

MASSACHUSETTS ELECTRIC COMPANY  
NANTUCKET ELECTRIC COMPANY  
d/b/a NATIONAL GRID  
CAPITAL INVESTMENT RECOVERY PROVISION

The prices for distribution service contained in all of the Company's tariffs are subject to adjustment to reflect the operation of its Capital Investment Recovery Mechanism ("CIRM").

I. Definitions

"Actual Billed CapEx Revenue" shall mean the amounts the Company has billed during the applicable recovery period through the Net CapEx Factors approved by the Department.

"Actual Net Capital Expenditure" or "Actual Net CapEx" shall mean the plant additions and cost of removal recorded by the Company for a given investment year, but in no event shall exceed \$249 million annually, less the annual allowance in base distribution rates for depreciation expense.

"Cumulative Net CapEx Adjustment" shall mean the Cumulative Revenue Requirement effect for the current year of its actual Net Capital Expenditure recorded since June 30, 2015 through the investment year immediately preceding the current year.

"Cumulative Net Capital Expenditure ("CapEx") Factors" shall mean the factors in effect during a recovery period which recover the Cumulative Revenue Requirement as approved by the Department.

"Cumulative Revenue Requirement" shall mean the return on year-end cumulative incremental rate base, at a rate equal to the pre-tax weighted average cost of capital, as determined in the Company's most recent rate case, plus the annual depreciation and property tax on Cumulative Net CapEx.

"Current Year" shall mean the investment year immediately preceding March 1 of the year during which the proposed CapEx Factors will be in effect.

"Department" shall mean the Massachusetts Department of Public Utilities.

"Distribution Company" or "Company" shall mean Massachusetts Electric Company and Nantucket Electric Company.

"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 recovery period during which the proposed CapEx Factors will be in effect.

"Incremental Rate Base" shall mean the Cumulative Net CapEx adjusted for accumulated depreciation on Net CapEx and for accumulated deferred taxes on Cumulative Net CapEx and cumulative deferred tax reversals on June 30, 2015 plant in service since June 30, 2015.

"Property Tax Rate" is the Company's composite property tax rate determined in the Company's most recent distribution rate case calculated as the ratio of total annual property taxes paid to total taxable net plant in service in the test year.

"Rate Base Allocator" shall mean the percentage of total rate base allocated to each rate class as determined in the Company's most recent distribution rate case as follows:

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Rate R-1/R-2	54.1%
Rate R-4	0.1%
Rate G-1	11.5%
Rate G-2	11.9%
Rate G-3	19.1%
Streetlighting	3.3%

The Company's CIRM shall include an annual CIRM Reconciliation that will reconcile cumulative revenue requirement and Actual Billed CapEx Revenue for the recovery period. The CIRM Reconciliation amount (either positive or negative) shall determine the CapEx Adjustment Factors. The Company shall submit a filing by January 15 following each calendar year ("CIRM Filing"), in which the Company shall propose adjustments to distribution rates to reflect CapEx Factors to be billed to customers in the following recovery period. These adjustments to distribution rates will be effective for the twelve months beginning March 1 following the CIRM Filing.

II. CapEx Factors

The CapEx Factors shall represent the Cumulative Revenue Requirement on Actual Net CapEx as approved by the Department for recovery in the Company's annual January 15 CIRM Filings. This amount shall represent the cumulative incremental revenue requirement determined necessary to fund the Cumulative Net CapEx. The CapEx Factors shall also include the first year annual revenue requirement on Actual Net CapEx reported by the Company in its July 1 Capital Investment Filing of the prior year, pursuant to Section VI below. The Company shall allocate the Cumulative Revenue Requirement approved by the Department to be reflected in distribution rates to its rate classes based on the Rate Base Allocator. The amount of Cumulative Net CapEx by rate class shall then be converted to a per kilowatt-hour factor for each rate class based on the estimated kilowatt-hours deliveries for the applicable rate class for the year commencing March 1. For example, the CapEx Factors effective March 1, 2018 shall reflect (1) the 2018 revenue requirement of Cumulative Net CapEx recorded since June 30, 2015 through December 31, 2016, and (2) the 2017 revenue requirement of Actual Net CapEx recorded during calendar year 2016, subject to Department approval.

III. CapEx Adjustment Factors

The CapEx Adjustment Factors will be based on the CIRM Reconciliation amount for the prior recovery period. For each recovery period, this CIRM Reconciliation amount shall be equal to the difference (either positive or negative) between the Actual Billed CapEx Revenue and the Cumulative Revenue Requirement approved by the Department for recovery. The Company's CIRM Filing will reflect estimated billed distribution revenue. This estimate will be replaced with and reconciled to actual billed revenue in the subsequent CIRM Filing. The amount of over- or under-recovery resulting from the CIRM Reconciliation shall be used to determine a rate class specific per kilowatt-hour CapEx Adjustment Factors based on Forecasted kWh for each rate class. The amount of over- or under-recovery shall be allocated to the rate classes by applying the Rate Base Allocator. The amount approved by the Department to be recovered or refunded through the CapEx Adjustment Factors shall be subject to reconciliation.

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IV. Earnings Sharing Mechanism

The Company will calculate its actual earnings for the prior calendar year and, to the extent that actual earnings exceed the allowed return on equity approved by the Department in the Company's most recent general rate case, or as revised by a subsequent Department order, will credit customers with 50% of the excess earnings grossed up for income taxes. The amount of excess earnings to be credited, if any, shall be a uniform per kilowatt-hour factor. The Company shall file an annual earnings report with the Department no later than May 1 of the following calendar year identifying the earned return on equity for the prior calendar year, the amount of earnings subject to sharing with its customers, and customers' share of those earnings. Should there be any customer share of excess earnings, the Company shall propose to the Department an Earnings Sharing Adjustment Factor by which the amount shall be credited to customers and the manner and period over which the amount shall appear on customer bills. The amount approved by the Department to be credited to customers through the Earnings Sharing Adjustment Factor shall be subject to reconciliation.

V. Cap on CapEx Factors

By January 15 following each calendar year, the Company shall submit to the Department its proposed Net CapEx Factors for the current year. These factors shall be effective for consumption on and after March 1 of each year and will be included with each rate class' distribution energy charge for billing purposes. The annual change in the Cumulative Revenue Requirement reflected in the proposed CapEx Factors shall not exceed one percent (1%) of total revenue as recorded during the prior calendar year. Total revenue shall include amounts that the Company has billed customers through applicable charges for distribution service, transmission service, transition charges, Energy Efficiency, Basic Service, and any and all related adjustment factors. Total revenue shall also include an adjustment for electric supply for those customers who were with competitive suppliers during the year. To the extent that the application of this revenue cap results in a CapEx rate adjustment that is less than that calculated in accordance with Sections II and III, the difference shall be deferred with interest calculated at the Customer Deposit Rate and included in the CIRM Reconciliation for recovery in subsequent years.

VI. Capital Investment Filing

By July 1 of each year, the Company shall submit to the Department a report of its capital investment for the prior calendar year. This report shall contain sufficient information to allow the Department to review the Company's actual capital expenditures and in support of the Company's Cumulative Net CapEx Adjustment and subsequent CapEx Factors.

VII. Adjustments to Rates

Each adjustment of the prices under the Company's applicable tariffs shall be in accordance with a notice filed with the Department on or before January 15 of each calendar year setting forth the amount of the increase or decrease and the new CapEx Factors and Earnings Sharing Adjustment Factor, if applicable. The notice shall further specify the effective date of such adjustment, which shall be March 1 following the filing of the notice, or such other date as the Department may authorize.

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This provision is applicable to all Retail Delivery Service tariffs of the Company. The operation of this Capital Investment Recovery Provision is subject to Chapter 164 of the General Laws.