Exhibit 10 Contents

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.

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

10.1 Annual Adjustment Mechanism

1. 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 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%.

2. 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.

3. 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.

4. The proposed incentive rate adjustment is as follows:

$$\textit{Incentive Rate Adjustment (IR)} = (1.0 - 0.316) \times 0.0127 + 0.316 \times \textit{Inflation (I)}$$

[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.

10.2 Inflation Factor

1. 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.

10.2.1 Productivity and Stretch Factors

2. EPCOR has already applied productivity and stretch factors into in the proposed 10-year revenue requirement. Driven by the competitive tension inherent within the Board's process, these factors were by necessity incorporated into its CIP revenue requirement in order to increase the potential of becoming the successful proponent of the competitive CIP process. 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.

10.3 Application of the IR Factor

3. 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

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

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.

4. 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.

10.4 Y-Factors

5. Y-factors are costs associated with specific items that are subject to deferral account treatment and passed through to customers without any IR adjustment. EPCOR is proposing the following items be treated as Y-factors for its Southern Bruce operations over the 10-year period covered by this Application:

    a. Costs related to unaccounted for gas;

    b. Costs associated with participating in generic and other Board hearings that impact the utility, including Union Gas and Enbridge proceedings;

    c. Costs approved in other proceedings (i.e. DSM program costs etc.), as applicable, will be implemented as part of the annual rate applications[6] through the Custom IR Term;

    d. Gas Supply costs will be treated as a pass-through cost through the use of the PGCVA and will be updated during the Custom IR Term in accordance with the Board's established QRAM process; and

    e. Costs related to greenhouse gas emissions programs applicable to the utility will be recorded in the FCCCVA, FCCFVA and GGEADA, or other deferral or variance accounts as established through the specific proceedings regarding greenhouse gas emissions programs.

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[6] Ontario Energy Board Filing Requirements for Natural Gas Rate Applications, Chapter 2 Cost of Service Applications, February 16, 2017, Section 2.10, pg. 41.

6. EPCOR proposes to track Y-factor costs in the associated deferral and variance accounts as outlined in Exhibit 9 and bring forward for recovery annually in conjunction with the Custom IR application.

10.5 Earnings Sharing Mechanism

1. One of the basic tenants of the competitive process was that proponents would commit to certain metrics that are in addition to those that utilities have historically assumed. The metrics themselves, such as $/m^3 to delivery gas, are for the benefit of the customer. The values of these metrics were directly influenced, again to the benefit of the customer, by the competitive tension inherent in the Board's competitive process. These factors result in additional risk for the utility as it accepts the risk of achieving an acceptable return while delivering on those commitments. 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 beyond (following the rate stability period). The treatment will be symmetrical: cost underruns will accrue to the utility's benefit*."[7] Given the rate protection that has already been incorporated as a result of the competitive process and the symmetrical risk related to achieving a rate of return on equity assumed by EPCOR, EPCOR's proposed Custom IR plan does not include an Earnings Sharing Mechanism ("**ESM**").

[7] Ibid – Page 11

10.6 Z-Factor Adjustments

1. EPCOR has included a Z-factor adjustment in its Custom IR proposal. In order for amounts to be considered for recovery, EPCOR is proposing that Z-factor event amounts must satisfy the criteria in all four categories:

   i. Causation: The cost increase or decrease, or a significant portion of it, must be demonstrably linked to an unexpected, non-routine event.

   ii. Materiality: The cost increase or decrease must meet a materiality threshold, in that its effect on the utility's revenue requirement in a fiscal year must be equal to or greater than the established threshold. EPCOR proposes a threshold amount of $50,000[8] for an individual event.

   iii. Prudence: The cost subject to an increase or decrease must have been prudently incurred.

   iv. Management Control: The cause of the cost increase or decrease must be: (a) not reasonably within the control of utility management; and (b) a cause that utility management could not reasonably control or prevent through the exercise of due diligence.

2. The process for Z-factor claims under this Custom IR Plan will be as outlined in Exhibit 9 Tab 1 Schedule 1.

10.7 Incremental Capital Module

3. EPCOR proposes an Incremental Capital Modules ("**ICM**") in its Customer IR Plan. An ICM would be filed in the event of capital expenditures associated with an expansion of the Southern Bruce system incremental to the system EPCOR included in its CIP. Expansion of the system beyond that which was detailed in the CIP is consistent with the Board's competitive process as it has indicated "*The successful proponent will be free to ultimately serve additional customers and communicates beyond those specified in the CIP during the 10 year rate stability period but will bear the onus to demonstrate that its incremental revenue requirements are aligned on the unit metric basis with its*

[8] This value is equal to ENGLP's current Z-factor threshold.

revenue requirement stated for the CIP."[9] 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.

10.8 Benchmarking

4. EPCOR has proposed a performance scorecard as detailed in Exhibit 1. As this utility has no historical data to compare to, and given that it is a greenfield utility which limits the usefulness of comparing its performance during its initial years of operation to other utilities, no benchmarking is proposed during the Custom IR period. If this scorecard is approved, the data gathered will allow EPCOR to develop appropriate proposals for future benchmarking.

10.9 Tax Changes

5. 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.

10.10 Performance Metrics

6. EPCOR proposes to use the performance scorecard as detailed in Exhibit 1 Tab 2 Schedule 1.

10.11 Gas Supply Costs

7. 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.

[9] EB-2016-0137/0138/ 0139 – Partial Decision on the Issues List And Procedural Order No. 6, June 27, 2017 page 5