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July 29, 2010

VIA MAIL and E-MAIL

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
P.O. Box 2319
2300 Yonge St.
Toronto, ON
M4P 1E4

Dear Ms. Walli:

Re: Board File No.: EB-2010-0042
EGDI Earnings Sharing and Deferral Accounts- Stock Based Compensation
Interrogatories of the Vulnerable Energy Consumers Coalition (VECC)

Attached are Interrogatories to the Applicant on behalf of the Vulnerable Energy Consumers Coalition. A copy has been directed to EGDI.

Thank you.

Yours truly,

Michael Buonaguro
Counsel for VECC
Encl.

Cc Norm Ryckman EGDI

IN THE MATTER of the *Ontario Energy Board Act 1998*, Schedule B to the *Energy Competition Act*, 1998, S.O. 1998, c.15;
and

IN THE MATTER of an Application by Enbridge Gas Distribution Inc. for an Order or Orders approving the clearance of certain deferral and variance accounts in 2010.

SBC INTERROGATORIES
Vulnerable Energy Consumers Coalition

VECC Question #1

Reference: Exhibit B/Tab 6/Schedule 1/Page 1

a) Does EGDI agree that the only issue raised by intervenors is the regulatory treatment of EGDI's stock-based compensation (SBC) program in the context of the Earnings Sharing Calculation during the IRM period.?
b) Does EGDI agree that the main issue raised by intervenors is the out of period expense associated with the SBC program?
c) Does EGDI agree that unlike a standard performance bonus ,the SBC payments are not expensed in full during the fiscal year and therefore affect net income and earnings sharing in future years ?
d) Does EGDI agree the main driver of escalating claimed SBC costs is treatment of RSUs?

VECC Question #2

Reference: Exhibit B/Tab 6/Schedule 1/para 17

Preamble: 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 48of Section 3870 of the Handbook of the Canadian Institute of Chartered Accountants (an excerpt of which is reproduced above).

a) Provide a calculation for 2007(base year)-2009 of the cost of SBCs assuming that the cash value of SBCs was expensed at the time of grant.
b) Apply the "filter" of RCAM and provide a calculation of the cost to be included in OM&A for ESM calculations for 2007(base year)-2009
c) Provide a discussion of the tax implications of expensing the options

d) Compare the tax implications to cash bonuses provided to employees not part of the SBC Program

VECC Question #3

Reference: Exhibit B/Tab 6/Schedule 1/Page 2

Preamble: 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

a) Provide a Schedule that shows the make up of the 9.3 million SBC amount in 2009 SBC. Include the following <u>for each year of SBCs under the IRM: (2007(base year)-2009</u>
   i. Year of grant
   ii. #ISOs and strike price
   iii. #PSUs and strike price
   iv. #RSUs and strike price
   v. Total Costs
   vi. Notes as appropriate
b) Provide a projection in the same format for 2010-2012. State all important assumptions
c) Applying the "filter" of RCAM provide the calculation for the 4.3 million amount for 2009
d) Applying the "filter" of RCAM provide the forward projection for SBCs for 2010-2012. State all important assumptions

VECC Question #4

Reference: Exhibit B/Tab 6/Schedule 1/Page 7 para 18

Preamble: 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.

a) Confirm the year in which Enbridge Inc and EGDI first started including stock-based compensation in regulatory OM&A expenses and revenue requirement. What regulatory accounting treatment was used for this expense prior to that time.

b) Provide a discussion of why the above regulatory treatment should be continued when OM&A costs are controlled by the IRM formula.

VECC Question #5

References Exhibit B/Tab 6/Schedule 1/Page 8 paras 21-22

Preamble: 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 basis beginning in late 2006.

a) Provide a historic profile of RSUs and associated costs from 2006 (first introduction to 2009
b) Was the granting of RSUs in 2006 approved by the Board?
c) Provide references to the Board's Decisions providing specific approval of RSUs
d) Provide all evidentiary references specific to RSUs from applications filed from 2005-present
e) Provide a future projection for RSUs and associated cost under the balance of the IRM period 2010 to 2012. (If not provided under the response to IR#3)