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ENB.TO - Enbridge Inc, Enbridge Income Fund Holdings Inc., Enbridge Energy Partners, L.P. and Spectra Energy Partners, LP Q1 2017 Joint Earnings Call

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## CORPORATE PARTICIPANTS

**Al Monaco** *Enbridge Inc. - CEO, President and Not Independent Director*

**D. Guy Jarvis** *Enbridge Inc. - EVP and President of Liquids Pipelines*

**John K. Whelen** *Enbridge Inc. - CFO and EVP*

**Jonathan Gould** *Enbridge Inc. - Director Investor Relations*

**William Turner Yardley** *Enbridge Inc. - EVP and President of Gas Transmission & Midstream*

## CONFERENCE CALL PARTICIPANTS

**Andrew M. Kuske** *Credit Suisse AG, Research Division - MD, Head of Canadian Equity Research, and Global Co-ordinator for Infrastructure Research*

**Andrew Ramsay Burd** *JP Morgan Chase & Co, Research Division - Analyst*

**Benjamin Pham** *BMO Capital Markets Equity Research - Analyst*

**David Galison** *Canaccord Genuity Limited, Research Division - VP of Research of Pipelines, Power and Utilities*

**Linda Ezerzailis** *TD Securities Equity Research - Research Analyst*

**Robert Catellier** *CIBC World Markets Inc., Research Division - Executive Director*

**Robert Hope** *Scotiabank Global Banking and Markets, Research Division - Analyst*

**Robert Michael Kwan** *RBC Capital Markets, LLC, Research Division - Analyst*

**Nick S. Raza** *Citigroup Global Markets, Inc. - Analyst (Broker)*

## PRESENTATION

### Operator

Welcome to the Enbridge Inc. and Sponsored Vehicle's Joint First Quarter 2017 Financial Results Call. My name is Christine, and I will be the operator for today's call. (Operator Instructions) Please note that this conference is being recorded. I will now turn the call over to Jonathan Gould. You may begin.

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**Jonathan Gould** - *Enbridge Inc. - Director Investor Relations*

Thank you, Christine. Good morning, and welcome to the Enbridge Inc. and Sponsored Vehicle Joint First Quarter 2017 Earnings Call. With me this morning are Al Monaco, President and CEO of Enbridge Inc.; John Whelen, Executive Vice President and Chief Financial Officer; Guy Jarvis, Executive Vice President and President, Liquids Pipelines; Bill Yardley, Executive Vice President and President, Gas Transmission & Midstream; and Wanda Opheim, Senior Vice President, Treasury.

As you will have noted, we've modified our call format going forward to be a joint call for all the Enbridge entities, including Enbridge Inc., Enbridge Income Fund, Spectra Energy Partners and Enbridge Energy Partners. This will allow us to provide a consistent, enterprise-wide strategic and financial perspective. While our primary focus will be on the consolidated view, John will provide specific commentary on the financial performance of each of the sponsored vehicles. We've also enhanced our supplemental information for each vehicle to ensure that we continue to provide full transparent disclosure. Some of this information is appended to the presentation today and has been posted to the company website. This call is also webcast, and I encourage those listening on the phone line to follow along with the supporting slides. A replay and podcast of the call will be available later today, and a transcript will be posted to the website shortly thereafter. In terms of Q&A, given the larger agenda and limited time, we will prioritize calls from the investment community only. If you're a member of the media, please direct your calls to our standard media line, and that team would be pleased to address your questions. We're going to target keeping the call to roughly an hour, so please limit your questions



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to one and a follow-up as necessary. And as per usual, we will ensure that our Investor Relations team will be available for your more detailed follow-up questions after the call.

Before we begin, I would like to point out as usual, that we will refer to forward-looking information in connection with the Enbridge and the subject matter of today's call. By its nature, this information contains forecast assumptions and expectations about future outcomes. So we remind you, it's 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 Enbridge or could affect future outcomes for Enbridge, which are discussed more fully in our public disclosure filings available on both the SEDAR and EDGAR systems.

So with that, I will now turn the call over to Al Monaco.

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**Al Monaco - Enbridge Inc. - CEO, President and Not Independent Director**

Okay, thanks, Jonathan, and good morning, everybody. I'll start off by recapping what was a busy and productive quarter here at Enbridge. First and most importantly, in late February, we closed the Spectra transaction. We're now the largest energy infrastructure company in North America, roughly at \$165 billion in enterprise value. We brought together, what we believe, are the highest quality liquids and natural gas infrastructure franchises in North America under one roof. This provides us with unparalleled, low-risk commercial profile and an industry-leading growth program across 6 platforms.

We're very pleased with how the companies came together. We had a seamless day 1 transition and integration-wise, we're on track. We're rolling out our 2017 ACFFO guidance today. The takeaway there is that when we account for the effects of closing in February, we're where we expect it to be. Execution of the capital program is going well. We're looking forward to a large number of projects going into service in the next few quarters that will drive ACFFO growth.

Over the last years, you know we put a lot of emphasis on greater financial flexibility and I think we're now in very good position on that front. And we've taken action to streamline our sponsored vehicles and strengthen EEP through the restructuring of a couple of weeks ago. So great progress on the priorities this quarter and coming out of the Spectra deal, we're setting up well for the future.

The next couple of slides, I'll provide a snapshot of the quarterly results and our outlook. Then John will expand on both of those in his section.

So on Slide 5, as you'd expect, the EBIT and ACFFO results are up, given the Spectra assets that are now in the fold. But since the deal closed in late February, we're only picking up a month's worth contribution from those assets. In addition, the 2 months that aren't included in the results, as you may recall if you previously followed Spectra, typically provide 25% to 30% of the annual ACFFO, as January and February are high gas volume months. So that's a big factor affecting the quarterly numbers.

And so this first quarter isn't really represented at all, in all of the normal results, and John will walk you through that. What's most important is the annualized look at 2017 after accounting for these items and how that sets us up for the first full year in 2018 and beyond.

So let me talk about that on Slide 6. The bar on the left shows our 2017 ACFFO guidance of \$3.60 to \$3.90 per share or a midpoint of \$3.75. The range reflects raw projected ACFFO for the year. So it includes only the partial year contribution, I just mentioned, from the Spectra assets. The next bar is what we're calling the annualized estimate, which is what we have -- would've expected in a normal year. So if we picked up the first 2 months, we'd be around the \$4 per share mark this year on the midpoint basis. That's important, because it's in line with and, in fact, it's actually a little bit better than what we'd expected when we announced the deal. The far-right bar is a representation of the path to 2018. There's considerable upside beyond our 2017 guidance from picking up the strongest months of Spectra and the full year of synergy capture, but the real juice is in the new projects coming on stream this year and next. So let me review the sources of that growth on Slide 7.

The slide lists out the projects in our \$28 billion capital program, and those are projects that are sanctioned and in execution today.



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The list provides great transparency to ACFFO and dividend growth. By the way, all of these are organic investments that fit squarely in our wheelhouse and generate strong risk-adjusted returns. I'm not going to go through each one of these, obviously, but here are a couple of things to take away. First, the projects are coming in from all of our business platforms, liquids, natural gas, the utilities and renewables, which is one of the best things about the Spectra deal. And the program is diversified by the business lines and commodity size and region. Secondly, aside from the \$2.4 billion that's already gone into service in Q1, we've got \$13 billion coming in later this year plus another \$4 billion next year. By the way, 2 big ones here coming in next are the Bakken System and the Sabal Trail projects. Over \$4 billion combined there, and we'd expect both to go into service in the next 60 days or so. All of these projects, by the way, on the list are pretty much on time and on budget.

So Bill Yardley and his team have also just started work on Atlantic Bridge, and Valley Crossing is now underway. So you can see why we're confident in the 2018 outlook that I described on the last chart.

On to the next slide now and a regulatory update on 3 projects. On Alberta Clipper, we're moving through the process as we expected. The draft supplemental EIS was released in February. No issues identified there, and we're now in the interagency comment period needed for the final EIS. So overall, we're in good shape there. On the Line 3 replacement, from a regulatory perspective, we've got most of what we need and construction planning is going well. Of course, in Minnesota, the draft EIS is expected shortly with the final expected later this year. Recall, there is a legislated time line for that process as well. So based on that, we're still anticipating a 2019 in-service date.

On NEXUS, we're anticipating FERC approval after the FERC quorum gets established. Actually last night, the White House sent the FERC nominations to the Senate. That's good news, and that is now in the Senate's hands. We'll be looking forward to that process to conclude. And, in fact, Bill Yardley is chomping at the bit here to get going. Timing-wise, it's possible that we could get underway and complete the project this year, but that will depend on the timing of the Senate confirmations and the construction window.

On to Slide 9 and our longer-term project backlog. The pie that you see here shows the breakdown of the \$48 billion probability weighted inventory of projects we rolled out as part of the Spectra deal. From that inventory, we've sanctioned \$1.7 billion for a 50% interest in a German offshore facility this quarter, which is well-advanced and should begin construction actually this summer. It's a 500-megawatt project that comes with a 20-year fixed price PPA, solid return here, and it's very nicely accretive in 2019 for us. It's also -- comes with it actually an embedded expansion that we're working on right now that's a 112-megawatt opportunity.

Secondly, in Western Canada, and because of the Montney and Duvernay growth, we're seeing potential to expand our BC Main Line. That would include compression and looping from station 2 down to Sumas, and we estimate right now that would be about \$1 billion in capital. Binding open season is underway now. We'll probably provide some more information on that in our June investor update. So these are 2 examples of how we're already making good progress on securing part of the backlog that will support post 2019 growth.

We're going to be updating this inventory, this pie that you see here, as part of our full Enbridge Day in December.

So moving now to Slide 10 and our integration and synergy updates on the Spectra transaction. As everyone on the call knows, the key driver of any combination is effectively integrating the deal. We were well prepared for deal close and, of course, day 1, which happened very smoothly.

You remember, we estimated total run rate synergies of \$540 million. On top of that, there is another \$250 million in tax synergies that would begin in 2019. Just after close by the third week in March, we had finalized the entire organization and completed the first wave of synergies. We're focused now on the non-people-related cost savings. In 2017, we'd expect to achieve roughly 40% to 50% of the total \$540 million and then another 30% next year, which should bring us to about that 80% level by the end of '18 with the rest in 2019.

We'll provide a bit more color on this at the June investor conference. But overall, I think we're on track to achieve the target that we set out.

On to Slide 11. Again, a priority for us has been to bolster the financial strength and flexibility of the company, and that's simply because we're executing the largest capital program in our history and the biggest in the sector. Through last year, we raised about \$6 billion of equity to effectively pre-fund our equity requirements through 2017, across the Enbridge group. We structured the Spectra deal as a stock-for-stock transaction. That



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further strengthened the balance sheet but it also aligned very well with what Spectra shareholders were looking for, which was participation in the future growth of the business.

On top of that, we set a goal of monetizing \$2 billion in assets over 12 months. I'm very pleased that we've now exceeded that target with proceeds of \$2.3 billion, and we've completed that 6 months ahead of schedule. All that is to say that we made a good step change, I think, in our balance sheet over a very short period of time.

Before I hand it over to John for the financial review, let me briefly recap how we repositioned the sponsored vehicles. First, as we've said before, we do believe the sponsored vehicles can be an effective and efficient way to hold and grow energy infrastructure assets. That's been proven over a long time frame, as they've attracted capital in most market environments, not all. We saw that in our own situation with EEP. We now believe that EEP is strong and capable of being an effective sponsored vehicle, so it can create value for its unitholders and for Enbridge. As part of our strategic review of EEP, we have some key objectives and we've outlined them here on the page: To maximize the value of the structure, particularly now with SEP and DCP; by taking MEP private, simplifying DCP and completing the EEP restructure, we've streamlined the operation of the structure; we now have 4 compelling pure play value propositions, all comprised of high-quality assets, low-risk commercial structures and visible growth and importantly, they have strong balance sheets, solid distribution coverages and self-funding capability.

So with that introduction, let me pass it over to John for the financial review.

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### **John K. Whelen** - Enbridge Inc. - CFO and EVP

Well, thanks, Al. And good morning, everyone. Before getting into guidance and our results for the quarter, as Jonathan mentioned at the outset of the call, I'm going to focus my prepared remarks on the consolidated company and events and drivers that effect the performance of the company as a whole. While I will certainly speak to the performance of our sponsored vehicles, I generally won't be providing a line-by-line detailed description of the puts and takes of their performance every quarter or specific issues impacting our outlook or performance, time won't allow for that. But all of that information is included in our news releases and summarized in the supplementary slides appended to this presentation and will be provided in further detail in the supplementary information package that we'll continue to post after the call.

So with that, let's start here on Slide 13, with a discussion of Enbridge's consolidated guidance for 2017. For the combined company, we're projecting a consolidated full year EBIT of \$7.2 billion to \$7.6 billion and ACFFO of between \$3.60 and \$3.90 per share. This is a tighter range for ACFFO than we've provided in past years, which reflects the higher share count post-combination, an even more diversified asset base and the fact that we already are a little over 4 months into the year, which means we should expect a little less variability than we would when providing guidance prior to the beginning of the year. There are a number of factors driving this guidance, including solid year-over-year throughput growth in the Liquids Mainline System as capacity optimization efforts start to take hold and relieves some of the apportionment that we've been experiencing; steady performance from Spectra's highly contracted long-haul natural gas pipelines; rate-based growth at both Enbridge Gas Distribution and Union Gas; the full year impact of approximately \$2 billion greenfield projects that were placed into service in 2016, as well as the partial year effect of a further \$13 billion of projects that are expected to come into service over the course of the year and start generating earnings and cash flows. These positive factors are expected to be offset by a few things. Firstly, the timing of the Spectra merger. As Al noted, Spectra typically generates a disproportionate amount of its earnings and cash flow in the first 2 months of the year, somewhere in the range of 25% to 30%, if you look back historically. So closing the merger transaction at the end of February means we're unable to pick up 2 of legacy Spectra's strongest months in our 2017 projections.

Secondly, we no longer normalize for the impact of weather on Enbridge Gas Distribution's utility operations. Weather in Southwestern Ontario as many of you will know, was warm. In fact, it was the warmest February on record in the GTA. The impact of this weather was felt in our first quarter results and is expected to carry through the full year.

Finally, the shipper's election to defer the start off of the Wood Buffalo Extension from February to December has also negatively impacted the full year outlook for 2017.



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So moving along to Slide 14. Importantly, the factors I just noted, they will be a drag on 2017 ACFFO but are not expected to carry over into 2018. This slide provides an illustration of what our 2017 ACFFO would look like on an annualized basis, if you adjusted for these items and for the fact that we'll only capture about 10/12 of our expected year 1 synergies in calendar 2017.

If you add the combined impact of these effects back to the midpoint of our guidance range, you come to an ACFFO annualized rate of around \$4 per share, which AI mentioned, which is in line with, if not a little stronger than we expected it to be on a full year basis, when the merger was announced.

Slide 15 provides an early view of the visible drivers of ACFFO growth beyond 2017.

These include the full year impact of \$13 billion of projects coming into service during 2017. Around 70% of these projects don't actually commence full operations until the second half of the year. So there will be a significant year-over-year uplift to ACFFO in 2018, as these assets deliver their first full year of earnings and cash flow. We also have another \$4 billion of projects scheduled to come into service in 2018, which will provide an additional lift to ACFFO during the year. As well as you can see on the slide, we also expect a benefit in 2018 from additional synergies captured from the merger. As AI noted, by the end of 2017, we expect to have captured 40% to 50% of our estimated total cost synergies on the Spectra deal of around \$540 million on a full year run-rate basis. In year 2, we'll have captured close to 80% of this total and those incremental savings will fall to the bottom line in 2018. Slightly offsetting these factors will be the full year impact via shares we issued to Spectra and the anticipated issuance of common equity through our DRIP program. The buildup you see on this slide gives us comfort that the near-term growth outlook for the combined company is robust and in line with our previously published financial projections. That said, it's fair to say that there are a number of potential headwinds and tailwinds that could emerge over the remainder of the year, which could affect 2018 performance up or down. So it's really too early days to be providing more precise guidance for next year.

Moving on now to Slide 16 and our actual results for the first quarter and focusing on adjusted EBIT, which reflects, as AI mentioned earlier, just a 1-month contribution from the assets that we acquired from Spectra back at the end of February. Total adjusted EBIT was up about \$140 million versus the first quarter of last year, but there were a few puts and takes as you can see on the slide. The EBIT contribution from Liquids Pipelines was down a little over \$100 million on a quarter-over-quarter basis due to a few factors. While Mainline volumes continue to be strong, lower effective FX rates on hedges used to convert Canadian -- total revenue, rather, on the Mainline and lower surcharges in North Dakota affected performance quarter-over-quarter. The quarter-over-quarter performance of the EBIT level was also affected by heavy crude apportionment on the mainline, which impacted the performance of some of our downstream pipelines and absence of earnings that resulted from the sale of the South Prairie Region and Ozark pipeline systems, as well as a change in our earnings normalization practice with respect to makeup rights that we implemented at the beginning of the year. These first quarter impacts were anticipated and have been factored into our 2017 guidance for adjusted EBIT and ACFFO as appropriate. And we do see ongoing improvement in the quarter-over-quarter picture from Liquids Pipelines, as capacity optimization efforts help relieve apportionment, effective FX rates improve and new projects come into service.

Moving down the slide. Gas Pipelines and Processing was up significantly, as you would expect, over the first quarter of last year, reflecting the impact of the 1 month of earnings from legacy Spectra assets whose contribution reflected steady performance from its core operating assets and contributions from expansion projects that have come into service over the last year. The positive quarter-over-quarter performance was also driven by strong performance from the Alliance Pipeline where demand for seasonal firm service continues to be strong, as well as improving performance from other legacy Enbridge assets, including Aux Sable and the Gulf Offshore Pipeline System. Gas Distribution is also up about \$29 million. This mostly reflects the 1-month of the results from Union Gas and offset to a degree by the impacts of warmer weather at Enbridge Gas Distribution, which I spoke to a little earlier.

And finally, Eliminations and Other was down by about \$20 million, largely reflecting higher unallocated corporate costs after the merger.

So moving now to Slide 17 and the ACFFO picture. ACFFO was up about \$100 million, largely driven by the business-related performance factors that I've just discussed. Higher adjusted EBIT was offset to a degree by higher costs associated with financing a larger asset base and higher distributions to non-controlling interest as a result of both distribution increase and fall on offerings to the public, by both Spectra Energy Partners and Enbridge Income Fund Holdings Inc. Our per share results were down quarter-over-quarter, largely due to the higher share count from the actions taken in 2016 to strengthen the balance sheet, as well as the incremental shares from the merger transaction itself. As AI already mentioned,



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the timing of the acquisition meant we missed picking up 2 of Spectra's strongest months, which exacerbated the dilute effect of the shares issued at closing.

Moving on now to Slide 18, and the performance of our sponsored vehicles. And starting with the Fund Group and ENF, whose results were released earlier this morning.

Fund Group ACFFO was down just over \$90 million compared with the first quarter of 2016, largely reflecting the lower residual benchmark total on the Canadian Mainline that was in effect since Q2 of 2016 and the lower effective FX rate on the hedges used to convert U.S. dollar revenue generated under the CTS toll arrangement. This was offset to some degree by higher mainline volumes and, as I mentioned earlier, strong demand for the seasonal firm service on the Alliance Natural Gas Pipeline. The distributions paid by the Fund Group translated into earnings at ENF of about \$67 million, which reflected ENF's larger ownership interest in the fund when compared to the first quarter of last year. We do expect the performance of the Fund Group to improve over the course of the year, given the increase in the Liquids Mainline IJT Residual Benchmark Toll, which took effect on April 1st, improvement in hedge rates and the impact of close to \$2.4 billion of growth capital that will be coming into service over the balance of the year.

Our guidance remains unchanged from that provided in February. And the Fund Group remains on track to deliver consolidated ACFFO of \$1.9 billion to \$2.1 billion and maintain an average payout ratio for the full year of between 80% and 90%.

Turning now to Slide 19. First quarter results for Spectra Energy Partners, or SEP, which announced its results yesterday evening. By way of orientation, while Enbridge only picked up its share of SEP's results for one month during the first quarter, the results we're presenting here are for SEP's full quarter.

Both ongoing EBITDA, distributable cash flow were higher compared to the first quarter of 2016. Expansion projects drove higher EBITDA from Spectra's gas transmission pipelines with ongoing EBITDA up almost \$100 million year-over-year and distributable cash flow up just over \$30 million. The increase in DCF was also driven by higher performance from Spectra's legacy transmission pipelines as noted above, but quarter-over-quarter growth picture was offset somewhat by a onetime dividend catch-up that were paid in the first quarter from some of the partnership's equity investments.

SEP also provided additional guidance in its first quarter news release. Full year DCF is expected to come in between \$1.4 billion and \$1.48 billion. DCF is expected to be a little front-end loaded in 2017, primary due to the timing of maintenance cap in the latter half of the year, and we continue to expect distribution increases of SEP of \$0.0125 for 2017 -- per quarter, and coverage for the full year that will fall within its historic range of 1.05 to 1.15x.

SEP's debt-to-EBITDA metric stood at 4.1 this quarter, somewhat higher than at the end of the first quarter of last year, given ongoing debt financing of its greenfield program. But we do expect that metric to improve over the balance of the year as projects are placed into service and begin generating cash, as we implement joint venture asset level funding. The \$1.6 billion Sabal Trail project is scheduled to be online before the end of the second quarter and will in itself result in a bump in EBITDA and DCF.

Moving along now to Enbridge Energy Partners, and turning to Slide 20. Adjusted EBITDA at EEP was down approximately \$50 million compared to the first quarter of 2016. The quarter-over-quarter decrease reflects the expiration of the Phase 5 and 6 expansion surcharges on the North Dakota system and lower volumes on the non-mainline pipeline assets in North Dakota. Importantly, volumes on Lakehead and the Basin at the North Dakota system remained strong and in line with expectations in the first quarter. Also impacting period-over-period results this quarter is continued weakness in the gas gathering and processing business due to the low commodity price environment. The pro forma outlook for 2017 shown in the slide reflects the restructuring actions announced on April 28, as if they were effective on January 1, 2017. So it reflects the anticipated sale of the Midcoast Gas Gathering assets and the simplification and deleveraging actions that were going to take place, as part of the restructuring.

We expect strong pro forma distribution coverage on both a total and cash basis of around 1.2 and 1.5x, respectively. We also expect EEP's consolidated credit metrics to improve, as a result of the restructuring as some of the proceeds from the sale of Midcoast will be used to pay down debt when the sale closes later in the quarter. Beyond 2017, EEP's consolidated debt-to-EBITDA metric is expected to decline even further to a



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longer-term target of approximately 4x, as incremental cash flow is generated from jointly funded investments and greenfield projects coming into service.

In fact to that point, following the restructuring announcement, Moody's announced itself that it had removed its negative outlook on EEP as a Baa3 rating.

So if you'd please now turn to Slide 21. And I'm going to wrap up with a look at our enterprise-wide funding and liquidity picture. As I mentioned earlier the significant steps we took last year to further strengthen our consolidated balance sheet heading into the merger with Spectra. In 2016 alone, we raised over \$10 billion of long-term capital, about \$6 billion of which was common equity or equity equivalent, if you include the common equity follow-on offerings and the hybrid equity issuance by the group, as well as the equity we created through asset monetizations. And we've continued to bolster the balance sheet in 2017, raising about \$1.4 billion of equity equivalent capital so far this year through our DRIP program, SEP's ATM program as well as through additional asset monetizations completed during the first quarter.

We've also seen great support from our banks as we've gone through the merger. At the end of the quarter, the combined company had close to \$30 billion of committed credit lines and over \$14 billion of available liquidity, providing plenty of flexibility to fund our industry-leading growth program. So with very good access to capital, the strong balance sheet and ample liquidity to back that up, we were very well-positioned heading into our first full year as a combined company.

With that, I'll turn it back to Al.

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**Al Monaco** - Enbridge Inc. - CEO, President and Not Independent Director

Okay. Thank you, John. So to wrap up, this slide that I'm on here, 22, illustrates the longer-term outlook for dividend growth. As we promised, we increased the dividend this year by a total of 15%. And we'd expect to generate 10% to 12% on average dividend growth well into the next decade. Dividend growth through 2019 is highly transparent and really stems from the \$28 billion in secured capital projects we're executing right now. As we've described before, we're confident about extending that growth beyond that through embedded growth in the existing assets and new projects coming into service between now and 2019, new investments from that big pie of backlog that we looked at earlier and the room we expect to have in our payout ratio at the end of 2019.

On to Slide 23, which are the major investor outreach events that we've got planned in the next couple of months. As we mentioned on the last call, post-Spectra, we're committed to have first-rate IR capability and outreach. And we hope that the additional information and availability of the team around this -- first time under this new process is helpful to you. We'll have our midyear updates on June 8 and 9, where we're looking forward to our business unit heads providing more insight into how they see their businesses, project execution and future growth. And we'll provide more information on the progress at that time on integration and synergy capture. Between then and December, we'll be working on our combined strategic plan, which we'll rollout at Enbridge Day with our 2018 guidance and longer-term outlook. And, of course, there is going to continue to be ongoing outreach through the year on the IR side.

Turning to Slide 24. As I noted at the beginning, we've had a productive quarter. We closed the Spectra deal, and we're on track for integration and synergy capture. We rolled out the 2017 ACFFO guidance and after the effects of the timing of the closing of that deal, we're where we expected to be.

Execution of the program is going well with \$17 billion in new projects coming into service through 2018 and that will drive growth, of course. We've achieved our goal of greater financial strength, and the balance sheet is in good shape and will get even better as the new projects come into service.

And we've streamlined our sponsored vehicles and strengthened EEP through the restructuring of a couple of weeks ago.

So that's the story. We'll now turn it back over to the operator for questions.



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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) Our first question comes from Ben Pham from BMO.

### Benjamin Pham - BMO Capital Markets Equity Research - Analyst

I just had a question on your Slide 15 of your bridge to the '18 free cash flow. And I'm just wondering on the '18 exhibit there, are you guys also normalizing for full year contributions from new assets and synergy expectations? I think, synergies are about 80% in '18. So are you looking out on normalizing that number as well?

### Al Monaco - Enbridge Inc. - CEO, President and Not Independent Director

Yes, essentially, Ben, we're taking that additional 30% that you see in the bar chart on one of the previous slides at the bottom of the slide. And we're essentially dropping that in and assuming that it happens in 2018. So it's part of the forecast. Is that what you're getting at?

### John K. Whelen - Enbridge Inc. - CFO and EVP

The sustainable cost benefits that we'll see continuing out into the future, starting in 2018.

### Benjamin Pham - BMO Capital Markets Equity Research - Analyst

Maybe just to add on to those. I was thinking more on '18 itself. You have some projects that may not be coming in on a full year basis in that year and then you had another 20% of synergies in '19. Are you normalizing for that in '18?

### Al Monaco - Enbridge Inc. - CEO, President and Not Independent Director

The '18 outlook would include the impact of the projects that we're expecting to go into service based on the in-service dates that we have. So it'll be whatever partial year effect those bring forward. And then whatever the synergy capture increment is for that period is what we've assumed in the numbers.

### Benjamin Pham - BMO Capital Markets Equity Research - Analyst

Okay. So '18 isn't adjusted then. Okay. And then also, where does Express-Platte fit in your overall structure now? I know it's a smaller item at the SEP level, but just looking at some commentary about being pure liquids, pure gas, respectively, for those -- both those vehicles. Where does that fit in overall?

### Al Monaco - Enbridge Inc. - CEO, President and Not Independent Director

Yes, well, so the Express business obviously fits within Guy's domain, from an operational and business and commercial point of view. Yes, you're right. The Liquids assets are part of the SEP today. The Express system, that's a relatively small piece of the entire SEP pie. So I think, technically, you're right. It does have oil within SEP, but it's a relatively small amount at this point.



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**Operator**

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

**Robert Michael Kwan** - RBC Capital Markets, LLC, Research Division - Analyst

Maybe I'll start with the probability-weighted project inventory on Slide 9. I'm wondering, do the splits in the chart fall in line with where you want to be versus where you see the best opportunities? And I guess, where I'm going with this is, where you see the role for acquisitions to kind of bolster your footprint to take advantage of where you think the best opportunities are within this pie chart?

**Al Monaco** - Enbridge Inc. - CEO, President and Not Independent Director

Okay. Well, that's a good question, because if you go back, this is pre the closing and when we were speaking with Spectra, we got together both companies and reviewed all of the potential opportunities. And as the chart said, we probability weighted what we thought was best out of all of that, and that's how we generated the pie in total and the splits. And so the splits are really based upon what we felt was not just probable, but that fit the investment criteria that we have as a company. And I think, you're familiar with that based on the degree of CapEx risk, the level of contracted -- contractability for those projects and a number of other factors. So it's really based on whether or not they'd achieve the value proposition and the returns on a risk-adjusted basis that we target. So I think you could probably take away from that, that all of those platforms fit that category and analysis and that we'd be pursuing all of those categories. Obviously, depending on where we are in the cycle, it will give us a chance to perhaps high-grade some of those projects that come up. With respect to acquisitions, I think in the past, as you know, we would've used asset deals or smaller scale acquisitions to bolster the strategy in any one of those areas.

So I think that's -- that continues to be a possibility. So we'll use acquisitions to fill-in the strategy where we can. Obviously, we'd prefer organic opportunities first but we won't be afraid to pursue asset deals, in particular, to fill-in the strategy.

**Robert Michael Kwan** - RBC Capital Markets, LLC, Research Division - Analyst

Okay. If I can just finish just with kind of guidance. Obviously, a lot of the focus here has been on 2017 and some of the transient factors. You had some statements around still being confident in the long-term. I guess, very specifically, are you confident in the \$5.50 to \$6 a share of ACFFO in the 2019 time frame or whatever the L3R year is? And then with some of the sponsored vehicles, you gave the 2017 leverage targets. I'm just wondering are you still on track for 5.5x debt-to-EBITDA for 2017? And how do you feel about being sub-5x for 2019?

**Al Monaco** - Enbridge Inc. - CEO, President and Not Independent Director

Okay, well, John will handle the last part of the question. I'll take the first part. Essentially, what we're saying, Robert, is that, yes, the guidance that we talked about before the deal and what we see through our '17 annualized figures that we showed, which accounts for some of these unusual items, are in line with what we thought. And there is really no change in the outlook for the overall outlook that we have on the business and growth going forward. So I think that's the main takeaway.

**John K. Whelen** - Enbridge Inc. - CFO and EVP

I think on the second part of your question, Robert, yes, I think the long-term glide path that we're trying to achieve with respect to leverage and balance sheet capacity, we're going to be right on track for that.

**Robert Michael Kwan** - RBC Capital Markets, LLC, Research Division - Analyst

Okay. And for 2017?

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**John K. Whelen** - *Enbridge Inc. - CFO and EVP*

You know for 2017, we should be pretty much on track at the end of the day. We'll be updating our forecast as we go through the balance of the year, but, I think, we're going to be in line.

**Al Monaco** - *Enbridge Inc. - CEO, President and Not Independent Director*

You know, Robert, getting back to the first part. If you look at the components of the -- of that outlook that you talked about, really it comes down to being able to put the projects into service and, as I said earlier, those look like they're moving on very well. It also depends on the synergy assumptions that we made. And as we've concluded in the call, we're on track on that front. So those are the big drivers that will drive that outlook.

**Operator**

Our next question comes from Robert Catellier from CIBC Capital Markets. Please go ahead.

**Robert Catellier** - *CIBC World Markets Inc., Research Division - Executive Director*

I just wanted to follow-up on the acquisition question a little bit here. Knowing that the acquisition you've made with Spectra is going well, it's still an enormous undertaking. So in that context, what are the strategic implications of having a new partner in Alliance Pipeline? And related to that, the company's ability and willingness at this point to contemplate other strategic acquisitions, maybe not of the scale of Spectra, but something smaller, or -- what's your appetite like there?

**Al Monaco** - *Enbridge Inc. - CEO, President and Not Independent Director*

Well, let me see if I could answer it this way. We feel very confident in -- once the transaction closes that Pembina would be a very strong partner in Alliance. They've obviously got a lot of capability and presumably there may be some opportunities to work together on things. So I think they'll be a good partner in Alliance. As you know, Alliance is a pretty strategic asset these days when it comes to the Basin and particularly in handling liquids-rich opportunities. And, of course, it's in great position, given the Aux Sable facility and how it's structured. So I don't see any issues in that partnership going forward. With respect to acquisitions, which I think is a separate issue, sure, we would look at all opportunities. We wouldn't be doing our job, if we didn't continually scour and see what's out there. Obviously with this size a deal that we're just chewing through here and making sure we've got it integrated well which, of course, you know is a big job, that's a big priority for us. And we need to make sure we're doing that well. We've got a lot of things ahead of us this year and next year. So doing the scale of transactions like that one is probably not a priority for us right now. But it doesn't preclude us doing things in the smaller category along the way, if they present themselves and if they fit with the overall strategy.

**Robert Catellier** - *CIBC World Markets Inc., Research Division - Executive Director*

Okay. That's helpful. And just on the -- placing those projects into service and the lack of a FERC quorum. So really at what point does the absence of a FERC quorum start to pressure your 2018 outlook?

**Al Monaco** - *Enbridge Inc. - CEO, President and Not Independent Director*

2018 outlook. Probably not that much. I can get Bill to comment. We're probably getting close at this point now, given construction windows and the need to get in the field in order to complete for 2017. But frankly, even if it spills over into 2018, it's not really going to have a material impact on the '18 numbers that we're talking about as far as our outlook. Bill, do you have anything to add on that?



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**William Turner Yardley** - *Enbridge Inc. - EVP and President of Gas Transmission & Midstream*

No, I think, that's right. I think anything we need from the FERC, first is NEXUS, and that's top priority. Anything else we need is probably much later in the fall.

**Operator**

Our next question comes from Jeremy Tonet from JPMorgan.

**Andrew Ramsay Burd** - *JP Morgan Chase & Co, Research Division - Analyst*

It's Andy Burd for Jeremy. Regarding the 10% to 12% annual dividend growth after 2020 for ENB. What type of annual investment from the development backlog underlies that forecast? And then maybe also, does that longer term outlook anticipate a persistent DRIP at ENB? Or do you see a greater shift to sponsored vehicles in that kind of 2020-plus time frame?

**Al Monaco** - *Enbridge Inc. - CEO, President and Not Independent Director*

Okay. Well, on the first one, actually that growth is supported not just by what you mentioned, but as I said earlier, the embedded growth within the existing assets we have -- will have some room on the payout by that time. But specifically to your question, it's in the \$5 billion to \$6 billion range of annual investment that is part of the overall math, if you will, to have that outlook beyond 2019. So when you combine it all, we feel pretty good about that -- our ability to do that. If you look at the history, \$5 billion to \$6 billion certainly wouldn't be out of the ordinary. I think the key question, as always is the case as you know, it really depends on the quality of what we're seeing out there around the \$5 billion to \$6 billion.

So based on what we came up with when we announced the Spectra transaction and that opportunity set, this is quality stuff. It's organic, it fits right within those 6 platforms. And so we feel pretty good about being able to spend \$5 billion to \$6 billion going forward. With respect to the DRIP, I suppose at the end of the day, there's always an opportunity to turn that off and, well, really, I think John would tell you that it really depends on what we see at that time and the sponsored vehicle capital is a very good source, as you know, particularly now that we've got them all set up quite well. So it really -- I think we just have to be flexible on that depending on where we see our capital needs.

**Andrew Ramsay Burd** - *JP Morgan Chase & Co, Research Division - Analyst*

Great. That's good color. And the final question is shifting gear to scale and your non-Canada renewal power -- renewable power asset is growing pretty quickly. Would Enbridge ever consider a separate vehicle for that portfolio? And if you could briefly touch on the M&A opportunity set in that segment at the moment, as well as competitiveness there?

**Al Monaco** - *Enbridge Inc. - CEO, President and Not Independent Director*

Okay. I think you're right. It's growing, if you look at the capital investment. And I think, as I mentioned earlier, there is some pretty big opportunities in the European offshore space and they really do fit quite well, the value proposition that we've been espousing for a number of years. I would say even though that the investment levels are large, if you look at the total pie of Enbridge, it's still a relatively small part of the total ACFFO contribution. So we'll continue to invest in it. It's a great place to grow, because it fits the value proposition. But it's probably still going to be limited relative to the massive size of businesses in natural gas and liquids and the utilities. As to the question would we ever consider vehicles? Absolutely. I mean, we are constantly focused on ways that we can release value and whether that's a monetization or an asset sale or potentially acquisitions, that's all on the table. And from time to time, those opportunities present themselves. So we'll be looking for any opportunity to release value. As far as -- I think you had another part of that which was related to acquisitions in that area. I think at this point, we're more focused on the organic opportunities.



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There is quite a slate of these offshore projects in Europe that are strong. They've got the right commercial underpinnings. That's probably our near-term focus as opposed to larger-scale acquisition, at least for now.

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**Operator**

Our next question comes from Linda Ezergailis from TD Securities.

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**Linda Ezergailis** - *TD Securities Equity Research - Research Analyst*

I have a question with respect to your Line 3 Replacement Program. I see in your release that the Federal Court of Canada has granted leave to appeal to both the Manitoba Metis Foundation and the Association of Manitoba Chiefs with a judicial review of the Government of Canada's decision to approve the Canadian Line 3 Replacement Program? And then in your presentation, you comment on everything seems to be on track, et cetera. Can you comment on, kind of, what are the bookends based on precedence of when this leave to appeal process might be resolved? And can you still proceed with construction and operation in parallel, as this is underway?

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**D. Guy Jarvis** - *Enbridge Inc. - EVP and President of Liquids Pipelines*

Linda, it's Guy. I'll take a crack at that. So I think the answer maybe to the last part of your question is, is we're fully authorized to begin construction of Line 3 in Canada. And we could proceed irrespective of the issue that you've raised. The way we're looking at drawing up the construction plan for Line 3 in Canada, the element -- largely the elements of it in Manitoba are not going to be the spreads that we pursue first. So our expectation is, is that this issue will have run its course in the courts and be resolved prior to us beginning construction in Manitoba under our current expectation.

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**Linda Ezergailis** - *TD Securities Equity Research - Research Analyst*

Okay. Thank you. And this is a follow-up. Sometimes it's interesting what you don't say on the call, then what you say. So I was looking at Slide 15, your 2018 kind of commentary. And based on the share count, is it reasonable for me to infer that Enbridge Inc.'s base plan still doesn't really include an equity offering? Or do I need to wait for some sort of more commentary on your financing plans, and the relative attractiveness of different options until June or December or some other point?

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**D. Guy Jarvis** - *Enbridge Inc. - EVP and President of Liquids Pipelines*

No, you can assume that it doesn't include a follow-on equity offer, Linda.

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**Al Monaco** - *Enbridge Inc. - CEO, President and Not Independent Director*

Yes, And I think when we -- if you recall, Linda, when we did the equity offering early last year, part of the premise along with the Spectra consideration, how we finance that, was that we weren't requiring any equity through the period here. So that was part of the game plan.

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**Linda Ezergailis** - *TD Securities Equity Research - Research Analyst*

Okay. And will we get a more fulsome update on financing plans in June or December or...?



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**John K. Whelen** - *Enbridge Inc. - CFO and EVP*

Linda, it's John. Yes, that will come. The more fulsome update will come in December. We'll probably provide a little background at the June mini-Enbridge Days, but the more fulsome update will be at the -- December, after we've done all of our planning for the year.

**Operator**

Our next question comes from Andrew Kuske from Credit Suisse.

**Andrew M. Kuske** - *Credit Suisse AG, Research Division - MD, Head of Canadian Equity Research, and Global Co-ordinator for Infrastructure Research*

I know we're still on the early innings of having Spectra into the fold. But from just early observations, what are you seeing as far as maybe network effects beyond your initial expectations? And there's probably 2 aspects to this. It's from potential projects that you didn't envision while you're doing the Spectra deal that you now can see when consummation has been done? And then also on the synergy side, is there any potential upside on synergies?

**Al Monaco** - *Enbridge Inc. - CEO, President and Not Independent Director*

Okay. Network effects, first of all, Andrew, we're probably going to get into that a little bit more and give you a glimpse of what those could be at the June conference. I would say there is a couple of things that are probably more transparent than others. Certainly, Guy's work around Express-Platte is revealing some opportunities and potential synergy there with our system. And you can imagine with very large Mainline system and then having another conduit and given the constraints that we see in the upstream side of the business on getting to market, there could be some value there that we see with some additional plumbing that doesn't take too much capital and effort. So I think that's probably the most transparent thing. I'm not sure we assumed anything like that. But certainly, we're pleasantly surprised that, that would be an opportunity. Another thing that maybe we didn't contemplate initially off the bat was -- and perhaps we should have, was the potential in the Western Canadian business. The strength of the supply and the ability of producers in Western Canada to find natural gas so cost-effectively, given the technology being applied. And so you see the T-South opportunity coming up, which is a fairly large one. That's probably something that is going to provide more opportunity than maybe we initially thought. Around the synergies, commercial or cost, I think, we've got to be disciplined about the initial run rate that we've estimated here on the cost side. I think we'll achieve that. We will obviously search for more. Those probably take a little bit longer but we wanted to focus on the '18, '19 period as achieving the \$540 million. So I would say, there's opportunity through all of those areas, but they take -- some probably take a little bit more time to work through and execute on.

**Andrew M. Kuske** - *Credit Suisse AG, Research Division - MD, Head of Canadian Equity Research, and Global Co-ordinator for Infrastructure Research*

That's helpful. And then maybe just getting carrying forth on the plumbing commentary. I know there's some commentary in the MD&A that talked about EBIT in the Liquids division, in particular, being positively impacted in the back part of the year on throughput optimization and just new projects coming into service. Is there any kind of directional guide, as to the magnitude of optimization versus the new projects?

**Al Monaco** - *Enbridge Inc. - CEO, President and Not Independent Director*

Yes, that's a great question. Because given the constraints that you can imagine, Guy is very focused on it. So maybe he can explain that.

**D. Guy Jarvis** - *Enbridge Inc. - EVP and President of Liquids Pipelines*

Yes, so Andrew, you would probably understand the history of our system -- or the heavy side of our system has been full and apportioned for quite some time now. Our experience is that on the light side of the system, while it tends to fill up in November, December, January time frame, we often time experience weakness on the light side of the system in other parts of the year. So we've been embarking on efforts for more than a



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year now to identify opportunities to create more of a heavy-based crude slate that can find its way into that light capacity in the summer, predominantly. And as we sit here today, we have 2 specific programs that are underway with individual customers to do that. We've talked a lot about this medium blend concept. We saw first batches of medium blend in the system in April. And we've got another targeted crude slate that we're going to implement in July. And kind of overlaying all of that is we're searching every day for that last 10,000 barrels a day, 20,000 barrels a day that we can squeeze out of the system in any month through managing our integrity programs, maintenance programs a lot more efficiently. So it's really a series of increments that's driving that outlook. And I think the expectation is that we're going to try and alleviate some of that summertime weakness that we saw last year on the mainline and keep it full with a heavy -- with heavies this summer.

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**Al Monaco** - *Enbridge Inc. - CEO, President and Not Independent Director*

Andrew, as you were asking your question there, bigger picture though, I think Guy and his team are doing a good job on these increments and optimizations and that means a lot to the customers. But I think they've also done a tremendous job in putting together some pretty big scale solutions as well, with respect to Line 3 and some of the things that come out of Line 3 and are adding additional increments of capacity along the way here. So there is probably in the order of 800,000 to 900,000 barrels in total here when you look at post Line 3 environment that can be added. And that's pretty significant set of options to have.

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**Operator**

Our next question comes from Rob Hope from Scotiabank.

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**Robert Hope** - *Scotiabank Global Banking and Markets, Research Division - Analyst*

Just moving to the structure of the company. Spectra does give you quite a few additional assets at the Enbridge Inc. level, largely in Canada. Has there been any contemplation of pushing some of these assets down to either new or existing sponsored vehicles, in part to accelerate the leverage reduction at Enbridge Inc.?

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**Al Monaco** - *Enbridge Inc. - CEO, President and Not Independent Director*

Yes. And I think you're hitting on a good point here because the whole -- the value of the structure for us is to pull those levers to raise capital, where we can optimize the overall cost of capital for the company. So I think it's an opportunity. I don't think we have anything immediately in the plans, Rob, to drop down. But once these vehicles are humming and once they have that capital access capability, and obviously, SEP has proven that quite well. I think it's an opportunity. Nothing immediate plan, but it's possible.

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**Operator**

Our next question comes from David Galison from Canaccord Genuity.

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**David Galison** - *Canaccord Genuity Limited, Research Division - VP of Research of Pipelines, Power and Utilities*

So just a quick question on your capital projects that are entering service this -- throughout the year this year and then into the next couple of years. How should we think about the ramp of those projects in contributing to earnings and cash flow? Is it going to be -- come on -- on average, come on right away? Or will there be a buildup in the contribution over time as these assets ramp up?



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**Al Monaco** - Enbridge Inc. - CEO, President and Not Independent Director

We'd have to go through each one of them, David. I'm not sure we can put a blanket over it all and say they all happen at the beginning or at the end. I -- maybe I will get Guy and Bill to provide a little bit of color. I think the chart that we have definitely has the key in-service date. I think that's what you go by first. But maybe you guys can just give a bit of color around DAPL or Sabal, to start with.

**D. Guy Jarvis** - Enbridge Inc. - EVP and President of Liquids Pipelines

Yes, so in terms of Dakota Access and ECHO pipelines, we would expect to see some growth in the coming few years off of that asset. They've recently announced a successful open season that is going to have the contract profile on that pipeline increase, I think, through 2019. So volumes that will be coming on to that system, we have embedded growth already built-in.

**William Turner Yardley** - Enbridge Inc. - EVP and President of Gas Transmission & Midstream

Probably the biggest one to talk about on our side would be Sabal Trail. It's on schedule to come into service within a month or so. And the way that, that project ramps is that we have contracts that will come on full for approximately 70% of the overall project, with the utilities in Florida right away. And then within a couple of years that, that ramps up to 90% and then 100%.

**Operator**

Our next question comes from Nick Raza from Citi. Please go ahead.

**Nick S. Raza** - Citigroup Global Markets, Inc. - Analyst (Broker)

Just to re-track on NEXUS. If the project does sort of get delayed a little bit, do you anticipate putting the project into service at 100% contracted capacity? Could you just provide a little bit more color around that, because it's -- right now it stands at about 60% contracted?

**William Turner Yardley** - Enbridge Inc. - EVP and President of Gas Transmission & Midstream

Yes. So we'd put the full contract into service with it 60% contracted, as soon as we can get it in. And we're encouraged, of course, that the 2 names for the FERC did finally make their way out of the White House and over to the Senate. So hopefully, we will be cobbling something together to get that into the service late '17, early '18.

**Al Monaco** - Enbridge Inc. - CEO, President and Not Independent Director

I think, Bill, you guys are working away hard on cobbling together other volumes through connections and so forth. So that's additive to the 60%. But I think the 60% is pretty solid. And is that the plan?

**William Turner Yardley** - Enbridge Inc. - EVP and President of Gas Transmission & Midstream

That's right.

**Nick S. Raza** - Citigroup Global Markets, Inc. - Analyst (Broker)

Okay. And just to go back to some of the numbers. In terms of the other line item for SEP, included a lot of sort of special items related to the merger. And in terms of going forward, I mean, your guidance is \$1.4 billion to \$1.48 billion now, which is a little bit lower than what was previously disclosed



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when SEP was stand-alone of a little over \$1.5 billion, from what I recall. Could you just talk about some of that -- those charges? And how we should be thinking about them?

**John K. Whelen** - *Enbridge Inc. - CFO and EVP*

Yes, it's John. Yes. The charges there primarily relate actually to -- we provide shared services companies into the Spectra Energy Partners, as we do it to our other sponsored vehicles. So in connection with the merger, of course, we've undergone some severance across the organization that was part of the synergy at the end of the day. And what you're seeing there is, if you like, an allocation of that into SEP. Having said that, what you will see going forward is the benefit, actually, of some fairly significant synergies that will flow out to all of the sponsored vehicles, quite frankly, as we go through the implement. So that will start to feed back, if you will, into our outlook and our projections going forward.

**Operator**

We have reached our time limit and are unable to take any further callers. I will now turn the call back over to Jonathan Gould for final remarks.

**Jonathan Gould** - *Enbridge Inc. - Director Investor Relations*

Thank you, Christine. That was a lot of material to get through in an hour. So as always, our IR team will be available right away to take any additional follow-up questions that folks may have. So again, for reference, that's myself for Enbridge Inc. related matters; Adam McKnight for Enbridge Income Fund and Enbridge Energy Partners; and Roni Cappadonna for all Spectra Energy Partners follow-ups. So thank you, everyone, again, and have a great day.

**Operator**

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

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