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ENBRIDGE

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Lise Meloche
General Manager
Gazifère Inc.
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Dear Mrs. Meloche,

I am writing you this letter to keep you informed of potential impacts to your natural gas supply as a result of changes in the upstream natural gas pipeline capacity market used to serve your customer's natural gas needs.

Enbridge Gas Distribution Inc. (EGD) has provided Gazifère Inc. (Gazifère) with its natural gas requirements, under rate 200, reliably and cost effectively for over 20 years. EGD manages the natural gas needs of Gazifère as part of its overall gas supply portfolio through which it also meets the needs of its Ontario franchise serving the Greater Toronto Area along with numerous communities in the surrounding area (often referred to as the Enbridge Central Delivery Area or Enbridge CDA) as well as Ottawa and the numerous surrounding communities including the communities served by Gazifère (often referred to as the Enbridge Eastern Delivery Area or Enbridge EDA).

EGD's gas supply strategy is based on balancing the principles of reliability, flexibility, diversity and cost. With these principles in mind the following addresses several current and ongoing developments and what EGD is doing to respond.

<u>Western Canadian Sedimentary Basin Natural Gas Supply and the Development of Shale Gas in the Northeast United States</u>

Western Canadian Sedimentary Basin (WCSB) production is projected to continue to decline in the near term due to low prices and the inability to compete with less expensive United States (US) supplies. A multitude of proposed Liquefied Natural Gas projects on the west coast and increased Alberta demand driven by oil sands development further increases the risk of accessing WCSB supplies over the long term.

The Marcellus and Utica shale gas basins that are being developed in the US Northeast are and will continue to change the North American pipeline grid from both a flow and pricing perspective. The new supply is physically located close to EGD and Gazifère's franchise areas providing for lower transportation costs while increasing shale gas production has the potential to stabilize natural gas prices at moderate to low levels despite growing demand for natural gas.

Through the Settlement Agreement discussed below and other planned procurement changes EGD will shift natural gas supplies to rely less on the WCSB and more on developing Marcellus and Utica shale gas basins over time for the benefit and protection of all customers. This shift will continue throughout 2015 and for years ahead.

The Settlement Agreement

While the development of Marcellus and Utica shale gas basins have created opportunities to enhance the reliability, flexibility, diversity, and cost-effectiveness of the EGD gas supply portfolio, these opportunities are significantly curtailed due to pipeline capacity constraints on the TransCanada Pipeline Limited (TransCanada) Mainline for markets in eastern Ontario and Quebec, which includes the Enbridge EDA and Gazifère's franchise. To address this concern, in the fall of 2013 EGD signed a Settlement Agreement with TransCanada, Union Gas Limited and Gaz Métro Limited Partnership. The agreement attempts to balance the need for TransCanada to recover its investment in the Mainline along with a reasonable opportunity to earn an appropriate return on its investment against the natural gas supply market's need to gain incremental access to the Dawn and Niagara/Chippawa trading hubs in southwestern Ontario and the new US Northeast supply basins mentioned earlier. This agreement is currently being reviewed by the National Energy Board.

The delivered cost of these natural gas supplies are expected to be less than the delivered cost of Western Canadian Sedimentary Basin based supplies. Further, being able to diversify the path on which gas flows and the source should also increase the reliability of supplies under certain emergency pipeline upset conditions and flexibility of supply sources under normal operating conditions.

TransCanada's Energy East Project

The Enbridge EDA receives the natural gas required to meet the needs of customers (both EGD and Gazifère customers) in the region through pipeline capacity that EGD has contracted for with TransCanada. TransCanada's Mainline is the only natural gas transmission system that interconnects with the Enbridge EDA. Over the last several months EGD has become aware of TransCanada's plan to convert one of the lines on the Mainline from natural gas service to oil service as part of its Energy East Project which will transport oil from western to eastern Canada.

EGD's main concern is with TransCanada's proposed transfer of the largest, newest and fully utilized pipeline segment between North Bay and Iroquois Junction (North Bay Shortcut) to the Energy East Project and its plan to replace it with a new line from Toronto to Iroquois Junction that could potentially provide gas shippers in Eastern Canada with less capacity and cost more. TransCanada has taken a number of steps since the Energy East Project was announced that could harm natural gas customers in EGD's and Gazifère's territory. First, TransCanada's declaration of a significant amount of its current pipeline capacity in the region as non-renewable as of October 31, 2016 has left EGD with a shortfall of approximately 25% of the Enbridge EDA's needs on the coldest days of winter. Second, while TransCanada has committed publicly to ensure all of its firm capacity contracts are served and provided an opportunity for shippers to firm up transport, the terms and conditions of this transport have been too onerous for third party market participants that supply the Gazifère franchise from the TransCanada Mainline. EGD is therefore not comfortable that TransCanada has given fair consideration to the full and real needs of the natural gas market in the region as a result of which, Gazifère's customers could end up with less capacity than required. Based on TransCanada's public statements, EGD also understands that TransCanada intends to transfer the existing fully utilized pipe segment at net book value. This could imply that TransCanada intends to burden natural gas customers with the cost of the replacement pipeline capacity facilities. EGD does not agree with this as it effectively transfers the benefits of the lower cost of building the North Bay Short cut pipeline segment in the past and the depreciation that has accumulated (and been paid by natural gas consumers through rates) over the years to the oil project and burdens natural gas customers with paying for new facilities at today's cost of construction.

EGD therefore believes that TransCanada should either not repurpose the North Bay Shortcut or ensure that any incremental cost of appropriately sized replacement pipeline capacity is borne by proposed Energy East Pipeline oil shippers. Despite significant efforts by EGD and others to negotiate a mutually agreeable resolution to these concerns no progress has been made to date. Failing a satisfactory resolution, EGD intends to vigorously oppose TransCanada's Energy East Project application before the NEB. The impact of the eventual resolution of this matter will not begin to influence Gazifère's gas supply until late in 2016 at the earliest.

I hope this provides you with some insight into issues that could impact your natural gas supply into 2016 and further into the future and how EGD is responding to them.

Best regards,

(s) Jamie Leblanc

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