

MASSACHUSETTS ELECTRIC COMPANY
NANTUCKET ELECTRIC COMPANY
CAPITAL INVESTMENT RECOVERY PROVISION

The prices for distribution service contained in all of the Company's tariffs are subject to adjustment to reflect the operation of its Capital Investment Recovery Mechanism ("CIRM").

I. Definitions

"Actual Billed CapEx Revenue" shall mean the amounts the Company has billed during the applicable recovery period through the Net CapEx Factors approved by the Department.

"Actual Net Capital Expenditure" or "Actual Net CapEx" shall mean the plant additions and cost of removal recorded by the Company for a given investment year, but in no event shall exceed \$249 million annually, less the annual allowance in base distribution rates for depreciation expense.

"Cumulative Net CapEx Adjustment" shall mean the Cumulative Revenue Requirement effect for the current year of its actual Net Capital Expenditure recorded since December 31, 2017 through the investment year immediately preceding the current year.

"Cumulative Net Capital Expenditure ("CapEx") Factors" shall mean the factors in effect during a recovery period which recover the Cumulative Revenue Requirement as approved by the Department.

"Cumulative Revenue Requirement" shall mean the return on year-end cumulative incremental rate base, at a rate equal to the after-tax weighted average cost of capital, as determined in the Company's most recent base distribution rate case, adjusted to a pre-tax basis by using the corporate federal and state income tax rates applicable to the year for which the Cumulative Revenue Requirement is calculated, plus the annual depreciation and property tax on Cumulative Net CapEx.

"Current Year" shall mean the investment year immediately preceding March 1 of the year during which the proposed CapEx Factors will be in effect.

"Department" shall mean the Massachusetts Department of Public Utilities.

"Distribution Company" or "Company" shall mean Massachusetts Electric Company and Nantucket Electric Company.

"Forecasted kWh" shall mean the forecasted amount of electricity, as measured in kWh, to be distributed to the Company's distribution customers for the twelve month recovery period during which the proposed CapEx Factors will be in effect.

"Incremental Rate Base" shall mean the Cumulative Net CapEx adjusted for accumulated depreciation on Net CapEx and for accumulated deferred taxes on Cumulative Net CapEx and cumulative deferred tax reversals on December 31, 2017 plant in service since December 31, 2017.

"Property Tax Rate" is the Company's composite property tax rate determined in the Company's most recent base distribution rate case calculated as the ratio of total annual property taxes paid to total taxable net plant in service in the test year.

"Rate Base Allocator" shall mean the percentage of total rate base allocated to each rate class as

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determined in the Company's most recent base distribution rate case as follows:

Rate R-1/R-2	54.2%
Rate G-1	11.5%
Rate G-2	11.9%
Rate G-3	19.1%
Streetlighting	3.3%

The Company's CIRM shall include an annual CIRM Reconciliation that will reconcile cumulative revenue requirement and Actual Billed CapEx Revenue for the recovery period. The CIRM Reconciliation amount (either positive or negative) shall determine the CapEx Adjustment Factors. The Company shall submit a filing by January 15 following each calendar year ("CIRM Filing"), in which the Company shall propose adjustments to distribution rates to reflect CapEx Factors to be billed to customers in the following recovery period. These adjustments to distribution rates will be effective for the twelve months beginning March 1 following the CIRM Filing, unless otherwise approved by the Department.

II. CapEx Factors

The CapEx Factors shall represent the Cumulative Revenue Requirement on Actual Net CapEx as approved by the Department for recovery in the Company's annual January 15 CIRM Filings. This amount shall represent the cumulative incremental revenue requirement determined necessary to fund the Cumulative Net CapEx. The CapEx Factors shall also include the first year annual revenue requirement on Actual Net CapEx reported by the Company in its July 1 Capital Investment Filing of the prior year, pursuant to Section VI below. The Company shall allocate the Cumulative Revenue Requirement approved by the Department to be reflected in distribution rates to its rate classes based on the Rate Base Allocator. The amount of Cumulative Net CapEx by rate class shall then be converted to a per kilowatt-hour factor for each rate class based on the estimated kilowatt-hours deliveries for the applicable rate class for the year commencing March 1.

The CapEx Factors effective March 1, 2020 through September 30, 2020 shall recover the following revenue requirement associated with Actual Net CapEx for calendar year 2018: (1) nine months of calendar year 2020 revenue requirement, and (2) twelve months of calendar year 2019 revenue requirement.

The CapEx Factors effective March 1, 2021 through September 30, 2021 shall recover the following revenue requirement associated with Actual Net CapEx for calendar year 2019: (1) nine months of calendar year 2021 revenue requirement, and (2) twelve months of calendar year 2020 revenue requirement.

III. CapEx Adjustment Factors

The CapEx Adjustment Factors will be based on the CIRM Reconciliation amount for the prior recovery period. For each recovery period, this CIRM Reconciliation amount shall be equal to the difference (either positive or negative) between the Actual Billed CapEx Revenue and the Cumulative Revenue Requirement approved by the Department for recovery. The Company's CIRM Filing will

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reflect estimated billed distribution revenue. This estimate will be replaced with and reconciled to actual billed revenue in the subsequent CIRM Filing. The amount of over- or under-recovery resulting from the CIRM Reconciliation shall be used to determine a rate class specific per kilowatt-hour CapEx Adjustment Factors based on Forecasted kWh for each rate class. The amount of over- or under-recovery shall be allocated to the rate classes by applying the Rate Base Allocator. The amount approved by the Department to be recovered or refunded through the CapEx Adjustment Factors shall be subject to reconciliation.

IV. Cap on CapEx Factors

By January 15 following each calendar year, the Company shall submit to the Department its proposed Net CapEx Factors for the current year. These factors shall be effective for consumption on and after March 1 of each year and will be included with each rate class' distribution energy charge for billing purposes. The annual change in the Cumulative Revenue Requirement reflected in the proposed CapEx Factors shall not exceed one percent (1%) of total revenue as recorded during the prior calendar year. Total revenue shall include amounts that the Company has billed customers through applicable charges for distribution service, transmission service, transition charges, Energy Efficiency, Basic Service, and any and all related adjustment factors. Total revenue shall also include an adjustment for electric supply for those customers who were with competitive suppliers during the year. To the extent that the application of this revenue cap results in a CapEx rate adjustment that is less than that calculated in accordance with Sections II and III, the difference shall be deferred with interest calculated at the Customer Deposit Rate and included in the CIRM Reconciliation for recovery in subsequent years.

V. Capital Investment Filing

By July 1 of each year, the Company shall submit to the Department a report of its capital investment for the prior calendar year. This report shall contain sufficient information to allow the Department to review the Company's actual capital expenditures and in support of the Company's Cumulative Net CapEx Adjustment and subsequent CapEx Factors.

VI. Adjustments to Rates

Each adjustment of the prices under the Company's applicable tariffs shall be in accordance with a notice filed with the Department on or before January 15 of each calendar year setting forth the amount of the increase or decrease and the new CapEx Factors and Earnings Sharing Adjustment Factor, if applicable. The notice shall further specify the effective date of such adjustment, which shall be March 1 following the filing of the notice, or such other date as the Department may authorize.

This provision is applicable to all Retail Delivery Service tariffs of the Company. The operation of this Capital Investment Recovery Provision is subject to Chapter 164 of the General Laws.

VII. Operation of the CIRM

The CIRM will remain in effect for recovery of Actual Net CapEx for the period January 2018 through December 2019 pursuant to Section II above and the Company's Performance-Based Ratemaking Provision, M.D.P.U. No. 1423, as may be amended from time to time. The Company will continue to bill

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CapEx Factors to recover the cost of Cumulative Net CapEx plus the annual depreciation and property tax on Cumulative Net CapEx recorded during this period until such time that the Company has recovered all of the cost of Cumulative Net CapEx incurred through the date on which new base distribution rates, which will recover the cost of this Cumulative Net CapEx incurred on a prospective basis, take effect. In the next base distribution rate case, the rate base included in that rate case will reflect all capital investment recorded by the Company as in-service at the end of the test year consistent with Department precedent, before Company-proposed adjustments.

Pursuant to Section III above, recovery of the cost of Actual Net CapEx is subject to reconciliation, and the Company will continue to bill the Cap Ex Adjustment Factors until such time as the CIRM Reconciliation Amounts for prior periods are fully recovered from or credited to customers.