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May 17, 2021

Delivered by Email & RESS

Ms. Christine Long, Registrar
Ontario Energy Board
P.O.Box 2319, 27th Floor
2300 Yonge Street
Toronto, ON M4P 1E4

Dear Ms. Long:

Re: 2021 Cost of Service Rate Application
North Bay Hydro Distribution Limited ("NBHDL")
OEB File No.: EB-2020-0043
Settlement Proposal - Responses to Pre-Settlement Clarification Questions

Further to NBHDL's Settlement Proposal filed on May 14, 2021, please find enclosed NBHDL's Responses to Pre-Settlement Clarification Questions ("**Clarification Responses**").

Confidentiality Request

As part of its Clarification Responses, NBHDL is filing a copy of the 2020 Financial Statements of 17 Trees Inc. ("**17 Trees FS**") in confidence pursuant to the Ontario Energy Board's ("**OEB**") *Practice Direction on Confidential Filings* (the "**Practice Direction"**):

The 17 Trees FS contains the financial information of 17 Trees Inc., which is a vegetation management company used by NBHDL. NBHDL requests that the 17 Trees FS be treated as confidential in its entirety pursuant to Rules 10.01 and 10.02 of the OEB's *Rules of Practice and Procedure* and Sections 5.1.1 and 5.1.2 of the Practice Direction. The nature of the 17 Trees FS and the basis for NBHDL's request for its confidential treatment are set out below.

17 Trees

As mentioned above, 17 Trees is engaged in the competitive business of vegetation management. Disclosure of the 17 Trees FS would make its financial information publicly available and allow its competitors, such as Eagle Tree & Landscaping Services, Ontario Line Clearing & Tree Experts Inc., Davey Tree Expert Co. of Canada, Limited, and Asplundh Tree Expert Company to have access to such information. With this information, the competitors can see the cost structure and profitability of 17 Trees and use it unfairly to their advantage in their negotiations in providing vegetation management services. The competitors can adjust their pricing accordingly to gain business at the loss of 17 Trees. As such, the disclosure of 17 Trees FS could reasonably be expected to prejudice the economic interest of, significantly prejudice the competitive position of, cause undue financial loss to, and be injurious to the financial interests of 17 Trees.

Apart from harm being caused to 17 Trees, as NBHDL plans to tender 50% of the vegetation management work to local contractors and the other 50% to 17 Trees,[1] if the local contractors are able to access the 17 Trees FS, they can also use it to their advantage when negotiating with NBHDL for vegetation management services and to the detriment of NBHDL as they would have knowledge of NBHDL's bottom line.

OEB's Considerations for Confidentiality Requests

Appendix "A" to the Practice Direction sets out the OEB's considerations in determining requests for confidentiality. Among those considerations are the following:

> (a)(i) prejudice to any person's competitive position;
>
> (a)(iv) whether the disclosure would be likely to produce a significant loss or gain to any person; and
>
> (g) any other matters relating to FIPPA (the *Freedom of Information and Protection of Privacy Act*) and FIPPA exemptions.

With respect to item (g) above, the OEB has provided a summary of pertinent FIPPA provisions at Appendix C of the Practice Direction. That summary provides, in part, as follows:

"Under section 17(1), the OEB must not, without the consent of the person to whom the information relates, disclose a record where:

> (a) the record reveals a trade secret or scientific, technical, commercial, financial or labour relations information;
>
> (b) the record was supplied in confidence implicitly or explicitly; and
>
> (c) disclosure of the record could reasonably be expected to have any of the following effects:
>
> i. prejudice significantly the competitive position or interfere significantly with the contractual or other negotiations of a person, group of persons or organization;
>
> iii. result in undue loss or gain to any person, group, committee or financial institution or agency;
>
> ..."

[1] Interrogatory Response to SEC-13(d) filed April 1, 2021.

The Practice Direction recognizes that these are among the factors that the OEB will take into consideration when addressing the confidentiality of filings. They are also addressed in section 17(1) of FIPPA, and the Practice Direction notes (at Appendix C of the Practice Direction) that third party information as described in subsection 17(1) of FIPPA is among the types of information previously assessed or maintained by the OEB as confidential.

Disclosing the commercially sensitive financial information of 17 Trees on the public record would put them in a competitive disadvantage vis-à-vis their competitors in the market as described above. It would be revealing commercial and financial information that, if disclosed, would reasonably expected to result in undue loss on 17 Trees' part in its vegetation management business. In addition, NBHDL will also suffer from undue loss as it will allow vegetation management contractors to leverage their negotiations with NBHDL.

<u>Filing of Confidential Documents</u>

In keeping with the requirements of the Practice Direction, NBHDL is filing a confidential version of the 17 Trees FS with the Registrar only. The unredacted version of the 17 Trees FS has been marked "Confidential". NBHDL requests that the confidential version of the document be kept confidential.

Yours very truly,

BORDEN LADNER GERVAIS LLP

Per:

Flora Ho

/Encls: Responses to Pre-Settlement Clarification Questions
cc: Intervenors of record in EB-2020-0043

North Bay Hydro Distribution Limited

EB-2020-0043

Response to Pre-Settlement Clarification Questions

Filed: May 17 2021

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North Bay Hydro Distribution Limited
Response to Pre-Settlement Clarification Questions

VECC's Pre-Settlement Clarification Questions

(Numbering follows from VECC IR numbering)

VECC-50

REFERENCE: Staff 39 d)
VECC 27 b) – (Excel File, Tabs 5 & 8
Exhibit 3, page 18 (Table 3-16)
IRR LRAMVA Workform

PREAMBLE: The evidence to-date provides three different values for the 2021 energy savings attributable to the CEP project:

i. 1,389,956 kWh – used in the LRAMVA Workform filed with the information request responses.

ii. 1,555,078 kWh – per the attachment to VECC 27 b) which is the starting point for the manual CDM adjustment to the 2021 Load Forecast, and

iii. 2,322,262 kWh – per Staff 39 d) which is basis for the final manual CDM adjustment to the 2021 Load Forecast.

QUESTION:

a) Please explain the basis for each of the three values.

b) Please explain why the value used in the Load Forecast (Item iii) differs from that used in the LRAMVA Workform (Item i)

c) Please explain why the value provided in the response to VECC 27 b) differs from the other two and why it is not used in either the LRAMVA Workform or the (ultimately) for the Load Forecast Adjustment.

RESPONSE:

a) Item (i) is the most recent version of the LRAMVA workform. It incorporates actual values for August through December 2020 which were not available at the time of the original filing. Values for 2021 are based on average historic results through December 2020. Item (ii) is the original LRAMVA spreadsheet before the update and is no longer relevant. Item (iii) is North Bay Hydro's expectation for performance going forward, as explained in Staff-39 part (d).

b) The LRAMVA workform is estimating savings for January to April 2021 based on historical performance, as explained in VECC-52. The Load Forecast value is estimating savings based on expected performance in the forecast period. As explained in Staff-39 d).

c) See responses to a) and b).

VECC-51

REFERENCE: Staff 39 c) & d)
VECC 27 b) – (Excel File, Tabs 5 & 8
Exhibit 3, page 18 (Table 3-16)

PREAMBLE: None.

QUESTION:

a) Staff 39 d) states that the CEP property load is 3,339,015 kWh. What is the basis for this value why does it differ from the shadow bill for 2021 set out in VECC 27 b), Tab 8 of 2,910,389 kWh?

b) In Table 3-16 the initial CDM adjustment of 1,099,963 kWh represents ½ of the total estimated savings in 2021 from 2019 programs (per VECC 27 b)) and includes ½ of the 2021 savings initially attributed to the CEP – as shown in the response to Staff 39 c). NBHDL then removes these CEP savings (777,339 kW) and adds to the manual adjustment the full (revised) estimate of the annual savings from the CEP (2,322,262 kWh). In doing so it appears that NBHDL as double counted the 2019 CEP savings already incorporated in the Load Forecast (by virtue of using 2019 actual data in the modelling). Please comment.

RESPONSE:

a) The shadow bill on Tab 8 of the LRAMVA workform is an estimate based on historic values, and is applied to January through April 2021, as described in the response to VECC-52. The value in Staff 39 d) of 3,339,015 kWh was taken from a detailed engineering study performed at the time of the project's conception. This value has been adjusted to reflect NBHDL's estimates of likely performance in 2021 for load forecast purposes as explained in Staff 39 d).

b) NBHDL acknowledges that in performing a manual adjustment to the 2021 test year load forecast, it inadvertently incorporated both the implicit CEP saving in the regression analysis as well as its assumption of future reductions in load. NBHDL will adjust for this reduction in the load forecast during the settlement process.

VECC-52

REFERENCE: IRR LRAMVA Workform, Tab 5

PREAMBLE: None.

QUESTION:

a) Please explain why the LRAMVA calculation includes the impact in 2021 of 2014-2019 CDM programs. Wouldn't these impacts be captured in the Load Forecast for 2021?

RESPONSE:

a) The energy and demand savings in the LRAMVA are the estimated amounts for all of 2021, based on historic performance. Although the savings values are shown as full year values, they are multiplied by rates that only reflect January 2021 to April 2021, as indicated on Tab 3. Thus the LRAMVA claim is only for the portion of the year before the Load Forecast for 2021 takes effect. The revenue, and hence the lost revenue, in Jan - April is based on the 2015 forecast and the 2020 rates and is therefore appropriate to include in the LRAMVA claim.

VECC-53

REFERENCE: Appendix 2-H, per the Application
Appendix 2-H, per the interrogatory responses
VECC 29 e) & f)

PREAMBLE: None.

QUESTION:

a) VECC 29 e) states that, for the Pole Attachment Charge, NBHDL did not use current value of $44.50 in the 2021 Test Year but rather used an inflationary assumption of 2%. The response also states that NBHDL has updated the 2021 test year forecast models and rates in 1-Staff-1 with the OEB prescribed value (i.e. the current $44.50 as opposed to $45.50 plus 2%). However, the Rent from Electric Property has increased from $499,198 in the Application's Appendix 2-H to $502,361 in the Appendix 2-H filed with the interrogatory responses. Please reconcile.

b) VECC 29 f) states that The Retailer Service Charge revenue in the Application is based on NBHDL's internal budget that incorporated a 2% increase. It also states that NBHDL intends to use the board prescribed standard rates (which incorporates a 2.2% increase) and NBHDL has updated Account 4082 and 4084 for the 2021 Test in the updates referenced in 1-Staff-1. However, the revenues reported for Accounts 4082 and 4084 are lower in Appendix 2-H filed with the interrogatory responses than those set out in the initial Appendix 2-H. Please reconcile.

RESPONSE:

a) NBHDL notes that the updated value for Rent from Electric Property of $502,361 is derived from an updated year-end 2020 count at the new rate of $44.50/attachment.

b) NBHDL notes that the updated values for account 4082 and 4084 are now based on updated average 2020 counts as well as the new rates.

Acct 4082	**2020 Count**	**Rate**	**2021 Estimate**
Fixed	185	41.70	7,714.50
Variable	8581	1.04	8,924.24
DCB	8581	0.62	5,320.22
			21,958.96
Acct 4084	**2020 Count**	**Rate**	**2021 Estimate**
STR - Request	236	0.52	122.72
STR - Processing	225	1.04	234.00
			356.72

VECC-54

REFERENCE: Staff 65
IRR Cost Allocation Model, Tab I6.2

PREAMBLE: Staff 65 states:

"There is no situation where that would give rise to a customer providing its transformer but NBHDL owning the secondary assets on the low side of the transformer. I6.2 shows customer counts with respect to the location of the meters. That is, NBHDL has 269 total GS 50-2,999 customers, but 265 of them are billed on the secondary line. The remainder are billed on the primary. These values are irrespective of transformer ownership."

QUESTION:

a) Please confirm that of the 269 total GS 50-2,999 customers, NBHDL provides the secondary assets for 242 of them.

RESPONSE:

a) It is not confirmed that NBHDL provides secondary assets for 242 of these GS 50 - 2,999 customers. NBHDL does not own the secondary assets for every transformer it owns in this customer class. The 265 locations are the ones where the metering takes place on the secondary side, but this in itself does not necessarily mean that NBHDL owns the secondary assets. Available information records would indicate that there are at least 60 of these customers which own their secondary assets.

VECC-55

REFERENCE: VECC 43
IRR Cost Allocation Model, Tab I6.2

PREAMBLE: None.

QUESTION:

a) The number of bills used in Table 7.0-VECC 43.1 for the Sentinel class do not match those in Tab I6.2 of the Cost Allocation Model. Please reconcile.

b) Are all of NBHDL's customers billed on a monthly basis?

c) Are the same processes used and activities required to bill all customers with meters, regardless of the customer class they are in? If not, what are the differences and how are they reflected in Table 7.0-VECC 43.1?

d) Please provide the supporting excel worksheet that sets out the allocation factors for each of the cost categories and resulting allocation of costs per Table 7.0-VECC 43.1.

RESPONSE:

a) NBHDL notes that the discrepancy is between the number of connections forecasted and the number of customers estimated. Table 7.0-VECC-43.1 is using an estimated number of customers, and therefore actual bills, for the purposes of calculating a weighting factor. Tab I6.2 is using the forecasted number of connections as per the load forecast.
b) All of NBHDL's customers are scheduled to be billed monthly. However, initials, finals, and exception bills can sometimes be for periods that exceed a single month. These are a small percentage of the overall bills issued.
c) The same processes and activities are not required to bill all customers of all rate classes. This is the purpose of Table 7.0-VECC 43.1 where staffing, postage, data, 3rd party costs are all allocated depending on the classes that drive these items.
d) Please see attached excel NBHDL_Clarification Response_VECC-55.

<u>OEB Staff's Pre-Settlement Clarification Questions</u>

(Numbering follows from OEB Staff Interrogatory dated March 8, 2021)

3-Staff-74

REFERENCE: 3-Staff-39, 3-VECC-27

PREAMBLE:

North Bay Hydro has proposed a CDM manual adjustment to its load forecast. The CDM manual adjustment is made up of contributions from Conservation First Framework (CFF) projects implemented in 2019. A significant portion of the proposed CDM manual adjustments is in relation to the Community Energy Park (CEP) project. As the IESO will not be reporting any distributor-specific savings results following the cancellation of the CFF, please provide the following:

QUESTION:

a) A discussion of how savings from the CEP project and any other contributing CDM projects that make up the proposed CDM manual adjustment will be reported in order to compare with the CDM manual adjustment.
b) Although North Bay Hydro has indicated it does not expect there will be a need to make an LRAMVA claim for 2021 or beyond the CFF, please discuss how customers will be kept whole in the event the proposed CDM manual adjustment is higher than actual CDM savings.

RESPONSE:

a) and b)

The manual adjustment is based only on projects already completed, and their persistence into future years. There is no forecasting of future CDM savings incorporated within the manual adjustment. For the projects other than the CEP project, there will be no new information about savings from these projects forthcoming from the IESO or other sources, and therefore no anticipated change from the estimated value in future years. These savings make up 22% of the manual adjustment.

For the CEP project, there may be savings that are higher or lower than anticipated depending on the actual demand and the performance of the CEP facility. NBHDL has taken a very conservative estimate of future savings from the CEP facility, reducing the anticipated load displacement from the design specification of 86% to 70%. Even if the facility stopped operating completely – an unlikely scenario – the impact would be below North Bay Hydro's materiality threshold.

4-Staff-75

REFERENCE: SEC-13

PREAMBLE:

North Bay Hydro notes that it commits 50% of its vegetation management work to 17 Trees.

QUESTION:

Please further elaborate how North Bay Hydro negotiates the pricing for the vegetation management services provided by 17 Trees.

RESPONSE:

The pricing for 17 Trees is based on a cost recovery plus 5% to facilitate working capital requirements. Please refer to Exhibit 2, page 30 for further discussion.

7-Staff-76

REFERENCE: Revenue Requirement Work Form, Sheet 11. Cost_Allocation, April 1, 2021

PREAMBLE:

The updated RRWF filed with the interrogatory responses indicates that the revenue to cost ratio for the USL rate class is proposed to increase from 107.96% to 120.00%. In the initial application, the revenue to cost ratio for this class was 135.49% and was proposed to be reduced to 120%.

QUESTION:

a) Does North Bay Hydro now propose to increase the revenue to cost ratio for the USL rate class?

RESPONSE:

a) The discrepancy arises from the correction to the Weighting Factors in tab I5.2 of the cost allocation model as noted in VECC-43. In correcting the values and the cost allocations that resulted, NBHDL left the UMSL class at the previously proposed 120%. Maintaining UMSL at 107.96% will result in $155 being allocated to other classes. NBHDL will update the UMSL percentage to align with the 107.96% through the settlement process.

8-Staff-77

REFERENCE: Tariff and Bill Impacts Model

PREAMBLE:

The proposed tariff appears to have two incorrect charges:

- The service charge for the residential class shows $34.37, but is $34.39 in the RRWF
- The low voltage service rate for the GS 3,000 to 4,999kW class is $0.0294/kW, but is $0.05937/kW (rounded up to $0.0594/kW) per IRR 8-Staff-68

QUESTION:

Please confirm if the values are correct/incorrect.

RESPONSE:

NBHDL notes that the correct residential rate is $34.39 and the correct GS 3,000 to 4,999kW low voltage rate is $0.0594/kW. NBHDL will update the Bill Impact Model during the Settlement process.

9-Staff-78

REFERENCE: 3-VECC-29

PREAMBLE:

In 3-VECC-29, North Bay Hydro indicated that it would be requesting a new DVA related to increased costs arising from Bill 257 (if enacted) and would file a draft accounting order to support its proposal.

QUESTION:

a) Please provide the draft accounting order.
b) In accordance with the OEB's Chapter 2 Filing Requirements, any new deferral/variance account must satisfy the three criteria of Causation, Materiality and Prudence. Please provide a discussion on how North Bay Hydro's proposed new DVA satisfy these three criteria.

RESPONSE:

a) The draft accounting order will be provided once complete.
b) NBHDL is requesting approval for an accounting order to establish a new deferral account ("DVA") as indicated in response to the interrogatory VECC-29. This new DVA is related to the possible impacts to NBHDL's costs resulting from the recent Bill 257, Supporting Broadband and Infrastructure Expansion Act, 2021, which enacts the Building Broadband Faster Act, 2021 ("BBFA").

   On April 12, 2021, Bill 257 received Royal Assent. The BBFA, which is now enacted, includes changes that will impact NBHDL's costs. Section 8 of the BBFA provides that:

   > "8 (1) The proponent and the distributor or transmitter may agree on the apportionment of the actual cost of the work.
   >
   > (2) If no agreement is reached, the actual cost of the work shall be apportioned in accordance with, (a) the prescribed rules; or (b) such

> requirements under the Ontario Energy Board Act, 1998 as are prescribed for the purposes of this clause."

In addition, the Ontario Energy Board Act, 1998 ("OEB Act") 1 has been amended as a result of Bill 257 and the new Section 104.3 provides that:

> "104.3 (1) The Lieutenant Governor in Council may make regulations governing the development of, use of or access to electricity infrastructure for the purposes of this Part, including,
>
> […]
>
> (d) governing charges or costs for the development of, use of or access to electricity infrastructure to which this Part applies and governing the amounts of the charges or costs, including fixing the amounts, setting maximum or minimum amounts or prescribing methods or techniques for determining amounts or maximum or minimum amounts"

As such, these changes as a result of Bill 257 imposes material financial consequences on NBHDL that are not addressed in its base rates. Specifically, it includes provisions that would result in possible increases in utility costs to facilitate broadband attachments as well as possible changes to Pole Attachment charges for broadband connections. This would result in material additional costs for the utility that are not included in base rates.

Based on the foregoing, the OEB's eligibility criteria for new DVAs are met:

Causation - The forecasted expense must be clearly outside of the base upon which rates were derived.

- The proposed deferral account is intended to capture the financial impacts of legislative changes from Bill 257 during the IRM plan term. Consequently, the amounts would be recorded in the deferral account would be clearly outside of the base upon which NBHDL's rates will be derived.

Materiality - The forecasted amounts must exceed the OEB-defined materiality threshold and have a significant influence on the operation of the distributor, otherwise they must be expensed in the normal course and addressed through organizational productivity improvements.

- Although it is too early to forecast what the exact incremental costs will be as it will be defined by regulations that will be subsequently introduced, we propose to use NBHDL's materiality threshold of $75,000 (as set out in Section 2.1.4.14 in Exhibit 1) as the basis. NBHDL proposes that the materiality of the amounts in this new DVA will be assessed at disposition and must exceed $75,000 in aggregate over the IRM plan term. These incremental costs would have a material impact on NBHDL's revenue requirement.

Prudence. The nature of the costs and forecasted quantum must be based on a plan that sets out how the costs will be reasonably incurred, although the final determination of prudence will be made at the time of disposition. In terms of the quantum, this means that the applicant must provide evidence demonstrating as to why the option selected represents a cost-effective option (not necessarily least initial cost) for ratepayers.

- The revenue impact is in consideration of the exceptional requirements and remedies set out in Bill 257, and it is therefore reasonable for NBHDL to record this financial impact in an OEB-approved deferral account, and to seek recovery in a future proceeding.

A draft accounting order for the proposed deferral account, which includes a description of the mechanics of the account, examples of the general ledger entries and the proposed manner in which to dispose of the account will be provided once it is complete.

Other Clarification Questions

QUESTION 1

REFERENCE: 4-Staff-54

PREAMBLE:

An external consultant regularly reviews North Bay Hydro’s compensation plan for competitiveness against two market comparators.

QUESTION:

Provide documentation related to compensation plan.

RESPONSE:

Please find attached the draft report titled “Variable Performance Pay Plan Design for North Bay Hydro” prepared by Elenchus Research Associates Inc. (“Elenchus”) dated July 17, 2014 filed as Attachment 1 - Variable Performance Pay Plan Design for North Bay Hydro.

NBHDL has obtained Elenchus’ consent to file this draft report.

QUESTION 2

REFERENCE: 4-Staff-57

PREAMBLE:

For benchmarking purposes, North Bay Hydro participates in and reviews the MEARIE Management Salary Survey of Local Distribution Companies.

QUESTION:

Provide 2020 MEARIE Management Salary Survey of Local Distribution Companies.

RESPONSE:

The MEARIE Group 2020 Management Salary Survey documents were filed by Burlington Hydro Inc. in EB-2020-0007 on April 28, 2021 and are available online here:

- The MEARIE Group - 2020 Management Salary Survey - Results by Revenue:

  https://www.rds.oeb.ca/CMWebDrawer/Record/713648/File/document

- The MEARIE Group - 2020 Management Salary Survey - All Organizations Results:

  https://www.rds.oeb.ca/CMWebDrawer/Record/713649/File/document

- The MEARIE Group - 2020 Management Salary Survey – Report:

  https://www.rds.oeb.ca/CMWebDrawer/Record/713650/File/document

- The MEARIE Group - 2020 Management Salary Survey - Results by Customer Base:

  https://www.rds.oeb.ca/CMWebDrawer/Record/713651/File/document

- The MEARIE Group - 2020 Management Salary Survey - Results by FTE:

  https://www.rds.oeb.ca/CMWebDrawer/Record/713652/File/document

- The MEARIE Group - 2020 Management Salary Survey - Results by Region:

  https://www.rds.oeb.ca/CMWebDrawer/Record/713654/File/document

QUESTION 3

REFERENCE: 4-VECC-35

PREAMBLE:

None.

QUESTION:

Provide 17 Trees Inc. Financial Statements.

RESPONSE:

The 2020 Financial Statements of 17 Trees Inc. is filed in confidence as Attachment 2 – 17 Trees Inc. Financial Statements.

QUESTION 4

REFERENCE: 4-STAFF-45

PREAMBLE:

North Bay Hydro forecasted $150k annually towards “corporate policies, initiatives, and strategy.”

QUESTION:

Provide a list of work that needs to be completed as part of the policies and procedures update work over the next five years.

RESPONSE:

A list of work that needs to be completed as part of the policies and procedures update work over the next five years is provided below.

Description	Cost per year	# of years	Comments
Compensation Review - Base	$ 25,000.00	1	
Compensation Review - Incentive	$ 25,000.00	1	OEB order from last rate applicaton
Conditions of Service Update/Overhaul	$ 50,000.00	1	2007 last update
HR Policies	$ 25,000.00	5	1 section per year - written and not updated since 90's
Customer Service Policy Update	$ 25,000.00	1	Review of all policies and procedures in Customer Service department with review of best practices (inside/outside industry) and execution of formal documentation to all customer facing documents (ex; applications, website Q&A, etc.)
Customer Service Employee Manual/Guide	$ 25,000.00	1	Update of all internal training documentation, including employee facing documentation, (process maps/steps/screen shots/etc.), guiding principles of department including priority focus on 'Customer Service' and what that means in interactions with customers in multiple formats, internal templates, etc.
Substation and Control Room Directives	$ 50,000.00	1	No official documentation to guide staff through daily processes and emergency eve
Asset Management - Annual updates and data collection	$ 20,000.00	5	Goal is to eliminate the cost of a $130k DSP every 5 years
Building assessment options	$ 10,000.00	5	Review of building and assessments of options, keeping current each year and revisiting/updating
Governance Documentation	$ 25,000.00	2	Currently no board orientation package, no code of conduct, no governance policies - In 2020 the company conducted a governance review and we are in possession of a governance improvement recommendation document that we can use to guide this process
Safety Program Creation - Tie to a recognized standard	$ 50,000.00	2	There is no formalized safety program in place at NBHDL. Documentation on Safe Work Practices, outdated or non-existent. Very little tie to risk assessment in existing documentation.
Safety Program - Annual	$ 10,000.00	5	Needed to keep program current
Purchasing Policy Update, including internal control and process documentatio	$ 25,000.00	1	Purchasing policy and process put in place in 2010 and is very vague and simple. No associated documentation to guide employees through process
Project Delivery Planning and Design Process Guidelines	$ 40,000.00	2	Currently have no process for the planning, design and execution of project delivery. Guidelines should include components of scoping, project management, design, file retention, risk management and construction. Process is currently laid out in flowchart with some directive, but more details are required. Too much in-person knowledge creates risk of lost knowledge to company.
Document Retention Policy Development including digitization	$ 50,000.00	1	Currently files are stored in multiple locations with paper and electronic copies. The development of a process and policies for consitent electronic storage and the elimination of paper documents to avoid duplication is required.
Transformer Database	$ 50,000.00	1	Current process for the inventory and management of transformers is paper based - receiving, installing, testing, reserving, tracking and scrapping is all handled with different paper processes, outside of system control. This needs to be automated and proper controls implemented.

Attachment 1 - Variable Performance Pay Plan Design for North Bay Hydro

Copy

elenchus
34 King Street East, Suite 600
Toronto, Ontario, M5C 2X8
elenchus.ca

Variable Performance Pay Plan Design for North Bay Hydro

A Confidential Report Prepared by Elenchus Research Associates Inc.

CONFIDENTIAL DRAFT
FOR DISCUSSION WITH MANAGEMENT

On Behalf of NORTH BAY HYDRO Community Power

July 17, 2014

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1 BACKGROUND

North Bay Hydro engaged Elenchus Research Associates ("Elenchus") to assist North Bay Hydro in the research and design of a variable performance pay plan for certain management employees.

The Elenchus research is based on internal data and confidential salary survey information provided by North Bay Hydro, as well as public information that Elenchus was able to review, including Ontario local distribution company ("LDC") submissions filed on the Ontario Energy Board ("OEB") website. This resulting report prepared by Elenchus is a confidential document only for the use of North Bay Hydro for internal purposes in its consideration of incentive compensation plan design.

The objectives of an annual variable performance pay plan are as follows:

- Simple to understand;
- Objective to administer to ensure that payouts are fair and equitable;
- Encourages the achievement of certain key performance measures and behaviours during the year;
- Similar in cost to the recent bonus plan payments; and
- Similar in design and potential payout range as comparable sized Ontario LDC's.

For purposes of this report, the short form reference will be "the Plan". "Bonus plan" is a generic term used for many different compensation plans (incentive, project, retention, etc.). The type of plan being considered by North Bay Hydro and common in the industry is an annual plan referred to as "variable performance pay" or "incentive pay" (used in OEB forms). It is important to emphasize the variable nature of the plan and that it is based on performance, both of which reinforce that there are no guarantees of a payout in any one year.

The focus of this Elenchus project is solely on incentive compensation plan design. It does not include any review of base salary or other aspects of total compensation.

2 COMMON THEMES FROM RESEARCH AND SURVEY DATA

2.1 SUMMARY OF ELENCHUS RESEARCH

Elenchus researched incentive pay plans in the Ontario electricity distribution sector by reviewing the Ontario Energy Board ("OEB") website for application and evidence submissions by LDC's. The population of 24 LDC's were selected based on being in the same cohort grouping with North Bay Hydro for one or more of the following factors: Customers (20,000 to 39,999); Full Time Employees (21 to 50); Revenue ($50 million to $100 million); and Region (1 – Northern). The detailed results of that research are included in Appendix A: Research on Ontario LDC Incentive Pay Plans.

A summary of the common themes are as follows:

- Incentive plans were found for 11 of the 24 LDC's selected.
- Of those LDC's with plans, all provided bonus opportunities for both executives and management employees, 6 included non-union employees and 4 included union employees in some form of incentive plan.
- It is common for plans to include both corporate and individual components. The more senior the position, the more weight is given to corporate results and less to individual performance. This reflects that those in more senior positions have more influence on overall corporate performance.
- Corporate performance measures are typically linked to corporate strategic goals such as those contained in the corporate balanced scorecard covering such areas as customer service, reliability, safety and financial management. Corporate goals are set each year by the Board of Directors, monitored and reported on during the year and plan payouts are calculated once annual results are known about two months after year-end.
- Individual performance can be linked to specific individual metrics and annual performance evaluations. Annual personal performance evaluation results can also impact and individual's eligibility to participate in corporate components.
- Some LDC's stated that all the performance measures within the incentive plans were of benefit to the ratepayer and therefore the benefit is claimed to be

recovered through rates. Other LDC's specifically removed from the rate base the percentage of the incentive plan attributable to performance measures that were not of specific benefit to the ratepayer and only of benefit to the shareholder. This is consistent with the OEB's interpretation that certain performance measures that are shareholder-related are not recoverable.

2.2 OVERVIEW OF INDUSTRY COMPENSATION SURVEY

North Bay Hydro was one of 50 LDC's that participated in the Mearie Group 2013 Management Salary Survey of Local Distribution Companies. North Bay has asked Elenchus to use the "Mearie Survey" as input to this report. The Mearie Survey is in the public domain as part of the Veridian Connections 2014 Cost of Service Rate Application on the OEB website EB-2013-0174. These are our observations and highlights of the common themes identified from the incentive compensation information in the survey:

- 64% of LDC's offer short term incentive ("STI") pay opportunities to at least some portion of their employees;
- 22 LDC's provided information about their plans as follows:
    - 9 LDC's reported that all employee groups participated in STI;
    - 6 had at least one STI plan for employees from administration through management, but may exclude senior management covered by another plan
    - 5 LDC's have STI plans for designated senior management that do not extend to management and other staff.
- The average weighting mix of performance factors is approximately as follows:

	Corporate	Individual
CEO	65%	35%
Management	50%	50%
Administration	40%	60%

- Target based STI plans typically do not pay out a bonus until a minimum "threshold" level of performance has been met. 12 of the 32 LDC's with STI plans set threshold performance levels. Until those minimum performance levels are achieved, no bonus is generated. The typical bonus rate at the threshold level is set at 50% of target bonus.
- STI plans often have a maximum level of payout set as a percentage multiple of the target bonus. Though the typical bonus pay maximum is 100% of target, the average maximum bonus for these LDC's ranges from CEO at 122% to Administration at 132%. It is more common in the broader market for the higher maximum bonus levels as a percentage of targets to be for the more senior positions, given their greater impact on overall corporate results.
- No LDC's indicated that they provide any project bonuses.

3 ANALYSIS OF SURVEY DATA

Elenchus also compared the Mearie Survey report to North Bay Hydro data to gain more specific insights about incentive plans for various management positions. Elenchus used the Hay Point system to match each North Bay Hydro management position with the most comparable position detailed in the Mearie Survey. In some cases, although the North Bay Hydro job title was "manager", the Hay Points currently assigned by North Bay Hydro to that position indicated that it was better matched to higher "director" or "officer" level position in the survey.

In order to gain insights on incentive plans for organizations similar to North Bay Hydro, the matching process was completed for each North Bay Hydro management role compared to the Mearie Survey results for each of the following cohort group: Customers (20,000 to 39,999); Full Time Employees (21 to 50); Revenue ($50 million to $100 million); and Region (1 – Northern). Because North Bay Hydro falls at the outer limits of the cohorts for customers and full-time employees, the next closest cohort group was also reviewed and considered in the analysis.

Both Target Bonus % and Actual Bonus % data was reviewed for each management position within each of the cohorts and the overall survey results.

North Bay Hydro's region cohort only indicated bonus plan data at the President & CEO level, whereas all the other North Bay Hydro cohort groups had bonus plan data for multiple positions.

After considering the above factors and North Bay Hydro's objectives for a variable performance pay plan, Elenchus interpreted the survey data to indicate that comparable sized organizations are providing bonuses as follows:

	Target & Actual Bonus Payout as % of Base Salary
President & CEO	15%
Senior Management (e.g.: COO, CFO, Head of Engineering)	10%
Other Management	5%

For more detailed results for each management position, see Appendix B: Incentive Pay Survey Data for Comparable Positions.

4 Proposed Variable Performance Pay Plan Design

Given the results of the above noted research, the following design factors should be considered in order to achieve North Bay Hydro's objectives for a variable performance pay plan.

4.1 Participants

The Plan should be offered at the following levels: President, senior management and other management. If implemented, this would be an added potential annual compensation cost, to the extent that there are payouts, for those managers who did not receive a bonus in recent years.

4.2 Cost

Before finalizing the Plan, it is recommended that a cost range estimate be calculated for the new Plan and compared with bonus payments in recent years. This analysis can be done on a total and individual basis to determine the potential impact on each eligible employee's total compensation. It may be appropriate to consider adjusting an individual's future base salary increases if the Plan payout opportunity is likely to result in a change to that individual's total compensation. That decision should also consider the "at risk" nature of variable performance pay compared to base salary and the potential benefits to the company, ratepayers and the shareholder that increased performance could provide.

4.3 COMPONENTS

Plans should have both corporate and individual components. The corporate component should be more heavily weighted for more senior positions, such as:

	Corporate	Individual
President	65 - 70%	35 - 30%
Senior Management	50 - 55%	50 - 45%
Other Management	50%	50%

The corporate portion encourages a team approach. The individual portion rewards the results achieved by each person and can help to encourage the achievement specific departmental or individual focused goals.

4.4 PERFORMANCE MEASURES

Performance measures should be linked to key corporate strategic goals such as those contained in a corporate balanced scorecard. Measures should be well understood and calculated with objective data to minimize the risk of misinterpretation of actual results at year-end.

As the OEB Renewed Regulatory Framework evolves and the OEB scorecard is implemented by all LDC's, there is an opportunity to encourage the achievement of OEB scorecard measures within an LDC's variable performance pay plan. This could provide an incentive for employees to meet or exceed continuous improvement targets in areas that are common to both the LDC and the OEB (e.g.: customer focus, operational effectiveness, etc.).

The more measures included, the more diluted the potential payout becomes for each measure and the lower the incentive provided through the Plan. Therefore, there is a balance to be struck between focusing the Plan on a few key measures and not inadvertently over or under emphasizing measures that are important to overall corporate success in the short and long term.

Corporate measures should be set each year by the Board of Directors, monitored and reported on during the year. Plan payouts can be calculated once annual results are known as soon as feasible after year-end. This process is often linked to the annual employee performance review process in order to consider individual performance.

Individual measures should also be jointly drafted each year by the employee and his/her manager, and then approved by the President. The Board of Directors should approve the President's performance measures and may wish to be informed of the approach for individual measures for other management personnel.

If the intent is to claim the cost of the Plan to be recovered through rates, the performance measures need to be considered of benefit to the ratepayer. Performance measures that only benefit the shareholder are typically not claimed to be recovered through rates (e.g.: measures related to earnings targets and non-distribution business related targets).

4.5 THRESHOLD PERFORMANCE LEVELS

Each performance measure should have a minimum threshold expectation, below which no Plan payout will be made. For example, the threshold could be set at a minimum 95% of budget performance. Each measure needs to be considered separately to ensure the threshold is appropriate for the nature of the measure and tolerance for less than budget results.

The Plan payout at the threshold level should be a significantly reduced percentage of the target performance payout level (e.g.: 50% or less of payout). This helps to ensure that the Plan encourages goal achievement, while recognizing that there can be some reward for a "near miss".

4.6 Target Performance Levels

Target performance levels are often based on the budget expectation for each performance measure. This assumes that the annual budget setting process is directly aligned to the continuous improvement necessary to meet the corporate strategic goals, which are adjusted over time to meet the changing business environment.

4.7 Stretch / Maximum Performance Levels

Stretch or maximum payout levels can be used to encourage achieving better than budget results for performance measures. For example, the maximum performance level could be set at 105% or more of budget performance. Each measure needs to considered separately to ensure the stretch is appropriate for the nature of the measure and potential for better than budget results.

The payout at the maximum level should be an increased percentage of the target performance payout level (e.g.: 120% or more of payout). This helps to ensure that the Plan encourages extraordinary goal achievement beyond budget.

Without stretch payout levels, there is the risk that some participants may perceive no direct reward for achieving better than budget results. As with target performance levels, a robust and fair budget setting process is essential to a Plan based on budgeted performance measures.

4.8 Plan Process and Policy Documentation

An HR policy should be written to document the Plan details, including:

- Plan objectives;
- Plan design details with threshold, target and maximum payout opportunities for corporate and individual performance measure for each participating employee level;
- Annual process and timeline to set corporate and individual performance measures, monitor and report on actual performance during the year, review and approve final results after year end;

- Appropriate legal wording clearly stating that the Plan is subject to change, that payouts are at the discretion of the company, there is no guarantee of a payout in any particular year, and that payouts are not to be considered part of an employee's base salary or other regular employment income;
- Eligibility for participation and/or calculation policies for:
    - Minimum annual performance review expectations;
    - New hire;
    - Promotion or transfer;
    - Approved leave of absence;
    - Resignation or termination; and
    - Retirement.

5 PLAN MODEL PAYOUT OPTIONS

As noted above, before finalizing the Plan, it is recommended that a cost range estimate be calculated for the new Plan and compared with bonus payments in recent years (see Section 4.2 Costs).

Below are three options for how to model the Plan using some or all of the design elements discussed in Section 4.

5.1 Model A: Threshold, Target and Maximum Performance Levels

The following Plan model incorporates the design elements discussed above and includes threshold, target and maximum performance levels:

Variable Performance Pay Component	Component Weighting		
	President	Senior Management	Management
	Target Performance	Target Performance	Target Performance
Corporate	65%	55%	50%
Individual	35%	45%	50%

Threshold as a % of Target Performance	50%
Maximum Factor % of Target Performance	120%

Variable Performance Pay Component	Variable Performance Pay Potential (% of Base Salary)								
	President			Senior Management			Management		
	Threshold Performance	Target Performance	Maximum Performance	Threshold Performance	Target Performance	Maximum Performance	Threshold Performance	Target Performance	Maximum Performance
Corporate	3.90%	7.80%	9.36%	2.20%	4.40%	5.28%	1.00%	2.00%	2.40%
Individual	2.10%	4.20%	5.04%	1.80%	3.60%	4.32%	1.00%	2.00%	2.40%
Total	**6.00%**	**12.00%**	**14.40%**	**4.00%**	**8.00%**	**9.60%**	**2.00%**	**4.00%**	**4.80%**
Weeks of Pay	3.1	6.2	7.5	2.1	4.2	5.0	1.0	2.1	2.5

The last row of titled “Weeks of Pay” converts the percentage Plan payout levels weeks of pay, which is the most recent method of bonus payout at North Bay Hydro.

In this Plan model, the Target Performance payout approximates the bonuses paid to most of those in management who have received a bonus in recent years (President, three senior managers and one manager). Making all management eligible for this Plan will increase the total potential compensation cost by up to 4.8% of base salary for each additional management employee included in the Plan.

The Maximum Performance payout approximates the level of target and actual payout indicated for comparable LDC’s in the salary survey. Payouts at the maximum level would exceed the amount of bonuses paid by North Bay Hydro in recent years.

5.2 MODEL B: TARGET PERFORMANCE AT PAST PAYOUT (NO STRETCH LEVEL)

The following Plan model incorporates the design elements discussed above and includes threshold and target performance levels, but excludes stretch maximum performance levels:

Variable Performance Pay Component	**Component Weighting**		
	President	**Senior Management**	**Management**
	Target Performance	Target Performance	Target Performance
Corporate	65%	55%	50%
Individual	35%	45%	50%
Threshold as a % of Target Performance			50%

Variable Performance Pay Component	**Variable Performance Pay Potential (% of Base Salary)**					
	President		**Senior Management**		**Management**	
	Threshold Performance	Target Performance	Threshold Performance	Target Performance	Threshold Performance	Target Performance
Corporate	3.90%	7.80%	2.20%	4.40%	1.00%	2.00%
Individual	2.10%	4.20%	1.80%	3.60%	1.00%	2.00%
Total	**6.00%**	**12.00%**	**4.00%**	**8.00%**	**2.00%**	**4.00%**
Weeks of Pay	3.1	6.2	2.1	4.2	1.0	2.1

The last row of titled “Weeks of Pay” converts the percentage Plan payout levels weeks of pay, which is the most recent method of bonus payout at North Bay Hydro. In this Plan model, the Target Performance payout approximates the bonuses paid to most of those in management who have received a bonus in recent years (President, three senior managers and one manager). Making all management eligible for this Plan will increase the total potential compensation cost by up to 4.0% of base salary for each additional management employee included in the Plan.

However, this model does not provide a payout range as high as the level of target and actual payout indicated for comparable LDC’s in the salary survey.

5.3 Model C: Target Performance at Industry Payout

The following Plan model incorporates the design elements discussed above and includes threshold and target performance levels, but excludes stretch maximum performance levels:

Variable Performance Pay Component	**Component Weighting**		
	President	**Senior Management**	**Management**
	Target Performance	Target Performance	Target Performance
Corporate	65%	55%	50%
Individual	35%	45%	50%
Threshold as a % of Target Performance			50%

Variable Performance Pay Component	**Variable Performance Pay Potential (% of Base Salary)**					
	President		**Senior Management**		**Management**	
	Threshold Performance	Target Performance	Threshold Performance	Target Performance	Threshold Performance	Target Performance
Corporate	4.88%	9.75%	2.75%	5.50%	1.25%	2.50%
Individual	2.63%	5.25%	2.25%	4.50%	1.25%	2.50%
Total	**7.50%**	**15.00%**	**5.00%**	**10.00%**	**2.50%**	**5.00%**
Weeks of Pay	3.9	7.8	2.6	5.2	1.3	2.6

The target performance levels in this model provide a payout potential as high as the level of target and actual payout indicated for comparable LDC's in the salary survey. As a result, the target performance payout exceeds the bonuses paid to those in management who have received a bonus in recent years.

Making all management eligible for this Plan will increase the total potential compensation cost by up to 5.0% of base salary for each additional management employee included in the Plan.

6 NEXT STEPS

Potential next steps for implementation of a Plan are as follows:

1. Select the Plan model that best meets North Bay Hydro's objectives for a variable performance pay plan.
2. Determine which employee groups are to be eligible for the Plan. Set the percentage weighting of corporate and individual measures as appropriate for each level of employee included in the Plan.
3. Determine the corporate and individual measures for the next year that are most appropriate for North Bay Hydro's strategic goals. Set the threshold, target and, if applicable, maximum performance levels for each measure.
4. Test the costing of Plan model based on the factors and considerations outlined in Section 4 of this report.
5. Draft the HR policy for the Plan.
6. Obtain Board of Director approval for the Plan.
7. Communicate and implement the Plan.
8. During the year, provide periodic reporting on Plan measures actual year-to-date results to encourage meeting or exceeding expectations.
9. As soon as possible after year-end, finalize the actual results for each measure, integrate with annual employee performance review process (for individual results and any minimum personal performance threshold for participation in corporate payouts), calculate the payouts, obtain respective approvals from the President and Board of Directors, communicate and process through payroll any resulting payouts.

Appendix A: Research on Ontario LDC Incentive Pay Plans

Objective: Research information about incentive pay plans for organizations similar to North Bay Hydro.

Data Sources: Elenchus researched incentive pay plans in the Ontario electricity distribution sector by reviewing the Ontario Energy Board (“OEB”) website for application and evidence submissions by LDC’s.

Population Selected: The population of 24 LDC’s were selected based on being in the same cohort grouping with North Bay Hydro for one or more of the following factors: Customers (20,000 to 39,999); Full Time Employees (21 to 50); Revenue ($50 million to $100 million); and Region (1 – Northern).

Note: The details below are direct excerpts from LDC submissions to the OEB, except for Elenchus extrapolations and observations which are written in italics and shaded in grey.

<table>
<tr><th rowspan="2">LDC / Date of Submission</th><th colspan="4">Description of Incentive Plans</th></tr>
<tr><th>Executives</th><th>Management</th><th>Other Non-Union</th><th>Union</th></tr>
<tr><td>Bluewater
Oct 2012</td><td colspan="4">Bluewater Power’s compensation structure also includes an incentive program designed to incent superior performance in the four key areas of spending, reliability/service, financial results and safety. The incentive program applies to union and non-union employees alike and will continue in 2013. The incentive plan is based on the following corporate performance indicators:
1. Spending Performance
2. Reliability & Service Performance
3. Financial Performance</td></tr>
</table>

LDC / Date of Submission	Description of Incentive Plans			
	Executives	**Management**	**Other Non-Union**	**Union**
	4. Safety Performance Bluewater Power Distribution Corporation must meet all four levels of corporate performance on an annual basis in order for employees to qualify for 100% incentive compensation payments for that period. If Bluewater Power does not meet one or more of the above Corporate performance indicators, payment will be based on the number of indicators met. For example, if Only two of the four indicators are met, payment will be at 50%. Each of the Performance indicators are weighed at 25%. Once the criteria are met corporate-wide, then individual payouts depend upon the level of achievement of each employee in their annual performance appraisal. Since inception of the Incentive Compensation Program in 2005, Bluewater Power has been successful in meeting these 4 performance indicators. Incentive Pay has been included in Appendix 2-K as 90% of the gross amount paid to employees under Bluewater Power's Incentive Pay Program to reflect the fact that 90% of the benefit is claimed to be recovered through rates. This treatment is consistent with the 2009 Rebasing Application where the results measured for determining Incentive Pay were determined to be 90% to the benefit of ratepayers and 10% to the benefit of shareholder benefits. *Calculated using Appendix 2-K, total annual incentive payments as a percentage of total regular gross earnings and adjusted to reflect 100% of payment (added back 10% excluded in 2-K as not of benefit to ratepayers) are as follows:*			

<table>
<tr><th rowspan="2">LDC / Date of Submission</th><th colspan="4">Description of Incentive Plans</th></tr>
<tr><th>Executives</th><th>Management</th><th>Other Non-Union</th><th>Union</th></tr>
<tr><td></td><td colspan="4">
<table>
<tr><th></th><th>2009</th><th>2010</th><th>2011</th></tr>
<tr><td>Executive</td><td>14.9%</td><td>11.8%</td><td>14.4%</td></tr>
<tr><td>Management</td><td>5.4%</td><td>4.5%</td><td>8.2%</td></tr>
<tr><td>Non-Union</td><td>3.0%</td><td>2.6%</td><td>2.6%</td></tr>
<tr><td>Union</td><td>1.2%</td><td>1.4%</td><td>1.4%</td></tr>
</table>
</td></tr>
<tr><td>Brant
Nov 2010</td><td colspan="4">Reported no incentive pay plan payments and did not indicate the existence of any such plans.</td></tr>
<tr><td>Brantford
Jul 2013</td><td colspan="4">Reported no incentive pay plan payments and did not indicate the existence of any such plans.</td></tr>
<tr><td>Canadian Niagara
Aug 2008</td><td colspan="3">SHORT-TERM INCENTIVE COMPENSATION AVAILABLE TO EXECUTIVE, MANAGEMENT AND NON-UNION STAFF

Description

One element of CNPI’s overall compensation package is incentive compensation. Implicit in the analysis contained in HayGroup management consultants’ recommendations is the</td><td></td></tr>
</table>

LDC / Date of Submission	Description of Incentive Plans			
	Executives	Management	Other Non-Union	Union
	fact that incentive compensation is a normal component of compensation for senior positions in Canadian corporations. Incentive compensation for all employees of CNPI reflects an element of compensation put at risk to elicit and sustain continued good performance. The more senior the employee, the greater the percentage of overall compensation which is put at risk. **Application** The short-term incentive plan is available to the Executive, Management and Non-union staff of CNPI. Unionized employees do not participate in the short-term incentive plan and do not receive incentive compensation. **Format** The short-term incentive program includes both an individual and a corporate component for all Executive, Management and Non-union staff. Key aspects of this plan together with the targets are outlined below. **Minimum Corporate Performance Criterion** Prior to any incentive payments being made, a minimum corporate performance criterion, or trigger, must be reached. CNPI must achieve a pre-determined corporate threshold/target as approved by the board of directors of FortisOntario; otherwise, no			

LDC / Date of Submission	Description of Incentive Plans			
	Executives	Management	Other Non-Union	Union

incentive payments will be made for more information on these criterion, see “Corporate Targets” below.

Payout Summary

Basis

The normal maximum payout is 150% of the targeted amount. An additional payment of up to 50% of the target bonus may be awarded at the board of directors’ discretion in recognition of response to exceptional challenges or opportunities. There is no payout if performance falls below the 50% target level.

Position	% of Base Salary	
	Target Payout	Normal Maximum
President & CEO (2001-3000 Hay Points)	35%	52.50%
Vice Presidents-below1400 Hay Points	25%	37.50%
Other Management/Non-union	7.5%	11.25%

The individual performance component was designed to better reflect the degree of opportunity which employees in each management group have to influence corporate performance. The weighting for the individual component will vary by position level.

LDC / Date of Submission	Description of Incentive Plans			
	Executives	Management	Other Non-Union	Union

Position	Corporate Targets	Individual Targets
President and CEO	70%	30%
Vice Presidents	50%	50%
Other Management/Non-union	25%	75%

The incentive regime is structured in a manner that emphasizes the greater ability of the more senior individuals to affect corporate performance by making a greater portion of their compensation dependent on corporate as opposed to individual performance. For the President and CEO, 70% of the incentive opportunity is based on corporate performance and 30% on individual performance. For the Vice Presidents, the split is 50% corporate and 50% individual. For Management and Non-Union staff, the split is 25% corporate and 75% individual.

Corporate Targets

Corporate targets include the following: cost reduction, customer service, safety and environment, regulatory compliance, employee training, and reliability. As the OEB has indicated that certain targets that are shareholder-related are not recoverable, CNPI has reviewed its short-term incentive payments and excluded any payments that are primarily shareholder-related. For example, payments related to earnings targets and any

<table>
<tr><th rowspan="2">LDC / Date of Submission</th><th colspan="4">Description of Incentive Plans</th></tr>
<tr><th>Executives</th><th>Management</th><th>Other Non-Union</th><th>Union</th></tr>
<tr><td></td><td colspan="3">nondistribution business related targets are not corporate targets that play a role in the incentive payment scheme. Accordingly, all incentive payments included in this Schedule relate to benefits to ratepayers as described below.

Each of the corporate targets benefits the ratepayers. In particular, the cost reduction measure sets targets for maintaining or reducing operating costs. This measure is primarily customer-related as it represents a cost reduction target that directly benefits ratepayers through lower rates. Customer service corporate measures primarily benefit ratepayers by ensuring efficient and effective levels of service that meet Board standards and service quality indices. Safety and environmental measures benefit primarily the ratepayers.

By minimizing high risk incidents and being proactive in safety and environmental management, ratepayers benefit from a safe supply of electricity at lower costs. Regulatory compliance primarily benefits ratepayers as it ensures reliable supply of electricity, and efficient customer service at approved rates. Employee training primarily benefits ratepayers, by ensuring that ratepayers receive appropriate service levels from employees that keep abreast of various job related skills including regulatory, safety and environmental, technical and customer service related policies and procedures. Reliability measures primarily benefit the ratepayer by ensuring a reliable supply of electricity.</td><td></td></tr>
</table>

LDC / Date of Submission	Description of Incentive Plans			
	Executives	**Management**	**Other Non-Union**	**Union**
	Individual Targets Individual targets, like the corporate targets, support the broader design objective of aligning the interests of all stakeholder groups in CNPI with an overall focus on efficient delivery of service to customers. Individual measures were developed in consultation with the individuals and their immediate superiors. Each measure has three performance levels, is reflective of key projects or goals and focuses on departmental or divisional priorities. As with corporate measures, CNPI has reviewed its short-term incentive payments and has excluded any payments that are shareholder-related. Individual measures for Executives benefit the ratepayers and include the following: human resources, safety and environment, reliability, regulatory compliance, customer service, efficiencies, and cost reduction targets. These measures primarily benefit ratepayers for the reasons discussed herein. Human resources targets primarily benefit the ratepayer by ensuring that skilled personnel are recruited and retained to provide safe and reliable service, and to maintain service levels. Cost reduction and efficiency measures relate to maintaining or reducing operating costs which flow directly to the ratepayer through stable rates. Safety and environment, reliability, regulatory compliance, and customer service measures directly benefit ratepayers in the form of a safe and reliable supply of electricity in compliance			

LDC / Date of Submission	Description of Incentive Plans			
	Executives	**Management**	**Other Non-Union**	**Union**
	with regulations and established customer service levels. For Management and Non-Union staff, individual measures primarily benefit ratepayers, as they relate to the following: safety and environment, reliability, regulatory compliance, customer service, efficiencies, cost reduction and training. The justifications for these measures being ratepayer-related have been discussed above. The board of directors of FortisOntario, CNPI's parent company, approves the corporate targets for all participants and the individual targets for the Executive. Corporate measures have three performance levels, are reflective of key corporate targets or goals and are approved annually by the board of directors of FortisOntario. Actual corporate performance is assessed and approved annually by the board of directors of FortisOntario. Actual performance against individual targets is evaluated by the individual's immediate superior. The President and Chief Executive Officer makes recommendations in relation to the Vice Presidents' individual awards. The board of directors of FortisOntario makes recommendations and approves the President and Chief Executive Officer's award, and reviews the recommendations and approves payments respecting the Vice Presidents. Payments will be made generally in February, once all corporate and individual performance measures for the financial year have been finalized. CNPI budgets for			

LDC / Date of Submission	Description of Incentive Plans			
	Executives	**Management**	**Other Non-Union**	**Union**
	incentive payments at target payment levels.			
Erie Thames Jun 2012	*Reported no incentive pay plan payments and did not indicate the existence of any such plans.*			
Essex Sep 2009	Based on corporate and individual performance, annual increases and/or incentive payments are awarded. *Total annual incentive payment was $736 in 2008.*			
Festival Apr 2014	*No incentive pay plans found.*			
Haldiman County Nov 2013	*Reported no incentive pay plan payments and did not indicate the existence of any such plans.*			
Halton Hills Aug 2011	Executive and Management compensation plans consists of salaries, benefits, and incentive compensation. *Calculated using Appendix 2-K, total annual incentive payments to management as a percentage of total regular gross earnings are as follows:* *2008 = 4.5%; 2009 = 1.1%; 2010 = 2.7%*			

LDC / Date of Submission	Description of Incentive Plans			
	Executives	**Management**	**Other Non-Union**	**Union**
Innisfil Sep 2012	*Reported no incentive pay plan payments and did not indicate the existence of any such plans.*			
Kingston Aug 2010	**Incentive Pay Program for Non-Union Employees** Incentive compensation is available to those employees that have reached the maximum salary rate of their position. The intent of the incentive program is to ensure the recognition of the employee's continued development and efforts in furthering the goals of the Corporation. A pay incentive is a year-end lump sum payment that is not built into the base salary. The amount of pay received varies each time. The payment is calculated as the difference between the total percentage approved for the performance pay, and the percentage applied to the employee's salary to attain the maximum salary rate. In order for incentive pay to apply, the performance pay program requirements have to be met. Table 1 shows the average Performance Pay / Incentive Pay increases that non-union employees earned for 2006, 2009 and forecast amounts for 2010 and 2011.			

<table>
<tr><th rowspan="2">LDC / Date of Submission</th><th colspan="4">Description of Incentive Plans</th></tr>
<tr><th>Executives</th><th>Management</th><th>Other Non-Union</th><th>Union</th></tr>
<tr><td></td><td colspan="2">Table 1: Average Non-Union Performance Pay / Incentive Pay
<table>
<tr><th></th><th>2006</th><th>2009</th><th>2010</th><th>2011</th></tr>
<tr><td>Average Increase Per Non-Union Employee</td><td>$3,340</td><td>$3,291</td><td>$3,096</td><td>$3,108</td></tr>
</table></td><td></td><td></td></tr>
<tr><td>Milton
Aug 2010</td><td colspan="2">All Executive and Management employees are eligible for an annual incentive pay.

The Incentive Compensation Plan is reviewed and approved annually by Milton Hydro’s Board of Directors. The new incentive plan to be introduced in 2010 is based on a shared rating for Health and Safety measures and OEB Service Quality Indicators and an individual rating for personal performance and is capped at 5% of annual base salary.

The new performance measures include health & safety as defined by lost time accidents, OEB Service Quality Indices as outlined in the Distribution System Code and personal performance. All performance measures provide benefits to consumers.</td><td></td><td></td></tr>
</table>

<table>
<tr><th rowspan="2">LDC / Date of Submission</th><th colspan="4">Description of Incentive Plans</th></tr>
<tr><th>Executives</th><th>Management</th><th>Other Non-Union</th><th>Union</th></tr>
<tr><td></td><td colspan="2">
Table 18 -
Incentive Plan Performance Measures
<table>
<tr><th>Description</th><th colspan="4">Performance Measure</th></tr>
<tr><td rowspan="2">Health and Safety</td><td></td><td>Zero Lost Time Accidents</td><td>Otherwise</td><td></td></tr>
<tr><td></td><td>0.50%</td><td>0%</td><td></td></tr>
<tr><td colspan="5"></td></tr>
<tr><td rowspan="2">OEB Service Indicators (Annual)</td><td>Achieved all Indicators</td><td>Missed 1 Indicator</td><td>Missed 2 Indicators</td><td>Missed More than 2</td></tr>
<tr><td>2%</td><td>1%</td><td>0.50%</td><td>0%</td></tr>
<tr><td colspan="5"></td></tr>
<tr><td rowspan="2">Personal Performance</td><td>Greatly Exceeds Expectations</td><td>Exceeds Expectations</td><td>Meets Expectations</td><td>Doesn't Meet Expectations</td></tr>
<tr><td>Up to 2.5 %</td><td>Up to 1.5 %</td><td>0.50%</td><td>0%</td></tr>
</table>
</td><td></td><td></td></tr>
<tr><td>Newmarket Tay
Jul 2010</td><td colspan="2">Management average yearly incentive pay of $4,400 for each of 2008, 2009 and 2010.</td><td></td><td></td></tr>
</table>

LDC / Date of Submission	Description of Incentive Plans			
	Executives	**Management**	**Other Non-Union**	**Union**
	For supervisors, The Applicant has an incentive plan which allows then to earn as part of their compensation an amount equal to approximately 5 percent of their base salary. In order to achieve this additional compensation the individual must at a minimum have a satisfactory annual employee review and meet the goals and objectives as set out in the annual review. The goals and objectives are tied to the corporate objectives of the applicant. These goals and objectives are safety, reliability, excellence in customer service, environmental stewardship, and financial integrity. *Calculated using data provided in the application, average yearly incentive payments to management as a percentage of management average yearly base wages are as follows:* *2008 = 5.2%; 2009 = 5.1%; 2010 = 4.8%*			
Norfolk Feb 2007	*No incentive pay plans found.*			
Orillia Sep 2009	***Employee Performance Plan:*** OPDC initiated an Employee Performance Plan in 2008. The introduction to the plan states that "*Orillia Power's Employee Performance Plan (EPP) is a*			

LDC / Date of Submission	Description of Incentive Plans			
	Executives	Management	Other Non-Union	Union
	company-wide, results focused program. It has been designed to encourage employees at all levels to strive for the achievement of specific business results and is closely tied to the Vision and Mission of the organization. The plan will focus on a series of critical business results or measures that encourage dedicated and competent performance, while linking the success of the organization to the success of the employees by providing additional monetary compensation when plan targets are achieved or surpassed." In 2008, Orillia Power Corporation launched the Employee Performance Plan (EPP), with the primary goal of encouraging employees at all levels to strive for the achievement of specific business results and to further support the Vision and Mission of the organization. The plan focuses on a series of critical business results or targets that encourage dedicated and competent performance, while linking the success of the organization to the success of the employees. On an annual basis, the Board of Directors develops and approves annual performance targets and the potential EPP payout. The performance targets focus on three key areas of our business: (1) Health, Safety & Environment, (2) Service Quality and (3) System Reliability and Efficiency. The plan targets have been designed to provide both immediate and long-term benefits to the customers of OPDC. • By reinforcing the importance of Health, Safety & Environment through specific plan targets, employees are further encouraged to keep these matters front of mind, in everything they do. OPDC believes			

LDC / Date of Submission	Description of Incentive Plans			
	Executives	Management	Other Non-Union	Union
	strongly in nurturing a culture of safety, and by including it as an integral component of the EPP, we hope to further reduce the possibility of incurring the human and financial costs associated with a Health & Safety incident. • The Service Quality measures within the plan act to consistently emphasize the focus and importance that OPDC places on satisfying customer needs and expectations. EPP targets in this category are set at levels substantially above the OEB targets to further drive our performance and achieve best in class results. • In the eyes of the customers, System Reliability is clearly one of the most important measures of their local utility. In the past, OPDC has achieved admirable results with respect to Reliability and Efficiency measures. By setting EPP targets that exceed industry averages, OPDC is further reinforcing the long-term goal of achieving excellent Reliability and Efficiency results and guiding employee efforts to achieve that end. OPDC believes strongly that the proactive measures taken to ensure reliability and efficiency are an investment that saves customers money and inconvenience. At the end of each year, the total available EPP payout is calculated based on staff's ability to achieve or surpass the pre-established plan targets. To encourage a team oriented approach to organizational success, all OPDC employees share in earned payout on a pro-rata basis. *Calculated using data provided in the application, average yearly incentive payments to as a percentage*			

<table>
<tr><th rowspan="2">LDC / Date of Submission</th><th colspan="4">Description of Incentive Plans</th></tr>
<tr><th>Executives</th><th>Management</th><th>Other Non-Union</th><th>Union</th></tr>
<tr><td></td><td colspan="4">of average yearly base wages are as follows:
<table><tr><th></th><th>2006</th><th>2007</th><th>2008</th></tr><tr><td>Management</td><td>1.2%</td><td>0.8%</td><td>3.1%</td></tr><tr><td>Union</td><td>0.3%</td><td>0.4%</td><td>1.9%</td></tr></table></td></tr>
<tr><td>Ottawa River
Jun 2010</td><td colspan="4">No incentive pay plans found.</td></tr>
<tr><td>Peterborough
Feb 2013</td><td colspan="3">PUSI offers an incentive plan to Executive, Management, and Supervisory non-union staff. The final payout being made based on performance compared to targets set at the beginning of the year for net income, safety, productivity improvements and business optimization.

Total annual payments from 2009 to 2011 ranged from $1,149 to $3,961.

Calculated using data provided in the application, average yearly incentive payments to as a percentage of average yearly base wages are as follows:</td><td>Unionized workers participate in a profit sharing plan up to a maximum of $1,000 each</td></tr>
</table>

<table>
<tr><th rowspan="2">LDC / Date of Submission</th><th colspan="4">Description of Incentive Plans</th></tr>
<tr><th>Executives</th><th>Management</th><th>Other Non-Union</th><th>Union</th></tr>
<tr><td></td><td colspan="3">
<table>
<tr><th></th><th>2009</th><th>2010</th><th>2011</th></tr>
<tr><td>Non-Union</td><td>2.7%</td><td>3.9%</td><td>4.5%</td></tr>
<tr><td>Union</td><td>0.4%</td><td>0.0%</td><td>0.8%</td></tr>
</table>
</td><td>provided the employee has worked a minimum of six months in the calendar year.

Total annual payments from 2009 to 2011 ranged from $5 to 485.</td></tr>
<tr><td>PUC
Nov 2012</td><td colspan="4">Reported no incentive plan payments and did not indicate the existence of any such plans.</td></tr>
<tr><td>St. Thomas
Apr 2014</td><td colspan="3">STEI will have management incentive plans to reward employees when they meet or exceed our corporate objectives. STEI offers an Incentive Compensation Plan ("ICP") to</td><td></td></tr>
</table>

LDC / Date of Submission	Description of Incentive Plans			
	Executives	**Management**	**Other Non-Union**	**Union**
	its non-union employees. The plan has two components comprised of corporate objectives and personal goals that are established at the beginning of each year. The ICP payout isn't considered unless a minimum of 80% of the corporate goals are accomplished. The ICP payout is recommended to the Audit Committee which in turn makes a recommendation to the STEI Board of Directors.			
Tilsonburg Oct 2012	*Reported no incentive plan payments and did not indicate the existence of any such plans.*			
Welland Oct 2012	*Reported no incentive plan payments and did not indicate the existence of any such plans.*			
Westario Oct 2012	Short-Term Incentive compensation is commonly referred to as the annual "STI" payment. All executive and management are eligible to participate annually in this program. For the STI, Executives and Management are rewarded for the achievement of goals specifically related to their job, and for the achievement of overall corporate goals. The corporate goals are identified and tracked and are reported to the Board of Directors on a regular basis.			

LDC / Date of Submission	Description of Incentive Plans			
	Executives	**Management**	**Other Non-Union**	**Union**
	Executives have a greater weighting of corporate goals for their STI reflecting their greater influence on overall corporate achievement. As part of the STI calculation, employees are incented upon the successful achievement of targets related to a number of customer-focused metrics (e.g. customer service, reliability, safety). These metrics are key to ensuring that the organization continues to focus on its customers and provides a level of service and reliability consistent with the needs of the customer. STI's span a calendar year and the assessments are done in the second quarter of the following year, when results are known. The President and CEO's STI payment is reviewed and approved by the Audit Committee and Board of Directors. All other payments to the balance of Executive and Management employees are reviewed and approved by the President and CEO. *Calculated using data provided in the application, average yearly incentive payments to management as a percentage of management average yearly base wages are as follows:* *2009 = 8.1%; 2010 = 10.9%; 2011 = 6.9%*			

LDC / Date of Submission	Description of Incentive Plans			
	Executives	Management	Other Non-Union	Union
Whitby Jul 2013	*No incentive pay plans found.*			
Woodstock Nov 2010	*Reported no incentive plan payments and did not indicate the existence of any such plans.*			

APPENDIX B: INCENTIVE PAY SURVEY DATA FOR COMPARABLE POSITIONS

Please refer to Section 3 of this report for a description of the analysis completed in order to reach these potential design targets.

= Title and Hay Points match
= Closest match per Hay Points
= No close match per Hay Points

Survey Job Title	Elenchus Intepretation of Target Payout and Actual Payout as Percentage of Base Salary: All ORGS	REVENUE	CUSTOMERS	EMPLOYEES	REGION	POTENTIAL DESIGN TARGET	COMMENTS
President & CEO	20%	15%	15%	15%	10%	**15%**	Approximates recent bonuses
Chief Operating Officer (COO)	20%	10%	10%	10%		**10%**	Approximates recent bonuses
Head of Operations and/or Engineering		10%	10%			**10%**	Larger than recent bonuses
CFO / Head of Finance	17%	10%	10%	10%		**10%**	Approximates recent bonuses
Head of Customer Service							
Head of Regulatory Affairs							
Head of Human Resources							
Director Engineering							
Engineering Manager and/or Distribution Engineer	7%	5%	5%	5%		5%	Too low; Hay Points better match COO position
Project Engineer							
Supervisor Engineering	7%	5%		5%		**5%**	Reasonable Hay Point match
Director Operations	15%						
Manager Operations	7%	5%	5%	5%		5%	Approximates recent bonuses, but Hay Points better match Head of Ops position
Manager Control Centre							
Supervisor Control Centre							
Supervisor Protection and Control							
Supervisor Station Maintenance							
Line Supervisor	5%	5%	5%	5%		**5%**	Reasonable Hay Point match
Manager Meter Department							
Supervisor Meter Department							
Controller or Director Finance							
Manager Accounting	8%	5%	5%	5%		5%	Too low; Hay Points better match CFO position

= Title and Hay Points match
= Closest match per Hay Points
= No close match per Hay Points

Elenchus Intepretation of Target Payout and Actual Payout as Percentage of Base Salary

Survey Job Title	All ORGS	REVENUE	CUSTOMERS	EMPLOYEES	REGION	POTENTIAL DESIGN TARGET	COMMENTS
Manager Risk Management							
Supervisor Accounting							
Financial or Business Analyst							
Accountant							
Director Regulatory Affairs	15%						
Manager Regulatory Affairs	8%		5%			**5%**	Difficult to match; logic is to group with all other managers
Regulatory Accountant							
Settlement or Rate Analyst							
Director or Officer, Conservation and Demand Management							
Manager Conservation & Demand/Marketing	8%		5%			**5%**	Difficult to match; logic is to group with all other managers
Director Information Systems	15%		5%	5%		**5%**	Difficult to match; logic is to group with all other managers unless local IT market requires a senior manager level bonus
Manager Information Systems and/or Security	10%					10%	
Systems/Program Administrator or Applications/Systems Support Professional							
Human Resources Manager	10%			5%		**5%**	Difficult to match; logic is to group with all other managers
Human Resources Generalist							
Human Resources Coordinator							
Payroll							
Manager, Health & Safety							

Attachment 2 - 17 Trees Inc. Financial Statements

(Filed in Confidence)