

MASSACHUSETTS ELECTRIC COMPANY
NANTUCKET ELECTRIC COMPANY
ADVANCED METERING INFRASTRUCTURE PROVISION

1.0 APPLICABILITY

This Advanced Metering Infrastructure (“AMI”) tariff provides for the recovery of incremental costs associated with the Company’s implementation and deployment of AMI as approved by the Department of Public Utilities (the “Department”). Recovery of Eligible AMI Investment is limited to investments made over a five-year term during calendar years 2023 through 2027.

The Company’s rates for retail Delivery Service are subject to adjustment to reflect the operation of this AMI tariff. The AMI Factor (“AMIF”), as defined herein, shall be applied to all retail delivery service kilowatt-hours (“kWhs”) as determined in accordance with the provisions of Section 3.0 below. The AMIF shall be determined annually by the Company, subject to the Department’s review and approval. The operation of this AMI tariff is subject to Chapter 164 of the General Laws.

2.0 DEFINITIONS

- 2.1 Accumulated Deferred Income Taxes (ADIT) means the accumulated deferred income taxes associated with the Company’s cumulative Eligible AMI Investments as of the end of the respective AMI Investment Year. For the year in which the Eligible AMI Investment was placed into service, the accumulative deferred income taxes will be determined on a monthly basis. The accumulated deferred income taxes for subsequent years shall be calculated based upon the average the beginning and ending calendar year balances.
- 2.2 Accumulated Reserve for Depreciation (ARD) means the Accumulated Reserve for Depreciation, including net salvage, associated with Company’s cumulative Eligible AMI Investments as of the end of the respective AMI Investment Year. For the year in which the Eligible AMI Investment was placed into service, the Accumulated Reserve for Depreciation will be determined on a monthly basis. The Accumulated Reserve for Depreciation for subsequent years shall be calculated based upon the average of the beginning and ending calendar year balances.
- 2.3 Allowable AMI Recovery is the AMI Revenue Requirement defined below in Section 2.8. Allowable AMI Recovery can be an amount to be recovered from or credited to customers.
- 2.4 Allowed O&M Expense (O&M) is the incremental O&M expense that is incurred by the Company in association with the implementation and deployment of AMI, as approved by the Department, and is solely attributable to preauthorized preliminarily approved AMI investments, the cost of which is not being recovered in base distribution rates or through another cost recovery mechanism. Eligible O&M costs are the actual monthly AMI-related O&M expenses incurred in the AMI Investment Year prior to the Recovery Year. Allowed O&M Expense is subject to the requirements of Section 4.0 and will

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exclude pension and post-retirement benefits other than pension costs recovered through any other reconciling mechanism. AMI-related cost savings realized in the deployment of AMI will be used to offset eligible O&M costs.

- 2.5 AMIF is the Automated Metering Infrastructure Factor that recovers or credits the annual Allowable AMI Recovery beginning May 1 of each Recovery Year.
- 2.6 AMI Investment Year is the annual period beginning on January 1 and ending on December 31.
- 2.7 AMI Reconciliation is the difference between each year's Allowable AMI Recovery to be recovered or credited through the AMIF as approved by the Department and the billed revenue from the AMIF associated with the recovery or credit of the Allowable AMI Recovery. The AMI Reconciliation shall include interest on any balance, accrued at the same rate as that paid on customer deposits.
- 2.8 AMI Revenue Requirement is the revenue requirement associated with the Company's AMI-related plant-in-service associated with Eligible AMI Investments for each AMI Investment Year prior to the Recovery Year, and will be the sum of the Pre-Tax Return on Rate Base, Depreciation Expense, Property Taxes, plus Allowed O&M Expense, less actual external funding received by the Company through the applicable AMI Investment Year, where the AMI Revenue Requirement components are as defined herein. For the year in which an Eligible AMI Investment is recorded as in-service, the AMI Revenue Requirement will be calculated on a monthly basis. The AMI Revenue Requirement for subsequent years shall be calculated based upon the average of the beginning and ending calendar year balances. The AMI Revenue Requirement will be calculated to recover (1) the monthly revenue requirement for Eligible AMI Investments recorded as in-service in the AMI Investment Year immediately prior to the Recovery Year; (2) the average annual revenue requirement for the calendar year ending December 31 of the AMI Investment Year two years prior to the Recovery Year, for cumulative Eligible AMI Investments placed into service in the AMI Investment Years two years prior to the Recovery Year; (3) the annual revenue requirement for the Recovery Year on Eligible AMI Investments recorded as in-service in the AMI Investment Year immediately prior to the Recovery Year; and (4) Allowed O&M Expense.
- 2.9 AMI Role is an advanced metering infrastructure position created for the specific purpose of implementing Eligible AMI Investment and Allowed O&M Expenses.
- 2.10 Company is Massachusetts Electric Company and Nantucket Electric Company, as applicable.
- 2.11 Depreciation Expense (DEPR) is the annual depreciation expense associated with the Company's average annual cumulative Eligible AMI Investments placed into service through the end of the calendar year prior to the Recovery Year. For the year during

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which the Eligible AMI Investment is placed into service, the Company shall calculate depreciation expense for use in the AMI Revenue Requirement by (1) dividing the annual depreciation accrual rates determined in the Company's most recent base distribution rate case by 12, and (2) applying the resulting rate to the average monthly plant balances during the year. Depreciation expense for subsequent years may be calculated based on the average of the beginning and end of year plant balances.

- 2.12 Eligible AMI Investments are the cumulative capitalized costs of AMI implementation investments recorded as in-service, including net salvage, and are used and useful at the end of the AMI Investment Year that is prior to the Recovery Year and: (1) are preauthorized or approved by the Department as eligible for accelerated cost recovery, subject to Department review and approval; (2) contribute towards achieving the Department's grid modernization objectives; (3) are incremental relative to the Company's current investment practices or new types of technology for capital investments; (4) are incremental to those costs that the Company currently recovers through its base distribution rates for O&M expenses and solely attributable to preauthorized or approved AMI-related grid modernization investments; (5) are prudently incurred; (6) have aggregate total expenditures for preauthorized or approved AMI investments less than the relevant budget caps determined by the Department; and (7) are recorded as in-service by December 31 of each AMI Investment Year.
- 2.13 Gross Plant Investments are the capitalized costs of Eligible AMI Investments recorded on the Company's books for Eligible AMI Investments. Actual capitalized cost of Eligible AMI Investments shall include applicable overhead and burden costs subject to the test provided in Section 5.0.
- 2.14 Pre-Tax Rate of Return (PTRR) shall be the after-tax weighted average cost of capital established by the Department in the Company's most recent base distribution rate case, adjusted to a pre-tax basis by using currently effective federal and state income tax rates applicable to the period for which the AMI Revenue Requirement is calculated.
- 2.15 Property Tax Expense (PTE) means the property taxes calculated based on net Eligible AMI Investments multiplied by the Property Tax Rate. Property taxes will be excluded in the AMI Revenue Requirement in the first Recovery Year following the AMI Investment Year in which the eligible taxable plant went into service. Property taxes will be included in the AMI Revenue Requirement beginning in the second Recovery Year at 50% of the annual property tax amount. In subsequent years, the AMI Revenue Requirement will reflect a full year of property taxes.
- 2.16 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.

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- 2.17 Rate Base (RB) is the investment value upon which the Company is permitted to earn its authorized rate of return.
- 2.18 Recovery Period is the 12-month period during which the AMIF is in effect beginning on May 1 and ending April 30 of each year.
- 2.19 Recovery Year is the calendar year in which the AMIF becomes effective.

3.0 AUTOMATED METERING INFRASTRUCTURE FACTOR (“AMIF”)

3.1 Rate Formula

$$\text{AMIF}_c = \frac{(\text{AMI-ALLOW} + \text{PPRA}) \times \text{DRA}_c}{\text{FkWh}_c}$$

Where:

- c** Designates a separate factor for the following rate classes: R-1/R-2, G-1, G-2, G-3, and Streetlighting.
- AMIF_c** The Automated Metering Infrastructure Factor, by rate class, as defined in Section 2.5.
- AMI-ALLOW** The Allowable AMI Recovery as defined in Section 2.3.
- PPRA** The AMI Reconciliation Amount as defined in Section 2.7. Interest calculated on the average monthly balance using the customer deposit rate, as outlined in 220 CMR 26.09, shall also be included in the PPRA.
- DRA_c** The Distribution Revenue Allocator representing the percentage of final revenue requirement allocated to each rate class as determined in the Company’s most recent general rate case as follows:
- | | |
|----------------|-------|
| Rate R-1/R-2 | 57.7% |
| Rate G-1 | 12.9% |
| Rate G-2 | 11.9% |
| Rate G-3 | 16.9% |
| Streetlighting | 0.6% |
- FkWh_c** The forecasted kWh to be delivered to the Company’s retail delivery service customers.

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3.2 Request for AMIFs

The Company shall submit annually to the Department its proposed AMIFs by March 15 to become effective for usage on and after May 1.

3.3 Application of AMIFs on Customer Bills

For billing purposes, the AMIF will be included with the distribution kWh charge on customers' bills.

4.0 ELIGIBILITY FOR RECOVERY AS ALLOWED O&M EXPENSE

To be eligible for inclusion in Allowed O&M Expense and recoverable through the AMIF tariff, the Company shall demonstrate that all O&M expenses incurred as a result of AMI activities and proposed for recovery through the AMIF are:

- (1) O&M expenses required for AMI implementation; and
- (2) directly related to preauthorized and preliminarily approved AMI activities.

4.1 Internal Labor

Internal labor expense eligible for recovery as Allowed O&M Expense shall consist of:

- (i) the cost of non-employee individuals hired into AMI Roles created after November 30, 2022;
- (ii) the cost of non-employee individuals hired into AMI Roles created on or before November 30, 2022, provided that the Company can demonstrate that the associated costs are not already recovered through any other rate;
- (iii) the cost of employees who have transferred to an AMI Role and who were hired after the most recent test year provided that the internal transfer was originally hired into a new position whose labor expense is not reflected in base distribution rates; and
- (iv) the cost of employees who have transferred to an AMI Role and who were employees prior to the end of the test year used to establish current base distribution rates, provided the requirements set forth in Section 4.1.2 have been met. The Company shall separately account for the cost of employees hired into AMI Roles, and maintain documentation regarding the dates of hire, names of employees, detailed job descriptions and responsibilities, titles, salaries, and specific activities performed by each AMI Role in each applicable AMI Investment Year.

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4.1.1 New Hires

Non-employee individuals hired into AMI Roles and thereby becoming employees of the Company were not employees whose cost was included in the test year in the Company's most recent base distribution rate case; therefore, the cost of these employees is not recovered in base distribution rates approved in that base distribution rate case.

The Company may, at the time of the filing of a base distribution rate case, propose to recover certain ongoing administrative costs, such as the cost of incremental employees, through base distribution rates. If the Company, in the context of a future rate proceeding, opts not to incorporate such costs in base distribution rates, the Company would be required to demonstrate that such costs were not included for recovery in base distribution rates and adjust the test year accordingly to exclude the costs.

4.1.2 Internal Transfers

Annually, as a component of the annual AMI cost recovery filing described in Section 6.0, the Company shall perform a test to determine whether existing employees transferred into AMI Roles are incremental employees and their costs are not otherwise recovered through any other rate.

If the incremental role is filled by an internal transfer employed by the Company who was an employee as of the end of the test year for the most recent base distribution rate case, the employee will only be considered as incremental when a new employee is hired to backfill the transferred employee's prior position.

If the transferred employee's prior position was backfilled by a new employee making at least the same gross salary (or more) as the transferred employee was making in their former role, then the labor and labor-related costs associated with the transferred employee that are charged to the program as expense would be deemed recoverable.

If the Company backfills the transferred employee's prior position but does so at a total compensation, representing salary and labor-related overheads, less than the gross salary of the employee reflected in base distribution rates who was transferred to the program, the Company will deduct the difference in compensation from the amount recoverable through the AMIF.

If the Company does not backfill the transferred employee's prior position, the employee's labor expense will be eligible for recovery through the AMIF when the Company credits the AMIF for the associated labor expense already reflected in base distribution rates. The Company will not refund the expense reflected in base distribution

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rates during the first year of recovery of the transferred employee's cost through the AMIF. If a backfill has not occurred by the start of the second year of recovery of the transferred employee's expenses through the AMIF, the Company shall credit, with interest at the customer deposit rate, the associated labor expense reflected in base distribution rates, adjusted for any applicable rate adjustments approved by the Department.

5.0 OVERHEAD AND BURDEN ADJUSTMENTS

For purposes of AMIF calculations, the actual overhead and burdens shall be reduced to the extent that actual O&M overhead and burdens in a given year are less than the amount included in base distribution rates as determined in the Company's most recent base distribution rate case. Such reduction shall be the difference between the actual O&M overhead and burdens and the amount included in base distribution rates.

In addition, the percentage of capitalized overhead and burdens assigned to AMIF projects shall be set equal to the ratio of AMIF to non-AMIF direct costs in any given year.

6.0 FILING WITH THE DEPARTMENT

The annual AMI cost recovery filing shall be submitted to the Department by March 15 and include, but not be limited to:

- (1) full project documentation of all Eligible AMI Investments, inclusive of capital investments recorded as in-service by the Company or its affiliate during the Prior AMI Investment Year and Allowed O&M Expense, with narrative providing justification that the costs meet the cost recovery eligibility requirements outlined in this tariff;
- (2) supporting documentation demonstrating that costs sought for recovery for categories of Eligible AMI Investments preauthorized by the Department are incremental, prudently incurred, and, where applicable, used and useful;
- (3) supporting documentation demonstrating that the costs sought for recovery for categories of Eligible AMI Investments preliminarily approved but not preauthorized by the Department are incremental, prudently incurred, and, where applicable, in service, and used and useful;
- (4) any cost variances in relation to the budget estimates for that investment year and as defined in the Company's capital authorization policies;
- (5) a demonstration that the proposed factors are calculated appropriately;
- (6) AMIF-specific bill impacts;

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- (7) consolidated bill impacts for the Company's Grid Modernization Factors and AMIFs effective on the same date;
- (8) a demonstration that Eligible AMI Investments preliminarily approved but not preauthorized are attributable to AMI implementation and incremental to business-as-usual investments;
- (9) a demonstration that the aggregate totals of expenditures for (i) preauthorized, and (ii) preliminarily approved, Eligible AMI Investments is under the relevant budget cap set by the Department;
- (10) details on alternative government funding obtained for the investments and the associated offset for such funding; and
- (11) The AMI Reconciliation.