planning more work on the system over the next several years. And some of that work actually becomes more efficient by replacing certain segments of the line rather than some other alternatives we have for integrity and maintenance management.

So, really, it's a function of looking out 15 years from now and saying, what does that continuing profile look like for maintenance and integrity spending compared to replacing the line in its entirety today? So, that's how we look at it from that point of view.

The other factor, as we've mentioned is -- and this is very important for the customers -- is replacing the line today provides some additional flexibility and capacity on the system to manage these issues that arise from time to time. So, it's really the combination of those two things.

Lauren Krugel - ***Canadian Press - Media***

And so, you've run that sort of calculation. Excuse me. You've run that sort of calculation or run the numbers on the other segments of the line and determined that that wasn't the way to go then.

Al Monaco - ***Enbridge Inc. - President & CEO***

Yes, that's correct.

Lauren Krugel - ***Canadian Press - Media***

Okay. All right. Thank you. That's it for me.

Al Monaco - ***Enbridge Inc. - President & CEO***

Okay. You're welcome.

Operator

And we have no further questions at this time. And I would now like to turn the call back over to Adam McKnight for any closing remarks.

Adam McKnight - ***Enbridge Inc. - IR***

Thank you. We have nothing further to add at this time. But, I'd like to remind everyone that I will be available for follow-up questions after the call. Thank you.

Operator

Thank you. Thank you, ladies and gentlemen. This concludes today's conference. Thank you for participating. You may now disconnect.