FINAL TRANSCRIPT

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ENB - Q4 2007 Enbridge Earnings Conference Call

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PRESENTATION

Operator

Good morning, ladies and gentlemen, welcome to the Enbridge 2007 year-end financial results conference call.

I would now like to turn the meeting over to Mr. Vern Yu VP of Investor Relations and Enterprise Risk. You may now proceed, sir.

Vern Yu - *Enbridge - VP IR and Enterprise Risk*

Thank you. Good morning and welcome to the Enbridge Inc., fourth quarter 2007 earnings call. With me this morning are Pat Daniel, President and Chief Executive Officer; Richard Bird, Executive Vice President, Chief Financial Officer and Corporate

Development; Steve Wuori, Executive Vice President Liquids Pipelines; and Colin [Gruending], Vice President and Controller. During this call, we may refer to or speak to certain forward-looking information. Statements made with respect to forward-looking information are subject to a variety of risks and uncertainties pertaining to operating performance, regulatory parameters, weather, economic conditions, and commodity prices. A more full discussion of these risks is included in our securities filings which are subjectively available on both SEDAR and EDGAR.

This call is webcast. I encourage those listening on the phone lines to view the supporting slides which are available on our website at www.enbridge.com\investor. A replay of the call will be available later today and the transcript will be posted to our website shortly thereafter. The Q&A format will be the same as the Q3 call. The initial Q&A session is restricted to the analysts community. When we have concluded the Q&A for the analysts community, we will invite media on the call for further Q&A. For both Q&A sessions, we ask yourself -- to limit yourself to one question, and to follow up by rejoining the queue. I would also remind you that Colin and myself will be available after the call for any detailed follow-up questions you may have. And at this point I would like to turn the call over to Pat.

Pat Daniel - *Enbridge - President, CEO*

Great, thanks, Vern. And good morning everyone. Thank you very much for joining us. I'm pleased to report an excellent quarter across all business segments in Enbridge and an overall strong year, continuing our track record of consistent earnings growth in the company. Reported earnings for 2007 were $700 million, which is $1.97 per share, up from $615 million, or $1.81 per share a year ago. Adjusted earnings for 2007 increased 7% to $637 million, and EPS grew to $1.79 per share, which is the middle of the guidance range that we provided a year ago for you. We were able to accomplish all of this despite very strong headwind of a rapid appreciation in the Canadian dollar, which had about a $0.03 negative variance impact on our EPS.

Our success in mitigating the impact of the dollar on our earnings reflects, in our view, the strength of the core businesses of Enbridge and the substantial benefits of both the operational and geographic diversification of the company. Richard Bird, our newly appointed CFO, will review the 2007 financial results and our 2008 guidance in more detail in just a few moments. But prior to that, I would like to discuss the key developments over the past year, and then also update you on the status of the major growth initiatives that we have underway. First of all, though, although 2007 was a successful year on many fronts, we were very saddened by two tragic accidents. One of which, claimed the life of a customer in Toronto, and the other, the lives of two Enbridge employees near Clearbrook, Minnesota. We're continuing to investigate the cause of these accidents internally, and we're also assisting the regulatory authorities with their ongoing investigations.

Turning to the update on our major growth projects. As many of you know, several years ago we embarked on a strategic path to develop initiatives to broaden access to markets for Canadian crude oil. These new markets are needed in order to accommodate the growing oil sands production and also to maximize net back pricing for our customers. So we have been working towards advancing these initiatives which currently total some $12 billion in capital expenditures and commercially secure projects. I'm pleased that our efforts in securing these projects have come to fruition, and we now are really focused on execution of that major construction slate.

During 2007, we completed a number of smaller progress and we made excellent progress in construction and commercial activities on several of the larger projects that we have underway. The completion of these waive one projects will allow Enbridge to grow its earnings at compounded annual growth rate of 10% over the next four years. So starting with the projects completed in 2007, we finished construction of the $100 million expansion of the Athabasca Pipeline along with the Associated Pipeline laterals and the tank facilities that serve the Surmont and Long Lake projects. The Surmont facilities are in service and contributing to cash flow, and Long Lake is expected to be placed in to service in early 2008. Vector Pipeline's expansion, which has increased capacity by 200 million cubic feet per day, was placed in to service in the fourth quarter of 2007. We also made significant progress on a number of the other large growth projects, and let me first of all start by updating you on the major liquids projects.

Approximately two-thirds of the Waupisoo Pipeline has been installed and the project remains on track for completion in mid 2008 at a cost of about $600 million. This type line, as you know, is going to provide about 350,000 barrels per day of crude oil capacity from Cheecham down to Edmonton. Construction of the 320 mile Phase 1of our southern access mainline expansion from Superior to Delavan, Wisconsin, is also nearing completion. Phase 1 is going to add approximately 190,000 barrels per day of capacity is and scheduled to be in service early in the second quarter of 2008. And an additional 210,000 barrels per day is slated to come in to service in 2009 for a total of 400,000 barrels a day capacity when that expansion is complete.

We have also made good progress on Southern Lights and this is (inaudible) line from Chicago to Edmonton. Over 95% of the welding on the line between Superior and Delavan, Wisconsin, has been completed, and over 90% of this pipe has been laid in the ground, And that's about -- Delavan, by the way, is about three-quarters of the way from superior down to Chicago. We expect the $2.2 billion project to be in service in late 2010. The National Energy Board has concluded hearings on Enbridge's application to construct the Alberta Clipper Pipeline, and we expect a decision in the first quarter of 2008 on that project. The cost of the Canadian segment is anticipated to be $2 billion, while the U.S. segment, which is going to be undertaken by Enbridge Energy Partners, is estimated to be U.S. $1 billion. The target completion date of Alberta Clipper, of course, is mid-2010.

Moving along, the $100 million Spearhead Pipeline expansion received FERC approval at the end of last year. Construction is expected to commence in early 2008 with an early 2009 in-service date. This expansion will increase capacity from Chicago to Cushing by 65,000 barrels per day initially with the ability to increase capacity up to 190,000 barrels per day to additional pump stations. Although this project involved a relatively modest capital cost, its impact to Canadian producers is very significant as it allows them to receive more attractive pricing for their crude oil through access to new markets.

We have also made significant progress on a number of projects in the gas division of the company. Enbridge Energy Partners expects the third stage of the $635 million project clarity to be completed in February. When complete, Clarity will have a capacity of 700 million cubic feet per day, and that is to move growing gas production from east Texas and to major pipeline interconnects and to markets in the Beaumont, Texas, area. Current throughput is approximately 240 million cubic feet per day and is expected to climb to around 600 million cubic feet per day by the end of 2008.

In Enbridge Offshore, construction of the Neptune oil and natural gas pipelines was completed in late 2007, and we have begun now to earn stand-by fees on the pipelines. The project is awaiting completion of the final subsea connections prior to startup, which is expected here in early 2008. Construction has also begun on our $500 million Ontario wind project in Kincardine, and we anticipate the facilities to begin producing electricity during the latter half of 2008.

In addition to this portfolio of commercially secured projects, there is a waive of growth opportunities now forecast to come in to service beyond 2011. The second wave could be in the range of $14 to $15 billion of opportunity and would include additional regional infrastructure, mainline capacity, including Phase 2 of Alberta Clipper, developing new market access pipelines including Texas Access and expansion in to the Eastern part of pad two, and then longer term new access pipelines like Gateway and additional contract terminating all in that wave two. The most prominent of our wave two projects, of course, is the Texas Access Joint Venture with ExxonMobil which will bring Canadian heavy crude to the Texas Gulf Coast by 2011.

This project will enable Canadian producers and Gulf Coast refiners to share the heavy crude price differential between Canadian heavy crude priced in Alberta and Mexican Mayan crude priced in the Gulf Coast. On a quality basis, these two crudes are pretty much the same, but Canadian heavy traded on average about $10 per barrel discount to Mayan in the last quarter of 2007, and that's after taking in to account our expected pipeline tariff. So if you take that $10 differential, and at 400,000 barrels per day, that represents about $1.5 billion of economic benefit that can be shared between Canadian producers and Gulf Coast refiners, and that's without counting the fact that the pipeline could collapse the differential and improved net-back pricing on all western Canadian heavy crude.

So the Texas Access joint venture with deliver benefit to our customers much sooner by taking advantage of our existing mainline system and also ExxonMobil's existing multi-pipeline right-of-way all the way to the Gulf. So we are in the process of finalizing binding shipper commitments right now, and we expect to complete the successful open season by the end of February.

Up to now, I have spoken at length about our growth projects that are primarily focused on bringing additional Canadian crude oil to U.S. markets. Almost all of this incremental crude oil will come from the Canadian oil sands, as you know. Oil sands production is both an energy and greenhouse gas intensive process, and it's for that very reason that I am very pleased that Enbridge is leading the Alberta Saline [Aquifer] CO2 sequestration project, and we expect this project will help address the CO2 emission issue for our customers and lead to potential pipeline investment opportunities for Enbridge as well.

Before turning matters over to Richard for the financial review, I wanted to just comment very briefly on the senior management changes that we announced in early January. Given this unprecedented growth program in the company with $12 billion of secured projects and another $14 to $15 billion of projects under development, it's very important for Enbridge to focus not only on the current operations of the company, but also on the successful execution of these projects. Therefore, as you probably know, we have separated the project execution and operating functions, and have created a major projects group headed by Al [Monaco.] This group will be responsible for the execution of both liquids and gas projects that have capital costs in excess of $100 million. We believe that by having a group dedicated to project execution, we can place greater emphasis on this very key area for the future growth of the company.

The operating functions, of course, are the bread and butter of the company, and this new organizational structure will allow them to continue to focus on maximizing the efficiency of our existing operations and assets and at the same time developing growth initiatives and successfully integrating new projects when they are complete, which is a major undertaking as well. As you know, there have been other changes to the senior management team. Steve Wuori has moved into the role of Executive Vice President Liquids Pipelines, and Richard Bird became Executive VP, CFO, and Corporate Development. Those are my comments at this point, and I'll now turn it over to Richard to review the financial results in a little more detail. Richard --

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Richard Bird - *Enbridge - EVP, CFO and Corporate Development*

Thanks, Pat. I'll begin by commenting on our full year and fourth quarter 2007 results. Then I'm going to outline our 2008 guidance. I'll discuss the dividend increase and conclude with a recap of our financing strategy. So, as Pat mentioned, 2007 was another year of strong financial performance both on a reported and an adjusted operating basis. Continuing our track record of consistent earnings growth. 2007 reported earnings of $700 million or $1.97 per share compares with last year at $615 million or $1.81 per common share in 2006.

So breaking that down a bit, the significant increase in reported earnings is primarily attributable to solid contributions from all our business units plus two nonrecurring factors. Those being higher earnings from EGD due to colder than normal weather in 2007 while 2006 had experienced a warmer than normal winter, and a nonrecurring gain which was reported in our fourth quarter from the reevaluation of future income tax balances due to tax rate reductions enacted in 2007. The fourth quarter reported results reflect essentially the same factors as the full-year results. And we have removed the one-time and non-operating factors. Those are summarized on page 8 of the earnings release to provide that clearer picture of the sustainable results.

After normalizing for these factors, our adjusted earnings for 2007 were $637 million, or $1.79 per common share, representing an increase of 7% in adjusted earnings and 3% in earnings per share over 2006. And as Pat mentioned, the 2007 earnings per share of $1.79 is about the mid-point of our guidance range. There were a few factors that provided headwind earnings in 2007, and I'll touch on those. The dramatic appreciation of the Canadian dollar had a negative impact on earnings from our U.S. operations. Overall, that impact was about $10 million or $0.03 a share.

As Steve Wuori noted on our third quarter earnings call, we do hedge our economic exposure to the U.S. dollar, and we did receive in 2007 after-tax hedge payments of $25 million in cash. These payments are reflected on our statement of cash flow and on our balance sheet, but do not get booked to earnings under Canadian and U.S. GAAP. [AuxSable's] adjusted earnings of $10.6 million in 2007 are down by $15 million from 2006 in the fourth quarter earnings at $8 million were down by -- were 8 million lower than 2006.

In light of our very significant capital expenditure program, we believe that cash flow predictability is extremely important for Enbridge, and as such in 2007, we chose to eliminate the commodity price risk associated with AuxSable early in the year. Therefore, we entered in to financial derivative transactions to hedge AuxSable's earnings at the $10 million level for 2007. And going forward, we have taken advantage of the record high forward fractionation curve and once again locked in AuxSable's earnings for 2008 in the order of $20 million as compared to the $10 million that we locked in for 2007.

When you look at AuxSable's reported result, a loss of approximately $18 million, that includes the $10.6 million of operating earnings plus a mark-to-market loss of $28 million associated with the 2008 hedges. The 2008 hedges do not qualify for hedge accounting and, as such, the quarterly changes in the fair market value of these hedges are booked earnings. That's one of the things that we backed out in the adjusted operating earnings table. Energy service earnings are down $4 million for the year and $9 million for the quarter. This was primarily due to longer-term storage transactions at Title Energy that overlapped the year end.

Title is currently holding crude oil inventory in storage that was previously purchased and has been resold for a locked-in profit. However, the crude oil and storage must be revalued for accounting purposes in each period, and because the value of crude oil has fallen since the third quarter, we have booked the non-cash loss at Title. That loss will reverse when the crude oil is delivered to the customer later in 2008 at that locked-in profit. The 2007 contribution from CustomerWorks is lower by $12 million compared to 2006. And you will recall, pursuant to an OEB recommendation, CustomerWorks lost its major client, EGD, and now derives its revenue from smaller third-party clients. Note that we include CustomerWorks in the other category under gas distribution and services.

So we face some challenges in 2007, but as Pat noted earlier, we have a portfolio of assets that is well diversified geographically and operationally. There were several assets that performanced very well over the year, and I'll touch on some of those highlights now. Liquids pipelines full-year earnings were up approximately 4% in fourth quarter 2007 earnings increased by 25% when compared to 2006. The year-over-year increase was primarily driven by strong performance from Olympic and Spearhead Pipelines. Compounded by the fact that these systems contributed a full year of earnings in 2007 compared to a partial year in 2006.

As well, as Liquids Pipelines earnings were positively impacted by the recording of allowance for equity funds earned during construction, or AEDC, related to the Southern Lights Pipeline which is currently under construction. The AEDC will be collected in tolls once the pipeline is in service. A 25% quarter-over-quarter increase in Liquids Pipelines was driven by the factors I just mentioned, but also more significantly by strong performance for the Enbridge system which accounted for half of the improvement in the quarter.

Main line earnings reflected higher ITS, metrics bonuses and a higher contribution from SEP2. Increased through-put on the system allowed us to earn a higher return on equity under the SEP2 tolling agreement. And, finally, Athabasca systems earnings in the fourth quarter reflected contributions from new projects placed in service, such as the Surmont facilities and new tankage. Enbridge offshore earnings were up over 2006 despite the stronger Canadian dollar. After adjusting for the one-time impact of the insurance proceeds, Enbridge offshore was up by $5.5 million quarter-over-quarter and $3.7 million year-over-year. The Neptune oil and gas laterals were completed early in the fourth quarter and have been collecting stand-by fees since their completion.

As well, the Atlantis platform, which delivers significant volumes, was connected into our system in December and these volumes began to contribute to earnings. We expect volumes from Atlantis to ramp up in early 2008. Atlantis was one of the major third-party-owned projects that had been delayed as a result of the aftermath of the hurricanes, so it feels good see significant volumes being connected. Another major project that has been delayed is Thunderhorse, which its operator expects to be in service in the fourth quarter of 2008. Moving to Enbridge Energy Partners, EEP continues to deliver strong performance.

After adjusting for dilution gains, mark-to-market gains, and losses on derivative financial instruments that do not qualify for hedge accounting treatment, and a gain on the sale of the Kansas Pipeline, our earnings contribution from EEP improved by $11 million year-over-year and $2.5 million on a quarterly basis, again, despite the stronger Canadian dollar. The increase is due to a number of factors, including higher lake head system crude volumes, stronger margins, and increased volumes in the natural gas segment. In addition, we had a higher average ownership position in EEP of 15.4% in 2007 compared to an average of 12.5% in 2006. And therefore, received a greater percentage of EEP's earnings.

We remain excited about EEP's prospects and expect further growth in its earnings and distributions as it completes its suite of expansion projects. Enbridge Gas Distribution earnings were up by $16 million over the year while fourth quarter was up by $8 million relative to 2006, same quarter. That's after adjusting for weather impacts. EGD had an excellent year, primarily as a result of continued customer growth and higher operating margins. EGD also earned a benefit which was approved by the OEB for exceeding its targets in promoting energy efficient use of natural gas.

In international, after adjusting for a gain on the sale of land, earnings increased by $7 million year-over-year primarily from increased performance at CLH. CLH's improvement was driven by higher volumes, an increase in higher margin businesses, such as aviation and oil product sales, lower personnel costs and lower tax expense due to a reduction in tax REITs. The growth in CLH results is underpinned by rising demand for refined products due in strong economic growth that Spain is continuing to experience. And lastly, with respect to the results, corporate costs were lowered by $19 million year-over-year and were down by $7 million on a quarterly basis. This was primarily due to lower interest expense as we used the proceeds of the February 2007 equity issue to pay down debt.

I'll now move on to our guidance for 2008. We are guiding to an adjusted operating earnings per share range of $1.90 -- sorry, $1.80 to $1.90 for 2008. This may seem like a bit of sandbagging, coming off or $1.79 in 2007, with some of our major projects starting to kick in this year. So I'll elaborate a little. First, it's true that we are moving in to a period of rapid acceleration in earnings, as our $12 billion liquid pipelines project slate comes in to service over the next four years. And, as Pat mentioned, we do expect to achieve compound average annual growth rate of earnings per share of 10% on average through that 2007 to 2011 period.

It's also true 2008 the transition year as we move in to this higher growth period. With Waupisoo going into service by midyear and some phases of Southern Access expansion as well. Although, we'll only pick up a partial year impact from these. So we won't hit full stride with earnings growth acceleration until 2009. Another factor reflected in our guidance is the temporary impact that double taxation of tariff's earnings is expected to have in 2008. This is something we have previously pointed out. During the years in which tariff's capacity has been unutilized through 2007, we have been paying taxes a year in arrears on our tariff's earnings.

With tariff's capacity expected to be highly utilized in 2008, we will pay taxes on both 2007 and 2008 income in 2008. To dimension this for you, our guidance reflects expected tariff's earnings of about $70 million in 2008, compared to about $100 million in 2007. The sustainable earnings rate for tariffs is expected to be about $90 million. The difference between our double taxed earnings in 2008 and the expected sustainable level is about $20 million. So but for the double taxation, our guidance range would have been a nickel higher at $1.85 to $1.95, which is likely more in line with what you might have expected for this transition year.

Next I'll touch on the dividend increase of two and a quarter cents per share, or 7.3%. This is the same percentage increase as last year. It is certainly below the growth rate in dividends per share that we expect to average over the next four years, but it is above the expected earnings per share growth rate for 2008. As a result, our payout ratio will increase slightly and temporarily in 2008, maybe evening slightly above the upper end of our target range before declining as we hit our earnings per share growth stride in 2009. So you can expect to see a dividend growth profile that accelerates in step with earnings per share over the next four years, but with a smoother shape than earnings. The potential temporary excursion above the 70% payout ratio in 2008 is something we think is appropriate given the acceleration in earnings thereafter, which will allow us to trend the ratio down to the mid-point of the range as early as 2010.

Next, I'll update you on the financing plans that support our investment and earnings growth plans. I would like to emphasize that our financing plan over the next few years is very manageable. Let's start with our liquidity perspective, which entails significant amounts of unutilized bank credit. During 2007, and the first week of 2008, we secured additional committed credit facilities of $3.3 billion. This brings us to a total for Enbridge and subsidiaries of $6.6 billion of which $2.4 is either drawn or is allocated to backstop our commercial paper programs. The remaining $4 billion of unutilized capacity is available to provide bridge funding for our capital programs. We don't plan to dip in to this liquidity by much or for long, rather it provides a temporary bridge to permanent financing, which I will come to in a moment. However, it has been sized to be able to absorb a full-year's funding requirements plus a bit to allow us the flexibility to optimize permanent financing sources and costs and a writout in capital market disruptions.

Our updated permanent financing plans are summarized in the flowchart in the format that we have used in the past. Overall, capital expenditures remain the same as those presented during the Q3 2007 call. In this update we have removed the capital spent in 2007, just focusing on the go-forward picture. The total capital expenditures reflected in the chart include $1.7 billion of probability weighted development capital over and above the capital for the commercially secured projects. Starting with capital expenditures of $11.6 billion and deducting free cash flow of $5.1 billion, we are left with a net funding requirement of $6.5 billion over the four-year period. This leaves us with a debt requirement of $4.6 billion, and a gross equity requirement of $1.9 billion, again, over the four-year period. Most of this debt will be funded either at the parent company level or at Enbridge pipelines. However, we intend to pursue project financing for the Southern Lights project.

Turning to the equity column, after deducting new equity from our dividend reinvestment and stock option plans and proceeds from the net through-put asset sale, the net amount to be funded over the next four years is $1.5 billion. This can be met with asset sales, asset monetizations, hybrid securities, and common equity. The list of equity funding sources, you'll notice, lists issuing common equity at the bottom of the list and there is a reason for this. Part of Enbridge's value proposition has also been to source capital at the lowest possible cost. That's why Enbridge Energy Partners was initially created, likewise why the Enbridge Income Fund was initially created. The selection of sources of equity funding will be guided by the same principal and, at present, we are view our common shares to be undervalued and, therefore, not a preferred source of equity funding.

On the other hand, we have range of other alternative sources through which we expect to be able to attract capital on more attractive terms. This may include outright sale of selected assets, or in some cases, a monetization structure in which we introduce direct infrastructure investors in to selected assets, withdrawing a portion of our capital, but maintaining operating and strategic control. We are progressing with the development of a number of such alternatives from which we will select those with the most attractive terms. So the total financing plan involves some large numbers, but when you break it down in to its components and manage it over a four-year period, it remains very manageable. And on that note, I'll turn it back to Pat for his concluding comments. Great. Thanks, Richard. So these are very exciting times for Enbridge. We're continuing to execute on our $12 billion of existing crude oil expansion projects, and now close to securing another second wave growth opportunity with the Texas Access Pipeline joint venture with ExxonMobil. So while this projects will contribute modestly to 2008 earnings in cash flow, we still expect to grow earnings per share by up to 5% in 2008, as Richard has indicated. When the bulk of the growth projects come in to service, which is primarily in 2009 and 2010, we expect a steep ramp-up in earnings and cash flow. These projects will allow us to deliver a compound annual growth rate of 10% for the next four years from 2008 to 2011. Supporting this, of course, if a very diversified business platform that continues to delivery very strong operating and financial results. So, with that, we will now move on to the Q&A session.

QUESTIONS AND ANSWERS

Operator

(OPERATOR INSTRUCTIONS) Your first question comes from the line of Bob Hastings with Canaccord. Please proceed. Bob Hastings, your line is now open.

Bob Hastings - *Canaccord - Analyst*

Sorry. Looking out to 2008, you mentioned that you are looking at certain financing options, including selling some assets, and that might be a better or lower cost source of capital than doing an equity issue at current levels. For the buyers, of course we're seeing higher debt cost and also maybe higher equity costs for them as well. Have you -- how far along in the process are you? And how optimistic might you be that -- in terms of time frame of selling assets?

Pat Daniel - *Enbridge - President, CEO*

Well, we're -- we're still in -- I was going to say early stages -- stages in the process, Bob. We have identified some potential assets by looking at the market and the demand for energy infrastructure assets which continues to be very strong, and -- but, of course, timing is very important, and we want to ensure that -- that what we do is to maximize price on any assets we might sell or monetize. So we're in to the process, but premature at this point to indicate what assets might be available.

Bob Hastings - *Canaccord - Analyst*

Okay. Thank you. Do you -- or do you have any ideas the sort of timing that runs in to any kind off issue in terms of when you make a hard decision of going either the asset sale or an equity issue?

Pat Daniel - *Enbridge - President, CEO*

No. First of all, as you probably recall from previous sessions, we don't really require new equity until third or fourth quarter of this year. So we have got -- time is definitely in our favor, and that puts us in a very good position of being able to time the market to ensure that we maximize on pricing, so we're not -- that's not an urgent need and something we're going to be able to manage quite comfortably.

Bob Hastings - *Canaccord - Analyst*

And then you have got the debt facilities to handle it. Okay. Thank you very much.

Pat Daniel - *Enbridge - President, CEO*

Thanks, Bob.

Operator

Your next question comes from the line of Matthew [Akman] with [McGuire]. Please proceed.

Matthew Akman - *Macquarie - Analyst*

Thank you very much. On gas distribution, union gas is already in a multi-year incentive deal and I noticed the earnings from gas distribution for you guys were quite solid this year. Does that provide a base for multi-year deal for Enbridge? And when can we expect to hear potentially more news on that?

Pat Daniel - *Enbridge - President, CEO*

Yes, it -- it obviously provides that basin. As you know, Matthew, that is something we have been trying to put in place for a number of years, and we're in negotiations right now with regard to settlement on those -- that incentive system and probably will expect some news towards the end of this week if not the first part of next week.

Matthew Akman - *Macquarie - Analyst*

Okay. That sounds good. Can I follow up on the guidance, Richard, that you provided for 2008? Just to clarify, what does that assume about any new common equity or financing the gap that you guys have for 2008?

Richard Bird - *Enbridge - EVP, CFO and Corporate Development*

It assumes as a base that we would be issuing a similar level of equity as we did in 2007, towards the end of the year.

Matthew Akman - *Macquarie - Analyst*

Okay. But an equity issue wouldn't be highly dilutive to earnings, I guess, in the sense that it offsets debt financing costs in the numbers? Is that correct?

Richard Bird - *Enbridge - EVP, CFO and Corporate Development*

It wouldn't necessarily be highly dilutive to earnings, but we certainly view our equity as being undervalued and, therefore, it would be dilutive from a fundamental value perspective. Thanks I'll get --

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Pat Daniel - *Enbridge - President, CEO*

And Matthew just to note as Richard said, that's what we have assumed in our base case. Don't take that as a signal that we're going to issue equity.

Matthew Akman - *Macquarie - Analyst*

Right. I'm just looking for what -- you have to have something in your model, so I'm just looking for what that is.

Pat Daniel - *Enbridge - President, CEO*

You're exactly right. That's exactly what it is.

Operator

Next question comes from the line of Linda Ezergailis with TD Newcrest. Please proceed.

Linda Ezergailis - *TD Newcrest - Analyst*

Thank you. Further to Matt's question on your 2008 guidance, can you clarify what sort of allowance for equity under construction is being incorporated in to the guidance and for what assets?

Pat Daniel - *Enbridge - President, CEO*

Richard can you -- or Colin?

Richard Bird - *Enbridge - EVP, CFO and Corporate Development*

Yes, I don't think we're going to quantify specific amounts because, as usual, we don't dive down in to the details of guidance, one exception the information provided on tariffs just because that's such an unusual event, but we will recording AEDC on Southern Lights, Alabama Clipper, Southern Access Expansion in Canada, that's the Canadian portion of Alberta Clipper, and also the line four extension.

Linda Ezergailis - *TD Newcrest - Analyst*

Okay. And perhaps we can just talk on a high level as well. In the quarter, your Enbridge system had quite an impressive quarter, and can you help us break down the year-over-year growth between the various incentives and the ITS costs? And then what sort of ROE and volumes did you achieve on SEP 2 for both the quarter and the year?

Pat Daniel - *Enbridge - President, CEO*

And, I guess, even though Steve Wuori is here and is now the liquid pipeline guy, I probably will ask Richard to respond to that or Colin. Richard can you --

Richard Bird - *Enbridge - EVP, CFO and Corporate Development*

Sure. Yes. So we'll take a stab at that. On -- on the ITS, our earnings were 11 million with respect to bonuses. Our [Metriks] bonuses were 11 million, that's a couple of million higher than the prior year. On SEP 2 we hit the top end full utilization of the SEP 2 capacity, so we generated a return of just shy of 12%, which is as per the formula of multi-pipeline plus 300 basis points.

Linda Ezergailis - *TD Newcrest - Analyst*

And that was in the quarter not the year? Or for the year? The SEP --

Richard Bird - *Enbridge - EVP, CFO and Corporate Development*

That was for both the quarter and the year.

Linda Ezergailis - *TD Newcrest - Analyst*

Okay. So maybe the quarter had some element of full-year benefit? Like, was at it timing thing, or was it --

Richard Bird - *Enbridge - EVP, CFO and Corporate Development*

Yes, there would have been some catchup during the quarter, reflecting -- reflecting the full-year results.

Linda Ezergailis - *TD Newcrest - Analyst*

Great. Thank you.

Pat Daniel - *Enbridge - President, CEO*

Thanks, Linda.

Operator

Your next question comes from the line of Andrew Kuske with Credit Suisse, please proceed.

Andrew Kuske - *Credit Suisse - Analyst*

Thank you, good morning. If we look at your segmented financial information, I'm just curious on the decline that you have in your operating administrative expenses in a number of segments, in particular in Liquids Pipelines, if you could just give a bit of color on that.

Pat Daniel - *Enbridge - President, CEO*

Colin, can you take that on O&A and Liquids Pipelines.

Colin Gruending - *Enbridge - VP and Controller*

Sure, good morning Andrew, it's Colin. Yes, I think that is bucking the trend a little bit in Q4. We have had higher costs generally through Q4 last year and through the first three quarters of this year. One factor, which is improving is our experience with lower oil losses, Andrew. I think we have talked about that from time to time, and we had a favorable quarter within just in this quarter.

Andrew Kuske - *Credit Suisse - Analyst*

What would be the magnitude of the lower oil losses in the quarter? If memory serves me correctly in the past, that would tend to be sort of 5 to 8 million at the top end.

Colin Gruending - *Enbridge - VP and Controller*

Yes, I think it's probably think lower end of that rage, Andrew for the quarter.

Andrew Kuske - *Credit Suisse - Analyst*

And if I may ask another question, liquids related, if we look on the ITS now, you are about 2-1/2 years in from the point you struck the deal. Where are you tracking right now relative to your expectations?

Richard Bird - *Enbridge - EVP, CFO and Corporate Development*

Pretty close to expectations. We're -- I think the max is -- the max is -- in terms of bonuses in the $20 million territory. We -- we like to have that upside, but never really expected that we would likely capture it all, so we're capturing a little bit more than 50% of the potential on that dimension. We may be able to grind out a bit more, but it's about where we expect to be at this point in time.

Andrew Kuske - *Credit Suisse - Analyst*

Okay. That's great. Thank you.

Pat Daniel - *Enbridge - President, CEO*

Thanks, Andrew.

Operator

Your next question comes from the line of Robert Kwan with RBC Capital Markets.

Robert Kwan - *RBC Capital Markets - Analyst*

Good morning. If I can actually quickly follow up on Linda's question. In terms of it you look at the Enbridge system and the increase of just under 10 million, how much, whether it's ITS or SEP 2, was catchup for the, say, the first three quarters that was booked in the fourth quarter?

Richard Bird - *Enbridge - EVP, CFO and Corporate Development*

Well, we booked virtually all of the ITS in the fourth quarter, so -- so all of the annual difference -- in fact more than probably more than all of the annual difference would have been captured in the fourth quarter on that front. And with respect to SEP 2, Colin, can you help me out with that?

Colin Gruending - *Enbridge - VP and Controller*

I don't have it handy, but it's probably in the range of $1 million, Robert.

Robert Kwan - *RBC Capital Markets - Analyst*

Okay. So the ITS a year ago, was that booked fairly evenly through '06 then?

Richard Bird - *Enbridge - EVP, CFO and Corporate Development*

No, the bulk of it would have been booked in the final quarter as well. We might even have had some minor penalty amounts that we were booking earlier in the year in 2006, which is swinging the fourth quarter numbers relative to the full-year numbers.

Robert Kwan - *RBC Capital Markets - Analyst*

Okay. Maybe I can follow up offline then just in the full variance. The other question I had is if you are looking at the release, you provided elaboration on the Gateway project and one line is talking about that you secured some third-party funding support to advance the regulatory process. I was wondering if you could provide some more color around that and who the third-party might be?

Pat Daniel - *Enbridge - President, CEO*

We're -- with regard to the latter part of the question, Robert, we're not able to disclose that at this point, but we have indicated that -- that Enbridge has invested significantly in this project up until this point, but that we were reluctant to proceed until we were sure we had strong support from a number of parties to ensure the ongoing success of the project and through 2007 we have been able to pull that support together and are able to -- to resume work on Gateway. So we're quite encouraged by the level of support and feel that this -- this line is very, very important in the longer term to western Canadian producers to maximize their net-back pricing. But -- so suffice it to say, we're pleased with the support but not able divulge to the other parties at this point.

Robert Kwan - *RBC Capital Markets - Analyst*

I guess, Pat, it is possible -- are you able to say, are they shippers or groups of shippers or is it a potential investor?

Pat Daniel - *Enbridge - President, CEO*

More the former. Shippers, both producer push and refiner pull.

Robert Kwan - *RBC Capital Markets - Analyst*

Great. Thanks, Pat.

Pat Daniel - *Enbridge - President, CEO*

Okay. Thanks, Robert.

Richard Bird - *Enbridge - EVP, CFO and Corporate Development*

And Pat, if I could just elaborate on your answer a little bit. It's not so much that we're resuming progress on Gateway because, of course, we never have been doing anything other than continuing to develop gateway. In the interim, this is basically, I think, in line with our expectation that somewhere between 2012 and 2014 is the point in time where it will become desirable, from a commercial perspective, to have Gateway in place, and this just is a natural step in the progression towards that ultimate objective. So I wouldn't read into this a major change in the development of Gateway. It is consistent with what we have said in the past.

Operator

Next question comes from the line of Karen Taylor with BMO Capital. Please proceed.

Karen Taylor - *BMO Capital - Analyst*

Thanks, I have two questions. One talks about the competitive situation to the Gulf. So BP back in December announced that their open season for their Viridian Pipeline had not been successful so they are reconfiguring that. Can you just talk about the competition to the Gulf? How much of a time advantage do you have? And are the proposals that are floating around by Kinder Morgan and/or Trans-Canada and BP material? Then secondarily, just on the monetization opportunity to mitigate the 2008 equity requirement, and I know I have asked this before, you have a very complex corporate structure with Enbridge Income Fund which appears stranded, and EEP. Can you talk about how much more complexity you are willing to introduce into your corporate structure? And what exactly you are contemplating?

Pat Daniel - *Enbridge - President, CEO*

Okay. Let me start out with the first one with regard to competition to the Gulf. First of all, we know there are competing proposals to move crude oil to the Gulf. I can't speak for those proposals. I can only speak to ours, Karen and, as you know, just about every project that we are involved in we have some level of competition, but we -- we're -- we feel we're in a very strong position, and to answer part of your question, we think we have at least a year, if not two years, of opportunity in terms of being online before any competitive alternative. And one of the reasons for that is that we're already effectively, or we will be effectively two-thirds of the way there by the time the Southern Access extension down to Patoka, Illinois, is complete, and not only that, from that point down we'll be working on existing right-of-way on ExxonMobil's right-of-way. So when I referred to the very significant of narrowing that differential by $10 a barrel after toll times 400,000 barrels a day, that benefit can accrue only if the Enbridge alternative is sought in -- for a year to two years ahead of any competing alternative. So we think that that economic value is going to be incentive enough for shippers to favor our alternative.

Not only that, when you think of the shipping commitments required to support the different alternatives that could be out there, in our case, you are only going to have to support the capital from Patoka, Illinois, down to the Gulf, about a third of the distance that other initiatives will be looking at. So in terms of shipping commitment, it will be -- it be a much lighter shipping commitment and, hence, we think logically going to result in an easier project to support. And on a toll basis, we don't see how anybody can beat us, and as you know, we have significant economies of scale with the existing system. So we feel we have got, obviously a competitive advantage with a great partner, and huge economic benefit that can accrue to producers and shippers if they get their system in place in a hurry. So that's kind of our assessment of the competitive situation. Coming back to the monetization opportunity, you are right, we do have a complex corporate structure, and I -- I think it's fair to say that the monetization opportunities that we have are not likely to dramatically alter that corporate structure, and, of course, straight out asset sales wouldn't impact on the complexity at all. We undoubtedly will look at opportunities to utilize the existing structure to maximize on value, but I doubt that we will look at significantly increasing that complexity. So, it -- it -- although complex, as you know, results in a very effective and low cost of capital for us, very competitive cost of capital.

Karen Taylor - *BMO Capital - Analyst*

Thank you.

Pat Daniel - *Enbridge - President, CEO*

Thanks, Karen.

Operator

Your next question comes from the line of Steven [Paget] with First Energy. Please proceed.

Steven Paget - *First Energy - Analyst*

Good morning. Looking at your drip plan and your expectation of 300 million in funding from 2008 to 2011, do you see a potential for possible upside now that you have implemented a 2% discount? Yes, we do, Steven. I think we are assuming we could have upside up to a couple hundred million dollars in terms of reduced funding requirement as a result of that drip program. Okay. Thank you.

Pat Daniel - *Enbridge - President, CEO*

Thank you.

Operator

Your next question comes from the line of Matthew [Akman] with McGuire. Please proceed.

Matthew Akman - *Macquarie - Analyst*

Thanks, very much, follow-up question on financing, obviously Enbridge Energy partners is a big part of your growth plans, and we haven't talked about the financing there. I guess there's about a billion dollar financing gap there as well this year. And it seems like the stock market just doesn't want to really recognize the value of that partnership and the future growth there. So in the past you have done more kind of private placement-type deals. Is this something that would still be considered going forward? Or how do you plan to I guess meet that gap at the partnership level?

Pat Daniel - *Enbridge - President, CEO*

Maybe I can have Vern Yu speak to the partnership's funding objectives, Matthew. I think suffice it to say, in general terms, though, that we will use any and all available sources, whether it's private placements or common equity. But, Vern, can you be a little more specific?

Vern Yu - *Enbridge - VP IR and Enterprise Risk*

Sure. I think on the EEP conference call last week, Matthew, they expressed that they needed roughly about $800 million of equity equivalent this year to keep their credit metrics at the BBB mid-level. I think that would be sourced from all different sources of equity, whether it's private equity, hybrid equity or to the issuance of class A common unit. I think we are actively looking at working with private investors to see if we can potentially put through a sizable transaction and take off the equity overhang that probably exists on unit based on the fact that we had to pull that $200 million offering late in November.

Matthew Akman - *Macquarie - Analyst*

Okay. Thanks very much. It just seems like that is an undervalued situation. The market hasn't recognized. Can I just ask one last cleanup question? For CustomerWorks now given the OEB decision, and you guys have changed the segmentation of it, does that mean, Richard, that's effectively going to generate next to zero in earnings going forward? Is that what you guys are effectively saying?

Richard Bird - *Enbridge - EVP, CFO and Corporate Development*

No, I don't think it will be zero, Matthew. We're still going to see some earnings, but certainly not at the level that we have in the past. Probably in the vicinity of a million dollars a quarter.

Matthew Akman - *Macquarie - Analyst*

Thank you very much. Those are all of my questions.

Pat Daniel - *Enbridge - President, CEO*

Thanks, Matthew.

Operator

Your next question comes from the line of Sam Kanes with Scotia Capital. Please proceed.

Sam Kanes - *Scotia Capital - Analyst*

Thank you. Question in general on cost inflation pressure within your project base, and more specifically the Ontario wind farm now. I guess, Pat, that's 500, not 450. Can you just comment on how the press -- are they abating yet? Or is it still as it or worse?

Pat Daniel - *Enbridge - President, CEO*

I think --

Richard Bird - *Enbridge - EVP, CFO and Corporate Development*

I think on that one, Sam, things are now pretty well in hand. We have been under construction since about September, so -- or August. So I think on that one we're feeling quite good about where the costs are coming in right now as we move through the -- through the year.

Sam Kanes - *Scotia Capital - Analyst*

That's with respect to all projects including wind?

Richard Bird - *Enbridge - EVP, CFO and Corporate Development*

Well, you -- you specifically were asking about wind. And actually I think more broadly on all of the projects, we certainly think we have seen the worst in terms of what we announced in cost increase a quarter or two ago. So, yes, I think things are settling down considerably.

Sam Kanes - *Scotia Capital - Analyst*

Thank you, that's what I was looking for color-wise with follow-up. On this Alberta CO 2 consortia, I guess that's the right word to start with. Do you have a preliminary view on the shape, size, dollars of a pipeline network all to be probably still flushed out.

And you have a lot of partners in there, TransCanada, (inaudible) and of course now ConocoPhillips, that, (inaudible) surprised that Kinder is not there, but that doesn't matter, how is that going to shake out or flush out, evolve, as to who owns what of this project if it goes to pipe? And will you also be looking at sequestration capital as well as being an extension of that for your own account?

Richard Bird - *Enbridge - EVP, CFO and Corporate Development*

I'm going to ask Steve Wuori to respond to that, Sam, but just before he does and to maybe just elaborate a little bit on the point that was made with regard to the wind farm, you implied that the cost had gone from 450 to 500 million. I think we just rounded the 450 to half a billion, that wasn't due to cost increase. The cost is still 450 million. Steve, can you talk about the CO2 (inaudible -- low volume) .

Steve Wuori - *Enbridge - EVP Liquids Pipelines*

Sure. I think that's really, Sam, an exciting development that's coming along. There is probably three things to think about. One is the idea of a major backbone system in Alberta for CO 2 presumably sourced at Fort McMurray and/or Fort Saskatchewan or possibly [Joffrey]. And we certainly are involved in those discussions and interested in them. We think there may be solutions that don't involve a major backbone that may come first, including this ASAP project that we announced the other day.

The other two things to think about are what about enhanced oil recovery in some of the aging oil fields versus the sequestration, in this case of saline aquifer. Which both of those are possibilities. We see more immediacy right now with the saline aquifer idea. We're going to look for the right, with the 19 partners, look for the right opportunity there. Obviously our interest would be in pipeline ownership and operatorship. We are pretty unlikely to take positions in CO2 itself, although we will look at that as part of the overall commercial proposition. We're also continuing discussions on the OER front, and looking for parties that are in the aging oil fields and then sources of CO2. The issue there being you have to be fairly clean CO2 in order to do an EOR effectively. There is a lot happening there. I think it's timed really well when you consider the whole debate about oil sands production and environmental issues connected to it.

Sam Kanes - *Scotia Capital - Analyst*

Thanks, Steve.

Operator

(OPERATOR INSTRUCTIONS) Your next question comes from the line of Jeremy Rosenfield with [Desjardins] Securities. Please proceed.

Jeremy Rosenfield - *Desjardins Securities - Analyst*

Thank you very much. Good morning, everybody. I just have a quick question on the guidance range that you projected, $1.80 to $1.90. I wanted to know what your foreign exchange assumptions for 2008 were for that guidance range. And if you are not assuming the parity assumption for the base of 2008, where do you see EPS falling within that range, given parity?

Pat Daniel - *Enbridge - President, CEO*

Vern, do you want to just respond to that?

Vern Yu - *Enbridge - VP IR and Enterprise Risk*

For our forecast, we use CAD0.95 in our guidance, which is effectively $1.05 CAD/U.S. using foreign exchange nomenclature.

Jeremy Rosenfield - *Desjardins Securities - Analyst*

Okay. If we were going to assume parity, you would guide to somewhere toward the lower end of that guidance range or?

Vern Yu - *Enbridge - VP IR and Enterprise Risk*

A $0.01 change in the CAD U.S. exchange rate is worth about $1.3 million of after-tax earnings.

Jeremy Rosenfield - *Desjardins Securities - Analyst*

Okay. Perfect. Thank you very much.

Pat Daniel - *Enbridge - President, CEO*

Thank you.

Operator

I show no further questions. I would now like to turn the call over for any closing remarks.

Pat Daniel - *Enbridge - President, CEO*

Thank you, operator. And before I thank you all for attending, I would like to recognize Karen Taylor. I understand, Karen, that this is going to be your last call, and that you are going to be retiring from BMO. We at Enbridge very much appreciate the diligence, the thoroughness, and the fairness with which you have analyzed and covered our company over the years. We know that the industry and investors are going to miss your very well thought out analysis and guidance. So we very much appreciate that. We wish you and your family very well, and thank you for your years of time and attention paid to Enbridge. And with that, I -- Vern is there any other concluding?

Vern Yu - *Enbridge - VP IR and Enterprise Risk*

I think what I would like to invite people if you had any more detailed questions is to please give me a call in my office. And Colin and I will be available to answer those detailed questions. Thanks, everybody.

Operator

This concludes the presentation, and you may all now disconnect. Good day.