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July 21 , 2010

VIA COURIER AND EMAIL

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge Street, Suite 2700
Toronto, Ontario, M4P 1E4

Dear Ms. Walli:

Re: Enbridge Gas Distribution Inc. ("Enbridge")
2009 Earnings Sharing Mechanism and Other Deferral
And Variance Accounts Clearance Review
Ontario Energy Board ("Board") File No. EB-2010-0042

In accordance with the Board's Decision and Procedural Order No. 2, issued on July 8, 2010, enclosed please find the evidence of Enbridge regarding the stock-based compensation issue. The evidence has been filed as Exhibit B, Tab 6, Schedule 1.

Included in the package please find the following updated exhibits:

- Exhibit A, Tab 1, Schedule 1, page 3 and
- Exhibit A, Tab 4, Schedule 1.

The above document has been filed through the Board's RESS and two paper copies are being delivered to the Board via courier.

Please give me a call if you have any questions.

Sincerely,

A handwritten signature in blue ink that reads "Lorraine Chiasson for".

Lorraine Chiasson

encl.

cc: Mr. Colin Schuch, Ontario Energy Board
Ms. Maureen Helt, Ontario Energy Board
Mr. F. Cass, Aird & Berlis LLP
All Interested Parties EB-2010-0042

EXHIBIT LIST

A – ADMINISTRATIVE

<u>Exhibit</u>	<u>Tab</u>	<u>Schedule</u>	<u>Contents</u>	<u>Witness(es)</u>
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B – 2009 HISTORICAL YEAR & EARNINGS SHARING RESULTS

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		2	ESM Calculations and Required Rate of Return 2009 Historical Year	K. Culbert
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		4	Utility Earnings – Reconciliation of 2009 Utility Income to Audited EGDI Consolidated Income	K. Culbert
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EXHIBIT LIST

B – 2009 HISTORICAL YEAR & EARNINGS SHARING RESULTS

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		2	Comparison of Gas Sales and Transportation Volume by Rate Class 2009 Historical Year to 2009 Board Approved Budget	I. Chan
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EXHIBIT LIST

B – 2009 HISTORICAL YEAR & EARNINGS SHARING RESULTS

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		3	Cost of Capital 2009 Historical Year	K. Culbert
	6	1	Stock Based Compensation within Utility Financial Results	K. Culbert N. Kishinchandani M. Weil

C– EARNINGS SHARING MECHANISM and OTHER DEFERRAL & VARIANCE ACCOUNTS

<u>Exhibit</u>	<u>Tab</u>	<u>Schedule</u>	<u>Contents</u>	<u>Witness(es)</u>
<u>C</u>	1	1	Balances Requested for Clearance at July 1, 2010	K. Culbert
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		6	2009 OHCVA	K. Culbert
	2	1	Clearance of 2009 Deferral and Variance Account Balances	J. Collier A. Kacicnik M. Suarez-Sharma
		2	Derivation of Proposed Unit Rates	J. Collier A. Kacicnik M. Suarez-Sharma

EXHIBIT LIST

D – REFERENCE MATERIAL

<u>Exhibit</u>	<u>Tab</u>	<u>Schedule</u>	<u>Contents</u>	<u>Witness(es)</u>
<u>D</u>	1	1	Enbridge Gas Distribution Inc. Consolidated Financial Statements December 31, 2009	N. Kishinchandani
		2	Enbridge Gas Distribution Inc. Management's Discussion and Analysis – December 31, 2009	N. Kishinchandani

CURRICULUM VITAE OF
LINDA AU

Experience: Enbridge Gas Distribution Inc.

Capital Budget Manager
2007

Capital Budget Supervisor
1995

Revenue and Gas Cost Analyst
1991

Canada Post Corporation

Operations Planning and Budget Officer
1990

Financial Analyst
1988

Queen Elizabeth Hospital

Senior Accountant
1986

Education: Certified General Accountant
CGA Ontario 1991

Bachelor of Business Management
Ryerson 1986

Appearances: (Ontario Energy Board)
EB-2009-0172
EB-2009-0055
EB-2008-0219
EB-2006-0034
RP-2005-0001

CURRICULUM VITAE OF
ROBERT ALAN BOURKE, CMA

Experience: Enbridge Gas Distribution Inc.

Manager Regulatory Proceedings
2004

Manager Budget and Administration – Operations
2003

Manager Regulatory Accounting
1998

Senior Analyst Regulatory Accounting
1995

Supervisor Revenue and Gas Cost
1992

Centra Gas (Ontario) Inc.

Supervisor, Budget Administration
1992

Thornhill Glass & Mirror Inc.

Controller
1988

The Consumer Gas Company Limited

Manager System Customer Billing
1987

Management Trainee
1986

Supervisor Income and Cash Budget
1982

Asst. Supervisor Income and Cash Budget
1980

Education: Certified Management Accountant (CMA), 1981

Memberships: The Society of Management Accountants Ontario

Appearances: (Ontario Energy Board)
EB-2009-0172
EB-2008-0219
EB-2007-0615
EB-2006-0034
EB-2005-0001
RP-2003-0048
RP-2002-0133
RP-2001-0032
RP-2000-0040
RP-1999-0001
EBRO 497
EBO 179-14/15

CURRICULUM VITAE OF
IRENE CHAN

Experience: Enbridge Gas Distribution

Manager, Margin Accounting, Business Performance and Analytics
2010

Manager, Margin Budgets and Accounting
2007

Manager, Margin Planning and Analysis
2006

Manager, Volumetric Analysis and Budgets
2003

Supervisor, Volumetric Analysis
2001

Senior Analyst, Volumes Knowledge Centre
2000

Economic Analyst, Economic Studies
1998

Queen's University

Instructor, Economics Department
1997

Research/Teaching Assistant, Economics Department
1992-1997

International Monetary Fund

Summer Intern, Research Department
1996

Consultant, Research Department
1994

Bank of Canada

Research Assistant, Research Department
1991

Education: Certified Management Accountant,
The Society of Management Accountants of Canada, 2006

Ph.D. in Economics
Queen's University, 1998

Master of Arts in Economics
Queen's University, 1993

Bachelor of Arts (Honours) in Economics
University of Western Ontario, 1991

Memberships: Toronto Association for Business & Economics
The Society of Management Accountants of Canada

Appearances: (Ontario Energy Board)
EB-2009-0172
EB-2009-0055
EB-2008-0219
EB-2007-0615
EB-2006-0034
EB-2005-0001
RP-2003-0203
RP-2002-0133

CURRICULUM VITAE OF
JACKIE E. COLLIER

Experience: Enbridge Gas Distribution Inc.

Manager, Rate Design
2003

Manager, Rate Research
2000

Senior Rate Research Analyst
1996

Centra Gas Ontario Inc.

Manager, Rate Design
1995

Supervisor, Cost of Service Studies
1990

Education: Bachelor of Business Management
Ryerson Polytechnical Institute, 1988

Appearances: (Ontario Energy Board)

EB-2009-0172
EB-2009-0055
EB-2008-0219
EB-2008-0106
EB-2006-0034
EB-2005-0001
RP-2003-0203
RP-2003-0048
RP-2002-0133
RP-2001-0032
RP-2000-0040
EBRO 489
EBRO 474-B, 483,484
EBRO 474-A
EBRO 474
EBRO 471

(Régie de l'énergie/Régie du gaz naturel)

R-3692-2009
R-3665-2008
R-3637-2007
R-3621-2006
R-2587-2005
R-3537-2004
R-3464-2001
R-3446-2000

CURRICULUM VITAE OF
KEVIN CULBERT

- Experience: Enbridge Gas Distribution Inc.
- Manager, Regulatory Accounting
Current
- Manager, Regulatory Accounting
2003
- Senior Analyst, Regulatory Accounting
1998
- Analyst, Regulatory Accounting
1991
- Assistant Analyst, Regulatory Accounting
1989
- Budgets – Capital Clerk, Budget Department
1987
- Accounting Trainee, Financial Reporting
1984
- Education: CMA (3rd level)
Seneca College 1987-89 (business/accounting)
- Appearances: (Ontario Energy Board)
EB-2009-0172
EB-2009-0055
EB-2008-0219
EB-2008-0104/EB-2008-0408
EB-2007-0615
EB-2006-0034
EB-2005-0001
RP-2003-0203

CURRICULUM VITAE OF
ANTON KACICNIK

- Experience: Enbridge Gas Distribution Inc.
- Manager, Rate Research & Design
2007
 - Manager, Cost Allocation
2003
 - Program Manager, Opportunity Development
1999
 - Project Supervisor, Technology & Development
1996
 - Pipeline Inspector, Construction & Maintenance
1993
- Education: Bachelor of Applied Science (Civil Engineering)
University of Waterloo, 1996
- Memberships: Professional Engineers of Ontario
- Appearances: (Ontario Energy Board)
EB-2009-0172
EB-2009-0055
EB-2008-0106
EB-2008-0219
EB-2007-0615
EB-2007-0724
EB-2006-0034
EB-2005-0551
EB-2005-0001
- (RÉGIE DE L'ÉNERGIE)
R-3621-2006
R-3587-2006
R-3537-2004

CURRICULUM VITAE OF
D. A. KELLY

Experience: Enbridge Gas Distribution Inc.

Manager, Capital Budgets and Accounting
2007

Manager, Operational and Capital Budgets
2005

Manager, Cost Awareness and Analysis
2001

Senior Analyst, Operation and Maintenance
2000

Supervisor, Management Reporting
1997

Supervisor, Corporate Reporting
1992

Analyst, Financial Reporting
1991

Supervisor, Non-Utility Accounting
1989

Financial Statements Accountant
1988

Internal Audit Assistant
1987

Accounting Trainee
1985

Another Company

Corporate Loans, Guaranty Trust
1983

General Accounting, Consumers Glass
1981

Education: Bachelor of Business Management
Ryerson University, 1985

Certified Management Accountant
Society of Management Accountants, 1987

Memberships: Society of Management Accountants of Ontario

Appearances: (Ontario Energy Board)
EB-2005-0001
RP-2002-0133
RP-2001-0032

CURRICULUM VITAE OF
NARIN KISHINCHANDANI

Experience: Enbridge Gas Distribution Inc.

Director, Finance & Control
2006

Chief Accountant
2005

Manager, Financial Reporting and Analysis
2003

Supervisor, Internal Reporting
2002

Senior Financial Analyst
2001

V. Dewan & Co, Chartered Accountants, Thornhill, ON

Senior Associate
1997

Mettle Financial Services Pvt. Ltd., Mumbai, India

Consultant
1995

Credit & Commerce Finance Ltd., Nairobi, Kenya

Financial Controller
1993

Across Africa Safaris Ltd., Nairobi, Kenya

Financial Controller
1991

20th Century Finance Corporation, Mumbai, India

Assistant Manager, Leasing
1990

Education: Certified General Accountant
Certified General Accountants of Ontario, 2001

Certified Public Accountant
State of Colorado (Board of Accountancy), 2000

Chartered Accountant (India)
Institute of Chartered Accountants of India, 1991

Master of Business Administration
Syracuse University, NY, 1989

Bachelor of Business Administration
United States international University, CA, 1987

Bachelor of Commerce
University of Bombay, India, 1984

Memberships: Certified General Accountants of Ontario
State of Colorado (Board of Accountancy) - Certified Public Accountant
Institute of Chartered Accountants of India

Appearances: (Ontario Energy Board)
EB-2009-0172
EB-2008-0219

CURRICULUM VITAE OF
RAYMOND LEI

- Experience: Enbridge Gas Distribution Inc.
- Manager, Budgets and Business Support
2010
- Manager, Corporate Budgets and Analysis
2007
- Manager, Financial Analysis
2007
- Senior Analyst, Planning and Projects
2005
- Rogers Wireless Inc.
- Senior Analyst, Budgets and Forecast
2001
- Royal LePage Relocation Services Ltd.
- Financial Analyst
2000
- Kodak (China) Limited
- Business Analyst
1995
- Education: Certified General Accountant
Certified General Accountants of Ontario, 2005
- Master of Business Administration
York University, 2000
- Bachelor of Arts in Commerce and Economics
Sichuan University, China
- Memberships: Certified General Accountant, Ontario
- Appearances: (Ontario Energy Board)
EB-2009-0172

CURRICULUM VITAE OF
MARGARITA SUAREZ-SHARMA

Experience: Enbridge Gas Distribution Inc.

Manager, Cost Allocation
2008

Manager, DSM Reporting & Analysis
2005

Analyst, Rate Design
2004

Senior Analyst, DSM Planning and Evaluation
2002

Senior Economic Analyst, Economic & Financial Studies
1998

The Canadian Institute

Conference Producer
1997

Margaret Chase Smith Center for Public Policy

Research Assistant
1995

Education: Master of Arts in Economics
University of Maine, 1995

Bachelor of Arts in Economics
University of Maine, 1993

Appearances: (ONTARIO ENERGY BOARD)
EB-2009-0172
EB-2009-0055
EB-2008-0219
EB-2008-0106

(RÉGIE DE L'ÉNERGIE)
R-3665-2008
R-3692-2009

CURRICULUM VITAE OF
MARC N. WEIL

Experience: Enbridge Gas Distribution Inc.

Director, Human Resources & Facilities
2010

Director, Information Technology
2006

Manager, Application Support
2004

Enbridge Inc.

Supervisor, Corporate IT Operations
2001

Enbridge Pipelines Inc.

Senior Systems Analyst
2000

Systems Analyst III
2000

Systems Analyst II
1998

Systems Analyst I
1997

Education: Management Essentials – Mini MBA – Executive Education
University of Calgary, 2003

Bachelor of Commerce (Management Information Systems)
University of Alberta, 1997

Business Administration Diploma (Management)
Northern Alberta Institute of Technology, 1994

STOCK BASED COMPENSATION WITHIN UTILITY FINANCIAL RESULTS

1. At the conclusion of the interrogatory and ADR phases of this proceeding, Enbridge Gas Distribution (“EGD”, or the “Company”) and all other parties to the proceeding filed a settlement proposal in which all but one element of the Company’s 2009 earnings sharing calculation were resolved. The unresolved element is related to EGD’s 2009 stock based compensation (“SBC”) costs that are included as expenses for the purposes of calculating Enbridge’s earnings sharing mechanism (“ESM”) amount.
2. In response to Procedural Order No. 2, the Company is filing this evidence for the purpose of explaining the SBC costs that are included within its operating and maintenance (“O&M”) expense that is used in the determination of Utility earnings for earnings sharing purposes.
3. EGD’s O&M expenses, as used for ratemaking and ESM purposes, have historically contained compensation costs for employee services. One aspect of those costs relates to SBC. The SBC costs included in EGD’s 2009 O&M expenses for ESM purposes total \$4.3 million.
4. As explained below, EGD’s SBC costs relate to costs that are allocated to EGD by Enbridge Inc. (“EI”). The SBC costs included in the ESM calculation are in conformity with EGD’s regulatory cost allocation methodology (“RCAM”), which has been reviewed and approved by the Ontario Energy Board (“OEB” or the “Board”).
5. Within the EB-2006-0034 rate proceeding (2007), EGD filed an independent review of the RCAM, as directed by the OEB in its EB-2005-0001 Decision. As part of

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Phase I of the 2007 proceeding, EGD and stakeholders filed an agreement with the OEB concerning the RCAM methodology and the level of costs produced by the methodology which were accepted for inclusion within utility O&M. The agreement was approved by the OEB. Two items remained outstanding from that agreement, one of which related to the cost of SBC embedded within the RCAM methodology.

6. These outstanding items were reviewed and decided upon by the OEB within a phase II of the EB-2006-0034 proceeding. Within the EB-2006-0034 Phase II Decision, the OEB decided that the cost of SBC as included within the RCAM methodology was both required and recoverable within rates. With respect to SBC costs, the Board determined that such costs qualify as a regulatory expense for ratemaking purposes. The Board noted that SBC is an important element of compensation which if absent, would no doubt be replaced by more expensive compensation alternatives. The Board concluded that it would allow EGD to recover the cost of SBC in rates.
7. In order to arrive at a proposed ESM amount owing to ratepayers of \$19.3 million, EGD's EB-2010-0042 ESM application sets out the components of revenues and expenses used within the determination of Utility earnings. One element of the O&M expenses included within the ESM calculation is SBC costs, in conformity with RCAM.
8. EGD's 2009 year end corporate financial results are shown in the EGD Consolidated Financial Statements found at Exhibit D1, Tab 1, Schedule 1. Those financial results are the starting point for determining utility results for earnings sharing purposes. Included in the Consolidated Statement of Earnings (at page 4 of Exhibit D1, Tab 1, Schedule 1) are the corporate entity's O&M costs. Those O&M costs include a total expense of \$9.3 million for SBC (see page 23 of Exhibit D1,

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Tab 1, Schedule 1, which is explained at Exhibit I, Tab 4, Schedule 7, Appendix 2) which is comprised of a direct charge and an allocation from Enbridge Inc.

9. The \$9.3 million SBC cost set out in the Consolidated Financial Statements is the product of EI's cost allocation methodology ("CAM") for costs allocated by EI to EGD. The Company does not use corporate cost allocation amounts calculated in accordance with CAM for the purpose of determining Utility expenses and earnings. Thus, the SBC cost set out in the Consolidated Financial Statements is not the amount included as a Utility O&M expense for the 2009 ESM calculation.
10. Instead, for ESM calculation purposes, the Utility O&M and earnings results include the effect of RCAM amounts only. On an aggregate basis, the difference between the CAM allocated costs and the RCAM determined costs, a difference of \$13.1 million, is eliminated in determining Utility O&M expense. This elimination is found in evidence at Exhibit B, Tab 4, Schedule 1, pages 4 and 5. The differences between the CAM and RCAM amounts on an overall basis are set out at Exhibit I, Tab 4, Schedule 4. Such elimination ensures that for purposes of calculation of utility O&M and earnings in the context of ESM, only the impact of RCAM based costs were recognized.
11. The application of the RCAM methodology resulted in an allocation of \$21.2 million of corporate costs to EGD for 2009. As set out at Exhibit I, Tab 4, Schedule 5, this includes an embedded EGD SBC related amount of \$4.3 million.
12. While the OEB is not required to annually approve the RCAM based corporate costs allocated to EGD (which includes the embedded SBC amounts) for ratemaking purposes during EGD's incentive regulation ("IR") term, the Board does review

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these amounts as part of EGD's annual ESM applications. In addition, the Board did approve of the 2007 RCAM amount as an element of base rates to be used as the starting point for EGD's IR term.

13. The SBC amount included within EGD's 2009 O&M expenses for ESM purposes is calculated in accordance with RCAM, in the same manner as in previous years. The basis of inclusion of SBC costs in EGD's 2009 actual results and 2009 ESM calculations is no different from the basis adopted, reviewed, and approved in 2007 and 2008. The 2007 RCAM amount, \$18.1 million, and EGD related SBC compensation amount, \$1.7 million, were resident within EGD's Board-approved revenue requirement for 2007. The 2008 RCAM amount, \$19.1 million, and EGD related SBC compensation amount, \$3.1 million, were resident within EGD's reviewed and Board-approved 2008 ESM calculation.
14. In each of these years (including 2009), EGD has used the same approach to account for and expense SBC costs.
15. The manner in which SBC costs are expensed during the current and future years depends upon the various types of SBC instruments used and the treatment required by the applicable accounting standards.
16. Within each year's SBC expenses, there are a number of components: (a) incentive stock options ("ISOs"); (b) performance stock units ("PSUs"); and (c) restricted stock units ("RSUs").
 - a) ISOs provide the right to purchase common shares of EI at a specified price during a specific period of time.

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- i) The purchase price (or strike price) of EI's options are set at the market price of EI's shares on the date the options are granted. Generally, these options vest in equal annual installments over a four-year period and expire ten years after the grant date.
- ii) In order to be compliant with Section 3870 of the handbook of the Canadian Institute of Chartered Accountants ("CICA"), EGD expenses the fair value of ISO grants evenly over each year of the vesting period of four years. Paragraph 48 of Section 3870 of the Handbook of the Canadian Institute of Chartered Accountants, provides as follows:
- 48 □ The compensation cost for a stock-based award to employees shall be recognized over the period in which the related employee services are rendered, by a charge to compensation cost if the award is for future service. If the service period is not defined as an earlier or shorter period, the service period shall be presumed to be the period from the grant date to the date that the award is vested and its exercisability does not depend on continued employee service. If an award is for past services, the related compensation cost shall be recognized in the period in which it is granted. When the award consists of equity instruments, the offsetting entry is to shareholders' equity.*
- iii) The fair value of stock options is determined at the date of grant. Once determined, such fair value does not undergo any change regardless of subsequent changes in stock price and is expensed evenly over each of the four years. Such fair value is determined based on the Black Scholes model. Significant variables include a risk free interest rate, expected volatility, an expected remaining life, as well as an expected dividend yield rate. The underlying parameters used in determination of such fair value are typically disclosed in the notes to the financial statements of Enbridge Inc. (See page 136 of the 2009 Enbridge Inc. Annual Report – Notes to the consolidated financial statements).

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- iv) This methodology for expensing ISOs has been in place and has not changed since the beginning of the current IR term. In a response to an Undertaking given during the EB-2006-0034 (2007) proceeding, EGD explained that:

The dollar amount charged on the Enbridge Gas Distribution Inc. financial statements for stock options issued to Enbridge Gas Distribution Inc. employees in 2006 is \$1.5 million. These stock options vest over a four year period. As a result, this charge represents the vesting portion of four distinct annual grants. For 2006, the expense relating to these stock options would be an aggregate of the following approximate vesting pattern:

*1/4th of the 2006 grant;
1/4th of the 2005 grant;
1/4th of the 2004 grant;
1/4th of the 2003 grant;*

Additionally, an amount of \$0.4 million represents the charge relating to Performance Stock Units and Restricted Stock Units issued to Enbridge Gas Distribution Inc. employees, for a total direct stock based compensation charge of \$1.9 million in 2006. This expense is recorded as part of operation and maintenance expense in Enbridge Gas Distribution's financial statements.

- b) The RSU plan grants notional units as if one unit was one EI common share. RSU holders receive cash per outstanding unit equal to EI's weighted average share price at the time of maturity, 35 months from the date of the grant. The outstanding units accumulate notional dividends during their validity.
- i) RSU grants are expensed over the 35 month duration of their validity. Changes in EI's stock prices are typically recognized for RSU expensing calculations.

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c) The PSU plan grants notional units as if one unit was one EI common share. PSU holders receive cash awards following a three-year performance cycle. Awards are calculated for each outstanding unit at the end of the performance period using the EI weighted average share price and a performance multiplier. The performance multiplier is derived through a calculation of specified performance metrics in relation to a specified peer group of companies, relative to targets established at the time of the grant.

i) PSU grants are expensed over the three year duration of their validity using a formulaic based approach, which makes reference to the EI stock performance relative to the pre-determined peer group.

17. Thus, as described above, the recognition of expense of SBC grants in any particular year is and has always been recorded on a pro-rated basis to reflect the vesting pattern of the underlying grant. Hypothetically, if grants were to be expensed immediately at the time of grant there would be a disconnect between the basis of expensing and the associated value derived by the organization. Further, such an approach would be out of alignment with the requirements of paragraph 48 of Section 3870 of the Handbook of the Canadian Institute of Chartered Accountants (an excerpt of which is reproduced above).

18. The basis of expense recognition described above has been consistently applied in past fiscal years. Regardless of the type of SBC instrument in use, the associated cost has been consistently expensed over the vesting period. Such a treatment ensures a fair basis of apportionment of cost to the periods over which the minimum required service is provided by the employee; further this complies with the treatment required by accounting standards.

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19. The above basis of accounting for SBC costs was used in the calculation of RCAM amounts within the EB-2006-0034 proceeding, in which the OEB set the base rates for EGD's IR term. In that proceeding, a total RCAM amount of \$18.1 million inclusive of \$1.7 million of EGD related SBC costs was approved by the OEB.
20. The same basis of accounting for EGD's SBC costs was used for 2008, and included as part of the Board-approved 2008 ESM Application (EB-2009-0055). As such, the 2008 total SBC grant recognition wasn't expensed entirely in 2008 but rather pro-rated over 2008, 2009, 2010 and 2011. The same expensing treatment occurs for each year, both from a budgeting perspective and actual financial results perspective.
21. Table 1, set out below, sets out the breakdown of EGD's 2008 and 2009 SBC costs, calculated in accordance with RCAM. The 2008 SBC costs were included within EGD's 2008 O&M expenses that were used and approved for ESM purposes. The basis of calculation of the 2009 SBC costs, included in EGD's 2009 O&M expenses for ESM purposes, is no different from that of 2008.

<i>(\$ millions)</i>	2008	2009
ISO	1.1	1.6
RSU	1.3	2.3
PSU	<u>0.7</u>	<u>0.4</u>
RCAM based direct SBC expense	3.1	4.3

22. The main reason for the increase in SBC costs from 2008 to 2009 relates to the RSU expenses. RSUs were introduced to compensation packages on a limited

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basis beginning in late 2006. Given that RSUs are expensed over a three year period (as described above), it is only in 2009 that the full impact of these expenses is reflected in the SBC costs (because 2009 is the first time that three year's worth of grants are being expensed (for 2007, 2008 and 2009). The aggregate cost of ISO and PSU expenses has remained relatively constant, although the allocation between the two components has changed.

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M. Weil