VECC INTERROGATORY #11

INTERROGATORY

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?

RESPONSE

a) EGD cannot confirm the specifics of the issue(s) which intervenors have with respect to the regulatory treatment of SBC in the context of Utility earnings and or an earnings sharing calculation during the IRM period. As indicated in the Company's evidence, the accounting and regulatory treatment of these expenses has been performed in a consistent manner as has been required by accounting standards in the past and as accepted by the Board within past Utility earnings determinations and therefore any resulting earnings sharing calculations as well.

b) As indicated in the part a) response, EGD cannot confirm the specifics of the issue(s) which intervenors have with respect to the treatment of SBC. With respect to the intervenors indicating there is an issue of out of period expense, absent being provided any insight into a valid underlying basis of expensing of SBC amounts in a manner which is different than that required by accepted accounting principles, EGD does not agree that there is an issue.

c) As indicated in the Company's evidence at pages 5, 6, and 7, the expensing of SBC related amounts is required by accounting standards to be recognized over the period in which the related employee services are rendered which is the period from the date of grant to the date that the award is fully vested. If for regulatory earnings purposes, SBC amounts were not recognized on a future services basis as is

Witnesses: K. Culbert
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required per accounting standards, then there would not be an appropriate matching of costs and services.

As indicated in response to part b), non acceptance of CGAAP accounting principles would require a valid alternate accounting treatment. Such treatment would have to be employed within a replacement regulatory methodology such that recognition of a forecast of the entire multi-year cost at the time of grant would have to be expensed for regulatory purposes in the year of the grant. This would result in a mismatch of costs and services and in 2009 if this premise were followed for regulatory accounting and ESM purposes, then the amount of 2009 SBC recognized would be higher than the $4.3 million amount currently impacting earnings and the amount of earnings available for sharing would decline.

d) The Company indicated in evidence that the primary reason for the increased RSU component of SBC was as a result of their introduction on a limited basis in 2006 and given the three year expensing of RSU's, it is only in 2009 that a full impact of RSU expense is recognized.

Witnesses: K. Culbert
N. Kishinchandani
M. Weil

VECC INTERROGATORY #12

INTERROGATORY

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

Response:

a. The Company does not track or determine the cash value of SBCs, thus is unable to provide this data.

b. The Company does not track or determine the cash value of SBCs, thus is unable to provide a RCAM view of it.

c. Under section 7(3) of the Income Tax Act (“ITA”), the expense associated with the Incentive Stock Option plan is not tax deductable for Enbridge Gas Distribution.

   The expense charges associated with both the Restricted Stock Unit plan and the Performance Stock Unit plan are tax deductible to Enbridge Gas Distribution as no Enbridge Inc. common stock is issued under either plan and Enbridge Gas Distribution physically pays Enbridge Inc. for such benefits accrued for its

Witnesses: K. Culbert
N. Kishinchandani
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employees. These costs form part of Enbridge Gas Distributions' competitive compensation package used to attract and retain employees and promote its long term success. Such payments are tax deductible for Enbridge Gas Distribution under section 18(1)(a), as they are employee compensation payments made for the purpose of gaining business income, and under section 67, as they are based on a competitive compensation package and therefore reasonable.

d. Incentive cash bonuses accrued by Enbridge Gas Distribution at December 31 are paid out to its employees by the end of February of the following year. Based on section 78(4) of the ITA, these payments are tax deductible to Enbridge Gas Distribution as they are paid out within 180 days of year end.

As both cash bonuses and charges for the stock based compensation are physically paid out by Enbridge Gas Distribution, both are tax deductible by virtue of section 18(1)(a) and section 67 of the ITA.

Witnesses: K. Culbert
N. Kishinchandani
M. Weil

VECC INTERROGATORY #13

INTERROGATORY

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 for each year of SBCs under the IRM: (2007(base year)-2009
    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.

Witnesses: K. Culbert
N. Kishinchandani
M. Weil

Response:

a.

2007 CAM SBC			**Year of Grant**		
($M)	**2007**	**2006**	**2005**	**2004**	**Total**
ISOs	0.3	0.3	0.2	0.2	1.1
RSUs	0.6	0.4	-	-	1.0
PSUs	0.1	0.2	-	-	0.3
Direct	**1.0**	**0.9**	**0.2**	**0.2**	**2.4**
Indirect					**1.5**
Total					**3.9**

2008 CAM SBC			**Year of Grant**		
($M)	**2008**	**2007**	**2006**	**2005**	**Total**
ISOs	0.5	0.1	0.2	0.2	1.1
RSUs	0.9	0.9	0.5	-	2.3
PSUs	0.2	0.2	0.5	-	1.0
Direct	**1.7**	**1.2**	**1.1**	**0.2**	**4.2**
Indirect					**3.4**
Total					**7.6**

Witnesses: K. Culbert
N. Kishinchandani
M. Weil

2009 CAM SBC			**Year of Grant**		
($M)	**2009**	**2008**	**2007**	**2006**	**Total**
ISOs	0.6	0.2	0.2	0.3	1.3
RSUs	1.1	0.9	0.6	-	2.6
PSUs	0.2	0.3	0.6	-	1.1
Direct	**1.9**	**1.4**	**1.4**	**0.3**	**5.0**
Indirect					**4.3**
Total					**9.3**

2007 CAM SBC Actual			**Year of Grant**		
(# of Units)	**2007**	**2006**	**2005**	**2004**	**Total**
ISOs	129,300	204,900	108,500	147,800	590,500
RSUs	40,800	22,680	-	-	63,480
PSUs	8,900	11,500	4,310	-	24,710
	179,000	**239,080**	**112,810**	**147,800**	**678,690**

2008 CAM SBC Actual			**Year of Grant**		
(# of Units)	**2008**	**2007**	**2006**	**2005**	**Total**
ISOs	215,400	129,300	204,900	108,500	658,100
RSUs	51,500	40,800	22,680	-	114,980
PSUs	6,700	8,900	11,500	-	27,100
	273,600	**179,000**	**239,080**	**108,500**	**800,180**

Witnesses: K. Culbert
N. Kishinchandani
M. Weil

2009 CAM SBC Actual			**Year of Grant**		
(# of Units)	**2009**	**2008**	**2007**	**2006**	**Total**
ISOs	244,350	215,400	129,300	204,900	793,950
RSUs	61,350	51,500	40,800	-	153,650
PSUs	6,900	6,700	8,900	-	22,500
	312,600	**273,600**	**179,000**	**204,900**	**970,100**

Strike Price

2007	**2007**
ISOs	38.26

2008	**2008**
ISOs	40.42

2009	**2009**
ISOs	39.61

Note: Strike price is only applicable to ISOs.

b. EGD is unable to provide such projections, please see the response to VECC Interrogatory #15 e) at Exhibit I, Tab 4, Schedule 13.

c. Please see the table below:

Witnesses: K. Culbert
N. Kishinchandani
M. Weil

2009 RCAM SBC
($ millions)

	Year of Grant				
	2009	**2008**	**2007**	**2006**	**Total**
ISOs	1.0	0.1	0.3	0.2	1.6
RSUs	0.8	0.6	0.9	-	2.3
PSUs	0.1	0.1	0.2	-	0.4
	1.9	**0.8**	**1.4**	**0.2**	**4.3**

d. EGD is unable to provide such projections, please see the response to VECC Interrogatory #15 e) at Exhibit I, Tab 4, Schedule 15.

Witnesses: K. Culbert
N. Kishinchandani
M. Weil

VECC INTERROGATORY #14

INTERROGATORY

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.

RESPONSE

a) The accounting for SBC's has always followed Canadian Generally Accepted Accounting Principles. As of January 1, 2005, the Company was required to adhere to Section 3870 of the CICA Standards Handbook for the treatment of employee stock based compensation. The standard requires the application of a fair value based accounting method for all stock based awards. The Company's evidence explained the vesting periods and associated expensing of each type of SBC currently required by the CICA standard. The Board approval and inclusion of SBC within O&M and the required accounting treatment were the same for the 2006 test year and 2007 test year/base year for EGD's current 2008-2012 IR model. The required accounting and regulatory treatments for any prior year(s) are no longer relevant to current Utility earnings and earnings sharing calculations.

b) As indicated in the Company's evidence, the Board reviewed and approved of the inclusion of SBC as an appropriate compensation cost and operating expense in its EB-2006-0034 Phase II decision. Such costs have subsequently been approved for rate making and actual Utility earnings / return on equity calculations including amounts embedded in base rates at the outset of EGD's current IR term.

Witnesses: K. Culbert
N. Kishinchandani
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The Company's IR formula annually adjusts the base year, or each subsequent year's revenue, by applying the formula parameters. The IRM formula does not adjust or establish O&M costs for either rate setting purposes or in deciding upon actual costs for ESM purposes.

Witnesses: K. Culbert
N. Kishinchandani
M. Weil

VECC INTERROGATORY #15

INTERROGATORY

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)

RESPONSE

a) Please see the response to VECC Interrogatory #13 at Exhibit I, Tab 4, Schedule 13. RSUs were first issued in 2006 and have continued to be issued annually thereafter. The fair value of RSU grants are typically expensed over the 35 month duration of their validity.

   Expense in the first year after grant, typically would be approximately 1/3rd of the fair value of the grant, subject to adjustment for changes in variable factors, such as stock price, cancellations / forfeitures, and notional dividends.

   Expense in the second year after the first grant, typically would be approximately 2/3rd of the fair value of an average annual grant, representing a third of the first year's grant and a third of the second year's grant, subject to adjustment for changes in variable factors noted above.

   Expense in the third year after the first grant and every year thereafter, typically would approximate the fair value of an average annual grant, representing a third of the first, second and third year's grants, subject to adjustments for changes in variable factors noted above.

Witnesses: K. Culbert
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As a result, it is only in the third year after the initiation of the RSU program that the costs would attain the level at which they represent a full 3-year cycle of grants.

In EGD's case, the third year after the initiation of the program was achieved in 2009, as it related to RCAM.

b) As RSU's became an element of compensation beginning in late 2006, the first inclusion and Board approval of such SBC amounts was as inherent within the 2007 Myers Norris Penny ("MNP"), Regulatory Corporate Cost Allocation Methodology, independent study and recommendations for the 2007 Test Year, docket EB-2006-0034.

c) The EB-2006-0034 Phase II Decision did not quote specifics of the types of SBC costs included within the MNP study and recommended amounts that the Board ultimately approved. While the decision wording used the term, cost of stock options as being an appropriate rate recoverable amount, the details of the MNP study considered elements of stock options and stock units in determining the overall amount which the Board approved within 2007 base rates.

d) See part a & c). A discussion of the RSU element of SBC, between a Board panel member and an EGD witness, can be found within the EB-2006-0034 proceedings, September 27, 2007, volume 17 transcript, pages 126-131.

e) The forecast cost of RSU's for 2010 in regard to RCAM is $2.6 million. The Company is unable to provide a projection of 2011-2012 RSU's as there are a multitude of determinants required for such projections which cannot be reasonably estimated. However, all things being equal, at current stock prices the RSU levels and amounts should not be materially different.

Witnesses: K. Culbert
N. Kishinchandani
M. Weil