

MASSACHUSETTS ELECTRIC COMPANY
NANTUCKET ELECTRIC COMPANY
ELECTRIC SECTOR MODERNIZATION PLAN PROVISION

1.0 PURPOSE

This Electric Sector Modernization Plan (“ESMP”) Provision provides for the recovery of incremental costs associated with the Company’s implementation and deployment of its ESMP-related capital investments and incremental operation and maintenance expense as approved by the Department of Public Utilities (the “Department”). The first ESMP Investment Year will begin on January 1, 2025, with each successive ESMP Investment Year beginning on January 1 and continuing through June 30, 2030. Only those Eligible ESMP Investments placed into service and Allowable ESMP O&M Expenses incurred during the Investment Years will be recoverable through the ESMP Factors (“ESMPF”). Recovery of Eligible ESMP Investment and Allowed O&M Expenses through the ESMPF will commence on July 1, 2026 and will continue until the underlying investments are included for recovery in base distribution rates, and until such time as the ESMP Reconciliation Amounts for prior periods are fully recovered from or credited to customers, unless otherwise directed by the Department.

2.0 APPLICABILITY

The Company’s rates for retail Delivery Service are subject to adjustment to reflect the operation of this ESMP tariff. The ESMPF shall be a non-bypassable, reconciling charge applied to all retail delivery service kilowatt-hours (“kWhs”) as determined in accordance with the provisions of Section 4.0 below. For billing purposes, the ESMPF shall be identified as a separate charge on customers’ bills. The ESMPF shall be determined annually by the Company, subject to the Department’s review and approval. The operation of this ESMP tariff is subject to Chapter 164 of the General Laws.

3.0 DEFINITIONS

- 3.1 Accumulated Deferred Income Taxes (ADIT) means the accumulated deferred income taxes associated with the Company’s cumulative Eligible ESMP Investments as of the end of the respective ESMP Investment Year. For the year in which the Eligible ESMP 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.
- 3.2 Accumulated Reserve for Depreciation (ARD) means the Accumulated Reserve for Depreciation, including net salvage, associated with the Company’s cumulative Eligible ESMP Investments as of the end of the respective ESMP Investment Year. For the year in which the Eligible ESMP Investment was placed into service, the Accumulated Reserve for Depreciation will be determined on a monthly basis. The Accumulated Reserve for

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Depreciation for subsequent years shall be calculated based upon the average of the beginning and ending calendar year balances.

- 3.3 Allowable ESMP Recovery is the ESMP Revenue Requirement defined below in Section 3.12. Allowable ESMP Recovery can be an amount to be recovered from or credited to customers.
- 3.4 Allowed ESMP Operation & Maintenance (O&M) Expense is the incremental O&M expense that is incurred by the Company in association with the implementation and deployment of ESMP, as approved by the Department, and is solely attributable to approved ESMP investments, the cost of which is not being recovered in base distribution rates or through another cost recovery mechanism. Eligible O&M costs are the actual monthly ESMP-related O&M expenses incurred in the ESMP Investment Year prior to the Recovery Year. Allowed O&M Expense is subject to the requirements of Section 5.0 and will exclude pension and post-retirement benefits other than pension costs recovered through any other rate mechanism. In the ESMP Investment Year commencing January 1, 2025, Allowed ESMP O&M Expense incurred between July 1, 2025 and December 31, 2025 will be eligible for recovery through the ESMPF. In addition, incremental O&M costs incurred between January 1, 2025 and June 30, 2025 that are directly related to Community Engagement Stakeholder Advisory Group (“CESAG”) and Integrated Energy Planning (“IEP”) implementation will be eligible for recovery through the ESMPF.
- 3.5 Carry-over Costs are those costs generally attributed to billing or accounting lags, project closeout activities, and work order/invoicing closeouts incurred in the years after projects are placed in-service.
- 3.6 Company is together, Massachusetts Electric Company and Nantucket Electric Company, as applicable.
- 3.7 Depreciation Expense (DEPR) is the annual depreciation expense associated with the Company’s average annual cumulative Eligible ESMP Investments placed into service through the end of the calendar year prior to the Recovery Year. For the year during which the Eligible ESMP Investment is placed into service, the Company shall calculate depreciation expense for use in the ESMP 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.

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- 3.8 Eligible ESMP Investments are ESMP investments that the Department has deemed eligible for recovery through the ESMPF, including the three Electric Vehicle highway charging substation projects (Bridgewater, Charlton and Westborough). Eligible ESMP Investments are that are recorded as in-service, including net salvage, are used and useful at the end of the ESMP Investment Year that is prior to the Recovery Year, and: (1) are approved by the Department as eligible for cost recovery through the ESMPF, subject to Department review and approval; (2) are incremental relative to the Company's current investment practices or new types of technology for capital investments; (3) are incremental to those costs that the Company currently recovers through its base distribution rates for O&M expenses and solely attributable to approved ESMP-related investments; (4) are prudently incurred; (5) are consistent with the caps as defined in Section 7.0; and (6) are recorded as in-service by December 31 of each ESMP Investment Year. In the ESMP Investment Year commencing January 1, 2025, eligible ESMP capital investments placed into service between July 1, 2025 and December 31, 2025 will be eligible for recovery through the ESMPF. In the ESMP Investment Year commencing January 1, 2030, eligible ESMP capital investments placed into service between January 1, 2030 and June 30, 2030 will be eligible for recovery through the ESMPF. For the limited purpose of facilitating the three EV highway charging substation projects, those projects will also be eligible for recovery through the ESMPF as described in Section 7.2. Eligible ESMP Investments will also include Carry-over Costs as defined in Section 3.5.
- 3.9 ESMPF is the ESMP Factor that recovers or credits the annual Allowable ESMP Recovery beginning July 1 of each Recovery Year.
- 3.10 ESMP Investment Year is the annual period beginning on January 1 and ending on December 31.
- 3.11 ESMP Reconciliation is the difference between each year's Allowable ESMP Recovery to be recovered or credited through the ESMPF as approved by the Department and the billed revenue from the ESMPF associated with the recovery or credit of the Allowable ESMP Recovery. The ESMP Reconciliation shall include interest on any balance, accrued at the customer deposit rate, as outlined in 220 CMR 26.09.
- 3.12 ESMP Revenue Requirement is the revenue requirement on the Company's ESMP-related plant-in-service associated with Eligible ESMP Investments for each ESMP Investment Year prior to the Recovery Year, and will be the sum of (1) the Pre-Tax Return on Rate Base ("PTRR"), (2) Depreciation Expense, and (3) Property Taxes, less actual external funding received by the Company through the applicable ESMP Investment Year, where the ESMP Revenue Requirement components are as defined herein. For the year in which an Eligible ESMP Investment is recorded as in-service, the ESMP Revenue Requirement

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will be calculated on a monthly basis. The ESMP Revenue Requirement for subsequent years shall be calculated based upon the average of the beginning and ending calendar year balances. The ESMP Revenue Requirement will be calculated to recover (1) the monthly revenue requirement for Eligible ESMP Investments recorded as in-service in the ESMP Investment Year immediately prior to the Recovery Year; (2) the average annual revenue requirement for the calendar year ending December 31 of the ESMP Investment Year two years or more prior to the Recovery Year, for cumulative Eligible ESMP Investments placed into service in the ESMP Investment Years two years or more prior to the Recovery Year; (3) the annual revenue requirement for the Recovery Year on Eligible ESMP Investments recorded as in-service in the ESMP Investment Year immediately prior to the Recovery Year; and (4) Allowed ESMP O&M Expense.

- 3.13 ESMP Role is a position created for the specific purpose of implementing Eligible ESMP Investment and Allowed ESMP-related O&M Expenses.
- 3.14 Gross Plant Investments are the capitalized costs of Eligible ESMP Investments recorded on the Company's books for Eligible ESMP Investments. Actual capitalized cost of Eligible ESMP Investments shall include applicable overhead and burden costs subject to the test provided in Section 6.0.
- 3.15 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 ESMP Revenue Requirement is calculated.
- 3.16 Property Tax Expense (PTE) means the property taxes calculated based on net Eligible ESMP Investments multiplied by the Property Tax Rate. Property taxes will be excluded in the ESMP Revenue Requirement in the first Recovery Year following the ESMP Investment Year in which the eligible taxable plant went into service. Property taxes will be included in the ESMP Revenue Requirement beginning in the second Recovery Year at 50% of the annual property tax amount. In subsequent years, the ESMP Revenue Requirement will reflect a full year of property taxes.
- 3.17 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.
- 3.18 Rate Base (RB) is the investment value upon which the Company is permitted to earn its authorized rate of return.

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3.19 Recovery Period is the 12-month period during which the ESMPF is in effect beginning on July 1 and ending June 30 of each year.

3.20 Recovery Year is the calendar year in which the ESMPF becomes effective.

4.0 ESMP FACTOR (“ESMPF”)

4.1 Rate Formula

$$\text{ESMPF}_c = \frac{(\text{ESMP-ALLOW} + \text{RA}) \times \text{DRA}_c}{\text{FkWh}_c}$$

Where:

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

ESMPF_c The ESMP Factor, by rate class.

ESMP-ALLOW The Allowable ESMP Recovery as defined in Section 3.3.

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 ESMP Reconciliation Amount as defined in Section 3.11. Interest calculated on the average monthly balance using the customer deposit rate shall also be included in the RA.

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5.0 ELIGIBILITY FOR RECOVERY AS ALLOWED ESMP O&M EXPENSE

To be eligible for inclusion in Allowed ESMP O&M Expense and recoverable through the ESMPF, the Company shall demonstrate that all Allowed ESMP O&M expenses incurred as a result of ESMP activities and proposed for recovery through the ESMPF are: (1) incremental to the representative level of O&M expenses recovered through all other rates billed by the Company to its customers; (2) directly related to ESMP activities, (3) directly related to the CESAG and IEP implementation between January 1, 2025 and June 30, 2025 and (4) three EV highway charging substation projects (Bridgewater, Charlton and Westborough) placed in-service by no later than June 30, 2035.

5.1 Internal Labor

Internal labor expense eligible for recovery as Allowed ESMP O&M Expense shall consist of:

- (i) the cost of non-employee individuals hired into ESMP Roles created after January 1, 2025;
- (ii) the cost of non-employee individuals hired into ESMP Roles created on or before January 1, 2025, provided that the Company can demonstrate that the associated costs are not already recovered through any other rate;
- (iii) the cost of employees who have transferred to an ESMP Role and who were hired after the most recent test year provided that the internal transfer was originally hired into a new position whose labor expense is not reflected in base distribution rates; and
- (iv) the cost of employees who have transferred to an ESMP Role and who were employees prior to the end of the test year used to establish current base distribution rates, provided the requirements set forth in Section 5.1.2 have been met. The Company shall separately account for the cost of employees hired into ESMP Roles, and maintain documentation regarding the dates of hire, names of employees, detailed job descriptions and responsibilities, titles, salaries, and specific activities performed by each ESMP Role in each applicable ESMP Investment Year.

5.1.1 New Hires

Non-employee individuals hired into ESMP Roles and thereby becoming employees of the Company were not employees whose cost was included in the test year in the Company's most recent base distribution rate case; therefore, the cost of these employees is not recovered in base distribution rates approved in that base distribution rate case.

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The Company may, at the time of the filing of a base distribution rate case, propose to recover certain ongoing administrative costs, such as the cost of incremental employees, through base distribution rates. If the Company, in the context of a future rate proceeding, opts not to incorporate such costs in base distribution rates, the Company would be required to demonstrate that such costs were not included for recovery in base distribution rates and adjust the test year accordingly to exclude the costs.

5.1.2 Internal Transfers

Annually, as a component of the annual ESMP cost recovery filing described in Section 8.0, the Company shall perform a test to determine whether existing employees transferred into ESMP Roles are incremental employees and their costs are not otherwise recovered through any other rate.

If the incremental role is filled by an internal transfer employed by the Company who was an employee as of the end of the test year for the most recent base distribution rate case, the employee will only be considered as incremental when a new employee is hired to backfill the transferred employee's prior position.

If the transferred employee's prior position was backfilled by a new employee making at least the same gross salary (or more) as the transferred employee was making in their former role, then the labor and labor-related costs associated with the transferred employee that are charged to the program as expense would be deemed recoverable.

If the Company backfills the transferred employee's prior position but does so at a total compensation, representing salary and labor-related overheads, less than the gross salary of the employee reflected in base distribution rates who was transferred to the program, the Company will deduct the difference in compensation from the amount recoverable through the ESMPF.

If the Company does not backfill the transferred employee's prior position, the employee's labor expense will be eligible for recovery through the ESMPF when the Company credits the ESMPF for the associated labor expense already reflected in base distribution rates. The Company will not refund the expense reflected in base distribution rates during the first year of recovery of the transferred employee's cost through the ESMPF. If a backfill has not occurred by the start of the second year of recovery of the transferred employee's expenses through the ESMPF, the Company shall credit, with interest at the customer deposit rate, the associated labor expense reflected in base distribution rates, adjusted for any applicable rate adjustments approved by the Department.

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6.0 OVERHEAD AND BURDEN ADJUSTMENTS

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

7.0 CAP ELIGIBLE ESMP INVESTMENTS AND ALLOWED O&M EXPENSE

7.1 Annual Revenue Cap:

Unless modified by the Department, annual changes in the ESMPF recovery that may be billed in any year shall be limited by a cap (“Annual Revenue Cap”), which is an amount equal to two and one-half (2.5) percent of the Company’s annual base distribution revenues plus Performance-Based Ratemaking Adjustments, pursuant to M.D.P.U. 1561, as in effect. Base distribution revenue shall include amounts that the Company has billed customers through applicable base distribution rates, as approved by the Department from time to time. Any portion of the annual ESMPF adjustment that exceeds the Annual Revenue Cap shall be deferred without interest and be eligible for recovery through the ESMPF in a future year within the term of the ESMP mechanism. The Company may also request to include any deferred ESMPF revenues not recovered through the ESMPF 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.

7.2 First ESMP Term Spending Cap:

The amount of total cumulative spending toward Eligible ESMP Investments, inclusive of both capital and O&M spending, will be capped at the amount approved by the Department in docket D.P.U. 24-11 (“First ESMP Term Cap”). The First ESMP Term Cap is inclusive of projected expenditures through June 30, 2030 for the three EV highway charging substation projects referenced in Section 3.8. The First ESMP Term Cap is not inclusive of projected expenditures related to the three EV highway charging substations incurred during the period July 1, 2030 through June 30, 2035, that is, incurred during the second ESMP term. The Company will be permitted to include for recovery through the ESMPF, during the second ESMP term, all EV highway charging substation project expenditures incurred in both the first and second ESMP terms, provided all related plant is placed into service on or before June 30, 2035.

Any portion of the total cumulative Eligible ESMP Investment spending that exceeds the First ESMP Term Cap shall not be eligible for recovery through the ESMPF. The Company may request to defer the revenue requirement on investments in service and O&M expense in excess of the First ESMP Term Cap, without interest, and request to include the total deferred revenue

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requirement not recovered through the ESMPF 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.

8.0 FILINGS WITH THE DEPARTMENT

8.1 Annual ESMP Cost Recovery Filing

The Company shall submit its ESMP Cost Recovery filing and proposed ESMPF to the Department annually by May 1st, for rates effective July 1st and include, but not be limited to:

- (1) Full project documentation of all Eligible ESMP Investments, inclusive of capital investments recorded as in-service by the Company or its affiliate during the Prior ESMP Investment Year, and documentation of Allowed O&M Expense, with narrative providing justification that the costs meet the cost recovery eligibility requirements outlined in this Provision. Full project documentation shall include, but not be limited to:
 - a. a copy of the company's internal capital and project authorization policies and project authorization documentation, including any revisions and supplements, applicable to the Investment Year for the projects and investments submitted for recovery;
 - b. an itemized list in Excel format of invoices for capital expenses submitted for recovery that identifies and distinguishes between (i) the total project cost submitted for recovery and the total invoiced amounts, (ii) the dates of the invoices, vendor name, invoice number, associated ESMP investment category, and project name, and (iii) the project number(s), work order number(s), and line(s) of business, if applicable, assigned to the project by the Company for internal accounting purposes;
 - c. copies of all external labor and contractor invoices for incremental O&M expenses submitted for recovery, as well as an itemized list in Excel format of invoices for those third-party O&M costs that identifies and distinguishes (i) between the cost submitted for recovery and the total invoiced amount(s), (ii) the dates of the invoices, vendor name, invoice number, associated ESMP investment category, and project name, and (iii) the associated project number(s), work order number(s), and line(s) of business, if applicable, assigned to the project by the Company for internal accounting purposes; and
 - d. project-level cumulative costs incurred and submitted for recovery by year.

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- e. documentation in support of categorizing costs as either capital or O&M including any capitalized labor and full-time employee costs.
- (2) Supporting documentation demonstrating that the costs sought for recovery for categories of Eligible ESMP Investments are incremental, prudently incurred, and, where applicable, in service, and used and useful.
- a. The Company shall either confirm that it does not seek recovery of continuing grid modernization investments during the 2025 investment year, or the Company shall submit a chart providing location-specific information (by circuit numbers served and substation location) distinguishing between continuing grid modernization projects.
- (3) Any cost variances in relation to the budget estimates for that investment year and as defined in the Company's capital authorization policies including cost variance summaries at the project and work order level between the Company's initial cost estimates for a project versus actual spend. Cost variance documentation must be filed for the projects submitted for recovery in that investment year, separated by capital costs and incremental O&M costs. The Company shall also provide more detailed cost variance analyses, including explanations and supporting documentation, for projects with actual costs above the percentage relied on in the Company's own internal project authorization policies/processes for conducting such analyses (i.e., ten or 15 percent variances between estimated and actual costs). The Company shall provide with its annual ESMPF filings an Excel spreadsheet substantially similar to the data and format provided to inform its Grid Modernization Factor filings submitted in calendar year 2023, except for references to preauthorized exhibits;
- (4) A demonstration that the proposed annual changes in the ESMPF recovery and the amount of total cumulative spending toward Eligible ESMP Investments shall be limited by the Annual Revenue Cap and First ESMP Term Spending Cap, described in Section 7.0, above;
- (5) Details on alternative funding sources obtained for the investments and the associated offset for such funding;
- (6) A project-level summary of (a) cumulative costs incurred for eligible ESMP investments for each ESMP investment year, and (b) estimated versus actual costs incurred. Documentation shall be provided in the format described above at item (3);
- (7) Discussion of the alternative investments considered, including but not limited to Non-Wire Alternatives. Project-level information will include:

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- a. an explanation of how consideration of alternatives is integrated into the Company's internal capital authorization policies/project authorization policies, and how those considerations apply to the projects identified in the filing;
 - b. an explanation of alternatives considered, if any, during the planning phase for all relevant projects (capital and non-capital) identified in the filing;
 - c. if the Company has conducted a more comprehensive alternatives analysis for particular investments, then documentation should include, if available: (i) a comparison of costs and project schedules for the investment and/or location selected versus the alternatives considered; (ii) a discussion of risks and risk mitigation plans conducted for the selected investment versus the alternatives considered; (iii) a description of the methodology and assumptions used to select the investment instead of the evaluated alternatives; and (iv) identification of any uncertainties in the analysis; and
 - d. if the Company has not conducted a more comprehensive alternatives analysis for particular investments, then an explanation for not doing so;
- (8) The ESMP Reconciliation;
 - (9) A demonstration that the proposed ESMPF are calculated appropriately;
 - (10) ESMPF-specific bill impacts; and
 - (11) Consolidated bill impacts for the Company's Electric Vehicle Program Factors and ESMPF effective on the same date.

8.2 Biannual ESMP Report

The Company will file biannual reports on the implementation of the ESMP on March 31st and September 30th. The Company's first biannual report will be submitted on September 30, 2025.

9.0 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 ESMPF filing.