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EEP - Q1 2013 Enbridge Energy Partners L.P. Earnings Conference Call

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PRESENTATION

Operator

Welcome to the Q1 2013 Enbridge Energy Partners LP earnings conference call. My name's Stephanie and I will be your operator for today. At this time, all participants are in a listen-only mode, and we will conduct a question-and-answer session towards the end of this conference.

(Operator Instructions)

As a reminder, this conference is being recorded for replay purposes. And now, I would like to turn the call over to Mr. Sanjay Lad, Director of Investor Relations. Please proceed, Sir.

Sanjay Lad - ***Enbridge Energy Partners L.P. - Director of IR***

Thank you, Stephanie.

Good morning, and welcome to the 2013 first quarter earnings conference call for Enbridge Energy Partners. This call is being webcast, and the copy of the presentation slides, supplemental slides, condensed unaudited financial statements, and news release associated with it can be downloaded from our website at Operator. A replay will be available later today, and a transcript will be posted to our website shortly thereafter.

As a reminder, the Partnership's results are also relevant to Enbridge Energy Management, or EEQ. I will be available after the call for any follow-up questions you may have.

Our speakers today are -- Mark Maki, President; and Steve Neyland, Vice President, Finance. Available for the Q&A session, we also have Steve Wuori, President, Liquids Pipelines, Enbridge, Inc.; Leon Zupan, Chief Operating Officer, Liquids Pipelines, Enbridge, Inc.; Terry McGill, Senior Vice President, Operations and Engineering; Darren Yaworsky, Treasurer; and Bill Ramos, Controller.

This presentation will include forward-looking statements. The risks associated with forward-looking statements have been outlined in the earnings release and the partnership's SEC filings, and we incorporate those by reference for this call. This presentation also contains certain non-GAAP financial measures. The reconciliations -- the reconciliation schedules for these non-GAAP measures to comparable GAAP measures can be found in the investor section of our website. Please turn to slide 3.

I will now turn the conference over to Mark Maki, President.

Mark Maki - ***Enbridge Energy Partners L.P. - President***

Thank you, Sanjay. Good morning, and welcome to our first quarter 2013 earnings conference call.

Before outlining this morning's agenda, the Partnership's Management team would like to congratulate Leon Zupan on his recent appointment to the role of Chief Operating Officer for Enbridge's Liquids Pipeline's business. Leon is a tremendous leader, and his 25-plus years of experience with Enbridge -- predominantly in the Liquids Pipeline organization -- position him as the natural to assume the COO role. We thank Leon for his leadership here in Houston, and we look forward to continuing our close working relationship with Leon in his new role.

As it relates to our agenda for this morning, I will provide an update on the Partnership's growth program, along with our long-term growth outlook, and then pass it along to Steve Neyland, to present our financial highlights.

Please turn to slide 4. The Partnership has made visible progress on our growth program this quarter, and we are pleased to announce the Bakken Pipeline Expansion Project and the Bakken-Berthold Rail Project were both placed into service. The Bakken Pipeline Expansion Project provided an incremental 120,000 barrels per day of takeaway capacity from Beaver Lodge, North Dakota, to Cromer, Manitoba, where the pipeline connects to the Enbridge main line. This project has 79,000 barrels per day of shipper pay volumes in 2013, and it ramps up to 100,000 barrels per day in 2014. Our Berthold Rail facility can accommodate unit train movements and will ramp up to provide 80,000 barrels per day of takeaway via rail, over the next couple of quarters. These projects provide incremental takeaway for growing crude oil production from the Bakken Region, and ultimately enhance the flexibility for our customers. Additionally, we anticipate our Bakken Access Project will enter service this quarter, and will offer 100,000 barrels per day of gathering and truck end-loading facilities into our system.

Next, we are working diligently to secure the future of the Partnership while delivering on our commitment to achieve industry leadership in the key objectives of system integrity and safety. Through these efforts, we are significantly enhancing the integrity of our line 6B. Portions of our line's 6B 75-mile replacement project were placed into service in April, with the remaining portions entering service over the next couple of quarters. As it relates to our eastern access projects, the 220-mile line 6B replacement is progressing well, and will phase into service in early 2014. And this will expand the line's capacity from 240,000 to 500,000 barrels per day between Griffith, Indiana, and Sarnia, Ontario. Next, our Line 5 Expansion is scheduled to provide an incremental 50,000 barrels per day of capacity from Superior, Wisconsin, into Sarnia this quarter. Finally, our line 62 Spearhead North Pipeline Expansion Project will increase the line's capacity from Flanagan, Illinois, to the terminal at Griffith, Indiana by 105,000 barrels per day by the end of 2013.

Turning to our main line expansions, the first phase of our main line expansions, specifically the upsizing of both Line 67 and Line 61 by adding pump stations, is progressing on schedule, and will enter in service in conjunction with Enbridge's expanding corridor to the US Western Gulf Coast, via the Flanagan South and Seaway Twin Expansions.

Moving on to the Sandpiper Project, in late March, the FERC denied the Partnership's petition for a declaratory order on procedural grounds, related to the Partnership's objective of achieving rate certainty for the cost of service parameters of the Project. The Project is an integral component of our light oil market access strategy, which links North Dakota supply with the demand pole of the Eastern and Southern markets. We plan to refile our petition with the FERC to address their concerns. The pipeline is expected to begin service in early 2016, subject to obtaining regulatory approvals and finalization of scope.

Turning to natural gas, the Partnership's natural gas projects are also proceeding on schedule. Our 150 million cubic foot a day Ajax cryogenic natural gas processing plant is mechanically complete, and we plan to begin commissioning the plant once the associated NGL takeaway infrastructure is up and running. The Texas Express NGL Pipeline and gathering project is progressing well, and is on track to begin service in the third quarter of this year. The pipeline will provide 280,000 barrels per day of much needed NGL takeaway capacity from the liquids-rich basins in the mid-continent, Texas and the Rockies, through interconnected pipelines to the premiere NGL market at Mont Belvieu, Texas. As you can see, we are very pleased with the progress of our -- on our organic growth platform, and we are focusing on delivering the projects on time and on budget.

Let's move on to slide 5. The Partnership is pleased to announce it is expanding its natural gas footprint in East Texas with plans to construct 150 million cubic foot a day, cryogenic natural gas processing plant near Beckville, in Panola County, Texas. The new plant will offer incremental processing capacity for existing and future customers in the ten county cotton valley play region -- a very productive gas-rich reason -- region. The addition of the Beckville plant will expand the Partnership's processing capacity to approximately 820 million cubic feet a day in the East Texas area. The Beckville Plant Project will integrate very well with our existing infrastructure and our extensive East Texas gathering and gas processing system. In addition to Cotton Valley, there are other liquids-rich zones in the region. We have already procured the plant tower and vessels, and construction of the East Texas Beckville plant is expected to begin late in 2013, with an anticipated service in early 2015.

Let's move on to slide 6. The market access programs announced by Enbridge and the Partnership are a key strategic initiative we had collectively undertaken to open access to the best markets along the US Gulf Coast, the US East Coast, the US Midwest, and Eastern Canada. Our pipeline projects will match growing North American supply to markets that have traditionally been served by foreign offshore imports. We have previously discussed the current market environment of price dislocations for crude oil between inland crude and the water-borne equivalent. North American supply is priced at a discount to imported Brent, Maya, and similar barrels due to the current infrastructure constraints and supply-and-demand and imbalances. Collectively, Enbridge and the Partnership's Gulf Coast Market Access Program, Eastern Access and Light Oil Market Access Initiatives will match growing North American crude oil supply to the key refining centers, and this should improve producer netbacks and refiner supply access.

There is a lot of detail on this slide, but I'd like to focus on one key point. The key difference between Enbridge and other pipelines is the diversity of premium markets at the Partnership's Lakehead System, and the connected Enbridge systems are positioned to access. Our North American pipeline system is ideally positioned to provide light crude oil capacity to the East, increase heavy capacity to the Midwest, and serve markets as far south as the western and eastern US Gulf Coast.

Transportation and market access constraints have resulted in large crude oil price differentials between certain domestic supply basins and key refining centers. And this has led to the emergence of rail as a meaningful transporter of crude oil. Consistent with the views of some of our peers in the industry, in the medium term, we expect rail will satisfy refining demand to the US West-, and East Coast markets. And once our secured market access programs are completed during the 2016 time horizon, we believe the current environment of historically wide crude oil price differentials will be alleviated, and we will be able to deliver substantial volumes of crude oil to new markets. The cost to access these markets by pipe will be significantly more competitive than by rail.

Moving on to slide 7. The [chart] represented in this slide provides an overview of the Partnership's organic growth program and respective project and service dates. Our growth projects will provide the Partnership with visible, long-lived, stable cash flows, which are secured by commercial structures that control key risk elements of volume and commodity price variability. Partnership's distributable cash flow will grow as these projects ladder into service beginning now through early 2016. Project execution is a key priority for the Company, and our Major Projects Group is diligently focused on delivering all the projects on time and on budget.

Please turn to slide 8. The substantial growth on the liquids side of our business will shift the Partnership's earnings and cash flow profile heavily weighted towards crude oil over the coming years. As depicted on the chart, collectively, these liquids expansion projects are transformative, and they will progressively move the Partnership to an even lower-risk business model. The long-term, low-risk commercial frameworks underpinning these projects, such as cost of service, and take-or-pay, will provide visible and sustainable stream of cash flows to the Partnership and our unit holders.

Let's move forward to slide 9 – I will now turn the call over to Steve to review our financial results.

Steve Neyland *- Enbridge Energy Partners L.P. - VP Finance*

Thank you, Mark. First quarter adjusted net income of $95.7 million was $13.5 million lower than the same period of 2012. Higher revenues on our liquid pipeline systems were more than offset by the impact of lower natural gas liquids prices in our natural gas business. The main items eliminated from these adjusted results include -- unrealized, non-cash mark-to-market net gains and losses, additional environmental costs, net of insurance proceeds associated with the Line 6B incident, and other items noted in our supplemental slides. Adjusted earnings per unit for the first quarter was $0.21, compared to $0.28 for the same period of 2012. The first quarter of 2013 saw lower adjusted earnings and a higher number of weighted average number of units outstanding, when compared to the first quarter of 2012.

Our as-declared coverage ratio for the quarter was 0.79 times, which is in line with our guidance range and consistent with last year.

Please turn to slide 10. For our Liquids segment, adjusted operating income of $154.3 million for the first quarter was $4.7 million lower than the same period for 2012. Also, first quarter 2013 adjusted operating income was $21.3 million higher than the fourth quarter of 2012. When comparing to last year, first quarter operating revenues increased due to an increase in index transportation rates on our systems, as well as increased revenues associated with our Cushing storage facilities. This increase is more than offset by the decrease in volumes transported on our North Dakota system, in addition to higher operating and administrative expenses attributable to higher property and business taxes and higher workforce-related costs.

With the recent environment of high regional crude oil price dislocations and rail transportation emerging as an alternative method of shipping crude oil to key markets, rail has become a stronger competitor to our North Dakota system, and has decreased our system utilization over the past couple of quarters. Fundamentally, the emergence of rail is tied to transportation constraints and bottlenecks that we expect will be alleviated as future pipeline expansions enter service; enhancing market access to Canada, PADD 2, and other markets.

Volumes on our Lakehead system were strong, at 1.84 million barrels per day during the first quarter, which was 5.7% higher, when comparing current quarter over the fourth quarter of 2012. We expect Lakehead volumes to increase as the year progresses, due to strong North American crude oil supply-and-demand fundamentals.

Volumes on our North Dakota system declined in the first quarter, relative to the fourth quarter, due to rail competition, although the North Dakota revenue decline was slightly offset by shipor-or-pay commitments from the Bakken pipeline expansion project, which came into service at the very end of the first quarter at -- on March 1.

During the first quarter, we increased our cost estimate related to the Line 6B incident by $175 million, to $995 million in response to the recent order received from the EPA in March, for us to pursue additional containment and recovery of submerged oil. We are working with the EPA on the work plan for this additional remediation work. We have collected $505 million in insurance recoveries to-date, and expect to collect the remaining $145 million that is covered under our insurance policy in future periods.

Please turn to slide 11. For our natural gas segment, adjusted operating income of $26.4 million for the first quarter was $26.1 million lower than the same period in 2012. The decrease in the first quarter natural gas adjusted operating income over prior year was primarily during to lower NGL prices, in addition to ethane-rejection experience at some of our plants, predominantly situated in the Mid-Continent. Natural gas volumes on our East Texas system were slightly higher than the previous quarter. Volumes on our Anadarko system decreased modestly over the fourth quarter of 2012, due in part to periods of unfavorable weather conditions impacting producer drilling activity during the first quarter. Additionally, we are seeing producers targeting oilier zones, which produce less gas, but higher NGL content.

Let's move forward to slide 12. We continue to make progress on our organic growth capital program as the Bakken Expansion Pipeline and the Bakken-Berthold Project were both placed into service during the first quarter. Additionally, we expect our Line 5 Expansion and Bakken Access Project to begin service in the second quarter. We reduced our 2013 capital expenditure forecast by $125 million, to $2.16 billion.

The impact of funding our long-term construction projects and the lag in cash-flow generation have resulted in elevated credit metrics. Additionally, in March, we increased our total cost estimate related to the Line 6B incident by $175 million, as previously noted. As a result of these factors, Management anticipated an elevated leverage ratio in excess of our covenant, in each of our credit facilities. In late March, the Partnership received waivers from our lenders under each of our credit facilities waiving our compliance with the consolidated leverage ratio determined as of March 31, 2013. We expect our credit metrics to improve in future periods as our assets continue to ladder into service, and as we're able to access capital markets or other sources of financing. Financial execution and timely access to capital to fund our attractive organic capital growth program remain key focus areas. We enhanced our liquidity during the quarter, and are evaluating actionable opportunities to secure capital as part of our funding plan, while maintaining our strong investment grade rating. Recent actions to enhance our liquidity and secure capital include -- first, in February, we closed on an underwritten public offering in a sale of 10.35 million listed shares of Enbridge Energy Management, or EEQ, as it's better known, including an overallotment option, yielding net proceeds of approximately $273 million. Also in February, we upsized our 364-day credit facility by $425 million, to a new limit of $1.1 billion, providing an aggregate of $3.1 billion in committed credit facilities.

I want to remind you that the Partnership holds separate options to reduce its funding requirements by over $700 million, pursuant to the Eastern Access and Main Line Expansion joint funding agreements with our general partner, by paring back its economic interests and associated funding of these liquids expansion projects from 40% to 25%. We continue to evaluate this option and have until June 30 of 2013 to make a decision. Additionally, the Partnership holds separate options to increase its economic interest in these projects, by up to 15 percentage points one year after the last project in-service date of each of the respective project series. Lastly, as discussed at our Analysts' Day in March, we continue to evaluate a number of opportunities to secure capital to enhance our financing flexibility, pursuant to our funding plan. For further details on our financial results for the quarter, I encourage you to review our supplemental slides that are posted on our website.

Moving forward to slide 13, the graph provides perspective as to how these previously discussed secured projects will improve our distribution coverage, and enable the Partnership to achieve its distribution growth target. With our large capital program, current-year distribution coverage is expected to be below 1 times. The green part of the bar represents a potential range of outcomes in 2013 depending on various economic and operational factors. Our track record demonstrates our commitment to manage through these robust expansion periods as we did in 2008 and 2009. The long-term, low-risk commercial underpinnings of our accretive growth projects, in addition to visible distribution, cash flow growth, provide us with a high level of confidence in improving distribution coverage and strengthening credit metrics. Please turn to slide 14 and I'll turn it back over to Mark to address the key takeaways.

Mark Maki - ***Enbridge Energy Partners L.P. - President***

Thank you, Steve. Just a couple points of emphasis in closing before the Q&A period.

Long-term outlook for the Partnership remains strong. Our $8 billion dollar organic growth program is proceeding on schedule and will progressively transform the Partnership towards an even lower-risk business model as the cash flows are secured by long-term, low-risk commercial frameworks. We remain focused on safety and integrity of our pipeline systems and managing the execution of our growth program. The Partnership's distributable cash flow will increase, as our growth projects ladder into service, which will secure our long-term distribution growth outlook. With that, Stephanie, can you please open the line for Q&A?

QUESTION AND ANSWER

Operator

Operator. The first question comes from Brian Zarahn from Barclays.

Brian Zarahn *- Barclays Capital - Analyst*

Good morning.

Mark Maki *- Enbridge Energy Partners L.P. - President*

Good northern, Brian.

Brian Zarahn *- Barclays Capital - Analyst*

On the East Texas processing plant projection, can you give a little color on the contract mix and some commodity price assumptions you have regarding your EBITDA multiple, expected EBITDA multiple?

Mark Maki *- Enbridge Energy Partners L.P. - President*

Sure. The contract mix is going to be a mix of fee based and largely percentage of Liquids arrangements, and very similar to what our existing plants up there have. The, as far as EBITDA assumption, you know, traditionally we look at this sort of thing, recognizes there is variability for the commodity component, talking someplace in the 6 to 8 kind of range is a good EBITDA multiple. The -- assumptions we use in evaluating a project like that are really heavily weighted towards the forward prices in the near term, and we work in weighting with a series of external forecasters, folks you would recognize if you told you the names, and we tend to wait that out maybe 50% forward, 50% these analysts in the future years.

I would say our expectations for -- we would expect ethane to show some improvement, in that 2016/17 time frame, in the meantime, it's going to be relatively soft. Propane we do expect to improve as you've seen of late, and that should continue with the work that's been done by enterprise and others to enhance export out of the US. So that gives you a little color as far as what we, how we look at commodity pricing and price Dakota, and covering of key components of your question, if you need anything else, follow up.

Brian Zarahn *- Barclays Capital - Analyst*

On the North Dakota system, do you think pipeline volumes will sort of bottom at these levels, or do you think, you know, do you expect a lift improvement given your gathering estimate, should help drive more volumes through your pipes?

Mark Maki *- Enbridge Energy Partners L.P. - President*

Steve Wuori, I think you want to catch that one?

Steve Wuori *- Enbridge Inc. - President, Liquids Pipelines*

Sure, okay. Good morning, Brian. I think we have seen the bottom. Now, that's always hard to tell in a lot of factors can go into it I guess. Certainly, the nominations for May are up about 20% or so from the prior month, so that's encouraging. There are three routes out of North Dakota on our system. Now there's the North Dakota classic system, the North Dakota main line, and there's the Bakken expansion program that both Mark and Steve have talked about, and the Berthold Rail, and better how rail takes advantage of capacity we have in from Montana and western North Dakota, into that rail facility, I think, as we discussed previously, but we are seeing volumes come back. We've seen differentials at tide water markets start to tighten in as we expected would happen, and we'll see if that's -- it's a little early to call that a strong trend, but the early indications are good.

Brian Zarahn - ***Barclays Capital - Analyst***

Thanks, Steve. Should read anything into your lowered expansion Cap Ex in terms of the option to downsize your stake in eastern access and main line?

Steve Neyland, Enbridge Energy Partners L.P . - VP Finance

Hey, Brian, this is Steve. The change in the Cap Ex, I don't think there's a lot to read into it. It's just timing, because we moved through the projects. The profile of the capital spend becomes more refined as better information comes into play, it's just fine tuning of the estimates.

Brian Zarahn - ***Barclays Capital - Analyst***

Thank you.

Operator

Operator. Thank you. Next question comes from Ted Durbin from Goldman Sachs. Please proceed.

Ted Durbin - ***Goldman Sachs - Analyst***

Thanks. I want to start with the Sandpiper Project, you said how the FERC asked you to reconfigure is. -- does it change the return profile, I think you talked about a six times multiple, does it change the contract terms you'll go forward, I think 15 years is what you were looking for, maybe more on your plans with Sandpiper.

Mark Maki - ***Enbridge Energy Partners L.P. - President***

This is Mark. I don't think we had a six multiple, you might be thinking of some other North Dakota initiative. But a main line project like that where the cost of service under painting would be in the 8 kind of range. [Clarification regarding project Sandpiper economics: since Sandpiper is proposed as a 15 year cost of service, it is estimated at a 6x EBITDA multiple. Generally, our projects that are under a 30 year cost of service structure exhibit a multiple of about 8x.]
I'll let Steve catch the details….Steve, you want to talk about the strategy as far as the FERC filing?

Steve Wuori - ***Enbridge Inc. - President, Liquids Pipelines***

Ted, you mentioned contracts but this isn't a contract pipeline, it's a common carrier add-on to the North Dakota common carrier system. We are analyzing what the FERC came back with why they denied the petition for declatory order, and we're going to address those things and plan to refile. I think Mark mentioned that.

There certainly were strong letters of ship error support, there were 15 letters that were submitted in support of the project, but five that were submitted in opposition or expressing concerns, and I think the FERC took that into account so we'll be working on those folks, and working with them. And generally, just looking at what the sensitivities may have been around their decision. The sense we have we are very close to having a successful application. However, there's some tweaks that need to be made when we refile. But we still plan to refile it as a common carrier addition to the North Dakota system.

Ted Durbin - ***Goldman Sachs - Analyst***

The other thing was just on the cleanup costs here, you know, these continue to tick up, we're close to a billion dollars. Can you we get some confidence that we're done with the costs going up there? Is there, you know, what else is left on terms of the cleanups, and remind us on the recovery there. I think you said in the past that you'll get recovery just as cost of service, tariff changes, is that true here with the higher costs?

Mark Maki - ***Enbridge Energy Partners L.P. - President***

Couple components to your question, we'll go to Steve as far as the overall costs and where we attendant with the process, but going to the cost of service comment first, the – as it relates to our insurance coverage, coverage is about $650 million for the incident, and we have to absorb that cost above the insurance coverage. With respect to recovery of the remediation costs in excess of our insurance coverage, we can't recover that $345 million (which represents the cost estimate over and above of our $650 million insurance coverage), or don't intend to try to recover that through tolls. What we are recovering through tolls is the work we've had to do on Line 6B as it relates to the replacement of the pipeline, so that, the company is recovering those capital cost through tolls, as it relates to the work and replacement efforts we've done on the Line 6 B pipeline. But the costs of the leak above the $650 million, that's the company's cost. The integrity program and the replacement of line 6 B, that's being recouped through a cost of service mechanism. Steve, you want to talk where we stand as far as the leak cost estimate?

Steve Wuori - ***Enbridge Inc. - President, Liquids Pipelines***

Sure. I think the estimate represents our best estimate of all current and few Cher costs associated with that leak, and we review that whenever there's any new development, like the EPA order. We are a down to just five specific areas that were name in the EPA order out of the entire, you know, clean ups that started 2010, and the truth is, there's not much left to do there other than address those areas that the EPA has -- we are in the process of doing that. The river hass been reopened. First section reopened last April, and the river was fully reopened for all recreational use, including swimming and everything else last July. So that's been a real positive in the Marshall and Battle Creek, Kalamazoo area. We will continue to work with the EPA, and Michigan Department of Environmental Quality and when we're finished, we're finished.

Ted Durbin - ***Goldman Sachs - Analyst***

Okay. And if I could ask just one more here, I would appreciate that. In terms of the mix as you think about your financing plans. Issuing EEQ versus EEP for your equity needs -- you always say that if you use EEQ, it reduces up-front cash payout, but increases the dilution over time, so kind of that balance between the two. How are you thinking about that?

Mark Maki - ***Enbridge Energy Partners L.P. - President***

Darren, you want to field that question?

Darren Yaworsky - ***Enbridge Energy Partners L.P. - Treasurer***

Certainly. I think we look at the two vehicles as providing us options that we probably didn't have a year ago with the introduction of EEQ into the funding plan and raising the liquidity in that investment vehicle. I don't think there's any ranking between EEP and EEQ -- it does give us an option we didn't have about a year ago. In the EEQ that is available to us.

Ted Durbin - ***Goldman Sachs - Analyst***

Okay. That's all I had. Thanks, guys.

Mark Maki - ***Enbridge Energy Partners L.P. - President***

Thanks.

Operator

Operator. Thank you. The next question comes from the line of TJ Schultz from RBC Capital market. Your line is open.

T.J. Schultz - ***RBC Capital Markets - Analyst***

Hey, good morning. I guess if I could go back to Sandpiper, you know, I think the filing did note some protest to the contractual structure, is this relatively standard, or does this imply some pressure on the terms, and to be clear, because this is a pretty sizable project, I think you did imply 6 times EBITDA return, but as you move through the process, is that still a range you're comfortable with on Sandpiper?

Mark Maki - ***Enbridge Energy Partners L.P. - President***

The filing we had with respect to Sandpiper had a lot of specifics in it that the FERC generally doesn't deal with until the pipeline is effectively in service, so we wanted to try to get as much certainty in the process as we could, and of course, as far as some interveners go, they have their own issues and we hope to address some of those over the next little while before we file the next round of this. We may have to be less specificity in terms of returns and so forth, but generally speaking, the FERC model is pretty predictable in terms of the returns you're going to get. We tried to nail down as many of those factors as we could in the initial petition filing, which had not been charted before. And I think as Steve pointed out, we expect to be able to deal with some of those in the near feature, TJ. Steve, anything else you want to add?

Steve Wuori - ***Enbridge Inc. - President, Liquids Pipelines***

No, Mark, I think you covered it well. – it hasn't been done before, getting early certainty on key rate parameters. We certainly did that, didn't do that out of the dark, we had consulted with FERC staff before doing that, but that does reach as Mark said to really nailing down the rate parameters that typically the FERC doesn't deal with until 60 days in advance of a project going in service, so we'll work with that. You mentioned routing concerns. There aren't any routing concerns. I think the concerns expressed we those that wrote an objection or expressing a concern really were mostly around the commercial issues as it affects them specifically. Let's say there was a refiner who is benefiting from low North Dakota crude prices. There would be little incentive for that company to want to see the toll rise, which it will on behalf of everyone, when Sandpiper is built, in great capacity to other markets is achieved. So I think you have to look at each individual submission and why they submitted it and that's what we're doing now.

T.J. Schultz - ***RBC Capital Markets - Analyst***

Thank you. Appreciate it.

Mark Maki - ***Enbridge Energy Partners L.P. - President***

Sorry. Are you still there?

T.J. Schultz - ***RBC Capital Markets - Analyst***

Yes. Just moving on to line 5, I think this was initially pegged to come on last quarter, neighbor it's still to come, any update there on kind of timing and then once line 5 is up, maybe if you could expand or try to quantify what you would expect on that impact on North Dakota volumes as this would pull more volumes out of the region on pipe over to eastern Canada.

Mark Maki - ***Enbridge Energy Partners L.P. - President***

Thanks, Steve. Go ahead and take it.

Steve Wuori - ***Enbridge Inc. - President, Liquids Pipelines***

TJ, the project in-service is very close, I think there's one valve we're waiting for, or something like that. It's basically ready to go. And that's a 50,000-barrel a day expansion, and it's pretty hard to say that will hard wire to an exact 50,000 a barrel a day increase on the North Dakota system, because, of course, Line 5 carries light crude from North Dakota, Saskatchewan and Alberta, but having 50,000 barrels a day of light crude market that didn't exist before by pipe is a very important dynamic, and there's no question, I think, that it will draw at least a strong proportion through the North Dakota system. It really ought to, as generally the Bakken barrel is not heading to Cushing or Houston. We should see the effect that have as we put Line 5 it into service this quarter, and watch how the volumes generally react on North Dakota. I wouldn't want to predict that it would be one for one though.

T.J. Schultz - ***RBC Capital Markets - Analyst***

Okay. Appreciate it. Thanks, guys.

Steve Wuori - ***Enbridge Inc. - President, Liquids Pipelines***

Thank you.

Operator

Operator. Thank you. Next question comes from Sharon Lui from Wells Fargo. Please go ahead; your line is open.

Sharon Lui - ***Wells Fargo Securities, LLC - Analyst***

Good morning. If you've had recent discussions with the rating agencies about your debt metrics, and I guess maybe if you could just touch on I guess the waivers you received on your debt covenant? Is that only applicable for the first quarter and do you plan to seek another waiver for the second quarter?

Mark Maki - ***Enbridge Energy Partners L.P. - President***

Darren, you want to field that, please?

Darren Yaworsky - ***Enbridge Energy Partners L.P. - Treasurer***

Certainly. I'll address your second question first, and first question second. The waiver was specifically for Q1, and the waiver was not geared for Q2, but we anticipate, as Steve mentioned in his piece, that we will be correcting that matter as -- your first question, we have discussed both the waiver and the debt levels with the radiation fees, and they haven't given us any concern to believe that their current rating perspective has changed.

Sharon Lui - ***Wells Fargo Securities, LLC - Analyst***

Okay. And I guess with regards to improving the metrics for Q2, is that based on, I guess, anticipated improvement of -- from projects or, I guess a reduction in the Q2 level of capital spending?

Darren Yaworsky - ***Enbridge Energy Partners L.P. - Treasurer***

We're advancing a number of initiatives that haven't reached the point of a disclosure, but those initiatives will be addressing the Q2 covenant.

Mark Maki - ***Enbridge Energy Partners L.P. - President***

Okay. Steve, do you want to expand on that?

Steve Neyland, Enbridge Energy Partners L.P . - VP Finance

That's as good an answer as you could give.

Mark Maki - ***Enbridge Energy Partners L.P. - President***

I would just add that additionally, the projects laddering into service, the Line 5 Bakken Expansion are complementary to other initiatives. All those things are working in unison.

Sharon Lui - ***Wells Fargo Securities, LLC - Analyst***

Okay. And then I guess for the natural gas segment -- were adverse weather conditions a major negative impact in the first quarter results?

Mark Maki - ***Enbridge Energy Partners L.P. - President***

There was an effect on the capacity of the business in the first quarter because of weather. We have seen that from some of the folks in the MLP space that are producers in the Midcontinent region. They made a point of it. We did see some effects as well, but I wouldn't call them significant in the quarter. It was a factor, but I wouldn't say it's enough to call out.

Sharon Lui - ***Wells Fargo Securities, LLC - Analyst***

Okay. Great. Thank you.

Mark Maki - ***Enbridge Energy Partners L.P. - President***

Thanks, Sharon.

Operator

Operator. Thank you. Next question comes from -- -- please go ahead. Your line is open.

Louis Shamie – Zimmer Partners

Good morning. It's just, had a couple questions. First off, just want to follow up on the Sandpiper questions from Ted and from TJ. From what I understood from what the FERC commissioners wrote was that they found that because you had a secured actual contracts for the capacity, and you were looking to just get a surcharge on your existing rates for existing Shippers, and not all of the shippers were supportive of the project, it sounds like the commissioners had trouble with just kind of that basic structure. Do you plan to change your method of return recovery on the project to address that? Or how do you get around those obstacles?

Mark Maki - ***Enbridge Energy Partners L.P. - President***

Steve, quarter can you take that?

Steve Wuori - ***Enbridge Inc. - President, Liquids Pipelines***

We have developing that response and refiling right now, so I don't have a definitive answer as to exactly what's going to be in that filing, but it's clear that there are some shippers for whom pipeline scarcity is a benefit, so there for, we have that factor to consider. But for the vast majority, and for the state of North Dakota, for the industry generally, and I think in view also of the FERC, the pipeline capacity additions are a good thing, and that's why they're generally supportive, and if you look at the split on FERC as to who supported and dissented to the decision.

And who didn't, there are differing views on the rates we sought, generally a contract pipeline, you know, should had a project go that way has the advantage of certainty for certain shippers, but it also denies access to small shippers, those that can't put up the credit requirements that a contract pipeline demands, the long term balance sheet impairment, and that's why generally, our feedback over the last two years as we've discussed the Sandpiper project with the hundred some Shippers that we have or could have, we generally find a strong desire for a common carrier. Very much like the Enbridge and main line system, which is a common carrier and the industry very much supports common carriage.

However, on Sandpiper, we were seeking for certainty of rate inputs which as I said earlier, the PDO has not previously been used to provide, and there are certain shippers that have structural advantages by not having pipeline capacity added. So there for, we will be balancing all the of those as we consider a refiling with the FERC, and the FERC will take into account all of the various points of view, and the various motivations and ultimately, what's best for the public, and for the producers and the shippers. That's about all I can say at this point. We're certainly what was in the FERC, the opinion, and what was behind it and will be addressing each of the elements as best we can.

Louis Shamie – Zimmer Partners

Great, and in a worst case scenario where for some reason FERC, you're not able to get past the FERC, and for whatever reason, they don't approve your refiling, does this pose any risk to the other project that you have downstream of Superior?

Steve Wuori *- **Enbridge Inc. - President, Liquids Pipelines***

Well, I think I'm going to start were the premise that when we refile, knowing what the first filing looked like and the response, we should have a successful conclusion. Sandpiper is a needed project. I think there is near universal agreement on that. There are no other large pipeline projects out of the Bakken, except potentially Keystone XL on the west side that would take a such amount of crude to a market we don't view as attractive for Bakken production.

So we really feel there is the need for a pipeline project to increase export capacity, generally to eastern markets and eastern PADD markets, so that's why our determination after studying this for a long time is though ensure we've got a project that moves forward. If has to be a contract pipeline, I guess that's another possibility. Again, for the reasons I mentioned and feedback from shippers generally, we'll prefer not to go that way, and we're not at the moment. However, I can tell you there are shippers who would be willing to make commitments to a contract pipeline if that's the way it were to go. Where we are right now, I think the better course clearly is to make sure we pursue common carrier to the full extent we can.

Louis Shamie – Zimmer Partners

I see. That's a really good explanation. And then my final question just kind of is a follow up to Sharon's question on leverage and funding your capital needs. What factors are you considering in terms of exercising the option to put some of the projects back to the parent, and, when you talk about the possible plans that you have to improve the credit metrics this quarter, what kind of things are on the table?

Mark Maki - Enbridge Energy Partners L.P. - President

We can't get anymore specific on the last part of your question than we already have been. So you understand the formula, and there's, either raise EBITDA or you change Debt effectively, so going to the, as far as other things with respect to the option, one of the key drivers we'll look at is the amount of capital the Partnership needs to raise, and the nice thing about the option from the parent is it does give us a certain lever we can exercise to mitigate some level of financing burden -- so you know, that option is very valuable. Not in much of a hurry to exercise it until we have to, and, but certainly recognize we have a lot of great projects we're working on. And if it is to mitigate the amount of capital we have to a raise, -- that's what we'll do.

Louis Shamie – Zimmer Partners

Sure. Sure. Okay, thanks so much.

Operator

Operator. Thank you. Next question comes from Ross Payne from Wells Fargo. Please go ahead. Your line is open.

Ross Payne *- **Wells Fargo Securities, LLC - Analyst***

Thank you. Steve, obviously with your leverage metrics are a bit stretched at this point, but -- can you speak to where you are with the rating agencies? Are you comfortable you'll be able to maintain your mid-triple or what are your thoughts from?

Steve Neyland, Enbridge Energy Partners L.P . - VP Finance

Hi Ross. We remain confident in our investment grade rating that we have currently, staying in contact with them, and keeping them close in the process remains key to it. And you know, as noted earlier, and in analyst day presentations, there's a number of options we have and as we see these, as Mark noted in his opening comments with all the projects coming into service, we're starting to see those show up, that's helpful, and so that combination together says hey, we're bringing our projects in service as we expected, and I think that's a positive for the rating agencies so we remain confident in our current ratings.

Ross Payne ***- Wells Fargo Securities, LLC - Analyst***

Okay. Thanks, Steve.

Steve Neyland, Enbridge Energy Partners L.P . - VP Finance

You bet.

Operator

Operator. Thank you. Next question comes from Chuck Goldblum --

Chuck Goldblum, Hurley Capital

Good morning. Just looking at sort of the -- we have high debt metrics, low coverage ratio, extra costs from the mediation, none of this stuff is new. High capital costs, high yield on the units, and yet you guys have the best assets in the world hand a ton of great projects ahead of you. Isn't there something you guys can do to relieve the pressure from the Partnership, high funding costs at the high yield? To the betterment of unit holders like us?

Mark Maki ***- Enbridge Energy Partners L.P. - President***

One of the things that I think historically has been, we look at, Chuck, what the Partnership has done with its relationship with the parent company. The parent has been there when we've had periods of large capital raise, joint funding arrangement as an example with options up and options down is a very powerful mechanism where the parent has agreed to take a lot of the financing burden off the Partnership. We can execute on the projects, and that way, we participate.

Candidates for drop downs later on. I think that's a tremendous advantage that this Partnership has versus others. Certainly, parent has been very supportive of the Partnership. I would expect it to be supportive in the future, and if you look at the past, they have been there to invest in units, they've provided credit facilities into the Partnership. Joint ventures in certain projects is another possibility. I think those are the things I would point to as being opportunities that can be done in that area, and definitely the management is focused on trying to moderate the amount of capital the Partnership needs to raise, so we can realize the benefits from these great projects.

Chuck Goldblum, Hurley Capital

I know the parent has been supportive. As it relates to the refinery based MLPs who are selling their truck racks and yielding 3%, you guys are building giant liquid pipelines and yielding 7 percent, so is there some way that the parent can support perhaps via drop downs for units that would enable EEP to develop these expansions at a lower cost of capital? There are plans to drop down the line, just why wait until the party's over?

Mark Maki ***- Enbridge Energy Partners L.P. - President***

Well, we certainly look at that, we have lots of ideas, we look at lots of different options in terms of funding. It is a little bit of too much perhaps of a good thing, we have these great organic projects, and they don't especially fit that well inside of a MLP, especially of the size we have here. Historically, we've been very good about getting these projects done on-time and on-budget.

Steve Neyland, Enbridge Energy Partners L.P . - VP Finance

Patience to a degree we're asking for, but the Partnership is always looking at other alternatives to try to fund the programs, in the most cost effective fashion we can. As far as drop downs, a drop down would be probably more harmful than helpful. What you’re adding to is the large financing burden the Partnership has. I don't see that as a fix now, but down the road, as organic opportunities play out and we've got less of those big organic growth opportunities, we would then be in a position then to take those from the parent.

Chuck Goldblum, Hurley Capital

Okay. Thanks, guys. I appreciate it.

Mark Maki ***- Enbridge Energy Partners L.P. - President***

Thank you.

Operator

Operator. Thank you. Next question comes from John Edwards from Credit Suisse. Please go ahead, your line is open.

John Edwards ***- Credit Suisse - Analyst***

Good morning, everybody. Just a follow up, I guess, some questions maybe comments made earlier. Looking at slide 11, just the sequential decline in the gas segment earnings, the last couple quarters while volumes have been flat, and we thought you'd pretty much hedged the costs out on the natural gas side, so is this kind of a squeeze on margins because of lower natural gas liquids prices? We were expecting that as well so we're just, if you can give a little more clarity on that, it would help.

Steve Neyland, Enbridge Energy Partners L.P . - VP Finance

Sure. I think there's a combination of smaller things that are not helpful to Q1 in 2013 for the gas segment. Mark mentioned some of the weather impacts in the area. Additionally, just some true-ups of some of the margin estimates also factored into the numbers. So there are a couple of aspects as well as you know, we're rejecting ethane to an extent in the mid-continent. You get the molecules back at natural gas, so there's some push and pull in there, but that's another aspect, so you're right on the hedging as noted. We're in the 70, 75% hedged range for the year, and so we remain in that position as we roll forward on a rolling 12 month basis.

John Edwards ***- Credit Suisse - Analyst***

Okay. So I guess so summary, it wasn't just commodity price squeeze, there was some other --

Steve Neyland, Enbridge Energy Partners L.P . - VP Finance

There are elements of commodity price in the push-down also.

John Edwards ***- Credit Suisse - Analyst***

Okay. Alright. Thank you. That's all I had. Thank you.

Operator

Operator. Thank you. Next question comes from Scott from Credit Suisse.

NEW SPEAKER

Scott Fogelman - Credit Suisse – Analyst

Hi. Good morning. Just a kind of a housekeeping on the Bakken expansion that was just placed in you mentioned it was, is it 79,000 barrels per day currently and go up to is 100,000 bpd next year, or is it a hundred thousand increment to the 79,000 bpd?
Okay. Just, what was the thought process with your plate so full, that you are even doing East Texas natural gas project. It adds commodity price exposure to your overall business mix, and quite frankly, even at a wonderful EBITDA multiple, it's not going to move the needle, considering the size of your other holdings. It seems you're just adding, you know, adding more Cap Ex without, when you're already a little stretched on something that's not in the direction of where your company's going.

Mark Maki ***- Enbridge Energy Partners L.P. - President***

Yes, I hear you on that. That's a very good question, Scott. The East Texas system for us an important part of the future down the road. If you don't take care of the assets you've got, you're going to see value deteriorate, and we didn't want that, so when we look at a gas investment right now, we're very, very picky with what we're looking at, we're not off looking at areas we currently are not in, or you don't see us around the Marcellus. We're focused on our existing footprint and make sure that in the financing planning of capital that we're raising for the natural gas business, we do provide for some of these smaller scale projects that enhance the strength of that existing business, so this was in the financial plan by and large, and that's how we look at it. So I hear you, it's a good question. We see this as a very important strategic step for us in East Texas.

NEW SPEAKER

All right. Fair enough. Thank you so much.

Mark Maki ***- Enbridge Energy Partners L.P. - President***

Thank you.

Operator

Operator. Thank you. There are no more questions. I would like to turn the call over to Mr. Sanjay Lad for closing remarks.

Sanjay Lad ***- Enbridge Energy Partners L.P. - Director of IR***

Thank you, Stephanie. We have nothing further to add at this time. However, I would like to remind you that I will be available for any follow-up questions you may have. Thank you, and have a good day.