PERFORMANCE BASED REVENUE ADJUSTMENT

1.01 Purpose

The purpose of this Performance-Based Revenue Adjustment (PBRA) is to establish a mechanism that enables NSTAR Electric Company d/b/a Eversource Energy (the "Company"), subject to the jurisdiction of the Department of Public Utilities ("Department"), to adjust, on an annual basis, its base rates pursuant to Section 1.07, as approved in D.P.U. 17-05. The PBRA includes a revenue-indexing mechanism, as well as earnings sharing above established thresholds and recovery of exogenous costs.

This mechanism allows for an adjustment of Base Rates using the rate of input price inflation representative of the electric distribution industry, less offsets for productivity and a consumer dividend. The exogenous cost component allows the Company to reflect costs, both positive and negative, that are beyond the control of the Company and, because the Company is subject to a stay-out provision, are deemed appropriate to recover (or return) through the PBRA. The earnings sharing component provides for sharing of earnings above an established threshold.

1.02 Effective Date

The initial rates established in accordance with Section 1.05 shall remain in effect until the Company's next base-rate proceeding subject to any adjustments that may be ordered by the Department. The PBRA is authorized for a five-year term starting January 1, 2018. The first annual adjustment pursuant to the PBRA shall be effective January 1, 2019. Subsequent annual adjustments shall occur within the five-year term, with the last adjustment taking effect on January 1, 2022. In the event the PBRA expires or is terminated, the Company's Base Rates, as adjusted pursuant to the PBRA, shall remain in effect, unless and until otherwise determined by the Department consistent with the provisions of G.L. c. 164, § 94. Because the earning sharing adjustment provided for in Section 1.09 lags the PBR adjustment by one year, the last earning sharing adjustment would take effect on January 1, 2024.

1.03 Applicability

This mechanism applies an adjustment to the base rates of the Company's effective distribution service tariffs for Eastern Massachusetts and Western Massachusetts subject to the jurisdiction of the Department, as determined in accordance with the provisions of this tariff.

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1.04 Definitions

(1) Base Revenue Requirement is the distribution revenue approved for collection through the Company's rate schedules as established by the Department in its most recent base-rate case and as adjusted annually through the PBRAF.

(2) Base Rate Component is any energy or demand charge reflected in the Company's Rate Schedules that recovers a portion of the Company's Base Revenue Requirement as established by the Department in its most recent base-rate case.

(3) Base Rates are the compilation of Base Rate Components plus the customer charge for all of the Company's rate schedules

(4) Basis Point shall be one one-hundredth of a percentage point.

(5) Calendar Year is the annual period beginning on January 1st and ending on December 31st.

(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 D.P.U. 17-05.

(7) Customer Class is the group of customers all taking service pursuant to the same rate schedule.

(8) Distribution Common Equity is Total Company capitalization (including long-term debt, preferred stock, and common equity, all per the FERC Form 1), less Transmission capitalization, calculated as Total Transmission Investment Base, multiplied by the percentage Distribution Common Equity approved in D.P.U. 17-05.

(9) Distribution Return on Equity (ROE) is Total Net Utility Income as reported on the Company's annual returns to the Department less Transmission Net Income, less other amounts as described in Section 1.09, all divided by the average of the beginning year and ending year Distribution Common Equity for the year prior to the Prior Year.

(10) Earnings Sharing Threshold is the percentage range equal to 200 Basis Points or more above the percentage Return on Equity authorized by the Department in D.P.U. 17-05.

(11) 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 PBRAF.

(12) Input Price Trend is the measure of change in the prices for all inputs used to provide regulated distribution services.

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(13) PBRA Revenue Requirement is the incremental Base Revenue Requirement determined through application of the PBRAF in each year.

(14) PBRAF Formula is the mathematical expression set forth in Section 1.06 used to calculate the percentage change in Base Rates for the Rate Year.

(15) Prior Year is the annual period ending immediately prior to the Rate Year.

(16) Productivity Trend is the measure of change in productivity associated with providing regulated distribution services.

(17) Rate Year is the annual period that the adjusted base rates shall be effective beginning on January 1^{st}.

(18) Return on Equity is the allowed rate of return on equity as established in D.P.U. 17-05.

(19) Transmission Investment Base is defined as the rate base for all Company Massachusetts transmission investments, including LNS, RNS, and Schedule 1.

(20) Transmission Net Income is defined as the total Transmission Investment Base times the Company's weighted common equity cost of capital plus the regional network service (RNS) incentive and other incentive adders.

(21) X Factor is the productivity growth index as established by the Department in D.P.U. 17-05.

(22) Z Factor is the sum of the cost impacts of Exogenous Events.

1.05 Determination of Initial Base Rates

The Initial Base Rates shall be those established by the Department in D.P.U. 17-05. The first adjustment to the Initial Base Rates under the PBRA shall be effective January 1, 2019.

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1.06 PBRAF Formula

$BASE\_REV_T = (BASE\_REV_{T-1}) * (1 + PBRAF_T)$

$PBRAF_T = (GDPPI_{T-1} – X – CD) + [(Z_{REV})_T / BASE\_REV_{T-1}]$

$X = TFPT_{GDI-US} + IPT_{GDI-US} + 1.08\%$
$X = -1.35\% - 1.29\% + 1.08\%$
$X= -1.56\%$

Where:

$PBRAF_T$	The percentage change in the Base Revenue Requirement.
$GDPPI_{T-1}$	The average annual percentage change in the United States Gross Domestic Product Price Inflation for the four most recent quarterly reporting periods as of the second quarter of the Prior Year. 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 PBRA filing.
X	The productivity or X Factor, which shall be the sum of the Productivity Trend differential, Input Price Trend differential, or negative 1.56 percent, as established by the Department in D.P.U. 17-05.
Z_{REV}	The sum of cost impacts of all Exogenous Events, positive or negative, as provided for in Section 1.08.
BASE_REV	The Base Revenue Requirement as defined in Section 1.04.
$TFPT_{GDI-US}$	The Total Productivity Trend differential between the electric distribution industry and the overall United States economy, set at negative 1.35 percent - as approved by the Department in D.P.U. 17-05.
IPT_{GDI-US}	The total Input Price Trend differential between the electric distribution industry and the overall United States economy, set at negative 1.29 percent – as approved by the Department in D.P.U. 17-05.
CD	The Consumer Dividend, set at 0.25 percent if $GDPPI_{T-1}$ is greater than 2.0 percent - as approved by the Department in D.P.U. 17-05.

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1.07 Annual Rate Adjustment

The Company shall apply the PBRAF calculated pursuant to Section 1.06 above to the Base Revenue Requirement to derive the incremental revenue adjustment. The incremental revenue adjustment will be allocated by Customer Class using the annual target revenue established in in the Company's Revenue Decoupling Adjustment Mechanism, M.D.P.U. No. 60, as adjusted from time to time. The allocated incremental revenue adjustment will be reflected in the Base Rate Component for each Customer Class based on test year sales and demand. This adjustment to the Base Rate Component will preserve the ratio of demand revenue to energy revenue as approved by the Department for the initial base rates. This adjustment to the Base Rate Component will not be subject to true up or reconciliation, except as delineated in M.D.P.U. No. 60.

1.08 Exogenous Costs

Exogenous Costs are positive or negative cost changes actually beyond the Company's control and not reflected in GDPPI, or otherwise in the PBRAF. Exogenous Costs approved by the Department are represented by the Z Factor in the PBRA. To qualify for Exogenous Cost recovery (whether positive or negative), the following criteria must be met: (1) the cost change must be beyond the Company's control; (2) that the cost change arises from a change in accounting requirements or regulatory, judicial, or legislative directives or enactments; (3) that the change is unique to the electric distribution industry as opposed to the general economy; and (4) that the change meets a threshold of "significance" for qualification. The significance threshold for Exogenous Costs is set at $5 million for each individual event in calendar year 2018, and thereafter, shall be adjusted annually based on changes in GDPPI. Exogenous 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 or returned in a separate factor to be reviewed and approved by the Department. The separate factor shall be in effect until the exogenous cost or credit is recovered or refunded, or until such time that the amounts are appropriately reflected in the PBRAF, as applicable.

1.09 Earnings Sharing

Earnings Sharing provides an important protection for Customers in the event that expenses increase at a rate much lower than the revenue increases generated by the PBRAF. In the event that the Company's actual Distribution Return on Equity (ROE) for any calendar period ending December 31st of the years 2018 through 2022 exceeds the Earnings Sharing Threshold, the difference between actual earnings and earnings calculated at the authorized Return on Equity shall be shared 25 percent to the Company and 75 percent to Customers. The Company's Distribution Net Income used in the calculation will exclude Transmission Net Income, incentive payments, such as energy efficiency incentives; transition-incentive mitigation; long-term contract remuneration, and conversely, would exclude service-quality penalties, as

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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 kWh credit to distribution service customers taking service under retail tariffs. The Earnings Sharing credit will be allocated by Customer Class using the Base Distribution Revenue Allocators set forth below. Any Earnings Sharing credit shall be in effect for a period of one year and shall be subject to investigation and a full adjudicatory hearing before the Department.

Service Territory/Area	Rate Classes	Distribution Revenue Allocator
All	R-1/R-2	41.145%
All	R-3/R-4	4.575%
Greater Boston	G-1/T-1	3.446%
Greater Boston	G-2/T-2	27.907%
Greater Boston	G-3/WR	7.998%
Cambridge	G-0/G-1/G-6	0.829%
Cambridge	G-2	1.329%
Cambridge	G-3/SB1	0.856%
Cambridge	G-4	0.012%
Cambridge	G-5	0.018%
South Shore, Cape Cod, Martha's Vineyard	G-1/G-7	3.930%
South Shore, Cape Cod, Martha's Vineyard	G-2	1.088%
South Shore, Cape Cod, Martha's Vineyard	G-3	0.610%
South Shore, Cape Cod, Martha's Vineyard	G-4	0.008%
South Shore, Cape Cod, Martha's Vineyard	G-5	0.053%
South Shore, Cape Cod, Martha's Vineyard	G-6	0.008%
Western Massachusetts	23/24/G-0/T-0	2.626%
Western Massachusetts	G-2/T-4	1.159%
Western Massachusetts	T-2	1.495%
Western Massachusetts	T-5	0.498%
Eastern Massachusetts	S-1/S-2	0.315%
Western Massachusetts	S-1/S-2	0.095%
Total		100.000%

1.010 Information Required to be Filed with the Department

The Company shall make a PBRA filing by September 15 of each year for rates effective in the upcoming calendar year. 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 PBRA for the subsequent Rate Year. Such information shall include the results of the PBRAF Formula, descriptions and accounting

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of any Exogenous Costs, and an earnings sharing credit calculation for the year prior to the Prior Year as calculated in Section 1.09. In addition, the Company shall file revised summary rate tables reflecting the impact of applying the base-rate changes provided for herein.