Capital Expenditures

The Company expects to spend approximately $210 million in 2007 in the Gas Pipelines segment for ongoing capital improvements, core maintenance capital projects and expansion, including the projects described above. In 2006, the Company spent $110 million on capital expenditures in the Gas Pipelines segment. Discussion of the Company's access to financing is included under Liquidity and Capital Resources.

SPONSORED INVESTMENTS

Sponsored Investments includes the Company's 16.6% ownership interest in EEP and a 41.9% equity interest in EIF. Enbridge manages the day-to-day operations of, and develops and assesses opportunities for each, including both organic growth and acquisition opportunities.

Earnings

(millions of Canadian dollars)	**2006**	2005	2004
Enbridge Energy Partners	**43.0**	21.7	28.6
Enbridge Income Fund	**37.8**	34.2	30.0
Dilution gains	**–**	8.9	7.6
Revalue future income taxes due to tax rate changes	**6.0**	–	–
	86.8	64.8	66.2

Earnings from Sponsored Investments were $86.8 million for the year ended December 31, 2006 compared with $64.8 million in 2005. Earnings increased primarily because of strong results from EEP.

Earnings from Sponsored Investments were $64.8 million for the year ended December 31, 2005 compared with $66.2 million in 2004. EIF earnings increased due to allowance oil sales on the Saskatchewan System and collection of a notional tax in tolls on Alliance Canada. This increase was more than offset by EEP's non-cash unrealized mark-to-market losses on derivative instruments that are considered ineffective hedges for accounting purposes.

Revenues include only revenues from EIF as the Company equity accounts for its interest in EEP. For the year ended December 31, 2006, revenues were $254.7 million consistent with $249.0 million for the year ended December 31, 2005.

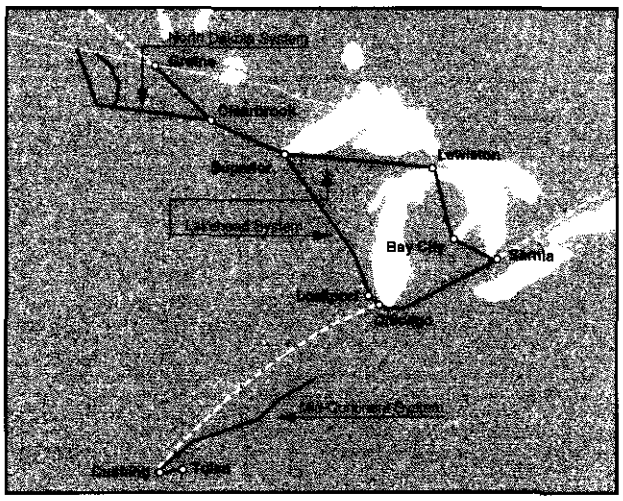
Revenues for the year ended December 31, 2005 were $249.0 million compared with nil for the year ended December 31, 2004. The Company consolidates EIF under the variable interest entity rules, which came into effect on January 1, 2005. In 2004, the investment in EIF was accounted for as an equity investment.

Enbridge Energy Partners

EEP owns and operates crude oil and liquid petroleum transmission pipeline systems, natural gas gathering and related facilities and marketing assets in the United States. Significant assets include the Lakehead System, which is the extension of the Enbridge System in the U.S., natural gas gathering and processing assets in Texas, the mid-continent crude oil system, various interstate and intrastate natural gas pipelines and a crude oil feeder pipeline in North Dakota.

Results of Operations

EEP earnings were $43.0 million for the year ended December 31, 2006 compared with $21.7 million for the year ended December 31, 2005. The results improved significantly, despite the stronger Canadian dollar, and reflected considerably higher liquids throughput on the Lakehead System, higher margins and increased volumes in the natural gas gathering and processing businesses in addition to a higher Enbridge ownership interest. The 2006 results also included $6.5 million (net to Enbridge) of unrealized mark-to-market gains (2005 – $5.0 million of losses) on derivative financial instruments that did not qualify for hedge accounting treatment. While Enbridge believes the hedging strategies are sound economic hedging techniques, they do not qualify for hedge accounting and have been accounted for on a mark-to-market basis through earnings.



Enbrigde Energy Partners – Gas Pipelines

Earnings of $21.7 million for the year ended December 31, 2005 were down from 2004 earnings of $28.6 million primarily due to $5.0 million (net to Enbridge) of unrealized mark-to-market losses. In addition, EEP earnings were negatively affected by lower Lakehead System volumes, a stronger Canadian dollar and a lower ownership interest offset with higher earnings from the natural gas business.

EEP issued Class A partnership units in 2005 and 2004. Because Enbridge did not fully participate in the 2005 and 2004 offerings, dilution gains resulted. While new Class C units were issued by EEP in the third quarter of 2006, no dilution gains resulted as Enbridge participated in the offering, increasing Enbridge's ownership interest in EEP from 10.9% to 16.6%.

Distributions

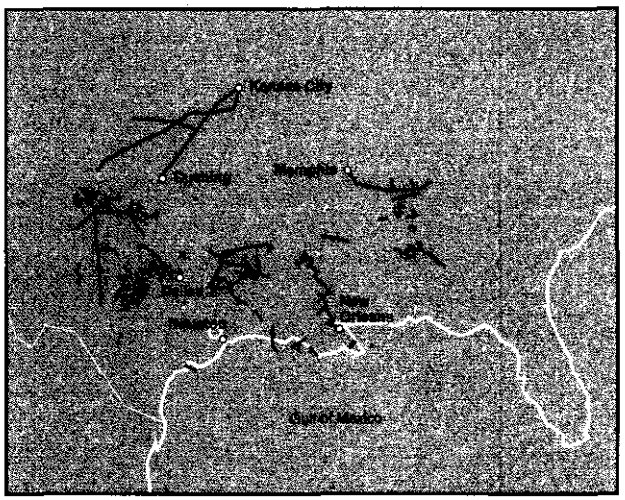
EEP makes quarterly distributions of its available cash to its common unitholders, including Enbridge. Under the Partnership Agreement, Enbridge, as general partner, receives incremental incentive cash distributions, which represent incentive income, on the portion of cash distributions, on a per unit basis, that exceed certain target thresholds as follows.

	Unitholders	Enbridge
Quarterly Cash Distributions per Unit:		
Up to $0.59 per unit	98%	2%
First Target – $0.59 per unit up to $0.70 per unit	85%	15%
Second Target – $0.70 per unit up to $0.99 per unit	75%	25%
Over Second Target – Cash distributions greater than $0.99 per unit	50%	50%

During 2006, EEP paid quarterly distributions of $0.925 per unit (2005 – $0.925 per unit; 2004 – $0.925 per unit). Of the $43.0 million Enbridge recognized as earnings from EEP during 2006, 37% (2005 – 65%; 2004 – 50%) were incentive earnings while 63% (2005 – 35%; 2004 – 50%) were Enbridge's share of EEP's earnings.

Strategy

EEP intends to increase its distributions through the optimization of existing assets including increased throughput, the expansion of the existing liquids and gas midstream businesses, and the acquisition of complementary assets. EEP will focus on assets that generate stable cash flows including crude oil mainline, feeder system and mid-continent terminalling, interstate and intrastate gas pipelines and certain gas gathering and processing assets. EEP is benefiting from strong supply growth in both the liquids transportation and gas midstream businesses. Oil sands volume growth will increase throughput and generate opportunities such as the Southern Access expansion. High gas prices and improved technology are driving new capital investment and volume growth in EEP's principal gas regions. Tightening gas quality specifications are also increasing demand for EEP's treating and processing services. EEP's growing base of gas volumes will allow it to aggregate volumes to improve margins and potentially underpin a new take-away pipeline capacity project. Examples of this aggregation include the recent expansion and extension of the East Texas system, the construction of additional pipeline infrastructure and the Alberta Clipper Project.



Enbrigde Energy Partners – Liquids Pipelines

East Texas Clarity Project

EEP's East Texas Clarity Project is a US$0.6 billion expansion of EEP's East Texas system and is progressing on-schedule to add 0.7 bcf/d of natural gas transportation capacity to the Texas intrastate market in 2007. The Clarity Project will be completed in phases during the year with the first phase scheduled for completion in early 2007. This phase involves the construction of a natural gas treating facility and related mainline expansion. Additional phases of the project will be complete in mid-2007 and end of year 2007. When complete, the Clarity project will link growing natural gas production in East Texas, and third party storage assets in East Texas, with major third party pipelines and markets in the Beaumont, Texas area.

Business Risks

Supply and Demand

The profitability of EEP depends to a large extent on the volume of products transported on its pipeline systems.

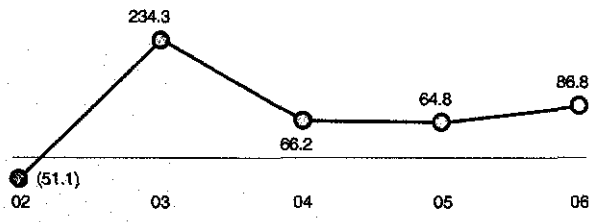
The volume of shipments on EEP's Lakehead System depends primarily on the supply of Western Canadian crude oil and the demand for crude oil in the Great Lakes and Midwest regions of the United States and Eastern Canada. EEP expects significantly increased crude oil supplies from the oil sands projects in Alberta. In addition, Enbridge's future plans to provide access to new markets in the Southern United States are expected to increase demand for Western Canadian crude, resulting in increased volumes for EEP.

EEP's natural gas gathering assets are also subject to changes in supply and demand for natural gas, natural gas liquids and related products. Commodity prices impact the willingness of natural gas producers to invest in additional infrastructure to produce natural gas.

These assets are also subject to competitive pressures from third-party and producer owned gathering systems.

Regulation

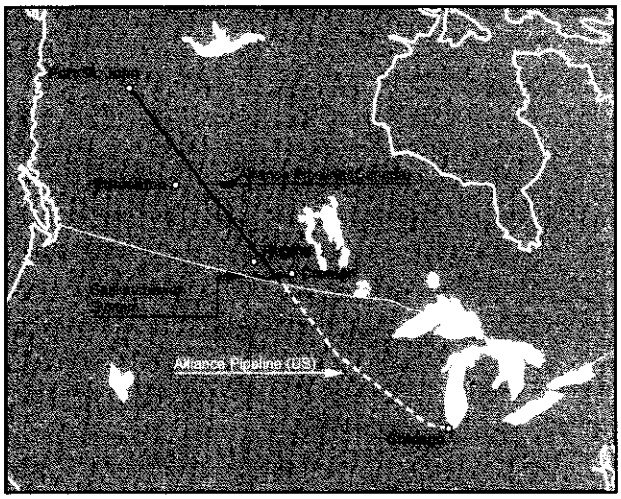
In the U.S., the interstate and intrastate gas pipelines owned and operated by EEP are subject to regulation by the FERC or state regulators and their revenues could decrease if tariff rates were protested. While gas gathering pipelines are not currently subject to active regulation, proposals to more actively regulate intrastate gathering pipelines are currently being considered in certain of the states in which EEP operates.



Sponsored Investments Earnings

(millions of Canadian dollars)

Sponsored Investments includes the Company's 16.6% ownership interest in EEP and a 41.9% equity interest in Enbridge Income Fund. Sponsored Investments earnings increased in 2006 due to Enbridge Energy Partners, which experienced significantly higher crude oil throughput, strong margins and increased volumes in the natural gas gathering and processing businesses in addition to a higher Enbridge ownership interest.



Enbrigde Income Fund

Market Price Risk

EEP's gas processing business is subject to commodity price risk for natural gas and natural gas liquids. Historically, these risks have been managed by using physical and financial contracts, fixing the prices of natural gas and natural gas liquids. Certain of these financial contracts do not qualify for cash flow hedge accounting and EEP's earnings are exposed to mark-to-market valuation changes associated with certain of these contracts.

Enbridge Income Fund

EIF's primary assets include a 50% interest in Alliance Pipeline Canada and the Enbridge Saskatchewan System, both purchased from the Company in 2003. The Alliance Pipeline Canada, is the Canadian portion of the Alliance System, described in the Gas Pipelines segment above. The Enbridge Saskatchewan System owns and operates crude oil and liquids pipelines systems from producing fields in Southern Saskatchewan and Southwestern Manitoba connecting primarily with Enbridge's mainline pipeline to the United States.

EIF also owns interests in three wind power generation projects purchased from Enbridge in October, 2006 and a business that develops waste-heat power generation projects at Alliance Pipeline Canada compressor stations.

Results of Operations

EIF earnings were $37.8 million for the year ended December 31, 2006, comparable with the prior year, and reflected modest earnings growth at EIF. The increase in earnings reflected lower tax on distributions received from EIF.

EIF earnings were $34.2 million for the year ended December 31, 2005 compared with $30.0 million for the year ended December 31, 2004. The 2005 results include higher preferred unit distributions as well as higher incentive income consistent with EIF's cash distribution increases in 2004. EIF's operating results benefited from strong performance at both Alliance Pipeline Canada and the Saskatchewan System.

Tax Fairness Plan

On October 31, 2006, the Canadian Government announced a "Tax Fairness Plan" that would, among other things, create a new tax regime for publicly traded income trusts including EIF. Under the proposed rules, the taxable portion of an income trust's distributions would be subject to taxation in a manner similar to the treatment of taxable income within a corporation. For existing income trusts, the new rules would not become applicable until 2011 provided they limit their expansion to "normal growth" prior to that year. On December 15, 2006 the Government issued guidelines with respect to what it would consider "normal growth" for existing income trusts that wish to ensure that they do not become subject to the proposed tax rules until 2011. Under these guidelines, the amount of equity units that an income trust can issue to finance growth up to 2011 may not exceed the value of its publicly traded equity units on October 31, 2007 (subject to annual limits). The guidelines do not explicitly limit the amount of debt that an income trust can issue to fund growth although as a practical matter this will be constrained by credit considerations and/or financial covenants.

On December 21, 2006, the Government released draft legislation for comment. Considerable uncertainty still exists as the draft legislation does not fully address all aspects of the tax regime introduced in the Tax Fairness Plan (including the "normal growth" guidelines. Further, the proposed legislation is now subject to review by a Parliamentary committee through an expedited public hearing process. Timing for enactment of the legislation by Parliament remains uncertain.

If enacted in their present form, the proposed tax changes would, all other things equal, likely result in a reduction of cash available for distribution by the Fund commencing in 2011. With respect to the proposed limitations on equity unit issuances, EIF should be able to fund its currently identified growth plans. However, with the current uncertainty in the capital markets resulting from the proposed tax changes, there can be no assurance that sufficient capital will be available to fund further acquisitions or expansion projects. EIF is closely monitoring legislative developments and carefully assessing the impact of the proposed legislation on the business and financial outlook of EIF and its broader effect on the income trust sector as a whole, all with a view to adopting a strategy that will maximize value to unitholders going forward once legislative framework is finalized.

Incentive and Management Fees

Enbridge receives a base annual management fee of $0.1 million for management services provided to EIF plus incentive fees equal to 25% of annual cash distributions over $0.825 per trust unit. In 2006, the Company received incentive fees of $2.4 million (2005 – $2.1 million, 2004 – $0.8 million). The Company is the primary beneficiary of EIF through a combination of the voting units and a non-voting preferred unit investment and as such EIF is consolidated, starting January 1, 2005, under variable interest entity rules.

Strategy

EIF will maximize the efficiency and profitability of its existing assets through representation on the boards and/or management committees of EIF's assets, pursue organic growth and expansion opportunities, invest in the Saskatchewan System expansion and Alliance Canada receipt facilities and expansions and pursue opportunities to acquire energy infrastructure investments or related assets.

Business Risks

Risks for Alliance Pipeline Canada are similar to those identified for the Alliance Pipeline US in the Gas Pipelines segment.

Saskatchewan System

The majority of the volumes shipped on the Saskatchewan and Westspur common carrier pipeline systems, key components of the Saskatchewan System, have no specific volume commitments. There is no assurance that shippers will continue to utilize these systems in the future or transport volumes on similar terms or at similar tolls. However, there is limited pipeline competition in this area. The main competition to the pipelines is from trucking.

EIF's liquids and natural gas pipelines are dependent upon the supply of and demand for crude oil and natural gas from Western Canada. Supply, in turn, is dependent upon a number of variables, including the level of exploration, drilling, reserves and production of crude oil and natural gas, the accessibility of Western Canadian crude oil and natural gas, the price and quality of crude oil and natural gas available from alternative Canadian and United States sources. In addition, the regulatory environments in Canada and the United States, including the continued willingness of the governments of both countries to permit the export of crude oil and natural gas from Canada to the United States on a commercially acceptable basis, could impact the supply of crude oil and natural gas.

GAS DISTRIBUTION AND SERVICES

Gas Distribution and Services consists of gas utility operations which serve residential, commercial, industrial and transportation customers, primarily in Central and Eastern Ontario, the most significant being EGD. It also includes natural gas distribution activities in Quebec, New Brunswick and New York State, the Company's investment in Aux Sable, a natural gas fractionation and extraction business, and the Company's commodity marketing businesses.

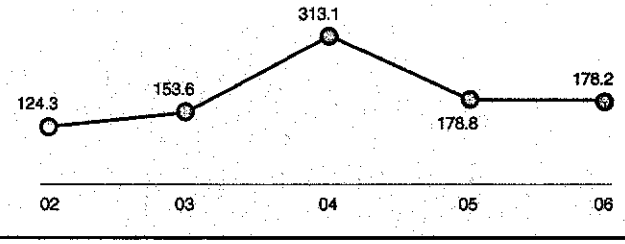
Earnings

(millions of Canadian dollars)	**2006**	2005	2004
Enbridge Gas Distribution [1]	**61.8**	111.9	133.1
Noverco [1]	**22.7**	28.3	32.3
CustomerWorks/ECS	**18.8**	23.2	20.5
Enbridge Gas New Brunswick	**9.8**	6.1	3.7
Other Gas Distribution [1]	**6.5**	6.7	8.5
Aux Sable	**25.8**	5.3	7.3
Gas Services	**(1.5)**	0.2	(2.8)
AltaGas Income Trust (AltaGas)	**–**	–	21.1
Gain on sale of investment in AltaGas	**–**	–	97.8
Impairment loss on Calmar gas plant	**–**	–	(8.2)
Other	**5.4**	(2.9)	(0.2)
Revalue future income taxes due to tax rate changes	**28.9**	–	–
	178.2	178.8	313.1

1 Results for the year ended December 31, 2004 include earnings for the 15 months ended December 31, 2004.

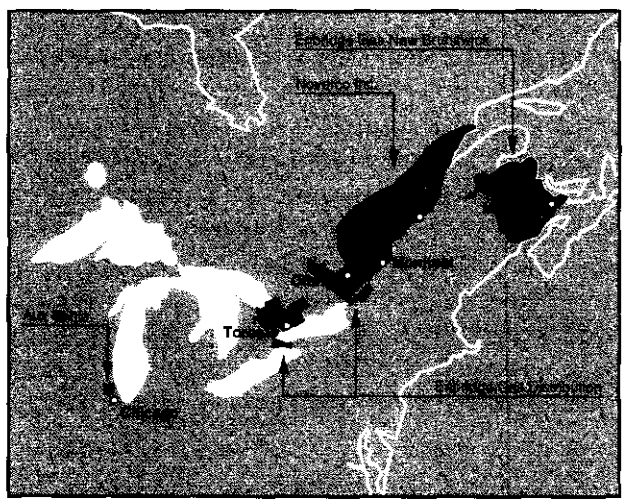
Earnings were $178.2 million for the year ended December 31, 2006 compared with $178.8 million for the year ended December 31, 2005. Earnings were comparable with 2005, reflecting a number of offsetting factors including higher earnings from the Aux Sable natural gas fractionation facility due to upside sharing of positive fractionation margins under a new arrangement with BP and lower earnings from EGD resulting from warmer than normal weather and a lower allowed rate of return on common equity.

Earnings were $178.8 million for the year ended December 31, 2005 compared with $313.1 million for the year ended December 31, 2004. The 2004 earnings included 15 months of operations from the gas distribution operations as a result of the change in EGD's fiscal year end. Earnings for 2004 also included an after-tax gain of $97.8 million on the sale of the investment in AltaGas Income Trust.



Gas Distribution and Services Earnings
(millions of Canadian dollars)

Gas Distribution and Services results in 2006 reflected a higher contribution from Aux Sable through an upside sharing arrangement with BP as well as non-cash earnings from the revaluation of future income tax balances due to tax rate reductions enacted in 2006. However, earnings are flat year over year due to the impact of warmer than normal weather and a lower allowed return on equity at Enbridge Gas Distribution.



Gas Distribution and Services

Revenues for the year ended December 31, 2006 were $8,981.6 million compared with $6,947.1 million for the year ended December 31, 2005. The factors contributing to this increase were Tidal Energy commencing US operations in December 2005, resulting in a full year of revenues captured in 2006, as well as Tidal Energy earning higher revenues due to a higher average price of crude oil in 2006 and EGD's revenues increasing over 2005, as gas prices were high in Q1 of 2006, when the greatest sales volumes were generated.

Revenues for the year ended December 31, 2005 were $6,947.1 million compared with $6,631.1 million for the year ended December 31, 2004. Revenues increased due primarily to increased commodity prices in Tidal which is included in Other.

Enbridge Gas Distribution

EGD is a rate-regulated natural gas distribution utility serving customers in its franchise areas of Central and Eastern Ontario, including the City of Toronto and surrounding areas as well as the Niagara Peninsula, Ottawa and many other Ontario communities. EGD is Canada's largest natural gas distribution company and has been in operation for more than 150 years. It serves over 1.8 million customers in Central and Eastern Ontario, Southwestern Quebec, and parts of Northern New York State. EGD's operations in Ontario are regulated by the Ontario Energy Board (OEB).

Results of Operations

Earnings for the year ended December 31, 2006 were $61.8 million compared with $111.9 million for the year ended December 31, 2005. Warmer than normal weather in 2006 reduced earnings by $36.9 million compared with relatively normal weather in 2005 which did not significantly impact earnings. EGD earnings were also reduced by a lower allowed rate of return on common equity, partially offset by a higher rate base. EGD's earnings are also affected by variances from the forecast cost of service, including operating and maintenance costs. EGD's costs can vary due to many factors including weather, project timelines and the timing of operating and capital expenditures.

Earnings for the year ended December 31, 2005 were $111.9 million compared with $133.1 million for the year ended December 31, 2004. Earnings for the year ended December 31, 2004 included 15 months of earnings for EGD, as a result of the elimination of the quarter lag basis of consolidation. Earnings for the extra quarter, the three months ended December 31, 2003, were $11.5 million. Weather in 2004 was colder than normal resulting in an additional $21.3 million in earnings. The remaining EGD variance is the result of a higher rate base and a number of smaller positive variances across the utility in 2005.

Normal weather is the weather forecast by EGD in its annual rates application, in the Toronto area, including the impacts of both the long run and short run actual historical weather experience, more heavily weighted on the short run experience, and is subject to OEB approval. This financial measure is unique to EGD and, due to differing franchise areas, is unlikely to be directly comparable to the impact of weather-normalized factors that may be identified by other companies. Moreover, normal weather may not be comparable year-to-year given that the forecasting model weights the degree-days from the most recent years more heavily to determine the estimate. This weather-normalized adjustment method is the same as the manner in which EGD calculates degree-days for regulatory purposes.

2007 Rate Application

In August 2006, EGD filed an application with the OEB for approval of the 2007 rates, under a cost of service rate-making methodology. In January 2007, EGD arrived at an agreement to settle certain major issues in its rate application with key stakeholders. This settlement was approved by the OEB on January 29, 2007 and will allow EGD to continue operating within its current environment. A final decision on this rate application is expected during the second quarter of 2007. As part of its 2007 rate application, EGD has requested an increase in the equity component of its deemed capital structure for regulatory purposes. The requested 38% equity level reflects changes in EGD's current business risk environment and financial risk position relative to the current approved deemed equity level of 35%. The rate of return on common equity is calculated with reference to a formula approved by the OEB that incorporates the long bond yield forecast. The rate of return of 8.74% was used in the 2007 rate application as a placeholder and reflected the OEB approved return embedded within 2006 rates. The allowed return on equity for 2007, calculated in accordance with OEB formula is 8.39%. This rate of return on common equity will replace the placeholder used by the Company in its 2007 rate application and will be embedded in 2007 rates.

Given the OEB's scheduled plan to move to Incentive Regulation, the Company expects 2007 to become the base year for a potential four to five year rate capped plan. The details of such plan are expected to be known in 2007. A description of Incentive Regulation is included below under "Strategy".

The key elements of the 2007 application and the 2006 and 2005 decisions are summarized below:

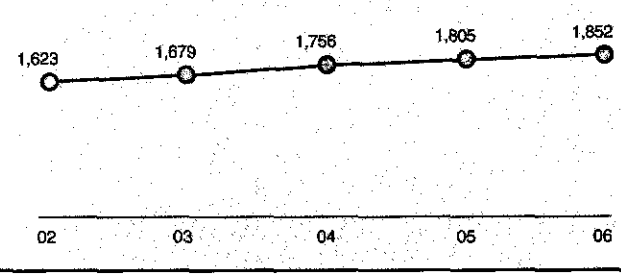
Regulatory year	Requested 2007	Approved 2006	Approved 2005
Rate base *(millions of Canadian dollars)*	$3,801	$3,634	$3,422
Deemed common equity for regulatory purposes	38%	35%	35%
Rate of return on common equity	8.39%	8.74%	9.57%

The OEB released its decision relating to EGD's 2006 rate application on February 9, 2006. The new rates approved by the OEB's decision resulted in an overall increase in rates of approximately 1% for the average residential customer.

2006 and 2005 Rates

EGD's 2006 and 2005 rates were established pursuant to a cost of service methodology that allowed revenues to be set to recover EGD's forecast costs. Forecast costs included gas commodity and transportation, operation and maintenance, depreciation, income taxes, and the debt and equity costs of financing the rate base. The rate base is EGD's investment in all assets used in gas distribution, storage and transmission, as well as an allowance for working capital. Under the cost-of-service model, it is EGD's responsibility to demonstrate to the OEB the prudence of the forecast costs.

The rate base is financed through a combination of debt and equity. The proportion of debt and equity, currently 65% and 35% respectively, is approved by the OEB. For the debt portion, interest expense incurred by the Company is recovered in rates. For the equity portion, the OEB sets the rate of return that EGD may recover in rates. The allowed rate of return on equity for EGD is based on the forecast yield on Canadian government long-term bonds.



Gas Distribution Number of Active Customers
(thousands)

EGD added over 47,000 new customers in 2006 and the Company expects to continue to add between 45,000 and 50,000 customers in 2007. The 2004 number reflects the 15-month period reported as part of Enbridge's change in financial reporting to eliminate consolidation of gas distribution operations on a quarter lag basis.

For 2004, rates were set by increasing 2003 rates by 90 percent of the forecast Ontario consumer price index, resulting in an increase of 1.8 percent. The OEB also added a sharing mechanism to fiscal 2004, whereby if earnings on a weather-normalized basis exceeded the benchmark ROE, these excess earnings would be shared on a 50/50 basis between ratepayers and the Company's shareholders.

Effects of Rate Regulation

EGD is subject to rate-regulation, therefore there are circumstances where the revenues recognized do not match the amounts billed. Certain amounts are deferred for recovery or refund with the approval of the regulator and are not included in revenues or expenses that would otherwise be recognized in the income statement, in the absence of rate regulation. The regulator, allows certain variances between approved and actual expenses to be recovered from, or refunded to, customers in future periods. The deferred amounts are not included in the calculation of rates billed to customers. While there are numerous deferral accounts approved by the regulator, the difference between the price of gas approved by the regulator and the actual cost of gas purchased is the most significant such example. On refund or recovery of this difference, no earnings impact is recorded. Effectively, the income statement captures only the approved cost of gas and the related revenue rather than the actual cost of gas and related revenue. EGD has no exposure to changes in the cost of gas, as it is a flow through cost that is passed to the ratepayer.

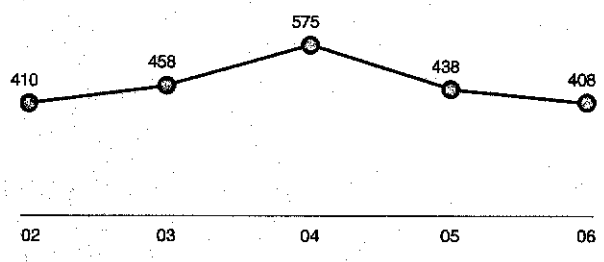
Strategy

EGD's vision is to be North America's leading energy distribution company, providing safe and reliable distribution services to customers at fair and reasonable costs. To achieve this vision, EGD has outlined the following strategic objectives:

- to continue growth of the business through enhancement of infrastructure and storage facilities;
- improve opportunities for better returns through Incentive Regulation, which is expected to start in 2008;
- to be best-in-class in the safe and reliable operation of its gas distribution system;
- to be a leader in utility asset management; and
- enhance customer satisfaction by meeting customer commitments and enhancing value of services.

Customer Growth

A major strategic initiative is enhancing customer growth. EGD added over 47,000 new customers in the year ended December 31, 2006 (over 50,000 in the year ended December 31, 2005). The Company expects to continue to add 45,000-50,000 customers in 2007. New growth areas relating to construction heat, mass markets and distributed energy are also being pursued as part of a profitable utility growth portfolio. EGD will also lead research and development efforts into longer-term promising technologies that have the potential to retain and increase gas load and reduce operating costs while providing customer benefits. EGD has been successful in pursuing its industry facilitation strategy with the recent launch of "EnergyLink", a web-based tool that makes it easier for customers to find and install natural gas appliances.



Volume of Gas Distributed
(billions of cubic feet)

Gas volumes distributed reflect the growing number of active customers and the impact each year of warmer than normal or colder than normal weather. The 2004 volumes reflects the 15-month period.

Incentive Regulation

Improving the regulatory environment is also a key strategic thrust to provide greater operational and organizational flexibility. EGD will remain in a cost of service environment in 2007 but a change to Incentive Regulation (IR), is expected in 2008, with 2007 as the base year for a potential four to five year plan. Consultation with the OEB has commenced with respect to potential implementation of IR methodology for setting rates for services provided by EGD, which differs from the existing cost of service methodology. The potential impact on the future operating environment of EGD is not currently known, however EGD expects to obtain details on a proposed IR plan in the fourth quarter of 2007.

The following are the key anticipated parameters of IR:

- Inclusion of an appropriate annual adjustment mechanism to give effect to cost changes and productivity improvements, to ensure that benefits of efficiencies are shared with customers during the term of the plan;
- Mandatory cost of service rebasing at the end of each IR plan term and before a new plan is put in place to ensure that efficiency improvements will be identified and the benefits are passed onto customers through base rates for the following IR plan period;
- Earnings sharing mechanisms will not form part of IR plans, in order to provide a strong incentive to achieve sustainable efficiencies that can be shared with customers through the annual adjustment mechanism and rebasing; and
- IR term plans are expected to run between four and five years.

The objectives of IR are as follows:

- Reduce regulatory costs with less frequent hearings (maximum every 4 to 5 years) rather than every year under the current cost of service mechanism;
- Provide incentives for improved efficiency;
- Provide more flexibility for utility management; and
- Provide more stable rates.

Capital Expenditures

EGD's capital expenditures in recent years have averaged approximately $300 million per year. The capital expenditure budget is approved annually by the OEB, under the current cost of service environment.

Legal Proceedings

Class Action Lawsuit – late payment penalties

In July 2006, culminating a 12-year legal case, EGD entered into a settlement agreement with respect to the repayment of a portion of amounts paid to it as late payment penalties. The total amount of late payment penalties billed between April 1994 and February 2002, when the late payment penalty was revised, was approximately $74 million.

Under a settlement agreement approved by the Ontario Superior Court of Justice (the Court) in December 2006, EGD will contribute $9 million to the Winter Warmth Fund (WWF), pay class counsel approximately $10 million for the plaintiff's legal fees and expenses and pay approximately $2 million to the Class Proceedings Fund. The WWF provides eligible low-income customers of participating Ontario utilities with financial assistance for the payment of their natural gas and electricity bills. In accordance with the settlement agreement, EGD paid $2 million to class counsel shortly after the settlement agreement was executed, which amount was held in trust by class counsel until the settlement became final. EGD paid the remaining settlement amount of approximately $19 million in January 2007. EGD has recorded a receivable from ratepayers for the total amount of $21 million and will apply to the OEB for recovery of payments resulting from the settlement.

Bloor Street Incident

EGD has been charged under both the Ontario Technical Standards and Safety Act (TSSA) and the Ontario Occupational Health and Safety Act (OHSA) in connection with an explosion that occurred on Bloor Street West in Toronto on April 24, 2003. The maximum possible fine upon conviction on all charges would be $5.0 million in aggregate. EGD has also been named as a defendant in a number of civil actions related to the explosion. A Coroner's Inquest in connection with the explosion has also been called, but the proceedings are stayed pending resolution of the TSSA and OHSA matters. The courts have not yet ruled upon any of the charges laid under the TSSA or the OHSA, and thus it is not possible at this time to predict or comment upon the potential outcome. The trial in respect of these charges commenced January 3, 2006 and is not expected to be completed until well into 2007, at the earliest. EGD does not expect the outcome of these civil actions to result in any material financial impact.

Business Risks

The risks identified below are specific to EGD. General risks that affect the Company as a whole are described under Risk Management.

The business risks inherent in the natural gas distribution industry impact the ability of EGD to realize the revenue level required to generate the allowed return on equity. These business risks include obtaining timely and adequate rate relief, as well as accuracy in forecasting and realizing natural gas distribution volumes.

Volume Risks

Since customers are billed on a volumetric basis, the ability to collect the total revenue requirement (the cost of providing service) depends on achieving the forecast distribution volume established in the annual ratemaking process. The probability of realizing such volume is contingent upon weather; economic conditions; the price of gas relative to competitive energy sources; and the number of customer additions.

Sales and transportation of gas for customers in the residential and commercial sectors account for approximately 77% (2005 – 78%) of total distribution volume. Weather during the year, measured in degree days, has a significant impact on distribution volume as a major portion of the gas distributed to these two markets is used ultimately for space heating. In 2006, the winter months were warmer than forecast, resulting in an unfavourable weather related volume variance of 27.4 bcf.

Distribution volume may also be impacted by the increased adoption of energy efficient technologies along with more efficient building construction that continues to place downward pressure on annual average consumption. Average annual gas usage has declined by 1.2% per annum over the last 10 years, reflecting consistent customer conservation efforts.

Sales and transportation service to large volume commercial and industrial customers is more susceptible to prevailing economic conditions. As well, the pricing of competitive energy sources affects volumes distributed to these sectors as some customers have the ability to switch to an alternate fuel. Customer additions are important to all market sectors as continued expansion adds to the total consumption of natural gas.

Earnings from EGD are impacted to the extent that volumes sold differ from forecasted volumes. Key factors that affect the probability that EGD will distribute the forecast volumes include weather, economic conditions, gas prices and the prices of competing energy sources and the number of customers added. To the extent that these factors vary unfavourably compared with forecasts, EGD will not achieve the total revenue requirements established in the ratemaking process due to lower distribution volumes, thus resulting in lower earnings.

Distribution volume may also be impacted by the increased adoption of energy efficient technologies along with more efficient building construction that continues to place downward pressure on annual average consumption.

Even in those circumstances where EGD attains its total forecast distribution volume, it may not earn the approved return on equity due to other forecast variables such as the mix between the higher margin residential and commercial sectors, and lower margin industrial sector.

Rate Relief

The OEB has in the past, rendered decisions that have disallowed recovery of certain costs incurred by EGD. Through the regulatory process, the OEB approves the return on equity, which EGD is allowed to earn, in addition to various other aspects of utility operations.

Rate relief could be pursued for significant unforecasted amounts allowing EGD to recover the costs of providing and maintaining the quality of its service while achieving the allowed rate of return on rate base.

Forecasting Accuracy

EGD is exposed to forecasting accuracy risk as rates are established in advance, based on anticipated distribution volume by class of customer. Forecasts are also made for the future costs of debt and equity capital including the forecast yield rate for long-term Government of Canada Bonds used in the determination of the return on equity. Through the forecasting process, it is intended that any changes in cost of service, regardless of whether they are caused by inflation or by level of business activity, would be reflected in new rates applied for in the upcoming fiscal year.

Franchise Rights

EGD has an exclusive right to serve all end users within its franchise area, under its franchise agreements. Similar franchise agreements in adjacent areas are held by peer companies such as Union Gas Limited (UGL). On January 6, 2006, the OEB granted Greenfield Energy Corporation, a potential power-plant customer of UGL, the right to physically bypass UGL's distribution network within UGL's franchise area, in order to serve its own power-plant. The OEB's decision to not uphold exclusive franchise rights of a local distribution utility in Ontario was unprecedented. However, the OEB characterized this decision as transitional, and set up a rates proceeding which assessed the service requirements of gas fired generation in the province of Ontario. The OEB decision from this rates proceeding was issued in November 2006. EGD believes the new rates are robust and would make physical bypass of EGD's system unattractive to gas fired power generation plants. However, the OEB decision did not preclude any party from seeking approval from the OEB to build its own pipeline and bypass the local distribution utility. EGD objects strongly to the concept that any such franchise violation is acceptable and will object should any similar proposal arise in the EGD franchise area.

Noverco

Enbridge owns an equity interest in Noverco through ownership of 32% of the common shares and a cost investment in preferred shares. Noverco is a holding company that owns approximately 71% of Gaz Metro Limited Partnership (Gaz Metro), a gas distribution company operating in the province of Quebec and the state of Vermont. Gaz Metro also has a 50% interest in TQM Pipeline, which transports natural gas in Quebec, and is partnering with the Company on the Rabaska LNG project (described under "Strategy" below).

Noverco also has an investment in the common shares of Enbridge resulting in dividend and earnings elimination adjustments at Enbridge. Noverco receives dividends from Enbridge but because Enbridge owns part of Noverco, a portion of the dividends Noverco receives are effectively dividends that Enbridge has paid to itself. This portion of the dividends paid reduces the book value of Enbridge's investment in Noverco.

Results of Operations

Noverco earnings were $22.7 million for the year ended December 31, 2006 compared with $28.3 million for the year ended December 31, 2005. Earnings decreased due to a $7.3 million dilution gain in 2005, which resulted from a Gaz Metro LP unit issuance in which Noverco did not participate, compared with a dilution gain of $4.0 million in 2006. Excluding dilution gains, earnings from Noverco were lower in 2006 as the prior year included a future income tax recovery stemming from the receipt of a significant cash dividend.

Noverco earnings were $28.3 million for the year ended December 31, 2005 compared with $32.3 million for the year ended December 31, 2004. The 2005 results included the $7.3 million dilution gain within Noverco on unit issuances by Gaz Metro. The 2004 results included 15 months of earnings as a result of the elimination of the quarter lag basis of

consolidation. Earnings for the extra quarter, the three months ended December 31, 2003, were $13.6 million. The remaining variance reflected the future income tax recovery related to the receipt of cash dividends net of an adjustment for reciprocal dividends.

Weather variations do not affect Noverco's earnings as Gaz Metro is not exposed to weather risk. A significant portion of the Company's earnings from Noverco is in the form of dividends on its preferred share investment, which is based on the yield of 10-year Government of Canada bonds plus 4.34%.

CustomerWorks/ECS

CustomerWorks/ECS includes the operations of CustomerWorks and Enbridge Commercial Services (ECS). CustomerWorks is 70% owned by Enbridge and provides customer care services, including billing, collections, and operation of call centers primarily for; EGD, Direct Energy Essential Home Services and Terasen Gas (a gas distribution company in British Columbia). EGD is currently reviewing its customer care provider and expect to conclude this process in mid-2007. ECS owns the customer information services system that CustomerWorks uses under license to provide services to EGD.

Enbridge Gas New Brunswick

The Company owns 70% of, and operates, Enbridge Gas New Brunswick (EGNB), which owns the natural gas distribution franchise in the province of New Brunswick. EGNB is constructing a new distribution system and has approximately 5,600 customers. Approximately 565 kilometres (351 miles) of distribution main has been installed with the capability of attaching approximately 27,000 customers.

EGNB earnings were $9.8 million for the year ended December 31, 2006 compared with $6.1 million for the year ended December 31, 2005. Earnings were higher in 2006 as debt was settled through the issuance of equity, during the third and fourth quarters of 2005 resulting in a higher equity base throughout 2006.

Enbridge Gas New Brunswick earnings were $6.1 million for the year ended December 31, 2005 compared with $3.7 million for the year ended December 31, 2004. The increase is consistent with the settlement of debt through the issue of equity in 2005, resulting in a higher equity base.

EGNB is regulated by the New Brunswick Board of Commissioners of Public Utilities (PUB). As it is currently in the development period, EGNB's cost of service exceeds its distribution revenues. The PUB has approved the deferral of the difference between distribution revenues and the cost of service during the development period for recovery in future rates. This recovery period is expected to start in 2010 and end no sooner than December 31, 2040. On December 31, 2006, the regulatory deferral asset was $101.8 million (2005 – $82.7 million).

Other Gas Distribution Operations

Earnings from Other Gas Distribution Operations were $6.5 million consistent with $6.7 million for the year ended December 31, 2005.

Earnings from Other Gas Distribution Operations decreased $1.8 million in 2005, primarily because the 2004 results included 15 months of earnings as a result of the elimination of the quarter lag basis of consolidation. Earnings for the extra quarter, the three months ended December 31, 2003, were $2.0 million.

Aux Sable

Enbridge owns 42.7% of Aux Sable, a natural gas liquids (NGL) extraction and fractionation business near Chicago. Aux Sable owns and operates a plant, at the terminus of the Alliance System. The plant extracts NGL from the energy-rich natural gas transported on the Alliance System, as necessary, to meet the heat content requirements of local distribution companies, which require natural gas with less NGL, or lower heat content, and to take advantage of positive commodity price spreads.

Aux Sable has an agreement with BP Products North America Inc. to sell its NGL production to BP. In return, BP pays Aux Sable a fixed annual fee and a share of any net margin generated from the business in excess of specified natural gas processing margin thresholds. In addition, BP reimburses Aux Sable for all operating, maintenance and capital costs

associated with the Aux Sable facilities subject to certain limits on capital costs. BP supplies, at its cost, all make-up gas and fuel supply gas to the Aux Sable facilities and is responsible for the capacity on the Alliance Pipeline held by an Aux Sable affiliate, at market rates. The agreement is for an initial term of 20 years, commencing January 1, 2006 and may be extended by mutual agreement for 10-year terms. If cumulative losses exceed a certain limit, BP will have the option to terminate the agreement, however Aux Sable has the right to reduce such losses to avoid termination.

Earnings for the year ended December 31, 2006 were $25.8 million compared with earnings of $5.3 million for the year ended December 31, 2005. Fractionation margins were very positive throughout 2006 and as a result, earnings from the upside sharing mechanism account for the majority of earnings from Aux Sable.

Fractionation margins are expected to moderate but remain favourable in 2007, given high oil prices and relatively low gas prices.

Earnings for the year ended December 31, 2005 were $5.3 million compared with earnings of $7.3 million for the year ended December 31, 2004. The decrease was due to higher natural gas costs in 2005, which were not offset by product sales prices causing weak margins and therefore decreased production levels.

Gas Services

The Company's Gas Services business markets natural gas to optimize Enbridge's commitments on the Alliance and Vector Pipelines. It also has a growing business of providing fee for service arrangements for third parties, leveraging its marketing expertise. Capacity commitments as of December 31, 2006 were 31.6 mmcf/d on the Alliance Pipeline (2.4% of total capacity) and 159.2 mmcf/d on Vector Pipeline (15.9% of total capacity). In December 2005, capacity commitments on Vector Pipeline of 82.5 mmcf/d, previously held by EGD were assumed by the Gas Services business.

Earnings from Gas Services are dependent upon the basis (location) differentials between Alberta and Chicago, for Alliance Pipeline, and between Chicago and Dawn, for Vector Pipeline. To the extent that the cost of transportation on these two pipelines exceeds the gas commodity basis differential, earnings will be negatively affected.

Other

Other earnings were $5.4 million in 2006 compared with a loss of $2.9 million in 2005. The 2006 results included an increased contribution from Tidal Energy, which resulted from the expansion of the business into the U.S. at the end of 2005 and increased earnings from its physical storage program.

In 2005, Other included higher costs, compared with 2004, related to the development of the Rabaska LNG facility.

Tidal Energy

Tidal Energy (Tidal) provides crude oil and natural gas liquids marketing services for the Company and its customers in a full range of condensate and crude oil types including light sweet, light and medium sours and several heavy grades. Tidal transacts at many of the major North American market hubs and provides its customers with a variety of programs including flexible pricing arrangements, hedging programs, product exchanges, physical storage programs and total supply management, through the analysis and implementation of different transportation options, reduced quality differentials and tariff structures, and utilizing Risk Management Pricing options. Tidal's business involves buying, selling and storing large quantities of crude oil. Tidal is primarily a physical barrel marketing company and in the course of its market activities, physical receipt or delivery shortfalls can create modest commodity exposures. Any open positions created from this physical business are tightly monitored by, and must comply with, the Company's formal risk management policies. Earnings from Tidal are included in Other.

AltaGas

The Company sold its investment in AltaGas in the third quarter of 2004 for an after-tax gain of $97.8 million.

Strategy

Other Natural Gas Distribution Strategies

Enbridge intends to pursue natural gas business development opportunities complementary to the existing gas distribution and services businesses through:

- developing LNG regasification projects and related pipeline infrastructure,
- pursuing marketing and storage opportunities that optimize existing assets,
- continuing to develop and grow the wind power platform in a measured fashion,
- exploring gas-fired generation opportunities that are underpinned by long-term contracts and improve the utilization of existing assets. The approach is to slowly build this business and utilize partners to share development risks.

Further to this strategy, Enbridge is developing a number of projects, which are described below.

Rabaska LNG Facility

Enbridge, Gaz Metro and Gaz de France are continuing development of the previously announced Rabaska LNG terminal to be located on the St. Lawrence River in Levis, Quebec. The Levis municipal council is fully supportive of the project and a fiscal agreement has been executed. Options for all required land have been secured. Environmental and marine applications have been filed and are progressing. It is expected that all required permits would be obtained by early summer 2007. Discussions are in progress with potential LNG suppliers regarding long-term terminal use arrangements. The project is expected to cost approximately $840 million in total.

Ontario Wind Project

Enbridge is developing approximately 182 megawatts of wind power in the Municipality of Kincardine on the eastern shore of Lake Huron in Ontario. Construction will commence when final environmental and zoning approvals are obtained. The project is waiting for its Environmental Screening Report to be passed by the Ontario Ministry of Environment and its zoning laws to be approved by the Ontario Municipal Board. Total capital expenditures are expected to be approximately $0.5 billion. Enbridge has entered into a 20-year electricity purchase agreement with the Ontario Power Authority for all the power produced by the project. The Company expects the Ontario Wind Project to be in service in late 2008.

Capital Expenditures

Capital expenditures in other Gas Distribution and Services businesses, including the Ontario Wind Project, described above, are expected to be approximately $225 million in 2007.

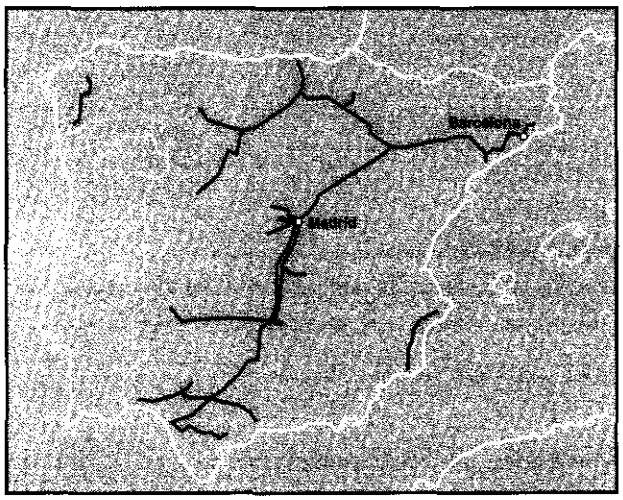
INTERNATIONAL

International includes earnings from the Company's 25% interest in Compañia Logistica de Hidrocarburos CLH, S.A. (CLH), Spain's largest refined products transportation and storage business, and Oleoducto Central, S.A. (OCENSA), a crude oil pipeline in Colombia. Earnings also include fees earned from technology and consulting services provided by Enbridge Technology Inc.

Earnings

(millions of Canadian dollars)	**2006**	2005	2004
CLH	**54.5**	61.6	48.6
OCENSA/CITCol	**33.9**	32.8	33.0
Other	**(5.2)**	(7.0)	(8.0)
	83.2	87.4	73.6

Earnings for the year ended December 31, 2006 were $83.2 million compared with $87.4 million for the year ended December 31, 2005. Earnings from CLH for 2005 included a $7.6 million gain on the sale of land, recorded in the fourth quarter.



Spain – CLH

Earnings for the year ended December 31, 2005 were $87.4 million compared with $73.6 million for the year ended December 31, 2004. The increase results primarily from the $7.6 million gain on the sale of land in CLH. Operating results at CLH were also improved due to higher volumes and increased average tariffs and storage revenues.

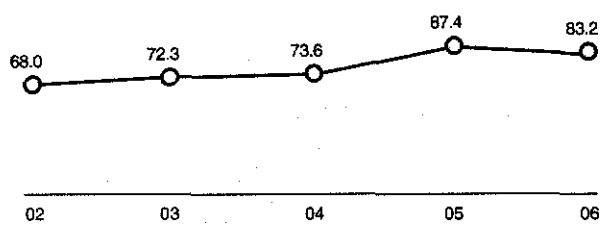
Other includes administration and business development costs and the financial results of Enbridge Technology Inc.

CLH

The primary activity of CLH is the storage and shipment of refined products through a comprehensive distribution network located throughout Spain. Earnings are based on a fee for service tariff, adjusted annually for inflation, and are dependent on throughput volumes and storage levels.

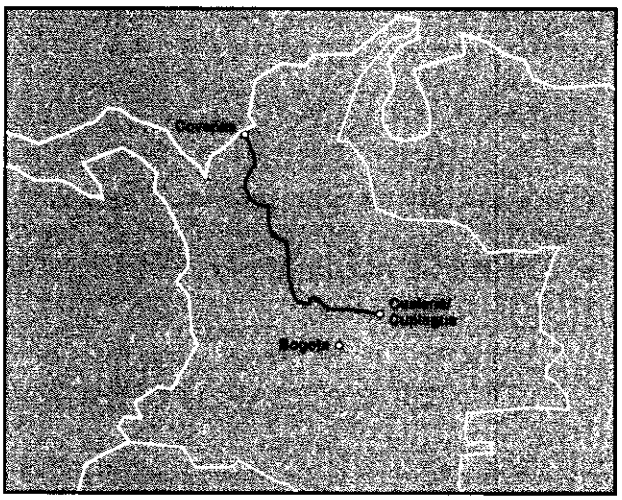
CLH is the primary basic logistics distribution network for refined products in Spain and provides services on an open access basis. The system consists of over 3400 kilometres (2,113 miles) of pipelines and 38 storage facilities located throughout the country. CLH provides product distribution to locations not connected to the pipeline system through its own fleet of tanker trucks and chartered tanker ships. CLH also offers secondary distribution services, the most significant being the services provided through CLH Aviation, which handles aviation fuel at airport locations throughout Spain. This business includes the storage of aviation fuel, loading of aircraft refueling units and the refueling of aircraft. New policies issued by the Spanish airport authority (AENA) to promote competition, allow for new non-CLH operators to enter the aircraft-refueling segment of this business. While CLH's share of this segment of the market may reduce over time, its participation in the aviation fuel business will continue. CLH's pipeline facilities are connected to the country's eight crude oil refineries and to major coastal port locations where most imports of crude oil and refined products into Spain are first delivered.

Earnings from CLH are directly impacted by the demand for refined products including gasoline, diesel, jet fuel and other transportation fuels. Economic growth in Spain over the last decade has been among the highest in the European Union, which has led to increasing demand for energy, including refined products. The central region of the country, in and around Madrid, has seen the largest growth in demand. CLH is in the process of expanding its system over the next several years in order to meet the continued growth expected in this region. This expansion, which includes an increase in storage capacity and looping of both the northern and southern main lines, will be constructed in phases to match the expected growth in volumes.



International Earnings
(millions of Canadian dollars)

International includes earnings from the Company's interests in CLH in Spain and OCENSA in Colombia. International earnings continue to be strong but were lower in 2006 due to a one-time gain on the sale of land in CLH in 2005.



Colombia – OCENSA

OCENSA/CITCol

The Company owns a 24.7% interest in OCENSA, a cost investment on which the Company earns a fixed return. OCENSA is one of two crude oil export pipelines within Colombia. Through a 100% owned entity, CITCol, the Company manages the pipeline and earns a fee for this service, which includes incentives for operating performance.

Strategy

The Company plans to increase International earnings contribution over the next several years by leveraging its North American operating expertise in midstream energy infrastructure and relationships with existing partners. The Company will pursue investment opportunities in regions or countries with attractive fundamentals of supply and market demand, in which operating and political risks are acceptable to the Company, and in which attractive risk adjusted returns are available.

Business Risks

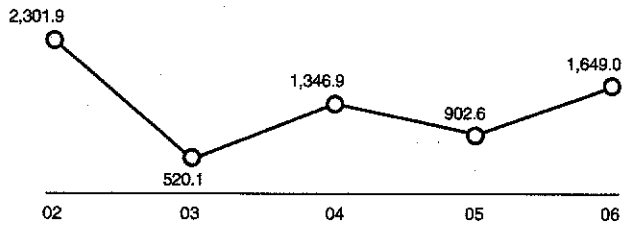
The International business is subject to risks related to political and economic instability, currency volatility, market and supply volatility, government regulations, foreign investment rules, security of assets and environmental considerations. The Company assesses and monitors international regions and specific countries on an ongoing basis for changes in these risks. Risks are mitigated by a combination of Enbridge's governance involvement, contractual arrangements, influence in operation of the assets, regular analysis of country risk, as well as foreign currency hedging and insurance programs.

CORPORATE

(millions of Canadian dollars)	**2006**	2005	2004
Corporate	**(82.2)**	(63.9)	(81.3)
Revalue future income taxes due to tax rate changes	**14.0**	–	–
	(68.2)	(63.9)	(81.3)

The Corporate segment includes corporate financing costs, business development activities and other corporate costs not attributable to a specific business segment.

Corporate costs were $82.2 million for the year ended December 31, 2006 compared with $63.9 million for the year ended December 31, 2005. The increase in Corporate costs was due to a number of factors including higher interest expense as a portion of the Company's floating rate debt was repaid through the issuance of long-term fixed rate debt as well as higher business development activity and the impact of a strong labour market.



Capital Expenditures, Investments and Acquisitions

(millions of Canadian dollars)

The 2006 total for capital expenditures, investments and acquisitions reflects additions to property, plant and equipment, primarily related to the gas distribution utility, a number of Liquids Pipelines projects as well as the Ontario Wind Project; the acquisition of a 65% interest in the Olympic Pipeline; and an additional $280.2 million investment in EEP.

Corporate costs were $63.9 million for the year ended December 31, 2005 compared with $81.3 million for the year ended December 31, 2004. Corporate costs were lower in 2005 reflecting lower interest expense due to lower rates. Also, business development costs were higher in 2004.

LIQUIDITY AND CAPITAL RESOURCES

The Company's cash generated from operations, commercial paper issuances, available capacity under credit facilities and access to capital markets in Canada and the United States for the issuance of long-term debt, equity, or other securities are expected to be sufficient to satisfy liquidity and capital expenditure requirements. Subsequent to December 31, 2006, the available capacity under credit facilities was increased to approximately $4.3 billion.

The Company continues to manage its debt to capitalization ratio to maintain a strong balance sheet. The debt to capitalization ratio at December 31, 2006, including short-term borrowings, but excluding non-recourse short and long-term debt, was 64.6%, compared with 64.5% at the end of 2005.

The Company's current liabilities routinely exceed current assets. Current liabilities include current maturities of long-term debt, which are typically refinanced with long-term debt. Excluding current maturities of long-term debt, the Company does not have a working capital deficit.

The Company's cash balance at the end of the year includes $7.2 million (2005 – $16.4 million; 2004 – $6.0 million) held in trust in joint ventures, pursuant to finance agreements within the joint ventures.

Operating Activities

Cash from operating activities increased to $1,297.7 million for the year ended December 31, 2006 from $947.0 million for the year ended December 31, 2005 and $886.7 million for the year ended December 31, 2004.

(millions of Canadian dollars)	**2006**	2005	2004
Earnings net of non-cash items	**1,171.0**	1,300.9	1,027.8
Changes in operating assets and liabilities	**126.7**	(353.9)	(141.1)
Cash Provided by Operating Activities	**1,297.7**	947.0	886.7

Cash provided by earnings net of non-cash items, was $1,171.0 million for the year ended December 31, 2006, compared with $1,300.9 million and $1,027.8 million for 2005 and 2004, respectively. In 2005, the Company received special dividends from Noverco totaling $70 million which resulted in most of the variance between 2005 and 2006.

Changes in operating assets and liabilities were $480.6 million higher in 2006 compared with 2005. The increase was due primarily to the impact of a declining trend in the price of natural gas in the latter half of 2006 compared with an increasing trend in 2005. This caused reductions in accounts receivable and gas inventories in the current year, compared to increases in the prior year, partially offset by a decrease in payables in the current year, compared with an increase in the prior year, all within EGD.

Changes in operating assets and liabilities were lower in 2005 compared with 2004. The majority of this change was in EGD where higher commodity prices in 2005 increased accounts receivable and inventory.

Since the Company's pension plans are adequately funded, no additional funding above usual levels is anticipated for 2007.

Investing Activities

Cash used for investing activities for the year ended December 31, 2006 was $1,580.0 million compared with $876.5 million in 2005, an increase of $703.5 million. The majority of the increase was due to expenditures on property, plant and equipment, including the commencement of capital expenditures on a number of Liquids Pipelines projects and a $280.2 million investment in EEP as well as the acquisition of a 65% interest in the Olympic Pipeline for $101.4 million.

In 2005, the majority of cash spent on investing was for additions to property, plant and equipment, primarily in EGD. The increase in additions to property, plant and equipment in 2005, compared with 2004, was due to increased expenditures on capital projects. In 2005, the Company also made contingent payments to the former owners of the Company's 25% interest in CLH because CLH met cumulative volume targets. In 2004, the Company also made smaller contingent payments to the former owners of the 25% interest in CLH.

In 2005, the Company made minor acquisitions throughout the year amounting to $88.6 million whereas, in 2004, $833.9 million was used for acquisitions including Enbridge Offshore Pipelines, acquired for $743.4 (net of cash acquired) and other minor acquisitions. Cash proceeds from the sale of the investment in AltaGas partially offset the use of cash for acquisitions in 2004.

Financing Activities

In 2006, the Company generated $268.1 million through financing activities compared with cash used for financing activities of $22.1 million in 2005 and cash generated during 2004 of $114.4 million.

During 2006, the Company issued $1,125.0 million of new long-term debt in the form of medium term notes and repaid $400.0 million in medium term notes which matured during 2006. Short-term borrowings at EGD are used primarily to finance working capital, including inventory. EGD's short-term borrowings decreased by $266.9 million in 2006, reflecting the impact of decreasing natural gas prices. This decrease in short-term borrowings was partially offset by an increase in short-term debt to finance capital expenditures and investments.

Throughout 2005, the Company issued $1,020.1 million new long-term debt. This new debt replaced higher interest rate medium-term notes, which matured during 2005, and short-term debt, primarily commercial paper. The repayment of short-term debt was partially offset by an increase in short-term borrowings at EGD. EGD's short-term borrowings were higher at the end of 2005 due to increased commodity prices.

Dividends on common shares have increased again in 2006 due to an increased number of common shares outstanding and a higher dividend rate.

In 2004, cash was generated through a net issuance of $788.0 million of debt, partially offset by the payment of dividends. The Company also repaid $350.0 million of preferred securities at the end of 2004.

Debt Covenants

Enbridge Inc. and all of its subsidiaries are in compliance with all debt covenants. However currently, EGD does not meet a new long-term debt issuance test contained in its trust indenture due primarily to significantly warmer weather and a decline in EGD's allowed return on equity. In order for EGD to issue new long-term debt, EGD requires a long-term debt interest coverage ratio of 2.0 times for 12 consecutive months out of the last 23 months. Although EGD cannot issue new long-term debt until it meets the test, EGD may refinance existing long-term debt or issue new short-term debt without having to meet the new issue test.

Equity Issuance

On February 2, 2007, Enbridge closed the issuance of 13.5 million common shares for $38.75 per share to the public and issued 1.5 million common shares to Noverco for $38.75 per share, which maintains Noverco's ownership interest in Enbridge at approximately 9.5%. Gross proceeds from both offerings were $581.2 million.

Preferred Securities

The Company has $200.0 million of 7.8% Preferred Securities outstanding. On December 18, 2006, the Company announced its intention to redeem all 8,000,000 Preferred Securities on February 15, 2007 for $25.00 per Preferred Security plus accrued and unpaid interest of $0.2458 per security for the period covering from the last interest payment date of December 31, 2006 to the redemption date of February 15, 2007.

Expected Capital Expenditures

The numerous potential organic growth projects and other growth initiatives described in the business unit sections will require capital funding. The Company also requires capital for ongoing core maintenance and capital improvements in many of its businesses. In total, Enbridge expects to spend approximately $2.5 billion during 2007 on capital projects and maintenance. The Company expects to finance these expenditures through cash from operating activities, the equity issuance described above and additional debt, if required.

The decision to finance with debt or equity is based on the capital structure for each business and the overall capitalization of the consolidated enterprise. Certain of the regulated pipeline and gas distribution businesses issue long-term debt to finance capital expenditures. This external financing may be supplemented by debt or equity injections from the parent company. Debt, and equity when required, has been issued to finance business acquisitions, investments in subsidiaries, and long-term investments. Funds for debt retirements are generated through cash provided from operating activities, as well as through the issue of replacement debt.

Payments due for contractual obligations over the next five years and thereafter are as follows:

(millions of Canadian dollars)	Total	Less than 1 year	1-3 years	3-5 years	After 5 years
Long-term debt	7,574.4	535.3	800.0	748.4	5,490.7
Non-recourse long-term debt	1,566.9	58.4	301.3	180.0	1,027.2
Capital and operating leases	85.6	7.4	14.2	12.3	51.7
Long term contracts [1]	1,306.1	454.2	309.1	256.6	286.2
Total Contractual Obligations	10,533.0	1,055.3	1,424.6	1,197.3	6,855.8

1 Approximately $214.4 million of these contracts are commitments for products related to the construction of Liquids Pipelines projects; the minimum cancellation charge related to these contracts is $127.2 million.

SENSITIVITY ANALYSIS

The Company's earnings will fluctuate with changes in the market prices and certain volumetric parameters, such as weather. Enbridge manages its financial market risks through an Earnings at Risk (EaR) metric. Under the Company's EaR policy, using a two standard deviation confidence interval, the maximum adverse change in 12 months forward earnings from movements in market prices over a 1 month period of time will not exceed 5% of earnings. On December 31, 2006, the Company's EaR was 2.9%.

The following table shows the effect of changes in certain key financial market variables on earnings. These sensitivities are approximations based on business conditions as of December 31, 2006 and may not be applicable to other periods, under other economic conditions or for greater magnitude changes.

Factor	Decrease	After-Tax Earnings Impact
Exchange rate (CAD Dollar to US Dollar)	CAD$0.01	$1.1 million
Exchange rate (CAD Dollar to Euro)	CAD$0.01	$0.3 million
Interest rates	0.5%	$4.0 million

Interest rate fluctuations are captured in the Company's EaR metric. However, under GAAP, the impact of foreign currency fluctuations on earnings from foreign subsidiaries cannot be hedged and as such, these fluctuations have been excluded from the Company's EaR metric. The Company hedges the foreign currency risk of dividends it receives from foreign currency denominated subsidiaries. Any unhedged foreign currency dividends are captured in the EaR metric.

Weather is a significant driver of delivery volumes at EGD, given that a significant portion of EGD's customers use natural gas for space heating. Weather, measured in terms of degree day deficiency, directly impacts EGD's earnings as noted below. Degree-day is a measure of coldness, calculated as the total number of degrees each day by which the daily mean temperature falls below 18 degrees Celsius.

Factor	Incremental change	Approximate incremental impact
Weather	18 degree days	1 billion cubic feet
Volume	1 billion cubic feet	$1.3 million (after-tax)

In 2006, weather negatively impacted earnings by a larger magnitude than the above sensitivities would suggest. This resulted from the unusual pattern of distribution degree days during the year and their relative effectiveness. Degree days are fully effective, typically in the peak winter months, when their occurrence directly impacts the consumption pattern by a similar magnitude.

RISK MANAGEMENT

The Company's business activities are subject to market price, credit, and operating risks. The Company has formal risk management policies and risk management systems designed to mitigate these risks.

Market Price Risk

Enbridge's earnings are subject to movements in interest rates, foreign exchange rates, and commodity prices (collectively Market Price Risk). Given the Company's desire to maintain a stable and consistent earnings profile, it has implemented a Board of Directors approved Market Price Risk Policy to minimize the likelihood that adverse earnings fluctuations arising from movements in market prices across all of its businesses will exceed a defined tolerance.

The Market Price Risk metric utilized within that policy is Earnings at Risk. It is an objective, statistically derived risk metric that measures the maximum earnings loss that could result from adverse market price movements over a specified time horizon within a pre-determined level of statistical confidence, under normal market conditions.

The Company uses derivative financial instruments for risk management purposes. The following summarizes the types of market price risks to which the Company is exposed and the hedging programs implemented.

Foreign Exchange Risk

The Company has exposure to foreign currency exchange rates, primarily arising from its U.S. dollar and Euro denominated investments, where both carrying values and earnings are subject to foreign exchange risk. Furthermore, the Company is exposed to the economic risk on the conversion of the foreign currency denominated cash flows. The Company has a hedging policy to eliminate 50% to 70% of the long-term economic exposure related to its foreign currency denominated cash flows. It will also hedge shorter term anticipated foreign currency capital expenditures.

The Company hedges certain of its foreign currency denominated net equity investments with the use of cross currency swaps, par forward contracts, and foreign currency denominated debt. These long-term derivative contracts also serve to economically hedge a significant portion of the cash distributions from these equity investments. However, this does not eliminate the GAAP earnings volatility caused by exchange rate differences. During the year ended December 31, 2006, the Company received foreign currency denominated cash distributions and settled associated hedge transactions resulting in $17.1 million (2005 – $13.0 million) of incremental cash flows, which were not included in reported earnings.

Interest Rate Risk

Enbridge is exposed to interest rate fluctuations on variable rate debt. Floating to fixed interest rate swaps, collars and forward rate agreements are used to hedge against the effect of future interest rate movements. The Company monitors its debt portfolio mix of fixed and variable rate debt instruments to ensure that the consolidated portfolio of debt stays within its Board of Directors approved policy limit band of 15% to 25% floating rate debt as a percentage of total debt outstanding. Fixed to floating swaps are also used from time to time to manage this position and optimize the Company's debt portfolio. The Company is also exposed to fluctuations in interest rates ahead of anticipated fixed rate debt issuances. The Company may enter into interest rate derivatives to hedge a portion of the interest cost of these future debt issues.

Information about the debt portfolio itself is included in Notes 12 and 17 of the Company's consolidated financial statements for the year ended December 31, 2006.