



Enbridge Inc.  
3000 Fifth Avenue Place  
425 - 1<sup>st</sup> Street S.W.  
Calgary, AB T2P 3L8  
Canada

Kevin Henderson  
Analyst, Corporate Finance  
Tel: 403 266-8302  
Fax: 403 231-4848  
kevin.henderson@enbridge.com

## MEMO

Date: June 18, 2007

To: Lise Mauviel, Nathalie Trudel

Cc: Danielle Jensen, Dave Wudrick

From: Kevin Henderson

Re: **10 Year Funding for 2008 Rate Case**

For the purpose of Gazifere's 2008 Rate Case an estimate of the 10-year cost of funds is required. An independent debt dealer (RBC Capital Markets) provided an estimate of the new issue spread Gazifere would have to pay over the 10-year GOC in the current market. The midpoint of this estimate was added to the 10-year consensus forecast for 2008, as per the LRP, to calculate the estimated cost of funds.

RBC Capital Markets	1.15% - 1.25%
Midpoint	1.20%
10 Year GOC Forecast	<u>4.85%</u>
Estimated Cost of Funds	6.05%

Please refer to the attached documentation for further information on the new issue spread provided by RBC Capital Markets.

Should you have any questions or concerns, please contact me directly at 403-266-8302.

Yours truly,

Kevin Henderson

**To:** KEVIN HENDERSON  
ENBRIDGE INC.

**FROM:** TUSHAR KITTUR  
ROB BROWN

**DATE:** JUNE 15, 2007

**SUBJECT: GAZIFERE INC. – TERM DEBT FINANCING COSTS**

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Dear Kevin:

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 **115** to **125** basis points (as at June 15, 2007):

- (i) **principal amount of up to \$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.

Our current estimate for a 10 year Gazifère credit spread is based both upon a relatively unchanged spread environment since our last update on April 19, 2006 and upon a comparison of new issue spreads for energy utility companies, recognizing that Gazifère would likely achieve pricing similar to a lower investment grade energy utility. Here are current comparable public spreads in the industry:

COMPANY	CREDIT RATING			Indicative 10 year Spread
	DBRS	Moodys	S&P	
Enbridge Gas Distribution Inc	A		A-	+68
Union Gas	A		BBB	+60
Westcoast Energy	A(low)		BBB	+65
Epcor Utilities	A(low)		BBB+	+77
Nova Scotia Power	A(low)	Baa1	BBB	+70
Terasen Gas	A	A2	BBB	+58
TransCanada Pipelines	A	A2	A-	+75
GazMet	A		A	+55

*Indicative spreads as at June 15, 2007*

Using these spreads as a base for comparison, Gazifère would likely require a credit spread premium of approx. 50 bps premium to Enbridge Gas Distribution. This premium consists of 40 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 10 basis points private placement premium (assuming no credit rating and small illiquid issue size).

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.

Based upon a benchmark Government of Canada (4.0% June 1, 2017) yield of 4.70% as of June 15, 2007, Gazifère's cost of financing (before commission) for up to \$10 million, 10year private placement would range from 5.85% to 5.95%.

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  
RBC Capital Markets