

FINAL TRANSCRIPT

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ENB - Enbridge Inc. Conference Call

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PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to the Enbridge Inc. conference call to discuss the sale of OCENSA. I would now like to turn the meeting over to Mr. Vern Yu. You may proceed.

Vern Yu - Enbridge Inc. - IR

Thank you. Good morning, everyone. With me this morning are Pat Daniel, President and Chief Executive Officer; Richard Bird, Executive Vice President, Chief Financial Officer and Corporate Development; and Steve Letwin, Executive Vice President, Gas Transportation and international.

Before we begin, I should advise you that during this conference call we may refer to certain information that constitutes forward-looking information. Please take note of the legally required forward-looking information disclaimer in our slides which generally states that you should not place undue reliance on statements about the future, since we necessarily apply certain assumptions to reach conclusions about future outcomes and future outcomes are always subject to risks and uncertainties affecting our business, including regulatory parameters, weather, economic conditions, change rates, interest rates and commodity prices. A more fulsome discussion of these risks and uncertainties are included in our Securities disclosure filings, which are publicly available both on SEDAR and Edgar.

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This call is a webcast, and I encourage those listening on the phone to view the supporting slides on our website at www.enbridge.com\investor. A replay of the call will be available later.

The Q&A format will be the same as the past earnings calls. The initial Q&A session will be restricted to the analyst community, and once that is completed, we will invite questions from the media. I would also remind you that both Pat Murray and I will be available for any detailed follow-up questions after the call.

And finally, I'd like to turn the call over to Pat Daniel.

Pat Daniel - *Enbridge Inc - President, CEO*

Okay. Thank you very much, Vern, and good morning, everyone. Thanks for joining us for a review of the sale of our interest in OCENSA and also for an update on our financing and growth plans. I am going to lead off this morning and then I will ask Richard Bird, our CFO, to fill in some of the details.

As indicated in the news release, we've sold our interest in OCENSA to Ecopetrol at an attractive valuation of approximately US\$400 million. In Canadian dollars and after tax, we will net about CDN535 million, including realization of an excellent gain on the associated foreign exchange hedge. That works out to an effective price to earnings of about 19 times, and thus a very accretive deal for Enbridge.

The transaction demonstrates that attractive valuations can still be achieved in the current environment for asset sales or monetizations with the right matchup with the counterparties' strategic and financial objectives.

This brings to a conclusion our involvement in Colombia and with Ecopetrol, and it has been a fruitful and honorable relationship for all concerned over about 12 years, and we wish them every success. For the time being, this transaction also brings to an end our international investment involvement, although not our international presence, which will continue to be maintained through our technology, training and consulting business.

The sale of our two international assets, CLH last year and OCENSA this year, is a response to favorable valuations which enhance shareholder value and to attractive opportunities to redeploy the capital associated with those investments. This is not a change in our long-term strategy. We continue to believe that there will be selected opportunities to create shareholder value by extending Enbridge's unique pipeline development and operating capabilities to markets beyond North America.

In the meantime, at home in North America, the landscape has changed. As Richard is going to expand on in a moment, we remain on track for 10% plus earnings per share growth through 2012 on the strength of liquids pipeline growth projects that are currently commercially secured. Beyond 2012, we are continuing to see shipper interest in a number of additional crude oil pipeline and terminal projects required to support selected oil sands projects which are still on track. Ultimately, we expect that crude oil prices and oil sands costs will re-establish an equilibrium which will support steady, sustained growth well beyond 2012, though at a more modest pace than we would have thought as recently as a year ago.

We are also seeing emerging natural gas infrastructure investment opportunities with a number of organic opportunities, driven by shale gas development onshore and by continuing development of the deepwater offshore in the Gulf of Mexico.

We are seeing improved pricing and availability of infrastructure acquisition opportunities for well-capitalized operators such as Enbridge, though we expected the most attractive opportunities are still to come. So we will have no difficulty in redeploying the capital from the sale of OCENSA.

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And although the composition of our post-2012 growth is shifting in response to the business environment, we still expect to achieve long-term growth rates in that period which are comparable to our current medium-term outlook, while also preserving the safety and income components of our tried and true investor value proposition.

So I will now ask Richard to review the financial details of the OCENSA sale and its impact on our financing plans and growth, and then I will make some concluding comments in a moment. Richard?

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

Okay. As Pat indicated, our net [after-cash] proceeds in Canadian dollars will amount to about CDN535 million. This is higher than just converting at the spot rate because of the favorable exchange rate hedged in on this investment and minimal tax leakage. It corresponds to a price-earnings multiple of about 19 times, or 2.4 times our book carrying value. The resulting after-tax gain will be about CDN325 million.

Bear in mind that under the terms of our investment in OCENSA, the capital is scheduled to be repaid to us over a 10-year term commencing this year. So Enbridge's earnings contribution from the investment would have followed a declining profile to zero over that period. Of course, that is Enbridge's earnings from OCENSA, not OCENSA's earnings themselves.

So what does this do for our financing and growth outlook? First, let's look at the impact on our liquidity picture. Our bank facilities now stand at CDN6.7 billion, and with the OCENSA proceeds, we will have about CDN3.5 billion of availability on these lines currently. This amount of liquidity is adequate to accommodate our commercially secured capital program and provides flexibility to take advantage of new opportunities.

The OCENSA sale also has a favorable impact on the permanent funding we will need to put in place for our commercially secured projects. The CDN535 million of cash proceeds will displace almost CDN400 million of equity, with the balance reducing our debt funding requirements. This leaves us with almost no further equity requirements to fund the secured capital program through 2012 and none at all in 2009.

However, we will remain on the lookout for additional favorable equity capital sources -- and I emphasize favorable -- in order to provide additional capacity and flexibility to take on further investment opportunities. And we will still consider any of the three alternatives of further asset sales, asset monetizations or an equity issue if a favorable funding opportunity emerges on any of these three fronts.

The last thing I will cover is the impact of the transaction on our earnings per share growth outlook. The fundamentally accretive nature of the transaction is evident from the fact that the PE ratio on the proceeds exceeds Enbridge's current PE on the midpoint of our 2009 guidance range. That is on a 2009 basis. It looks even stronger the further out you go, because the earnings profile of our OCENSA investment is declining, while the Enbridge profile is rising.

The actual impact in 2009 should be roughly neutral, however, because we cannot displace the full amount of the equity provided by this sale until 2010 and because the sale is occurring early in the year, whereas we would otherwise not have been bolstering our equity base until later in the year.

The accretive nature of the transaction will show through in 2010 and increasingly thereafter. With respect to the long-term earnings per share growth expectation of 10% plus, which we indicated at Enbridge Days last fall, this will add a further positive factor. In combination with the uplift from our recent investment in Enbridge Energy Partners and the appreciation in the US dollar, the OCENSA sale would more than offset the impact of the one-year delay of the Fort Hills project, leaving 10% plus average annual growth still intact.

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I should also note that with 2008 behind us, we are now in the steeper part of the earnings growth curve, which translates into a four-year compound average annual growth rate that is in the low teens off of the 2008 base. So back to you, Pat.

Pat Daniel - *Enbridge Inc - President, CEO*

Great. Thanks, Richard. Let me just very quickly wrap up with the main takeaways. First of all, the OCENSA sale represents a very favorable transaction for Enbridge, and it enhances our financial capability at a time when attractive opportunities are emerging for those companies that do have financial strength.

Secondly, our 10% plus earnings per share average annual growth rate through 2012 is looking even better, and we see good potential to maintain our growth thereafter, albeit with some shift in the composition of that growth. And finally, Enbridge has demonstrated a very consistent track record of prudently allocating capital to enhance shareholder value, and this approach offers a unique combination of safety and upside, even in these very difficult markets that we have today.

So that concludes our update this morning, and at this point, we are prepared to go to the Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Linda Ezergailis, TD Newcrest.

Linda Ezergailis - *TD Newcrest - Analyst*

Thank you. Can you just -- I realize the composition of how your business is growing is changing over time. So perhaps you can just give us an updated understanding of your EPS growth guidance out to 2012. What sort of underlying assumptions -- what would be the biggest assumptions you're making about your core existing business in terms of rebasing your ITS on your mainline system and other business earnings, whether it be flat or some sort of assumed growth rate.

Pat Daniel - *Enbridge Inc - President, CEO*

Linda, let me try to generally respond to that, and if there are specifics, make sure you follow up. But as you know, we've put forward a 10% plus EPS growth forecast over that four-year period through 2012 on the basis of all of the commercially secured projects coming onstream. It also assumes a continuation of ITS, which will be renegotiated for the 2010 total year, but a continuation under terms comparable to those that we've experienced through the first five-year period under that agreement and no other major regulatory changes.

It does assume continued improvement in return in the distribution utility. As we've mentioned, we've realized about a 50-basis-point improvement on the allowed return in 2008, and expect we could do another 50 basis points in 2009. So those are the fundamental points.

As you know, it assumes that the Fort Hills project will be delayed at least a year, if not longer. So it is not a significant contributor to that 2012 profile.

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Linda Ezergailis - TD Newcrest - Analyst

Okay. Now, if we were to look at -- just a follow-up question -- if we were to look at your financing needs, if you were to tack on some incremental additional investment in EEP, how would you notionally fund that -- with 100% equity or maybe 50% equity?

Pat Daniel - Enbridge Inc - President, CEO

I'm going to ask Richard to respond to that, Linda.

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

As we saw with the investment in EEP that we undertook late last year, which was US\$500 million, it didn't have a very significant impact on our equity requirements. That may be a little bit counterintuitive, but the reason for it is that our equity requirements at the moment are driven by our funds flow to debt credit metric. That is the tightest credit metric of the ones that the rating agencies focus on. And so it is the one that we are managing to.

And because EEP has such a significant cash flow throw-off, it actually doesn't generate much incremental equity requirement at all. I think the ratio was about CDN1.00 for a CDN5.00 investment last -- when we made the investment last November. So if we were to make a further investment in EEP, and that is something that could occur, but it is not something we are planning on at the moment, that would be approximately the impact.

Linda Ezergailis - TD Newcrest - Analyst

Great. Thank you.

Operator

Andrew Kuske, Credit Suisse.

Paul Tan - Credit Suisse - Analyst

Good morning. This is Paul Tan on behalf of Andrew Kuske. Just wondering on the labor front, have you guys seen any decline in terms of labor costs and therefore possibly increase in labor productivity?

Pat Daniel - Enbridge Inc - President, CEO

Actually, the latter part of the question is easier to respond to in that we have seen quite a significant improvement in productivity. Labor rates have not changed, and generally speaking, they -- as you know, they don't tend to come down that much. But we have seen a fairly significant change in productivity, in large part because I think the workforce had become swollen with a lot of people that were fairly new and inexperienced. And as the workload eases, those individuals have been pushed out of the workforce.

So we've seen quite an improvement in, for example, our well reject rates, which is a good measure of productivity on pipeline construction. But it comes via productivity rather than reduced labor rates.

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Paul Tan - *Credit Suisse - Analyst*

Thank you very much.

Operator

Matthew Akman, Macquarie.

Matthew Akman - *Macquarie - Analyst*

Thanks very much. Congratulations on the transaction. There were a couple options that you guys talked about at the Investor Day under consideration. One was actually increasing your ownership interest in OCENSA. Can you talk a little bit about the trade-offs that were made when the negotiations were underway?

Pat Daniel - *Enbridge Inc - President, CEO*

Steve Letwin, do you want to try that?

Steve Letwin - *Enbridge Inc. - EVP-Gas Transportation & International*

Sure. Hi, Matthew. Yes, I think at the end of the day, Matthew, when we looked at our long-term view of Colombia, it is very, very positive. We think that the Ecopetrol has some excellent opportunities to expand the system. But as a 25% owner in the system and the fact that we had excellent opportunities on North America soil, when we compared those excellent opportunities in North America with what would be required in Colombia, we basically thought we would leave these opportunities for Ecopetrol, take the valuation that was in front of us and move on.

Matthew Akman - *Macquarie - Analyst*

Okay, thanks. And a follow-up question for Richard. Could you please provide more detail on how you calculate the 19 times earnings multiple? What base year of earnings would that be from OCENSA, for example?

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

That would be relative to -- it is based on the proceeds -- after-tax proceeds of CDN535 million, and the 2009 earnings that would be embedded within our 2009 guidance.

Matthew Akman - *Macquarie - Analyst*

Okay. So the decline on that asset would have begun this year?

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

A tiny bit.

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Matthew Akman - *Macquarie - Analyst*

Okay. Thank you very much. Those are my questions.

Operator

(Operator Instructions) Ladies and gentlemen, after taking analyst questions, we will take questions from members of the media. (Operator Instructions). [Lawrence Bruyere, Bruyere Construction.]

Operator

It appears we've lost Mr. Bruyere. (Operator Instructions). Fai Lee, RBC Capital Markets.

Fai Lee - *RBC Capital Markets - Analyst*

Great. Thanks. Pat, you mentioned your strategy that you were -- I guess that you are still considering maybe doing some international investment somewhere down the road. Any particular regions that you consider attractive at this point?

Pat Daniel - *Enbridge Inc - President, CEO*

Not really. We are not out actively seeking new international opportunities right now, simply because we've got such a strong organic growth profile and opportunities at home in North America. So we don't have any particular areas.

We have been really, really pleased with our investment in Colombia over the years. We were very pleased with our investment in Spain, and in a lot of ways hated to leave both of those areas. But just found that the valuations were such that it was a good opportunity to redeploy capital and build shareholder value along with that.

But we don't have any particular target regions. We are doing some consulting work right now in China and India. But it isn't always true and hasn't been over the years that our investment opportunities have followed along where the consulting is.

Fai Lee - *RBC Capital Markets - Analyst*

Okay. And with respect -- just as a follow up question -- under the segment earnings for the (inaudible) business unit, there is a category called other for administrative and business development expenses. I'm assuming those will drop to zero and that is reflected in your 19 times earnings estimate for '09?

Pat Daniel - *Enbridge Inc - President, CEO*

Richard or Vern, can you speak to that?

Steve Letwin - *Enbridge Inc. - EVP-Gas Transportation & International*

It will drop significantly. It may not drop to quite zero for reasons Pat indicated. And yes, that would be reflected in the multiple.

Fai Lee - *RBC Capital Markets - Analyst*

All right. Thank you.

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Operator

(Operator Instructions) Linda Ezergailis, TD Newcrest.

Linda Ezergailis - TD Newcrest - Analyst

Thank you. I realize that I can calculate the earnings impact, but I'm just wondering what the cash flow impact would be from the sale of this asset from an operational perspective. Would it be reasonable to assume that you were getting cash proceeds approximately equal to earnings plus some sort of depreciation, or should I be thinking of it at some other level?

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

Up until this year, Linda, our cash would have exactly equaled our earnings, because we reported our investment on a cost basis. So we reported the earnings -- the distributions that we received is what we reported as earnings. Starting this year, you would have seen a US\$160 million investment coming back to us as capital repayments over this year and the following nine years. So that would have augmented the cash flow, so we would have had a declining earnings contribution, but an increasing amount of cash flow over that period of time.

Linda Ezergailis - TD Newcrest - Analyst

Okay. Thank you.

Operator

Mark Caruso, Millennium Partners.

Mark Caruso - Millennium Partners - Analyst

Good morning. I just wanted to circle back. I know earlier you had said that your balance sheet, as far as liquidity goes, covers current CapEx and you have some opportunities -- you see some opportunities out there. Can you kind of give us a sense of the landscape? Because we are seeing opportunities there to get assets at much cheaper valuations than you would have previously. And I was just curious if you see any opportunity on a larger scale, whether it is large pipeline assets or even something on the corporate side, where you could use your currency out there.

Pat Daniel - Enbridge Inc - President, CEO

Well, we see all kinds of opportunity, and have for some time. As you know, coming into this financial crisis, we held a fairly strong multiple advantage over most of the industry in North America, and we've widened that out as a result of our performance over the past year. So relatively speaking, we are able to look at almost any peer and make a deal accretive if we were to go after them.

But what we need to remember is that Enbridge has an industry-leading growth rate, and we don't want to water that down to our shareholders to a significant extent. And hence, we need to be very selective and disciplined, as we always have been, in any deals that we might do.

So we certainly watch closely what is going on and feel there is tremendous opportunity out there should we have a need to bolster our growth rates at any point, should there be a slowing of the organic growth rate in time.

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Mark Caruso - *Millennium Partners - Analyst*

And as you look at the landscape, do you see more opportunities on the pipeline side or on the midstream side, if you look at North America in general?

Pat Daniel - *Enbridge Inc - President, CEO*

Probably we tend to look more on the pipeline side, the long-haul pipeline side, because it tends to fit that investment proposition of Enbridge's that we speak to so much of fee-for-service, long-term shipping commitments. And although that can be done on the gathering and processing business, it doesn't fit quite as well in that investment proposition as the long-haul pipes do.

Operator

(Operator Instructions) Scott Haggett, Reuters.

Scott Haggett - *Reuters - Media*

My question has basically been answered. But Pat, just to reiterate, this is your last remaining international investment?

Pat Daniel - *Enbridge Inc - President, CEO*

Yes, we had two, Scott. It is. That's right.

Scott Haggett - *Reuters - Media*

Right. That's it. Thank you very much.

Pat Daniel - *Enbridge Inc - President, CEO*

It won't necessarily stay that way, though, Scott.

Scott Haggett - *Reuters - Media*

I got that from --

Pat Daniel - *Enbridge Inc - President, CEO*

Okay.

Operator

It appears we have no additional questions at this time.

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Pat Daniel - Enbridge Inc - President, CEO

Okay. Vern, do you have any wrap-up comments?

Vern Yu - Enbridge Inc. - IR

The only wrap-up comments I have is that if anyone wants any follow-up detailed questions answered, both Pat Murray and I are available for the balance of today.

Pat Daniel - Enbridge Inc - President, CEO

Okay. Thank you to all participants.

Operator

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

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