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# EDITED TRANSCRIPT

ENF.TO - Enbridge Income Fund Transaction with Enbridge Inc. for  
Natural Gas and Diluent Pipeline Interests

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## CORPORATE PARTICIPANTS

**Teri Majer** *Enbridge Income Fund Holdings - IR*

**Perry Schuldhaus** *Enbridge Income Fund Holdings - President*

**Colin Gruending** *Enbridge Income Fund Holdings - CFO*

## PRESENTATION

### Operator

Good afternoon, ladies and gentlemen. Welcome to the Enbridge Income Fund Holdings Conference Call. I will now like to turn the meeting over to Teri Majer.

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**Teri Majer** - *Enbridge Income Fund Holdings - IR*

Thank you. Good afternoon and welcome to the Enbridge Income Fund Holdings Conference Call. With me today are Perry Schuldhaus, President of Enbridge Income Fund Holdings; Colin Gruending, CFO, Chief Financial Officer and Jana Hordichuk, Controller.

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

We invite the analyst community to ask questions first, followed by questions from the media. I would ask that for everyone's benefit, you wait until the end of the call to queue up for questions and that questions are limited to two per person.

Please re-enter the queue if you do have additional questions or queries. Lastly, I would also remind you that I will be available after the call for any follow-up questions that you may have. Before we begin, I'd like to point out that we may refer to forward-looking information during the call. But its nature, this information applies to certain assumptions and expectations about future outcomes, so we remind you it is subject to the risks and uncertainties affecting every business including ours.

This slide includes a summary of the more significant factors and risks that might affect future outcomes for Enbridge Income Fund Holdings and Enbridge Income Fund and its affiliates which are also discussed more fully in our public disclosure filings available on SEDAR.

I will now turn the call over to Perry Schuldhaus.

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**Perry Schuldhaus** - *Enbridge Income Fund Holdings - President*

Thank you Teri. Good afternoon and thank you for joining us. Today Enbridge Income Fund announced that it has agreed to purchase interests in two key North American long haul pipeline assets from Enbridge Inc. for \$1.76 billion. We are extremely pleased to announce this deal and to provide additional details on the call today. We will provide further details of the transaction, explain how we intend to finance the acquisition, discuss the key benefits and the timing.

At a value of almost \$1.8 billion, this is the most significant transaction the fund has undertaken since its inception in 2003 and it supports a 12% dividend increase effective upon the close of the transaction. The Special Committee of the Independent Directors of the Company's Board completed a rigorous process consisting of detailed due diligence, market analysis, value assessment and negotiation of acceptable terms and conditions for this transaction.

The Special Committee engaged the support of legal and financial advisors, gas market consultants and independent engineers to assist with the evaluation of the opportunity. Once acceptable terms and conditions were achieved, the Special Committee recommended to approve the transaction. And today final approval was granted by both the boards of Enbridge Income Fund Holdings and Enbridge Commercial Trust.

The transaction consists of the purchase of Enbridge Inc's 50% interest in the US segment of the Alliance Pipeline and the purchase of Class-A units that provide equity cash flows from both the Canadian and the US segments of the Southern Lights pipeline.

I'll provide more detail on these assets in just a moment. This transaction is highly accretive to our shareholders adding approximately \$150 million of cash flow on average over the long term and us a diversified, low risk package of Assets. As you will see, these assets fit well with our low risk value proposition and are underpinned by strong supply and demand fundamentals.

Also announced today was the equity financing transaction by Enbridge Income Fund Holdings Inc. that once closed will significantly scale up the company's market to capitalization while preserving Enbridge Inc's meaningful sponsorship of the fund. Colin will provide more details in the financing plan shortly.

First, let me provide you with a brief overview of the assets the fund has agreed to acquire. The first asset is a 50% interest in the US segment of Alliance Pipeline. As you know, the fund is owned one-half of the Canadian portion of Alliance since 2003, so this asset is very familiar to our management team and we believe the US segment is a natural addition to our portfolio.

Alliance is a relatively new integrated high pressure natural gas pipeline system that has the capacity to transport on average approximately 1.6 bcf per day of liquids-rich natural gas from the prolific gas fields of Northeastern British Columbia and Northwestern Alberta to Chicago, Illinois.

Alliance can carry approximately 130,000 barrels per day of natural gas liquids destined for premium transparent and liquid markets in the US Midwest and the US Gulf Coast. More specifically, the US portion of Alliance receives gas from the Canadian segment of Alliance at the international border between Saskatchewan and North Dakota.

The pipeline then continues Southeasterly to Aux Sable, to the Aux Sable extraction and fractionation facility at Channahon, Illinois where liquids are extracted and separated for delivery to the market. The resulting dry gas is then delivered to large local distribution companies and several interstate gas pipelines in around the Chicago area.

In addition to capturing volumes from the growing liquid rich production from Western Canada, the US portion of Alliance is a key regional natural gas and NGL in structure assets that will now enable the Enbridge Income Fund to benefit from the tremendous growth being experienced out of the prolific Bakken formation in North Dakota.

With the advancement of gas recovery technology and the dramatic increase in liquids-rich oil associated gas, the Bakken production in North Dakota has grown significantly since 2009 and is expected to continue to see significant growth going forward. The tremendous growth of unconventional oil production in North Dakota has led to a rapid rise in associated natural gas. However, given the lack of infrastructure in the region, a large amount of this associated gas is flared at the wellhead. Alliance Pipeline is well positioned to continue to serve the need to this region. Aux Sable's Prairie Rose Pipeline which came into service in 2010 connects Bakken production to the Alliance Pipeline.

Also in 2013, Alliance US placed into service its Tioga Lateral which is now another straw into the liquids-rich Bakken formation. Both these pipelines provide much needed rich gas export capacity out of the Bakken.

With increased demand from the Montney and Duvernay plays in the traditional Western Canadian Sedimentary Basin and a continued growth of the Bakken play, Alliance is well positioned to expand and the potential for future gathering and lateral pipelines is robust given its close proximity to these liquids-rich gas producing areas.



At present, along with the Canadian portion of the pipeline, the US segment is fully contracted until December of 2015. Alliance is making very good progress on recontracting and given the unique capability of the Alliance pipeline to move liquid-rich natural gas and the projected strengthening of pipeline basis, we are confident that the system will be highly utilized post 2015.

The second asset within this acquisition is the purchase of equity cash flows from the Southern Lights Pipeline. This is a unique investment in a pre-defined cash flow stream from Southern Lights Canada and Southern Lights US. As a holder of Class A units, Enbridge Income Fund is entitled to 100% of the equity cash flows generated by the existing Southern Lights rate base and will receive fixed and scheduled quarterly distributions for the next 25 years.

As Southern Lights is a cost of service pipeline, cash flows from this asset will be comprised of return of and return on capital to the fund and our investment will be recaptured over the 25-year term of the deal. Southern Lights is a take or pay pipeline with the capacity to move 180,000 barrels per day of condensate north bound from Enbridge's Manhattan terminal in Illinois to Enbridge's Edmonton terminal in Alberta.

The pipeline is fully contracted with 162,000 barrels per day committed by firm shippers which remain 10% held for spot shippers as per regulatory requirements. It is the cash flow from the firm commitments, the Enbridge Income Fund has purchased through the Class A units.

Under the terms of the transaction, the equity cash flows paid through distributions to the holder of the Class A units are extremely stable and secure to the fund given the cost of service needed for the Southern Lights pipeline and additional provisions imbedded within the agreements with Enbridge Inc. The Class A unit distributions may be reduced due to force majeure, regulatory and shipper default events, but only to the extent that they cannot be mitigated through the TSAs.

The pipeline has been in operation since 2010 as anchored by strong underlying supply and demand fundamentals driven by robust demand for condensate which is usually the diluent to dilute the bitumen produced by the oil sands in Northern Alberta. It's estimated that due to rapidly growing bitumen production in the oil sands, condensate demand in Alberta were nearly triple in the next decade and the Southern Lights Pipeline is well positioned to respond to this rising demand.

Southern Lights is expandable and as for the terms of the transaction, the fund will have the option to participate in future expansion of the rate base. Enbridge Inc. will remain the owner and the operator of the pipeline and will continue to be, operate safely and reliably given Enbridge's strong operating experience.

We like this asset, plain and simple it is an excellent fit for the fund. The cash flow profile is secure and predictable and the supply and demand fundamentals underpinning Southern Lights are sound.

We are excited to have another asset to our portfolio that has the low risk characteristics we seek with the potential for future growth. As we announced today, this acquisition will significantly bolster the fund's future cash flows and further balances and diversifies the sources of cash that we deliver to our investors.

Following the close of the acquisition, we expect the fund's cash available for distribution will increase by approximately 40% with the natural gas segment now contributing roughly 25% while the crude oil, transportation and storage segment will be roughly 42% in a long-term basis.

Another reason why these assets fits so well with the fund's model is that neither asset is expected to draw on the funds to support maintenance capital. We think this asset mix creates a nice balance of diversification across our business and we like the continued and enhanced cash flow stability we have within our portfolio.

I'll now turn it over to Colin to review the financing plan.



**Colin Gruending** - *Enbridge Income Fund Holdings - CFO*

Thanks Perry. Good afternoon. I'm going to touch briefly on four finance related subjects, our financing plan as Perry mentioned, two, the resulting go-forward ownership structure, three, enhanced projected market, liquidity and fourth, the reminder of our key financial planning policies which are in essence unchanged.

First, our financing plan. To maintain our strong credit ratings and target 50-50 debt equity capital structure, the funding plan for this acquisition is similarly set at 50% debt and 50% equity capitalization at the fund level.

As a result, equity financing at the fund level of \$882 million is required and I'm pleased that this equity financing is now secured, either from public equity markets or Enbridge Inc. as noted on slide 8. Consistent with prior dropdowns, Enbridge provided Enbridge Income Fund Holdings the option which EIFH again exercised, to take up Enbridge Inc's proportion of common units in the fund. This action accounts for why Enbridge's effective economic ownership in the fund structure declines very slightly with this transaction to approximately 66%.

It's expected the subscription receipt offering will begin trading on the TSX on or about October 10th and as a reminder, receipt holders will be entitled to the company's dividends between that period and the transaction closing which we expect to occur in about mid November.

Of course on closing of the transaction, the subscription receipts will convert to common shares of EIFH. To satisfy our debt requirements, Enbridge Inc. has again agreed to provide the fund with bridge financing. Specifically, an \$878 million unsecured subordinated 10-year loan at an interest rate of 5.5% which is pre-payable at any time.

It is the fund's intention to debt finance the acquisition bridge loan in the public debt capital markets sooner rather than later following the close of the transaction when the market conditions permit. While the public issuance could be large, we are optimistic about executing such a transaction as an attractive cost of debt, ideally well inside the cost of the bridge loan. So that's the financing plan, in many ways very similar to the last couple of dropdowns.

Second, a word on our ownership structure, as a result of its participation in the equity financing Enbridge Inc. continues to retain strong and aligned economic interest in the ownership structure at EIFH at 19.9%. And as already mentioned, Enbridge's economic interest in the combined structure remains strong at just over 66% and clearly demonstrates its continued strong sponsorship of the fund.

On slide nine, we've plotted Enbridge's interest over time in the structure since inception and as you can see it remains robust. Thirdly, enhance market liquidity, turning to slide 10, we expect the funding actions associated with this transaction to significantly enhance liquidity for both the company's outstanding publicly traded equity and the fund's publicly traded debt.

Importantly, the public equity float should grow by over 25% and the outstanding public debt should increase by over 50%. We expect these additional market floats will provide increased liquidity and ultimately will enhance our access to capital to fund future growth.

And fourth moving to slide 11, a reminder of our financial planning objectives. The low risk characteristics of the assets acquired fit well with our financial policies which are by design conservative. We will continue to target to payout somewhere in the area of 80% of the fund's cash available for distribution. And the assets will continue to support our credit metrics and strong ratings of BAA2 and BBB high.

Another benefit of the transaction is that it helps to minimize the near term cash taxes. This has been a hallmark of our fund and allows us to distribute more cash. The principal benefit from this transaction is derived from the stepped-up tax pool on the Alliance US asset which allows us to shelter taxable income from the current asset base that was beginning to reappear.

Said another way, our cash taxes for 2015 and 2016 should increase modestly in nominal terms but proportionately decline relative to the now bigger asset base. Additionally, it is expected that the US dollar denominated cash flows from both investments will be managed and mitigated through currency hedges. This approach will be consistent with the fund's past practice of managing other financial market price risk like interest rates and would align with how Enbridge Inc. also approaches currency risk management.

Of course, the overlying objective is to preserve the fund's low financial and overall business risk profile which we continue to believe is industry leading. That's all I've got. Perry back to you.

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**Perry Schuldhaus** - *Enbridge Income Fund Holdings - President*

Thank you, Colin. As I said earlier, we are very excited about this acquisition and it affords many benefits. Summarized on slide 12 are some of those, first of all provides a larger more diversified foundation for the company to grow while not compromising on the low risk value proposition we have promised our shareholders.

I'm also very pleased that this acquisition has enabled us to announce that the company will increase the monthly dividend by 12% following the close of the transaction. Additionally, the cash flow that's generated from Alliance US and Southern Lights pipelines support the plan dividend increase on a long-term basis while also providing funds for the growth and ongoing stability in the fund.

So much over the last two most recent dropdowns from Enbridge, this acquisition enhances the scale and diversification of the asset base while also providing potential for future long-term growth. This acquisition clearly demonstrates Enbridge Inc's continued commitment to Enbridge Income Fund and we look forward to future opportunities to benefit from this strategic alliance.

Slide number 13, looking ahead, we do expect to close this transaction this year after receiving regulatory approvals. All the approvals are customary for a transaction of this nature and we anticipate these to be received soon.

Accordingly, we expect this acquisition will close in roughly November of this year.

Looking at dividend growth, following the close of the transaction, the company will proceed with a 12% increase in the monthly dividend. This will be the largest one-time dividend increase to our shareholders since the inception of the fund.

Additional accretion for this acquisition will be employed to fund future growth across all of our businesses and to continue to grow the dividend. This is certainly an exciting time for the company and we expect this dropdown to continue to deliver similar value enhancing benefits to our shareholders as the last two have delivered.

We have acquired another set of low risk, long lived, stable infrastructure assets that we believe will perform well and provide the same reliable cash flows to our shareholders that our legacy assets have delivered.

Thank you for joining us today on such short notice. I would be happy to take any of your questions at this time.

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**Teri Majer** - *Enbridge Income Fund Holdings - IR*

There are no questions from the call today. We appreciate your participation. And if you have any questions that you need to do offline, you can contact myself Teri Majer and that's all we have for today. Thank you.

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**Operator**

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

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