Performance-Based Ratemaking Tariff

Section

1.0 Purpose

This Performance-Based Ratemaking ("PBR") Tariff provides for a PBR Plan consisting of a PBR Mechanism (or "PBRM") that allows Boston Gas Company d/b/a National Grid (the "Company"), subject to the jurisdiction of the Department of Public Utilities ("Department"), an annual adjustment to Base Rates pursuant to Sections 6.0, 7.0, 8.0, and 9.0.

The PBRM includes three components that provides for an annual adjustment to distribution rates. The three components of the PBRM are:

1. An annual adjustment to Base Rates based on a formula using the rate of input price inflation for the broad economy, less an adjustment for the relative productivity and input price levels of the gas industry, and less a consumer dividend ("PBR Adjustment").

2. An Earnings Sharing Mechanism that provides a credit to customers for customers' share of earnings above a certain threshold through a separate factor.

3. An Exogenous Event factor that allows the Company to reflect, either in Base Rates or through a separate factor, costs and cost reductions that are beyond the control of the Company, are not reflected in the GDPPI, and, because the Company is subject to a stay-out provision, are deemed appropriate to recover from or credit to customers through the PBR Mechanism.

To allow for the transition to the PBR Plan, an adjustment taking effect under the PBR Plan through the PBRM shall take place through separate adjustment to Base Rates at the start of the PBR Year beginning October 2022 that recovers the revenue requirement on all capital investment recorded as "in-service" during the period April 2020 through December 2020 pursuant to Section 7.0, excluding capital recovered through the Company's Gas System Enhancement Program ("GSEP") Plan filings and investments in the Company's Liquified Natural Gas ("LNG") facilities.

2.0 Term of PBR Plan

The PBR Plan shall operate for a five-year term starting October 1, 2021. The first annual adjustment pursuant to the PBRM of the PBR Plan shall be effective October 1, 2022. Subsequent annual

Performance-Based Ratemaking Tariff

adjustments shall occur within the five-year term, with the last adjustment to the then-effective Base Rates taking effect on October 1, 2025.

3.0 Applicability

The PBRM applies an annual adjustment to the Base Rates of the Company's effective distribution rate schedules subject to the jurisdiction of the Department, as determined in accordance with the provisions contained herein.

4.0 Definitions

4.1 Allowed Return on Equity is the allowed rate of return on equity as established in the Company's most recent base distribution rate case.

4.2 Base Distribution Revenue is the distribution revenue approved for recovery through the Company's rate classes as established by the Department in its most recent base distribution rate case and as adjusted annually under the provisions of this tariff.

4.3 Base Rates are the compilation of Rate Components plus the customer charge for all the Company's rate classes.

4.4 Basis Point shall be one one-hundredth of a percentage point (one basis point = 0.01%).

4.5 Common Equity is the average of the beginning year and ending year Rate Base for the calendar year prior to the Prior Year multiplied by the Common Equity percentage approved by the Department in the Company's most recent base distribution rate case.

4.6 Consumer Dividend is the benefit to consumers of future productivity gains attributable to performance-based ratemaking for the Company's distribution service as established by the Department in the Company's most recent base distribution rate case.

4.7 Distribution Revenue Allocator refers to the allocation factors for each Rate Class Grouping derived from the Company's most recent base distribution rate case, as may be adjusted from time to time as approved by the Department, as follows:

Rate Class Groupings	Allocation
Residential Non-Heating (R-1, R-2)	2.90%
Residential Heating (R-3B, R-4B, R-3C, R-4C)	64.51%
Small C&I Low Load Factor (G-41B, G-41C, G-41E)	6.38%
Small C&I High Load Factor (G-51B, G-51C, G-51E)	1.24%
Medium C&I Low Load Factor (G-42B, G-42C, G-42E)	5.51%
Medium C&I High Load Factor (G-52B, G-52C, G-52E)	1.10%
Large C&I Low Load Factor (G-43B, G-43C, G-43E)	10.16%
Large C&I High Load Factor (G-53B, G-53C)	1.71%
Extra Large C&I Low Load Factor (G-44B)	4.06%

Performance-Based Ratemaking Tariff

Extra Large C&I High Load Factor (G-54B, G-53E)	2.42%
Street Lights (G-7B)	0.01%
Gas Lights (G-17B, G-17C)	0.00%
Total	100.00%

4.8 Exogenous Events are occurrences that have a material impact on the Company and that are beyond the Company's control and are not otherwise reflected in the PBR Adjustment.

4.9 Prior Year is the annual period ending immediately prior to the PBR Year.

4.10 Rate Class Grouping is the grouping of the same rate classes that are aggregated for the purpose of allocating adjustments pursuant to the PBR Tariff.

4.11 Rate Component is the applicable energy or demand charge reflected in the Company's rate class tariffs in effect from time to time that recovers a portion of the Company's Base Distribution Revenue as established by the Department in its most recent base distribution rate case.

4.12 PBR Year is the annual period that the adjusted base distribution rates shall be effective beginning on October 1.

4.13 Return on Average Common Equity ("ROE") is the Earnings Available for Common Equity as reported in the Company's annual Earnings Reports to the Department less amounts as described in Section 9.0, divided by the average of the beginning year and ending year Common Equity for the calendar year prior to the Prior Year as approved by the Department.

4.14 X Factor is the productivity adjustment value as established by the Department in D.P.U. 20-120.

4.15 Z Factor is the sum of the cost impacts of Exogenous Events.

5.0 Annual Rate Adjustments

The annual adjustment to Base Rates for each Rate Class Grouping shall be evaluated to ensure that the revenue increase to any one rate class within a Rate Class Grouping is not more than 10 percent of that rate class's total annual normalized revenue for the calendar year, consistent with the manner by which total normalized revenue is determined in a base distribution rate case, including imputed commodity revenue for customers receiving their gas supply from third party gas suppliers. To the extent that the annual adjustment to Base Rates for any Rate Class Grouping and, by extension, any rate class, exceeds 10 percent of that rate class's total annual normalized revenue, the Company shall reallocate the amount in excess of 10 percent equitably among the other rate classes and subject to the 10 percent limitation.

In calculating Base Rates for the PBR Year beginning October 1, 2022, the Company shall add the PBR Adjustment for each Rate Class Grouping as calculated pursuant to Section 6.0 and the CAPEX Adjustment for each Rate Class Grouping as calculated pursuant to Section 7.0, and the total amount shall be reflected in the Rate Component for each rate class within each Rate Class Grouping based on weather

Performance-Based Ratemaking Tariff

normalized therm and demand billing determinants for calendar year 2020 and average number of customers during calendar year 2020.

Benchmark Revenue-Per-Customer ("RPC") targets shall be adjusted based on the change in Base Distribution Revenue and the average number of customers during 2020 and reflected in the Company's Revenue Decoupling Adjustment Clause ("RDAC"), M.D.P.U. No. 62.1, as amended from time to time. The Base Distribution Revenue and PBR Adjustment will not be subject to reconciliation except as provided for in the Company's RDAC.

6.0 Calculation of PBR Adjustment

$BASE\_REV_{(C)T} = BASE\_REV_{(C)T-1} + (PBR\_ADJ_T \times DRA_C)$

$PBR\_ADJ_T = BASE\_REVC_{T-1} \times PBR\%$

$PBR\% = (GDPPI_{T-1} - X - CD) + (ZREV_T \div BASE\_REV_{T-1})$

$X = -1.30\%$

Where:

C Rate Class Grouping.

BASE_REV Base Distribution Revenue as defined in Section 4.3.

PBR_ADJ The PBR Adjustment, which shall be the PBR Year's incremental Base Distribution Revenue consisting of the adjustments associated with the application of the PBR%.

DRA The Distribution Revenue Allocator as set forth in Section 4.7.

PBR% The percentage change to be applied to the Prior Year Base Distribution Revenue.

GDPPI The average annual percentage change in the United States Gross Domestic Product - Price Index for the four most recent quarterly reporting periods prior to the first quarter of the calendar year in which the Rate Components reflecting the PBR Year's PBR Adjustment go into effect. The calculation will be performed based on the most recently available data published by the United States Department of Commerce at the time of the PBR filing.

X The productivity or X Factor, which shall be negative 1.30 percent, as established by the Department in the Company's most recent base distribution rate case.

CD Consumer dividend, which shall be 0.30 percent as established by the Department in the Company's most recent base distribution rate case.

ZREV The sum of cost impacts of all Exogenous Events, positive or negative, as provided for in Section 8.0.

T The PBR Year.

T-1 The Prior Year.

7.0 Transition to PBR Plan

7.1 Calculation of CAPEX Adjustment

The Company shall adjust Base Rates effective October 1, 2022 for the recovery of the annual revenue requirement on all capital investment recorded as "in-service" during the period April 2020 through December 2020 ("Capital Investment Period") for capital investment not included for recovery in the Company's GSEP Plan filings and the Company's investments in LNG facilities. The Company shall reflect the December 31, 2020 balances for the components of rate base, subject to the CAPEX Formula below, to be included in Base Rates effective October 1, 2022.

$$CAPEX_C = [(RB \times PTRR) + DEPR + PTMS] \times DRA_C$$

Where:

C Rate Class Grouping.

CAPEX The annual revenue requirement associated with all capital investments placed into service in the Capital Investment Period.

DRA The Distribution Revenue Allocator as set forth in Section 4.7.

DEPR The annual depreciation expense associated with the total capital investment in the Capital Investment Period.

PTRR The pre-tax rate of return shall be the after-tax weighted average cost of capital approved 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 PBR Year.

PTMS Property taxes calculated based on the total capital investment associated with the Capital Investment Period multiplied by the property tax rate established by the Department in the Company's most recent base distribution rate case. Property taxes will be included in CAPEX beginning in the year following the Capital Investment Period in which the capital investments were recorded as in-service at 50% of the annual property tax amount for the first year. In the subsequent year, CAPEX will reflect a full year of property taxes.

RB Rate Base at December 31, 2020 associated with total capital investment for the Capital Investment Year based upon plant, accumulated depreciation, and accumulated deferred income tax balances.

Performance-Based Ratemaking Tariff

7.2 CAPEX Adjustment

The resulting CAPEX Adjustment for each Rate Class Grouping shall be reflected in Base Rates pursuant to Section 5.0 above. The Rate Class Grouping CAPEX Adjustment shall be added to the Rate Class Grouping Base Distribution Revenue calculated in Section 6.0 and the Total Rate Class Grouping Base Distribution Revenue shall determine the Benchmark RPC targets in the Company's RDM effective at the start of the second PBR Year.

8.0 Exogenous Events

Exogenous Events are beyond the Company's control and result in the Company incurring costs or cost reductions not reflected in GDPPI, or otherwise in the PBR Adjustment. Costs approved by the Department that result from Exogenous Events are represented by the Z Factor of the PBR%. To qualify for Exogenous Event recovery (whether positive or negative), the following criteria must be met:

(1) the cost must be beyond the Company's control and are not reflected in GDPPI;

(2) the cost arises from a change in accounting requirements or regulatory, judicial, or legislative directives or enactments;

(3) the change is unique to the regional natural gas distribution industry as opposed to the general economy; and

(4) the change exceeds a significance threshold that is noncumulative (i.e., exogenous costs cannot be grouped together into a single total for purposes of determining whether the threshold has been met).

The significance threshold for Exogenous Event cost recovery is $2 million for the annual cost impact of each individual event in the first PBR Year ending September 30, 2022, and thereafter, shall be adjusted annually based on changes in GDPPI.

In addition to the criteria listed above in identifying Exogenous Events and qualifying their costs for recovery (whether positive or negative) through the PBRM, incremental expenses the Company incurs as a result of mandated changes in law, regulations, requirements, standards or practices relating to gas-safety directives arising from the National Transportation Safety Board, the U.S. Department of Pipeline and Hazardous Materials Administration, the Department, or any investigation conducted on behalf of the Department by an outside consultant or expert shall be eligible for Exogenous Event recovery, subject to the significance threshold.

Exogenous Event cost recovery requires that the Company present supporting documentation and rationale to the Department for a determination as to the appropriateness of the proposed recovery or refund. Once allowed by the Department, the amount of the cost change occurring in the Prior Year, or the year prior to the Prior Year and deferred for recovery or refund, shall be recovered from or credited to customers through a separate factor, after review and approval by the Department. The separate factor shall remain in effect until the Exogenous Event cost is fully recovered from or credited to customers, or until such time that the amounts are appropriately reflected in the PBR Adjustment, as applicable.

Performance-Based Ratemaking Tariff

9.0 Earnings Sharing Mechanism

In the event that the Company's actual Return on Average Common Equity for any calendar year ending December 31 of the years 2022 through 2026 is within the Earnings Sharing Range shown below, the difference between actual earnings and earnings calculated at the Allowed Return on Equity shall be shared with customers as follows:

Earnings Sharing Range	Share to Customer	Share to Company
9.70% to 11.70%	Deadband, No Sharing of Earnings	
Earnings >11.70%	75%	25%

The Company's Earnings Available for Common Equity used in the calculation shall exclude incentives earned, such as energy efficiency incentives and the Company's share of off system sales; and conversely, would exclude service-quality penalties, as well as any amounts recognized in the current period resulting from regulatory or court settlements or decisions related to prior periods if any.

Earnings Sharing, when applicable, shall result in a per therm credit to customers taking service under retail tariffs. The Company shall submit annual earnings reports with the Department, report on its earnings and whether any earnings fall outside of the Earnings Sharing Range in its annual PBR filings, and any Earnings Sharing shall be recovered from customers through the Company's Local Distribution Adjustment Factor ("LDAF") pursuant to the provisions of its Local Distribution Adjustment Clause ("LDAC") Tariff, M.D.P.U. No. 60, as may be amended from time to time. The amount determined through the Earnings Sharing Mechanism will not be included in the Base Distribution Revenue for purposes of the PBR Adjustment in Section 6.0. Earnings Sharing Factors shall be in effect for a period of one year, subject to full reconciliation and carrying charges and the Bank of America rate, and subject to investigation and approval by the Department.

10.0 Annual PBR Plan Filing

10.1 Filing

The Company shall make a PBR Plan filing by June 15 of each year for proposing new Base Rates and Benchmark RPC targets effective October 1 of the subsequent PBR Year.

10.2 Notice

Each adjustment of the rates under the Company's applicable rate class tariffs shall be in accordance with a notice filed with the Department on or before June 15 setting forth the amount of the (1) PBR Adjustment; (2) the CAPEX Adjustment for the second PBR Year; and (3) the new Rate Components. The notice shall further specify the effective date of such adjustments, which shall be October 1 following the filing of the notice, or such other date as the Department may authorize.

Performance-Based Ratemaking Tariff

10.3 Information to be Filed with the Department

As part of its annual filing, the Company shall file information and supporting schedules with the Department necessary for the Department to review and approve the PBR Adjustment for the subsequent PBR Year. Such information shall include the proposed PBR Adjustment calculation, the calculation of the transitional CAPEX Adjustment to be recovered through Base Rates, the descriptions and accounting of any Exogenous Event costs, and the amount of earnings that the Company proposes to be reflected in the LDAF to determine the Earnings Sharing Factors pursuant to Section 9.0. The PBR Plan filings will be made on June 15, 2022 through June 15, 2025 to affect the allowed adjustments of Base Distribution Revenue.

The Company shall also include in its June 15, 2022 PBR Plan Filing all supporting capital documentation for plant investment during the Capital Investment Period, including but not limited to, (1) project descriptions, (2) project sanctioning papers, or project authorization forms, (3) construction work orders, (4) project closure reports, (5) variance analyses explaining the reasons for cost overruns and for demonstrating prudency, and (6) a summary of all proposed projects.

The Company shall also report on its scorecard metrics, as established and directed by the Department in the Company's most recent base distribution rate case, in its June 15 PBR Plan Filings.