Exhibit 10: Incentive Rate Setting Proposal

1. EPCOR is proposing a Custom Incentive Rate-setting plan ("**Custom IR plan**") to set rates for the 10 year rate stability period commencing January 1, 2019 through December 1, 2028, matching the forecast period in the CIP.

2. The proposed Custom IR plan is in keeping with the expectations set out in the Renewed Regulatory Framework Report (RRF Report) and creates "an appropriate alignment between a sustainable, financially viable [gas] sector and the expectations of customers for reliable service at a reasonable price"[1].

3. The proposed Custom IR plan is also consistent with the Southern Bruce Expansion Decision as it:

    i. is based on the 10 year revenue requirement as established in the process, including the incorporation of embedded efficiency and stretch factors;

    ii. supports the concept of a rate stability period by finalizing the rates for 2019 and confirming the process for stable annual adjustments until 2028;

    iii. establishes the framework for the transfer of risk as contemplated in the competitive process (which includes commitments to protect the rate payer against cost overruns related to the material capital expenditures necessary to construct the system, control of OM&A expenditures and achievement of ROE);

    iv. incents EPCOR to explore potential expansion of the system as contemplated in its CIP;

    v. establishes the groundwork for the cost of service rate case that EPCOR will file to establish rates for the period after 2028; and

    vi. incents EPCOR to implement sustainable efficiencies early in the IR period, which will ultimately benefit rate payers in the post-2028 time period.

4. Rates for year 1 (2019) of the Custom IR period would be as applied for in this Application, if approved by the Board. For the duration of the Custom IR period (i.e., years 2 through 10, from

[1] Renewed Regulatory Framework for Electricity Distributors: A Performance-Based Approach, Ontario Energy Board, October 18, 2012, page 1

2020 through 2028 inclusive), EPCOR is proposing a rate adjustment mechanism that would adjust rates annually. This mechanism is composed of two elements and is intended to affect both the "Stabilization Factor" EPCOR applied when calculating the cumulative revenue requirement in its CIP as well as the inflation factor imbedded in OM&A expenses. Each of these values (cumulative revenue requirement and forecast inflation) are as determined by the Board's Southern Bruce Expansion Decision. The Stabilization Factor was applied against that part of the annual revenue requirement other than that necessary to recover OM&A expenses. The Stabilization Factor and forecast inflation used by EPCOR in determining its revenue requirement was 1.27%.

5. If annual customer and volume commitments are met, EPCOR would realize the proposed adjusted Distribution Revenue Requirement of $58.141M[2] by charging the proposed 2019 rates and adjusting them using the annual Stabilization and inflation factors.

6. EPCOR is proposing that the annual Incentive Rate Adjustment (IR) include a factor to adjust the forecast inflation factor applied to the OM&A portion of the Monthly Fixed Charge and Delivery Charge of each rate schedule ("**Distribution Charges**") to reflect actual inflation. In addition, the Stabilization Factor of 1.27% be applied against the remaining portion of Distribution Charges. For ease of calculation EPCOR is proposing that in each year's IR adjustment, inflation be applied against 31.6%[3] of that year's Distribution Charges for each rate class.

7. The proposed incentive rate adjustment is as follows:

Incentive Rate Adjustment (IR) = (1.0 - 0.316) × 0.0127 + 0.316 × Inflation (I)

8. EPCOR proposes to calculate the I factor by using a 2-factor Input Price Index ("**IPI**") methodology. To calculate the 2-factor IPI EPCOR proposes to use the year-over-year change in the GDP-IPI (FDD), and the AWE ("**Average Weekly Earnings**") All Employees-Ontario. The percentage change will be calculated as the weighted sum of 70% of the annual percentage change in the GDP-IPI (FDD) for the prior year relative to the index value for two years prior and 30% of the annual percentage change in the AWE for the prior year relative to the data for two years prior.

[2] As detailed in Exhibit 8 Tab 1 Schedule 1
[3] As per Exhibit 8 Tax 1 Schedule 4, cumulative revenue requirement is $58.141M and cumulative OM&A is $18.36M. Therefore cumulative OM&A is $18.36M / $58.141M = 0.3158 of cumulative distribution revenue.

9. EPCOR is not including any additional productivity or stretch factors in the inflation portion of the IR mechanism. In order to increase the potential of becoming the successful proponent of the competitive CIP process, EPCOR incorporated productivity and stretch factors into its CIP revenue requirement. This revenue requirement was then used to determine the revenue per cubic meter ($\$/m^3$) metric included in the CIP submission. The Board considered that this metric "provides a relatively clear picture of value for money, as it shows on average, what customers could expect to pay on a per unit basis."[4] In determining the successful proponent, the Board tested EPCOR's value of this metric against the competition and found EPCOR's value to provide a lower cost. The Board also found that "the $\$/m^3$ measure is most relevant in terms of costs to serve customers, and a main concern and focus in terms of the competitive process."[5] EPCOR's view is that the competitive process has already resulted in a revenue requirement that incorporates productivity and stretch factors, and to apply additional factors would result in doubling up on these elements.

10. EPCOR is proposing that all distribution system rates, fixed and variable charges and fees be adjusted annually using this IR adjustment factor, with the exception of the return cheque/payment charge. EPCOR is proposing to set this charge at the highest Insufficient Funds charge in effect at the time amongst all banks at which EPCOR customers bank and is proposing to update this charge periodically to reflect changes in the banks' not sufficient funds charges accordingly.

11. Adjustments to upstream charges would not be made using the IR adjustment factor, but would be adjusted as necessary to reflect any changes that EPCOR is subject to in contracting for those services from its suppliers including transmission services.

12. EPCOR's proposed Custom IR plan does not include an Earnings Sharing Mechanism ("**ESM**"). One of the basic tenants of the competitive process was that proponents would take the risk of achieving an acceptable return. The treatment of this risk is symmetrical: EPCOR takes the risk of over or under earning on its equity. As an example, for capital costs the Board determined that "Any capital cost overruns incurred during the first 10 years above the forecasted costs reflected in the proposals will not be permitted into the successful proponent's rate base for year 11 and

[4] EB-2016-0137/0138/ 0139 – Decision and Order, April 12, 2018, page 11
[5] Ibid, page 11.

beyond (following the rate stability period). The treatment will be symmetrical: cost underruns will accrue to the utility's benefit."[6]

13. Z Factor Adjustments – EPCOR has included a Z-factor in its incentive rate setting proposal allowing for the recovery of unexpected cost increases or cost decreases with a revenue requirement impact of more than $50,000[7] per year that are outside of management control. The details of the proposed Z factor adjustment are provided in Exhibit 9 Tab 1 Schedule 1.

14. ICM - In the event of capital expenditures associated with the Southern Bruce system that are outside of what is included in the system EPCOR included in its CIP, EPCOR understands the ability to file for an Incremental Capital Modules ("ICM") as part of this Custom IR plan is consistent with the Board's Southern Bruce Expansion Decision. The inclusion of a capital module has the potential to facilitate the expansion of natural gas distribution and associated benefits to additional customers beyond those contemplated in the CIP process. Any additional system expansion projects would comply with EBO 188 guidelines.

15. Benchmarking – No benchmarking is proposed during the Custom IR period. EPCOR has proposed a performance scorecard as detailed in Exhibit 1. If this scorecard is approved, the data gathered will allow EPCOR to develop appropriate proposals for future benchmarking.

16. Tax Changes - EPCOR proposes to include an adjustment for tax changes in its Custom IR plan. EPCOR proposes the 50/50 sharing of impacts of legislated tax changes from EPCOR's tax rates known at the time of this Application and embedded in the rates if approved by the OEB. EPCOR proposes the use of a rate rider (calculated annually as applicable) for these amounts to be recovered from or refunded to customers over a 12-month period.

17. Performance Metrics – EPCOR proposes to use the performance scorecard as detailed in Exhibit 1 Tab 2 Schedule 1.

18. Gas Supply Costs – EPCOR proposes that Gas Supply costs will be treated as a pass through and will be updated during the Custom IR period in accordance with the QRAM process.

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[6] Ibid – Page 11
[7] This value is equal to ENGLP's current Z factor threshold.