

May 20, 2003

Kathryn Bailey
Advisor
Corporate Finance
Enbridge Inc.
3000, 425 – 1st Avenue S. W.
Calgary, Alberta
T2P 3L8

Dear Kathryn:

Re: Gazifère Inc.: Term Debt Financing Costs

In response to your request for an indication on a 10 year debt financing cost for Gazifère Inc. ("Gazifère"), this letter outlines RBC Capital Markets's ("RBC") views of the credit spread over the relevant benchmark Government of Canada bond for a Gazifère debenture. RBC's views are based on our debt capital markets expertise, our experience in financing corporations from the Canadian energy utility sector and our ongoing knowledge of Gazifère.

Based upon the following assumptions the estimated credit spread for Gazifère is 180 to 190 basis points (as at May 20, 2003):

- (i) principal amount of \$10 million;
- (ii) term to maturity of 10 years;
- (iii) senior, unsecured debentures;
- (iv) private placement with Canadian investors;
- (v) unrated by any credit rating agency; and
- (vi) assumed investment grade rating of BBB/BBB(L)

The credit spread is an indication of RBC's estimate of where investors will purchase senior, unsecured indebtedness of a gas distribution utility similar to Gazifère. There can be no assurance that this credit spread will in fact result in a successfully placed debenture offering until the terms of the transaction, including the indicative credit spread, have been analyzed and accepted by fixed income investors. The credit spread may also be affected by market conditions at the time of issuance.

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Our current estimate for a 10 year Gazifère credit spread is based upon a comparison of new issue spreads for energy utility companies and assumes that Gazifère could achieve pricing similar to a lower investment grade energy utility.

Company	Credit Rating			Indicative Spread 10yr (bps)
	DBRS	Moody's	S&P	
Hydro One Inc.	A	A2	A-	+78
Enbridge Gas Distribution Inc.	A		A-	+95
Union Gas Ltd.	A	-	A-	+100
Westcoast Energy/Duke	A(L)	-	A-	+125
Terasen Gas (formerly BC Gas Utility)	A	A2	BBB+	+130
Epcor Utilities Inc.	A(L)		BBB+	+140
Nova Scotia Power Inc.	A(L)		BBB+	+145

Indicative spreads as at May 20, 2003

Using these spreads as a base for comparison, Gazifère would likely require a credit spread premium of 40 to 45 basis points above the EPCOR Utilities Inc. ("EPCOR") credit spread of approximately 140 basis points. This premium consists of 25 to 35 basis points reflecting the credit rating differential (assuming Gazifère were priced at the lower end of the investment grade spectrum in the public market) and an additional 15 basis points private placement premium (assuming no credit rating and small illiquid issue size).

We selected EPCOR as the proxy for pricing Gazifère because it has a lower credit rating than Union Gas Limited and operates in a regulated environment.

Given the nature of the private placement market, terms are considered negotiable owing to a smaller buyer universe compared to that of a public transaction. With a smaller buyer universe, individual investors tend to have more negotiating power (especially for smaller sized transactions) and the credit spread is a key negotiation point that investors will focus on. The indicative credit spread that RBC has provided, represents the credit spread that is suggested in the marketing of the issue realizing that the final credit spread may vary from the indicative credit spread as a result of the negotiation process.

The minimum commission for placing the debt with investors would be \$100,000, which translates into approximately 14 basis points in yield, for an all-in spread of 194 to 204 basis. Based upon a benchmark Government of Canada (Interpolation of 5.25% 1-Jun-12 & 5.25% 1-Jun-13) yield of 4.726% as of May 20, 2003, Gazifère's cost of financing (including commission) for a \$10 million, 10 year private placement would range from 6.67% to 6.77%. The following table illustrates the calculation to determine the 10 year financing cost for Gazifère.

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SPREAD ANALYSIS

	<u>10 Year</u>		
Benchmark Yield (%)			4.726%
Base Credit Spread (bps)	140	to	145
Rating Adjustment (bps)	25	to	30
Private Placement Premium (bps)	15	to	15
Spread (bps)	<u>180</u>	to	<u>190</u>
Coupon (%)	<u>6.53%</u>		<u>6.63%</u>
Commission (bps)		14	
All-in yield (%)	6.666%		6.766%

Benchmark yield and indicative spreads as at May 20, 2003

I hope that this clarifies the pricing methodology that was applied in arriving at an indicative credit spread for Gazifère. Should you have any questions or require further clarification on any matter please contact me at your earliest convenience. We are pleased to have assisted you in this matter.

Best Regards,

Tushar Kittur
Debt Capital Markets

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