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Jean-Benoit Trahan
Manager, Regulatory Affairs
Gazifère Inc.
706 boulevard Gréber
Gatineau, QC J8V 3P8

Dear Mr. Trahan,

This letter is intended to provide an update on matters that are closely related to the natural gas supply that is provided to Gazifère Inc. ("Gazifère") through the Rate 200 wholesale service agreement with Enbridge Gas Distribution Inc. ("EGDI"). EGDI 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.

North American Natural Gas Market

Shale gas production in North America continues to grow and prices have remained low. However, shale gas production growth rate has slowed as prolonged low prices and capacity constraints are limiting producers' ability to develop new production fields. Low prices and capacity constraints are especially acute in the US Northeast. The development of large federally-approved pipeline projects, such as the Constitution Pipeline, Rover Pipeline and Northern Access 2016 Project, have been maligned by construction delays and legal challenges. Pipeline development challenges are also present in Western Canada, as intra-Province constraints in Alberta hinder producers' ability to reach demand markets and pipeline sponsors struggle to gain the required approvals to build pipelines to the Pacific coast in order to provide a supply option for prospective Liquefied Natural Gas ("LNG") export terminals.

Fortunately, in June of this year EGDI received notice that service contracted for on the Nexus Pipeline will commence on October 1, 2018; enhancing EGDI's diversity of transportation path and supply basin moving forward. Despite the challenges faced by pipeline developers in bringing new pipelines to market, North American natural gas supply remains robust and existing infrastructure is being reconfigured and enhanced to accommodate customer demands for access to shale supplies and keep natural gas prices low.

TransCanada's Proposed Energy East Project ("EEP") and Eastern Mainline Project ("EMP")

In 2013 TransCanada proposed the EEP in order to transport 1.1 million barrels per day of crude oil from Alberta and Saskatchewan to refineries and port terminals in Eastern Canada. The EEP was to include the conversion of approximately 3,000 km of primarily nominal pipe size ("NPS") 42 pipeline on the TransCanada Mainline to oil service and the construction of 1,600 km of new oil pipeline and related facilities. The conversion of natural gas facilities within the Eastern Triangle had the potential to result in a shortfall of natural gas transportation capacity which TransCanada proposed to address through the construction of replacement facilities along the Montréal Line portion of the TransCanada Mainline, between the City of Markham, ON and the community of Iroquois, ON as part of the EMP.

In October of 2017 TransCanada announced that it had decided not to proceed with the EEP and related EMP, citing “existing and likely future delays resulting from the regulatory process, the associated cost implications and the increasingly challenging issues and obstacles”[1] facing the project as justification for the company’s decision.

<u>New TransCanada Mainline Transportation Service</u>

In 2017 TransCanada held a successful open season and received regulatory approval of a new Dawn Long Term Fixed Price (“LTFP”) service. The Dawn LTFP service provides firm transportation from the Western Canadian Sedimentary Basin at Empress to Dawn in southwestern Ontario at a fixed demand toll of $0.77 per gigajoule per day including abandonment surcharge. Although EGDI has not contracted for any Dawn LTFP capacity the service significantly increases flows on the Mainline for the 10 year term of Dawn LTFP contracts and should help to maintain liquidity at Dawn; an important natural gas hub for EGDI’s current gas supply plan.

<u>2018 TransCanada Toll Update</u>

Pursuant to the NEB’s Decision and Order in RH-001-2014 TransCanada’s Mainline tolls are to be updated for the 2018 to 2020 period. EGDI, Union Gas Limited (“Union Gas”) and Energir L.P. (“Energir”) were successful in late 2017 in reaching a settlement agreement with TransCanada on this matter; an agreement which has served as the foundation for TransCanada’s application in RH-001-2018 requesting approval of updated Mainline tolls for 2018 to 2020. In December 2017 the NEB approved use of the 2018 to 2020 tolls applied for on an interim basis effective January 1, 2018, resulting in a reduction in tolls relative to the 2015 to 2017 time period. NEB approval of final 2018 to 2020 tolls in RH-001-2018 is anticipated in Q4 of 2018.

<u>Conclusion</u>

The natural gas market in North America is evolving at a rapid pace and that evolution is reflected in the prudent management of EGDI’s gas supply plan. EGDI continues to take an active role in managing commodity market and transportation service changes, engaging in thoughtful consultation and negotiation with parties such as TransCanada to protect the interests of its ratepayers, including Gazifère. EGDI will continue to prudently manage its gas supply plan to ensure that Gazifère continues to be provided a safe, reliable, and cost effective supply of natural gas.

Sincerely,

Brandon Ott
Specialist, Gas Supply Regulation

[1] NEB Submission A86594-1 TransCanada Withdraws Energy East and Eastern Mainline Project Applications