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PRESENTATION

Operator

Good morning, ladies and gentlemen, welcome to the Enbridge Inc. first-quarter 2013 financial results conference call. Please note that this conference is being recorded. I would now like to turn the call over to Jody Balko.

Jody Balko - *Enbridge Inc. - VP of IR & Enterprise Risk*

Thank you, Ellen. Good morning, and welcome to Enbridge Inc.'s first-quarter of 2013 earnings call. With me this morning are Al Monaco, President and CEO; Richard Bird, Executive Vice President, Chief Financial Officer and Corporate Development; Steve Wuori, President of Liquids Pipeline; and John Whelen, Senior Vice President and Controller.

This call is webcast and I encourage those listening on the phone lines to view the supporting slides which are available on our website. A replay and podcast of the call will be available later today and a transcript will be posted to our website shortly thereafter.

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

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



This slide includes a summary of the more significant factors and risks that might affect future outcomes for Enbridge, which are also discussed more fully in our public disclosure filings available on both SEDAR and EDGAR system. I will now turn the call over to Al Monaco.

Al Monaco - Enbridge Inc. - President & CEO

Thanks, Jody; good morning, everyone. I'm going to start by recapping our first-quarter results and recently secured projects. After that I'll take a few minutes to review the status of our crude oil market access strategy, given the importance of several ongoing programs we have designed to address the crude oil price differentials that our industry is facing. And then I will wrap up by updating you on Major Projects execution and key priorities going forward.

So earlier today we announced our first-quarter numbers. Adjusted earnings came in at CAD488 million or CAD0.62 a share, up from CAD0.49 a share for the same period last year. So as you can see, very strong quarter-over-quarter performance.

Although we are pleased with that result we don't expect this pace will be maintained through the year. As a result we are holding our EPS guidance range at CAD1.74 to CAD1.90 a share and if we are able to achieve the midpoint of this range it would represent a 12% increase over 2012. Richard is going to provide some color on the quarter and our expectations for the full year.

Over the past quarter we have added to our backlog of commercially secured projects and that reflects a strong environment generally for energy infrastructure. On the Mainline we received industry support to upsize Alberta Clipper to its full pumping capacity of 800,000 barrels per day. This will maximize heavy oil flow by 2015 as oil volumes out of Western Canada ramp up.

We've made good progress on our regional Oil Sands strategy. We recently agreed with Athabasca Oil Sands Corp. to connect their Hangingstone volumes to our Cheecham terminal. Then yesterday we announced an expansion of Cheecham to accommodate the second phase of the Surmont JV between Conoco and Total.

This now brings the number of projects connected to our regional network to nine and illustrates our competitive strength in the Oil Sands corridor. We expect to attract further volumes as well, but we won't be able to get into the details of that today.

On the power generation side of the business we were successful in adding an additional 150 megawatts to our portfolio with our 50% interest in Blackspring Ridge Wind Project in Southern Alberta. At 300 megawatts Blackspring will be the largest wind facility in Western Canada. And as usual, we've buttoned down the risks; it's a construction ready project with strong commercial underpinning.

With this investment and the 150 megawatt Massif du Sud wind project announced last quarter, we are pleased with the diversification we have achieved in the renewables portfolio covering the best wind and solar regimes in North America.

In the gas business we are proceeding with construction of a new 150 million cubic feet a day cryo plant in East Texas. The Beckville plant is a good add to our portfolio in East Texas where we are capitalizing on our existing footprint there in the NGL rich Cotton Valley play.

And finally, although not yet commercially secured, in February we entered a JV with Energy Transfer to develop the Trunkline gas to oil conversion and reversal project. This is now known as our Eastern Gulf Coast Market Access Initiative that connects the Mid-Continent and Eastern Gulf markets. This project is contingent on receiving commercial support. We are in discussions with potential shippers here which is going well, so we will update you when we have more news on that.

So, all in all, good progress on business development over the last few months. Next I will discuss the CAD1.2 billion preferred unit investment in Enbridge Energy Partners, I will refer to that as EEP, that we announced this morning.

As you know, EEP is an integral and strategic part of Enbridge's overall business strategy, not just operationally but also as a vehicle to optimize the funding of our enterprise-wide slate of growth projects.

EEP, as you know, has a bevy of attractive organic liquids projects in its franchise, but the timing and amount of capital required to finance these is significant for the MLP space and it's creating an equity overhang on EEP's unit price. Because of that today EEP doesn't have a significant cost of capital advantage relative to Enbridge, so it is better for both EEP and Enbridge to shift enough of the funding back to Enbridge to relieve that overhang.

The Pref investment results in a win-win for both Enbridge and EEP. From EEP's perspective it substantially reduces the 2013 funding need and it provides flexibility to access additional equity funding in the public market at a time and at pricing that is more favorable.

From Enbridge's point of view this will enhance the existing investment in the partnership through improved market valuation of EEP's units and will provide a lower cost more accretive basis for EEP's funding. Richard is going to expand on the structure of the price share investment in his section.

In addition to this, EEP announced that it expects to exercise its option to pare down their ownership in the joint funding agreements for the Eastern Access and Mainline expansion projects from 40% to 25%.

So putting all of this into strategic context our goal is to clearly support the partnership, optimize the cost of funding the current large growth program, and ultimately drive EEP's cost of capital down to a level where it can ultimately be a viable option for future asset drop downs.

And once we create this environment for accretive drop downs we have a large inventory of assets currently housed at Enbridge Inc. that can feed EEP's visible growth well into the future. So that is how we see all of this fitting together in the bigger picture.

This next slide is the one that we been updating since we originally presented it at Enbridge Day last October. As you can see, with the projects I discussed earlier, we are now sitting at CAD28 billion of secured growth capital, so an increase of CAD1 billion since last quarter. The chart on the right here simply breaks down this capital out by in-service year.

So far this year we have brought five projects online with another 10 by the end of this year expected. This will be followed by another busy year next year and then in 2015 when the bulk of the market access projects start to flow. Including unsecured projects our enterprise-wide growth capital now sits at CAD37 billion.

Just as a reminder, this unsecured category is an estimate of what we expect to be successful on over the coming years. This isn't an exact science, but it allows us to plan for the future including management of our capital funding requirements.

This is a phenomenal amount of capital to put to work and it highlights the significant growth opportunity that we have through the middle of the decade. It also highlights the importance we need to place on execution and part of execution is funding of the capital program. And it was really the change that has happened in this chart that led to our CAD600 million equity offering last month.

The original capital plan that we laid out at our Investor Day back in October last year required a level of additional equity that we felt could be managed through preference share issuances and asset monetizations. With the increase in our CapEx program to CAD37 billion it was prudent for us to get ahead of the incremental financing requirement.

Finally on this point and most importantly, the capital program that we're funding represents financially attractive and strategic investments that will support the growth outlook for years to come that is very positive. Richard is going to go through our funding waterfall in a few minutes.

As you know, we are in the midst of a massive increase in North American crude oil supply. That is generally good news, however, the lack of sufficient pipeline capacity is causing significant regional price disparities. We are all concerned about the short-term and longer-term effects this could have on energy development.

The slide you see here is obviously depicting our crude oil system. I've got this here so we can illustrate a year-by-year buildup of what we are doing to solve the problem. First several projects will come into service this year which are important to help alleviate system congestion as well as provide



access to new markets. That includes the Line 5 expansion this month adding an additional 50,000 barrels per day of light oil capacity into Sarnia and then on to Line 9A reversal into Nanticoke displacing a higher cost Atlantic basin crude.

We have also opened up another 80,000 barrels per day to new markets in Toledo and Detroit where Marathon is eager to access heavy Canadian crude for their new coker. The other major area of capacity addition in 2013 has been of course the expansion of Seaway, which was completed in January helping to relieve some of the bottleneck that exists at Cushing.

Then in 2014 we will bring on another six projects into service providing access to new markets for an additional 825,000 barrels per day. The full Line 9 reversal will be able to feed 240,000 barrels per day to Quebec refineries by midyear, allowing those refiners to access low price North American price light crude on a timely basis. And that is critical to ensure the long-term viability of those refiners.

Then by mid-2014 our US Gulf Coast Access Projects will add 585,000 barrels per day of new market access through the Flanagan South and Seaway systems. This will mark a significant milestone in enabling the first large volumes of Canadian heavy to access this premium market once again on a timely basis.

And finally, the first horsepower expansion of the Mainline will also come online in 2014 to accommodate the growth in heavy from Canada to feed the Gulf Coast.

Then in 2015 we will connect up to 300,000 barrels per day of new markets through Southern Access Extension into the Patoka hub. This is an important link for growing Bakken supply as Patoka is the connection point to serve the eastern [Pad 2] light oil refining market via the Marathon pipelines.

Then there is our Eastern Gulf Coast Market Access Project I talked about early on. This would be the first pipeline to allow Canadian and Bakken barrels to access the over 3 million barrel per day Eastern US Gulf Coast refinery market. On top of these extensions we will complete significant Mainline expansions all timed to accommodate the continued ramp in volumes heading towards the new Market Access projects.

Finally, in 2016 we expect Sandpiper to come into service. The project remains essential to provide much-needed capacity out of the Bakken region for the continued growth in production. Many of you will know that the FERC denied our original Petition for Declaratory Order on Sandpiper; we plan to refile that PDO with modifications to address FERC's concerns.

We continue to work towards maintaining that early 2016 time frame for that project. And we are also expanding Line 6B to allow for an incremental 75,000 barrels per day of capacity to feed and expand Line 9.

This slide -- this next slide here summarizes all of these projects in one spot. And the picture is to convey how we have been focused on connecting growing North American supply to premium refinery markets on the continent. These projects are sequenced in size to provide market access for up to 1.7 million barrels per day of production from the northern tier of the continent.

On to the next slide -- we are frequently asked how we are able to manage the risk around cost overruns and schedule delays, so let me spend a minute on that. First our Major Projects group which is critical to this has an experienced team and staff of people to manage the current slate of work and the thousands of contract staff in the field. A key part of this is leveraging our buying power for contract labor and construction inputs.

One example of that is our pipe procurement contract with Evraz where we have essentially base-loaded their entire mill capacity. On the labor side we are not constrained by supply in any one location and we have now locked up all of our Mainline requirements for our sanctioned Canadian programs through 2016.

As you see from the chart, there are only two additions to our watch list driven by the evolving regulatory environment. On Line 9 the NEB hearing process will take an additional three months. The other is Eastern Access Phase I where permitting has pushed the in-service date by about a quarter. Despite this out of the 33 projects currently in development and execution 29 are on schedule and either at or below budget.



So all in all we believe and we've heard from our customers as well that we have a real competitive advantage here in our ability to execute projects. And I should just note that we are pleased with the execution progress that our partner Enterprise has achieved on the Seaway Twin with and in-service date now advanced from mid-2014 to the first quarter of 2014.

Now we don't expect to move barrels through Flanagan South until mid next year, but having the Twin in place sooner will enable us to segregate light and heavy barrels currently entering the system at Cushing. This helps relieve the capacity limitations on the existing Seaway line resulting from a significant heavy crude nomination slate.

The last point that I will cover before turning it over here is to reiterate our commitment to safety and operational reliability. Now in the last while we've spoken a great deal about our industry-leading pipeline inspection program, the use of technology and our operational risk management program. The latest step is establishing an enterprise safety and operational reliability function.

Cynthia Hansen has taken on this position and will report to me. Cynthia will be responsible for executing enterprise-wide safety culture initiatives, strategies and policies and implementation of our operational risk management plans. Cynthia has a long history with Enbridge including roles in liquids pipelines where she was accountable for system performance as well as Canadian operations.

Last month Leon Zupan was appointed Chief Operating Officer Liquids Pipelines reporting to Steve Wuori. Leon recently, as you know, headed up our gas business and with his vast experience in operations across Enbridge he really is uniquely qualified for this very important role.

So Cynthia and Leon will play critical parts in helping lead our renewed focus on safety and operational reliability. And then Mark Maki, many of you know was recently appointed as Acting President of Gas Pipelines taking over from Leon in Houston. And of course Mark has a lot of depth in the gas business.

So the goal for us is pretty straightforward, to be the industry leader across all of the key dimensions of these programs. With that I am now going to hand the call over to Richard to go over in more detail the financial results.

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

Thanks, Al, and good morning, everyone. I will pick up on slide 17 of the slide deck starting with some additional color on the quarter. And as Al indicated, it was a strong quarter on a year-over-year basis and stronger than expected. We do expect to see continued year-over-year growth for the balance of the year but at a much more moderate pace. So I will point out some of the reasons for that.

Starting with Liquids Pipelines, our Canadian Mainline had a record quarter with volumes up and also a significantly higher Canadian residual toll. We should continue to see strong volume for the balance of the year, however, the higher first-quarter Canadian residual toll reflects a temporary decline in the US system toll and that has begun to reverse in the second quarter already and it will continue to do so in the second half as the normal Lakehead toll escalation processes occur.

The toll effect will largely offset the volume effect for the balance of the year, leaving us with a healthy full-year increase. But we have already seen most of it in this past quarter.

Our regional Oil Sands system was another strong contributor for the quarter and the factors driving that -- higher volumes on legacy assets and earnings from new assets placed into service -- should in this case continue to drive growth in liquids pipelines for the rest of the year.

The Seaway Pipeline contributed to earnings in the first quarter of this year and was not in service at this time last year, so it produces an automatic quarter-over-quarter increase. However, it did not perform to our expectations in the first quarter due to capacity curtailment associated with downstream take away limitations.

These will continue to affect capacity available until the lateral from Jones Creek to the ECHO terminal is completed in the fourth quarter though not to the same extent as occurred in the first quarter. We do expect to be back on track in 2014 with the capacity available on Seaway, particularly



once the Seaway twin comes into service in the first quarter permitting, as AI indicated, segregation of light and heavy crude. However, for 2013 the Seaway capacity curtailment is a definite headwind versus our original guidance.

Gas Distribution had a strong quarter in all respects except Gas New Brunswick where the economic expropriation by the provincial government last year is unfavorably impacting quarter-over-quarter performance. The strong Q1 performance at EGD reflects some favorable revenue timing factors which will likely largely reverse over the balance of the year leaving a flat year-over-year position for the segment as a whole consistent with our guidance expectations.

In the Gas Pipelines Processing and Energy Services segment the notable feature was the profitability of the energy services business with great margins available across many of the logistical arbitrage paths that we manage in that business.

We don't expect this to continue to the same extent during the balance of the year, some of those arbitrage opportunities have already begun to close up, though we should still line up closely with the strong performance during the remaining quarters that occurred in the prior year. So Energy Services is providing some tailwind for the overall segment relative to guidance.

Nothing really remarkable to talk about in Sponsored Investments. Within the Corporate segment the significantly higher contribution from Noverco bears mention. And on an apples-to-apples basis it was a good quarter for Noverco and its underlying assets, but that was exaggerated by the impact of the new power business acquired by Noverco's subsidiary Gaz Metro in 2012.

That power distribution business will make a handsome contribution to our share of Noverco's annual earnings when passed through the Noverco structure. However, it is a very seasonal business with most of the earnings recorded in the January to March period, so we won't see much more year-over-year increase from this source for the remainder of 2013. Again, this is another overall tailwind for us on a full-year basis.

Now moving to the next slide which just summarizes the primary headwinds and tailwinds versus guidance that I just touched on, in the headwind category it is primarily Seaway and our recent equity pre-funding. The former should be largely overcome by the end of the year, the latter supports investment in additional attractive programs which will contribute to longer-term EPS growth. And the tailwinds relative to full-year guidance are primarily coming from Energy Services and Noverco.

We are off to a good start in 2013 with funding and liquidity actions on slide 19. This includes our CAD600 million equity offering that AI mentioned and that I will come back to in a few minutes. It also includes another \$500 million -- US dollar single lender credit facility that we just closed on Monday. The latter brings our enterprise-wide corporate credit facilities to CAD14.4 billion with net available liquidity of over CAD11 billion.

Moving to slide 20, as AI has already discussed the rationale for this investment, it is basically an optimization of our enterprise-wide funding plan and cost of capital. The units carry a 7.5% yield which rolls up into the redemption price during the first two years.

The units are redeemable by Enbridge Energy Partners at any time from the proceeds of an equity offering and are convertible at Enbridge's option after three years at a 4% discount to the current price. We don't expect that conversion will ever happen because we expect that EEP will have had ample opportunity by then to raise equity at more attractive prices and will redeem the units before that.

Although this investment does add to Enbridge's short-term funding requirements, we expect it to be a temporary bridge funding to EEP and we don't plan to fund it with permanent capital.

AI also touched on the fact that EEP expects to exercise its option to pare down its share of the joint funding agreement projects. This will effectively reduce EEP's investments in these projects by roughly CAD0.7 billion, further reducing the financing burden at this time. We had already provided for this in our original Enbridge level funding plan, so that's not a difference to our overall funding plan at the Enbridge level.

EEP will, however, retain the option to ratchet the investments back up to 40% within a year of the final in-service dates. So taken together these actions will provide significant equity markets breathing room for the partnership. And to be clear, this doesn't add to our enterprise-wide growth program, it just temporarily shifts part of the funding from EEP to Enbridge.



Moving to slide 21, I will finish up with an update to our long-term funding plan as a result of an anticipated increase in our investment program and our recent funding actions. And I have laid the figures out in our usual waterfall format, but on an incremental basis relative to where we left off at our year-end call.

So we have increased our overall Enbridge level investment program by approximately CAD3 billion. We usually do this type of adjustment as a result of a detailed bottom up roll up in conjunction with our annual strategic plan in the third quarter. In this case we have made a high-level top down interim adjustment based on some trends that we concluded were too probable to wait until Q3 to reflect.

So this adjustment hasn't been built up with the same level of granularity as our annual plan is; we'll update that at Enbridge Day. One of the items we were mindful of at the time we bumped up the Enbridge investment program was the likelihood that we were going to have to shift more of the funding of the enterprise-wide program from EEP to Enbridge.

This wasn't about the pare down option which we had already allowed for, it was the likelihood that we would need to go beyond that with some additional bridge funding for EEP to relieve the equity overhang its unit price has been facing. As I mentioned a moment ago, we don't plan to issue permanent funding for this bridge because we expect that it will be renewed.

If you follow the debt side of the perspective on the left you see an incremental requirement of CAD1.7 billion, but CAD1.2 billion of that will be covered with short-term debt, either commercial paper or floating rate notes, leaving very little incremental long-term debt required.

On the equity side we will need an additional CAD1.2 billion to fund the increased program while maintaining our key credit metrics. As AI indicated earlier, we felt it was prudent in the current global market environment to take some of that increment out of play early.

In combination with our first-quarter pref share issue we are left with a CAD400 million incremental equity requirement or CAD1.8 billion in aggregate. And that is back inside the range that we are comfortable that we can cover off with additional pref issuance and income fund drop downs over the next few years. So that is it for me and back over to AI.

AI Monaco - Enbridge Inc. - President & CEO

Okay, thanks, Richard. So the closing point -- we are on slide 22 here -- that I would like to make this morning is to highlight the confidence that we have as a result of our growing project inventory in achieving our five-year average EPS growth range annually of 10% to 12%.

Execution will be key but, as we talked about, we are very well positioned in this regard. And given the commercial model that supports many of these investments, we are confident that we will be able to sustain an industry-leading growth rate beyond 2016 and through the second half of the decade.

So to summarize, it was a very strong quarter, although we don't expect this pace to continue for the remaining quarters of the year. As such we are sticking to our original full-year guidance range of CAD1.74 to CAD1.90 per share. Our opportunity set for new development projects continues to grow and we have pre-positioned ourselves accordingly with additional equity funding.

And finally, project execution remains well on track to deliver our secured projects on time and on budget. That wraps up our prepared remarks, so I will now ask the operator to open up the phone lines for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Ted Durbin, Goldman Sachs. We will take the next question, it comes from Paul Lechem, CIBC.



Paul Lechem - *CIBC World Markets - Analyst*

I was just wondering what your Mainline volume outlook is for the balance of the year. Should we expect similar type volumes as we saw in Q1? And what is the capacity through the year? Are you now still close to capacity in the US portion of the Mainline or do we see that going higher as we go through the year?

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

Probably shift that one to Steve or Richard.

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

I can probably --.

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

Okay, go ahead, Richard.

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

So we will expect to see volume growth over the balance of the year. It is not necessarily going to be a smooth line, but generally as we move through the year we are going to see additional supply coming on and adequate demand to absorb that supply and adequate capacity on our system to move the one to the other.

We still do have pressure limitations on in a number of cases, but those are not expected to be a significant impediment to us handling that additional supply and we are gradually working those off as we work our way through the balance of the year and into the early part of next year.

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

You know, Paul, I guess the system is obviously pretty tight right now, but Steve and his team are doing a good job of trying to open up additional capacity where possible, trying to squeeze a bit more out of the system while obviously remaining safe. So generally though it will be pretty tight through the rest of the year and maybe into the beginning of next.

Paul Lechem - *CIBC World Markets - Analyst*

Okay, just a follow-up. Could we expect another 100,000 barrels of throughput through the back half of the year?

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

I don't think we are going to get down to the granularity of volume forecasts by quarter, Paul. It will be continuing to increase through the fourth quarter.

Paul Lechem - *CIBC World Markets - Analyst*

Okay, thank you.



Operator

Robert Kwan, RBC.

Robert Kwan - RBC Dominion Securities - Analyst

Just in terms of the increase in the capital plan, I am just wondering between the secured and the risk figures how much upward pressure do you think there might be just based on what you are seeing in terms of development activity that you are pursuing right now? And with respect to -- I know you don't disclose it, but the risked unsecured bucket. Have you lost out on any material projects since you formed that estimate?

Al Monaco - Enbridge Inc. - President & CEO

Well, I guess just generally, Robert, we obviously moved that figure up because we felt comfortable that some of the opportunities would be more likely to come to fruition. But as we indicated before, it is a probability weighted estimate, so it is hard to be exact on that number.

Have we lost some projects along the way? Yes, I mean we don't win every project. There hasn't been anything substantial in the last couple of months, if that is where you were going specifically. So that is kind of where we sit today.

Robert Kwan - RBC Dominion Securities - Analyst

Okay. And then if you can just -- is it possible to give an update on the permitting activities for Flanagan South and the presidential permit amendment process for Alberta Clipper?

Al Monaco - Enbridge Inc. - President & CEO

Well, I will start with Flanagan South. That is going very well, moving along through the various states I think at a very good pace. So we feel very comfortable with the permitting process there.

With respect to Alberta Clipper, we've obviously filed for a revised presidential permit there. Obviously with the nature of the work there being relatively limited in terms of scope, obviously the pipe is in the ground, we are talking about relatively minor station work there. So moving that along through the Department of State process, but once again emphasizing this is an amendment to the presidential permit.

Robert Kwan - RBC Dominion Securities - Analyst

And any estimate on timing?

Al Monaco - Enbridge Inc. - President & CEO

Right now the timing for the expansion by 170,000 barrels per day, that is phase one of Alberta Clipper upsizing in capacity is currently for mid-2014. We are holding to that for the time being, but obviously it is dependent on the regulatory process from here and the Department of State.

Robert Kwan - RBC Dominion Securities - Analyst

That is great, thank you.

Operator

Matthew Akman, Scotia Bank.

Matthew Akman - Scotia Capital - Analyst

Richard I am just trying to better understand the I guess earnings implications and how you think about the investments in EEP. Do you think about the investment as a pure kind of equity investment and the 7.5% fixed yield as an equity return? Or do you think about this as kind of a weighted average kind of return on debt and equity?

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

Well, I guess first of all the 7.5% is a pre-tax yield just to be clear on that. And I am not sure that we have thought about it the way you have described it, Matthew. We basically thought about it as a short-term bridge to give EEP the flexibility to spread its capital raising activities over a longer period of time rather than certainly front-end loaded profile that it would have had to have raised capital on.

So we will plan basically to fund that not with long-term sources of capital but with either drawing down on commercial paper or possibly a two to three year floating rate note. I don't know if that helps you (multiple speakers).

Matthew Akman - Scotia Capital - Analyst

Yes, I am just -- I probably haven't looked at this in enough detail yet, but it is helpful you said it is a pre-tax. I mean there is no equity upside in the value of the units to you guys, right, it just gets redeemed at par? So the 7.5% pre-tax is the full potential return on this investment for Enbridge, is that correct?

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

That is correct if it's redeemed within the next two to three years as we expected it would be.

Al Monaco - Enbridge Inc. - President & CEO

But I think just one point to add to your comment there that there is no upside in the units. First of all, these do have a conversion feature so there is that part of it. But I think importantly, obviously the valuation of EEP is a factor we look at very closely in that improving that valuation from the current yield, which this is designed to do, will ultimately result in more cost effective funding at EEP, which improves accretion capability at the partnership, which obviously helps us as well through the mechanisms that are in place there.

Matthew Akman - Scotia Capital - Analyst

I definitely understand that part of it. Just trying to figure out the investment merits on its own. I know there is clearly these spill over benefits as well. And just to be clear, my last question on that, it doesn't increase the ownership stake in EEP per se I guess does it? I guess it will be booked as a separate investment in a security with just a 7.5% pre-tax return, is that correct?

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

Yes, that is correct. Like a cost-based investment in the old way of thinking about accounting.

Matthew Akman - Scotia Capital - Analyst

Okay, great. Thanks very much, guys, those were my questions.

Operator

Linda Ezergailis, TD Securities.

Linda Ezergailis - TD Newcrest - Analyst

Congratulations on a strong quarter.

Al Monaco - Enbridge Inc. - President & CEO

Thank you.

Linda Ezergailis - TD Newcrest - Analyst

Just a quick question on your Mainline. Can you elaborate on one of the comments you made in your write up with respect to the potential for rail diversions? Would you have an estimate to review on how much is occurring currently and what the trend might be on that front including whether that is more a temporary dynamic or a certain base volume of diversions off the Mainline might be permanent? And then maybe some more color around if your views are if that is heavy or light crude?

Al Monaco - Enbridge Inc. - President & CEO

Okay, well maybe we will have Steve talk about that one.

Steve Wuori - Enbridge Inc. - EVP, Liquids Pipelines & Major Projects

Sure. Good morning, Linda. Really the Mainline hasn't been and isn't going to be deeply affected by rail diversions particularly from Alberta. The rail diversions really occurred in our Saskatchewan and North Dakota Bakken systems where we have seen, as you know, quite a bit of rail activity. And then of course that would in the light crude space filter over to the Mainline.

I think that when we see very shortly the Line 5 expansion go into service, the 50,000 barrels a day moving to Sarnia, that should pull out of one or both of the Bakken systems away from rail back onto pipe. And we have already seen in the month of May nominations on the North Dakota system go up by about 20% from the prior month.

So I think that in terms of the Mainline, generally if there is any diversions it would be light crude and driven more by the Bakken systems than by anything from Alberta. So no diversions in terms of or off-loading of the Mainline in terms of heavy crude, light crude coming from those systems, but also coming up back for two reasons, one is the capacity expansion.

The other, frankly, is tightening differentials at the coast where we are going to see rail become less attractive as those differentials tighten in toward and hover around CAD10.

Linda Ezergailis - *TD Newcrest - Analyst*

That is helpful context. Maybe a little bit of a microeconomics question. Can you or Richard maybe provide me with an update or us with an update on what your expectation of scale factor for the Mainline CTS might be this year and next year?

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

Sure. I don't think there has been any change on that front that we have seen relative to the prior guidance that we have given. So I think as you see that bump up and down quarter by quarter there is no particular trend that we would point out at this point in time relative to what it has been averaging.

Linda Ezergailis - *TD Newcrest - Analyst*

Great, thank you.

Operator

Steven Paget, First Energy.

Steven Paget - *First Energy - Analyst*

On Southern Lights you've discussed an expansion. And what does that look like in terms of the physical construction as well as the possible additional investment dollars there?

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

Well, as far as construction there isn't really any, we have that capacity available today, Steven. So we will fill it up with the results from the recent open season so really that's the opportunity I would say from an earnings point of view is not significant there for us at the moment.

But I guess what it does say is with all the interest in that open season it does present an opportunity for further expansion down the road where we would see some investment to capacity and some opportunity there for earnings as well.

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

Maybe just to jump in -- that would be a horsepower expansion if that is what you are thinking of, Steven. And it's probably a little premature for us to get into the magnitude of the capital dollars. It would be a relatively low cost horsepower expansion. So potentially fairly attractive economics and tolls associated with that.

Steven Paget - *First Energy - Analyst*

Al, Steve, thank you. Those are my questions.

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

Okay, thanks, Steve.

Operator

Andrew Kuske, Credit Suisse.

Andrew Kuske - *Credit Suisse - Analyst*

I guess a broader question and it just relates to insurance costs. Where are you seeing insurance costs trend at this point in time? And then just a forward outlook, do you see any potential for the industry to start to really be driven down the way of potential surety bonds that are necessary as a way of some kind of insurance coverage for future spills?

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

Insurance, do you want to take that, Richard?

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

Sure, I will take that. I think the broad picture with respect to an insurance cost trends is we are not seeing them abate as we might have hoped that they would. They certainly have increased to date and we had some hope that we might see that back off a bit, but we are not seeing that.

Nevertheless we are seeing that we are able to secure what we consider to be adequate insurance in most categories at costs consistent with what we planned for and allowed for. And our program this year has just renewed and Jody Balko, who is here with her investor relations hat on, but also looks after our risk and insurance group, that group was successful in increasing our coverage up at attractive rates or acceptable rates at least to CAD685 million for this coming insurance year. So I don't think any particularly remarkable on that front.

Andrew Kuske - *Credit Suisse - Analyst*

Okay, and you don't see any sort of structural shifts within the industry or regulators really demanding either more coverage or surety backstops -- the Gateway situation is a little bit exceptional?

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

Yes, setting Gateway aside, no, we have seen no indication of that sort.

Andrew Kuske - *Credit Suisse - Analyst*

Okay, that is very helpful. Thank you.

Operator

David McColl, Morningstar.

David McColl - Morningstar - Analyst

So, when we take a look at the list of commercially secure projects, I just want to maybe touch on two little things, maybe a 2016-2017 type of a time line. So the first one is I'm wondering if there is any consideration or if you are looking at perhaps a pipeline from the Permian area out to California.

And then my second question, which I will throw out right now, kind of touches on something I have asked a little bit about in the past. Just wondering if you could maybe give any more insight if there have been developments on international opportunities, maybe some countries you are looking at kind of out in the 2017 time frame? Thank you.

Al Monaco - Enbridge Inc. - President & CEO

Well, maybe on the first one we will have Steve touch on since he is familiar with that area and then I will get back to the international question. Steve?

Steve Wuori - Enbridge Inc. - EVP, Liquids Pipelines & Major Projects

Sure. In terms of the Permian to California, I think right now Kinder Morgan has a plan that they have announced to take what is actually the old all-American crude pipeline that used to flow east and then it has been a gas service under El Paso for a number of years, to convert that to flow west from the Permian to California.

Don't know -- can't speak to the status of that project, whether it is going to move forward or not. And so, I think California is a very interesting market. Clearly it is a good rail market and that is happening from a number of points. We don't have any specific plans right now in terms of a greenfield pipeline project from the Permian to California, although we are looking at the California market from a couple of perspectives.

Al Monaco - Enbridge Inc. - President & CEO

On your second question, David, around international, the answer is, yes. But as you point out, this is likely to be a longer-term outlook for us in that with so much on our plate today we are certainly not needing to rush into anything on the international front. Having said that, we are focused on two countries primarily, Colombia and Australia.

And the reason for that is both countries have very solid fundamentals, Colombia more on the oil side and very akin I think to how Western Canada was growing 10 to 15 years ago. So we have been there in the past, that is a very good environment, we believe, from a fiscal and stability perspective. So our experience there is helping. We have an office set up there and we are working on one or two projects that we think have some good legs.

On Australia, it has been a little tougher there, it is very competitive, obviously. But as I said, the fundamentals are very solid on the gas side obviously. So we are looking there as well. But those are the two areas that we're focused on primarily at this point.

David McColl - Morningstar - Analyst

That's great. Thank you so much.

Operator

At this time we would like to invite members of the media to join the queue for questions. (Operator Instructions). Our last analyst question comes from Jeremy Rosenfield, Desjardins Capital.



Jeremy Rosenfield - *Desjardins Capital - Analyst*

Good morning, everybody. Just one quick question. Maybe you can just provide your outlook for Enbridge Gas New Brunswick. Recently there was a court of appeal decision there. Just wondering how that might change your approach?

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

Well, it is not going to change our outlook at the moment. I think the decision that we saw a couple days ago was positive in that I think it recognizes the fact that certainly when we went into the franchise we had an expectation around what the regulatory framework would be. And the decision essentially confirms that we should be able to recover our costs including return on enough capital as we expected.

So I think that is a positive decision. I think it is a little too early to tell exactly what it will result in in the next year or two here. So we will be working on that.

Jeremy Rosenfield - *Desjardins Capital - Analyst*

And maybe just as a follow-up to that -- given the amount of growth that you have on your plate, but also recognizing that there may be opportunities to get invested in additional rate regulated enterprises going forward, how do you balance investments in terms of towards the pipeline segments versus towards rate regulated utility investment opportunities?

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

Right. That's a good question. First of all, I'll say that having a balance between, as you put it, sort of the pure pipeline and the rate regulated side of the business is a sound view I think of things. We obviously have a large regulated utility in Enbridge gas distribution and we like it frankly because it gives us a different profile, good diversification of earnings and, importantly, it's certainly credit accretive, let's put it that way.

If you look at the opportunities out there for rate regulated investments -- relatively fewer compared to call it the middle of our pipeline fairway. And if there is some good opportunities we will look at them, but traditionally they haven't provided the returns that match what we have been able to do on the pure pipeline side of things.

So I guess we will be opportunistic but -- and continue to look, as we normally do. But probably less opportunity there than we have in the rest of the business.

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

Maybe I will just add to that, Al. We are looking at an uptick in growth on the LDC that we do own. Enbridge Gas Distribution is moving forward into a fairly significant capital spend profile as it reaches the point where it needs to add additional capacity and reinforcing within its core system. So we have got pretty healthy organic growth to bolster the asset base in that part of our business.

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

Okay, Jeremy?

Jeremy Rosenfield - *Desjardins Capital - Analyst*

Yes, that is great, thanks.



Operator

Jeff Lewis, The Financial Post.

Jeff Lewis - *The Financial Post* - Media

On the Alberta Clipper expansion do you have to reapply for a presidential permit for each phase of that expansion? Or does the current permit before the State Department cover the whole thing?

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

Yes and, just to clarify, it is an amendment to the current permit and that will cover the full expansion right up to 800,000 barrels per day.

Jeff Lewis - *The Financial Post* - Media

Okay and just a quick follow-up. You have had an opportunity to observe TransCanada's process in terms of obtaining a presidential permit for Keystone. Are there any learnings you're taking from that process or factoring in any delay -- any potential delays in the permitting process given the high profile of these cross-border pipelines?

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

Yes, I think you are right. It has certainly had a lot of profile. I guess maybe as far as your question around learnings, I think I would point out that this is a little bit of a different situation. I won't deny that there will likely be some focus on it as well.

But, as I said before, the pipe is in the ground. We are talking about a relatively limited amount of work here. From an environmental point of view and from an equipment point of view it is quite limited in what we need to do. So we will obviously wait to see how it unfolds, we will go through the process. As we normally do we'll work closely with the DOS and we will work through it as required.

Jeff Lewis - *The Financial Post* - Media

Okay, thanks.

Operator

Lauren Krugel, The Canadian Press.

Lauren Krugel - *The Canadian Press* - Media

Jeff discussed a lot of what I was going to ask about. But maybe if you could elaborate. How does the amendment process differ from what TransCanada will have been going through for the past several years? Are there kind of various environmental impact statements? Are there hearings? Does John Kerry have the final say?

How would what we are seeing with Keystone differ from what you have to go through -- all the hoops you have to go through for the amendment for Alberta Clipper?



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

Well, the environmental impact statement for the project had already been completed obviously. So what we are doing there is amending that environmental impact statement. So really it is probably the same process generally in that we have to go through it. But obviously there is no questions as to routing implications because the pipe is already there, it is in the existing right-of-way. And what we are talking about is some additional station work.

Lauren Krugel - *The Canadian Press - Media*

And now the pipeline itself is one thing, but a lot of the environmental groups are really kind of honing in on what is in the pipeline and making it kind of an Oil Sands story. Are you expecting much environmental push back on more of the kind of grander scheme of things Oil Sands question as you go through this process?

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

I am not sure. We will have to wait and see. I guess the thing that I would say is that it's very clear in the KeystoneXL environmental work that was done, that there are no additional greenhouse gas emissions expected incrementally from that particular project. So I would expect the same outcome here.

Lauren Krugel - *The Canadian Press - Media*

Okay, thanks very much.

Operator

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

Jody Balko - *Enbridge Inc. - VP of IR & Enterprise Risk*

Great, thank you, Ellen. Well, we have nothing further to add at this time, but I will remind you again that Jonathan Gould and I are available for any follow-up questions that you may have. So thank you and have a good day.

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