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PRESENTATION

Operator

Welcome to the Enbridge Inc. Third Quarter 2019 Financial Results Conference Call. My name is Sonya, and I'll be your operator for today's call. (Operator Instructions) Please note that this conference is being recorded.

I will now turn the conference over to Jonathan Morgan, Vice President, Investor Relations. Jonathan, you may begin.

Jonathan Morgan *Enbridge Inc. - VP Investor Relations*

Thank you, Sonya. Good morning, and welcome to the Enbridge Inc. Third Quarter 2019 Earnings Call. Joining me this morning are Al Monaco, President and Chief Executive Officer; Colin Gruending, Executive Vice President and Chief Financial Officer; Guy Jarvis, Executive Vice President, Liquids Pipelines; Bill Yardley, Executive Vice President, Gas Transmission and Midstream; and Vern Yu, President and Chief Operating Officer, Liquids Pipelines.

As per usual, this call is webcast, and I encourage those listening on the phone to follow along with the supporting slides. A replay and podcast of the call will be available today, and a transcript will be posted to the website shortly after. In terms of Q&A, we'll prioritize calls from the investment community. If you are a member of the media, please direct your inquiries to our communications team, and we'll be happy to respond immediately. We're again going to target keeping the call to roughly 1 hour and may not be able to get to everybody. So please try to limit your questions to one and a follow-up as necessary. As always, our Investor Relations team is available for your detailed follow-ups afterwards.

On to Slide 2, where I'll remind you that we will be referring to forward-looking information on today's call. By its nature, this information contains forecast assumptions and expectations about future outcomes, which are subject to the risks and uncertainties outlined here and discussed more fully in our public disclosure filings. We'll also be referring to non-GAAP measures summarized below.

With that, I'll turn it over to Al Monaco.

Al Monaco *Enbridge Inc. - President, CEO & Director*

Thanks, Jonathan. Good morning, everybody. Before we get going, I'd like to recognize Guy Jarvis, who is retiring from Enbridge after almost 20 years. Most of you have come to know Guy over that time and the tremendous contribution he's made to our company. He's delivered a lot of value and profitability in Liquids from great operating performance to system expansions, to improved customer service, to industry-leading safety results. We're obviously going to miss Guy, but he's leaving the Liquids business in good position today. Now we wouldn't be doing our jobs if we weren't thinking ahead. And succession planning, as many of you know, has been a



hallmark at Enbridge. As part of that, Vern Yu, will be stepping into Guy's shoes in the new year as Executive Vice President, Liquids Pipelines. He's been the COO at Liquids for the last while where he's worked closely with Guy, so the transition will be seamless. Many of you know Vern as well. Over his 25 years, he's put together a stellar record, including in Liquids and corporate development, where he's driven significant growth and been part of developing and executing our overall strategy at the company. Looking across the table, he's charged up and excited about this opportunity to run Liquids.

I'll start with the big picture on the quarter then on Slide 4. Q3 numbers came in strong, as you saw, so we should have a good result this year. We closed roughly \$6 billion of the \$8 billion of asset sales, so the balance sheet is in very good shape. And at 4.6x debt to EBITDA, we're at the low end of our target range. We made solid progress on key priorities, namely, on liquids mainline throughput optimizations, and we remain confident in our Mainline contract offering. I'm going to spend a little bit more time on that issue today. And of course, Bill and his team has reached a very good rate settlement on Texas Eastern.

We're executing our secured capital program with some key projects coming into service shortly and reinitiation of Line 3 permitting in Minnesota after the EIS appeals. So all in, a good quarter on all fronts.

Let's go to Slide 5 and the Q3 numbers. Strong operating performance and volumes drove another solid quarter. In Liquids, in particular, in Mid-Continent and Gulf Coast demand for Canadian barrels continues to drive volumes through our Mainline and downstream pipes. Same story on gas transmission where we ran full. And on Gas Distribution, continues to generate solid results under the Incentive Tolling as well as strong utility growth. So Q3 DCF per share was up 12%, which is a good result, given the much higher share count from the buy-in of our core sponsored vehicles at the end of last year. Based on the strong 9-month numbers then, we're confident that we'll exceed the midpoint of our guidance range of \$4.45 for the year. And Colin will go over the results in a few minutes.

So let's move to the business update, beginning with Liquids on the next slide. On the Canadian league of Line 3, we're now complete, and we came in under budget. Very good outcome there, I think. And then not to mention good relationships built up with our First Nations and Métis partners. Line filling is underway, and we should be fully operational by December 1, and we'll start generating cash with the partial surcharge.

More broadly, though, we're very pleased to be putting in new pipe in the ground as it enhances overall safety and reliability of the system and gives us more operating flex.

In Minnesota, the Supreme Court, denied hearing the EIS appeals as you saw. So finalization of the EIS and permitting is moving forward. In fact, on October 1, the PUC directed the Commerce Department to complete the incremental spill modeling and submit a revised EIS by December 9.

Let me outline the chronology of the remaining steps on Slide 7. From here, there are 2 concurrent tracks. On the regulatory track, once the revised EIS is finalized, the PUC will do public consultation and determine adequacy of the EIS, followed by a process to reinstate the Certificate of Need and Route permits. On the permitting track, that's the blue blocks here, state and federal agency work has been moving forward in parallel with the EIS, so that's good news. We'll refile the 401 permit, including amendments, to our initial application to reflect the agreements that have come forward with the Pollution Control Agency since the original. Once we have those permits in hand, there is the final authorization to construct from the PUC. So that's the sequencing we expect. And once we have timelines from the PUC and agencies, we'll be able to provide the next key milestones toward the start of construction.

Now on to Slide 8 and the status of WCSB Egress optimizations. On the Mainline, we expect to bring in about 100,000 barrels per day of incremental capacity by year-end. That extra 100,000 comes from capacity recovery and optimization of receipt and delivery windows as well as leveraging Line 3 Canada. We're also moving forward with a 50,000 barrel per day expansion expressed to serve PADD IV, and that should be ready in Q1. These optimizations and expansions are exactly what we're focused on today because they require minimal capital, they're highly executable, and they generate great return. They're also good for customers as they provide much-needed low-cost incremental capacity to the best markets.

On that topic, on to Slide 9 and an update on our downstream market access pipes. As you know, over the last 5 years, we've been



executing our Gulf Coast strategy by moving increased volumes from Western Canada, the Bakken, Cushing and, more recently, the Permian. On Seaway, we'll be launching an open season for a highly competitive expansion from Cushing to Houston. In the Bakken, the Dakota Access open season has been extended to include HFOTCO as a destination. And finally, Gray Oak will be up and running shortly, providing Permian production with a competitive outlet to local refining and exports. So again, highly capital-efficient expansions and newbuild supported by strong Gulf Coast demand.

Shifting back upstream of those pipes. As you know, we're in the process of offering long-term contracts on our liquids mainline. We expect to be assessing our open season results at about this point, but the CER's decision, the Canadian Energy Regulator, means the regulatory review will now precede the open season.

Given there's been a lot of commentary out there on this topic, I'd like to provide our perspective on it, starting with some very important context on Slide 10. First, and important, though, who actually ships on our system, the Mainline has always been a demand-pull system, so the vast majority of our customers, are refiners or integrated producers with downstream refining capacity, most have been shippers for decades in large volume. That's because the Mainline is directly connected to nearly 2 million barrels of refined demand and supplies another 1 million to our downstream Market Access pipes, that's Flanagan South, Southern Access and Line 9. These customers depend on our systems for feedstock. So they're supportive of our contract offering because they want a shared access to our system and stable, low-cost tariffs. Western Canadian non-integrated producers are shippers of record for only about 5% capacity, and most of them prefer to sell crude to others in Alberta or they have contracts on other pipes, including Trans Mountain and base Keystone. Many of the objection letters that you heard about actually represent a small fraction of our throughput, and many don't ship on our system. Now having said that, we, more than anyone, understand the importance of our Mainline to the basin. That's why we designed our offering to make sure all producers have an opportunity to get guaranteed access to the system so that they can better control their barrels and maximize netbacks. But if they still prefer to access our system, in some cases, on a short-term basis, we set aside capacity for those customers as well.

Now to Slide 11 and how our commercial model has developed, which is an important fact as well in this topic. We've operated under Incentive Tolling, essentially decoupling from cost of service for about 25 years. The reason for that is that our customers want us to be totally aligned with them, and that's what we want as well. For example, over that 25 years, we've significantly improved crude quality, given the slates that we ship down to the U.S. Midwest. We've hit key service metrics and critically important, provided toll certainty that you don't get with cost of service. Over the course of CTS, we've added significant new capacity and kept costs low. Our toll has risen by about 1% annually over that period as you can see, venture to say that's very unique in our industry. We've added over 700,000 barrels per day of throughput since 2011 through low-cost, innovative optimization and expansions. That's benefited the entire base, and we've put a lot of capital to work to ensure high reliability of the system.

As we prepared for expiry of CTS coming up to June 21, we spent a lot of time understanding what our customers' priorities are today. What we heard back was pretty clear in the last 2 years was that they want us to continue providing the lowest and most predictable tolls possible and even more low-cost optimization. But this time around, they also want guaranteed access to our system through long-term contracted capacity. So the point of all that is that the offering we've designed is based on what our customers are asking for and to assure the best outcome for all types of customers: producers, large and small; refiners; integrated companies; and marketers.

On to Slide 11 now, where I'll summarize the offering, the why it's good for all of those categories. Over the last 18 months, we listened carefully to industry, and we made several changes to the offering. We're offering customers a choice between traditional take-or-pay commitments and what we call a requirements option that's like an acreage dedication, which still gives customers guaranteed access to the system without the balance sheet commitment that goes with take-or-pays. We're offering toll discounts for larger and longer-term commitments, but importantly, for all shippers, when throughputs are very strong so that benefit of increasing volumes out of the basin comes back to them.

The chart on this slide illustrates that the toll we're offering for long-term commitments is at or below the toll we expect under the current CTS. Our offering provides shippers with toll certainty for years to come and shows how we have the competitiveness of our customers in mind. And it will result in the best netbacks to producers of any alternative out there as you see on that chart on the right.



For smaller producers, we lowered the minimum volume to 2,200 barrels per day. That's more or less a single batch per month. For those who want the status quo, we're putting aside a minimum of 325,000 barrels per day for spot capacity plus they can use any contract capacity that's not utilized. And we further optimized the system, and this is important, we'll add that new capacity to the spot pool.

I want to emphasize that this offering totally levels the playing field. Producers, refiners, marketers or integrated companies can all participate. But most importantly, it provides shippers with toll stability over time as you can see on the chart and importantly, the best netbacks out of the basin. It was exactly because of these features that we received significant long-term binding commitments to participate in the open season even before it was scheduled to conclude. That interest and more is there today and building.

Moving to Slide 13 and the next steps in this process. As you know, the CER determined that the regulatory approval of the offering was needed before the open season. That's the path we're on, and we're preparing our application and evidence. So what does that look like? Essentially, it's about demonstrating public interest. Our filing is going to show that our offering is available to all shippers, is fair and responsive to customer needs. We'll demonstrate the support we have and how we've taken the time to design this offering to meet the needs of all customers. That support will evidence the competitiveness of our offering with competing pipelines and alternative tolling frameworks, along with pricing impacts. We always expected a comprehensive review, so we think there's ample time for the CER to complete their review and hold an open season prior to the expired CTS in mid-'21. The bottom line is that we're committed to moving ahead with this offering because it's what our customers want and continue to support.

Moving now on to the gas business update on Slide 14. This quarter, Bill and his team reached a settlement with our Texas Eastern customer. Given the size and scope of Texas Eastern, this is a key milestone for the business. The rates that we agreed to strike a good balance between ensuring we get a timely and fair return on our capital while assuring we remain highly competitive to key markets for our customers. The new rate takes effect after FERC approval, which we expect to be in Q2.

On East Tennessee, we filed a settlement agreement there, which the FERC approved on October 1, small rate reduction here, but not a material impact on revenue. We've also began discussions with the Algonquin customers, and we're hoping to reach a similar settlement on that system. More broadly, though, you're probably picking up that this is part of our strategy to pursue more frequent rate cases in the future.

On to Slide 15. As you know, Bill and the team are working on several opportunities to expand our existing LNG footprint. We're positioned well in the Gulf Coast from South Texas to Louisiana where we can play a key role in supplying existing and new export facilities. In fact, we recently signed an important MOU with NextDecade to develop the Rio Bravo Pipeline in South Texas. That line would supply their Brownsville LNG project. And importantly, the line would be proximate to our Valley Crossing system so we're in a position to provide unique value to NextDecade. This comes on the back of other LNG supply deals, Stratton Ridge and the Cameron and Venice extensions more recently that we signed earlier up this year. We're pleased with the momentum here to serve growing export demand.

Moving now to the gas utility update on Slide 16. Again, good progress here on synergies from the combinations of 2 very large utilities. And ultimately, these synergies are going to drive out a very strong return on equity over our 5-year incentive-based framework, which should exceed the allowed ROE in Ontario.

In September, we received an OEB decision on 2019 rates, which was in line with our projection. Finally, we've secured new growth of over \$400 million this year in the utility and made good progress on adding new customers, again, demonstrating the utility's reliable growth model.

I'll wrap up on Slide 17 with a summary of the secured project inventory list, making good headway on advancing this \$19 billion of projects. Gray Oak, as I mentioned, is line filling with volumes ramping up in early '20. Hohe See, our German offshore wind project should be fully operational shortly.

In October, we began generating electricity from the first phase, and the adjacent expansion right next door will come in before the end



of the year. And with the combined capacity over 600 megawatts, this represents the largest German offshore wind project and our second European project in operation, the first being Rampion, in the U.K.

So with that, I'll now hand it over to Colin for the financial update.

Colin Kenneth Gruending *Enbridge Inc. - Executive VP & CFO*

All right. Thanks, Al, and good morning, everyone. I'll begin on Slide 18 with the year-over-year comparison of adjusted EBITDA.

As Al mentioned, it was another strong quarter. Adjusted EBITDA is up just over 3-point -- or at \$3.1 billion, and that's an increment of \$150 million higher than Q3 of last year. As you can see here from the bridge visually, this was really driven by the strength in the Liquids business. Liquids Pipelines EBITDA was up \$193 million, and it's largely a continuation of the same trends we spoke of at the last quarterly call.

The Mainline System continues to run full, averaging around 2.7 million barrels per day, and we also benefited from a 1% higher international joint toll that came into effect on July 1. Downstream, we continue to see strong volumes on Flanagan South and Seaway Pipelines thanks to strong demand for Canadian heavy barrels in the Gulf. Similarly, North Dakota production has contributed to higher throughput on the Bakken Pipeline System.

Moving on to gas transmission. The chart shows EBITDA down \$94 million quarter-over-quarter, although, most of this is the result of the asset sales in 2018, both the U.S. and Canadian G&P asset packages. However, in general, we continue to see strong utilization across all our gas transmission assets. We also had contributions from new assets like NEXUS and Valley Crossing in the quarter, which were placed into service late last year.

Another factor impacting lower EBITDA is the increased integrity operating expenditures, which I referenced on the last quarter's call. This will continue into Q4 when we complete our current inspection program.

Gas Distribution EBITDA was slightly lower for the third quarter. For the full year, however, we continue to see higher distribution rates, growth in customer base and synergies from the amalgamation efforts in our 2 legacy franchises. So overall, a positive first 9 months within our utility business and in line with our expectations.

Moving over to our power business, which was up \$9 million over last year. Two factors explain this: The first is slightly stronger wind resources across many of our North American wind farms; and secondly, the Rampion offshore wind farm in the U.K. was placed into service in Q4 last year. So that contribution is incremental this quarter.

Energy Services, I mentioned on the call in Q2 that we had benefited from extremely profitable locked-in margins over the first half of 2019. This quarter presents something much closer to a typical level, although, still \$17 million stronger than in Q3 of last year, which was weaker than typical.

Finally, eliminations and other increased by \$29 million year-over-year thanks to favorable administrative cost recovery from our businesses and stronger foreign exchange hedge rates in 2019.

Moving on to Slide 19 for the DCF perspective. Consolidated DCF per share for the third quarter was \$1.04, a 12% increase relative to the third quarter of 2018. As you can see on this chart, most of the factors in our DCF calculation were positive quarter-over-quarter, with a significant portion of the DCF per share growth coming from the strong EBITDA performance just mentioned. Other key drivers included lower maintenance capital due largely to our 2018 asset sales, and I'll speak to maintenance capital for the full year outlook here in a second; similarly, lower financing costs from asset sales proceeds we've used to pay down debt; and finally, some stronger EBITDA performance, as I discussed earlier, was in our joint ventures, which are equity accounted for, primarily Seaway and our Bakken investments. And along with new ventures placed into service, like NEXUS, we had higher equity distributions than we recorded in earnings.

And finally, it's worth highlighting the impact of the 2018 sponsored vehicle buy-ins on our DCF per share calculation. It's really captured in 2 columns. First, the distributions to NCI were eliminated with the buy-ins. However, this is offset by the issuance of shares to execute the buy-ins. So in summary, a strong year-over-year DCF per share growth underpinned by our strong operating results.

Turning now to Slide 20 and our financial outlook for the balance of 2019. As noted earlier on the call, DCF per share is expected to exceed the midpoint of our guidance range. First, we benefited from stronger Liquids performance over the first 3 quarters. We also saw much better performance in Energy Services and a colder winter in the utilities franchise in the first 3 quarters, but we aren't counting on more of this in Q4.

In addition, our original guidance included a December 2019 in-service date for Line 3. And the Line 3 delay, as a reminder, has a \$0.04 per share DCF impact for every month of delay. So we won't see that \$0.08 this year, and that's our largest guidance headwind.

We also expect higher integrity expense in our Gas Transmission business in Q4, plus, generally, maintenance capital is seasonally higher in the fourth quarter across the enterprise, and this will offset some of the strength in our operations. So tying it all back together, we expect to see full year 2019 results to be above the midpoint of our guidance range.

As for 2020, we're finalizing the budget, and we'll be sharing that outlook at Enbridge Day on December 10, along with our annual dividend guidance.

Moving on to Slide 21. I think the message here is that our balance sheet continues to be in great shape. We've now received \$6.1 billion of the \$8 billion in proceeds from the 2018 noncore asset sales, and we anticipate the remainder of the proceeds in the fourth quarter. As a result, our credit metrics are well inside our longer-term target range with consolidated debt to EBITDA at the end of Q3 sitting at 4.6x on a trailing 12-month basis. And that should remain right around that level for the rest of this year.

So to summarize financially, we're now almost a full year into our equity self-funded growth mode. We've had strong financial performance. We've made great progress on the balance sheet, and our credit metrics are strong.

Maybe before I turn this back to Al, I'd offer a brief comment on our capital allocation mindset. We continue to be disciplined on how we allocate shareholder capital, and we have been for years, and it's now part of our cultural DNA. This is how we think through our capital allocation choices. First, our overarching priority is to maintain financial strength, and this means protecting a robust balance sheet and living within our equity self-funded model, which we've adopted for a while now, having turned off our DRIP program last year. Next, we want to return capital to shareholders through a steadily growing and sustainable dividend, of course, while maintaining a strong payout. Currently, we returned approximately \$6 billion annually or around 65% of our cash flows.

And finally, we'll execute on our secured projects, including Line 3, which will create significant further financial flexibility. And we'll also take on new capital-efficient expansions and optimizations of our system where we can earn great returns and strengthen on our competitive position. Of course, we keep a close eye on risk, and we compare all investment decisions against return of capital options. So together, we think this remains a shareholder value-maximizing equation.

I'll wrap up here on Slide 22 with a quick reminder that we have our investor conference coming up on December 10 in New York, and we'll be webcasting that live, of course, followed by an investor lunch the next day on December 11 in Toronto. This will be an exciting day for us where our leadership team can showcase our resilient business, along with our enduring value proposition. We look forward to seeing you there.

Al, I'll turn it back to you to wrap up.

Al Monaco Enbridge Inc. - President, CEO & Director

Thanks, Colin. Just to close off here and summarize as you see on the slide here, it was another strong quarter financially. On Line 3, the Canadian side will come into service. And the Minnesota, the regulatory process is moving forward. On the Mainline, we're committed to the contracting of the system as I went through earlier. And we've got strong support for the value proposition that we're offering. We



secured roughly \$2.5 billion of new capital year-to-date, which will help extend our growth post-2020. And our balance sheet, as Colin went through, is very strong. So all in, we're pleased with the quarter and the progress that we've made on the priorities we laid out at last Enbridge Day.

So with that, I'll turn it over to the operator for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And our first question comes from Robert Kwan of RBC Capital Markets.

Robert Michael Kwan *RBC Capital Markets, Research Division - MD & Energy Infrastructure Analyst*

If I can just ask first about L3R and the construction schedule. I think previously, roughly speaking, I think you were looking at, call it, 6- to 9-month construction window. I'm just wondering with the delays, what you've lined up contractor-wise. And also, is that a linear kind of window with respect to whenever you get the ability to construct? Would it be 6 to 9 months? Or is it dependent on what season you actually get that notice to proceed?

Al Monaco *Enbridge Inc. - President, CEO & Director*

Well, I'll start off, Robert. It's Al. The 6 to 9 months is a good range and should be consistent depending on when we start, whether winter or summer. So that's part of the reason why we're going with the 6- to 9-month window that you referred to. So I think, generally, that's a good estimate to use for construction on the rest of it. It's not a long build. As you know, it's roughly 300 miles. So it's doable within that time frame.

Guy, on contracting, can you explain where we're at?

D. Guy Jarvis *Enbridge Inc. - Executive VP & President of Liquids Pipelines*

Sure. We've been very active on the contracting side for a number of reasons. Obviously, we want to secure them. But more importantly, our contractors have been in important force behind the coalition of support that we've had in Minnesota. So they've been supporting us throughout the state and with the elected officials and regulators in terms of demonstrating support for the project and how they're willing to come into these communities and build it very safely. The other element of it is in conjunction with those contractors, we are looking to, again, provide a lot of business opportunity into the tribes in Minnesota, and that effort is underway in conjunction with our contractors, and there's opportunity and contracts being sublet into some of those tribal businesses already. So we're very pleased with the way that's going.

Robert Michael Kwan *RBC Capital Markets, Research Division - MD & Energy Infrastructure Analyst*

Okay. That's great. And if I can just finish on the Mainline contracting, given you can't make everybody happy. I'm just wondering if you can give some thoughts on the ability to actually get a regulatory decision that maybe threads the needle or the other part. We heard a lot of opposition upfront. Do you think that those who you've got support, some of which may be amongst the largest shippers on the mainline today, do you think they'll be more vocal in their support as you get into the regulatory process?

Al Monaco *Enbridge Inc. - President, CEO & Director*

Yes. I'll start off, Robert. I think we will see more support, I think, some of the supporters or people that provided initial commitments through the open season, while we were doing that, certainly expected that they would be providing a vocal support at the hearing. Certainly, I think with the process being reversed now, you're going to see that support come through after hearing them more loudly than it came through in the first part. Guy, anything to add on that?

D. Guy Jarvis *Enbridge Inc. - Executive VP & President of Liquids Pipelines*

No. I would agree.

Operator

And our next question comes from Rob Hope of Scotiabank.

Robert Hope Scotiabank Global Banking and Markets, Research Division - Analyst

Maybe just start off on Line 5. We saw a positive legal decision recently. I just wanted to get what you think the next steps are in terms of getting the tunnel potentially in place. And then secondly, an update on the easement discussions and potential opportunities with the First Nations on the southern shores of Lake Superior.

Al Monaco Enbridge Inc. - President, CEO & Director

Do you want to go, Guy?

D. Guy Jarvis Enbridge Inc. - Executive VP & President of Liquids Pipelines

Yes. So it's Guy. First off, obviously, we're pleased with the decision from the courts around the tunnel agreements. We spent a lot of time negotiating those and making sure that they represented a feasible path to build the tunnel as fast as possible. So to have them validated is an important step for us. The geotechnical work that we've been doing at the Straits will be coming to a conclusion here shortly given we're running out of the season and that geotechnical work is giving us confidence that we're going to be in a position probably in the first quarter of next year to start making the necessary applications to pursue the completion of the tunnel, and that's exactly the path that we're on.

In terms of Bad River. We've got an offer out into the community, and our ability to address more people in the community is generating a lot of constructive feedback in conversations. So we are not in a position to suggest that we've got a deal in any way, shape or form just yet, but certainly, a lot more broad engagement.

Robert Hope Scotiabank Global Banking and Markets, Research Division - Analyst

All right. And then as my follow-up, I just want to dive further into your kind of capital allocation discussion. We're seeing some weakness in your U.S. peers. Could we see M&A trickle back into the mix? And secondly, what are your thoughts on the 2020 dividend? Are you still committed to the 10% growth?

Al Monaco Enbridge Inc. - President, CEO & Director

Okay. Well, on the first part of that, Robert, we always look at all the opportunities and which you pointed out is right. I mean there's some changes going on, on the U.S. side, and we're in relatively good shape, as Colin described. But I would say the M&A focus is not ours at the moment. We've obviously done the repositioning that we wanted to do around natural gas transmission and Bill's business and then the utility business that we added in Ontario. So the focus there was to reposition part of the asset base to more natural gas. So I think that's what we intended to do. That's what we did. So that's pretty much where -- what we needed to do and no real further expectation of large-scale M&A at this point.

Colin Kenneth Gruending Enbridge Inc. - Executive VP & CFO

Rob, on the -- it's Colin. On the dividend, as I mentioned, we're going to give that dividend guidance at Enbridge Day in conjunction with our budget and strategic plan outlook, rather than in isolation today. But I would highlight that we have increased the dividend consistently and substantially for the last 25 years, congruent with the return of capital mindset I referred to in my remarks.

Al Monaco Enbridge Inc. - President, CEO & Director

Yes. And just to connect another point on that, Robert. I mean as Colin alluded to, the dividend, as you know, has always been aligned to the multiyear look of cash flows. And given where we are overall in the business, performance has been good in '18, '19, the asset sales are in good shape. The balance sheet is strong, and we're in self-funding mode. So overall, we think our business is positioned quite well. And -- but as we said, we'll be speaking to that in a few weeks.

Operator

And our next question comes from Michael Lapedes of Goldman Sachs.

Michael Jay Lapedes Goldman Sachs Group Inc., Research Division - VP

A handful of questions. First of all, the surcharge on Line 3 in Canada, when does that go into effect, the \$0.20?

Al Monaco Enbridge Inc. - President, CEO & Director

Closing in on December 1 as we begin operations. So I think that's the deal. Guy?

D. Guy Jarvis Enbridge Inc. - Executive VP & President of Liquids Pipelines

Yes, that's correct.

Michael Jay Lapidès Goldman Sachs Group Inc., Research Division - VP

So how do those -- if I'm a producer or shipper, how do those barrels get to market if Line 3 U.S. is in -- I mean are they just coming down and serving some of the Canadian refineries? Or just trying to think about kind of the flow of volumes off of Canada Line 3.

D. Guy Jarvis Enbridge Inc. - Executive VP & President of Liquids Pipelines

Well.

Well. Yes. So obviously, the limitation to what we could do on Line 3 is that we are not changing our operating parameters in the United States until Line 3 is approved and constructed in Minnesota. So one, you've hit on a piece of the element. This does allow us to deliver incremental volumes within Canada. If you think back to Enbridge Days last year, we talked about how we had identified a delivery window in Regina where as we delivered off into the Co-op Refinery, if we could find a way to get some crude into tankage there in Regina, we could reinject back into the line and move the barrels downstream. So that is one of the things that we're able to do now with new Line 3 being in service. So I think we kind of have got the key ones already identified.

Michael Jay Lapidès Goldman Sachs Group Inc., Research Division - VP

Got it. And one or two other things. Just on Tetco rate case, how big of an uptick are we talking about? Just the EBITDA impact?

William Turner Yardley Enbridge Inc. - Executive VP and President of Gas Transmission & Midstream

Yes. So it's Bill. Really positive outcome with the customers banded between \$50 million and \$70 million uptick from a revenue perspective, which translates pretty well into the EBITDA.

Michael Jay Lapidès Goldman Sachs Group Inc., Research Division - VP

Okay. And then last thing and this one is kind of a small piece of your pie, but just curious if you had thoughts on it. One of the largest European wind developers, Orsted, just dramatically or significantly revised down its guidance for wind output and even some of the costs associated with building new offshore wind. Just curious -- I think they're one of the biggest players in Europe. Just curious if there's any read across to your existing or development projects or your desire to continue doing these type of projects.

Al Monaco Enbridge Inc. - President, CEO & Director

Well, given Vern just come out of that area, maybe we'll let him talk to that question. Vern?

Vern Yu Enbridge Inc. - President & COO of Liquids Pipelines

Okay. Thanks, Al. Wind resource was something that we were very particular in modeling when we made these investments. And we, as being conservative, took definitely too a haircut in how the third-party consultants had modeled the wind resource. So I think it's fair to say that we took a 2% or 3% haircut on availability based on primarily how the turbines would interact with each other and a couple of other factors. So I think from what we've seen to date on our farms, the resource is tracking to what we had modeled.

And then on the actual construction costs, I think we take -- we took a different model than Orsted. And Orsted's mostly done all of their wind farms where they've taken the capital cost risk. On the farms that we've invested to date, we've transferred that capital cost risk to the project constructors.

Al Monaco Enbridge Inc. - President, CEO & Director

I'll just maybe add one thing that I recall Orsted talking about that was presenting challenges, which is the wake effects. So where you're lining up projects next to each other. And as Vern said, in those situations, we try to be even more conservative, just given the -- as we learn more information, you always get smarter about these things, but we're trying to be conservative.



I think there was another part of your question that talked about, well, does it mean anything to us in terms of our opportunities. So I think what they're doing is sort of what they're doing, but we're focused on a pretty good inventory of 3 or 4 projects in the next little while that should carry us through for quite a while. So I think we're in good shape on the development side.

Operator

And our next question comes from Linda Ezergailis of TD Securities.

Linda Ezergailis TD Securities Equity Research - Research Analyst

Congratulations, Guy. Wish you all the best. With respect to the mainline regulatory application, I'm wondering if you can help us understand if the application evolves in any substantive way from your original open season? It sounds like it's substantially the same. And I'm wondering if you're just continuing discussions this fall with the shippers or if that's paused, pending the actual formal process? And kind of as a nuance for some aspects that I'm curious about, how might you -- it's not clear to me how you'll treat the Line 3 replacement timing. Would you have it allocated to spot? Might you prorate the contractual capacity until it's in service? Or might there be some other treatment? And any sort of off-ramps or any other attributes that you are considering would be appreciated.

D. Guy Jarvis Enbridge Inc. - Executive VP & President of Liquids Pipelines

Linda, it's Guy. Thank you for your earlier comment. In terms of the application, our approach to the application is largely unchanged. We always knew that in that proceeding, we were going to have to address the public interest requirements of the CER review. So clearly, some of the issues that were raised in the proceeding, in front of the CER, around impacts to producers and whatnot, we fully expected, we would have to address that anyway, and we're going to be in good shape to do that.

In relation to the customers, we're always talking to the customers. One of the circumstances that we found through that process that has been run is that despite our best efforts to communicate with as many people as we can, there's still some misinformation out there about what our offering is and isn't. So we're taking some steps to make sure that people are making their decisions about how to move forth with that filing on a common understanding of how the deal operates. But I think the critical factor is that we have a huge amount of support from a group of people that negotiated for 18 months with us to land on a TSA and an approach, and we're committed to moving forward with that.

The last part of your question around Line 3 is the way the -- well, first off, we still believe and hope that Line 3 is going to be in service before the end of the CTS so that it will not become an issue as it relates to the potential contracting of the Mainline. But the way our deal has been set up with shippers is that the contracting will not begin until Line 3 is in service. And if that means that there's an interim period beyond July 1, 2021, we will likely go with continuation of the CTS tolls, but they would be subject to refund -- any refund that might result when the contracting is implemented.

Linda Ezergailis TD Securities Equity Research - Research Analyst

That's helpful context. And maybe as my follow-up, just further to some considerations around how you allocate capital. I hear you loud and clear, no large M&A. But on the flip side, I perceive kind of that your asset sales have been substantially completed, and you don't need to sell assets. If you get approached for a very compelling price for any of your less core businesses or assets, would you entertain any sort of asset sales? And might that help maybe in closing what I perceive to be a gap in valuations in the public equity capital markets versus private money? Or might there be other levers you would consider to kind of close that gap, whether it be through JVs, with pensions, et cetera?

Al Monaco Enbridge Inc. - President, CEO & Director

Yes. The short answer to that one, Linda -- it's Al -- is yes. We're always looking at opportunities to recycle capital where it makes sense to release value. So there's a few things we have. I mean we've largely eliminated the assets that don't fit the pipeline utility model, which is great, but there are a few things here and there that we would act on if we got some compelling value for them. So -- and I think your point around closing the valuation gap is a good one. So yes, we will recycle. We won't hesitate to do that for whatever is left in the noncore category.

Operator

And our next question comes from Jeremy Tonet of JP Morgan.

Jeremy Bryan Tonet *JP Morgan Chase & Co, Research Division - Senior Analyst*

Just want to start with the Mainline here, and it seemed that the volumes came in quite strong this quarter and kind of exceeded our expectations. And I'm just wondering, is this kind of a run rate that you guys think you can sustain? Or was there anything that was happening here in the quarter or just kind of continuous effort to optimize capacity? And also with Mainline, I think there was a comment that you had said before during the remarks where the Mainline could discount below current tolls, I think, for long-term contracts. Just wondering it's kind of premature here, but your expectations for EBITDA impact in this -- with the next settlement, do you expect much of a change from where you guys are right now?

D. Guy Jarvis *Enbridge Inc. - Executive VP & President of Liquids Pipelines*

Jeremy, it's Guy. So our objective around as it comes to volumes and throughput and optimizations is to achieve exactly what you asked, that we're in a position to sustainably move as much crude as we safely can. So we've got a team here that is highly focused on that day in and day out, and they've been very successful. And I think it's one of the biggest accomplishments that we've got within our business unit. So that is absolutely our plan is to continue to deliver that stuff on a sustained basis.

As it comes down to the -- your question around Mainline contracting, on balance, we expect that the outcome of that Mainline contracting effort is going to be pretty much similar to almost like a CTS continuation, so to speak, from a -- from an average toll and revenue perspective.

Jeremy Bryan Tonet *JP Morgan Chase & Co, Research Division - Senior Analyst*

That's very helpful. And just one more if I could. On DCP, your partner there took a write-down on DCP. So I wasn't sure if your tax basis was impacted as well here. And if that could impact I guess your future plans for DCP, or has anything changed with the IDR simplification as far as ENB's view of DCP?

Colin Kenneth Gruending *Enbridge Inc. - Executive VP & CFO*

Yes. It's Colin. The first part of the question, the IDR transaction does not affect our underlying tax basis. And secondly, I don't want to comment on our partner's accounting practice, but they may have been carrying their investment in DCP at a different carrying value than we were having, I guess acquired interests in DCP at different points in time.

Al Monaco *Enbridge Inc. - President, CEO & Director*

I think a broader question, Jeremy. I mean I think you know our position on this. But maybe just to reiterate, the business itself doesn't fit perfectly with the rest of what we do at Enbridge in terms of the pipeline utility model. On the other hand, DCP has certainly migrated its commercial underpinnings to have more fixed fee. And of course, they have some good long-haul pipeline assets. So it's not as far off as it was perhaps in the past. So we're happy to hold the asset. And really, our partners and us are focused on how can we continue to grow the business and deliver strong cash flow contributions from that business, and that's where we'll have our focus.

Operator

And our next question comes from Robert Catellier with CIBC Capital Markets.

Robert Catellier *CIBC Capital Markets, Research Division - Executive Director of Institutional Equity Research*

I just had 2 clarifications here. One on Slide 7, the Line 3 replacement milestones. It doesn't really speak to any of the legal actions that might be possible so -- appeals of the route permit or Certificate of Need. So to the extent, you received the regulatory approvals, are you willing to proceed with construction while those appeals are pending?

D. Guy Jarvis *Enbridge Inc. - Executive VP & President of Liquids Pipelines*

Yes. It's Guy. We've done that a number of times before with projects of this nature. And I think our expectation is that once again, that if we have an authorization to construct from the Public Utilities Commission, we're going to start construction. And there may be appeals that are running concurrent to that, but we plan to move ahead.



Al Monaco Enbridge Inc. - President, CEO & Director

A couple of things just asked -- just -- sorry, could not change. Maybe just a couple of things to add. You'll notice on one of the blocks there, there is a time allowed for petitions for reconsideration by the PUC. So we've blocked that in. But after -- let me see if I can add this up. About 48 months now of regulatory review and having the PUC come down on Certificate of Need and route, cleared with

(technical difficulty)

the multitude of work that's been done, I think we would be, as Guy said, in good shape to proceed on those strengths.

Robert Catellier CIBC Capital Markets, Research Division - Executive Director of Institutional Equity Research

Sure. I understand. And then just one more quick one on Page 12 on the CTS contract framework. That first chart in the middle, that timeline seems to have 2024-plus. I think as I understood, the intention was to have a much longer contracting timeline. So how are we to interpret that 2024-plus?

Al Monaco Enbridge Inc. - President, CEO & Director

I think this is just to illustrate how the toll stays very steady, and that's frankly one of the biggest attributes of this. I think the contract offering includes either take-or-pays or the other form of contract for up to 8 to 20 years, I think, is the number, Guy?

D. Guy Jarvis Enbridge Inc. - Executive VP & President of Liquids Pipelines

Correct.

Robert Catellier CIBC Capital Markets, Research Division - Executive Director of Institutional Equity Research

All right. Okay. Understood. Congratulations, Guy, on the retirement.

D. Guy Jarvis Enbridge Inc. - Executive VP & President of Liquids Pipelines

Thank you.

Operator

And our next question comes from Shneur Gershuni of UBS.

Shneur Z. Gershuni UBS Investment Bank, Research Division - Executive Director in the Energy Group and Analyst

Most of my questions have been asked and answered, but I'm going to try them a little differently, I guess. With respect to the comments about returns and so forth -- I do really appreciate the comments at the end of your prepared remarks. But I was wondering how we should be thinking about CapEx going through this period where the E&Ps are talking down production growth, rig counts have fallen over 20%. How do you think about the next set of FIDs and how we think about CapEx for 2020 and 2021? Are you only going to focus on projects with a very high-return hurdles like a 4x EBITDA multiple? Just wondering like how you're responding to the current environment? And so should we be thinking that CapEx will be on the lighter end of your typical \$5 billion to \$6 billion range? And will the projects be mostly the ones that are kind of in the low EBITDA multiple return hurdles?

Colin Kenneth Gruending Enbridge Inc. - Executive VP & CFO

Shneur, it's Colin. Yes, so we'll talk more about this on December 10. But I guess, as a teaser, I think we agree directionally with what you're talking about. I think we used the words capital-efficient a number of times in our prepared remarks today, which is purposeful and, I think, highlights our mindset on this.

So for us, a lot of our businesses are utility-like, and I think we're going to target more of our investments in franchise, so to speak. So asset renewal, optimizations like we've talked about. So they're executable, high confidence and enhance our competitive position even defensively. So we think of that as checking a lot of the boxes in our utility pipeline mindset. So yes, I think I would agree with your overall assessment.

Al Monaco Enbridge Inc. - President, CEO & Director

Maybe just a quick point to add on to what Colin said. It's a good observation about how things maybe are changing over a bit again in certain basins, particularly in the U.S. and has been the case in Canada already. For us, other than being efficient with capital, the commercial underpinning of these things is critical to us. So in other words, we're not as naturally inclined to take volume risk and maybe go out on the ledge a bit in terms of what future production might look like. That is drilling dependent, so we're really focused on areas within franchise, as Colin said, but also areas that give us the right commercial underpinning where we're looking at strong predictable cash flows over a longer term. So that's another governor, if you will, on the capital allocation process for us.

Shneur Z. Gershuni UBS Investment Bank, Research Division - Executive Director in the Energy Group and Analyst

I really appreciate the color. Maybe it's a follow-up question. Just going back to the CER, and I'm sure we've beaten this one a little too much. But I really appreciated your views, and they clearly appear to be grounded in precedent. But I was wondering if we can talk about the risks a little bit here because given the decision a few weeks ago by the CER that already wasn't in precedent. So I'm kind of wondering if the CER cares about what you've negotiated with the shippers and what the shippers have told you? Or are they going to pursue their own independent study kind of as a go forward? Just trying to understand how that either risks to the processing or expectations are.

D. Guy Jarvis Enbridge Inc. - Executive VP & President of Liquids Pipelines

Yes. So it's Guy. I'll take a crack at that. One of the things that I think we want to caution people about the CER decision that was made was it -- the CER has not seen our offering. They have not seen our application, and they have not seen our evidence. So the decision that they did make was on a pretty narrow view of concerns being raised by people who think they need to be opposed to it.

We -- our view is that the CER's job is to listen to everybody in the process. They're going to have to listen to our evidence and our experts. They're going to have to listen to people who might be taking countering views. The CER has staff who will be advising the commissioners on viewpoints to come out of it. But I think that again, at the end of the day, the driving -- the guiding light, if you want to call it, that is the public interest. And that's why we have always been focused in terms of how this is going to play out, how we've conducted ourselves to this stage in being able to demonstrate that what we're planning to do is in the public interest, and we're confident that our filing is going to demonstrate that.

Al Monaco Enbridge Inc. - President, CEO & Director

And just to tag on to what Guy just said. If you go back to the slide that refers to the public interest, 13, I think, what we outlined there, there's 4 things that determine that. Open access, which we'll be clearly able to demonstrate just and reasonable tolls. And if you think about the chart where we're saying we pose to have been just and reasonable for a long time based on commitments provided by the shippers over the CTS period. And now if you look at where the future tolls are looking to be, a point we'll have to checkmark. Being responsive to the customer needs is a big part of public interest and demonstrating that it'll be good from the basins' perspective, from a pricing perspective. So those are the things that we have to demonstrate and we'll be putting forward in the application. But as you point out, I'm sure there'll be different views on all of that.

Shneur Z. Gershuni UBS Investment Bank, Research Division - Executive Director in the Energy Group and Analyst

All right. Perfect. I really appreciate the color. Guy, congrats on retirement.

D. Guy Jarvis Enbridge Inc. - Executive VP & President of Liquids Pipelines

Thank you.

Operator

And our next question comes from Ben Pham of BMO.

Benjamin Pham BMO Capital Markets Equity Research - Analyst

I wanted to go back to L3R in Slide 7, the sequencing of the milestones. And I guess you've dealt with these timelines before, and it seems quite visible from your perspective. And my question is in terms of in-service date, so you're not updating that right now because you think second half 2020 is still achievable, or you need to see that today line move a little bit more to the right?



D. Guy Jarvis Enbridge Inc. - Executive VP & President of Liquids Pipelines

It's Guy. You can paint a plausible scenario that would potentially allow us to be in-service in 2020. We will be ready if the PUC and the agencies are able to move forth on that schedule. But at this stage of the game, we certainly don't have enough line of sight to the timeline that these various steps are going to take. And until we get further through some of those milestones, we really won't be in a position to give -- narrow down when we think we can come into service.

Al Monaco Enbridge Inc. - President, CEO & Director

So the approach there really, I think, is we need some further clarification on timing. I think we'll -- we know there's a December 9 date out there for the EIS to be finalized. I think as we get through that and we get more timing guidance from the PUC and the agencies, then we can go from there if you will. It's just very hard to put an in-service date estimate without further clarity, and we think that's the prudent thing to do in this situation.

Benjamin Pham BMO Capital Markets Equity Research - Analyst

Okay. Makes a lot of sense. And my next question maybe is for Colin. And I'm just curious directionally on how you think about the dividend payout in the next few years? When you look at your total return proposition, I mean, historically, it's been 10% growth, 2% to 3% yield. So kind of double -- low-double-digit total return. So are you at a point now where your cash flows are more stable, you're contracting a mainline that it's going to be more -- the total return is the same, you can pay a little bit more than you have in the past?

Colin Kenneth Gruending Enbridge Inc. - Executive VP & CFO

Ben, I think I mentioned our current payout around 65% of cash flows, and we think that's a sustainable and prudent target. And I think we'll remain in and around that proportion going forward.

You're certainly right, the utility pipeline model affords a high payout. And returning capital, as I mentioned, is important to us. So I don't think there's any change, Ben, if you're looking for a vector here. That proportion has served us well in the past, and we see it as part of our value proposition going forward.

Operator

And our next question comes from Patrick Kenny of National Bank Financial.

Patrick Kenny National Bank Financial, Inc., Research Division - MD

Congratulations to both Guy and Vern. Appreciate the updated DCF per share guidance for 2019. But as we think about 2020, and I guess this might be another teaser ahead of Investor Day, but at a high level, maybe you can just walk us through some of the headwinds and the tailwinds that you're seeing at this point for 2020 relative to 2019. Obviously, Mainline optimization, Express and Seaway would be positives for the liquids segment, but just wondering about some of the other moving parts into next year.

Colin Kenneth Gruending Enbridge Inc. - Executive VP & CFO

Sure. I can appreciate the community's interest in sharpening '20 estimates. So I'll stop short of providing you that guidance. But maybe I can give you, like I say, a few big rocks to help formulate a preliminary view here.

So I think to start high level, 2020 should be at least as strong as 2019. And I'll give you 3 detractors year-over-year and 3 growth drivers. On the minus side, I think we'll see moderating energy services contributions, and 2019 was fairly strong. We'll probably also see normal weather, at least we'll budget for normal weather in contrast to colder weather in 2019. And thirdly, we'll have the absence of asset sales closed in 2019.

On the growth driver side, I think you're right, you had a few of them already. And in the liquids segment, we're going to see the Line 3 Canada surcharge, which is effective December 1, as we mentioned. We'll see Mainline volume optimizations we've talked about to the top end of 100,000 barrels per day range. We'll see -- still in this bucket, the tariff inflator and the Express capacity. In probably a similar quantum, we'll see contributions from some of the assets that we put in service recently, the German wind farm, our investment in Gray



Oak, Atlantic Bridge and other investments annualized. And thirdly, on the positive side, we should see contributions from Bill's gas transmission business, including rate case settlements when they become effective. So some headwinds but certainly some opportunities as well.

Al Monaco Enbridge Inc. - President, CEO & Director

And I think just to add maybe one point as of clarification. I don't think at this point, we're anticipating any Line 3 contributions from the U.S. side. So I think last year, obviously, at Enbridge Day, we had assumed that for 2020, but that's not the case now. So that's sort of just a background.

Patrick Kenny National Bank Financial, Inc., Research Division - MD

Okay. That's great. Much appreciated. And then I might have missed it, but was there an update on the commercial contracting front for Texas COLT or the timing on when you expect to have that project fully committed?

D. Guy Jarvis Enbridge Inc. - Executive VP & President of Liquids Pipelines

Yes. Pat, there isn't really much of an update right now. If you recall, our MARAD application has been stopped. We had to design and make part of our application, vapor recovery unit, which wasn't part of the initial scope. So that work is underway. I think we're hoping to get that back and submitted, and the clock started as early as the first quarter of next year. Obviously, lots of conversations continuing with lots of customers, trying to drum up the underpinning commercial support. And while there's a lot of conversations, we don't have anything to report just now, but we're certainly confident in the positioning of that asset vis-à-vis the -- a range of upstream crudes that can get there.

Operator

And our next question comes from Joe Gemino of Morningstar.

Joseph J. Gemino Morningstar Inc., Research Division - Equity Analyst

Great. Congrats on the quarter. And just one quick question about Alberta's new potential easement of the curtailment if producers can move to market by rail. Have you talked about any impact that may have on Mainline volumes in the next year?

D. Guy Jarvis Enbridge Inc. - Executive VP & President of Liquids Pipelines

Yes. We've been watching Mainline volumes vis-à-vis curtailment since before curtailment was announced. We've been actively engaged on a very frequent basis with the province and keeping them up to speed on our plans to be able to offer more capacity so that they can consider that additional egress as they contemplate how they're going to manage curtailment on an ongoing basis. The addition of rail is something that is causing us to look at this even more closely. So we continue to be highly engaged.

I think while we all have to watch it very closely, I can tell you that whether it's the producers or whether it's people we speak to within the government, if there's pipeline capacity available, that's where they all want the barrels to move first, and we fully expect that that's going to happen.

Operator

Thank you. And this concludes the question-and-answer session. I will now turn the call over to Jonathan Morgan for final remarks.

Jonathan Morgan Enbridge Inc. - VP Investor Relations

Thank you, Sonya. As always, our IR team is available to take any additional follow-ups you may have. And thank you, everyone, for your time and interest in Enbridge, and have a great day.

Operator

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



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