

MASSACHUSETTS ELECTRIC COMPANY
NANTUCKET ELECTRIC COMPANY

TARIFF FOR BASIC SERVICE

1. General

This Tariff may be revised, amended, supplemented or supplanted in whole or in part from time to time according to the procedures provided in MDPU regulations and Massachusetts law. In case of conflict between this Tariff and any orders or regulations of the MDPU, said orders or regulations shall govern.

2. Definitions

“Basic Service” shall mean the service provided by the Distribution Company to a Customer who is not receiving either Generation Service from a Competitive Supplier in accordance with the provisions set forth in this tariff.

“Competitive Supplier” shall mean any entity licensed by the MDPU to sell electricity to retail Customers in Massachusetts, with the following exceptions: (1) a Distribution Company providing Basic Service to its distribution Customers, and (2) a municipal light department that is acting as a Distribution Company. A Competitive Supplier can sell electricity directly to retail Customers or through a Municipal Aggregator.

“Customer” shall mean any person, partnership, corporation, or any other entity, whether public or private, who obtains Distribution Service at a Customer Delivery Point and who is a Customer of record of the Company.

“Customer Delivery Point” shall mean the Company’s meter or a point designated by the Company located on the Customer’s premises.

“Customer-Facing” shall mean the components of the Smart Energy Solutions Program which supports a dynamic pricing program available to eligible Basic Service customers located within the Smart Grid Pilot Area and includes the installation of Smart Metering, in-home energy management technologies and supporting technologies.

“Distribution Company” or “Company” shall mean Massachusetts Electric Company or Nantucket Electric Company.

“Distribution Grid-Facing” shall mean the component of the Smart Energy Solutions Program which includes the deployment of automated distribution system monitoring and control technologies on the Company’s electric distribution system facilities within the Smart Grid Pilot Area and supporting technologies.

“Distribution Service” shall mean the delivery of electricity to Customers by the Distribution

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Company.

“Generation Service” shall mean the sale of electricity, including ancillary services such as the provision of reserves, to a Customer by a Competitive Supplier.

“Load Zone” shall mean any one of the three reliability regions identified on ISO New England’s website for Massachusetts as defined by ISO New England, as may be amended from time-to-time.

“Locational Marginal Pricing” shall mean the wholesale electric power market system administered by ISO New England, wherein the market prices for electricity are dependent upon the location of production and consumption.

“MDPU” shall mean the Massachusetts Department of Public Utilities.

“Municipal Aggregator” shall mean an Aggregator that is comprised of a municipality or a group of municipalities, or duly authorized board or agency thereof, that is providing retail load aggregation pursuant to the M.G.L. c. 164, §134.

“ISO-NE” shall mean the ISO New England Inc.

“Smart Energy Solutions Program” shall mean the Company’s smart grid pilot proposal approved by the MDPU in Docket D.P.U. 11-129.

3. Availability

Basic Service shall be available to any new Customer or any Customer who, for any reason, has stopped receiving Generation Service from a Competitive Supplier.

4. Rates

Rates for all residential, small commercial & industrial, medium commercial & industrial, large commercial & industrial and streetlighting customers as defined in Section 4(b) below are based on the solicitation of bids through a competitive solicitation process. Bids received will be evaluated based on a comparison of all offers, non-price criteria, and the expected bid prices. In the event that the solicitation does not result in offers to supply Basic Service or results in unreasonable prices, the Company may elect to self-supply, using the procedure outlined in Section 5 below.

(a) Two Rate Options

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There are two rate options available to Customers on Basic Service. The Summary of Basic Service Rates tariff sets forth the rate options for each rate class for the specified six-month period. One option is referred to as the “Fixed Price Option”. The second option is referred to as the “Variable Price Option”. The rates for each option are subject to change at the end of the six month period specified in the Summary of Basic Service Rates tariff for customer classes defined in Sections 4(b)(i), 4(b)(ii), and 4(b)(iii), and quarterly for customer classes defined in Sections 4(b)(iv) and 4(b)(v).

(b) Initial Applicable Option

The following Customers will automatically be placed by the Company on the Fixed Price Option, unless they otherwise make an election under sections (c) and (d) below:

- (i) residential Customers in rate classes R-1 and R-2; and
- (ii) small commercial & industrial Customers in rate class G-1.

The following Customers will automatically be placed by the Company on the Variable Price Option, unless they otherwise make an election under sections (c) and (d) below:

- (iii) streetlight Customers in rate classes S-1, S-2, S-3, S-5 and S-6;
- (iv) medium commercial & industrial Customers in rate class G-2; and
- (v) large commercial & industrial Customers in rate class G-3.

(c) One-Time Right to Elect Different Option

Customers have a one-time right to elect an option other than the one they are automatically placed on by the Company. However, once the election is made, such Customers will be required to remain on the elected option during their uninterrupted stay on Basic Service unless and until they begin taking Generation Service from a Competitive Supplier. Basic Service Customers may make this election at the time they are first placed on Basic Service or at any time after service has commenced.

(d) Timing of Any Switch to a Different Option

Customers may notify the Company at any time to elect a different pricing option. The switch will be made by the Company on the next scheduled meter read date after

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receiving the notice, provided that the Company has received notice no later than two business days prior to the next meter read date. Otherwise, the switch will not occur until the next successive meter read date after receipt of the notice.

(e) Changes in the Summary of Basic Service Rates Tariff

The Company will file a new Summary of Basic Service Rates tariff quarterly for the next applicable period prior to the expiration of the current period.

(f) Calculation of Fixed and Variable Pricing Options

The Company calculates the Fixed and Variable Pricing Options based on bids received and accepted by the Company from suppliers or from the monthly prices for self-supply, if applicable. The Fixed Price Option represents a weighted average of the applicable winning bids over three or six months or from the monthly prices for self-supply, if applicable. The Variable Price Option represents the actual monthly price from the applicable winning bids for each month of the same three or six month period or from the monthly prices for self-supply, if applicable.

(g) Billing Adjustment when Leaving Basic Service

Customers receiving retail delivery service under the Company's medium and large commercial and industrial rates as defined in 4(b)(iv) or (v) above and receiving Basic Service under the Fixed Price Option who leave Basic Service to receive Generation Service from a Competitive Supplier shall be subject to a billing adjustment for the time they were billed under the Fixed Price Option during the last applicable pricing period. Specifically, the billing adjustment shall be based on the difference between the rate under the Fixed Price Option for the last applicable pricing period during which the Customer was on Basic Service and the monthly rates under the Variable Price Option for the same period, multiplied by the Customer's kilowatt-hour usage during the same period. The billing adjustment can be either a charge or a credit, depending upon the rates in effect at the time.

(h) Locational Marginal Pricing

The Company will reflect the effects of Locational Marginal Pricing in its Basic Service rates to medium and large commercial and industrial customers as defined in 4(b)(iv) or (v), above. For these customer groups, the Company will provide unique Basic Service rates under the Fixed Price Option and Variable Price Option for each of the Load Zones in which the Company provides service. For Customers receiving retail delivery service

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under the Company's residential rates, small commercial and industrial rates, or streetlighting rates as defined in 4(b)(i), (ii), or (iii), above, the Company will provide uniform Basic Service rates under the Fixed Price Option and Variable Price Option across all of the Load Zones in which the Company provides service.

The Company shall assign to each Customer's account a Load Zone designation based on the normal supply facility (substation, feeder, transformer) of that Customer listed in the Company's customer information system for the purpose of implementing Locational Marginal Pricing in accordance with NEPOOL's Standard Market Design. The Load Zone designation of a Customer's account is subject to change as a result of changes in the normal supply facility designation in the Company's customer information system.

5. Basic Service Alternative Procurement

Basic Service pricing is established through a competitive solicitation process. Failure to procure supply pricing for residential, small commercial & industrial, medium commercial & industrial, large commercial & industrial and streetlighting customers as defined in Section 4(b) above due to unsatisfactory bids or lack thereof would result in an alternative procurement process.

(a) Criteria for Failed Procurements

The Company defines a failed procurement as one in which (1) no bids were received from wholesale suppliers for one or more supply blocks offered in the solicitation, or (2) the bid price(s) received from wholesale suppliers for one or more supply blocks significantly exceeded the expected bid price calculated by the Company. The Company evaluates the competitiveness of bid price(s) received by comparing to the expected bid price and considering factors such as the number of bids received and the distribution of the bid prices.

(b) Alternative Procurement and Pricing Practices

In the event of a failed procurement, the Company will attempt to procure the impacted supply block(s) in a subsequent solicitation, if possible. If there are no scheduled solicitations prior to the impacted rate period, then the Company will self-supply the failed supply block(s). Self-supply means the Company is responsible for procuring from the ISO-NE all of the wholesale products and services (e.g., energy, capacity, and ancillary services) required to serve the basic service load.

In the event of a failed procurement requiring self-supply, the Company shall calculate

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monthly prices for self-supply for the supply block(s) to be included in the calculation of Fixed and Variable Pricing Options as described in Section 4(f). The monthly prices for self-supply shall include the most recent wholesale electricity futures prices and the Company's estimates of other load-related wholesale costs that are typically allocated by ISO-NE to winning wholesale suppliers including, but not limited to, capacity and ancillary services.

(c) Interim Price Adjustment for Self-Supply Basic Service

When Basic Service pricing is established under self-supply, the effective self-supplied, Basic Service price for residential, small commercial & industrial and streetlighting customers may be adjusted for changes in wholesale electricity futures prices. The Company will seek an adjustment of its Fixed and Variable rates if the projected wholesale power supply costs for the balance of the period vary by more than 20 percent from the wholesale power supply costs projected over the same period at the time the Basic Service rates were set. Such evaluation of changes in future wholesale electricity futures prices on expected Basic Service costs will be completed each month where a self-supply Basic Service price is in effect. The Company shall file any necessary rate adjustments for MDPU approval no later than the 15th of the month prior to the proposed effective date.

5. Billing

Each Customer receiving Basic Service shall receive one bill from the Company, reflecting unbundled charges for their electric service.

6. Initiation of Basic Service

Basic service may be initiated in any of the following manners:

- (a) A Customer who is receiving Generation Service from a Competitive Supplier notifies the Distribution Company that he wishes to terminate such service and receive Basic Service. In this instance, Basic Service shall be initiated within two (2) business days of such notification for residential Customers. For other Customers, Basic Service shall be initiated concurrent with the Customer's next scheduled meter read date, provided that the Customer has provided such notification to the Company two (2) or more business days before the next scheduled meter read date, in accordance with the Company's Terms and Conditions for Competitive Suppliers. If the Customer provided such notification

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fewer than two (2) days before the Customer's next scheduled meter read date, Basic Service shall be initiated concurrent with the Customer's subsequent scheduled meter read date;

- (b) A Competitive Supplier notifies the Distribution Company that it shall terminate Generation Service to a Customer. In this instance, Basic Service shall be initiated for the Customer concurrent with the Customer's next scheduled meter read date, provided that the notice of termination of Generation Service is received by the Company two (2) or more business days before the next scheduled meter read date, in accordance with the Company's Terms and Conditions for Competitive Suppliers. If the notice of termination is received fewer than two (2) days before the Customer's next scheduled meter read date, Basic Service shall be initiated concurrent with the Customer's subsequent scheduled meter read date;
- (c) A Competitive Supplier ceases to provide Generation Service to a Customer, without notification to the Distribution Company. In this instance, Basic Service to the Customer shall be initiated immediately upon the cessation of Generation Service; or
- (d) A Customer who moves into the Company's service territory who has not affirmatively chosen a Competitive Supplier.

7. Termination of Basic Service

Basic Service may be terminated by a Customer concurrent with the Customer's next scheduled meter read date provided that notice of initiation of Generation Service by a Competitive Supplier is received by the Company two (2) or more business days before the next scheduled meter read date, in accordance with the Company's Terms and Conditions for Competitive Suppliers.

If the notice of initiation of Generation Service by the Competitive Supplier is received by the Company fewer than two days before the Customer's next scheduled meter read date, Basic Service shall be terminated concurrent with the Customer's subsequent scheduled meter read date.

There shall be no fee for terminating Basic Service.

8. Smart Energy Solutions Program Cost Recovery

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(a) Customer-Facing Cost Recovery

Incremental costs associated with the implementation and operation of the customer-facing component of the Company's Smart Energy Solutions Program shall be recovered from all Basic Service Customers through the Smart Grid Customer Cost Adjustment Factor ("SGCCAF"). Customer-facing incremental costs are those costs approved by the MDPU that: (1) are directly related to the implementation and operation of the customer-facing component of the Smart Energy Solutions Program; and (2) are demonstrated to be incremental to those costs that the Company currently recovers through its base rates. Smart Energy Solutions Program cost categories that can be identified as either customer-facing or distribution grid-facing will be directly assigned to the respective category. Cost categories that are shared between customer-facing and distribution-grid facing will be allocated between the customer-facing and distribution grid-facing components of the Smart Energy Solutions Program based on the ratio of direct total costs to each category. Incremental costs to be recovered pursuant to this provision include: 1) capital costs related to metering and communications technologies as well as software and, if required, dedicated hardware and a return thereon; 2) incremental operation, maintenance, marketing and customer education costs, and 3) program evaluation costs. These costs listed above shall be reduced by any external funding received by the Company that is appropriately earmarked for implementing such pilot programs.

Incremental customer-facing costs shall be allocated to the Company's Basic Service customer groups by applying a Basic Service Revenue Allocator shown below. The SGCCAF will be calculated as the allocated cost for each customer group defined in Section 4(b) (i.e., Residential, Commercial, and Industrial) divided by the estimated Basic Service kilowatt-hours to be delivered by the Company to each customer group.

The Basic Service Revenue Allocator is derived from Basic Service revenue for the 12-month period ending with the billing month of March 2014 and shall be as follows by customer group:

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|-------------|-----|
| Residential | 70% |
| Commercial | 13% |
| Industrial | 17% |

For billing purposes, the SGCCAF will be included with the Basic Service charges on customer's bills.

The Company will file for recovery of its major systems costs through SGCCAF as they

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are brought into service. On an annual basis, the Company shall reconcile the costs associated with the customer-facing component of the Smart Energy Solutions Program with its SGCCAF revenue, and the excess or deficiency, including interest at the interest rate paid on customer deposits, shall be allocated to the Basic Service customer groups by applying the Basic Service Revenue Allocator above, and shall be refunded to, or collected from, all Basic Service Customers in the subsequent year's SGCCAF mechanism.

Each adjustment of the prices under the Company's applicable rates shall be in accordance with a notice filed with the MPDU setting forth the amount of the increase or decrease and the new SGCCAF. The notice shall further specify the effective date of such adjustments, which shall not be earlier than forty-five days after the filing of the notice, or such other date as the MPDU may authorize.

(b) Distribution Grid-Facing Cost Recovery – Smart Grid Distribution Adjustment Factor

Incremental costs associated with the implementation and operation of the distribution grid-facing component of the Company's Smart Energy Solutions Program shall be recovered from all Retail Delivery Service customers in accordance with the Company's Smart Grid Adjustment Provision, M.D.P.U. No. 1442, as may be amended from time to time.