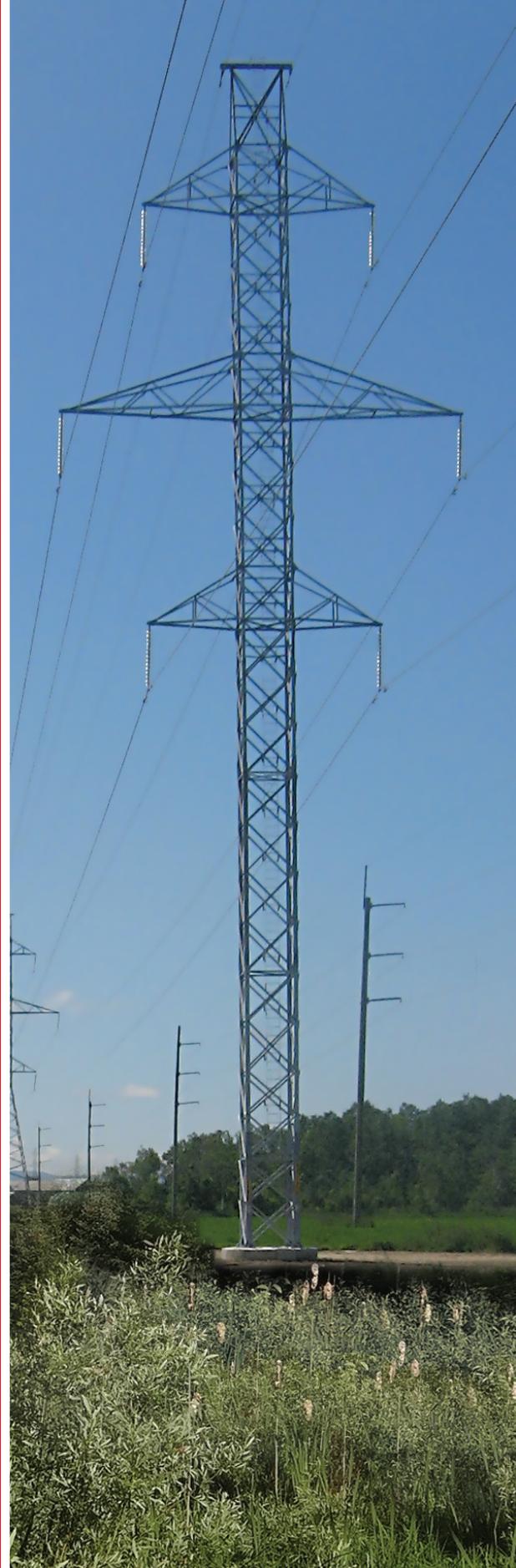


BARRIE AREA TRANSMISSION UPGRADE

Land Acquisition
Compensation Principles

February 2017



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I. INTRODUCTION

BARRIE AREA

Transmission Upgrade Project

Land Acquisition Compensation Principles

Hydro One Networks Inc. (“Hydro One”) has initiated planning for the Barrie Area Transmission Upgrade project (the “Project”) to upgrade approximately 10 kilometres of aging transmission lines and structures and is proceeding with the acquisition of the required property interests. The required property interests are referred to in this document as the “Project Corridor”. A map of the proposed Project route is outlined in Appendix A.

Hydro One’s goal is to secure voluntary property settlements with affected property owners (“Property Owners”). To facilitate this process, it is important that Hydro One’s land acquisition compensation principles are communicated to and understood by Property Owners in advance. Furthermore, it is also important that Property Owners are assured these compensation principles will be applied in a fair, transparent and consistent manner.

These project-specific land acquisition compensation principles are founded upon Hydro One’s past experience pertaining to land acquisition matters for new transmission upgrade projects.

Hydro One’s central consideration has been the need for Property Owners to have flexibility and choice while balancing Hydro One’s desire to achieve timely acquisition of property interests and its obligation to ensure that expenditures are fair and reasonable to ratepayers.

Adoption and application of these compensation principles provides real value for timely settlements and to otherwise avoid potentially lengthier, less flexible and less certain outcomes associated with the legislated expropriation process.

II. ACQUISITION PROCESS

A. Project Need, Corridor Identification and Approvals

The Project need was identified through the Barrie/Innisfil Sub-Region Integrated Regional Resource Planning process. The process was a collaborative effort by the Independent Electricity System Operator (IESO), Hydro One, and Local Distribution Companies to develop an integrated solution to address the electricity needs of the Barrie/Innisfil area. In addition, the Project provides a near-term transmission solution to address the need to replace Hydro One's aging infrastructure along the existing corridor that is approaching end-of-life.

In proceeding with the Project, Hydro One will be redeveloping its two existing 115 kV transmission lines (the "Existing Route") with the new Project Corridor housing a single 230 kV transmission line. The continued use of the Existing Route is consistent with the Ministry of Municipal Affairs and Housing 2014 Provincial Policy Statement, under the Planning Act which prescribes using existing utility Rights-of-Way whenever possible.

For more information on the project please visit www.HydroOne.com/Projects/BarrieAreaUpgrade

The project is being planned in accordance with the *Class Environmental Assessment (EA) for Minor Transmission Facilities 1992*, an approved planning process under Ontario's *Environmental Assessment Act*. The Class EA was developed as a streamlined process to ensure that minor transmission projects that have a predictable range of effects are planned and carried out in an environmentally acceptable manner. Construction of the project will also require approval from the

Ontario Energy Board ("OEB"). Hydro One plans to submit for Class EA and OEB approval in 2017.

B. Introduction and Overview

In advance of applying for Class EA and OEB approvals, Hydro One will proceed with the land acquisition process for the Project. The process will commence with individual meetings between Hydro One's Real Estate Coordinator and Property Owners to review and discuss the process and land acquisition compensation principles, as set out in this document. Property Owners will be provided the necessary time throughout the process to review the materials and complete follow-up meetings and discussions with Hydro One's Real Estate Coordinator.

C. Preparation of Independent Property Appraisal Reports

With the Property Owners approval to access the Project Corridor, Hydro One and its consultants will collect all pertinent property information in support of the Project. The consultants include accredited independent appraisers who will inspect the property to prepare formal appraisal reports. These reports will quantify the fair market value of each property interest on the Project Corridor along with injurious affection, if applicable.

All appraisers retained by Hydro One have received an Accredited Appraiser Canadian Institute (AACI) designation from the Appraisal Institute of Canada. This ensures that appraisals are conducted in accordance with professional standards established by the Institute.

Hydro One is in the process of contracting an external appraisal service provider to complete independent appraisal reports which will be finalized by the summer of 2017.

D. Preparation of Hydro One Property Rights Acquisition Offers

Hydro One will present each Property Owner with a formal offer based upon the information contained in the independent appraisal report. As part of Hydro One's formal land acquisition offer ("Offer"), Property Owners will be provided with a copy of the appraisal report, together with a sketch plan and/or draft survey plan of the property interest to be acquired.

E. Next Steps

Following receipt and consideration of Hydro One's Offer, the next steps in the process will depend upon whether individual Property Owners consider Hydro One's proposal acceptable. If the Offer is accepted, the acquisition process will proceed and the parties will finalize the transaction within several weeks.

However, if the Property Owner requires additional assistance to assess/review the Offer, Hydro One will reimburse the Property Owner for reasonably incurred independent review costs up to \$7,500, which is the expected cost of an additional appraisal report and/or legal review. To be eligible for this reimbursement, the Property Owner must notify Hydro One of its decision to retain independent review services. An independent appraisal carried out for the Property Owner must be conducted by an AACI-accredited

appraiser and a copy of the appraisal report provided to Hydro One before reimbursement is paid.

Reimbursement of the above-noted independent review costs is in no way intended to bind the Property Owner to voluntarily sell the property interests required by Hydro One.

Hydro One's Offer will remain open for acceptance for a limited period of time. If parties are unable to complete a voluntary property settlement by the time Hydro One files an application to seek expropriation authority status pursuant to Section 99 of the *Ontario Energy Board Act, 1998* ("OEB Act"), then Hydro One's Offer will lapse. However, Property Owners are assured of reasonably sufficient time to consider the Offer, inclusive of the required efforts of independent appraisal and legal reviews as may be initiated by the Property Owners.

In the event the Offer lapses as a result of Hydro One initiating expropriation, a revised compensation offer will be provided to the Property Owner. While the revised offer will comply with the compensation requirements of the *Expropriations Act*, it will no longer include the compensation incentives (as described further in this document) to achieve the objective of early voluntary property settlement.

III. COMPENSATION PRINCIPLES

A. General Principles

This section describes the general principles Hydro One is committed to follow in respect of the voluntary settlement of property interests for the Project:

Property Owner Choice

Property Owners will be offered the choice of Hydro One acquiring either an easement or the fee simple interest in the lands required for the Project Corridor.

Independent Valuation

Hydro One's Offers will be based upon appraisal reports prepared by external, independent AACI-accredited appraisers retained by Hydro One.

Incentives

Compensation premiums, over and above fair market value, as set out herein will be made available as an incentive to achieve the timely acquisition of required property interests. Incentives will be applied on a fair, transparent and consistent basis. In addition, Hydro One will offer all Property Owners an immediate payment of \$5,000.00 in recognition of time taken to meet with and discuss property requirements with Hydro One and allowing Hydro One's consultants access to the Project Corridor to conduct environmental and engineering studies, land appraisal reports and legal surveys of the Project lands.

Construction

Upon acceptance of the Offer by the Property Owner and subject to all necessary Class EA and OEB approvals, Hydro One will be permitted to commence construction activities on the acquired property as it deems necessary.

B. Principles Applicable to the Acquisition of Easement Interests

This section describes more specific compensation principles applicable to the voluntary acquisition of easement interests. Hydro One commits to implementing the following easement compensation principles:

Valuation of Easement Interest

Hydro One's Offer will value all easement interests based upon 75% of the appraised fair market value of the total acreage over which the intended easement applies.

Injurious Affection

Compensation for injurious affection is provided when reductions to the market value of the remaining property interests are estimated to result from Hydro One's use of the interest in the portion of the property required for the Project. This amount is determined as part of the independent appraisal process. The analysis takes into consideration various attributes of the remaining property and whether a loss in market value is likely to result from the construction and operation of the Project.

Hydro One will ensure that all appraisals prepared by Hydro One's independent appraisers consider and, where applicable, make provision for any injurious affection arising to the remaining acreage of the property directly impacted by the Project Corridor that is owned by the Property Owner. Property Owners who accept Hydro One's Offer will be provided the option of having Hydro One's injurious affection amount referred to a binding review process as described further in Section III, Part D of this document.

Incentive Compensation

Property Owners who accept Hydro One's Offer to acquire easement interests will be provided with the following incentive compensation amounts:

- \$5,000 payment paid at the time the option agreement is registered, providing Hydro One with the option to purchase the interest (referred to in this document as Option Agreements and described in Section III, Part E); plus
- a (i) \$4,000 payment or (ii) 10% of the combined total of the appraised Fair Market Value of the easement area required and any applicable injurious affection; whichever total is greater. Payment of this incentive is applicable provided the Property Owner does not request either (a) reimbursement of costs for the independent review of Hydro One's Offer (as described in Section II, Part E) or (b) challenge the injurious affection amount included in Hydro One's Offer (see Section III, Part D); plus
- an additional incentive amount equal to 25% of the appraised fair market value of the acreage over which the property interest will be taken.

Other Compensation

Hydro One commits to reimbursing Property Owners for reasonably incurred transaction costs (such as lawyer's fees) associated with the review and completion of applicable conveyancing agreements.

On a case-by-case basis, Hydro One will consider whether unique or exceptional circumstances exist which require the payment of additional compensation.

C. Principles Applicable to the Acquisition of a Fee Simple Interest

This section describes the compensation principles that will be applied when Property Owners prefer to sell to Hydro One the fee simple in the property interests required for the Project Corridor instead of an easement interest. This choice in property interests is subject to all applicable municipal authority requirements that may be applicable for the creation and configuration of any required land severances. In such circumstances, Hydro One will implement the following compensation principles:

Valuation

All fee simple property requirements will be valued at 100% of the appraised fair market value of the total acreage of the fee simple to be acquired.

Injurious Affection

Compensation for injurious affection is provided when reductions to the market value of the remaining property interests are estimated to result from Hydro One's use of the interest in the property required for the Project. This amount is determined as part of the independent appraisal process. The analysis takes into consideration various attributes of the remaining property and whether a loss in market value is likely to result from the construction and operation of the Project.

Hydro One will ensure that all appraisals prepared by Hydro One's independent appraisers consider and, where applicable, make provision for any injurious affection arising to the remaining acreage of the property directly impacted by the Project Corridor that is owned by the Property Owner. Property Owners who accept Hydro One's Offer will be provided the option of having Hydro One's injurious affection amount made subject to a binding review process as described further in Section III, Part D of this document.

Incentive Compensation

Property Owners who accept Hydro One's Offer to acquire a fee simple will be provided with the following incentive compensation amounts:

- \$5,000 payment paid at the time the option agreement is registered, providing Hydro One with the option to purchase the interest (referred to in this document as Option Agreements and described in Section III, Part E); plus
- a (i) \$4,000 payment or (ii) 10% of the combined total of the appraised Fair Market Value of the fee simple area required and any applicable injurious affection; whichever total is greater. Payment of this incentive is applicable provided the Property Owner does not request either (a) reimbursement of costs for the independent review of Hydro One's Offer (as described in Section II, Part E) or (b) challenge the injurious affection amount included in Hydro One's Offer (see Section III, Part D).

Other Compensation

Hydro One commits to reimbursing Property Owners for reasonably incurred transaction costs (such as lawyer's fees) associated with the review and completion of applicable conveyancing agreements.

On a case-by-case basis, Hydro One will consider whether unique or exceptional circumstances exist which require the payment of additional compensation.

In circumstances where the Property Owner seeks to continue to use the newly-acquired Project Corridor lands, Hydro One will make all reasonable efforts to negotiate a licence-back arrangement for the ongoing occupation and use of the Project Corridor in compliance with Hydro One licensing policy.

Hydro One commits to compensating Property Owners for all damages that arise out of the construction related activities by Hydro One and/or its contractors. The types of construction damages could include but are not limited to: damage to tile drains; crop loss; rutting of laneways; fence or gate damage; and soil compaction.

D. Ability to Challenge Appraised Injurious Affection Amounts

Hydro One acknowledges that one of the main compensation components contained in its Offers to acquire property interests may involve the assessments for injurious affection upon remaining property. All of Hydro One's injurious affection assessments will be conducted by independent AACI Accredited Appraisers.

As described in Section II, Part E of these land acquisition compensation principles, Property Owners are provided with the opportunity to obtain a second independent appraisal to consider the reasonableness of Hydro One's Offer. If a Property Owner obtains an independent appraisal and differences arise with the injurious affection amounts found in each of the appraisals, the Property Owner may elect to refer the matter to an independent arbitrator in accordance with the process described in the next paragraph. The idea is that acceptance of Hydro One's Offer will allow Property Owners to take advantage of certain incentive compensation amounts, while allowing disputes concerning the injurious affection compensation amount to be impartially determined on an expedited basis. Acceptance of Hydro One's Offer also allows timely resolution of all necessary property interests so that Hydro One may proceed with the construction and operation of the Project.

The injurious affection dispute resolution process will take the form of a binding independent "baseball-style" review process. Both Hydro One and the Property Owner's independent AACI appraisals will be submitted to an independent mutually accepted third party expert. The decision-maker will be instructed to decide which of the two injurious affection calculations set forth in the submitted appraisals is more reasonable, taking into account all applicable facts and circumstances. In reaching a decision, the independent decision-maker will have the discretion to ask questions of clarification to the appraisers, and, if necessary, request final written submissions from each appraiser before making a final and binding decision. This approach is intended to ensure that all parties act reasonably and efficient results are achieved. Hydro One will

reimburse the Property Owner for reasonable costs incurred solely by his or her appraiser to participate in this dispute resolution process.

E. Summary

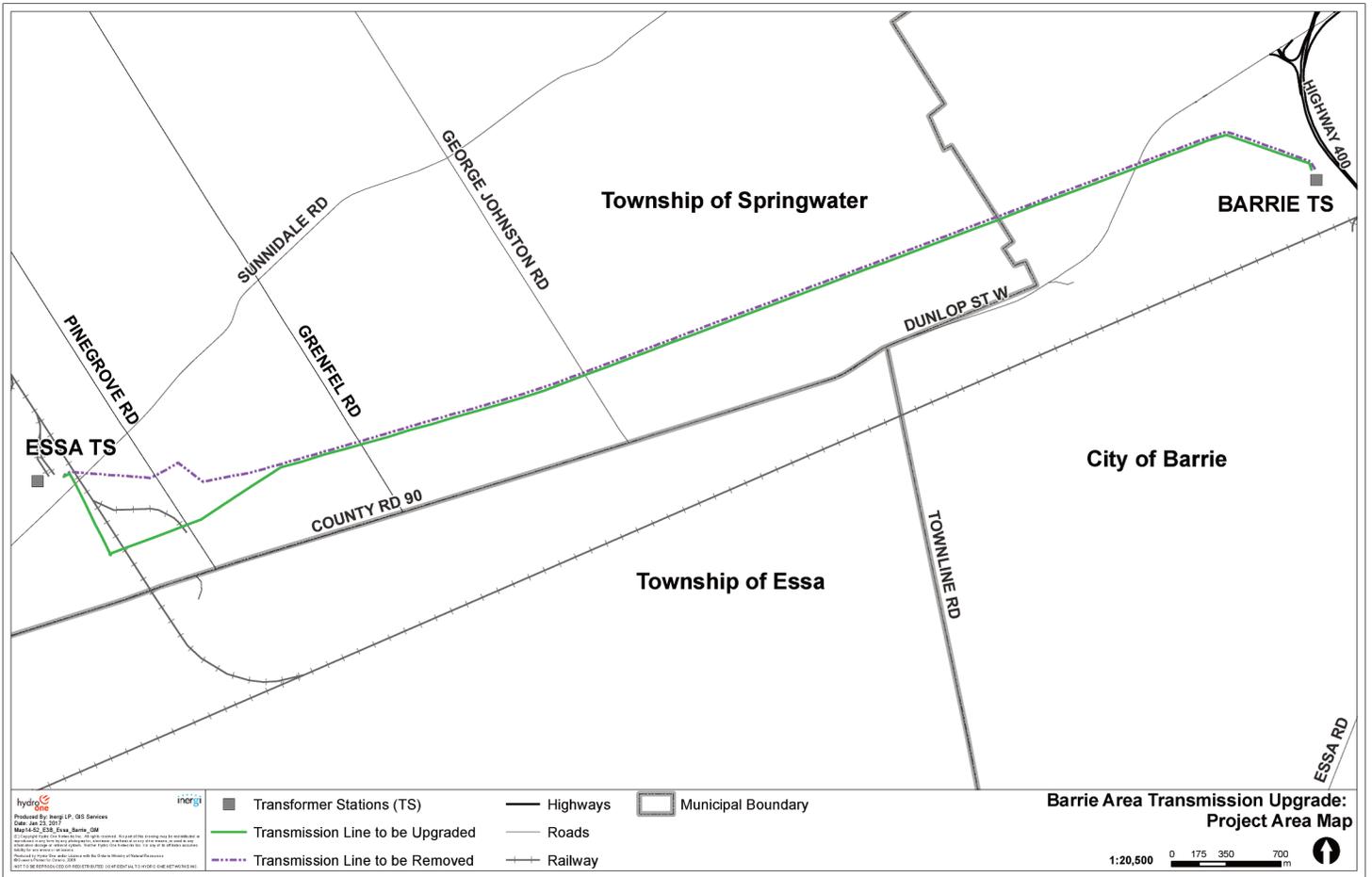
These land acquisition compensation principles (other than reimbursement of independent review costs as discussed in Section II, Part E of this document) will be incorporated into the terms and conditions of the Purchase Agreements made between Hydro One and Property Owners. Hydro One aims to enter into Option Agreements with Property Owners to acquire either an easement interest or fee simple in the Project Corridor.

At the time the Option Agreement is registered, Hydro One will pay Property Owners incentive compensation of \$5,000. Hydro One will pay the balance of the agreed upon compensation and incentive amounts if and when the Class EA and OEB approvals for the Project are obtained and the Option Agreement is exercised by Hydro One.

Hydro One commits to having its Offer remain available to Property Owners until such time as Hydro One decides to seek expropriation authority status pursuant to section 99 of the *OEB Act*. This step will happen only if and when Class EA and OEB approvals for the Project have been obtained.

APPENDIX A

Map of the proposed 230 kV Transmission Corridor Route



www.HydroOne.com/Projects/BarrieAreaUpgrade



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