ENBRIDGE

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Lise Meloche
General Manager
Gazifère Inc.
706 boulevard Gréber
Gatineau, Québec J8V 3P8

Dear Mrs. Meloche,

This letter is intended to provide an update on matters that may impact the natural gas supply that is provided to Gazifère Inc. ("Gazifère") through the Rate 200 wholesale service agreement with Enbridge Gas Distribution Inc. ("Enbridge"). Enbridge has been providing Gazifère with a safe, reliable, and cost effective supply of natural gas under this agreement since 1991 and is providing similar services to over 2 million customers in Ontario including communities in and around the Greater Toronto Area ("GTA"), Niagara Region, and the Ottawa area.

In 2014 Enbridge provided an update on gas supply planning information[1] (the "2014 Gas Supply Update") that described how increased natural gas production from shale supply basins such as the Marcellus and Utica basins located in the northeast region of the United States ("US") and declining exports from the Western Canadian Sedimentary Basin ("WCSB") to eastern Canada has had a significant impact on natural gas prices and transportation infrastructure across North America. These changes have created opportunities for Enbridge to enhance its natural gas supply portfolio provided that increased market access to these supplies could be established through the National Energy Board ("NEB") approval of a Mainline Settlement Agreement between Enbridge, Union Gas Limited ("Union Gas"), Gaz Métro Limited Partnership, and TransCanada PipeLines Limited ("TransCanada"). Enbridge also discussed TransCanada's proposed Energy East Project and concerns related to increased costs and reduced firm transportation capacity that could result from the transfer of natural gas assets on the TransCanada Canadian Mainline System ("TransCanada Mainline") along the Ontario segment from North Bay to the Iroquois Junction that had resulted in a forecasted natural gas supply shortfall in the Ottawa region on the coldest days of the winter.

Since the 2014 Gas Supply Update, Enbridge has continued to monitor market conditions and has been working to address the concerns related to a natural gas supply shortfall in the Ottawa region and improve the reliability, diversity, flexibility, and cost of its natural gas supply plan.

North American Natural Gas Market

Shale natural gas production across North America continues to increase at a rapid pace as horizontal drilling and hydraulic fracturing techniques are refined and become more efficient. This is especially true in the US northeast where the production levels in the Appalachian Basin, which includes the Marcellus and Utica

[1] Gas supply planning information included letters to Gazifère dated July 24, 2014 and August 29, 2014, and participation in the R-2884-2014 Phase 3 proceeding before de la Régie de l'énergie du Québec.

basins, have exceeded production from the WCSB at 16.0 PJ per day at the end of 2014[2]. The increase in shale natural gas production has resulted in lower natural gas supply prices across North America which has continued to trend downward since 2008[3].

The increase in shale natural gas production has also had a significant impact on North America's transmission infrastructure which is becoming increasingly integrated. Existing pipelines are being reconfigured and new pipelines are being developed to provide markets with access to more proximate natural gas production. While markets in western Canada continue to rely on the WCSB to meet increased demands in Alberta and new Liquid Natural Gas projects in British Columbia, markets in eastern Canada are increasingly contracting for supplies from the Dawn hub and from the Marcellus and Utica basins through receipts at Niagara and Chippawa on the TransCanada Mainline. The decline in transportation from the WCSB to eastern Canada has resulted in decreased utilization of the western segments of the TransCanada Mainline while the Eastern Triangle segment of the TransCanada Mainline continues to be fully utilized on the coldest days of winter.

<u>TransCanada's Proposed Energy East and Eastern Mainline Projects</u>

TransCanada's proposed Energy East Project ("EEP") is expected to transport 1.1 million barrels per day of crude oil from Alberta and Saskatchewan to refineries and port terminals. The EEP will include the conversion of approximately 3,000 km of primarily nominal pipe size ("NPS") 42 pipeline on the TransCanada Mainline to oil service and 1,600 km of new oil pipeline and related facilities. The conversion of natural gas facilities within the Eastern Triangle will result in a shortfall of natural gas transportation capacity which TransCanada proposes to address through the construction of replacement facilities along the Montreal Line portion of the TransCanada Mainline between the City of Markham, Ontario and the community of Iroquois, Ontario as part of the Eastern Mainline Project ("EMP").

Since the 2014 Gas Supply Update, Enbridge remains concerned that the EMP and EEP will result in increased costs to users of the TransCanada Mainline although the issue of reduced transportation capacity to the Ottawa region has been addressed.

Enbridge is concerned that the cost consequences of the EMP and EEP will increase with TransCanada's recent announcement that future amendments to each of the EEP and EMP applications will be made in the last quarter of this year which is expected to delay the in-service date of the project to 2020. The in-service date delay will likely correspond with a delay in the transfer of TransCanada Mainline assets to the EEP. Such a delay will result in a reduction to the net book value of the transferred assets that will be credited to the TransCanada Mainline and a net increase in costs for the users of the system. Enbridge intends to intervene on this aspect of TransCanada's application to ensure that the TransCanada Mainline shippers do not incur additional costs as a result of the EEP and EMP.

The immediate concern of reduced transportation capacity to the Ottawa region and a 25% natural gas supply shortfall on the coldest winter days has been addressed through participation in open seasons conducted by Union Gas and TransCanada for new capacity starting November 1, 2016 (collectively the "2016 NCOS"). The capacity requested by Enbridge through the 2016 NCOS will replace the non-renewable firm transportation ("FT-NR") capacity that Enbridge was required to contract for as a result of TransCanada withholding existing firm transportation ("FT") for the EEP. At the time of the 2014 Gas Supply Update, the

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[2] EB-2015-0175, Union Gas Limited and Enbridge Gas Distribution Inc. NEXUS Gas Transmission – Market study by Sussex Economic Advisors, filed June 5, 2015, page 22.
[3] EB-2014-0289, 2014 Natural Gas Market Review Final Report prepared for the OEB by Navigant Consultant, Inc. dated December 22, 2014, page 7.

2016 NCOS capacity was conditional on the approval of the Mainline Settlement Agreement which has since been approved by the NEB[4].

Although the 2016 NCOS will address the transportation capacity concerns to the Ottawa region for customers supplied by Enbridge, the onerous terms and conditions of the 2016 NCOS precluded third party market participants from contracting for new capacity which represents approximately 16% of the peak day demand in the Ottawa region. The result was a process that did not provide for fair consideration to the full and real needs of the natural gas market in this region and increased the risk of third party market participants defaulting on their natural gas supply obligations to customers in the Ottawa region on the coldest days of the winter. Enbridge has subsequently mitigated this risk through the negotiation of the Dawn Access Settlement Agreement (which is discussed below) and contracting for incremental short-haul transportation from Dawn to the respective delivery areas effective November 1, 2017 as part of the new capacity open seasons offered by Union Gas and TransCanada (collectively the "2017 NCOS").

Dawn Access Settlement Agreement

Ontario Energy Board ("OEB") approval of the GTA and Parkway Projects[5] and NEB approval of the Mainline Settlement Agreement has established a mechanism to provide for incremental market access to market hubs such as Dawn and supply basins such as Marcellus and Utica through the Niagara and Chippawa receipt point on the TransCanada Mainline. In order to extend this market access to franchise customers who procure their own natural gas supply, Enbridge negotiated a settlement agreement that established a new Dawn Transportation Service ("DTS") where customers could deliver their natural gas supply at Dawn. The DTS will provide a third transportation service option for customers in conjunction with the current Western Transportation Service ("WTS") and Ontario Transportation Service ("OTS"). The DTS will be available as of November 1, 2017 for customers in the Gazifère franchise. The Dawn Access Settlement Agreement was approved by the OEB in November 2014[6] and is currently in the process of being implemented by Enbridge.

Enbridge has conducted an election process for the DTS and it was positively received by market participants. Approximately 85% of the customers that currently deliver their natural gas supplies to Enbridge under either the existing OTS or WTS have elected to migrate to the new DTS. The shift in transportation requirements as a result of these elections will be managed through incremental short-haul transportation from Dawn as part of the 2017 NCOS.

2017 NCOS

The 2017 NCOS was conducted at the end of 2014 and closed on January 30, 2015. Enbridge submitted bids for new transportation capacity from Dawn and has subsequently executed precedent agreements with TransCanada and Union Gas. As discussed in the 2014 Gas Supply Update, this new transportation capacity to the Enbridge CDA will facilitate the diversion of 40,000 GJ per day of firm transportation capacity that is currently used for the GTA to the Ottawa area therefore reducing the unsecured supply from approximately 16% to 10%[7]. The remaining 10% of unsecured capacity will be addressed through the 2017 NCOS transportation capacity to the Enbridge EDA to facilitate the DTS for customers who procure their own natural gas supply and replace existing peaking services. The 2017 NCOS transportation capacity will alleviate the concern expressed in the 2014 Gas Supply Update related to the unsecured transportation capacity that was underpinning up to 16% of the peak day demand in the Ottawa region.

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[4] NEB Letter Decision dated November 28, 2014 re: TransCanada PipeLines Limited (TransCanada) Application for Approval of 2015 to 2030 Tolls (application) RH-001-2014 Decision with Reasons to Follow

[5] OEB Decision and Order dated January 30, 2014 for EB-2012-0433, EB-2013-0074, and EB-2012-0451.

[6] EB-2014-0323 Transcript Volume 1 dated November 20, 2014 page 17.

[7] R-3884-2014 - Phase 3, Transcript volume 1 dated October 27, 2014, pages 11-14

Conclusion

In the 2014 Gas Supply Update, Enbridge had identified transportation capacity concerns that would impact a significant portion of the natural gas demand in the Ottawa region on cold winter days as a result of TransCanada's proposed Energy East Project. Enbridge has addressed these concerns through the approval of the Mainline Settlement Agreement, Dawn Access Settlement Agreement, and the contracting of new transportation capacity from Dawn. As a result, Enbridge has contracted for firm transportation capacity to meet the forecasted demand of customers in the Gazifère franchise until at least October 31, 2018. Enbridge does remain concerned with the cost implications to shippers of the transfer of natural gas assets from the TransCanada Mainline to the EEP and intends to intervene in the proceeding to protect the interests of its customers.

Sincerely,

Andrew Welburn

Manager Gas Supply and Strategy