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ENB.TO - Q2 2018 Enbridge Inc, Enbridge Income Fund Holdings Inc, Enbridge Energy Partners LP & Spectra Energy Partners LP Earnings Call

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PRESENTATION

Operator

Welcome to the Enbridge Inc., Enbridge Income Fund Holdings, Enbridge Energy Partners, and Spectra Energy Partners second-quarter 2018 financial results conference call. My name is Carmen and I will be your operator for today's call. Please note that this conference is being recorded.

I will now turn the call over to Jonathan Gould, Director, Investor Relations. Jonathan, you may begin.

Jonathan Gould *- Enbridge Inc. - Director, IR*

Great. Thank you, Carmen. Good morning, everyone, and welcome to the Enbridge Inc. and Sponsored Vehicle joint second-quarter of 2018 earnings call. With me this morning are Al Monaco, President and CEO; John Whelen, EVP and Chief Financial Officer; Guy Jarvis, EVP and President of Liquids Pipelines; Bill Yardley, EVP, President of Gas Transmission and Midstream; and Vern Yu, EVP and Chief Development Officer.

Our joint call will again include discussion for all of the Enbridge entities in order to provide a consistent, enterprise-wide, strategic and financial perspective while incorporating specific commentary on the strategy and performance of each of the Sponsored Vehicles throughout. As per usual, this call is webcast, and I encourage those listening on the phone line to follow along online with the supporting slides. A replay of the 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 broad agenda and limited time we have available, we will prioritize calls from the investment community only. If you are a member of the media, please direct your inquiries to our communications team, who will be happy to respond immediately.



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We're again going to target keeping the call to roughly one hour, and may not be able to get to everybody, so please limit your questions to one and a follow-up as necessary. But as always, we will ensure that our Investor Relations team will be available for you, and for your more detailed follow-up questions afterwards.

Before we begin, I'll point out that we'll refer to forward-looking information on today's call. By its nature, this information contains forecasts, assumptions, and expectations about future outcomes. So we remind you that it's subject to the risks and uncertainties affecting every business, including ours. Slide 2 includes a summary of the significant factors and risks that could affect Enbridge and its affiliates, and 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.

Al Monaco - Enbridge Inc. - President and CEO

Thanks, Jonathan. Good morning, everyone. It's been a busy and strong quarter at Enbridge on many fronts, so I'll start by highlighting our Q2 numbers and how the rest of the year is shaping up. I'll then recap the good progress we've made on our priorities that we laid out at Enbridge Day, followed by a business and regulatory update. John will then review the financial performance in more detail, including the Sponsored Vehicles, and as usual update on the financing plan.

Turning to slide 4. As with Q1, Q2 results were strong across the board. So we're up significantly over last year for both the Q and first half. Operationally, which I think is the biggest driver here, we fired on all cylinders, with records liquids Mainline throughput; and our natural gas pipes and utilities performed very well.

Quarter 2 distributable cash flow per share came in at \$1.10 or 36% above last year. And remember, this is the first full comparable quarter, post-Spectra. These numbers reflect the reliable financial performance of our core pipes and utility businesses, and shows that we are delivering the expected cash flow growth from our secured projects.

We're halfway through the year; but based on these results and what we see coming, we now expect that we'll be in the top half of our DCF per share guidance range, delivering strong year-over-year growth. And we've delivered this growth at the same time as we've been funding our \$22 billion of secured projects and strengthening our balance sheet.

On to slide 5. This is the big picture view on the progress we've made in just a few months since we outlined the plan. We've moved quickly to a pure pipeline/utility asset model by concluding agreements to sell or monetize \$7.5 billion of non-core assets, more than double the \$3 billion target we set. Our goal is to achieve our long-term debt target of 5 times debt to EBITDA by the end of this year. And with the \$3.2 billion worth of asset sales we closed a couple of days ago, our Q1 hybrid financings and our 2018 EBITDA outlook, the 5 times is now clearly in sight.

A couple of things to call out here. First, our long-term target is based on the low-risk nature of our assets; but even so, our secured growth outlook shows a trajectory that gets us to 4.5 times by 2020. Second, the three-year plan through 2020 included only \$3 billion of asset sales, so the added \$4.3 billion gives us even more financial flexibility.

As you saw from the results, we're delivering on our cash flow growth targets, and the line of sight to 2020 growth became clear on June 28, as Line 3 need and route permitting was approved in Minnesota. I'll come back to that one later on.

Another key priority is to streamline the business and our structure. Integration of the Spectra acquisition has gone very well, and we are right on track with synergies. And we've made offers to roll up all of our public Sponsored Vehicles. Those offers are now being considered by each of the special committees.

Lastly, we're developing new opportunities to extend growth beyond 2020. We believe that North American energy fundamentals remain very strong, and the Spectra acquisition has uniquely positioned us to expand our opportunity set. We'll update you with more on that point at Enbridge Days later this year.



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Let me spend a few minutes now on the business update, starting with the Canadian G&P asset sale on slide 6. First, a bit of context here. While we were focused on the \$3 billion asset sale target, we also advanced the Canadian G&P process in parallel so we could pull the trigger on that as well if we saw strong interest and a good offer.

The \$4.3 billion valuation hit that target well in that it exceeded our hold value and was above our expectations at roughly 13 times forward EBITDA, and it came with the added flex on financing, as I mentioned. This was a sound capital allocation decision on its own, but the multiple received for the assets also highlights how valuable our best-in-class core pipe and utility assets are in today's market.

Slide 7 summarizes the three deals this year totaling \$7.5 billion. The takeaway here is that we've opportunistically recycled capital by redeploying noncore asset proceeds to our core franchises, and accelerated deleveraging as we focus on being the lowest-risk pipeline and utility company. And the competitive process we ran brought out the strongest bidders, both strategic and financial. The cash is now in the door as the first two deals have closed; and worth noting here that all of these deals have minimal tax leakage.

As a reminder, we retain the BC pipeline assets, T-North and T-South, along with our Alliance liquids-rich gas system from Alberta and BC to Chicago. Each are highly strategic to our core business and positioned for future expansion.

Now on to slide 8 and the update on Line 3. Most of you know we reached a very important milestone in Minnesota, but let me just recap this and outline what's next. After a rigorous process that included a full EIS and extensive input from all stakeholders, the PUC approved a Certificate of Need and route permit.

The benefits of Line 3 are significant to everybody. Line 3 replaces critical infrastructure with the latest in steel technology and construction methods, and it will be a world-class project. Local and regional refiners are assured of reliable supply. The PUC approved route is virtually the same as our preferred route, which minimizes environmental impact, disruption to land owners; and it acknowledges, importantly, the concerns by tribal nations, which we took into account when we designed the route. Line 3 will provide a nice boost to local economies, great-paying jobs, and millions more in annual property tax revenue. And tribal nations again will see significant economic benefits here, and are leading the cultural surveys that will be done along the entire route.

And finally, this is our largest project ever in our history, so it's a big driver of 2020 cash flow. But it also provides increased reliability and replacement capacity for our customers, so it's a great outcome for the industry.

So in terms of what's next, we should see the written order by the PUC by September. We'll be working on state and federal permits through Q4, and expect to be in a position to begin construction in Q1 next year.

Elsewhere, we completed and tied in the segment in Wisconsin and in Canada. 40% of the pipe is in the ground and we are preparing for the 2018 construction season. Overall, we are maintaining our cost estimates and we're still on track to be in service by the second half of 2019, as we've said in the past.

Final note, there's work to be done here, still, of course, but the PUC approval is a big milestone. And if there's one thing that really stood out for us here, it's how we work collaboratively and respectfully. And as you've heard me say before, the input that we get from stakeholders through this process makes our projects better, and that was certainly the case here. And I think it's clearly the model for execution success in today's environment.

On to slide 9 and the remainder of the secured inventory. We're making very good headway on that \$22 billion of secured projects. As you see here, the slate is nicely diversified by size, region, and commodity. We're expecting to bring \$7 billion of projects into service this year; \$2 billion of that has been done, including the Stampede Offshore oil lateral and a couple of projects on T-North in BC. And in Q2, we brought the Rampion Offshore Wind Farm in the UK into full operation. This was an important achievement for us. It's the first completed European offshore facility, and we've gained a great deal of experience here to build on what we had already.

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Slide 10 is a quick update specifically on the two remaining large gas projects for this year. NEXUS construction is going very well in Michigan and Ohio. We're about 80% done here overall, and we're on track for late Q3 in-service. Bill and the gas team are also working the commercial side here to increase volume commitments. We continue to see strong interest for interconnects along the line, and we'll hope to have an update for you on that once the pipe is in service later in the year.

Valley Crossing is another big project for us in South Texas that links low-cost US supply with growing gas-fired power demand in Mexico. It's part of the network now that we're building out in the Gulf Coast region to capitalize on gas export momentum, which as everyone knows, I think is going to drive the North American opportunity set in the future. Construction is pretty much complete there, and we should be ready to accept deliveries in Q4. So good progress on these two projects.

Moving now to slide 11 and an update on our plan to amalgamate our two Ontario utilities. We're getting close to the OEB decision on this one that would see EGD and Union Gas come together. By doing that, we can reduce rates from what they would otherwise be if we kept these two utilities separate. By streamlining, we can be more efficient while maintaining our high standards for safety and service.

And you may remember here, we've applied for a 10-year term that includes a rate escalation and a capital tracker. Cost savings and improvements would flow to customers and shareholders through an earnings sharing mechanism. Again, this has been a very thorough OEB regulatory process. The evidence is actually all in now, and the hearings wrapped up in June. So really at this point, it's in the OEB's hands now for a decision, we think sometime in Q3 or Q4. Once that decision is out, we'll look at it, obviously, to determine whether we'll be able to move ahead with the amalgamation starting in 2019.

Lastly for me, on to slide 12 with a brief update on the Sponsored Vehicle rollup. So everyone knows in May we made offers to each of the Sponsored Vehicles to buy in each of the public floats. From our perspective, these vehicles no longer provide a cost-effective and reliable source of financing for Enbridge, or the respective unitholders and shareholders of each of the Vehicles. Rolling them in will simplify our structure and bring all of our assets under one roof, maximizing retained cash flow and strengthening our credit profile.

From the SV perspective, from the Sponsored Vehicles look at it, with ownership in a streamlined Enbridge, investors would be getting a security with a well diversified asset base, an enhanced growth outlook, a stronger credit profile, a lower cost of capital, and better liquidity. And as we've announced several positive milestones at Enbridge since the offer, including the asset sales, strong results, and a good PUC decision on Line 3, obviously this has benefited these Sponsored Vehicles.

The recent pronouncements from the FERC don't change our view on this strategy and we continue to believe that the offers made to each of our Sponsored Vehicles are very compelling. We remain optimistic that our offers will be accepted. However, as always, the transactions need to be win-win for all shareholders.

With that, I'll now hand it over to John to provide the Q2 results update.

John Whelen - Enbridge Inc. - EVP and CFO

Well, thanks, Al, and good morning, everyone. I'll pick up here on slide 13 with a review of financial performance for the quarter. It's worth noting that Q2 of 2018 reflects the first time we've been able to report and provide an apples-to-apples quarter-over-quarter comparison for the combined Company. And the strength of the combination is clearly coming through in this quarter-over-quarter look. As you can see, adjusted -- consolidated adjusted EBITDA was up over \$584 million for the quarter relative to the same period in 2017, driven by strong underlying operating performance and the ongoing impact of successful project execution across all of our businesses.

Liquids pipelines adjusted EBITDA was up a little over \$300 million compared to Q2 of last year. Here the growth factor -- the growth was driven by a few factors. Average deliveries on the Mainline were very strong at over 2.6 million barrels per day, in part facilitated by the capacity optimization initiatives that we introduced in late 2017, including a program which allows us to ship a blended heavy product on our light lines to fill otherwise unutilized light capacity. Mainline revenue also benefited from higher tolls and higher US dollar hedge rates.



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Secondly, Q2 results reflect the impact of several significant regional oil sands projects that were placed into service in the latter part of 2017.

And finally, during the second quarter, we continued to see strong US Gulf Coast demand for crude which resulted in higher spot volume shipments on our downstream and market access pipelines.

Moving down the slide, gas transmission and midstream was up \$115 million when compared to the second quarter of 2017. Here, period-over-period growth in adjusted EBITDA reflects the impact of several projects brought online during 2017, including Sabal Trail; as well as a number of other, smaller expansion projects, primarily on the Texas Eastern and Algonquin systems. Lastly, Aux Sable and DCP both benefited from increased throughput and from higher commodity prices and fractionation margins.

Turning to gas distribution, adjusted EBITDA increased by \$59 million per quarter over quarter. Both of the utility franchises benefited from a significantly colder-than-normal month of April, which prolonged the heating season in 2018.

The increase in EBITDA was also driven by several expansion projects placed into service at Union Gas last year. Green power was also up about \$24 million on a quarter-over-quarter basis, primarily reflecting contributions from the Rampion Offshore Wind Project the UK, which, as AI mentioned earlier, reached full operating capacity during the second quarter of this year.

Energy services had another strong quarter, with EBITDA increasing about \$65 million when compared to Q2 of last year. This improvement in performance was driven primarily by a widening of crude oil location and quality differentials, which provided opportunities to lock in very attractive margins.

Finally, turning to eliminations and other. As a reminder, this is the segment where we pick up any unallocated corporate O&A and is also where we look to book hedge gains and losses associated with our corporate FX hedging program. The quarter-over-quarter improvement of about \$16 million was driven primarily by lower hedge losses due to more favorable hedge rates and a stronger Canadian dollar in Q2 2018 when compared to Q2 of last year. So all in all, another strong quarter which has set us up quite well heading into the second half of the year.

Moving on, slide 14 summarizes the performance of the business through a cash flow lens. Quarter over quarter, total distributable cash flow was up \$534 million, close to 40%, driven in large part by the very strong uptick in EBITDA that I just went through. Other significant factors impacting the change in DCF are broken out on this slide.

You'll see that maintenance capital expenditures during the quarter were slightly lower than Q2 of last year. This is primarily a timing issue. Maintenance capital spending last year was a little higher than normal. While this year we expect maintenance work will be more back-end-loaded, but still in line with our full-year annual maintenance CapEx guidance of \$1.3 billion.

Cash flow also benefited from incremental distributions from our equity investments as a result of improved business performance in a number of our joint ventures, as well as the impact of new projects coming into service at partially owned subsidiaries during or after the second quarter of 2017.

As AI has already mentioned, DCF per share for the first quarter came in at \$1.10, up about 36% when compared to the second quarter of 2017. This big increase is a very clear reflection of the strong operating performance from our base business, the impact of new growth projects coming into service, and the continued realization of cost savings and synergies following the Spectra acquisition.

And with that strong performance in mind, let's turn briefly to the outlook on slide 15 and how we're shaping up relative to our full-year guidance. AI has already noted that we're well on track to achieve our DCF per share guidance range of \$4.15 to \$4.45. Halfway through the year, we're a little ahead of expectations.

Over and above the strong and reliable results being generated by our core businesses, we've seen an uplift at the margin from stronger commodity prices and wider basis differentials, which have resulted in higher spot volumes on both our liquids and gas transmission systems, and good arbitrage opportunities within energy services.



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Looking in the remainder of 2018, our annual guidance range is unchanged. But given our very solid performance through the end of June and a positive outlook for the balance of the year, we now expect to deliver DCF per share in the top half of our guidance range.

I'm going to turn now to the performance of our Sponsored Vehicles in the second quarter. As I mentioned briefly, in July, the FERC announced a final order in response to request for rehearing on its earlier policy announcement with respect to the collection of an income tax allowance on regulated pipelines owned by MLPs.

In our view, there continues to be a number of uncertainties with respect to how the policy will be implemented, and our regulatory team is continuing to assess the implications. It's early days here, but I'll comment on what we think could be the impact to each of the SVs as I go through the results.

I'm now turning to slide 16, starting first with Spectra Energy Partners or SEP, where 2018 second-quarter ongoing EBITDA and ongoing DCF increased by \$31 million relative to the second quarter of 2017. Similar to last quarter, the story here is steady performance from the base assets and incremental contributions from the accretive organic growth projects that were placed into service over the course of 2017. SEP increased its quarterly distribution by \$0.0125 per unit again this quarter, which translated into an increase of approximately 7% year-over-year. Based on year-to-date performance, SEP remains on track to deliver ongoing DCF and distribution coverage within our original guidance range.

With respect to the impact of the FERC's most recent announcement, assessing the near-term and long-term implications of the policy is subject to a number of uncertainties, including the timing outcome of rate cases. At this stage, our assessment is, all other things equal, if the policy was applied as announced, we estimate the effect SEP's revenue and DCF to be immaterial after taking into account both the elimination of a tax allowance and the reduction in tax rates brought about by US tax reform at the end of last year.

Put another way, the benefit from the changes related to the removal of [ADIT] from the cost of service framework and its addition to rate base is expected to largely offset the impacts of income tax disallowance. Again, the timing and ultimate outcome is very much dependent on the execution and settlement of future rate cases or other potential future customer challenges.

Turning now to Enbridge Energy Partners, or EEP, on slide 17. EEP continues to deliver steady results, indicative of its low-risk business model, post-restructuring, in early 2017. However, Q2 EBITDA and DCF were slightly lower than Q2 of last year. The decrease was mostly attributable to weaker results on the Lakehead Mainline due to US tax reform and the FERC income tax disallowance policy.

You may recall that a portion of the Lakehead toll is collected through a facility surcharge mechanism which adjusts with changes to the FERC cost of service definition. So the impact of tax reform and the elimination of a tax allowance for MLPs is already impacting EEP's performance in 2018. The lower results at Lakehead were partially offset by a full quarter of contribution from EEP's interest in the Bakken pipeline system which was placed into service in June of 2017.

With respect to the impact of the FERC policy change on EEP, our early assessment is that, in isolation, the ability to eliminate ADIT from the forecast cost of service and to add it to rate base would generate incremental DCF of approximately \$30 million per year. However, this would only partially offset the negative impact of US tax reform and the elimination of the tax allowance for MLPs, which we previously estimated at approximately \$120 million per year.

Turning to slide 18 and highlights for ENF and the Fund Group, the Fund Group continued its strong 2018 performance with second-quarter Fund Group DCF up about \$177 million from the second quarter of 2017. This increase was mostly driven by the liquids pipelines business, where as I mentioned earlier, the Canadian Mainline benefited from higher throughput at a higher residual benchmark toll, along with a higher effective exchange rate on those hedges used to convert US dollar toll revenue into Canadian dollars.

Also contributing to higher Fund Group DCF were contributions from new regional oil sands pipelines that were placed into service last year, as well as continued strong demand for shorter-term firm service on Alliance Pipeline. Bolstered by another strong performance in the second quarter, Fund Group DCF continues to trend towards the upper end of our guidance range.



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Although the Fund Group is not directly impacted by the FERC actions, under the IJT mechanism reductions or increases in tariff rates on the US Mainline will create an offsetting revenue increase or decrease on the Canadian Mainline. As just noted, US Mainline tolls should increase, all other things equal, if ADIT can be eliminated and added to rate base.

However, this would not, in itself, be nearly sufficient to offset the negative impact on tolls of an elimination of the tax allowance from Lakehead's FSM cost of service rates. That said, any other action undertaken to preserve a tax allowance on the US Mainline, including a buy-in of its public unitholders, would serve to offset any potential uplift to revenue at the fund.

So finally, turning now to slide 19. In the first half of 2018, we really have made some very good progress on funding. As you can see from the graphic on the left-hand side of the slide, we've actually raised well in excess of the total external capital required to finance our secured growth program through 2020.

The hybrid equity funding we completed earlier in the year, together with proceeds from the DRIP, the \$3.1 billion of asset sales we just closed this week, and the strong EBITDA growth that we've generated through the first half of the year has us right on track to deliver our long-term target credit metric of 5 times debt to EBITDA by the end of this year, and to continue to strengthen from there.

The recent Canadian G&P divestiture transaction even further strengthens our position. Proceeds from these incremental asset sales could ultimately be deployed to enable a number of actions, including a reduction of planned hybrid securities issuance, earlier-than-planned suspension of DRIP funding, or further reduction of debt to increase -- create additional flexibility on the balance sheet, and much more financing flexibility going forward.

We'll finalize these proceeds later this year in conjunction with the closing of the first tranche of the Canadian G&P asset sale, and together with the development of our next long-term plan which will take into consideration all of our strategic priorities.

I would say that we remain very comfortable with our long-term credit metric targets, given the low-risk nature of our business; and would have a lean to turning off the DRIP earlier than planned, provided projections continue to indicate that we can comfortably achieve those longer-term targets and maintain the desired financing flexibility to support our plan.

So all in all, a very solid quarter with strong results and good progress on the balance sheet, which positions us very well heading into the last half of the year.

With that, I'll turn it back to AI to wrap up.

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

Thank you, John. This is now on slide 20 here. As you've just heard, it's been a very productive quarter at Enbridge on many fronts. The Q2 results were strong and put us in position to achieve our full-year guidance and likely in the upper half. We're pleased with the progress on our priorities. And we more than doubled our asset sale target, accelerating deleveraging and giving ourselves additional financial flexibility. And that's been done while delivering on the organic growth program that's generating increasing cash flow.

We're executing well on the capital program, and the \$7 billion of projects slated to come in this year are on target. We're streamlining the business through cost efficiency and simplifying the structure. And of course, we reached a huge milestone with the Line 3 decision in Minnesota. And finally, we'll continue to focus on execution through the rest of this year.

With that, I'll now hand it back to the operator to open up the line for Q&A.

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QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Jeremy Tonet, JPMorgan.

Jeremy Tonet - JPMorgan - Analyst

Just wanted to start off with the Mainline here. Some very material progress (technical difficulty) quarter here, but just wanted to dig in a little bit more with the (technical difficulty) with Line 3 replacement in Minnesota. Just wondering if you could expand a bit more, and what gives you guys confidence in the back half of 2019. Timeline still seems like there's a bunch of permits there, in water permits. There's been a lot of issues with pipeline development that's been unexpected there, so any color there would be helpful.

And then if -- upon successful expansion, just wondering, where do you see these barrels going? Do you need more downstream expansions, like expanding Flanagan? Could this lead to other growth projects? And then Line 5, if there's anything new to report there. Thanks.

Al Monaco - Enbridge Inc. - President and CEO

Okay. That's quite a list, Jeremy, but we'll get after it here. Maybe I'll just start generally with the environment. As you pointed out, yes, things are difficult? But I think in this case here what has really -- what's really going to hold us, I think, in very good stead is what I referred to in my remarks around the thoroughness and extensive work that's been done through the entire process, including significant consultation with all the stakeholders. Remember here we've got 95% of the land already tied up.

And probably the other big factor, Jeremy, is that the EIS here, which was very fulsome, covered all of the potential routes and issues that might arise. So I think it's been a long process. But that's going to hold us in good stead here as we finalize the state and federal permits that are normal for this kind of project. So I think that's the big picture.

On some of the other things specifically, maybe I'll get Guy to speak to that.

Guy Jarvis - Enbridge Inc. - EVP, Liquids Pipelines and Major Projects

Yes. I think the only thing I would add to that, Al, is that we have a lot of construction experience in Minnesota over the years. So when it gets around to construction planning, we feel we have a really good handle on the pace at which we'll be able to build once we get to that. So that's really what's driving -- the combination of Al's comments and our construction experience is driving our confidence in the in-service date.

In terms of where the barrels going to go, at this -- in conjunction with this, we will be completing the expansion of our Southern Access pipeline. So that's going to put us in a position where we've got the ability to move the barrels through Superior and into our -- not only into our core market, where apportionment levels have been high, but to get into our market access pipelines as well. So we think we're in good shape there.

In terms of Line 5, really nothing new to report. We've issued all of our reports to the state of Michigan as we were required to, and are now in some of the follow-up discussions that are resulting from that.

Jeremy Tonet - JPMorgan - Analyst

That's helpful, thanks. And just one last question, if I could. With regards to Spectra, I was just wondering when the fold-in terms were laid out, was that predicated on a FERC impact -- \$100 million or north was the expectation at that point? And today it seems like it could be nonmaterial based on the revisions in July. And so just wondering if I understand that correctly, and to the extent you are able to comment on how you think this plays into the process.

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

Okay, well, I think your summary of the impact, which pretty much lines up with John's or Mark's, maybe I'll try to respond to I think what's behind your question.

First of all, when we came out with the rollup announcement and strategy here, it was really based on several factors. The FERC situation at the time was certainly one of them, but there were others. So really today there's no change in how we're looking at the strategy to roll up the Sponsored Vehicles. I think the offers we've made are very compelling at the time and remain so.

When you look at all of these factors together -- and really, Jeremy, I think the essence of it is, at least in our view, the Sponsored Vehicles really don't have a good runway here with respect to the longer term, in terms of how the effectiveness and the reliability of how they can raise capital. I think that's both from the Enbridge perspective and from the Sponsored Vehicles on a stand-alone business. So I think the ability for the Vehicles to grow, at least in our view, has been dampened and compromised.

Secondly, you heard John refer to some of the uncertainty there with respect to how the rules are going to be applied. As you know, it's not a binding rule; these are expression of general policy, and there's going to be case-by-case determination.

Maybe the final point on this is that one of the biggest issues I think is that the rollup is going to bring significant benefits to each of these Sponsored Vehicles in terms of their owners versus their stand-alone outlook. And when you look at the consideration they would receive in terms of a much broader and well diversified energy asset base all in one spot; obviously as you heard us say, the transparency on distributable cash flow and dividend growth through 2020 is strong.

Enbridge Inc. obviously has a lower cost of capital, very strong balance sheet, and I think overall better liquidity. And all those things I've mentioned I think can be looked at quite objectively in terms of the measures that typically go with those.

So, you've already seen some of this, actually, if you look at the impact in terms of Enbridge share price from some positive announcements over the last little while. And I think that gets -- that obviously gets to the benefit of what the Sponsored Vehicle unitholders and shareholders would see from this kind of rollup.

Operator

Ben Pham, BMO.

Ben Pham - *BMO Capital Markets - Analyst*

I'll keep it to one question. The question is on earnings per share. It looks like you've started to at least put that a bit more in your slides last quarter, this quarter. And it looks like the -- when you look at the growth in all three of the buckets, EPS is really moving well ahead of last year, and quarter over quarter. So are you looking at earnings more now than before with US tax reform, and is that playing in dividend trajectory to some extent?

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

Ben, it's John. We always look, quite frankly, at earnings and earnings per share in addition to DCF per share, and always report on that. We don't guide to EPS per share at this particular stage. So I would say that both are important. And you're right; we're seeing some strong uplift in our EPS over time, and will continue to report on that. At the moment, we're guiding to DCF per share. So company like ours, both earnings and cash flow are critically important.



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

You know, Ben, if you go back I guess a few years now, when we elevated the focus on distributable cash, it was really to ensure that we're focusing on and elevating the transparency of all the cash flow that's coming out as from the projects that we're doing. I don't think it necessarily meant that we were deemphasizing EPS, as John said, but it was -- so both continue to be very important.

Ben Pham - *BMO Capital Markets - Analyst*

All right. Thanks, Al. Thanks, John.

Operator

Linda Ezergailis, TD Securities.

Linda Ezergailis - *TD Securities - Analyst*

Congratulations on a strong quarter. Maybe we can just look big picture for an update on your growth initiatives, given that you've made significant progress in deleveraging, financing, et cetera. Specifically your US Gulf Coast and Permian export strategy, are there any developments on the oil or gas fronts? And maybe within that context you can comment on the Gray Oak Pipeline and what must be in place for Enbridge to exercise its option to acquire an interest, and how you might finance those initiatives.

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

Okay. Well, you've called out both oil and gas, which is great; and it's a good question. So maybe what we'll do is have Guy attack the Gulf Coast, and particularly Gray Oak, first. And then maybe Bill can attack of the gas side.

Guy Jarvis - *Enbridge Inc. - EVP, Liquids Pipelines and Major Projects*

Yes so I think in -- broadly speaking, obviously we continue to be very interested in the US Gulf Coast. We're ramping up our efforts to pursue opportunity down there. Not going to get into exactly every one of them and what they are, given the competitive nature of the region, other than to say we like the region. We think it's important to North American oil movements, and more important in terms of how it relates with our assets than it's ever been.

In terms of Gray Oak, we continue to stay close to the developments on Gray Oak, and are pleased to see that that second open season seems to have resulted in some additional shipper support. We're continuing to finalize our overall assessment of the project and will be looking to make a decision on that here probably in the fourth quarter.

Linda Ezergailis - *TD Securities - Analyst*

Thank you.

Bill Yardley - *Enbridge Inc. - EVP and President, Gas Transmission and Midstream*

Yes, I guess turning to the gas side, we've been actually pretty fortunate in the way our footprint lines up well with the LNG exports and with exports to Mexico. I think you know we're in great shape on Valley Crossing and getting it complete. We also have a number of Texas Eastern's expansions, and we connect into Freeport and Cameron and Sabine Pass; and through Valley Crossing actually really well-positioned for anything that happens in Corpus or Brownsville.



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Regarding the Permian, we participate in the Permian with DCP, which has had some nice expansions there. And I think we're in pretty good position to capture a lot of the growth that will be needed along the coast for both of those export opportunities, plus industrial opportunities as some of the Permian gets built out to the east.

Linda Ezergailis - *TD Securities - Analyst*

That's great, thank you.

Operator

Dennis Coleman, Bank of America.

Dennis Coleman - *BofA Merrill Lynch - Analyst*

Just a couple for me. What were the issues on the distribution side? Any particular issues raised in the hearings with the OEB that might be of concern? You mentioned that you'd have to look at the decision and decide what to do, which sort of raised the question in my mind.

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

Okay, that's a good question, Dennis. So, typically it's -- and it's not unusual with these kinds of performance-based regulation proposals, I guess. Typically, the productivity factor is usually something that arises. In our particular case, just given all the work that's been done over the last decade or so, we believe that shouldn't be applied in this case. So productivity usually comes up.

Other than that, I think we're in pretty solid position. The term here, we've applied for 10 years. We think we need a 10-year term in order to ensure that the investments that we make in the initial parts of this structure can be recovered properly. So we like the 10-year term outlook. And I think that will result in the best outcome for our customers as well in terms of passing through cost savings. So those are the two broad areas I would say, Dennis.

Nothing in particular with the comment, other than to outline that, as usual when we get these decisions back, we'll have to evaluate them to see if they make sense. So really it's just part of our discipline and process of making sure that it lines up with what we can do.

Dennis Coleman - *BofA Merrill Lynch - Analyst*

Great, great. Thanks for that. Just one other, more detailed one. Obviously you have very strong volumes on the Mainline. Should we expect that volume? Is there any upside to that through second half of this year before we get to the expanded volumes with L3R?

Guy Jarvis - *Enbridge Inc. - EVP, Liquids Pipelines and Major Projects*

This is Guy. We're moving very strong volumes again; August outlook is probably even a little stronger than what we've seen in the quarter and the first half. So the situation on the Mainline is kind of, at the margin, we do have incremental available throughput. It's just making sure that the supply is lining up the way it should, that the refineries perform on their end like they should. We're really comfortable with our own operating capability and how much capacity we can make available. So on the margin, there's a potential for a little bit of upside, but probably nothing that's going to change the market dynamic within Alberta around pricing and whatnot.

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Dennis Coleman - *BofA Merrill Lynch - Analyst*

Okay. Thanks for that. That's it for me.

Operator

Robert Kwan, RBC Capital Markets.

Robert Kwan - *RBC Capital Markets - Analyst*

Just wondering with the -- both the 2018 guidance but as well any comments you can make on what you'd originally floated out to 2020 in that \$5 share range. And with both sets of guidance, can you just talk about some of the headwinds and the tailwinds you are seeing to each?

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

Well, I think if you're looking out beyond 2018, Robert -- it's John -- we don't really see a change at this particular stage. Certainly the performance of our business is steady and reliable, as expected, and we think that will continue at the end of the day. Some of the goodness we've seen this year could well carry into subsequent years. But at this point, I don't think that would cause us to start thinking about impacts to our long-range forecast.

Robert Kwan - *RBC Capital Markets - Analyst*

Okay and then (multiple speakers)

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

Maybe the only thing to add there -- sorry, Robert -- is just given -- in Guy's business on the liquid side, anyway -- just given where we see the timing of potentially other pipelines coming in, I think it doesn't impact us through this three-year period. So, overall, I think John's right: probably nothing much to add as far as upsides and downsides from the original target.

Robert Kwan - *RBC Capital Markets - Analyst*

Got it. Maybe just turning -- and finishing here on the FERC announcements. You noted a number of items that you view as uncertain. And I'm just wondering, can you talk about the top two or three items in your mind in terms of potential materiality that you feel are still moving around in terms of the impact to you and subsidiaries?

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

Well, I think, Robert, the application of the policy as announced is really what's quite unclear. They talked about evaluating things on a case-by-case basis. And even just this week we've seen some cases be evaluated where, for example, an impression was left that there could be a full recovery of a tax allowance for corporately owned MLPs. And that, I think, has been dismissed or drawn into question as a result of those cases. So I think that's a fairly big one at the end of the day.

In any event, the way the FERC decision was written, I think -- and Bill might want to chime in -- it was clear that there were different perspectives on how this thing should be applied going forward; and whether or not, if you will, the FERC was entirely supportive of the direction they were taking, particularly with respect to how you might treat ADIT, was the subject of the NOI that they issued earlier.

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So I think on both those fronts, there's a significant amount of uncertainty how this thing will actually play out if you were to go through rate cases in just your ongoing dialogue with customers.

I don't know, Bill, if you've got any thoughts there.

Bill Yardley - Enbridge Inc. - EVP and President, Gas Transmission and Midstream

It's Bill, Robert. It's hard to add a whole lot to that without getting into rate case strategy. But for sure when we get the July 18th, I guess it is, clarifications and then receive the Mississippi River decision that would enable filed, I don't know, not long after that. I'm not sure it provided a whole lot of clarity for us. So we still have a lot to evaluate as we look to file our own rate cases, Robert. And without getting into too much detail, we just -- it just left us with a fair amount to think about.

John Whelen - Enbridge Inc. - EVP and CFO

I think we'd suggest, Robert, that the regulatory environment remains uncertain. It's a risky regulatory environment for people holding rate-regulated, FERC-regulated pipelines within MLP structures.

Robert Kwan - RBC Capital Markets - Analyst

Got it. So it sounds like the uncertainty from your perspective is more with respect to how FERC is going to apply what it set forward, and not so much your uncertainty as to whether you would pursue, say, limited section 4, full section 4 or just keep what you've got. Is that fair?

John Whelen - Enbridge Inc. - EVP and CFO

That's right.

Robert Kwan - RBC Capital Markets - Analyst

Okay, that's great. Thank you.

Operator

Andrew Kuske, Credit Suisse.

Andrew Kuske - Credit Suisse - Analyst

Just given the move in the commodity price, and then obviously there's been some changes with the government stepping into Trans Mountain, you've got L3R approval, could you talk a little bit about just the sentiment from customers and how that sets you up for the next round of tolling settlement negotiations, which is really just around the corner in the grand scheme of things?

Al Monaco - Enbridge Inc. - President and CEO

Well, maybe I'll start it off, Andrew, with respect to general sentiment. I think it's fair to say that, at least from the upstream customer point of view, there is still -- I mean, everybody we talked to, there's still a lot of hesitation about moving forward with additional projects or committing capital until we see some clarity on some competitive issues likely in Canada going forward. So I think that's the big picture.

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We are starting to see some green shoots though, I would say. You heard some comments yesterday and the day before on that front. So the oil sands has been discounted many, many times in the past. And it continues to be a very strong source of reserves that can be developed quite predictably in the right price environment. So maybe we're starting to see a little bit of a turnaround on that front.

So maybe on the CTS side, maybe we'll have Guy just comment on that.

Guy Jarvis - Enbridge Inc. - EVP, Liquids Pipelines and Major Projects

I think one of the issues our customers are dealing with is a lot of uncertainty in the marketplace right now around timing and status of competing pipelines and what that means. What we have seen is that with the approval of Line 3 -- and admittedly, we've got some work to do to make that happen, which we think we're going to do -- we've seen kind of a -- I don't know if I would call it as renewed interest so much as a growing interest amongst our shippers to get after this CTS, and how that's going to be tolled going forward because it's just another level of certainty that they're looking to acquire.

So we're very confident in the competitive situation of the Mainline and our history of negotiating these types of deals. So we're beginning to ramp up those conversations with our customers right now.

Andrew Kuske - Credit Suisse - Analyst

And then maybe just one follow-up. How do you think about the interplay of the CTS negotiations? And then just the optionality you have on Southern Lights and what you could do there.

Guy Jarvis - Enbridge Inc. - EVP, Liquids Pipelines and Major Projects

Yes, so currently the CTS does not encompass, obviously, Southern Lights. If we were to go down that path of pursuing a reversal of the Southern Lights Pipeline, I'm not sure that we would wrap that up into a CTS agreement. And can't even say for certain that the nature of our tolling is going to be in the form of the current CTS agreement. We're looking at a number of different options for tolling the Mainline. But based on some interests of ours and feedback that we're getting from customers, so it may be a different framework that provides us similar financial performance, risk profile, and returns.

Andrew Kuske - Credit Suisse - Analyst

Okay, thank you.

Operator

Matthew Taylor, Tudor, Pickering.

Matthew Taylor - Tudor, Pickering, Holt & Co. - Analyst

With your partner talking publicly about using DRAs to increase Seaway capacity sometime this fall, just thinking more near-term what type of opportunities you're seeing that you could possibly do to direct more barrels to the Gulf Coast.



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Guy Jarvis - *Enbridge Inc. - EVP, Liquids Pipelines and Major Projects*

Yes, so it's Guy. Obviously, the spreads are pretty wide open right now from Alberta to the Gulf. We're seeing that manifest itself in the volumes in the performance down Flanagan South to date this year, we have space there if the barrels get directed there. But as we're seeing this continuing high levels of apportionment, there's strong demand for these barrels everywhere across our system. So I think the way I would characterize it is we have the ability to move them to the Gulf if that's the decision that our Mainline shippers make.

Matthew Taylor - *Tudor, Pickering, Holt & Co. - Analyst*

Okay, that's great. And then maybe just as a follow-up, can you help me understand maybe the potential impact there? And was this contemplated in your 2018 guidance?

Guy Jarvis - *Enbridge Inc. - EVP, Liquids Pipelines and Major Projects*

If you're referencing the Seaway expansion itself, we -- obviously we've been engaged with Enterprise on that plan. We're very supportive of it. It is not really viewed to be a significant uplift to our results at all for the balance of the year, and would be factored in with all of our other Mainline performance into the forecast that John spoke to earlier.

Matthew Taylor - *Tudor, Pickering, Holt & Co. - Analyst*

Okay, that's great. Thanks for taking my questions.

Operator

Robert Catellier, CIBC Capital Markets.

Robert Catellier - *CIBC World Markets - Analyst*

I just wanted to get back to the simplification strategy. Al, earlier in your comments you understandably mentioned that it needs to be a win-win situation. So I'm wondering if you could help us characterize what a win-win looks like, particularly from the perspective of the subsidiaries. And if you could address not only the financial issues that you've already touched on, but some of the intangibles like the reputational risk and whatnot.

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

Well, let me see here. Maybe the way to speak to this one, Robert, is we obviously look at a number of things when we are contemplating these kinds of actions, and we thought through it when we rolled out the strategy. This is really comes down to I think the accretive benefits of the transaction or the impact on distributable cash per share for us versus the benefits that we would get from the broader simplification.

And I think it's -- as we've outlined, we think there is benefits of simplifying, and that would elevate the transparency of the cash flows, which I think was -- is, has been a concern. So I think both of those things are important to us. It needs to be effective from a value perspective for us, and hopefully that will come about, so we weigh all of those things in our assessment. So that's probably all I can say.

I'm not sure what you mean by reputational implications. I mean, these are very strong offers. We have good relationships with the special committees. And they are going through a very comprehensive process that is evaluating the offers, and we'll have to see what it comes back with. So I think that's the next step here.

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Robert Catellier - *CIBC World Markets - Analyst*

Yes, thank you. That actually does help put some clarity on it. My second question was on Line 5. I was just wondering if there was anything in the recent reports that's concerning. And what Enbridge views as the ultimate solution, the best solution for Line 5.

Guy Jarvis - *Enbridge Inc. - EVP, Liquids Pipelines and Major Projects*

It's Guy again. I don't think there's anything that's come out in these reports that has been a surprise to us. I think one of the benefits of going through the work has been our ability to engage more fulsomely with the state and allow them to improve their understanding of the situation. I think in terms of the longer-term outcome, the one report we submitted did indicate that it would suggest that potentially the best long-term outcome there is to construct a tunnel across the straits and place the pipelines within that.

So we're working hard to continue to evaluate that option. We are willing to consider that long-term option, and we'll be working our way through that with the state this summer.

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

Maybe just a bit of context on this one that I'd like to add, Robert. I think, first of all, Line 5 has operated very safely over the decades, and for a number of reasons: the way it's constructed in the steel, and the thickness of the steel. We feel very, very comfortable, particularly given it's operating at very low pressure relative to what we could operate at.

So when we're talking about these kinds of solutions, I would put them in the category of giving communities and stakeholders additional measures of comfort here. So I think that team has done a good job. And the reports are very effective in outlining an option here that does that; gives everybody just a little bit more comfort. And I think that's the endgame here.

Robert Catellier - *CIBC World Markets - Analyst*

Okay. Just the follow-up then, Guy, would be whether you think the direction is leaning to a multi-utility tunnel or just one for the Enbridge assets?

Guy Jarvis - *Enbridge Inc. - EVP, Liquids Pipelines and Major Projects*

Yes, so hard for me to comment on that, given that we represent only one of the utilities. Certainly we understand the potential benefits of that to the region. I think we -- or I know we've indicated to the state that we would be willing to participate in something like that. So we'll just have to see how the other players in the region view it, and play it out with the state.

Robert Catellier - *CIBC World Markets - Analyst*

Okay, great. Thank you.

Operator

Joe Gemino, Morningstar.

Joe Gemino - *Morningstar - Analyst*

My question has been answered already. Thank you.

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Operator

Patrick Kenny, National Bank Financial.

Patrick Kenny - National Bank Financial - Analyst

Just wanted to get your thoughts on the Alliance open season, why you think it wasn't successful? What you and your partner can do to firm up support from shippers? And then also with NEXUS coming into service, Rover ramping up as well, somewhat displacing Alliance volumes down Vector, just wondering what other market access opportunities you might be pursuing downstream of Chicago to help keep Alliance competitive longer term.

Bill Yardley - Enbridge Inc. - EVP and President, Gas Transmission and Midstream

Patrick, it's Bill. As far as the open season went, I think we certainly saw a little bit of a different twist on producers' expectations and their desire to underwrite longer-term contracts. We are going back to the drawing board, and I think there may be a slightly different offering we can come up with, but it's probably still early days on that.

There is a fair amount, between Alliance and Rover, and then NEXUS when it starts up shortly here, of supply coming into that Midwest area. I think it's actually going to produce opportunities both for Vector and for others downstream of the Midwest hub there, and we'd certainly look to participate. We're actually focused on the NEXUS side, on filling up in the 40% that remains, and have some pretty good leads there from the commercial team.

So, a lot of that gas, remember, is likely to stay in Ohio and potentially Michigan with all the interconnects that we've added along the way to markets. So that Midwest hub may not be as crowded as some believe. I hope that's somewhat responsive.

Patrick Kenny - National Bank Financial - Analyst

Okay, great. And then a question for Guy here, switching back to the Mainline. Wondering, Guy, if there's any update some of the back-and-forth you had there with Mainline shippers on potentially revising the nomination process. Is that still a work in progress? And if you were successful in eliminating those air barrels, how much incremental throughput do you think we could see from current levels?

Guy Jarvis - Enbridge Inc. - EVP, Liquids Pipelines and Major Projects

Just to back up, we continue to believe that the integrity of the nomination process is not what it needs to be. We're concerned that we are seeing legitimate barrels backed out of the process by nomination barrels that are less than legitimate. And that's causing pain to some of our customers, particularly in the producing community. And then to your point, the impact on the Mainline is that it's making it very, very difficult for us to optimize throughput.

So we are working on a new plan. It's a plan that we will -- we are consulting with our shippers with as we go. Once we have the plan finalized, we'll go through a bit of a review process with them. And then we will file it with the NEB. And we plan to do that early this fall, and try to seek an expedited decision surrounding it.

Speaking to the implications on the Mainline, some of the issues that we faced this year are -- we end up in a situation where the pipeline is -- got high, high levels of apportionment; and then we find ourselves, mid-month, falling short on crude. So we've got to eliminate and make sure that those barrels that are nominated and granted space are real so that we can move them.



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And the other element of it is that this one -- apportionment is at this 45% level, there are so many machinations going on in the market, at the end of the day, to try and actually find the right barrels to get into the system that our schedule often times gets upset early in the month, and we miss windows and we just simply can't make up the barrels that we thought we would move.

So I think, month in and month out, I don't have an exact number for you. But what we're seeing is that the throughput at the end of the month versus what we accepted for nominations is not matching up. And we have to work hard on that and our customers have to work hard on that, because we understand the importance of every barrel.

Patrick Kenny - *National Bank Financial - Analyst*

All right. Appreciate the color. And then just one last one for John, if I could, just on the -- wanted to confirm on the timing of elimination of the DRIP. So assuming proceeds come in on time from the Canadian midstream sale, and there's no new major projects secured over the near term, at least, are we looking at early 2019 for turning off the DRIP? And then maybe you can comment on your thoughts around maybe keeping a non-dilutive DRIP in place just as an option for shareholders.

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

Right. I think probably that is the timing that we would be looking at, Patrick. It would be a decision undertaken in the fourth quarter, as I said in my prepared remarks. We will look at it in the context of how the overall plan is emerging for the Company, but it certainly represents an option at this point with the proceeds that we've taken in.

With respect to the DRIP itself, I think, yes; I think that's a logical thing probably to think about. Rather than a complete elimination of the DRIP, we would simply look at the discount that we pay on that DRIP, so people who want to participate through a DRIP program, we could continue to look at that. We're going to have to evaluate it based on the history of our program and how it works; but something to consider at the end of the day. But I think the point is that the more significant amounts of equity that we have been issuing through the DRIP, through this very intensive growth period, that's what we'd be looking to shut off.

Patrick Kenny - *National Bank Financial - Analyst*

All right, that's great. Thanks, everybody.

Operator

Thank you. And we have reached our time limit and are not able to take any further questions at this time. I will now turn the call over to Jonathan Gould for final remarks.

Jonathan Gould - *Enbridge Inc. - Director, IR*

Great. Thank you, Carmen. We covered a lot of ground here and we've gone a little bit over time. But as always, our IR team will be available right away to take any additional follow-ups that you may have. So as a reminder, IR contacts are myself for Enbridge Inc. related matters, Nafeesa Kassam for Enbridge Income Fund; and Roni Cappadonna for all Spectra Energy Partners and Enbridge Energy Partners related follow-ups. So thanks again, everyone, for your time and interest in the Enbridge companies, 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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