# 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 distribution rates ("Base Rates") pursuant to Section 1.07, as approved in D.P.U. 22-22. The PBRA includes a revenue-indexing mechanism, a K-Bar Adjustment, and earnings sharing if the earned return on equity is higher than established thresholds, and recovery of exogenous costs.

The PBRA adjusts 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, 2023. The first annual adjustment pursuant to the PBRA shall be effective January 1, 2024. Subsequent annual adjustments shall occur within the five-year term, with the last adjustment taking effect on January 1, 2027. Prior to the expiration of the five-year term, the Company shall be eligible to file a request to continue the PBRA for another five years with the last adjustment taking effect on January 1, 2032. Such request must be filed with the Department no earlier than nine months and no later than six months prior to the termination of the initial five-year term.

If, after investigation of the Company's request, the Department determines that continuing the PBR plan term is in the public interest, the Company may continue the PBR plan for an additional five-year period, with no changes to base distribution rates approved in D.P.U. 22-22, as adjusted annually by the PBRA. If the Department determines that continuing the PBR Plan term is not in the public interest, the stay-out provision shall be extended one year, for the Company to prepare and file a base distribution rate filing. In this instance, there would be one additional annual adjustment pursuant to the PBRA effective January 1, 2028.

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The Company shall be eligible to petition the Department for a base distribution rate change to take effect no earlier than January 1, 2028, or January 1, 2033 if the initial five-year term is extended to ten years. 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 earnings-sharing adjustment provided for in Section 1.010 lags the PBR adjustment by one year, the last earnings-sharing adjustment would take effect on January 1, 2029, or January 1, 2034 if the initial five-year term is extended to 10 years.

### 1.03 Applicability

This mechanism applies an adjustment to the Base Rates of the Company's effective distribution service tariffs subject to the jurisdiction of the Department, as determined in accordance with the provisions of this tariff.

### 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. Such revenue, however, shall exclude the costs of the Storm Fund Contribution, Storm Cost Adjustment, and Solar Expansion Program, as approved by the Department in D.P.U. 22-22. The revenue associated with all meter-related capital is excluded from the distribution revenue requirement approved in D.P.U. 22-22 and as a result will not be subject to annual adjustment 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) Capital Investment Year is the period in which assets are placed in service beginning on January 1st and ending on December 31st.

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(7) 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. 22-22.

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

(9) Depreciation Expense is the annual depreciation expense associated with the total capital investments placed in service.

(10) 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 as submitted to ISO-New England, all multiplied by the percentage distribution common equity ratio approved in D.P.U. 22-22.

(11) 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 1.010, all divided by the average of the beginning year and ending year Distribution Common Equity for the year prior to the Prior Year.

(12) Earnings-Sharing Threshold is the percentage range equal to 100 Basis Points or more above the percentage Return on Equity authorized by the Department in D.P.U. 22-22.

(13) Exogenous Events are cost changes that are: (1) beyond the Company's control and are not reflected in GDP-PI; (2) arise from changes in tax laws or accounting changes, or regulatory, judicial or legislative changes; (3) unique to the electric distribution industry; and (4) meet a threshold of significance established in D.P.U. 22-22. Exogenous Events shall be reflected as either a non-recurring, one-time recovery and/or a permanent change to the Base Revenue Requirement, as applicable.

(14) Forecasted Budget is the annual capital expenditure forecast produced in D.P.U. 22-22, Exh. AG-1-18, Att. (Supp.).

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

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(16) K-Bar Adjustment reflects the difference between the annual change in the K-Bar Revenue Requirement as compared to the Base Revenue Requirement for the Rate Year.

(17) K-Bar Depreciation Expense is calculated using the composite depreciation rate approved in D.P.U. 22-22 times the cumulative K-Bar Plant Additions. The composite depreciation rate is derived by dividing the depreciation expense by the gross plant additions, as approved in D.P.U. 22-22.

(18) K-Bar Plant Additions is defined as the cumulative plant additions, cost of removal and retirements, escalated for the Rate Year as defined in Section 1.08.

(19) K-Bar Net Plant Additions is defined as the cumulative plant additions, cost of removal and retirements, less accumulated depreciation escalated for the Rate Year as defined in Section 1.08.

(20) K-Bar Property Tax Expense is defined as the property tax expense divided by the net utility plant in service as approved in D.P.U. 22-22 multiplied by the K-Bar Net Plant Additions.

(21) K-Bar Revenue Requirement shall mean the sum of the Pre-Tax Rate of Return multiplied by the K-Bar Net Plant Additions less accumulated deferred taxes, plus K-Bar Depreciation Expense, and plus K-Bar Property Tax Expense for the Rate Year.

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

(23) Pre-Tax Rate of Return is the after-tax weighted average cost of capital established by the Department in D.P.U. 22-22, adjusted to a pre-tax basis using currently effective federal and state income tax rates.

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

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

(26) Property Tax is calculated based on the total capital investment associated with the Capital Investment Year multiplied by the property tax rate established by the Department in D.P.U. 22-22. Property taxes will be included beginning in the year following the Capital

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Investment Year at 50 percent of the annual property tax for the first year. In the subsequent year and thereafter, property taxes will be reflected at 100 percent of the annual property tax.

(27) Rate Year is the annual period that the adjusted Base Rates shall be effective beginning on January 1st.

(28) Return on Equity is the authorized return on common equity as established in D.P.U. 22-22.

(29) Return on Rate Base is the Pre-Tax Rate of Return multiplied by rate base associated with the total capital investment, including plant in service adjusted for accumulated depreciation, and accumulated deferred income tax for assets ending as of the Capital Investment Year.

(30) Solar Expansion Program refers to the Company's investment in 62 megawatts of solar generation facilities pursuant to G.L. c. 164 § 1A(f) that has been transferred to base distribution rates pursuant to D.P.U. 22-22.

(31) Storm Cost Adjustment refers to the Company's amount of the storm cost adjustment authorized for recovery through base distribution rates pursuant to D.P.U. 22-22, totaling $7.8 million annually.

(32) Storm Fund Contribution refers to the Company's amount of storm funding authorized for recovery through base distribution rates pursuant to D.P.U. 22-22, totaling $31 million annually.

(33) Transmission Investment Base is defined as the rate base for all the Company's Massachusetts transmission investments, including Local Network Service (LNS) as administered by the Company, Regional Network Service (RNS) as administered by ISO New England, both submitted on an annual basis as part of the ISO New England Inc Transmission, Markets and Services Tariff, Section II in Schedule 21-NSTAR and Schedule 21-ES

(34) Transmission Net Income is defined as the total Transmission Investment Base times the Company's weighted common equity Transmission cost of capital plus the regional network service (RNS) incentive and other incentive adders, net of refunds to customers as a result of any contested charges at the Federal Energy Regulatory Commission.

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## 1.05 Determination of Initial Base Rates

The Initial Base Rates shall be those established by the Department in D.P.U. 22-22. The first adjustment to the Initial Base Rates under the PBRA shall be effective January 1, 2024.

## 1.06 PBRAF Formula

$ADJ\_BASE\_REV_T = BASE\_REV_T + K_T$

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

$PBRAF_T = (GDPPI_{T-1} – X – CD) + (Z1_{REV})_T$

$K_T = KBAR_T – PBRM\_CPT_T – K_{T-1}$

$PBRM\_CPT_T = (PBRM\_CPT_{T-1}) * (1 + PBRAF_T)$

X= 0.00%

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 and that shall not exceed 5.00 percent or fall below zero percent. |
| X | The productivity or X Factor shall be zero percent, as established by the Department in D.P.U. 22-22. |
| $Z1_{REV}$ | The sum of cost impacts, calculated as a percentage, of Exogenous Events requiring a permanent change to the Base Revenue Requirement, positive or negative, as provided for in Section 1.09. |

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| BASE_REV | The Base Revenue Requirement as defined in Section 1.04. |
| 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. 22-22. |
| ADJ_BASE_REV | The Adjusted Base Revenue Requirement is the Base Revenue Requirement plus the K-Bar Adjustment as defined in Section 1.04. |
| $K_T$ | The K-Bar Adjustment as defined in Section 1.04. |
| $KBAR_T$ | The K-Bar Revenue Requirement as defined in Section 1.04. |
| $PBRM\_CPT_T$ | The capital-related Base Revenue Requirement approved in D.P.U. 22-22, as adjusted annually by the PBRAF, including depreciation expense, return on rate base, income taxes and property taxes. |

## 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 K-Bar Adjustment

The annual performance-based rate adjustment taking effect under the PBRA will be accompanied by a separate adjustment to Base Rates to reflect the K-Bar Adjustment beginning January 1, 2024, to provide predictable and adequate funding for capital investments in accordance with Section 1.04 and 1.06. The K-Bar Adjustment is calculated on the basis of a five-year rolling average of actual capital costs as specified in this Section 1.08. The Company's actual cumulative net plant additions, including cost of removal and retirements through the calendar year prior to the year of the annual PBR plan filing, will be used in the calculation of the five-year rolling average for the K-Bar Adjustment. Also, rate base included in the revenue requirement approved by the Department in D.P.U. 22-22 shall be used in the K-Bar Adjustment. The Forecasted Budget and

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K-Bar Net Plant Additions shall exclude capital projects that are eligible for recovery through rate mechanisms outside of base distribution rates.

The computation of the rolling five-year average of historical plant additions is subject to constraint to the extent that, where the K-Bar Net Plant Additions in the prior year, in aggregate, exceed the Forecasted Budget for the prior year by more than ten percent, then the K-Bar Net Plant Additions for the prior year included in the five-year average shall be capped at the ten-percent variance from the Forecasted Budget and shall exclude the K-Bar Net Plant Additions that exceed the ten-percent threshold. To determine the capital projects that exceed the ten-percent cap compared to the Forecasted Budget, the Company shall sum the actual capital costs from the prior year from least expensive to most expensive, for informational purposes. Based on this ranking, the Department may review the reasons for the budget variance, and, if appropriate after notice, investigate prudence.

In the 2023 PBRA filing, the Company shall calculate the K-Bar Net Plant Additions for effect January 1, 2024 using the five-year average of actual plant additions, including cost of removal and retirements, placed in service from 2018 through 2022. For the 2022 and 2023 bridge years, the K-Bar shall be calculated using the five-year average of actual plant additions placed in service from 2017 through 2021 and carried forward to December 31, 2022, using the I-X formula in the PBR mechanism approved in D.P.U. 17-05, and carried forward to January 1, 2024, using the I-X formula in the PBR mechanism approved in D.P.U. 22-22 (RR-DPU-43, Att. (d) at 4, line 25; at 7, lines 20, 28).

The K-Bar Adjustment for effect January 1, 2025, will calculate the K-Bar Net Plant Additions using the five-year average of plant additions placed in service from 2019 through 2023, carried forward to January 1, 2025. Actual plant additions for 2019-2021 will be carried forward to December 31, 2022, using the I-X formula in the PBR mechanism approved in D.P.U. 17-05, and then will be carried forward to January 1, 2025, using the I-X formula in the PBR mechanism approved in D.P.U. 22-22 (RR-DPU-43, Att. (d) at 4, line 25; at 7, lines 20, 28). The K-Bar Adjustment for effect January 1, 2026, will calculate the K-Bar Net Plant Additions using the five-year average of plant additions placed in service from 2020 through 2024, carried forward to January 1, 2026 in the same manner as the K-Bar Adjustments effective January 1, 2024 and January 1, 2025. The five-year average will be updated in the same manner for each subsequent year that the K-Bar Adjustment remains in effect.

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## 1.09 Exogenous Costs

Exogenous Events are positive or negative cost changes beyond the Company's control and not reflected in GDPPI, or otherwise in the PBRAF or any other charge for service. To qualify for Exogenous Cost recovery (whether positive or negative), the following criteria must be met for an Exogenous Event: (1) the cost change is beyond the Company's control; (2) the cost change arises from a change in tax laws or accounting change, or regulatory, judicial or legislative changes; (3) the cost change is unique to the electric distribution industry; and (4) the cost change meets a threshold of significance established in D.P.U. 22-22.

The significance threshold for Exogenous Costs is set at $4 million for each individual Exogenous Event occurring on or after January 1, 2023, adjusted annually thereafter based on changes in GDPPI. The significance threshold is noncumulative and is subject to a finding by the Department that the exogenous costs arise from a single exogenous event (i.e., exogenous costs from separate exogenous events cannot be aggregated into a single total for purposes of determining whether the threshold of significance is met). 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.

Exogenous Costs shall be reflected as either a non-recurring, one-time recovery and/or a permanent change to the Base Revenue Requirement, as applicable. 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 either Base Rates per Section 1.06 or a separate reconciling factor to be reviewed and approved by the Department. This reconciling factor shall be calculated as follows:

$NECA = [(Z2_{REV} + REC) * DRA] / FkWh$

Where:

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|---|---|
| NECA = | Non-Recurring Exogenous Cost Adjustment |
| $Z2_{REV}$ = | The sum of cost impacts of non-recurring Exogenous Events, positive or negative. |
| REC = | Deferral balance based on the difference between the actual Exogenous Cost and the revenue collected through the NECA plus interest on the average monthly reconciling balance using the prime rate. |
| DRA = | Distribution Revenue Allocator (see Section 1.010) |

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FkWh = Forecast annual kWh by rate class group

The NECA shall be in effect until the non-recurring Exogenous Cost is recovered or refunded, or until such time that the amounts are appropriately reflected in Base Rates, as applicable. Reconciliations shall be performed annually, and interest shall be calculated on the average monthly reconciling balance using the prime rate computed in accordance with 220 C.M.R. § 6.08(2) and added to the reconciling balance.

### 1.010 Earnings Sharing

Earnings Sharing provides an important protection for Customers in the event that expenses increase at a rate much different 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 2023 through 2028, unless extended by the Department per Section 1.02, exceeds the Earnings Sharing Threshold, the difference between actual earnings and earnings calculated at the authorized Return on Equity shall be shared with customers if the Company's actual ROE exceeds the authorized ROE by more than 100 Basis Points. Such earnings above the Earnings Sharing Threshold will 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 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 or charge to distribution service customers taking service under retail tariffs. The Earnings Sharing credit or charge will be allocated by Rate Class Group using the Distribution Revenue Allocator. Any Earnings Sharing credit or charge shall be in effect for a period of one year and shall be subject to investigation and a full adjudicatory hearing before the Department.

Effective January 1, 2023, the applicable Base Distribution Revenue Allocator by rate class group shall be as shown below.

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| Rate Class Group | Base Distribution Revenue Allocator |
|---|---|
| Residential | 50.795% |
| Small General Service/Streetlights | 21.268% |
| Medium General Service | 17.654% |
| Large General Service | 10.283% |
| Total | 100.000% |

## 1.011 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 Rate 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 and supporting calculations of the PBRAF Formula, descriptions and accounting of any Exogenous Costs and an earning-sharing calculation for the year, two years prior to the rate adjustment. In addition, the Company shall file revised summary rate tables reflecting the impact of applying the base-rate changes provided for herein.

As part of its annual PBR filings, the Company shall file a forecast of the capital projects planned to go into service in the subsequent year, and the associated costs of those projects, for informational purposes. In addition, the Company shall file the actual distribution plant additions reported on the FERC Form 1 for the year prior to the annual PBR filing that shall be the basis of the K-Bar Net Plant Additions. For example, in its 2023 annual PBR filing, the Company shall file its forecasted 2024 planned capital projects expected to be in service. Then, in its 2024 annual PBR docket, the Company shall make an informational filing of its actual 2024 capital additions placed in service as reported in the FERC Form 1 by the end of the first quarter of 2025.