MASSACHUSETTS ELECTRIC COMPANY
NANTUCKET ELECTRIC COMPANY

PENSION/PBOP ADJUSTMENT MECHANISM PROVISION

The Company's rates for Retail Delivery Service are subject to a Pension and Post-retirement Benefits other than Pension ("PBOP") Adjustment Factor ("PAF") designed to recover the Company's uncapitalized expense associated with Pension and PBOP recorded on the Company's books of account pursuant to ASC 715 relating to distribution operating and maintenance.

Annually, the Company will file with the Department (1) the amount of the upcoming year's Pension and PBOP expense to be reflected in the PAF, excluding Energy Efficiency-related Pension and PBOP expenses, and (2) a reconciliation of the prior year's Pension and PBOP expense subject to this provision, excluding Energy Efficiency-related Pension and PBOP expenses, and the revenue billed through the PAF exclusive of prior period collection or refund of under- or over-recovery of costs. Any excess or deficiency in the recovery of Pension and PBOP expense, including interest at the Company's allowed tax-effected weighted average cost of capital as approved by the Department, shall be refunded to or recovered from customers over three years. The Pension Adjustment shall be allocated to the Company's rate classes by applying the Labor Allocator shown below. The PAF for each rate class shall be based on the estimated kilowatt-hours to be delivered by the Company to each rate class.

The Company shall use the following formula when computing the PAF:

$$PAFs_x = \frac{[(PEN + PBOP + RA_x + cc(URD_x + APPA_x - DTA_x) + PPRA_x) \text{ x } LAs]}{kWhs}$$

Where:

PAF = the annual Pension/PBOP adjustment factor

PEN = the actuarial forecast of Pension expense to be recovered for the current year.

PBOP = the actuarial forecast of PBOP expense to be recovered for the current year.

RA_x = the reconciliation adjustment for $Year_x$ is one-third of the Unamortized Reconciliation Deferral at the end of the prior year.

cc = the tax-effected weighted-average cost of capital using the allowed return on equity approved in the Company's most recent base distribution rate case reflecting the corporate federal and state income tax rates in effect during the applicable year.

URD_x = the Unamortized Reconciliation Deferral is the amount of the Reconciliation Deferral not yet included for recovery. At the beginning of $Year_x$ the Unamortized Reconciliation Deferral is the sum of: (1) the Unamortized Reconciliation Deferral at the beginning of the Prior Year; plus (2) the Reconciliation Deferral for the Prior Year; minus (3) the Reconciliation Adjustment for the Prior Year.

$APPA_x$ = the average pre-paid/unfunded Pension and PBOP amount for $Year_x$ is one half of the sum of: (1) the pre-paid/unfunded Pension and PBOP amounts recorded on the Company's books as

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of the beginning of the prior year; and (2) the pre-paid/unfunded Pension and PBOP amount recorded on the Company's books as of the end of the prior year.

DTA_x = the deferred tax amount is the deferred taxes associated with the pre-paid/unfunded Pension and PBOP amount and the URD at the end of the prior year.

$PPRA_x$ = the past period reconciliation amount is (a) the difference between: (1) the amount of PAF revenue that should have been received in the prior year; and (2) the amount of PAF revenue actually received in the prior year and (b) the amount computed in the clause (a) times the prime rate computed in accordance with 220C.M.R.6.08(2).

kWh = annual forecasted kWh deliveries.

x = the current fiscal year.

s = Designates a separate factor for the following rate classes: R-1/R-2, G-1, G-2, G-3, and Streetlighting.

LA = Labor Allocator is derived from the Company's most recent base distribution rate case as approved by the Department and shall be as follows by rate class:

R-1/R-2	55.3%
G-1	12.9%
G-2	11.6%
G-3	15.7%
Streetlighting	4.5%

For billing purposes, the PAF will be included with the distribution kWh charge on customer's bills.

Each adjustment of the prices under the Company's applicable tariffs shall be in accordance with a notice filed with the Department setting forth the amount of the increase or decrease and the new PAF. The notice shall further specify the effective date of such adjustment, which shall not be earlier than 45 days after 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 Pension/PBOP Adjustment Provision is subject to Chapter 164 of the General Laws.