

MASSACHUSETTS ELECTRIC COMPANY
NANTUCKET ELECTRIC COMPANY
PERFORMANCE-BASED RATEMAKING PROVISION

This Performance-Based Ratemaking (“PBR”) Provision provides for a PBR Plan consisting of a PBR Mechanism (or “PBRM”) that allows an annual adjustment to the Company’s base distribution rates pursuant to Sections 1.03, 1.04, and 1.05.

The PBR Mechanism includes three components that provide for an annual adjustment to rates. The three components of the PBRM are:

- (1) An annual adjustment to Base Distribution Rates based on a revenue-cap formula using the rate of input price inflation representative of the electric distribution industry, less offsets for productivity and a consumer dividend (“PBR Adjustment”).
- (2) An Earnings Sharing Mechanism that provides a credit to customers, through a separate factor, for customers’ share of earnings above certain thresholds.
- (3) An Exogenous Event factor that allows the Company to reflect, either in Base Distribution Rates or through a separate factor, costs and cost reductions that are beyond the control of the Company, are not reflected in the GDPPI, and, because the Company is subject to a stay-out provision, are deemed appropriate to recover from or credit to customers through the PBR Mechanism.

In addition, on a transitional basis, the annual adjustment taking effect under the PBR Plan through the PBRM will be accompanied by a separate adjustment to Base Distribution Rates at the start of each PBR Year that recovers the revenue requirement on all incremental capital investment recorded as “in-service” during the period January 2018 through December 2019 pursuant to Section 1.07. In conjunction with the adjustment to Base Distribution Rates, there will be an annual reduction in recovery of net capital investment through the Company’s Capital Investment Recovery Provision, M.D.P.U. No. 1417 (“CIRM”), as may be amended from time to time, until such time as the recovery of all capital investment through December 2019 is recovered through Base Distribution Rates and the CIRM no longer recovers the revenue requirement on any capital investment.

1.01 Term of PBR Plan

The Base Distribution Rates approved by the Department in the Company’s most recently completed base distribution rate case shall remain in effect until the Company’s next base distribution rate case. The PBR Plan shall operate for a five-year term starting October 1, 2019. The first annual PBR Adjustment pursuant to the PBRM of the PBR Plan shall be effective October 1, 2020. Subsequent annual adjustments shall occur on each October 1 within the five-year term, with the last adjustment to the then-effective Base Distribution Rates taking effect on October 1, 2023.

1.02 Definitions

ATR Allocator is the Annual Target Revenue Allocator derived from the Company’s most recent base distribution rate case as approved by the Department and shall be as follows by Rate Class:

MASSACHUSETTS ELECTRIC COMPANY
NANTUCKET ELECTRIC COMPANY
PERFORMANCE-BASED RATEMAKING PROVISION

Rate R-1/R-2	56.7%
Rate G-1	12.6%
Rate G-2	11.7%
Rate G-3	16.6%
Streetlights	2.4%

Base Distribution Revenue is the distribution revenue approved for recovery through the Company's Rate Schedules as established by the Department in the Company's most recent base distribution rate case, adjusted annually through the PBR Adjustment as set forth in Section 1.03 and the transition of capital investment recovery as set forth in Section 1.07, further adjusted for depreciation, return on rate base, associated federal and state income taxes, and property taxes for all existing assets ending December 31, 2018, for the October 1, 2020 PBR Mechanism adjustment and for all existing assets ending December 31, 2019, for the October 1, 2021 PBR Mechanism adjustment.

Base Distribution Rates are the compilation of Rate Components plus the customer charge for all of the Company's Rate Schedules.

Basis Point shall be one one-hundredth of a percentage point (one basis point = 0.01%).

Common Equity is the average of the beginning year and ending year Rate Base for the calendar year prior to the Prior Year multiplied by the Common Equity percentage approved by the Department in D.P.U. 18-150.

Consumer Dividend is the benefit to consumers of future productivity gains attributable to performance-based ratemaking for the Company's distribution service as established by the Department in D.P.U. 18-150.

DRA is the Distribution Revenue Allocator derived from the Company's most recent base distribution rate case as approved by the Department and shall be as follows by Rate Class:

Rate R-1/R-2	57.7%
Rate G-1	12.9%
Rate G-2	11.9%
Rate G-3	16.9%
Streetlights	0.6%

Exogenous Events are occurrences that have a material impact on the Company and that are beyond the Company's control and are not otherwise reflected in the PBR Adjustment.

PBR Adjustment is the incremental Base Distribution Revenue determined through application of the PBRM in each year.

PBR Adjustment Formula is the mathematical expression set forth in Section 1.03 used to calculate the percentage change in Base Distribution Revenue for the PBR Year.

PBR Year is the annual period that the adjusted Base Distribution Rates shall be effective beginning on October 1.

MASSACHUSETTS ELECTRIC COMPANY
NANTUCKET ELECTRIC COMPANY
PERFORMANCE-BASED RATEMAKING PROVISION

Prior Year is the annual period ending immediately prior to the PBR Year.

Rate Class is the group of customers all taking service pursuant to the same Rate Schedule.

Rate Component is the applicable energy charge, demand charge, or credit reflected in the Company's Summary of Electric Delivery Service Rates tariff in effect from time to time, that recovers a portion of the Company's Base Distribution Revenue as established by the Department in its most recent base distribution rate case.

Return on Average Common Equity is the Earnings Available for Common Equity as reported in the Company's annual Earnings Reports to the Department less amounts as described in Section 1.04, divided by the average of the beginning year and ending year Common Equity for the calendar year prior to the Prior Year as approved by the Department.

X Factor is the productivity growth index as established by the Department in D.P.U. 18-150.

Z Factor is the sum of the cost impacts of Exogenous Events excluding incremental storm costs for those weather events that cause the Company to incur incremental costs exceeding \$30 million.

1.03 PBR Adjustment Formula

$$\text{BASE_REV}_{(S)T} = \text{BASE_REV}_{(S)T-1} + (\text{PBR_ADJ}_T \times \text{ATRA}_S)$$

$$\text{PBR_ADJ}_T = (\text{PBR_REV}_{T-1} \times \text{PBR}\%)$$

$$\text{PBR}\% = (\text{GDPPI}_{T-1} - X - \text{CD}) + (\text{Z}_{(\text{REV})T} \div \text{PBR_REV}_{T-1})$$

$$X = -1.72\%$$

Where:

s Designates the Rate Class Base Distribution Revenue for the following rate classes: R-1/R-2, G-1, G-2, G-3, and Streetlighting.

BASE_REV The Base Distribution Revenue as defined in Section 1.02.

PBR_ADJ The PBR Adjustment, which shall be the PBR Year's incremental Base Distribution Revenue consisting of the adjustments associated with the application of the PBR%.

PBR_REV The PBR Revenue, which shall be the Base Distribution Revenue adjusted to exclude (1) \$16,000,000 representing the funding allowance for the Company's Storm Contingency Fund, (2) \$6,200,000 representing the allowance for the deductible on major weather events, as approved in D.P.U. 18-150, and (3) the test year revenue requirement on Company-owned solar generating facilities less the test year market revenue received by the Company associated with Company-owned solar generating

MASSACHUSETTS ELECTRIC COMPANY
NANTUCKET ELECTRIC COMPANY
PERFORMANCE-BASED RATEMAKING PROVISION

facilities reflected in the most recent base distribution rate case.

- ATRA The Annual Target Revenue Allocator as set forth in Section 1.02.
- PBR% The percentage change to be applied to the Prior Year PBR Revenue.
- GDPPIT-1 The average annual percentage change in the United States Gross Domestic Product - Price Index for the four most recent quarterly reporting periods as of the first quarter of the calendar year in which the Rate Components reflecting the PBR Year's PBR Adjustment go into effect. The calculation will be performed based on the most recently available data published by the United States Department of Commerce at the time of the PBR filing.
- X The productivity or X Factor, which shall be negative 1.72 percent, as established by the Department in D.P.U. 18-150.
- CD The Consumer Dividend, as determined below. Beginning with the PBR Year ending September 2021, the CD shall be adjusted annually based on the Company's unit cost and Total Factor Productivity ("TFP") relative to the unit cost and TFP averages of the sample of 66 electric distribution companies used in D.P.U. 18-150 ("National Average" or "NA"), or as otherwise determined by the Department.
- Z_{REV} The sum of the cost impacts of all Exogenous Events, positive or negative, as provided for in Section 1.05, excluding incremental storm costs for those weather events that cause the Company to incur incremental costs exceeding \$30 million.
- T The PBR Year.
- T-1 The Prior Year.

Determination of CD

The Company shall determine the value of the CD to be applied in the PBR Adjustment Formula as follows:

Performance Category	Company's Updated Unit Cost	Company's Updated TFP	Potential CD for Formula	CD if GDPPI ≤ 1%	CD if 1% < GDPPI > 2%	CD if GDPPI ≥ 2%
For PBR Year Ending September 2020						
Current (Average)	n/a	n/a	0.40	0.00	0.20	0.40
For Subsequent PBR Years, subject to annual update of unit cost and TFP.						
All Unit Cost and TFP percentages are in relation to the NA.						

MASSACHUSETTS ELECTRIC COMPANY
NANTUCKET ELECTRIC COMPANY
PERFORMANCE-BASED RATEMAKING PROVISION

Performance Category	Company's Updated Unit Cost	Company's Updated TFP	Potential CD for Formula	CD if GDPPI $\leq 1\%$	CD if $1\% < \text{GDPPI} < 2\%$	CD if GDPPI $\geq 2\%$
Superior	$\geq 18\%$ below NA	$\geq 21\%$ above NA	0.25	0.00	0.125	0.25
Above-Average	$> 6\%$ and $< 18\%$ below NA	$> 7\%$ and $< 21\%$ above NA	0.33	0.00	0.165	0.33
Average	6% below to 6% above NA	$< 7\%$ above to $< 7\%$ below NA	0.40	0.00	0.20	0.40
Below-Average	$> 6\%$ and $< 18\%$ above NA	$\geq 7\%$ below NA	0.48	0.00	0.24	0.48
Poor	$> 18\%$ above NA	$> 21\%$ below NA	0.55	0.00	0.275	0.55

The annual adjustment to CD shall occur based upon the Company's updated unit cost and updated TFP measured against the thresholds identified above, using a three-year rolling average of data from the national sample of utilities, as available, known as the National Averages. If the thresholds in the same Performance Categories are not both met as shown above, the applicable PBR Year's Potential CD will be determined at the average of the two categories.

1.04 Earnings Sharing Mechanism

1.04.1 Operation of ESM

In the event that the Company's actual Return on Average Common Equity for any calendar period ending December 31 of the years 2020 through 2025 is within the Earnings Sharing Range shown below, the difference between actual earnings and earnings calculated at the authorized return on equity shall be shared with customers as follows:

<u>Earnings Sharing Range</u>	<u>Share to Customer</u>	<u>Share to Company</u>
9.60% to 11.60%	Deadband, No Sharing of Earnings	
$> 11.60\%$	75%	25%

The authorized return on equity shall be the return on equity approved by the Department in D.P.U. 18-150. The Earnings Available for Common Equity used in the calculation will exclude Department approved incentives earned, such as energy efficiency incentives, long-term contract remuneration, and conversely, would exclude service-quality penalties, as well as any amounts recognized in the reporting period resulting from regulatory or court settlements or decisions related to prior periods, if any.

The annual Earnings Sharing credit, when applicable, shall result in a per kWh credit to retail delivery service customers.

MASSACHUSETTS ELECTRIC COMPANY
NANTUCKET ELECTRIC COMPANY
PERFORMANCE-BASED RATEMAKING PROVISION

1.04.2 ES Factor Formula

The Earnings Sharing credit per kWh shall be calculated as follows:

$$ESF_s = \frac{(ESMC \times DRA_s)}{FkWh_s}$$

Where:

- s Designates a separate factor for the following rate classes: R-1/R-2, G-1, G-2, G-3, and Streetlighting.
- ESF_s The Earnings Sharing Factor, by rate class.
- $FkWh_s$ The forecasted kWhs to be delivered to the Company's retail delivery service customers in the applicable rate class.
- $ESMC$ The actual amount of customers' share of earnings to be shared with customers as a result of the actual Return on Average Common Equity is within an Earnings Sharing Range that results in shared earnings.
- DRA_s The Distribution Revenue Allocator as set forth in Section 1.02.

1.04.3 Reconciliation

The amount of customers' share of earnings is subject to reconciliation. The reconciliation balance shall be the difference between revenue billed through the ESF and the amount authorized to be credited to customers by the Department, determined monthly, plus carrying charges calculated on the average monthly balance using the same rate as that paid on customer deposits and then added to the end-of-month balance. Any reconciliation balance will be reflected in a subsequent year's ESF after review and approval by the Department.

1.05 Exogenous Events

1.05.1 Eligibility as an Exogenous Event

Exogenous Events are beyond the Company's control and result in the Company incurring costs or cost reductions not reflected in GDPPI, or otherwise included in the PBR Adjustment. Costs approved by the Department that result from Exogenous Events are represented by the Z Factor in the PBR%. To qualify for Exogenous Event recovery (whether positive or negative), the following criteria must be met:

- (1) the cost must be beyond the Company's control and are not reflected in GDPPI;
- (2) the cost arises from a change in accounting requirements or regulatory, judicial, or legislative directives or enactments;

MASSACHUSETTS ELECTRIC COMPANY
NANTUCKET ELECTRIC COMPANY
PERFORMANCE-BASED RATEMAKING PROVISION

- (3) the change is unique to the electric distribution industry as opposed to the general economy; and
- (4) the change exceeds a significant threshold that is noncumulative (i.e., exogenous costs cannot be grouped together into a single total for purposes of determining whether the threshold has been met).

The significance threshold for Exogenous Event cost recovery is \$3 million for each individual event in the first PBR Year ending September 2020, and thereafter, shall be adjusted annually based on changes in GDPPI.

In addition to the criteria listed above in identifying Exogenous Events and qualifying their costs for recovery (whether positive or negative) through the PBRM, incremental storm costs for those weather events that cause the Company to incur incremental costs exceeding \$30 million per event shall be eligible for recovery pursuant to Section 1.05.2 below.

Exogenous Event cost recovery requires that the Company present supporting documentation and rationale to the Department for a determination as to the appropriateness of the proposed recovery or refund. Once allowed by the Department, the amount of the cost change occurring in the Prior Year, or the year prior to the Prior Year and deferred for recovery or refund, shall be recovered from or credited to customers through a separate factor, after review and approval by the Department. The separate factor shall remain in effect until the Exogenous Event cost is fully recovered from or credited to customers, or until such time that the amounts are appropriately reflected in the PBR Adjustment, as applicable.

1.05.2 Recovery of Exogenous Storm Costs

The recovery of incremental storm costs for those weather events that cause the Company to incur incremental costs exceeding \$30 million per event shall always be through a separate factor that will recover each amount requested for recovery over a five-year period. In order for incremental costs exceeding \$30 million per event be eligible for recovery pursuant to the provisions of this section, the total of (1) the balance of the Company's Storm Contingency Fund; and (2) the total incremental costs for all weather events where each event's incremental cost exceed \$30 million, must exceed \$75 million. The Storm Factor shall be calculated as follows:

$$SF_s = \frac{(STRM \div 5) \times DRA_s}{FkWh_s}$$

Where:

- s Designates a separate factor for the following rate classes: R-1/R-2, G-1, G-2, G-3, and Streetlighting.
- SF_s The Storm Factor, by rate class.
- FkWh_s The forecasted kWhs to be delivered to the Company's retail delivery service customers in the applicable rate class.

MASSACHUSETTS ELECTRIC COMPANY
NANTUCKET ELECTRIC COMPANY
PERFORMANCE-BASED RATEMAKING PROVISION

- STRM Total incremental storm costs for those weather events that cause the Company to incur incremental costs exceeding \$30 million and meeting the requirements of an Exogenous Event, including interest at the Prime Rate from the date the Company begins incurring costs to the end of each five year recovery period.
- DRA_s The Distribution Revenue Allocator as set forth in Section 1.02.

1.05.3 Reconciliation

The amount of Exogenous Event storm costs authorized for recovery is subject to reconciliation. The reconciliation balance shall be the difference between revenue billed through the SF and the amount authorized for recovery by the Department, determined monthly, plus carrying charges calculated on the average monthly balance at the Prime rate and then added to the end-of-month balance. The Company will provide a reconciliation report to the Department 90 days after the end of each applicable recovery period, and any reconciliation balance will be transferred to the Storm Contingency Fund.

1.06 Annual Rate Adjustments Resulting from PBRM

1.06.1 PBR Adjustment

The PBR Adjustment for each Rate Class as calculated pursuant to Section 1.03 shall be reflected in the Rate Component for such Rate Class based on test year kilowatt-hour and demand billing determinants. This adjustment to each Rate Class's Rate Component(s) will preserve the ratio of revenue generated through kilowatt-hour deliveries, billing demand, and distribution rate credits as approved by the Department in the Company's rate design from the most recent base distribution rate case. The Rate Class Base Distribution Revenue shall determine the Annual Target Revenue in the Company's Revenue Decoupling Mechanism ("RDM") effective at the start of the applicable PBR Year. Each PBR Year's Base Distribution Revenue shall not be subject to reconciliation except as provided by the Company's RDM Provision, as amended from time to time.

1.06.2 Notice

Each adjustment of the rates under the Company's applicable tariffs shall be in accordance with a notice filed with the Department on or before June 15 setting forth the amount of the (1) PBR Adjustment and new Rate Components, (2) ESF, if applicable, and (3) SF, if applicable. The notice shall further specify the effective date of such adjustments, which shall be October 1 following the filing of the notice, or such other date as the Department may authorize. For billing purposes, the ESF and SF will be included with the distribution kWh charge on customers' bills.

1.07 Transition of Capital Investment Recovery

The Company shall adjust Base Distribution Rates annually on October 1, 2020 and October 1, 2021 for the recovery of the annual revenue requirement on all incremental capital investment recorded as "in-service" associated with the following periods: calendar year 2018 and calendar year 2019 ("Capital Investment Period"). The Company shall reflect (i) the October 1, 2020 balances for the components of rate base, subject to the CAPEX Formula below, to be included in Base Distribution Rates on October 1, 2020

MASSACHUSETTS ELECTRIC COMPANY
NANTUCKET ELECTRIC COMPANY
PERFORMANCE-BASED RATEMAKING PROVISION

associated with calendar year 2018 capital investment and (ii) the October 1, 2021 balances for the components of rate base, subject to the CAPEX Formula below, to be included in Base Distribution Rates on October 1, 2021 associated with calendar year 2019 capital investment.

1.07.1 CAPEX Formula

$$\text{CAPEX_ADJ}_{(S)T} = \text{CAPEX}_T \times \text{ATRA}_S$$

$$\text{CAPEX}_T = (\text{RB}_T \times \text{PTRR}) + \text{DEPR}_T + \text{PTMS}_T$$

$$\text{RB}_T = ((\text{INC_PLT}_{T-1} - \text{ARD}_{T-1} + \text{ADIT}_{T-1}) + (\text{INC_PLT}_T - \text{ARD}_T + \text{ADIT}_T)) \div 2$$

Where:

- s** Designates the Rate Class Base Distribution Revenue for the following rate classes: R-1/R-2, G-1, G-2, G-3, and Streetlighting.
- ATRA** The Annual Target Revenue Allocator as set forth in Section 1.02.
- CAPEX_T** The annual revenue requirement for the PBR Year associated with all incremental capital investment for the Capital Investment Period, which corresponds to the incremental capital investment that the Company is recovering through its Capital Investment Recovery Mechanism, M.D.P.U. No. 1417, as may be amended from time to time, immediately preceding the PBR Year.
- RB** Average annual Rate Base associated with total incremental capital investment for the Capital Investment Period based upon the beginning of the year and end of the year INC_PLT, ARD, and ADIT balances of the respective PBR Year.
- PTRR** The pre-tax rate of return shall be the after-tax weighted average cost of capital established by the Department in D.P.U. 18-150, adjusted to a pre-tax basis by using currently effective federal and state income tax rates applicable to the PBR Year.
- DEPR** The annual depreciation expense associated with the total incremental capital investment for the Capital Investment Period. Depreciation expense will be based on the average of the beginning and end of year plant balances for the PBR Year.
- PTMS** Property taxes calculated based on the net incremental capital investment associated with the Capital Investment Period multiplied by the Property Tax Rate established by the Department in D.P.U. 18-150. Property taxes will be included in CAPEX beginning in the year following the Capital Investment Period in which the capital investments were recorded as in-service at 50% of the annual property tax amount for the first year. In the subsequent year, CAPEX will reflect a full year of property taxes.

MASSACHUSETTS ELECTRIC COMPANY
NANTUCKET ELECTRIC COMPANY
PERFORMANCE-BASED RATEMAKING PROVISION

INC_PLT	Incremental Plant Investment, including cost of removal, for the applicable Capital Investment Period, calculated as gross plant investment, including cost of removal, less the allowance for depreciation expense recovered through base distribution rates in effect during the Capital Investment Period, net of the change to accumulated deferred taxes (including excess deferred taxes). The Company will also adjust Property Taxes for net plant invest at December 31, 2019.
ARD	Accumulated Reserve for Depreciation associated with INC_PLT as of the end of the Prior Year.
ADIT	Accumulated Deferred Income Taxes associated with INC_PLT as of the end of the Prior Year.
T	The PBR Year.
T-1	The Prior Year.

1.07.2 CAPEX Adjustment

The CAPEX Adjustment for each Rate Class as calculated pursuant to Section 1.07.1 shall be evaluated to ensure that the revenue increase to any one Rate Class is not more than 10 percent of that Rate Class's total annual normalized revenue for the calendar year, consistent with the manner by which total normalized revenue is determined in a base distribution rate case, including imputed commodity revenue for customers receiving their electricity supply from competitive suppliers. To the extent that the CAPEX Adjustment for any Rate Class exceeds 10 percent of that Rate Class's total annual normalized revenue, the Company shall reallocate the amount in excess of 10 percent equitably among the other Rate Classes and subject to the 10 percent limitation.

The resulting CAPEX Adjustment for each Rate Class shall be reflected in the Rate Component for such Rate Class based on test year kilowatt-hour and demand billing determinants. This adjustment to each Rate Class's Rate Component(s) will preserve the ratio of revenue generated through kilowatt-hour deliveries, billing demand, and distribution rate credits as approved by the Department in the Company's rate design from the most recent base distribution rate case. The Rate Class CAPEX Adjustment shall be added to the Rate Class Base Distribution Revenue calculated in Section 1.03 and the Total Rate Class Base Distribution Revenue shall determine the Annual Target Revenue in the Company's RDM effective at the start of the applicable PBR Year. Each PBR Year's Total Base Distribution Revenue shall not be subject to reconciliation except as provided by the Company's RDM Provision, as amended from time to time.

1.07.3 Notice

Each adjustment of the rates under the Company's applicable tariffs shall be in accordance with a notice filed with the Department on or before June 15 setting forth the amount of the CAPEX Adjustment and new Rate Components. The notice shall further specify the effective date of such adjustments, which shall be October 1 following the filing of the notice, or such other date as the Department may authorize.

1.08 Annual PBR Plan Filing

MASSACHUSETTS ELECTRIC COMPANY
NANTUCKET ELECTRIC COMPANY
PERFORMANCE-BASED RATEMAKING PROVISION

As part of its annual PBR Plan filing, the Company shall file information and supporting schedules with the Department necessary for the Department to review and approve the PBR Adjustment for the subsequent PBR Year. Such information shall include the PBR Adjustment calculation, the calculation of the PBR Year transitional revenue requirement on capital investments to be recovered through Base Distribution Rates, the calculation of the ESF, if applicable, based upon the Company's annual Earnings Report filed with the Department on May 1, the descriptions of and accounting for any Exogenous Event costs, and the calculation of the SF, if applicable. The PBR Plan filings will be made on June 15, 2020 through June 15, 2023 to effect the allowed adjustments of Base Distribution Rates.

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