

MASSACHUSETTS ELECTRIC COMPANY
NANTUCKET ELECTRIC COMPANY
SMART GRID ADJUSTMENT PROVISION

The Company's rates for Retail Delivery Service are subject to adjustment to reflect recovery of incremental costs associated with the Company's distribution grid-facing component program costs of the Smart Energy Solutions Program approved by the Department of Public Utilities (the "Department"), and incremental costs incurred during any extension, in whole or in part, of the Smart Energy Solutions Program as approved by the Department, through a Smart Grid Distribution Adjustment Factor ("SGDAF"). 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. Incremental costs shall include those costs approved by the Department that: (1) are directly related to the distribution grid-facing 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 costs to each category. Incremental costs to be recovered pursuant to this provision include: (1) program design and start-up costs; 2) capital costs related to distribution grid automation technologies as well as software and, if required, dedicated hardware and a return thereon; 3) operation and maintenance expense; 4) program evaluation costs; and 5) any incentive earned by the Company pursuant to the approved Smart Grid Performance Incentive mechanism described below. 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 distribution grid-facing component program costs shall be allocated to the Company's rate classes by applying a Distribution Revenue Allocator shown below. The SGDAF will be calculated as the allocated cost for each rate class divided by the estimated kilowatt-hours to be delivered by the Company to each rate class.

The Distribution Revenue Allocator shall be derived from the Company's most recent base 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%
Streetlighting	0.6%

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

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The Company will file for recovery of its major systems costs through SGDAF as they are brought into service. On an annual basis, the Company shall reconcile its distribution grid-facing component program costs of the Smart Energy Solutions Program with its SGDAF revenue, and the excess or deficiency, including interest at the interest rate paid on customer deposits, shall be allocated to the Company's rate classes by applying the Distribution Revenue Allocator above, and shall be refunded to, or collected from, all Retail Delivery Service Customers in the subsequent year's SGDAF.

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

Smart Grid Performance Incentive Mechanism

(a) Purpose

The Smart Grid Performance Incentive ("SGPI") permits the Company to recover from all customers a monetary incentive for exceeding the threshold percentage reductions in peak and average consumption established in Section 85 of the Green Communities Act ("Section 85"). The SGPI is designed to provide an incentive for the Company to achieve good performance while working with its customers with respect to the dynamic pricing provisions of its Smart Energy Solutions Program for the benefit of its customers.

(b) Criteria for Earning the Smart Grid Performance Incentive

The Smart Grid Performance Incentive shall be calculated based on the bill savings experienced by Smart Energy Solutions Program customers participating in Smart Rewards Pricing, and shall be limited by a percentage cap on the Company's total spending on the customer-facing components of the Smart Energy Solutions Program costs.

Specifically, the SGPI shall be calculated based upon the following criteria:

1. Greater than 0.25 percent of the Company's customers must participate in Smart Rewards Pricing.
2. Customers participating in Smart Rewards Pricing must, over 12 consecutive billing months, achieve a reduction of greater than 5% in both average kWh consumption and peak kWh consumption compared to base year usage. This criterion shall apply to the usage of Smart

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Rewards Pricing participants in aggregate, not to such customers in each Smart Rewards Pricing Class (“SRPC”) separately.

3. The maximum SGPI dollar amount, on a pre-tax basis, shall equal 3 percent of the Company’s actual spending on the customer-facing components of the Smart Energy Solutions Program costs.

(c) Calculation of the Smart Grid Performance Incentive

For purposes of this calculation, Smart Rewards Pricing Classes are defined as follows:

Residential (Rates R-1 and R-2)

Small Commercial (Rate G-1)

Medium Commercial (Rate G-2)

Provided that the above criteria are met, the pre-cap SGPI shall be calculated as

$$\begin{aligned} \text{pre-cap SGPI} &= \sum(\text{Billing Differences}_{\text{SGPC}}) \times 0.5 \\ &= \sum(\text{SBTL}_{\text{SGPC}} - \text{ABAL}_{\text{SGPC}}) \times 0.5 \end{aligned}$$

where:

$\text{SBTL}_{\text{SGPC}}$ = Standard Billing at Target Load (SBTL), in dollars, is equal to (1) the target average load per Smart Rewards Pricing Customer overall, in kWh, multiplied by (2) the number of customers in the particular SRPC, multiplied by (3) the Standard Basic Service rate applicable to the class, in \$/kWh.

where:

Target Average Load per Smart Rewards Pricing Customer, in kWh, is equal to 5% less than the average load per Smart Rewards Pricing customer during the base year.

$\text{ABAL}_{\text{SGPC}}$ = Alternative Billing at Actual Load (ABAL), in dollars, is equal to (1) the actual average load per Smart Rewards Pricing Customer overall, in kWh, multiplied by (2) the number of customers in the particular SRPC, multiplied by (3) the Smart Rewards Pricing rates applicable to the

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SRPC, in \$/kWh. The actual total kWh shall be partitioned into groups based on the periods of day during which the average customer in the SRPC consumed them, before each kWh group is multiplied by its corresponding Smart Rewards Pricing rate.

where:

Alternative Billing is the pricing applicable to the SRPC whose Billing Difference is being calculated.

SRPC = subscript for a particular Smart Rewards Pricing Class

The pre-cap SGPI shall be compared to the maximum SGPI dollar amount. The lesser of the two, unless zero or negative, shall be recovered from all Retail Delivery Customers through the SGDAF.

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