MASSACHUSETTS ELECTRIC COMPANY
NANTUCKET ELECTRIC COMPANY
INFRASTRUCTURE, SAFETY, RELIABILITY AND ELECTRIFICATION PROVISION

1.0 APPLICABILITY

This Infrastructure, Safety, Reliability and Electrification ("ISRE") Provision provides for the recovery of incremental costs associated with the Company's implementation and deployment of its Core capital investments as approved by the Department of Public Utilities (the "Department"). The first ISRE Investment Year will begin on January 1, 2024, with each successive ISRE Investment Year beginning on January 1 and continuing through calendar year 2028, for a total of five calendar years. Recovery of Eligible ISRE Investment through the ISRE Factor ("ISREF") will commence on October 1, 2025 and shall continue each October 1 until the termination of the Company's Comprehensive Performance and Investment Plan on October 1, 2030, unless modified or superseded by the Company's next base distribution rate case, or unless otherwise directed by the Department.

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

2.0 DEFINITIONS

2.1 <u>Accumulated Deferred Income Taxes (ADIT)</u> means the accumulated deferred income taxes associated with the Company's cumulative Eligible ISRE Investments as of the end of the respective ISRE Investment Year. For the year in which the Eligible ISRE Investment was placed into service, the accumulated 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 beginning and ending calendar year balances.

2.2 <u>Accumulated Reserve for Depreciation (ARD)</u> means the Accumulated Reserve for Depreciation, including net salvage, associated with the Company's cumulative Eligible ISRE Investments as of the end of the respective ISRE Investment Year. For the year in which the Eligible ISRE 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 <u>Allowable ISRE Recovery</u> is the ISRE Revenue Requirement defined below in Section 2.7 Allowable ISRE Recovery can be an amount to be recovered from or credited to customers.

2.4 <u>ISREF</u> is the ISRE Factor that recovers or credits the annual Allowable ISRE Recovery beginning October 1 of each Recovery Year.

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2.5 ISRE Investment Year is the annual period beginning on January 1 and ending on December 31.

2.6 ISRE Reconciliation is the difference between each year's Allowable ISRE Recovery to be recovered or credited through the ISREF as approved by the Department and the billed revenue from the ISREF associated with the recovery or credit of the Allowable ISRE Recovery. The ISRE Reconciliation shall include interest on any balance, accrued at the same rate as that paid on customer deposits.

2.7 ISRE Revenue Requirement is the revenue requirement on the Company's ISRE-related plant-in-service associated with Eligible ISRE Investments for each ISRE Investment Year prior to the Recovery Year, and will be the sum of (1) the Pre-Tax Return on Rate Base, (2) Depreciation Expense, and (3) Property Taxes, less actual external funding received by the Company through the applicable ISRE Investment Year, where the ISRE Revenue Requirement components are as defined herein. For the year in which an Eligible ISRE Investment is recorded as in-service, the ISRE Revenue Requirement will be calculated on a monthly basis. The ISRE Revenue Requirement for subsequent years shall be calculated based upon the average of the beginning and ending calendar year balances. The ISRE Revenue Requirement will be calculated to recover (1) the monthly revenue requirement for Eligible ISRE Investments recorded as in-service in the ISRE Investment Year immediately prior to the Recovery Year; and (2) the average annual revenue requirement for the calendar year ending December 31 of the ISRE Investment Year two years prior to the Recovery Year, for cumulative Eligible ISRE Investments placed into service in the ISRE Investment Years two years prior to the Recovery Year.

2.8 Company is together, Massachusetts Electric Company and Nantucket Electric Company, as applicable.

2.9 Depreciation Expense (DEPR) is the annual depreciation expense associated with the Company's average annual cumulative Eligible ISRE Investments placed into service through the end of the calendar year prior to the Recovery Year. For the year during which the Eligible ISRE Investment is placed into service, the Company shall calculate depreciation expense for use in the ISRE 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.

2.10 Eligible ISRE Investments are the cumulative costs of core capital investments necessary to provide safe and reliable electric distribution service to customers and pertaining to five categories of spending: Customer Requests and Public Requirements, Damage/Failure, Asset Condition, System Capacity & Performance and Non-Infrastructure, including net salvage, that are (1) used and useful at the end of the ISRE Investment Year that is prior to the Recovery Year, (2) recorded as in-service by December 31 of each ISRE Investment Year, (3) prudently incurred; and (4) approved by the Department as eligible for cost recovery through the ISREF, subject to Department review.

2.11 Gross Plant Investments are the capitalized costs of Eligible ISRE Investments recorded on the Company's books for Eligible ISRE Investments. Actual capitalized cost of Eligible ISRE Investments shall include applicable overhead and burden costs subject to the test provided in Section 5.0.

2.12 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 ISRE Revenue Requirement is calculated.

2.13 Property Tax Expense (PTE) means the property taxes calculated based on net Eligible ISRE Investments multiplied by the Property Tax Rate. Property taxes will be excluded in the ISRE Revenue Requirement in the first Recovery Year following the ISRE Investment Year in which the eligible taxable plant went into service. Property taxes will be included in the ISRE Revenue Requirement beginning in the second Recovery Year at 50% of the annual property tax amount. In subsequent years, the ISRE Revenue Requirement will reflect a full year of property taxes.

2.14 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.

2.15 Rate Base (RB) is the investment value upon which the Company is permitted to earn its authorized rate of return.

2.16 Recovery Period is the 12-month period during which the ISREF is in effect beginning on October 1 and ending September 30 of each year.

2.17 Recovery Year is the calendar year in which the ISREF becomes effective.

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3.0 INFRASTRUCTURE, SAFETY, RELIABILITY AND ELECTRIFICATION FACTOR ("ISREF")

3.1 Rate Formula

$$ISREF_c = \frac{(ISRE\text{-}ALLOW + RA) \times DRA_c}{FkWh_c}$$

Where:

c	Designates a separate factor for the following rate classes: R-1/R-2, G-1, G-2, G-3, and Streetlighting.
$ISREF_c$	The ISRE Factor, by rate class.
ISRE-ALLOW	The Allowable ISRE Recovery as defined in Section 2.3.
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 base distribution rate case as follows:

Rate R-1/R-2	60.6%
Rate G-1	12.0%
Rate G-2	10.7%
Rate G-3	16.3%
Streetlighting	0.4%

$FkWh_c$	The forecasted kWh to be delivered to the Company's retail delivery service customers.
RA	The ISRE Reconciliation Amount as defined in Section 2.6. 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 RA.

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3.2 Request for ISREFs

The Company shall submit annually to the Department its proposed ISREFs by June 15 to become effective for usage on and after October 1.

3.3 Application of ISREFs on Customer Bills

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

4.0 RECOVERY CAP ON ISRE FACTORS

The amount of total Eligible ISRE Investments placed into service that are included for recovery through the ISREF in each ISRE Plan Year shall be limited to a cap equal to three percent of the Company's annual 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 and reconciling charges, approved by the Department from time to time, including Energy Efficiency, Net Metering Recovery, Distributed Solar, Electric Vehicle Program, Long-Term Renewables and Basic Service adjustments. Total revenue shall also include an adjustment for electric supply for those customers who were with competitive suppliers or municipal aggregators during the year. Any portion of the annual ISRE Mechanism adjustment that exceeds the three percent cap shall not be eligible for recovery through the ISREF in a future year within the term of the PBR plan. The Company may request to include the costs of in-service investments not recovered through the ISREF in base distribution rates at the time of the next distribution rate proceeding subject to a prudence review and in accordance with traditional cost of service ratemaking principles.

The Department may review and modify the recovery cap, as necessary, over the course of the Company's ISRE Mechanism filings upon a finding by the Department that the ISRE Mechanism, and/or a combination of all the Company's reconciling mechanism bill impacts, is excessive.

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5.0 OVERHEAD AND BURDEN ADJUSTMENTS

For purposes of ISREF calculations, the percentage of capitalized overhead and burdens assigned to ISREF projects shall be set equal to the ratio of ISREF to non-ISREF direct costs in any given year.

6.0 FILING WITH THE DEPARTMENT

The annual ISRE filing, referred to as the ISRE Mechanism filing, shall be submitted to the Department by June 15, for rates effective October 1, and include, but not be limited to:

(1) Full project documentation of all Eligible ISRE Investments, inclusive of capital investments recorded as in-service by the Company or its affiliate during the Prior ISRE Investment Year, with narrative providing justification that the costs meet the cost recovery eligibility requirements outlined in this tariff;

(2) Supporting documentation demonstrating that the costs sought for recovery for categories of Eligible ISRE Investments are incremental, prudently incurred, and, where applicable, in service, and used and useful;

(3) Any cost variances in relation to the budget estimates for that investment year and as defined in the Company's capital authorization policies;

(4) A demonstration that the ISRE Mechanism adjustment does not exceed the recovery cap set by the Department, equal to three percent of the Company's annual total revenue as recorded during the prior calendar year, described in Section 4.0, above;

(5) Details on alternative government funding obtained for the investments and the associated offset for such funding;

(6) The ISRE Reconciliation;

(7) A demonstration that the proposed factors are calculated appropriately;

(8) ISREF-specific bill impacts; and

(9) Consolidated bill impacts for the Company's Performance Based Ratemaking Mechanism and ISREFs effective on the same date.

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7.0 OTHER PROVISIONS

The Company may request that the Department grant a waiver of this Provision upon a showing of good cause, which will be made during the annual PBR Plan filing.