

THE NARRAGANSETT ELECTRIC COMPANY  
INFRASTRUCTURE, SAFETY, AND RELIABILITY PROVISION

In accordance with the provisions of *An Act Relating to Public Utilities and Carriers – Revenue Decoupling*, the prices for electric distribution service contained in all of the Company’s tariffs are subject to adjustment to reflect the operation of its Electric Infrastructure, Safety, and Reliability (“ISR”) Provision.

I. Infrastructure Investment Mechanism

A. Definitions

“Actual Capital Investment” shall mean the sum of i) “Discretionary Capital Investment” and ii) “Non-Discretionary Capital Investment”, as defined below, plus cost of removal.

“CapEx Factor” shall mean the per-kWh factor for non-demand rate classes designed to recover the Cumulative Revenue Requirement, as allocated by the Rate Base Allocator, based on Forecasted kWh for the Current Year for each non-demand rate class. For demand-based rate classes Rate G-02, and Rates G-32/B-32, the CapEx Factor shall mean the per-kW factor based on Forecasted kWh for the Current Year and historic load factors for each demand-based rate class.

“CapEx Reconciling Factor” shall mean the per-kWh factor designed to recover or refund the over or under billing of the actual Cumulative Revenue Requirement, as allocated by the Rate Base Allocator, for the prior fiscal year, based on Forecasted kWh for the recovery/refund period beginning October 1.

“Cumulative CapEx” shall mean the cumulative Actual Capital Investment for years prior to the Current Year plus Forecasted Capital Investment for the Current Year, recorded since the end of the Company’s rate year in its most recent general rate case and reflecting any difference between Actual Capital Investment and Forecasted Capital Investment for any period during which Forecasted Capital Investment has not been reconciled to Actual Capital Investment, including through the end of the Company’s rate year in its most recent general rate case.

“Cumulative Revenue Requirement” shall mean the return and taxes on year-end cumulative Incremental Rate Base, at a rate equal to the pre-tax weighted average cost of capital as approved by the Commission in the most recent proceeding before the Commission, plus the annual depreciation on Cumulative CapEx as defined above, plus the annual municipal property taxes on Cumulative CapEx, as calculated in the illustration below.

“Current Year” shall mean the fiscal year beginning April 1 of the current year and running through March 31 of the subsequent year during which the proposed CapEx Factor and O&M Factor will be in effect.

“Discretionary Capital Investment” shall mean capital investment, other than ‘Non-Discretionary’ Capital Investment defined below, approved by the Commission as part of the

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Company's annual electric ISR Plan and shall be defined as the lesser of a) actual 'discretionary' electric plant in service or b) approved 'discretionary' capital spending for Discretionary Capital Investment plus related cost of removal recorded by the Company for a given fiscal year associated with electric distribution infrastructure.

"Forecasted Capital Investment" shall mean the estimated capital investment and cost of removal anticipated to be incurred/recorded by the Company for a given fiscal year associated with electric distribution infrastructure consistent with its capital forecast.

"Forecasted kWh" shall mean the forecasted amount of electricity, as measured in kWh, to be distributed to the Company's distribution customers for the twelve month period during which the proposed factors, as defined in this ISR Provision, will be in effect.

"Incremental Rate Base" shall mean the Cumulative CapEx adjusted for accumulated depreciation and calculated accumulated deferred taxes on Cumulative CapEx since the end of the Company's rate year in its most recent general rate case, and reflecting any difference between Actual Capital Investment and Forecasted Capital Investment, including through the end of the Company's rate year in its most recent general rate case.

"Non-Discretionary Capital Investment" shall mean capital investment related to the Company's commitment to meet statutory and/or regulatory obligations which amount shall be approved by the Commission as part of the Company's annual electric ISR Plan and shall be defined as the lesser of a) 'non-discretionary' electric plant in service or b) actual 'non-discretionary' capital spending for 'Non-Discretionary' Capital Investment plus related cost of removal recorded by the Company for a given fiscal year associated with electric distribution infrastructure.

"Rate Base Allocator" shall mean the percentage of total rate base allocated to each rate class taken from the most recent proceeding before the Commission that contained an allocated cost of service study.

B. Recovery Mechanism

The CapEx Factors shall recover the Cumulative Revenue Requirement on Cumulative CapEx as approved by the Commission in the Company's annual Electric ISR Filings. The CapEx Factors shall be applicable for the twelve-month period commencing April 1.

The Company's electric ISR mechanism shall include an annual CapEx Factor reconciliation which will reconcile actual Cumulative Revenue Requirement to actual billed revenue generated from the CapEx Factors for the applicable Current Year. The recovery or refund of the reconciliation amounts (either positive or negative) shall be reflected in CapEx Reconciling Factors. The Company shall submit a filing by August 1 of each year ("Reconciliation Filing"), in which the Company shall propose the CapEx Reconciling Factors to become effective for the twelve months beginning October 1. The amount approved for

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recovery or refund through the CapEx Reconciling Factors shall be subject to reconciliation with amounts billed through the CapEx Reconciling Factors and any difference reflected in future CapEx Reconciling Factors.

II. Operation and Maintenance Mechanism

A. Definitions

“Actual I&M Expense” shall mean the O&M expense recorded by the Company for a given fiscal year associated with its I&M Program.

“Actual VM Expense” shall mean the O&M expense recorded by the Company for a given fiscal year associated with vegetation management.

“Forecasted I&M Expense” shall mean the O&M expense budgeted by the Company for a given fiscal year associated with its I&M Program.

“Forecasted VM Expense” shall mean the O&M expense budgeted by the Company for a given fiscal year associated with vegetation management.

“I&M Program” shall mean the Company’s Inspection and Maintenance Program and related inspection and maintenance activities.

“O&M” shall mean expenses of the Company recorded in FERC regulatory accounts 580 through 598 pursuant to FERC’s Code of Federal Regulations.

“O&M Allocator” shall mean the percentage of total O&M allocated to each rate class taken from the most recent proceeding before the Commission that contained an allocated cost of service study.

“O&M Factor” shall mean the per-kWh factor for all rate classes, except for Rate B-32, designed to recover the Forecasted I&M Expense and Forecasted VM Expense for the Current Year, as allocated by the O&M Allocator, based on Forecasted kWh for the Current Year for each rate class. For Rate B-32, the O&M Factor shall mean the per-kW factor based on Forecasted kWh for the Current Year and historic load factors for the rate class

“O&M Reconciling Factor” shall mean the uniform per-kWh factor designed to recover or refund the under or over billing of Actual I&M Expense and Actual VM Expense for the prior fiscal year, based on Forecasted kWh for the recovery/refund period beginning October 1.

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B. Recovery Mechanism

The O&M Factor shall recover the sum of the annual Forecasted I&M Expense and Forecasted VM Expense as approved by the Commission in the Company's annual Electric ISR Filings. The O&M Factor shall be applicable for the twelve-month period commencing April 1.

The Company's Electric ISR mechanism shall include an annual O&M Factor reconciliation which will reconcile Actual I&M Expense and Actual VM Expense to actual billed revenue from the O&M Factor for the Current Year. The recovery or refund of the reconciliation amount (either positive or negative) shall be reflected in the O&M Reconciling Factor. In its Reconciliation Filing, the Company shall propose the O&M Reconciling Factor to become effective for the twelve months beginning October 1. The amount approved for recovery or refund through the O&M Reconciling Factor shall be subject to reconciliation with amounts billed through the O&M Reconciling Factor and any difference reflected in a future O&M Reconciling Factor.

III. Annual Electric Infrastructure, Safety, and Maintenance Plan

By January 1 of each year, the Company shall submit to the Commission for review and approval its proposed Electric Infrastructure, Safety, and Reliability Plan ("Electric ISR Plan") for the upcoming Current Year. The Electric ISR Plan shall consist of Forecasted Capital Investment, Forecasted I&M Expense, Forecasted VM Expense, and, if mutually agreed upon by the Division and the Company, the revenue requirement, whether the result of capital investment or O&M expenditures, of any other cost relating to maintaining safe and reliable electric service.

IV. Annual Report on Electric ISR Plan Activities

The Company's August 1 Reconciliation Filing shall include an annual report on the prior fiscal year's activities. In implementing its Electric ISR Plan, the circumstances encountered during the year may require reasonable deviations from the original plans approved by the Commission. In such cases, in the annual report, the Company would include an explanation of any deviations in excess of ten (10) percent above Forecasted Capital Investment, Forecasted I&M Expense, and Forecasted VM Expense. For cost recovery purposes, the Company has the burden to show that any such deviations were due to circumstances out of its reasonable control or, if within its control, were reasonable and prudent.

V. Adjustments to Rates

Modifications to the factors contained in this Electric ISR Provision shall be in accordance with a notice filed with the Commission setting forth the amount(s) of the revised factor(s) and the amount(s) of the increase(s) or decrease(s). The notice shall further specify the effective date of such charges.

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The Narragansett Electric Company  
Illustrative ISR Property Tax Recovery Calculation

<u>Line</u>	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)
<b>Effective tax Rate Calculation</b>								
	<u>RY End</u>	<u>ISR Additions</u>	<u>Non-ISR Add's</u>	<u>Total Add's</u>	<u>Bk Depr (1)</u>	<u>Retirements</u>	<u>COR</u>	<u>End of Yr 1</u>
1 Plant In Service	\$13,584,700	\$55,000	\$2,000	\$57,000		(\$9,400)		\$13,632,300
2								
3 Accumulated Depr	\$611,570				\$45,039	(\$9,400)	(\$7,200)	\$640,009
4								
5 Net Plant	\$12,973,130							\$12,992,291
6								
7 Property Tax Expense	\$29,743							\$31,274
8								
9 Effective Prop tax Rate	0.23%							0.24%
10								
11								
12	<u>Yr 2 Beg</u>	<u>ISR Additions</u>	<u>Non-ISR Add's</u>	<u>Total Add's</u>	<u>Bk Depr (1)</u>	<u>Retirements</u>	<u>COR</u>	<u>End of Yr 2</u>
13								
14 Plant In Service	\$13,632,300	\$60,000	\$2,200	\$62,200		(\$9,500)		\$13,685,000
15								
16 Accumulated Depr	\$640,009				\$45,039	(\$9,500)	(\$7,400)	\$668,148
17								
18 Net Plant	\$12,992,291							\$13,016,852
19								
20 Property Tax Expense	\$31,274							\$32,897
21								
22 Effective Prop tax Rate	0.24%							0.25%
23								
24								
25								
26 <b>Property Tax Recovery Calculation</b>								
27		<u>ISR YR 1</u>				<u>ISR YR 2</u>		
28								
29 ISR Additions		\$55,000				\$60,000		
30 Rate Year Book Depr		(\$45,039)				(\$45,039)		
31 COR - ISR YR		\$7,200				\$7,400		
32								
33 Net Plant Additions		\$17,161				\$22,361		
34								
35 RY Effective Tax Rate		0.23%				0.23%		
36 Year 1 ISR Property Tax Recovery			\$39				\$51	
37 Year 2 ISR Property Tax Recovery							\$35	
38								
39 ISR Year Effective Tax Rate	0.24%				0.25%			
40 RY Effective Tax Rate	0.23%	0.01%			0.23%	0.02%		
41								
42 RY Net Plant	\$12,973,130				\$12,973,130			
43 ISR Yr 1 Net Adds	\$17,161				\$15,291			
44 ISR Yr 2 Net Adds		\$12,990,291			\$22,361	\$13,010,782		
45			\$1,487				\$3,052	
46								
47 Total ISR Property Tax Recovery			\$1,526				\$3,139	
48								
49 Incremental ISR Property Tax Recovery			\$1,526				\$1,612	

**Line Notes**

- 1 Col (a) per Rate Year cost of service, Col (b), (cc), (d) and (f) per Actual ISR filing Col (e) equals Base Rate depreciation expense allowance
- 3 Col (a) per Rate Year cost of service, (e) equals Base Rate depreciation expense allowance Col (h) Col (b), (cc), (d) and (f) per Actual ISR filing
- 7 Col (a) Base Rate property tax expense allowance
- 36 Line 33 times Line 35
- 37 Col (g) equals Line 43, Col (e) Times Rate Year effective Property Tax Rate Line 9 Col (a) - (15,291 X 3.97%)
- 43 Col (e) equals Line 33, Col (b) less ISR Yr 1 additions, Line 29, Col (b) times composite book depreciation rate of 3.4% - (17,161 - 55,000 X 3.4%)
- 45 Line 40 times Line 44