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ENB.TO - Enbridge Inc Conference Call to Discuss its Agreement to Transfer Canadian Liquids Pipelines Business and Renewable Energy Assets to Enbridge Income Fund Holdings Inc

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CORPORATE PARTICIPANTS

Adam McKnight Enbridge Inc. - Director of IR
Al Monaco Enbridge Inc. - President and CEO
John Whelen Enbridge Inc. - EVP and CFO
Vern Yu Enbridge Inc. - SVP and Corporate Planning and CDO

CONFERENCE CALL PARTICIPANTS

Sharon Lui Wells Fargo Securities - Analyst
Robert Catellier GMP Securities - Analyst
Robert Kwan RBC Capital Markets - Analyst
Linda Ezergailis TD Securities - Analyst
Rob Hope Macquarie Research - Analyst
Matthew Akman Scotiabank - Analyst
Gregg Price Barclays Capital - Analyst
Jim Hoffman Bloomberg News - Media
Jeff Lewis The Globe and Mail - Media
Pascal LaPense Addenda Capital

PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to the Enbridge Inc. conference call. I would now like to turn the meeting over to Adam McKnight, Director of Investor Relations.

Adam McKnight - Enbridge Inc. - Director of IR

Thank you. Good morning and welcome to Enbridge Inc.’s Financial Strategy Optimization Update call. With me this morning are Al Monaco, President and Chief Executive Officer; John Whelen, Executive Vice President and Chief Financial Officer; Vern Yu, Senior Vice President Corporate Planning and Chief Development officer; and Leigh Kelln, Vice President Investor Relations and Enterprise Risk.

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.

We will take questions from the analyst community first and then invite questions from the media. For everyone’s benefit, please wait until the end the call to queue up for questions. Questions are limited to two per person, then reenter the queue if you have any additional queries. I will also remind you that I will be available after the call for any follow-up questions that you might have.

Before we begin, I would like to point out that we will refer to forward-looking information in connection with Enbridge and the subject matter of today’s call. By its nature, this information contains forecasts, 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 significant factors and risks that could affect future outcomes for Enbridge which are also discussed more fully in the news release and our public disclosure filings on both the SEDAR and EDGAR systems.
With that, I will turn the call over to Al Monaco.

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

Thanks, Adam, and good morning, everyone. Thanks for joining us at this early time and hopefully you have all had a chance to read through the news release that we issued earlier this morning and in that we announced that we reached agreement on the drop-down of our Canadian Liquids Pipelines business and some Canadian renewable assets to Enbridge Income Fund for CAD30.4 billion.

This morning I will kick things off by recapping our thinking behind our financial strategy optimization, the key terms of the drop-down, and what all of that means for both Enbridge and Enbridge Income Fund Holdings or ENF as we refer to it. Then John will update you on the funding plan and financial outlook. I will then come back with the expected timeline to close and a summary.

Just a couple of general points though before we begin. At our Enbridge Day in October, we raised the profile of cash flow generating capability of our existing assets. As you saw in our news release and as you will see in our presentation today, we have now introduced the concept of available cash flow from operations or ACFFO and we will now be expressing our dividend payout policy in terms of ACFFO. We think this is an important step in ensuring that investors see the embedded growth and cash flow going forward.

I should also note that the assessment of the transfer of some or all of our US liquids pipelines to EEP is still underway, so we won’t be speaking to that here today.

Before we get to the deal itself, let me provide some context and we are now on slide 4. Today we are talking about our financial strategy optimization and how that adds shareholder value. Although the drop-down involves a change to how we hold our liquids assets, our commercial model strategies and approach to the business won’t change. That includes our number one priority, safety and operational reliability of our systems. We will continue to operate, manage, and develop our liquids business just as we do today.

As you can see from the map, we are a major North American energy infrastructure player with a diversified portfolio of over CAD77 billion in total assets under management. Our liquids, natural gas, and power franchises are supported by solid fundamentals and we have a strong competitive position in each of those franchises.

A key element of our strategy has been to capitalize on the scale and reach of our systems and provide cost-effective access to the best markets. That has generated very good growth but it’s also been critical to our upstream and downstream customers. The majority of our earnings are driven by liquids pipelines and that growth will continue. At the same time though, we are focused on further developing our gas business and new platforms, which support extending our industry-leading growth.

Moving now to slide 5, which outlines what led us to move forward on the financial optimization strategy that we announced in December. The slide summarizes the fundamental value drivers of our business as we see them. First our existing assets come with strong embedded growth that extends beyond 2018. There’s a very high degree of transparency to that growth, with a tilted return profile that we’ve discussed before with investors.

Secondly, our industry-leading capital program, which currently sits at CAD44 billion, most important part of that is the nature of that capital, which is largely organic. And of course that adds the best value and it’s right in the middle of our strategic fairway. Although getting projects done in this environment is challenging, our major projects capability gives us the best opportunity to deliver projects on time and on budget for our customers and we think that is a competitive advantage.

Finally, the strategic positioning of our assets and strong commercial underpinning generates reliable and predictable financial performance in most market conditions. So we spend a lot of time thinking about these value drivers and concluded that they weren’t being fully reflected in our valuation relative to the peers.
Now even though it is up to investors to determine the appropriate valuation, it’s our job to ensure that we fully surface the embedded value of our growth and business model.

Slide 6 translates these drivers into some key metrics from which to measure relative value.

Starting at the top left, I mentioned our move to ACFFO is the metric we will be focused on going forward. Here we have plotted our expected average ACFFO compound growth rate, which is expected to be very robust at about 18% through 2018. John will go through how we will measure that going forward in a few minutes.

Based on that ACFFO outlook and our very healthy expected average annual dividend growth rate of 14% to 16% as we have previously discussed, you can see that our coverage is at the conservative end of the spectrum.

Of course it’s not just about growth. It’s equally about the reliability of cash flows. The third chart on the bottom left illustrates very well the predictability of our financial results over an extended period of time and actually going back beyond this to the left. With this strong growth profile and the healthy dividend coverage and our reliable business model, we can see at the bottom right that our valuation has been lagging the peer group.

So from this, our view is that we have a good scope to enhance our relative valuation and move more to the left of that chart. And that is really what the financial optimization is all about.

Let me be more specific about the benefits of the strategy as outlined on slide 7. Recall there are two parts to the strategy and both work in tandem. The first is an increase in the dividend payout which we announced in December. At the time the payout policy range was increased to 75% to 85% of adjusted earnings. Now that is going to translate to our revised dividend payout range of 40% to 50% of ACFFO and John will take you through that as well.

The second part is the large-scale drop-down where we transfer the Canadian Liquids Pipeline businesses to Enbridge Income Fund. Together these actions will drive out superior value for shareholders to the four items that you see in the chart here. The higher payout range, reduced equity requirements and the benefits of the drop allow for acceleration of dividend growth, 33% in the first quarter of this year and 14% to 16% average annual expected growth through 2018. This should translate to a lower cost of funding of our existing assets, our CAD44 billion capital program, and make us at the same time more competitive in pursuing new growth opportunities.

At the same time though, the drop-down transforms the Fund through a massive increase in scale, the best liquids pipeline franchise in North America, and a highly visible and secure growth capital program. For the Fund, that transformation will drive out expected average annual dividend per share growth of 10% on closing of the transaction and average annual dividend growth of 10% from 2016 through 2019. It’s pretty clear we have a significant growth from the large slate of organic projects through 2018 but the power of this transaction is that we will extend growth beyond 2018 as ENF becomes an even more effective fund vehicle going forward. These sources of growth include the tilted return profiles embedded in the assets, increasing incentive fees from the Fund, displaced equity requirements at Enbridge, and our ability to free up capital for redeployment.

As many of you have heard us say before, the benefits come down to a pretty simple equation and that is total annual return of about 17% to 19% when you combine the dividend yield at this point with the dividend growth rate. So we believe this package should be very attractive in any market environment.

With that overview, slide 8 summarizes the transaction. Basically we transfer the Canadian Pipelines business including the mainline and regional oil sands systems along with some renewable assets to the Fund for total consideration of CAD30.4 billion. That CAD30.4 billion valuation implies EBITDA multiple of about 13.8 times. That is based on an expected second half 2015 annualized EBITDA estimate for the assets and that multiple lines up with what we expressed as a range of possibilities back last December. The valuation though reflects we believe the uniqueness of the business we’re dropping down into the Fund. There’s nearly CAD15 billion of commercially secured projects in execution so the growth is real. In fact, CAD2 billion of that we have already put into service.
A good chunk of the assets as I said also comes with upward sloping returns that stem from the commercial terms embedded in the agreements with our shippers. In exchange, Enbridge takes back equity in the Fund and the Fund assumes CAD11.7 billion of existing debt supporting those assets.

While the CAD30.4 billion reflects the lion's share of the value, Enbridge will benefit from two additional sources of cash flow. The first is our current incentive distribution mechanism. The second is new, a Temporary Performance Distribution Right, or TPDR.

So let's move on to slide 9 now to discuss those. You are all familiar with the Fund's existing incentive mechanism. We receive a base fee of about CAD8 million plus 25% of distributions that exceed the threshold of CAD1.295 per unit. So that really doesn't change. What's new is this performance distribution rider, TPDR. You can see the details on the slide but basically we will receive additional equity in the Fund based on 33% of distributable cash above the same CAD1.295 per unit through 2020. Distributions are going to be paid in kind and they convert to cash paying units four years after the year of issuance.

Let me just spend a moment on why this new incentive distribution right is part of this transaction. As I referred to earlier, the assets we are transferring are unique in that they come with substantial and transparent built-in growth that generates increasing cash flow. Part of that is this upward sloping return profile that is embedded in the assets. For Enbridge, the TPDR essentially captures additional value and the positive outlook we see for the liquids business going forward. Of course that will be a good outcome for the Income Fund and ENF because it will mean the assets are growing and so is the cash flow.

So in a nutshell, this feature really bridges what the Fund can accommodate today with the future cash flows that will be generated from the assets.

Now I'm going to spend a few minutes on how this drop will transform the Fund and by extension ENF. So now we're on the slide 10. It's very clear how that is going to happen when you look at the map here. We are adding large scale and scope to the Fund's business. Once the CAD30 billion plus transfer is complete, the Income Fund will have the largest asset base among high payout Canadian energy infrastructure companies and with that we believe the highest quality liquids business in terms of the underlying commercial model and the reliability of cash flows.

Just by reference, that includes the Canadian portion of our extensive liquids pipelines network, perhaps one of the most strategic assets in North America on the energy front. The mainline moved a record 2.2 million barrels per day across the border last year and that's over 50% of the daily Canadian crude into the US.

Then there is the regional oil sands system, which connects eight major oilsands developments and actually two more coming on stream next year to the key market hubs of Edmonton and Hardisty and then on to our mainline. These businesses have a lot of runway in front of them as well in terms of new development and expansion potential going forward.

Slide 11 lists out the projects in execution to give you more transparency into this and the in-service date timing we expect. It's really these projects that provide the low risk cash flow growth to support the significant rising dividends for ENF through 2019 that I talked about earlier.

Onto slide 12 and what this means for ENF, which is the public equity issuing vehicle that will initially own about 10% of the Fund and growing over time as it makes further investments in the Fund. Historically the payout policy of ENF has been managed to provide a smooth 1% embedded growth rate in distributions and that is originally how it was designed. So that 1% growth has been supplemented in most years though by organic opportunities in the assets or periodic drop-downs. We think that has generated good returns for ENF shareholders but that approach has been less transparent from an investor's perspective. This transaction provides an explicit plan and a large inventory of assets for ENF to digest every year.

We expect this to provide ENF shareholders with dependable dividend growth of about 10% as we said immediately upon closing of the deal and then each year thereafter from 2016 to 2019. That growth comes about from the increasing investment in the Fund but also participation in that upwards tilted cashflow stream from the new assets. So clearly a great outcome for ENF shareholders.
Slide 13 brings this all together in one spot so I’m not going to repeat every point that you see here but in essence what the slide does is capture the magnitude of the change in ENF from where it is today across a number of key attributes. It is really this transformation that is generating the win-win we have been talking about since we announced the transaction last December. It is great for ENF shareholders for all the reasons we have discussed and it adds value to Enbridge in that we have created a strong vehicle to support our strategies and value proposition. And of course we benefit from ENF’s success through an improvement in their valuation and an effective source of funding for Enbridge.

I am now going to pass the call over to John to discuss the funding plan and the financial outlook in more detail.

John Whelen - Enbridge Inc. - EVP and CFO

Thanks, Al, and good morning, everyone. I’m on slide 14 now. One of the very compelling aspects of this transaction is the financing flexibility that it will provide going forward. The plan is for ENF to issue equity in manageable bites each year when market windows are attractive to finance the growing interest in industry leading infrastructure businesses owned by the Fund.

We are currently planning to raise in the range of CAD600 million to CAD800 million of equity per year at ENF over the next three to four years, around CAD3 billion in total but we will tailor the size of those offerings to meet market demand. Enbridge will co-invest with ENF as required and importantly has committed as part of this transaction to provide an equity funding backstop for the very large liquids pipelines growth program that the Fund will acquire along with the transferred assets.

As ENF raises new capital, we would expect Enbridge’s interest in the funds to decline from a little over 90% immediately post this drop-down to around 80% by 2018, all other things equal. At the same time, ENF’s public market capitalization and trading liquidity will grow significantly as it raises new equity which when combined with this low risk business model and expected dividend growth rate of close to 10% should make it a very attractive investment proposition for both retail and institutional investors and an increasingly effective vehicle through which Enbridge can raise low-cost equity capital.

The stronger ENF’s valuation, the more it will serve to displace equity funding requirements at Enbridge Inc., freeing up capital for investment in new projects and enhancing Enbridge’s ability to extend cash flow and dividend growth beyond 2018.

Moving on to the debt side of the equation and to slide 15, you will have seen in the news release that on closing in September, the Fund will assume about CAD11.7 billion worth of debt when it acquires Enbridge Pipelines Inc. and Enbridge Athabasca. A little over CAD3 billion of this amount represents outstanding medium and long-term notes issued by Enbridge Pipelines Inc. in the Canadian public market. About CAD2 billion is commercial paper to be issued by Enbridge Pipelines and expected to be outstanding at the time of closing.

There is also about CAD400 million of projects debt financing for the Canadian portion of the Southern Lights diluent programs that will come across as part of this transaction. The balance of CAD6.1 billion are intercompany loans from Enbridge Inc. that will remain in place post closing. The bulk of these loans, a little over CAD4 billion, were advanced to fund regional oilsands projects and represent senior claims on all of the assets of Enbridge Pipelines Athabasca, which has no other external debt.

At the time we announced our intention to make a drop-down proposal to the Fund we also talked about a potential debt exchange. We spent a lot of time over the last few months assessing the merits of various structures to address potential concerns with respect to structural subordination. After considering feedback from investors, financial advisors, and the rating agencies, we have determined not to offer such an exchange. The rating agencies are fully up to speed on this transaction and we do expect them to issue their reports shortly.

Moving along now to slide 16, which shows our outlook for adjusted EPS. Based on our long-range plan, we still expect an average annual adjusted EPS growth rate of 10% to 12% over our planning horizon. This takes into account the impact of this drop-down transaction, which we now expect to be approximately 2% accretive on average from 2015 to 2018. The expected accretion reflects the benefit of growing incentive fees to Enbridge and reduced equity funding requirements of approximately CAD3 billion, the external equity capital expected to be raised by ENF through 2018.

The EPS accretion estimate has clearly changed from our original expectation of 10%, so let me address that.
Our original estimate reflected our planning assumptions and expectations at the time which contemplated that preference units would form part of the consideration paid by the Fund to Enbridge for the assets transferred in this transaction. However as we worked through the finalization of the transaction details including the terms of the equity taken back, we determined that a preferred investment was not the best structure for this transaction. Given the magnitude of Enbridge’s ownership in the Fund, we concluded that a common unit investment would align us more closely with the public investors in the vehicle and that the accounting treatment of the structure with common units would better reflect this alignment.

So as a result, the GAAP EPS impact is less than we had originally anticipated based on the original structure design. Importantly the revised structure does not change the cash flow we will derive from our ongoing investment in the Fund.

Speaking of cash flow, let’s now turn to slide 17. As Al mentioned earlier, we will be introducing supplementary cash flow metrics to our regular reporting as a means to better convey the value that we believe is created through this transaction in combination with the increase in the dividend payout that we announced at the end of last year. We looked at a number of potential metrics and concluded that available cash from operations or ACFFO is the most appropriate measure for Enbridge at this time. It is a consolidated portrayal that is used by a number of our peers and can be readily derived from Enbridge Inc.’s consolidated cash flow statement with a little additional disclosure on maintenance capital, which we will be providing going forward.

The calculation methodology is illustrated on the slide using our 2014 actual results, which produces an ACFFO metric of $3.02 per share. From this base in 2014, we expect that ACFFO will grow at a very attractive compounded rate of about 18% per year through 2018, providing ample support for ongoing dividend increases. This compound growth rate will look a little different than what we showed you at Enbridge Days last fall. There are a few reasons for that.

Firstly, this number is calculated off the 2014 base year, whereas our prior calculations used 2013 as the base. Secondly, the measure we showed you last year actually included a component of enhancement capital in our consolidated maintenance capital numbers. We have a standardized approach to defining maintenance capital to align it with that used by our publicly traded sponsor’s vehicles and our peers and will use this approach going forward.

Finally, the calculation approach has changed a little. To the extent we have described cash flow growth in the past, we have focused on a deconsolidated approach, in effect picking up distributions from our sponsored vehicles and adding those distributions to funds from operations delivered by the rest of our businesses. This new metric is more focused on consolidated cash flow across all of our businesses and we think this is the more appropriate approach given that post this transaction we do expect to continue to hold a very large interest in the Fund for the foreseeable future.

So ACFFO as described on the slide will be the metric we will use to depict Enbridge’s available cash flow going forward.

And strong cash flow however measured will continue to support dividend growth and now turning to slide 18, you can see that after a 33% bump in our dividend earlier this year, we continue to be very well positioned for further increases. Accelerating ACFFO driven by the ongoing execution of our $44 billion capital program and growing returns on our base business should allow us to grow dividends at a compound average annual rate of between 14% and 16% through 2018.

Al mentioned earlier that our dividend payout policy expressed as a percentage of ACFFO translates to a range of 40% to 50%. We expect that the dividend growth profile set out on this slide should fall quite nicely within this payout range. At these payout levels, our cash flow coverage in dividends is expected to be very strong both in absolute terms and relative to many of our peers which leaves us with potential flexibility to further boost the dividend payout beyond 2018 depending on the size and nature of our investment opportunities at that time.

Looking a little farther forward, one of the big benefits that we see with the financial optimization strategy that we are now implementing is the way in which it supports dividend growth over the long term. The ability to cost effectively raise equity capital at ENF to fund asset growth should continue to displace equity capital requirements at Enbridge Inc., enhance returns on capital invested through the Fund by our growing incentive distributions, and provide flexibility over the long-term to monetize investments in the Fund and redeploy capital into new growth opportunities,
all of which when combined with growing embedded returns in our base business should enable us to extend our attractive dividend growth rate well beyond our current planning horizon.

With that, I will turn it back to Al to wrap up.

Al Monaco - Enbridge Inc. - President and CEO

Okay. Thanks, John. So now we're on to slide 19, which is really just a reminder of the timeline for this transaction. As you can see here, it has been a lengthy process to get to this point but with this agreement in place the bulk of the heavy lifting has now been done but there are a few steps here remaining to close the transaction.

The transfer is subject to closing conditions and some regulatory approvals and ENF shareholder which is scheduled for late August. We expect the closing will follow shortly thereafter.

In summary then on slide 20, this last slide illustrates the optimization plan is really a win-win for both shareholders of Enbridge and ENF. For Enbridge moving the Canadian Liquids Pipeline’s assets down to the Fund doesn’t change the fact that it remains our core business. We will maintain a very significant economic interest in this business, continue to operate it, and we will manage its strategic development. So Enbridge will look fundamentally the same and our reliable business model that has served us well and our investors well will remain intact.

We've talked about the 33% dividend bump on March 1 and we've upped our dividend growth rate outlook to 14% to 16% at least through 2018.

Equally important in all of this is that we’ve established the Fund as a low-cost funding vehicle that will position us well to extend our industry-leading growth beyond 2018.

Moving to the right hand side of the slide, the benefits to ENF and the Fund are clear. Simply put, the scale and quality of Enbridge’s crown jewel liquids pipelines assets transforms ENF into a premier energy infrastructure company. The Fund will still be a high payout vehicle focusing on providing a large component of its return in the form of cash and it will have a very visible growth slate and cash available for distribution to the large secured program plus significant development opportunities going forward. The magnitude of the growth should be the highest among its Canadian peers with dividend growth of about 10% at least through 2019.

We think that all makes for a pretty appealing story for both Enbridge and the Fund and should support premium valuations and continued success for both entities.

I would like to remind everybody before I close off that ENF and Fund Management and Investor Relations are available to answer any questions you may have after our call today. But for now we're going to turn it back to the operator for questions. Operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Sharon Lui, Wells Fargo.

Sharon Lui - Wells Fargo Securities - Analyst

Good morning. I was wondering if you can address the merits of executing one large drop versus a series of transaction that was originally contemplated and the implications the structure the contract transaction with EEP similarly with one drop and with that TPDR feature?
Al Monaco - Enbridge Inc. - President and CEO

Okay, effectively think of it as just about the same thing as a sequential drop and the reason for that is this. Although the assets are coming down to the Fund in what we refer to as I guess one fell swoop and you see in the size of the transaction, the sequential part of it is actually that ENF invests in the Fund annually as John has said to a tune of about CAD600 million to CAD800 million in equity. So what the large drop does is provide clarity that we are moving forward with sequential drop downs and that I think from a governance point of view, it makes it a little simpler in that the valuation really from here on is going to be determined by the equity issuances done by ENF. So I think you can think of it as one large drop down but from ENF’s point of view there is sequential investments that come about year after year.

Now with respect to EEP, which I think was the second part of your question, as we said earlier at this point we are still evaluating the possibilities there. So I would say at this point it is still an open question as to which structure would prevail but as we said, we’re still in the process of looking at that, so more to come on that we are hoping within the next quarter or two.

Sharon Lui - Wells Fargo Securities - Analyst

Okay I guess similarly with the TPDR feature, that’s also an item potentially for EEP as well?

Al Monaco - Enbridge Inc. - President and CEO

You know, that’s once again in the category of to be determined at this point. We are still working through the process and whatever structure we determine will apply then. So I think it’s way too early to speculate on the structure of a possible EEP transaction.

Sharon Lui - Wells Fargo Securities - Analyst

Great, thank you.

Operator

Robert Catellier, GMP Securities.

Robert Catellier - GMP Securities - Analyst

Good morning and congratulations on achieving this important milestone and this enormous undertaking.

I have got a couple questions. I’m going to start with debt and then I’ll have one on capital allocation. Your slides are clear about the motivation on the equity side and I’m trying to move to the left on the sort of relative valuation on your payout metrics etc. But there is a balancing mechanism there with the cost of debt and your peer group in particular has lowered debt metrics and so I want to understand how you are going to go about balancing those seemingly competing interests.

So at what point does the increase or possible increase in the cost of debt outweigh the benefits that go along with a higher payout ratio and how are you going to manage that whole process?

John Whelen - Enbridge Inc. - EVP and CFO

I think that’s a very good question and the answer is it’s a balancing act but our primary goal, Robert, is to assure that we maintain very strong debt access, debt capacity, and very strong credit ratings through the piece. So our goal will be to balance that at the end of the day. Obviously we
assessed the overall impact of the transaction on our overall weighted average cost of capital and we believe that this will lower it, making us more competitive going forward. But we are very conscious of the support that we get from our debt investors and we were quite careful actually in designing this to try to make it as credit-neutral as we possibly can.

And so we are not looking to if you will lever up the organization as a result of the higher payout. In fact, our design models ensured that we’d rebalance the capital structure and not in part is what we like about the structure because we can bring additional equity in from other sources. In this case, it is the ENF to rebalance the structure. But the answer is we are very conscious of both sides of the equation have been in the design of this transaction and will be going forward.

Al Monaco - Enbridge Inc. - President and CEO

I think just to add on to what John is saying and by the way it’s a great point of the balance here, Robert. If you look at the payout policy that we have and I think we expressed this as well at Enbridge Day and since then, I think if you look at where we sit on the payout scheme relative to the rest of the peer group, it’s relatively conservative and part of that relates to what you are pointing out around the balance that we’re taking here. And obviously we are still in very high execution mode for capital program and that means capital funding that goes with it.

So we’ve managed the payout even though we increased our dividend considerably. We tried to manage the payout to retain enough capital to ensure that there’s a very, very high degree of execution around the capital program. Hopefully that helps on your first part of your question.

Robert Catellier - GMP Securities - Analyst

It does actually. The second part is it looks like you are preparing for that post 2018 growth phase and I’m wondering if you can give any more characterization or color on how you might go about deploying that capital and what areas of the value chain appear your most attractive, if maybe you can just compare North American investments with maybe international investments down the road.

Al Monaco - Enbridge Inc. - President and CEO

Okay, another good observation. First of all generally on the capital allocation question, this is something that we face frequently in terms of deciding where to put the capital and I think you’re right to point out as we move through this period up to 2018 and we have this source of funding, that allocation decision is going to be even more important.

But I don’t think we’re going to change our approach to this at all, Robert, and basically that approach is we are going to see what opportunities are in front of us at the time and really determine whether or not they fit the value proposition that we have. Basically that is if we can get very good return projects and have the commercial underpinning that is relatively low in risk, then we are adding value. We’re not going to know that at this point until we run up against those opportunities, but it is really a choice between more capital deployment into acquisitions or growth opportunities versus potentially ramping up the dividend if those opportunities don’t meet the criteria.

Specifically, certainly I think that the liquids business will continue to grow. We have often said in the past that there will be a limit to that. However, we will continue to get surprised so we’re going to continue to work the liquids side of the opportunities.

But certainly on the gas side, we are certainly big fans of the gas business going forward longer-term. Power as well, so I would include electricity transmission as well as power generation.

With respect to international, what we have seen in the last five or six years is the returns there at least on a risk-adjusted basis haven’t been as favorable to what we’ve seen in North America. Having said that, though, we do have a couple of countries that we are focused on and would certainly look at an opportunity there if it fit the criteria. Long answer but I think you have raised an important question on capital allocation.
Robert Catellier - GMP Securities - Analyst

That helps a lot. If you could just indulge one more question. I noticed on slide 15 there's the commercial paper is expected to be migrated down to EPI over time and I'm wondering what the process to migrate that down there is and whether or not Enbridge Inc. is still backstopping that commercial paper program? Thank you.

John Whelen - Enbridge Inc. - EVP and CFO

Robert, what will happen is that quite frankly you will see repayment of paper. There's inter-company loans in part being funded by commercial paper at Enbridge Inc. being on lent down to Enbridge Pipelines. Enbridge Pipelines now that it has really got the bulk of the growth and in this new structure now that will be owned by the Fund will beef up its commercial paper program quite significantly. It will start to raise commercial paper in the market in its own right, repay those inter-company loans going forward. So that's the migration process.

Robert Catellier - GMP Securities - Analyst

Okay, thank you very much.

Operator

Robert Kwan, RBC Capital Markets.

Robert Kwan - RBC Capital Markets - Analyst

Just on the 18% ACFFO CAGR, recognizing its apples to oranges partly in the calculation but also dropping off the 2013 year on the 25% that you gave at Investor Day, can you just talk about how the deck from 14 to 18 compares to the plan when you look at where you were versus pro forma?

John Whelen - Enbridge Inc. - EVP and CFO

It's John, Robert. I think I know what you are getting at. The overall CAGR in terms of the impact to project capture over that time period is relatively modest at the end of the day. There's a very modest uplift if that's what you are getting at at the end of the day in terms of pro forma. But otherwise these numbers are driven straight off of our 2014 long-range plan with some adjusted to our liquids pipeline forecast for work that was done as part of this drop-down transaction.

Al Monaco - Enbridge Inc. - President and CEO

Maybe I'll try differently as well to supplement, Robert. If you look at where we were at Enbridge Day and where we are today with this representation, there's really no change in the fundamental outlook in terms of the cash flow outlook, so John has referred to a couple things that we have changed but essentially there has been no sort of deterioration in the outlook from a cash flow perspective. So it's all related to how we are characterizing this and as John pointed out, this lines up very well with the rest of the peers and with our sponsored vehicle definition particularly for maintenance capital.

Robert Kwan - RBC Capital Markets - Analyst

Okay, just to be clear the 25 to 18 is largely just dropping the 2013 year off and it sounds like there's some modest accretion to the growth rate as part of the transaction?
John Whelen - Enbridge Inc. - EVP and CFO

Yes, and the methodology changes that I mentioned during the prior part of the call, Robert, so a change in maintenance capital and change in calculation approach to be consistent with this consolidated approach.

Robert Kwan - RBC Capital Markets - Analyst

Okay and I guess just another kind of part about the components of the 18% CAGR, so when you look at the TPDR it's going to be non-cash distribution, so to be clear you are excluding or as whatever TPDR will end up in net income, that's being reversed out as part of the cash flow calculations? Or if I put it differently, when the TPDR actually converts and starts paying cash, all things being equal, you'll see a jump in cash flow at the Enbridge Inc. level. Is that correct?

John Whelen - Enbridge Inc. - EVP and CFO

You've got it.

Al Monaco - Enbridge Inc. - President and CEO

And that's the key point here because the TPDRs start to convert four years out so that was part of the rationale for our commentary around the extension of the cash flow growth beyond 2018, which this sets us up well to do.

Robert Kwan - RBC Capital Markets - Analyst

That's great, thank you very much.

Operator

Linda Ezergailis, TD Securities.

Linda Ezergailis - TD Securities - Analyst

Thank you. With respect to your maintenance capital, can you give us an update under the new definition what it will trend at the Enbridge level under the new ACFFO definition and then what will be at Enbridge Income Fund?

John Whelen - Enbridge Inc. - EVP and CFO

Well, this is a pretty good indicative level I think for what our forecasts would show. Linda, one of the things we've talked about is we're getting a stabilization in that number going forward. So this is relatively well aligned with what we see going through or forward through the plan cycle.

Al Monaco - Enbridge Inc. - President and CEO

And this is the consolidated look so I think Linda was asking about the breakdown for the fund. Do we --? I am not sure if we have that or if it's any different materially from --.
Vern Yu - Enbridge Inc. - SVP and Corporate Planning and CDO

It won’t be materially different. It will reflect its economic interests.

Al Monaco - Enbridge Inc. - President and CEO

I guess maybe what we are saying, the run rate is about $1 billion, Linda.

Linda Ezergailis - TD Securities - Analyst

At both levels. But there is not a material difference at the Enbridge level?

Al Monaco - Enbridge Inc. - President and CEO

At the Enbridge Income Fund level.

Vern Yu - Enbridge Inc. - SVP and Corporate Planning and CDO

Yes, I think the translation is Enbridge would own over 90%. So we would pick up the entire amount and then the Income Fund would pick up whatever translates down.

Linda Ezergailis - TD Securities - Analyst

And then does that CAD1 billion run rate include the maintenance capital associated with the new assets coming on stream?

Al Monaco - Enbridge Inc. - President and CEO

Yes, yes it does.

Linda Ezergailis - TD Securities - Analyst

Okay, that’s helpful. And in your modeling just as a follow-up question, what would be the initial accretion to Enbridge Income Fund and what would be the associated ACFFO growth range of possibilities I guess depending on --?

John Whelen - Enbridge Inc. - EVP and CFO

At the holding company, Linda, it’s going to be roughly that 10% because it’s paying out -- it’s virtually getting all of its distributions from the Fund and then on average over time is paying those out to investors. So it will be up and down to some degree over time but it’s been smooth to generate or the dividend itself has been smooth to generate a steady 10% growth rate. But basically all of the cash coming up less tax that is applied at the holding company level will then get passed on to investors, again with some smoothing because it’s not perfectly smooth.

Linda Ezergailis - TD Securities - Analyst

Okay, so no change in payout ratio at the hold co level -- okay. At the opco level, what’s the cash flow growth rate?
John Whelen - Enbridge Inc. - EVP and CFO

The cash flow growth rate is something in the order of 6% or 7% and the other benefits arise through taxes as they are applied and paid up to the holdco that gets you up to that somewhat higher rate.

Operator

Rob Hope, Macquarie.

Rob Hope - Macquarie Research - Analyst

Good morning and actually maybe just a follow-up on those tax questions. Could you provide an outlook for what the tax would be at the Fund level and the holding level for the next few years?

John Whelen - Enbridge Inc. - EVP and CFO

I think we will do that one off-line, Robert. I don't have all that detail right in front of me.

Rob Hope - Macquarie Research - Analyst

Sure, maybe just broader, on the development opportunities you note that the liquid pipelines, the Fund would have a right of first -- a right to participate in the projects in its catchment area but what about power opportunities as well as some midstream opportunities that could be intertwined with your Alliance pipeline?

Vern Yu - Enbridge Inc. - SVP and Corporate Planning and CDO

Rob, it's Vern. I think the way to look at it is unless the new opportunity materially impacts existing assets within the Fund, Enbridge will have the flexibility of doing the project at Enbridge or the Fund depending on where it makes the most sense from a cost of capital perspective.

Rob Hope - Macquarie Research - Analyst

So for example you could do a discrete renewable project at Enbridge Inc. and then drop it down to the Fund at a later time?

Vern Yu - Enbridge Inc. - SVP and Corporate Planning and CDO

Absolutely.

Rob Hope - Macquarie Research - Analyst

All right, thank you.

Operator

Matthew Akman, Scotiabank.
Matthew Akman - Scotiabank - Analyst

It's Matthew Akman. Good morning. Can I just ask first I guess about the TPDR and just to confirm, that expires in five years, right?

Al Monaco - Enbridge Inc. - President and CEO

That's correct. (multiple speakers)

Matthew Akman - Scotiabank - Analyst

That's not a permanent increase in the incentive fee percentage?

Vern Yu - Enbridge Inc. - SVP and Corporate Planning and CDO

Matthew, it's Vern. It expires either at the later of the in service of line 3 or 2020. And it's really designed so the income -- so Enbridge gets appropriate value for primarily line 3 and when the cash from line 3 starts generating, the TPDR turns into a cash pay instrument.

Matthew Akman - Scotiabank - Analyst

Okay, perfect. That's what I thought. Can I just clarify -- I don't know if you guys can answer this, the Enbridge Income Fund dividend plans, are we to understand that there will be a 10% dividend increase on closing of the deal and then another one next year sometime? If so what is sort of the timing of the annual dividend change at Enbridge Income Fund?

John Whelen - Enbridge Inc. - EVP and CFO

I think, Matthew -- it's John. Right on closing is right and then annual timing will typically drive as it often does or as it always does at Enbridge off of our budget cycle so you would see it early in the year, early in the year usually with the first distribution in the new year following the budget. So on a monthly basis it would be that one that would be payable in January. That is obviously subject to performance and the directors declaring the dividend or approving the dividend and so on.

Matthew Akman - Scotiabank - Analyst

But the base plan effectively has Enbridge Income Fund raising the dividend by like 21% by the start of next year, right?

Al Monaco - Enbridge Inc. - President and CEO

That is correct. You've got it.

Matthew Akman - Scotiabank - Analyst

Okay, thank you. Just the last question does --? I don't know if you guys have thought about this but I know the payout guidance will effectively change to free cash flow but will you still provide earnings per share guidance or is that going to go by the wayside?
John Whelen - Enbridge Inc. - EVP and CFO

No, at this time we believe what we will be doing is we’ll be providing earnings per share at reporting. Our guidance will be shifting to more of a focus on ACFFO, Matthew, but we will also be tracking consolidated adjusted EPS.

Matthew Akman - Scotiabank - Analyst

Okay. Thanks, John. Okay, those are my questions. Thanks, guys.

Operator

Harry Mateer, Barclays.

Gregg Price - Barclays Capital - Analyst

Good morning, guys. Thanks for taking my questions. This is Gregg Price sitting in for Harry. You touched on the debt side of things a couple times. I was just wondering in terms of credit ratings you want to maintain a strong as possible. Do you have any particular target or are you just looking at investment grade overall? I was just wondering if you had any comments on that?

John Whelen - Enbridge Inc. - EVP and CFO

I think strong investment grade for the group overall is certainly what we would like to see. We’ve got lots of growth yet to fund and so we are very conscious of that going forward.

Gregg Price - Barclays Capital - Analyst

Okay, thank you. And then in terms of the debt exchange, opting away from that, you mentioned structure subordination is one of the considerations. Is there anything else the team looked at in that decision?

John Whelen - Enbridge Inc. - EVP and CFO

Well, I think we were looking at a debt exchange and working with financial advisors and others as potentially a means to alleviate concerns around structural subordination. But as we worked through it with investors and with advisors and with the agencies themselves, it became apparent to us that it wasn’t going to be -- serve as a particularly strong mitigant at the end of the day and in our view wouldn’t have been a credit-positive outcome or design feature and so that is why we pulled back from it.

Gregg Price - Barclays Capital - Analyst

Okay, great. Thank you. That’s it for me.

Operator

Thank you. At this time we would like to invite members of the media to join the queue for questions. (Operator Instructions). Pascal LaPense.
Good morning, it's just a follow-up on the previous question. I guess it was partially answered but what other --? I just want to understand better what are those considerations because to me it’s not good from a bondholder perspective to have loans. So I guess the feedback from the investor was probably that they would have preferred that the debt would follow the asset, so I would just like you to expand a little bit more on those considerations and why you did not complete or offer this debt exchange? Thank you.

We certainly looked at that and compared various analytical constructs and features to address, if you will, the structural subordination that happens when you move debt down. I should point out that the structural subordination associated with this transaction at the end of the day is relatively modest. Enbridge Pipelines Inc., where the bulk of the debt is located, was always raising debt capital on its own accord. And so the bondholders at the parent were always structurally subordinated to that debt sitting at Enbridge Pipelines. However, there was some incremental structural subordination associated with that.

I think what we found in looking at the -- getting perspectives back from rating agencies and others that they really quite frankly saw it as something of a negative to the overall credit framework of the group and both to the holders of Enbridge Inc. and holders of the Fund. So it didn't seem to make an awful lot of sense to us to proceed with something that would have resulted potentially in a weaker credit rating on both sides and that's why we decided to not proceed with it.

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Thank you for taking my question. One of the things we've seen in the last 12 months or so is that IDRs can become effectively a capital burden on the income side at least in the US and the MLPs. When you structured this transaction, was that something you took into consideration? Is there something in this deal that helps the Fund with that?

Actually that's a very good observation. In fact if you go back probably a year, 18 months ago, EEP, which is the US MLP that we have as a sponsored vehicle was at a very high level of splits hitting that 50% IDR effectively. And we concluded that we needed to revise that structure back down to 25% and that would be consistent with the income fund.

The other part of the incentive mechanism that we were talking about here is the TPDR, which as I said is another form of incentive, but that's exactly why we structured it to be non-cash in the first few years here just to ensure that we could line up the incentive with the cash that is actually going to come out of the asset. So I think you are right to raise it and it was a consideration in how we structured the deal for sure.

But at the end of the day, we feel pretty strongly that with these incentives in place it's certainly good for Enbridge to address the bridge that needed to be built between what the fund could pay and the value for Enbridge and we think it did that.

But isn't that sort of the balloon payment in what you were talking four years so 2020 or 2021?
Al Monaco - Enbridge Inc. - President and CEO

Yes, it’s not a balloon payment actually. What happens is we issue these new securities that the dividends of which are paid in kind annually and then they start redeeming or I guess paying — converting into cash in successive years. So it’s not a balloon. It starts to pay the distribution or dividend once the cash starts coming in those years.

Jim Hoffman - Bloomberg News - Media

Thank you.

Operator


Jeff Lewis - The Globe and Mail - Media

Just a quick question in terms of capital allocation post 2018. Are there specific opportunities you are looking at in the midstream or the gas side in British Columbia now that there’s been some movement on those big export projects? Thanks.

Al Monaco - Enbridge Inc. - President and CEO

For sure the midstream business in Canada is something that as you may recall we have an interest in pursuing. We’ve done a couple of things, one with Cabin, one with the Peace River Arch, and as well we have quite a significant position through Aux Sable and Alliance. The fundamentals around BC we believe are very strong long-term. Obviously the gas prices at this point in time are problematic but longer-term we feel that the Canadian midstream space certainly needs a lot of development in terms of infrastructure to support the drilling that is going to happen there over time. So a great area we think for future development and certainly that will be one of the opportunities for deployment as we move forward with this new source of funding.

Operator

Thank you. As there are no further questions, I would now like to turn the call back to Adam McKnight for any closing remarks.

Adam McKnight - Enbridge Inc. - Director of IR

Thank you. We have no further comments at this time but I would like to remind you that Leigh and I will be available for any follow-up questions you might have after the call, as will the ENF and Fund Management team and IR. Thank you and that concludes our call.

Operator

Thank you. And thank you, ladies and gentlemen. This concludes today’s conference. Thank you for participating. You may now disconnect.
JUNE 19, 2015 / 12:30PM, ENB.TO - Enbridge Inc Conference Call to Discuss its Agreement to Transfer Canadian Liquids Pipelines Business and Renewable Energy Assets to Enbridge Income Fund Holdings Inc