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ENB - Enbridge Inc. 2009 Guidance

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CORPORATE PARTICIPANTS

Vern Yu
Enbridge, Inc. - VP of IR

Pat Daniel
Enbridge, Inc. - President, CEO

Richard Bird
Enbridge, Inc. - EVP, CFO

CONFERENCE CALL PARTICIPANTS

Bob Hastings
Canaccord Adams - Analyst

Matthew Akman
Macquarie Research Equities - Analyst

Robert Kwan
RBC Capital Markets - Analyst

Rob Hope
TD Newcrest - Analyst

Steven Paget
FirstEnergy Capital - Analyst

Andrew Kuske
Credit Suisse - Analyst

Petro Panarites
CIBC World Markets - Analyst

Scott Haggett
Reuters - Analyst

PRESENTATION

Operator

Good day, ladies and gentlemen. Welcome to the Enbridge Incorporated 2009 earnings guidance conference call. My name is Jerry and I'll be your Operator. At this time all participants are in listen-only mode. We will conduct a question and answer session towards the end of the conference. (OPERATOR INSTRUCTIONS)

I'd like to turn the call over to Mr. Vern Yu, Vice President of Investor Relations. Sir, you may proceed.

Vern Yu - *Enbridge, Inc. - VP of IR*

Thank you. Welcome to Enbridge Inc.'s 2009 earnings guidance call. With me today are Pat Daniel, President and Chief Executive Officer, and Richard Bird, Executive Vice President and Chief Financial Officer. Before we begin, I'd like to point out that we may refer to forward-looking information during the call. By its nature this information implies certain assumptions and expectations for future outcomes to remind you that it is subject to risks and uncertainties affecting every business including ours. Our slides include a summary of the more significant risk factors and risks that may affect the future outcomes for Enbridge, which are also fully discussed on our publicly disclosed filings available both on SEDAR and Edgar.

I would remind everyone that the call is webcast and I encourage those people listening by phone to go to our website and look at the supporting slides which are available under the investment tab. A replay of the call will be available later today and a transcript of the call will be posted in the next day or so. The Q&A format for the call will be the same as we had done over the last few calls where the initial part of the call is restricted to the analyst community and after that, they are finished we will allow the media to come on and ask any other questions. I'd like to remind everyone that I am available after the call if you have any detailed follow-up questions. And at this point I'd like to turn the call over to Pat.

Pat Daniel - *Enbridge, Inc. - President, CEO*

Okay, thank you very much, Vern. And good afternoon, everyone. Thank you for joining us today. I'm very pleased to be announcing today Enbridge's 2009 earnings guidance range of $2.18 per share to $2.32 per share in adjusted operating earnings. The mid point of that 2009 guidance range is almost 20% higher than the mid point of our 2008 guidance range, and Richard Bird will provide a more detailed review of this 2009 guidance in a few moments.

As a result of our forecast of strong earnings for 2009, we're able to and our Board has approved a 12% increase in our quarterly dividend from $0.33 per share to $0.37 per share effective March 1, 2009. Now I'm sure you all noticed that we're providing this annual guidance and dividend announcement a little earlier than we normally do, and the reason for that is that given the current volatility of the equity markets and the timing of our February Board meeting we feel it's important to get this good news out to our shareholders early, so hence today's call. Having finalized our 2009 budget today, we're able to confirm for our shareholders that we expect very strong financial performance in 2009 with earnings higher than previously expected. This can be primarily attributed to strong earnings growth in our core business operations which have been largely unaffected by the crisis in the financial markets and the recent slump in energy prices.

We also will benefit in 2009 from a stronger US dollar, an increased ownership interest in Enbridge Energy Partners, and a reduced near term equity requirement. This expansion in earnings will enable us to provide a generous increase in our dividend while also reducing our pay out to the middle of our 60% to 70% target range. Our long term financial prospects at Enbridge are equally robust and we remain confident of achieving a five year compound average annual growth rate in earnings per share of 10% through 2012. We expect to see this robust earnings growth even after taking into account recent developments in upstream oil sands projects, and you'll all be aware the number of these projects have been delayed due to a combination of escalating capital costs, declining commodity prices and general freeze up in the capital markets. While the timing of the projects will impact the speed of the development of our wave two projects it will have little impact on our financial results through 2012.

Our longer term growth prospects will actually benefit from the same factors lifting our 2009 earnings. The higher US dollar and our increased participation in the growth of Enbridge Energy Partners. Overlaid on this of course a 12 to 18 month delay in the Fort Hills project should still leave our 10% plus EPS growth outlook intact. In fact even if the Fort Hills project did not proceed at all we would most only remove the plus from our 10% plus growth outlook, and I mentioned Fort Hills because that was the one project in our Wave one development that has been deferred. Having said that we expect that a combination of some recovery in crude oil prices and decreases in capital costs which are inevitable will support continued development of oil sands projects. We're going to continue to work with Fort Hills Energy Partners to optimize the scope and cost of the pipeline and terminal infrastructure required for their project, but with a one year delay to the targeted end service date. We're continuing similar discussions with sponsors of other major oil sands projects, but we anticipate delays in final committment decisions as a result of the general slowdown.

In the longer term, we remain optimistic that the oil sands resource will be developed. It's the second largest reserve of crude oil in the world and it's connected by Enbridge's main line pipeline system to the largest market in the world. We'll also be examining a variety of other potentially attractive infrastructure investment opportunities. I guess as a company with very strong operating capabilities and financial capacity, we feel we're very well positioned to capitalize on opportunities available in the current market. So all in all our near term and longer term outlook confirmed Enbridge's value proposition which we describe as a combination of safety, income and growth definitely delivers value to our investors even in a very difficult economic environment that we're in today.

Significantly, we continue to be one of the top performing stocks on the TSX. Since the beginning of this year when measured on total shareholder return, we're among the two or three best performing stocks on the TSX 60 and we're also among the top handful since July 1, 2007, which was the start of the current financial crisis. We believe that our superior stock performance in these very challenging times is a direct result of the low risk nature of our business model, and I'd just like to take a couple minutes to review that model with you. Let's start with capital cost risk. Generally, as you know, we tend to target a 12% return on equity with the plus or minus bracket of 2% around that 12% on our return, depending on how we manage our costs. In addition to that we've established a major project business unit, that was done at the beginning of this year, to ensure that our construction projects are now centrally controlled and managed.

Secondly, with regard to risk, we carry little or no volume risk. Over 80% of our earnings are from take or pay contracts and over 95% of Enbridge's earnings are from regulated businesses. Thirdly, with regard to commodity, foreign exchange and interest rate risk we have very fullsom hedging policies and we limit our exposure to market price to be less than 5% of adjusted earnings. So when you see the price of crude oil falling off sharply, you don't need to be concerned with your Enbridge investment. Now, while our second wave of growth is tied to long term commodity prices, they will not have an impact on our short to medium term day-to-day earnings.

Lastly with regard to credit risk, almost 95% of our business is done with very large reputable energy and industrial companies. Our contracts are with large multi-national energy companies of the world. Companies such as Exxon, BP, Shell, Suncor and others. So with that let me turn it over to Richard. He's going to go through in more detail our 2009 guidance and also provide an update on our financing plan. Richard?

Richard Bird - *Enbridge, Inc. - EVP, CFO*

Thanks, Pat, and for those that are following along the slide deck I'm working off of slide nine at this point. So as Pat indicated, the outlook for 2009 as reflected in our guidance range is not only for a substantial uplift over 2008, but is also more favorable than we would have expected until a number of recent developments. So without getting into more detail than appropriate for guidance, I'll provide some color on where the strength is coming from.

First on a year-over-year basis, the business performance of all our major segments is expected to strengthen. And this is as anticipated given the growth momentum moving into 2009 that we have been communicating for some time. Of particular note is the ramp up in earnings from liquids pipelines due to a combination of full year contributions from projects completed in 2008, additional completions in 2009, and AEDC from regulated cost of service projects which will be approaching completion by the end of 2009. We expect to see less spectacular but meaningfully strengthened contributions from gas pipelines and sponsored investments. The increase from sponsored investments is expected despite the unfavorable impact of lower commodity prices on Enbridge Energy Partners, and that unfavorable impact is partially mitigated by hedges, the balance that isn't covered by hedges is more than offset by growth in the Liquids Pipeline segment both within EEP and also within the Enbridge income fund.

Gas distribution and services should be up by a healthy amount and this reflects a combination of stronger gas distribution earnings under incentive regulation, and a stronger contribution from our energy services businesses, especially Auxable. On Auxable, we are in the fortunate position of having locked insufficient 2009 margins to exceed our 2008 results, with additional improvement anticipated from some recovery in frac spreads. The contribution from international will be down, but of course this is due to the sale of CLH and the application of the proceeds from that sale to fund liquids pipelines growth. Also contributing to our expectation of a substantial uplift in earnings per share are a number of more recent developments that we haven't previously been anticipating. The most significant of these is the stronger US dollar, which favorably affects the Canadian dollar reported amounts of all of our US denominated earnings, and our guidance reflects a lock in of 80% of our US earnings at C$1.19

per US dollar. As these hedges settle each quarter over the course of 2009, they will be included in GAAP earnings. Also included in GAAP earnings each quarter will be any mark-to-market gain or loss on the remaining unsettled hedges, and we will separate these mark-to-market effects out for you in our adjusted operating earnings table, the same way we have been doing for the Auxable hedges and the EEP hedges.

I should also mention though it's not a 2009 guidance matter, that we have taken advantage of this US dollar strength to fill in our FX hedge program through the end of our 2012 planning horizon. So the FX uplift on longer term outlook is even stronger than the 2009 uplift, and that's partly because of a growing US dollar earnings stream which is benefiting from that uplift, but it's also partly because we caught better rates as we rolled out the hedges to the later years. So the out years beyond 2009 are hedged in at about C$1.24 per US dollar. Other EPS accretive recent developments include our additional investment in Enbridge Energy Partners, providing us with an increased slice of that growing pie and the elimination of any significant requirement to issue equity in 2009 as a result of deferral of the Fort Hills project. The equity funding implications of these two events may not be well understood and I'll come back to that in a few minutes.

We have updated our expected capital expenditure profile, moving over to slide 10, and that's updated to reflect both the increased investment in EEP and the deferral of Fort Hills by one year. So over the five year period, this doesn't make a great deal of difference. We're still looking at a total of about $12 billion of investment over the period 2008 to 2012. It does however flatten out the peak we previously had at 2009, with Fort Hills expenditures moving farther out into the period when our internal cash flow is much stronger and when we will be even less reliant on external funding. We've also updated our financing plans through 2012. Again the overall funding requirement for our commercially secured projects is not dramatically different. Both the net total funding requirement and the equity funding requirement are essentially unchanged.

A more significant change is to the time profile with a reduced front end load, and this is best demonstrated by narrowing the focus to our 2009 equity funding requirement which is displayed on chart number 12. So including the impact of our US $500 million investment in EEP in this perspective even though this actually closed in 2008, previously we were looking at an equity funding requirement of about $600 million over and above the drip program to meet the needs of our commercially secured growth opportunities, and although that is all that we needed through 2012, it was primarily front end loaded in 2009. The EEP investment upped this by a little but not very much and that's for two reasons. First, we already had a contingency for the majority of that investment built into the funding plan. And second, the incremental investment that we hadn't provided for in the funding plan still has very little equity impact because the high cash flow it brings has a favorable credit metric effect.

On the other hand the deferral of Fort Hills has a very significant impact in the other direction because it was providing no cash flow to support credit metrics. In a sense the capital for Fort Hills was necessitating that we pre-fund the substantial portion of that capital in 2009 with equity. So the net result is that we have gone from having most of our equity funding requirement front end loaded in 2009, not that it was very large even at that, to now having a relatively minor amount of equity for 2009 required to meet our credit rating metrics. We still have a variety of options to bolster our equity in 2009, though for the time being equity hybrids are not on the list because the market for such instruments is not expected to be favorable. That's something that we had been seriously looking at previously. That still leaves asset sales and asset monetizations for which we are continuing to explore potentially favorable opportunities as well as conventional common equity. Even though our 2009 equity requirement is minute, we'll still consider any and all three of these alternative sources if a favorable opportunity emerges in order to further deepen our financial capability, given the potential additional investment opportunities which could come our way in this economic environment, as Pat referred to a little earlier.

Lastly, I'll provide an update on our liquidity position. Here again, there has been relatively little change since September 30. The investment in EEP has been temporarily funded by drawing down on available liquidity, but it will be funded with permanent capital as just discussed. On the other hand our recent term debt issues of $500 million have contributed to our liquidity, so we're still carrying about $3 billion of liquidity, which provides us with an adequate amount of flexibility. And that concludes my comments, and I'll turn it back to Pat to close off.

Pat Daniel - *Enbridge, Inc. - President, CEO*

Okay. Thanks, Richard. So just to summarize, despite very turbulent financial markets and a dramatic decline in energy prices, we estimate that our adjusted earnings in 2009 will be about 20% higher than 2008. This strong financial performance will allow us to increase our dividend by 12%, placing the 2009 dividend payout in the middle of our 60% to 70% target payout range. The delay in the Fort Hills project will have little impact on our 10% plus, five-year EPS CAGR, and will, as Richard mentioned, serve to reduce our near term equity requirements. However, with a number of attractive investment opportunities potentially available to us, we will look to opportunistically bolster our equity base through asset sales, monetizations and potentially common equity. Having said that, we continue to have a strong balance sheet and adequate bank facility liquidity which allow us to choose if and when we come to the debt and equity markets. So with that, maybe we can now go to the Q&A.

QUESTIONS AND ANSWERS

Operator

During our question and answer session today we'll first take questions from analysts followed by questions from the media. (OPERATOR INSTRUCTIONS) Your questions will be taken in the order received. And we will pause for just a moment to compile a list. And your first question comes from the line of Bob Hastings with Canaccord Adams. Please proceed.

Bob Hastings - *Canaccord Adams - Analyst*

Thank you. Nice to see some good news out there for a change in the markets.

Pat Daniel - *Enbridge, Inc. - President, CEO*

Thanks, Bob. That's the way we feel too.

Bob Hastings - *Canaccord Adams - Analyst*

So, looking out into next year and trying to guess what's going on is always tough, but you've taken a stab at it and I wanted to get at frac spreads. You've hedged out most of your gains, if I understood you correctly. But you also have some assumptions did, you say, for frac spreads next year, or have you completely locked in your expected earnings for next year on the frac spread at Auxable?

Richard Bird - *Enbridge, Inc. - EVP, CFO*

Yes, our guidance range anticipates that we will see some improvement in frac spreads relative to what they are at the moment or certainly to hit the middle of the guidance range we would have to see some improvement relative to where we are at the moment.

Bob Hastings - *Canaccord Adams - Analyst*

So, as I recall with the Auxable is that there's a base level of earnings and then to get above that, there's different trigger points to profitability. So you'd have a minimum level of earnings and I wonder if that's equal to your bottom end of your range.

Richard Bird - *Enbridge, Inc. - EVP, CFO*

Well, there's a variety of potential ups and downs that are built into the range that could move in either direction, but with respect to Auxable, we have locked in at this point enough to actually beat what we expect our 2008 earnings from Auxable to be by a little, but we're expecting that we will have an opportunity to improve on that a bit more as well.

Bob Hastings - *Canaccord Adams - Analyst*

Okay. Excellent. And one last question might be when you're looking ahead and you're talking about these new opportunities that you might pursue in this kind of a market and then therefore you might need to do some additional financing, have you changed your hurdle rates at all given the cost of capital seems to have just gone up?

Richard Bird - *Enbridge, Inc. - EVP, CFO*

Well, that's a great question and the way we're looking at that at the moment, Bob, is trying to assess whether what we're seeing at the moment is a temporary shift in capital market spreads relative to risk free rates, or whether it's a permanent shift or at least some portion of it is a permanent shift. And as I'm sure you know and most of our analyst community would know long-term hurdle rates are generally based on long-term expectations of what returns are required in capital markets. So we don't want to leap to the conclusion that our cost of capital has incurred a permanent couple hundred basis point uplift, at the same time I think we would be nudging towards higher hurdle rates but probably not to that full extent.

Bob Hastings - *Canaccord Adams - Analyst*

So suffice to say that any good opportunity that you see would be in context to what you might have to raise equity at?

Pat Daniel - *Enbridge, Inc. - President, CEO*

Yes.

Richard Bird - *Enbridge, Inc. - EVP, CFO*

That's certainly true, yes.

Bob Hastings - *Canaccord Adams - Analyst*

Okay, thank you very much. Those were my questions.

Pat Daniel - *Enbridge, Inc. - President, CEO*

Thanks, Bob.

Operator

And your next question comes from the line of Matthew Akman with Macquarie. You may proceed.

Matthew Akman - *Macquarie Research Equities - Analyst*

Thank you very much. A couple questions on EEP versus Enbridge and the integration of those now that you've increased your investment, and my first question is around the frac spread exposure. Richard, are you comfortable with the frac spread exposure you have through EEP as well? And I know the realized frac spreads at EEP have been much lower than actual market spreads this year, but what's in your guidance I guess going forward in terms of frac spreads versus market frac spreads? And then if you can sort of extrapolate from there beyond that to any extent that would be helpful.

Richard Bird - *Enbridge, Inc. - EVP, CFO*

Okay. There's a number of pieces of that. First of all, we will continue to include our exposure to EEP frac spread within our 5% earnings at risk, risk management envelope, so the fact that we've got a bigger piece of EEP now effectively means we have to manage either to a lower frac spread exposure, like more hedging at EEP or conversely hedge out some of our other Enbridge level exposures appropriately. So no change really in the risk exposure that we're prepared to accommodate within our value proposition at the Enbridge level. Our guidance and of course EEP is quite substantially hedged as it is. Our guidance reflects the fact that a fair amount of that exposure is hedged, but it does as I mentioned before with respect to Auxable, it does anticipate we'll get a little bit back relative to what current frac spreads are.

Matthew Akman - *Macquarie Research Equities - Analyst*

Okay, thanks for that. And also regarding EEP, when you talk about the potential need for new equity if you see attractive investment opportunities, is EEP one of those potential opportunities if you decide to invest more money in that partnership?

Pat Daniel - *Enbridge, Inc. - President, CEO*

Well that's a very timely question, Matthew. And I guess first of all, let me suggest that EEP itself has a very low risk and attractive return series of growth projects under way of course and in front of it, and I think those are really the envy of the entire pipeline industry in North America. Things like Southern Access, Alberta Clipper, North Dakota Expansion, etc., plus a lot of upside on the G&P business, so EEP is really well positioned. The strategic role that we've always had for EEP within the Enbridge family is a low cost source of capital for opportunities like the ones that we've got in front of us right now. So our preference would be to see it return to being that low cost of capital and to effectively be able to sell finance. However if EEP is unable to secure that funding as a result of the environment that we're in today, which isn't recognizing the tremendous value within that partnership, then Enbridge would consider further investment in EEP to support the projects assuming that it continues to be at acceptable returns to Enbridge.

Matthew Akman - *Macquarie Research Equities - Analyst*

All makes sense to me. Thank you very much.

Pat Daniel - *Enbridge, Inc. - President, CEO*

Good. Thank you.

Operator

And your next question comes from the line Robert Kwan with RBC Capital Markets. You may proceed.

Robert Kwan - *RBC Capital Markets - Analyst*

Thank you. Richard, on your credit facilities right now, you've got the note that the $2.9 billion that's available is pro forma the EEP equity investment. Is that also assuming that the credit portion has been fully allocated?

Richard Bird - *Enbridge, Inc. - EVP, CFO*

I think the answer to that is yes, but I'm not sure that I understood the question. Just repeat it again please?

Robert Kwan - *RBC Capital Markets - Analyst*

Sure. So in terms of what you've done for EEP, there's the equity investment. In addition I believe you've also extended a credit line of $500 million as well. And just wondering when you're looking at the available liquidity is that available liquidity to Inc., or is that the available liquidity including what EEP has not drawn?

Richard Bird - *Enbridge, Inc. - EVP, CFO*

Okay, got you now. That is net of, in other words we've set aside and excluded from what we consider to be liquidity available to Enbridge the $.5 billion US that is committed to be available for EEP, so that's out of liquidity. So in a sense there's $500 million more there, but EEP has first call on that and Enbridge has second call on it.

Robert Kwan - *RBC Capital Markets - Analyst*

Okay. And then just also as well, do you see that $2.9 billion changing very much through the rest of the year based on the CapEx that you have in the cash flows?

Richard Bird - *Enbridge, Inc. - EVP, CFO*

It will move up and down as we move through the months. Generally the draws on that liquidity are our capital expenditure program and the adds back to it are long-term funding transactions or any asset sales, so we've got about a month to go. If we didn't do any further capital transactions it would be very slightly lower at the end of the month, and as we move into the first quarter of next year, we would expect to replenish it at some point back up to that level, but again, the whole reason why that $3 billion is there is to allow us to pick our timing on that.

Robert Kwan - *RBC Capital Markets - Analyst*

Okay. But just as you see it as of December 31 at least as you forecasted assuming no major capital transactions, not a material change?

Richard Bird - *Enbridge, Inc. - EVP, CFO*

Yes.

Robert Kwan - *RBC Capital Markets - Analyst*

Okay, great. Thanks Richard.

Richard Bird - *Enbridge, Inc. - EVP, CFO*

Thanks, Robert.

Operator

And your next question comes from the line of Rob Hope with TD Newcrest. You may proceed.

Rob Hope - *TD Newcrest - Analyst*

Thank you. Just a question on the 2009 guidance. What financing assumptions are in there? Are you including a $200 million equity issuance?

Richard Bird - *Enbridge, Inc. - EVP, CFO*

Well, consistent with the longer term financing plan that shows up, I guess it's on page 11 of the document, we would anticipate that we would be issuing significant further debt within 2009 through a combination of both Enbridge and also the two operating subs, Enbridge Gas Distribution and Enbridge Pipelines, and so a fair chunk of that $2 billion we would expect to issue in the capital markets some time over the course of 2009.

Rob Hope - *TD Newcrest - Analyst*

And the equity?

Richard Bird - *Enbridge, Inc. - EVP, CFO*

Sorry, what about equity?

Rob Hope - *TD Newcrest - Analyst*

Yes, please.

Richard Bird - *Enbridge, Inc. - EVP, CFO*

What was your question on equity?

Rob Hope - *TD Newcrest - Analyst*

Just the funding assumption for the $200 million of equity required in 2009.

Richard Bird - *Enbridge, Inc. - EVP, CFO*

Okay. Well as I touched on we continue to look at asset sales and asset monetizations and conventional common equity all as being alternatives available to us for that, and to the extent that we see an attractive opportunity on any of those fronts we would take advantage of it and potentially not just for the $200 million, but potentially a bit more to allow for some of those potential investment opportunities that got mentioned.

Pat Daniel - *Enbridge, Inc. - President, CEO*

I think what Rob, one of the key things there is the flexibility that our current liquidity position gives us, to be able to time anything we want to do, whether it's to monetize an asset, to sell an asset, or to raise some common equity, we've got a lot of flexibility because of the liquidity position that we're in.

Rob Hope - *TD Newcrest - Analyst*

Great. And then just finally, could you elaborate on the variety of investment opportunities that are facing you? Do you have any specific sectors you're looking at? Could you possibly move more to gas or mainly focusing on liquids?

Pat Daniel - *Enbridge, Inc. - President, CEO*

Well, that's always hard to say because to a certain extent it's opportunistic in that there are some interesting opportunities out there. We've always said along the way that we would like to bolster our gas map. We feel that there will be significant new gas infrastructure developments over the next five to 10 years in North America, and as we plan ahead we would like to strengthen our gas map, but it really will be dependent on the opportunities that are available to us, Rob. It's hard to say at this point in time, but I think as we look at it, we came into this financial crisis in a strong position relative to our peer group in North America, and every day our relative positioning gets better as we hold well in the market and many of the peers have fallen off, so but we think we're just in a very strong position to consider any and all opportunities. We definitely will keep things within our triangle of our investment proposition of safety, income, and growth.

Rob Hope - *TD Newcrest - Analyst*

Okay, great. Thank you very much.

Pat Daniel - *Enbridge, Inc. - President, CEO*

Thank you.

Operator

And your next question comes from the line of Steven Paget with FirstEnergy. You may proceed.

Steven Paget - *FirstEnergy Capital - Analyst*

Good afternoon, everyone. Just a follow-up on the investment opportunities. Would that include new business lines such as power?

Pat Daniel - *Enbridge, Inc. - President, CEO*

Steven, not likely in a big way. We've always indicated that if we had, for example, some gas fired power opportunities in our franchise area in Ontario where we already have infrastructure and gas management expertise that we might consider them, but we're pretty comfortable with our model of crude oil pipelines, gas distribution and gas pipelines as being the key value drivers for us going forward.

Steven Paget - *FirstEnergy Capital - Analyst*

Second question, on CapEx in the fourth quarter of 2008, would that be -- would that end up around $1.2 billion or $1.5 billion for the fourth quarter?

Richard Bird - *Enbridge, Inc. - EVP, CFO*

Yes. Maybe we can get back to you on that one, Steven. I'm not sure that we've got that number right at my finger tips.

Steven Paget - *FirstEnergy Capital - Analyst*

Of course. Would the total CapEx shown in your graph on slide 10 for 2008, does that include the investment in Enbridge Energy Partners?

Pat Daniel - *Enbridge, Inc. - President, CEO*

Yes, it does.

Steven Paget - *FirstEnergy Capital - Analyst*

Great. Thank you.

Operator

And your next question comes from the line of Andrew Kuske with Credit Suisse. You may proceed.

Andrew Kuske - *Credit Suisse - Analyst*

Thank you, good afternoon. From a corporate planning perspective, how are you really thinking about credit spreads being wider than they have been in the past, nominal interest rates dropping lower, and possibly entering a period of deflation, and really the impact on that on your regulated assets and just some of your long-term contracted assets?

Richard Bird - *Enbridge, Inc. - EVP, CFO*

I might need a little more help, Andrew, in understanding what you might be thinking there. I think we're seeing widening spreads as being mainly more a phenomenon of the underlying government treasuries being abnormally low as opposed to the all in interest rates being unusually high. But I guess in the last very short period of time, last few weeks we've actually seen spreads widen out, a little bit more even to the point where we're looking at all in rates a bit above what we had expected to see. And as I mentioned before, we're also seeing that that potentially has some impact in what we would expect to see as long-term hurdle rates for investments, but it sounds like there's more to your question than that. So maybe you can just clarify a little bit more.

Andrew Kuske - *Credit Suisse - Analyst*

Well you touched upon parts of it, but just with the nominal rates declining so if the risk free rates continuing to decline will this change your strategy for regulatory hearings on some of the regulated assets say EGD for example, where you're getting risk free rate plus an equity risk premium on top of it, with the fade and the nominal, your earnings power should be declining over a period of time and compounding that is a potential deflationary environment which could impact your top line.

Richard Bird - *Enbridge, Inc. - EVP, CFO*

Okay. So I think I understand at least one further aspect of your question, and with respect to the regulated model that's applicable to the EGD and applicable to a small degree to some of our pipeline assets which very small number driven off of the multi-pipeline rate of return. I think our point of view would be if what we have seen this year is indicative of a continued trend where we've seen a widening out of the risk premium so to speak on fixed income securities, I think we would view that that also implies there is some widening out in the risk premium that's due to equity securities as well. And so in the same way that we would look at adjusting our own hurdle rates up if it went on for very long, we would be I think putting forward a proposition to our regulators that that needs to be taken in consideration and the allowed rates of returns on those regulated assets as well.

Andrew Kuske - *Credit Suisse - Analyst*

Okay. So under the comparable investment test, that's what you'd really be seeking?

Richard Bird - *Enbridge, Inc. - EVP, CFO*

Well either that or even just looking on a pure cap M basis, the market equity risk premium implicit in today's spreads has widened relative to what it has been historically.

Andrew Kuske - *Credit Suisse - Analyst*

And then if I may one additional question. Just if you look at your ownership position in EEP and your economic interest in EEP and you mark that to market, you looked at the delta from what your investment is in EEP and to a mark-to-market basis today, what is the difference?

Richard Bird - *Enbridge, Inc. - EVP, CFO*

I'm not sure I've got that at the tip of my fingers, but of course it would be a substantial premium over what we carry EEP at on the books. I think that would be true. I know it would be true even with respect to the limited partnership interests we hold, and of course there's no ready measure of what the value of the incentive distribution stream is from EEP, but it's becoming a larger and larger proportion of our total cash flow from EEP. So I can't quantify that for you exactly other than it would be very substantial in aggregate.

Andrew Kuske - *Credit Suisse - Analyst*

Okay. Great. Thank you very much.

Pat Daniel - *Enbridge, Inc. - President, CEO*

Thanks, Andrew.

Operator

(OPERATOR INSTRUCTIONS) And your final question from an analyst coming from Petro Panarites from CIBC World Markets. Please proceed.

Petro Panarites - *CIBC World Markets - Analyst*

Just a couple of questions. As a point of clarity what proportion of your US dollar earnings post-2009 are hedged?

Richard Bird - *Enbridge, Inc. - EVP, CFO*

Approximately 80%.

Petro Panarites - *CIBC World Markets - Analyst*

Okay, and secondly, sort of a broader question. Page six, Wave two opportunities. Can you give us an idea, some kind of idea as to the sensitivity of the proportion of those opportunities that you can secure given a long-term oil price scenario?

Richard Bird - *Enbridge, Inc. - EVP, CFO*

I'm sorry, can you just repeat the last part of the sentence? What portion we think we can secure in light of --

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Petro Panarites - *CIBC World Markets - Analyst*

In light of a $50 long-term oil price or $150 long-term oil price?

Pat Daniel - *Enbridge, Inc. - President, CEO*

Well, to tell you the truth, I think and we've said this all the way along that with regard to Wave two that we don't necessarily expect to win 100% of that business. On the other hand we said the same about Wave one and we did. With regard to Wave two if we earn maybe 2/3 of it we currently move about 70% of the crude oil out of western Canada, that probably would be considered our fair share of that business. Not that we aren't going to try to win 100% of it. I think it's fair to say we will expect some delays in deferrals to a lot of the projects that drive Wave two, but we fully expect that all of those projects ultimately will proceed. There's no project on the list that we would say now simply will not go as a result of even $50 crude. I think we all know that there will be a change in the cost structure that many of the oil sands projects were built with the expectation of crude oil prices never being as high as $50 let alone above $50, and the cost structure will come back into line, and we feel confident that ultimately it will proceed. As I mentioned it is the second biggest expansion or the second biggest crude oil reserve in the world and next to the biggest market, so it's going to get developed over time.

As I go through the list of projects that we've got in there with regard to the main line expansion, the Alberta Clipper expansion was the main thing there, and as soon as volumes out of western Canada developed to the point where that capacity is needed, it is very very cost effective expansion. And then going down through the category of regional pipelines, Kearl Lake, Husky, Total, we feel we're in a very good position as a result of our existing infrastructure with Athabasca and Waupisoo to provide exactly the kind of facility that these operators need where they can use existing capacity in the early stage and then we'll build a pipeline for them as their volumes grow, so they can make relatively light committment to pipeline capacity in order to get their project started. And then projects like New Market Access, Gateway, Trail Breaker, BP joint venture, Texas Access, ultimately we're confident a good number of those will go, not only volume driven but also price driven. A project like Gateway is as much price driven and net back driven for our customers as it is volume driven. So long way of saying that we do fully expect that Wave two will go over time and it may just be somewhat delayed from what we would have said a year ago.

Petro Panarites - *CIBC World Markets - Analyst*

Great. That's very helpful, thank you.

Pat Daniel - *Enbridge, Inc. - President, CEO*

Thank you.

Operator

And your next question comes from the line of Scott Haggett with Reuters. You may proceed.

Scott Haggett - *Reuters - Analyst*

Hi, I hope we're into media questions. I just wanted to ask a quick question about Fort Hills. Have the operators come to you to ask you to lower your costs on that at all?

Pat Daniel - *Enbridge, Inc. - President, CEO*

Well, as is always the case, Scott, every day we're being asked to lower our costs. And so obviously, we're going to do our very best to work with the Fort Hills partners in light of what we expect will be a lower cost environment to recast the pipeline facilities to meet their new schedule, and we fully expect that we will be able to improve the pricing on that simply because of a tightening up of the labor market in Alberta. So whether they are asking it or not, we're working on it.

Richard Bird - *Enbridge, Inc. - EVP, CFO*

And maybe Pat, just to add to that as well, the other thing that we're working very closely with them on is trying to optimize the scope to provide the most economic solution for them that's possible, including potentially looking at utilizing some of our existing facilities on a bridging basis to reduce the front-end cost that they experience.

Scott Haggett - *Reuters - Analyst*

All right, thank you.

Pat Daniel - *Enbridge, Inc. - President, CEO*

Thanks, Scott.

Operator

There are no additional questions. I'd now like to turn the call back over to Mr. Vern Yu for closing remarks. You may proceed, sir.

Vern Yu - *Enbridge, Inc. - VP of IR*

Okay, thank you very much, everyone, and I'd just like to remind everyone that I'm available in my office to take any detailed calls that people would like to answer. Thanks again.

Operator

Thank you for your participation in today's conference. This concludes your presentation. You may now disconnect. Good day.
