likely to be supported in a highly stressed economic and price environment.

Threshold volumes, which we believe provide some downside protection, are 1.25 mmbpd until Dec 31, 2014, and 1.35 mmbpd for the remainder of the contract. The time lag associated with thresholds minimizes some of the protection they provide, although we do not expect volumes to reach the thresholds. Thresholds are measured based on a rolling nine-month measurement period, followed by a 10-day notice period and a minimum 90 day negotiating period. At the end of this, if no agreement has been reached, the company could apply to the National Energy Board for relief through a return to cost of service. Threshold volumes also have carve-outs dealing with Bakken volumes and system availability.

A key feature of the CTS is that shippers may seek to renegotiate the settlement Jan. 1, 2013, if the Keystone XL pipeline has not received a U.S. presidential permit. The shippers have one month to provide notice if they wish to renegotiate on these grounds. Given that the CTS was negotiated under the assumption that Keystone XL would proceed, if volumes appear destined to be moved on the Enbridge system instead of Keystone XL for any meaningful amount of time, shippers would likely seek to renegotiate the CTS. Should renegotiation happen, we would not expect any outcome to negatively affect Enbridge any more than the impact of Keystone XL going ahead. As a result, we have conservatively assumed in our forecasts for the company that Keystone XL will proceed, or that shippers will renegotiate the CTS seeking an equivalent adjustment to the contract.

Enbridge Regional Oil Sands System. The system consists of two pipelines and related facilities that link the oilsands with terminals in Edmonton and Hardisty, Alta. The system benefits from long-term take-or-pay shipping contracts with strong counterparties. We expect returns to be relatively stable because the tolls under the contract are based on providing a specific return on equity--although returns could fall below expectations if operating costs exceed levels assumed in the agreement.

Southern Lights Pipeline. The Southern Lights pipeline features a 180,000 barrel-per-day, US$2.1 billion pipeline bringing diluent to Edmonton, Alta., from Chicago. It came into service July 1, 2010, on time and on budget. Its long-term take-or-pay contracts are consistent with Enbridge's approach to risk.

Other pipelines. Collectively, the earnings from these lines are quite small. The Spearhead pipeline is a very strategic asset that provides a platform that extends Enbridge's market reach into the critical oil hub at Cushing.

Gas Distribution (about 20% of earnings)

Enbridge Gas Distribution Inc. Enbridge Gas is regulated, and serves areas in central and eastern Ontario (including Toronto and Ottawa). The company's earnings are subject to an incentive regulatory structure that continues to provide a relatively predictable rate of return on equity. The lack of weather normalization will also affect earnings volatility; earnings can drop during years in which volumes are well below-average (particularly due to warmer-than-average winters).

Noverco Inc. Included in the Corporate segment, Enbridge owns a 38.9% interest in Noverco; it, in turn, owns a 71% interest in Gaz Metro L.P. (A-/Stable/--), which is the primary distributor of natural gas in Quebec and Vermont. Cost-of-service regulation with weather normalization support stable earnings. However, the company faces greater competitive pressures from cheaper forms of energy (particularly electricity) in Quebec.

Other gas distribution

Other gas distribution, which make up about 10% of this segment's earnings, include some smaller gas distribution companies for which earnings are reasonably stable.

Gas Pipelines, Processing & Energy Services (about 10% of earnings)

Enbridge Offshore Pipelines Enbridge Offshore is a system of natural gas gathering and transmission lines in the Gulf of Mexico. Earnings from this system are volume-sensitive, and can fluctuate due to bad weather and the region's relatively mature production profile. Volumes have not recovered to pre-Macondo levels.

Alliance Pipeline U.S. The Alliance Pipeline U.S. connects gas production in western Canada with markets in the Midwestern and Northeastern U.S. The pipeline has firm shipping contracts that underpin the steady and predictable earnings. However, the shipping contracts expire in 2015. There is a risk that contracts will be renewed later with material reductions in rates, which would negatively affect profitability past 2015.

Vector Pipeline. The Vector pipeline runs between Chicago and a major storage facility in Dawn, Ont. The pipeline benefits from shipping contracts for about 90% of its capacity through 2015. However, as with Alliance, the contracts could expire that year or suffer from less favorable renewals.

Aux Sable Canada L.P. Enbridge has a 43% interest in Aux Sable, a natural gas liquids (NGL) extraction facility that the Alliance Pipeline near Chicago feeds. Aux Sable has a contract with BP Products North America Inc. for its NGL production. BP pays Aux Sable a fixed fee and a share of profits above a certain level, and reimburses Aux Sable for all operating, maintenance, and capital costs (subject to some limits on capital costs). The agreement, which greatly reduces downside risk to the company, extends to at least 2026 (although BP has the right to cancel the agreement if losses exceed a certain level). During periods of high fractionation margins (which generally occur when natural gas prices are low relative to crude oil prices), the earnings form this business can well exceed floor levels that the agreement provides for.

Energy services.

These businesses provide marketing services to Enbridge's clients. Earnings might be significantly more volatile than those of the rest of the company's businesses and are of limited credit support accordingly. Enbridge sold all of its international assets in 2008 and 2009 to fund growth its growth projects in Canada and the U.S.

Sponsored investments (about 20% of earnings)

Enbridge Energy Partners. EEP is a U.S.-based limited partnership that owns and operates crude oil pipelines and natural gas gathering and processing facilities. The company operates the Lakehead system, which connects with the Enbridge System at the Canada-U.S. border. Enbridge is the general partner and a 23.8% ownership interest and 35% economic interest in EEP.

Some of the company's earnings are subject to changes in volumes. However, as with the Enbridge System, the Lakehead system operates under the CTS but has priority in receiving tolls under the system. Natural gas volumes are somewhat more uncertain.

As with Enbridge, EEP has expanded its oil pipeline system to accommodate increasing supplies of crude from western Canada, leading to increased cash flows.

The company had two material oil spills in third-quarter 2010, which led to cleanup costs estimated at US$750 million (up from earlier estimates of US$430 million). Insurance coverage is limited to US$650 million. The total costs could increase if there are further cost increases, fines and penalties, and lawsuit costs, all of which are difficult to predict.

Enbridge Income Fund. EIF owns a 50% interest in the Canadian portion of the Alliance Pipeline, an oil gathering and transmission system in southeastern Saskatchewan, three wind projects, and a waste heat generating system. Enbridge has a 35% ownership interest and 69% economic interest in the fund. The issues concerning the lack of

shipping contracts beyond 2015 on the Alliance Pipeline presents a risk to projected earnings. EIF increased its holdings in green energy projects in October 2011 when it purchased the Ontario Wind, Sarnia Solar and Talbot Wind energy projects from Enbridge for C$1.2 billion. EIF has issued some of the trust units it expects to issue in connection with the acquisition, reducing Enbridge's stake to 69% from 72%.

Aggressive growth profile

The company consistently has a large capital program, although we believe a track record of executing large projects on time and on budget and consistently investing in assets characterized by long term, commercially secured contracts with relatively low-risk, stable cash flows both mitigate this. Enbridge is diversifying its base of investment somewhat, although the bulk of the capital program is for the core businesses. The capital program is shifting to a larger number of smaller projects from larger capital projects.

Capex for 2012 will likely exceed C$5 billion (on an asset base of more than C$31 billion). From 2012-2015, capex will likely exceed C$15 billion, and given the front-end loading of investment over the period, this might be conservative.

For the past several years Enbridge has been focused on organic growth, completing several large projects in 2010. In 2011 the company has announced some acquisitions, including a 71% interest in the Cabin Gas Plant and 50% of the Seaway Pipeline. The Cabin Gas Plant investment is consistent with typical investment parameters for Enbridge. The C$1.1 billion Seaway pipeline acquisition and planned reversal appears somewhat different, given that the asset does not have any existing contracts. However, the project effectively replaces the Wrangler project and the company has gauged shipper commitment from the open season from the Wrangler pipeline. We expect the asset to develop the same type of contractual profile as other Enbridge assets. In addition, this is a strategic acquisition for the company in that it becomes operational sooner than Wrangler, and provides Enbridge with a pipeline to the Gulf Coast refinery complex that it will try to lever into increased volumes on the mainline. The announcement has significantly reduced the WTI-Brent differential.

Profitability and diversity

Profitability has been increasing for several years, due to a large number of organic growth opportunities. The profit base is quite solid, in our opinion, since most earnings from its subsidiaries are either relatively low-risk, long-term contracts that provide floor levels of profitability or are directly regulated. The business has a relatively high degree of transparency regarding future earnings and we expect growth projects to continue to expand the stable base for earnings. Diversity is good, in our view, with a solid earnings base from regulated energy transportation and distribution assets.

Financial Policy

Enbridge's targeted financial parameters reflect a moderately aggressive financial risk profile but a reasonably conservative approach to financial risk management, in our view. The parameters include:

- Adjusted reported debt capitalization of 60%-65%, excluding the nonrecourse debt of EIF and Alliance Pipeline;
- Floating-rate debt as a proportion of total term debt of less than 25%;
- Maximum annual term debt maturities of less than 15% of total term debt;
- A common dividend payout of 60%-75%; and
- An earnings-at-risk target of less than 5%.

The policy to limit earnings at risk exposed to market prices to a maximum of 5% of the next 12 months forecasts earnings results in the company hedging about many market risks, including interest rates, foreign exchange and commodity price risks, among others. Counterparties are typically large shippers with investment-grade ratings on them. In part, a 10% earnings per share target also influences the capital program.

Significant Financial Risk Profile

Accounting

Enbridge reports in Canadian dollars and its financial statements are prepared in accordance with Canadian generally accepted accounting principles (GAAP). The company plans to convert to U.S. GAAP for interim and annual financial statement reporting Jan. 1, 2012. We do not expect this to affect the ratings.

To better reflect Enbridge's assumed financial risk, Standard & Poor's makes an offsetting adjustment to its total debt outstanding for the amounts relating to purchased gas-in-storage at Enbridge Gas Distribution. The company's commercial paper program finances gas-in-storage amounts, and, as such, reports it as part of short-term debt. Given our expectation of full commodity cost recovery under the Ontario Energy Board's provisions and to eliminate the seasonality, we remove the amounts from short-term debt and total assets. Enbridge had total reported consolidated debt of C$15.2 billion in 2010; however, we used an adjusted debt total of C$15.0 billion. Standard & Poor's includes Enbridge's nonrecourse debt in total debt for analytical purposes.

Cash-flow adequacy

Given the high likelihood of ongoing capital investment, we expect last-12-month FFO of about C$2.5 billion to continue growing, albeit at a rate that increases in debt issuance offsets. As a result, we expect Enbridge's consolidated credit metrics to remain at the low end of the spectrum for the ratings, with some headroom over the 13% FFO-to-debt floor we have established. Adjusted leverage should remain within management's 60%-65% target, although on an adjusted basis we expect it will be closer to the high end of the range. We believe the company will remain free operating cash-flow negative for the next several years as a result of the large capital program.

We have noted management's willingness to support credit metrics through C$950 million in preferred share issuance and asset dropdowns to EIF. We also believe the company has other levers, including selling down some of its positions in its sponsored investments that it may use to raise cash to fund its growth program if required, supporting credit metrics.

Weakening Enbridge's cash flows somewhat is a reliance on subordinated distributions from affiliates in which the company does not have 100% ownership and ultimate control of cash flows. About 30% of 2010 adjusted earnings come from sponsored investments and several smaller assets across the company.