nationalgrid

August 10, 2018

VIA HAND DELIVERY AND ELECTRONIC MAIL

Luly E. Massaro, Commission Clerk
Rhode Island Public Utilities Commission
89 Jefferson Boulevard
Warwick, RI 02888

RE: Docket 4770 – Application of The Narragansett Electric Company d/b/a National Grid for Approval of a Change in Electric and Gas Base Distribution Rates
Docket 4780 – The Narragansett Electric Company d/b/a National Grid Proposed Power Sector Transformation Vision and Implementation Plan
Amended Settlement Agreement

Dear Ms. Massaro:

On behalf of The Narragansett Electric Company d/b/a National Grid (the Company), we are pleased to submit an Amended Settlement Agreement in compliance with the Rhode Island Public Utilities Commission's (PUC) rulings at its Open Meeting on August 3, 2018 in the above-referenced dockets. The Amended Settlement Agreement presented herewith is the product of additional review and discussion among the Company and the following parties[1] in response to the PUC's Open Meeting decisions: Rhode Island Division of Public Utilities and Carriers (Division); Rhode Island Office of Energy Resources (OER); U.S. Department of the Navy and Federal Executive Agencies; Conservation Law Foundation; Energy Consumers Alliance of New England, Inc. d/b/a People's Power and Light (PPL)[2]; Sierra Club (SC); Natural Resources Defense Council (NRDC)[3]; Acadia Center; Northeast Clean Energy Council; George Wiley Center; New Energy Rhode Island; Wal-Mart Stores East, LP and Sam's East, Inc. (collectively, Wal-Mart); Direct Energy Business, LLC, Direct Energy Services, LLC, and Direct Energy Solar (collectively, Direct Energy); ChargePoint, Inc.; and National Railroad Passenger Corporation (Amtrak).[4]

The Amended Settlement Agreement incorporates revisions to implement the PUC's rulings issued at the Open Meeting on August 3, 2018, as well as certain other updates and revisions as more particularly described below. To facilitate the PUC's review of the Amended Settlement Agreement, the Company is providing the PUC with a redlined version of the Amended Settlement Agreement, which is marked against the June 6, 2018 Settlement Agreement. Pursuant to the procedural schedule established in these two dockets, the Company will submit the clean version of the Amended Settlement Agreement, together with revised

[1] The Settling Parties to the Amended Settlement Agreement are the same Settling Parties who signed on to the June 6, 2018 Settlement Agreement.
[2] PPL intervened in Docket No. 4770 individually.
[3] SC and NRDC intervened in Docket No. 4780 jointly with PPL.
[4] Amtrak intervened in Docket No. 4770 only.

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attachments – consisting of revised schedules, workpapers, calculations, tariff terms, and other documents – as a compliance filing by August 16, 2018 for the PUC's review and approval at the Open Meeting currently scheduled for August 24, 2018.

The Amended Settlement Agreement is designed to resolve all outstanding issues among the parties in Docket No. 4770 and Docket No. 4780. As a comprehensive resolution of the issues in these two dockets, the Amended Settlement Agreement remains carefully constructed to balance interests among the following: (1) the interests of customers in having access to reasonable cost gas and electric service, on a safe and reliable basis; (2) the interests of the Company in recovering the actual costs required to provide gas and electric service on a safe and reliable basis to customers; and (3) the broader interests of Rhode Island in securing an energy future that provides for gas and electric service on a safe and reliable basis, with a strong commitment to the reduction of greenhouse gas emissions.

Background

On June 6, 2018, the Company filed with the PUC a Settlement Agreement that established a Multi-Year Rate Plan (Rate Plan) with a three-year term commencing September 1, 2018. The Settlement Agreement represented a wide range of stakeholder interests working to address the long-term policy goals of the State of Rhode Island, and serving the best interest of the Company's electric and gas customers. In addition to setting base distribution rates, the Settlement Agreement instituted a Power Sector Transformation (PST) Vision and Implementation Plan (PST Plan) within the Rate Plan to modernize the electric distribution system and enable technologies that will reduce greenhouse gas emissions and help to control costs for customers. Following the Company's June 6, 2018 filing, the PUC held settlement hearings from June 14, 2018 through June 28, 2018. Subsequently, the PUC held a series of Open Meetings on July 2, July 3, July 18, July 20, and July 31 to discuss the Settlement Agreement and the testimony from the settlement hearings. At the August 3, 2018 Open Meeting, the PUC voted 3-0 to approve the Settlement Agreement with modifications, which the Amended Settlement Agreement incorporates.

Revisions to the Settlement Agreement to Implement the PUC's Rulings at the August 3, 2018 Open Meeting

To assist the PUC in its review of the Amended Settlement Agreement, the Company has included a table as Attachment 1 to this filing letter, which lists each motion and corresponding vote, together with the applicable section and page number reference in the Amended Settlement Agreement where the corresponding revision can be found.

<u>Other Revisions</u>

In addition to minor clarifying edits and other general clean-up changes, the Amended Settlement Agreement contains the following additional revisions:

- Article I, Section A, Procedural History, modified this section to reflect updates to the procedural history and background since the Company's original filing of the Settlement Agreement on June 6, 2018 (pp. 7, 10-11).

- Article II, Section B, Definitions, added/deleted certain definitions to correspond with other revisions necessary to implement the PUC's rulings (p. 13).

- Article II, Section C.4.e, Return on Rate Base, modified to update the status of the long-term debt issuance for Narragansett Electric (p. 22-23)

- Article II, Section C.8.e, Return on Rate Base, modified to update the status of the long-term debt issuance for Narragansett Gas (p. 35-36).

- Article II, Section14.b(i), (ii), , Carrying Charges, modified the rate of return for the amortization/deferral of the operation and maintenance (O&M) costs of the Geographic Information System (GIS) Data Enhancement Project and the Distribution Supervisory Control and Data Acquisition (DSCADA)/Advanced Distribution Management System (ADMS) to be the customer deposit rate, consistent with the PUC's motion (p. 49). The Company did not make any changes to the carrying charges for deferrals associated with Cyber Security and Information Service (IS) investments or Gas Business Enablement investments because the Company interpreted the PUC's motion to apply the weighted cost of capital (WACC) to these longer-term deferrals. The Cyber Security and IS investment costs all qualify as capital and would accrue the WACC. Gas Business Enablement O&M costs charged to the Company from National Grid USA Service Company, Inc. are valid recoverable costs per the terms of the Amended Settlement Agreement and will be capitalized on the Company's books to a regulatory asset account and amortized over a ten-year year period. Utility ratemaking practice historically follows generally accepted accounting principles (GAAP), in which current assets and liabilities generally accrue carrying charges at prevailing market rates for short term financial instruments, while longer term assets and liabilities generally accrue carrying charges at the WACC. This is consistent with the principle that carrying charges are intended to compensate for the time value of money, and the longer the deferral, the higher the rate of compensation for that time value. Witnesses at the settlement hearings testified that the WACC was chosen as the rate to apply to these deferrals because of the amount of time it would take for the Company to be reimbursed for the cash it used to pay for those deferred regulatory asset amounts. For these reasons, the Company has treated the longer-term deferral of Gas Business Enablement costs as capital for purposes of the PUC's motion, because these costs are recorded to a regulatory asset account on the Company's balance sheet, and, consequently, such costs are not reflected as O&M expense on the Company's income statement. The Company is not aware of any costs deferred for a period of 10 years that is not earning a long-term rate of return.

- Article II, Section C.15.c, Grid Modernization Plan, added language to mirror language in Section 16, AMF regarding the opening of a separate docket to review the Company's Grid Modernization Plan in conjunction with the Updated AMF Business Case (p. 52).

- Article II, Section C.16, AMF, modified the filing date for the Updated AMF Business Case from December 1, 2018 to indicate the Company will use reasonable efforts to file by February 1, 2019 (pp. 53-55). The reason for this change is to take into account the PUC's expanded scope of the Updated AMF Business Case requirements and the integration with the Grid Modernization Plan requirements.

- Article II, Section C.17.d, Strategic Electrification Marketing Fund, modified name of fund to "Strategic Electrification Education Fund" and added a provision whereby the Company may submit, prior to Rate Year 2, and in consultation with the Division, OER, and members of the PST Advisory Group, a revised proposal for funding that is consistent with R.I. Gen. Laws § 39-2-1.2 (p. 67). These changes are intended to allow for potential funding for additional educational activities in Rate Years 2 and 3, subject to the PUC's approval. The Company does not interpret the Rhode Island statute prohibiting funding in base distribution rates for advertising that promotes the sales of the utility's product to strictly prohibit educational activities, and, therefore, the Company views this expanded provision as consistent with the spirit of the PUC's motion. The Settling Parties have also included a severability clause, which provides that in the event the PUC rejects this provision, it would not affect the entirety of the Amended Settlement Agreement.

- Article II, Section C.17.e, Engagement and guidance in support of PST Programs, added language to indicate that PST Advisory Group members, and PUC staff and Commissioners will have an opportunity to provide input on quarterly meeting agenda items (p. 70). The reason for this change was to provide additional engagement and collaboration between the PST Advisory Group and the PUC, which is consistent with the PUC's ruling regarding transparency of the PST Advisory Group.

- Article II, Section C.17.e, Engagement and guidance in support of PST Programs, proposed 2 to 4 technical sessions or open meetings (p. 71) as an alternative to the PUC's ruling for quarterly technical sessions. The Commissioners invited feedback regarding the frequency of these technical sessions. This change is intended to allow for greater flexibility for the PST Advisory Group and the PUC to adjust the intervals for these technical sessions or open meetings, as the case may be, as needed.

- Article II, Section C.17.e, Engagement and guidance in support of PST Programs, deleted bullet regarding use of the Strategic Electrification Marketing Fund, to reflect the PUC's modification on the use and limited scope of the fund (p. 71).

- Article II, Section C.19, Performance Incentive Mechanisms, expanded the language from the PUC's ruling regarding the development of metrics for unquantified benefits to provide that the Division, in consultation with the Company, OER, and members of the PST Advisory Group will develop transparent and well-defined metrics (p. 75-76).

- Included various placeholders throughout the document for numbers to be filled in with the final signed Amended Settlement that the Company will file on August 16, 2018.

The Company is authorized to represent that all Settling Parties have indicated their consent to the Amended Settlement Agreement and their agreement to sign on to the final version to be submitted on August 16, 2018.

Based on the PUC's August 3, 2018 Open Meeting rulings in these two dockets, the Company respectfully requests that the PUC approve the Amended Settlement Agreement in its entirety, and make findings that the balancing of interests reflected in the Amended Settlement Agreement properly allows a path for recovery of reasonable and prudent utility costs, and establishes a stable ratemaking framework to further the long-term policy objectives of Rhode Island, without imposing overly burdensome bill impacts on Rhode Island customers.

Thank you very much for your time and attention to this matter. If you have any questions, please contact Celia O'Brien at 781-907-2153 or Jennifer Brooks Hutchinson at 401-784-7288.

Very truly yours,

Celia B. O'Brien

Celia B. O'Brien

Jennifer Brooks Hutchinson

Jennifer Brooks Hutchinson

Enclosures

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Certificate of Service

I hereby certify that a copy of the cover letter and any materials accompanying this certificate was electronically transmitted to the individuals listed below.

The paper copies of this filing are being hand delivered to the Rhode Island Public Utilities Commission and to the Rhode Island Division of Public Utilities and Carriers.

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Joanne M. Scanlon

August 10, 2018
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Docket No. 4770 - National Grid – Rate Application
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Certificate of Service

I hereby certify that a copy of the cover letter and any materials accompanying this certificate was electronically transmitted to the individuals listed below.

The paper copies of this filing are being hand delivered to the Rhode Island Public Utilities Commission and to the Rhode Island Division of Public Utilities and Carriers.

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Joanne M. Scanlon

August 10, 2018
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Docket No. 4780 - National Grid – Power Sector Transformation Filing
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Attachment 1
Docket Nos. 4770/4780

Motion Topic	**Pages of Amended Settlement Agreement**
Earning Sharing Mechanisms AA, MG – In the absence of a just result and until the Company proposes a just and reasonable design, earnings sharing should start at the allowed return on equity for the electric company and maintain the current sharing design: 50/50 sharing for base earnings between the allowed ROE and allowed ROE plus 100 basis points and 75/25 sharing beyond 100 basis points. The Company should report on all actual earnings. MG, AA amend to remove Sharing Threshold definition. Vote on amended motion is 3-0	See Amended Settlement Agreement at pp. 31-32 (Section 6.a-d)
Electric - Settlement Earnings Sharing with Customers. If and when the Narragansett Electric Base Earnings exceed 9.275 percent in any Rate Year, the amount in excess of 9.275 percent will be deemed "shared earnings." • If the level of earnings is greater than 9.275 percent but is less than or equal to 10.275 percent, 50 percent of the shared earnings in this tier shall be credited to customers and the Company shall retain 50 percent of the shared earnings, which shall not be reflected in any earnings reports. • If the level of earned ROE is greater than 10.275 percent, 75 percent of the shared earnings in this tier shall be credited to customers and the Company shall retain 25 percent of the shared earnings which shall not be reflected in any earnings report. AA, MG (Vote 3-0) – To maintain consistency, earning sharing should begin at the allowed ROE and maintain the current sharing design: 50/50 sharing for base earnings over the allowed ROE up to 100 basis points over the allowed ROE and 75/25 sharing beyond 100 basis points. The Company should report on all actual earnings.	See Amended Settlement Agreement at pp. 31-32 (Section 6.d)
Gas Earnings Sharing with Customers. If and when the Narragansett Gas Base Earnings exceed 9.275 percent in any Rate Year, the amount in excess of 9.275 percent will be deemed "shared earnings."	See Amended Settlement Agreement at pp. 41-42 (Section 10.c)

• If the level of earnings is greater than 9.275 percent but is less than or equal to 10.275 percent, 50 percent of the shared earnings in this tier shall be credited to customers and the Company shall retain 50 percent of the shared earnings, which shall not be reflected in any earnings reports. • If the level of earned ROE is greater than 10.275 percent, 75 percent of the shared earnings in this tier shall be credited to customers and the Company shall retain 25 percent of the shared earnings which shall not be reflected in any earnings report.	
Annual Filings MG, AA second (Vote 3-0) - Move to amend Page 17 of Settlement, second to the last paragraph to change “no earlier than 45 days prior to September 1, 2019 and September 1, 2020” to “on or before June 1 of each year of the Rate Plan” and to add the following after the word “Agreement” and before the word “unless”: “together with testimony and supporting schedules explaining and itemizing the change in revenue requirement from the prior September 1 through the upcoming September 1 to allow for a more complete review of the proposed rates. Amended paragraph: Narragansett Electric shall submit, on or before June 1 of each year of the Rate Plan, its Summary of Retail Delivery rates tariff updating this tariff to reflect the base distribution rates approved by the PUC as part of this Settlement Agreement, together with testimony and supporting schedules explaining and itemizing the change in revenue requirement from the prior September 1 through the upcoming September 1, unless otherwise changed pursuant to a separate proceeding before the PUC consistent with Sections 8, 15, and/or 16. 1. First change is to increase the filing date from 30-45 days up to 90 days prior to the effective date 2. Second change is to get additional information to reflect the fact that there will have been a minimum of 4 distribution rate changes between September 1, 2018 and September 1, 2019. Therefore, unlike on the gas side, the PUC does not know what the ultimate distribution increase or resulting rate will be each September. Staff needs this information to determine if the proposed September 1st increase ties back to an approved Settlement.	<u>See</u> Amended Settlement Agreement at p. 18 (Section 3)

Carrying Charges AA, MG (Vote 3-0) - Direct the Company to amend Settlement to apply WACC on capital and Customer Deposit Rate or Bank of America prime minus 2 on O&M and to add carrying charge to the Special Sector deferrals.	See Amended Settlement Agreement at p. 49 (Section 14.b.i and ii) See Amended Settlement Agreement at p. 93 (Section 20.d)
REGrowth Cost Recovery AA, MG (Vote 3-0) Move to retain the status quo to keep REGrowth incremental costs within the REGrowth recovery factors and not move into the base rates.	No revisions to Amended Settlement Agreement required
Charitable Contributions MC, MG (Vote 3-0) - Referencing page 87 of Settlement. Move to not permit the Company to include allowance in base distribution rates for charitable expenses. Continuation of allowing charitable contributions has been based on Supreme Court decisions. Situation has changed – Court found ok to allow utility to use ratepayer funding for charitable contributions was based in significant part on situation in other jurisdictions. At time of those rulings, it appeared majority of jurisdictions did allow the regulated utility to charge ratepayers for such contributions. That has change – the majority is no longer in favor of that. Significant testimony and questions at the hearings in MA and NY where such donations are appropriately charged to Shareholders. Shareholder and Company benefit and not ratepayer benefit. Solid foundation in that will follow majority rule.	See Amended Settlement Agreement at pp. 99-100 (Section 22.d)
Low Income Reporting AA, MG (Vote 3-0) – Direct Company, Division and GWC to work with PUC Staff to consolidate and develop a set of reporting requirements for existing and new electric and natural gas low-income rates, programs, and discounts upon conclusion of this docket. The reporting requirements should inform how low income rates, programs, and discounts advance the Rate Design Principles in the Docket 4600 Guidance Document, including the information that will be needed to support future investigation into more dynamic low income rate design. MC – Low income reporting will add to the foundational first step. MG – Be able to recreate Colton data.	See Amended Settlement Agreement at p. 13 (Definition of "Docket 4600 Guidance") See Amended Settlement Agreement at p. 100 (Section 22.f)

Attachment 1
Docket Nos. 4770/4780

PST Advisory Group AA, MG (Vote 3-0) – Direct PST Advisory Group to participate in quarterly technical sessions with the PUC. The Commission and all Advisory Group members should have the opportunity to provide input on agendas. The Commission will expect to hear from subcommittees at the technical sessions.	See Amended Settlement Agreement at pp. 70-72 (Section 17.e)
Cost Allocation of PST Costs AA, MG (Vote 3-0) The Commission accepts the proposed allocation of PST costs. In the future, all proposed costs should be included in the ACOSS.	See Amended Settlement Agreement at pp. 23-24 (Section 5.a)
Cost Recovery for PIMS Awards AA, MG (Vote 3-0) Direct Company to recover the costs of any approved performance incentives earned for achieving the targets through a new reconciling factor. The new factor should be calculated in accordance with the ACOSS used in this docket.	See Amended Settlement Agreement at pp. 91-92 (Section 19.g)
IS Cap AA, MG (Vote 3-0) Direct the Company to amend section 13.c of the settlement to reflect that in no case will the deferral of the regulatory asset for Cybersecurity and Information Services Technology Modernization Programs result in recovery of a total cost in excess of the Company's forecasted allocated cost for these programs. Amended portion of paragraph c (pages 44-45 of Settlement): To the extent the Company incurs costs in excess of the Narragansett Electric and Narragansett Gas revenue requirement allowances included in base distribution rates for the items described in Section 13.b above, the Company shall create a regulatory asset to defer that amount, but in no case will the deferral of the regulatory asset result in recovery of a total cost in excess of the Company's forecasted allocated cost of $17.4 million ($5.1 million for Narragansett Gas and $12.3 million for Narragansett Electric).	See Amended Settlement pp. 47 (Section 13.c)
Reporting for GBE and IS AA, MG&MC (Vote 3-0) The GBE Report and the IT Technology Modernization Programs will include the current status of the deferral position. The report should include an update on the deferral balance and include at a minimum, the increase, decrease, and ending balance.	See Amended Settlement Agreement at p. 45 (Section 12.f) See Amended Settlement Agreement at p. 48 (Section 13.d)

Charging Demonstration AA, MG (Vote 3-0) Disallow funding for utility ownership of Level 2 and DCFC charging stations. The Commission will consider re-evaluating utility ownership at the end of RY 1 if there is evidence of unmet need.	See Amended Settlement Agreement at pp. 59-62 (Section 17.a.ii)
Demand Charge Discount MG, AA with modification to amended language of settlement by AA, MC (Vote 3-0) - Move to allow funding of a 100% discount for participants who enroll in year one but require the Company to file a proposed discount for years 2 and 3 prior to the start of the program year based on enrollment data and lessons learned. Amended last sentence of paragraph iii on page 57 of Settlement: The discount for participants who enroll in Rate Year 1 will be equal to 100% of the distribution demand charge for a period of three years from the start of service. Sixty days prior to enrollment for Rate Year 2 and Rate Year 3, the Company shall make as part of the first electric Transportation Evaluation and annual program modification report, with input from the Power Sector Transformation Advisory Group on the appropriate level of the discount based on enrollment data and lessons learned for approval by the PUC. The results of the pilot and any proposed DCFC demand charges or rebates will be reviewed as part of the next MRP.	See Amended Settlement Agreement at pp. 62-63 (Section 17.a.iii)
Electric Transportation Initiative Evaluation AA, MG (Vote 3-0) Move that the evaluation should include, at a minimum, Charging Station location, category (as shown on page 54 of the settlement), in-service date, and utilization; effectiveness of demand charge discount, and free-ridership and spillover effects; learnings on how the company can integrate EVs with minimal impacts on the cost of the distribution system, including an understanding of the effectiveness of the off-peak charging pilot; evaluation of the effectiveness of each component of the initiative in stimulating consumer adoption of electric vehicles, including an understanding of the effectiveness of the type and level of the incentive; results of fleet advisory services, including how many fleet vehicles were converted to electric vehicles at the end of each rate year and at the end of the rate plan; incremental effect of the CO2 EV performance incentive mechanism, including the level of EV adoption is attributable to the strategic behavior the PIM will promote and the level of EV adoption that would have occurred without the PIM; evaluation of the Company's impact on fleet EV adoption.	See Amended Settlement Agreement at pp. 64-65 (Section 17.a.v)

Electric Heat AA, MG (Vote 3-0) Move to disallow funding for the Electric Heat Initiative. The Commission expects that the heat pump rebates proposed in this docket will be funded through the company's energy efficiency program because the Commission has already approved this well-designed and cost-effective program in Docket No. 4755.	See Amended Settlement Agreement at pp. 65-66 (Section 17.b) See Amended Settlement Agreement at p. 92 (Section 20.b.ii)
Strategic Electrification Marketing Fund AA, MG (Vote 3-0) Move to disallow funding for the Electric Heat Initiative. The Commission expects that the heat pump rebates proposed in this docket will be funded through the company's energy efficiency program because the Commission has already approved this well-designed and cost-effective program in Docket No. 4755.	See Amended Settlement Agreement at pp. 66-67 (Section 17.c) See Amended Settlement Agreement at p. 71 (Section 17.e)
Storage AA, MG (Vote 3-0) Move to direct the Company to file each draft RFP no less than 30 days before issuance to allow the Commission to understand the barriers the demonstration is designed to overcome and the desired learnings. The Company will prepare a cost benefit analysis using the Docket 4600 Framework when the pilot concludes.	See Amended Settlement Agreement at p. 13 (Definition of "Docket 4600 Guidance") See Amended Settlement Agreement at pp. 68-69 (Section 17.d)
Capital Efficiency Metric for Narragansett Electric MG, MC (Vote 3-0) Move to reject the Capital Efficiency Mechanism from the Settlement and open a docket pursuant to R.I. Gen. Laws § 39-1-27.7.1(e)(3) to investigate adopting this mechanism as a performance metric in the FY2020 Electric Infrastructure, Safety, and Reliability Plan.	See Amended Settlement Agreement at pp.72-75 (Section 18)
PIMS Awards Based on Unquantified Benefits AA, MG (Vote 3-0) Move that Commission disallow funding of incentives associated with unquantified benefits. However, unquantified benefits are important and there is merit in rewarding the Company for advancing them. Direct the PST Advisory Group to develop transparent and well-defined metrics for describing unquantified benefits and providing evidence that unquantified benefits are advancing.	See Amended Settlement Agreement at pp. 75-76 (Section 19)

System Efficiency Metric AA, MG (Vote 3-0) Move to allow funding for the system efficiency metric without additional basis point for unquantified benefits and require reporting that utilizes the Docket 4600 Framework to demonstrate the cost and benefit impacts of the metric on the energy system, customers, and society.	See Amended Settlement Agreement at p. 13 (Definition of "Docket 4600 Guidance") See Amended Settlement Agreement at pp. 75-78 (Section 19) See Amended Settlement Agreement at pp. 87-89 (Section 19.d)
CO_2 Electric Vehicle PIM AA, MG (Vote 3-0) Move that Commission disallow funding for the electric heat performance incentive mechanism. The Company may propose a performance incentive designed to reward reductions in carbon dioxide emissions in the energy efficiency program plan.	See Amended Settlement Agreement at pp. 80-82 (Section 19.b.ii) See Amended Settlement Agreement at pp. 87-89 (Section 19.d)
Fleet Electrification PIM AA, MG (Vote 3-0) Move to disallow funding for the fleet electrification PIM and direct the Company to track light duty government and commercial fleet adoption numbers and rates in Rhode Island. The Commission will reevaluate whether to allow a financial incentive to be tied to this metric prior to Rate Year 2 if the Company demonstrates how this incentive is consistent with Commission policy for performance metrics.	See Amended Settlement Agreement at pp. 82-83 (Section 19.b.iii) See Amended Settlement Agreement at pp. 87-89 (Section 19.d)
Installed Energy Storage Capacity PIM AA, MC (Vote 3-0) Move to disallow funding for the installed energy storage capacity incentive mechanism. Direct the Company to track installed energy capacity. Incremental Energy Storage Capacity should be an eligible resource for the Company to earn the Capital and System Efficiency incentive mechanisms.	See Amended Settlement Agreement at pp. 79-80 (Section 19.b.i) See Amended Settlement Agreement at p. 89 (Section 19.d.ii) See Amended Settlement Agreement at p. 91 (Section 19.f.vii)

CO_2 Electric Heat PIM AA, MG (Vote 3-0) Move that Commission disallow funding for the electric heat performance incentive mechanism. The Company may propose a performance incentive designed to reward reductions in carbon dioxide emissions in the energy efficiency program plan.	See Amended Settlement Agreement at pp. 83-84 (Section 19.b.iv) See Amended Settlement Agreement at pp. 87-89 (Section 19.d)
Activated Apartments and Disadvantaged EVSE PIM AA, MG (Vote 3-0) Move that the Commission disallow funding for the activated apartment buildings and disadvantaged community metric and direct the Company to track the in-service date for make-ready work and charging stations installed in these categories. The Commission will reevaluate whether to allow a financial incentive to be tied to this metric at the end of Rate Year 2 if the Company demonstrates unmet need in these sectors.	See Amended Settlement Agreement at pp. 84-85 (Section 19.c.i)
Time to Interconnection Service Agreement PIM AA, MG (Vote 3-0) Move to deny funding for this metric and direct the Company to track this metric.	See Amended Settlement Agreement at pp. 85-87 (Section 19.c.ii) See Amended Settlement Agreement at p. 91 (Section 19.f.viii)

Grid Modernization and AMF Study AA, MG (Vote 3-0 on amended motion) Move to allow funding in RY 1 for the system data portal, GIS IS, GIS Data Enhancement and the AMF Study. Disallow funding in RY 1 for Line 28, Attachment 1, page 2 "all other grid modernization (excluding DSCADA, GIS, System Data Portal, Feeder Monitoring)." The Commission will consider the forthcoming long-range grid modernization plan and AMF Study in conjunction. The grid modernization plan should reflect a time period that encompasses the end of any proposed AMF implementation. 1. Objectives for the electric grid to advance the Goals for the Energy System and Rate Design Principles, and potential visibility requirements of the benefit-cost framework in Docket 4600 Guidance Document. 2. Explains the role of currently active programs. 3. Includes investments and technology deployments planned through the end of any proposed AMF implementation. 4. Functionalities to achieve those objectives 5. Review of options for candidate technologies to deliver those functionalities 6. Transparent, updated benefit cost analysis that fully incorporates the Docket 4600 framework. 7. Implementation plan that provides a detailed explanation of the prioritization, sequencing, and pace of investments. 8. Plan and explanation for the integration and leveraging of customer-side technologies and resources in the near and long-term. 9. Identification of the possible communications solutions that address current and future needs and support a wide array of potential grid modernization programs and activities. 10. Explanation of congruency with New York and Massachusetts. 11. Plan and explanation of how the selected investments and implementation plan address risks of redundancy or obsolescence.	See Amended Settlement Agreement at p. 13 (Definition of "Docket 4600 Guidance") See Amended Settlement Agreement at pp. 51-52 (Section 15.b-d) See Amended Settlement Agreement at pp. 56-57 (Section 16.b.iv)

The AMF Plan should include the elements identified on page 51 of the settlement. In addition, the AMF plan and business case should include the following: 1. Updated costs for AMF deployment based on information gained from a procurement effort (Nouel, June 18, 36). 2. Transparent, updated benefit cost analysis that fully incorporates the Docket 4600 framework. 3. Investigation of alternative business models and ownership models (Nouel, June 18, 36). 4. Analysis of data latency (Nouel, June 18, 36). 5. Deployment details (Nouel, June 18, 36). 6. Role of non-regulated power producers, articles to share customer information, customer engagement (Nouel, June 18, 40). 7. Ownership model for assets and telecom (Nouel, June 18, 40-41). 8. Detail of AMF functionalities; how Rhode Island will achieve those functionalities, and when the functionalities will be available (Nouel, June 18, 50-51). 9. Identification of the most cost effective way to achieve the functionalities, and how the functionalities align to the policy objectives (Leana, June 18, 52). 10. Explanation of whether the realization of those functionalities will require additional future work and costs over 20 years (Leana, June 18, 52). 11. Identification of what functionalities the AMF will achieve that are part of the grid modernization plan and which are in addition to the grid modernization plan (Nouel, June 18, 112). 12. Identification of which functionalities are dependent on full-scale roll out instead of a targeted roll out (Leana, June 18, 113). 13. Business case based on Rhode Island-only scenarios and Rhode Island + New York scenarios (Leana, June 18, 119).	

14. Business case based on the length (duration) of meter deployment (Leana, June 18, 119). 15. Identification of the critically linked parts of grid modernization and AMF (Leana, June 18, 120). 16. Identification of whether the AMF solution would allow for proper net metering according to the tariff (Leana, June 18, 133). Motion to amend by MG, MC to add to the grid modernization a key functionality: it is essential that the grid modernization work, in particular the distribution planning components, address the relationship between electrification of heating and transportation and efficiency. The grid has capacity for electrification at the right time and place. Efficiency can reduce peak demand and create space for electrification but the utility must include energy efficiency and opportunities for DD Management with EVs and EH in distribution level planning.	
Revised Excess Deferred Taxes True-Up AA, MC (Vote 3-0) Move to approve the revised language provided in Response to Record Request 30 for inclusion in an amended settlement.	See Amended Settlement Agreement at pp. 95-97 (Section 22.a)

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The Narragansett Electric Company
d/b/a National Grid

Amended Settlement Agreement
Docket Nos. 4770 and 4780
~~June 6,~~August __, 2018

Submitted to:
Rhode Island Public Utilities Commission

Submitted by:
nationalgrid

nationalgrid

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STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

PUBLIC UTILITIES COMMISSION

In Re: The Narragansett Electric Company d/b/a National Grid's Application to Change Electric and Gas Base Distribution Rates	)	Docket No. 4770
In Re: The Narragansett Electric Company d/b/a National Grid's Proposed Power Sector Transformation (PST) Vision and Implementation Plan	)	Docket No. 4780

AMENDED SETTLEMENT AGREEMENT

The Narragansett Electric Company d/b/a National Grid (the Company)[1] enters into this amended settlement agreement (the Settlement Agreement) with the Division of Public Utilities and Carriers (Division); the Office of Energy Resources (OER); the U.S. Department of the Navy and the Federal Executive Agencies (collectively, Navy/FEA); Conservation Law Foundation (CLF); Energy Consumers Alliance of New England, Inc. d/b/a People's Power and Light (PPL)[2]; Sierra Club (SC)[3]; Natural Resources Defense Council (NRDC)[4]; Acadia Center (Acadia); Northeast Clean Energy Council (NECEC); the George Wiley Center (GWC); New

[1] The term "Company" refers to The Narragansett Electric Company's electric and gas distribution operations on a collective basis. The electric and gas distribution operations of The Narragansett Electric Company together represent the entirety of the regulated operations conducted in Rhode Island by the Company. In this Settlement Agreement, the regulated entity is referred to as the Company. Where there is a need to refer to the individual electric and gas distribution operations of the Company, the terms "Narragansett Electric" or "Narragansett Gas," respectively, are used in this Settlement Agreement.

[2] PPL intervened in Docket No. 4770 individually and in Docket No. 4780 jointly with Sierra Club and Natural Resources Defense Council.

[3] SC intervened in Docket No. 4780 jointly with PPL and Natural Resources Defense Council.

[4] NRDC intervened in Docket No. 4780 jointly with PPL and Sierra Club.

Energy Rhode Island (NERI); Wal-Mart Stores East, LP and Sam's East, Inc. (collectively, Wal-Mart); Direct Energy Business, LLC, Direct Energy Services, LLC, and Direct Energy Solar (collectively, Direct Energy)[5]; ChargePoint, Inc. (ChargePoint)[6]; and National Railroad Passenger Corporation (Amtrak)[7] (collectively, the Settling Parties and, each individually, a Settling Party[8]), with regard to the Company's Application for Approval of a Change in Electric and Gas Base Distribution Rates Pursuant to R.I. Gen. Laws §§ 39-3-10 and 39-3-11 (the Application) and the Company's proposed Power Sector Transformation (PST) Vision and Implementation Plan (PST Plan). The Company submitted the Application and the PST Plan to the Rhode Island Public Utilities Commission (the PUC) on November 27, 2017.

Background:

The Company's Application to the PUC requested a change in base distribution rates to address a total Rate Year[9] revenue deficiency of $41,294,907 for Narragansett Electric and a total revenue deficiency of $30,322,543 for Narragansett Gas. The Company's Application was filed to seek recovery of costs necessary for the safe and reliable operation of the Company's electric and gas distribution systems for the benefit of Rhode Island customers. On March 2, 2018, the Company revised its request to account for the impacts of the Tax Cuts and Jobs Act (the Tax Act), which reduced the federal corporate income tax rate from 35 percent to 21 percent. The March 2, 2018 revision reduced the Company's Rate Year revenue deficiency to

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[5] Direct Energy is an intervenor in Docket No. 4780 only.

[6] ChargePoint is an intervenor in Docket No. 4780 only.

[7] ~~Amtrak filed a motion to intervene out of time, to which none of the other parties objected; however, until the PUC rules on Amtrak's motion, Amtrak is not yet a party to this proceeding.~~ Amtrak is an intervenor in Docket No. 4770 only.

[8] PPL, SC, and NRDC intervened jointly in Docket No. 4780 and together are considered a Settling Party with respect to that docket.

[9] The Rate Year is the twelve-month period ending August 31, 2019.

$27,434,395 for Narragansett Electric and $18,408,489 for Narragansett Gas. This revision also included a $6.7 million correction from a miscalculation of accumulated deferred taxes in the Company's filing that the Division identified. Subsequently, on May 9, 2018, the Company made a second revision to its request to account for additional impacts of the Tax Act and to address certain corrections identified during the course of discovery in Docket No. 4770, also including the acceptance of an adjustment that was recommended by the Division to the amortization of excess deferred income taxes. The May 9, 2018 revision reduced the Company's Rate Year revenue deficiency to $18,877,761 for Narragansett Electric and $15,451,041 for Narragansett Gas. Accordingly, after the Company's second revision to its revenue requirement, the Company's total requested revenue increase was $34,328,802.

Additionally, concurrent with filing the Application, the Company filed its PST Plan to propose investments to further the State of Rhode Island's power sector transformation goals, as identified through the Docket No. 4600 proceedings and through the power sector transformation stakeholder process, which resulted in the Rhode Island Power Sector Transformation Phase One Report to Governor Gina M. Raimondo. The PST Plan included requests for limited Rate Year funding and a proposed funding mechanism for the Company's proposed power sector transformation investments. The PUC separated the PST Plan from the Application and created Docket No. 4780 to assess the PST Plan. After the PUC initiated Docket No. 4780, the Company revised its request related to the PST Plan and requested: (1) approval of $2 million in Rate Year funding to conduct a planning process for the implementation of Advanced Metering Functionality (AMF); (2) approval of its proposed annual PST Plan process, whereby the Company would submit annual PST Plans for the PUC and Division to review and approve PST investments; (3) approval of the Company's proposed PST Provision, which provided for the recovery of PST Plan costs on a fully reconciling basis; and (4) guidance from the PUC on the categories of proposed PST investments outlined in the Company's PST Plan filing.

The Settling Parties have filed testimony with the PUC, engaged in discovery and negotiations regarding the matters specified in the articles of this Settlement Agreement, and asserted competing and disputed claims with regard to certain issues contained in the Application and the PST Plan, including, but not limited to: (a) the magnitude of the proposed revenue deficiencies for Narragansett Electric and Narragansett Gas; (b) the scope and structure of the Company's proposed power sector transformation programs, such as AMF implementation, electric vehicle enablement, and grid modernization technology upgrades; (c) a multi-year rate plan; (d) the structure and role of performance incentive mechanisms; and (e) the appropriate cost recovery mechanisms.

The Settling Parties now wish to resolve the contested issues raised by (1) the Division, Navy/FEA, Wal-Mart, NERI, and Acadia in direct testimony and OER and GWC in written comments filed with the PUC on April 6, 2018 in Docket No. 4770; (2) Amtrak in its motion to intervene out of time filed with the PUC on June 1, 2018 in Docket No. 4770; (3) CLF jointly with PPL/SC/NRDC and CLF jointly with NRDC/PPL in direct testimony filed with the PUC on April 17, 2018 in Docket No. 4780; and (4) the Division, Navy/FEA, NERI, Acadia, Direct Energy, ChargePoint, and CLF jointly with NECEC in direct testimony and OER in written comments filed with the PUC on April 25, 2018 in Docket No. 4780, on mutually agreeable terms.

The Settling Parties believe that a settled resolution will reduce costs for Rhode Island customers through the elimination of resource-consuming litigation and achieve a just and reasonable result that takes into account the diverse views of all the Settling Parties.

Accordingly, in consideration of the exchange of promises herein contained, the Settling Parties hereby agree, subject to approval by the PUC, as follows:

ARTICLE I: INTRODUCTION

A. Procedural History

Docket No. 4770: At the outset of these proceedings, the PUC ordered that the Company's PST Plan be moved into Docket No. 4780 and be considered on a separate procedural schedule. Additionally, the PUC directed that it would not consider any settlement proposal until after the Division and intervenors submitted direct testimony setting forth their positions on the various elements of the Company's Application.

Since filing its Application on November 27, 2017, the Company has responded to 1,439 data requests issued by the PUC, the Division, the Navy/FEA, Wal-Mart, NERI, and Acadia. The Division and the intervenors also have responded to data requests issued by the Company and the PUC. On April 6, 2018, the following Division and Intervenor witnesses filed direct testimony in Docket No. 4770: Division Witnesses Tim Woolf (Policy), Michael Ballaban jointly with David J. Effron (Revenue Requirement), Tina Bennett jointly with Alan Neale (Gas Business Enablement), Gregory Booth (Grid Modernization), Matthew Kahal (Cost of Capital and Return on Equity), Tim Woolf jointly with Melissa Whited (Additional Cost of Capital Considerations and Benefit Cost Analysis), Roxie McCullar (Depreciation), Roger Colton (Low Income Discount and Income Eligible Proposals), John Athas (Electric Allocated Cost of Service and Rate Design), and Bruce Oliver (Gas Allocated Cost of Service and Rate Design), raising issues relating to the calculation of the proposed revenue requirement, the computation of allowable uncollectible expense, the cost of capital, and other ratemaking issues including, but not limited to, cost allocation, rate design, the appropriate structure and role of performance incentive mechanisms, and the appropriate cost recovery mechanisms for grid modernization investments.

- Navy/FEA Witness Ali Al-Jabir, raising issues relating to rate design and revenue allocation;
- Wal-Mart Witness Gregory W. Tillman, raising issues relating to revenue allocation, rate design, and return on equity – as well as the impact of the Tax Act;
- NERI Witness Karl Rabago, raising issues relating to the Company's proposed revenue requirement, return on equity, rate design, forecasting, revenue allocation, and the streetlighting tariff; and
- Acadia Witness Mark LeBel, raising issues relating to rate design and return on equity.

The following parties also intervened in Docket No. 4770 and filed written comment:

- OER in relation to the alignment of the Company's proposals with the State of Rhode Island's overall policy goals for the future of the power sector; and
- GWC in relation to the Company's low income discount rate design proposals.

CLF, NECEC, PPL, and Amtrak intervened in Docket No. 4770, but did not file direct testimony or written comment.

On May 9, 2018, the Company filed rebuttal testimony responding to the issues contested by the Division and the intervenor witnesses. Specifically, the Company filed the rebuttal testimony of Company Witnesses Robert E. Hevert (return on equity and capital structure); Ned Allis (depreciation); Joseph F. Gredder (electric forecasting); Theodore E. Poe, Jr. (gas forecasting); John Gilbert, Daniel J. DeMauro, and Mukund Ravipaty (information systems); Anthony Johnston and Christopher J. Connolly (Gas Business Enablement); Raymond J. Rosario, Jr., Alfred Amaral, III, and Ryan M. Constable (operational expense); Maureen Heaphy (human resources); Melissa Little (revenue requirement); Howard S. Gorman (electric allocated cost of service study, revenue allocation, and rate design); Paul M. Normand (gas allocated cost of service study, revenue allocation, and rate design); Ann E. Leary and Scott McCabe (gas and electric pricing, respectively); Kayte O'Neill (PST policy); Rob Sheridan (grid modernization); John Leana (AMF); and Meghan McGuinness and Timothy R. Roughan (performance incentive mechanisms). These witnesses responded to the positions of the Division and intervenor witnesses on each of the identified issues.

To date, the PUC has held ~~11~~13 open meetings on December 20, 2017, January 3, January 19, February 2, March 5, April 13, April 16, April 17, April 23, May 15, ~~and~~ May 16, June 7, and June 19, 2018, at which the PUC analyzed the Company's Application and the respective positions of the Company, the Division, and the intervenors.

Docket No. 4780: Since the initial filing of its Application and the PST Plan on November 27, 2017, and, after the PUC initiated Docket No. 4780 for separate consideration of the PST Plan, the Company has responded to 469 data requests issued by the PUC, the Division, the Navy/FEA, PPL/SC/NRDC, NERI, and NECEC. On April 17, 2018 and/or April 25, 2018, the following Division and Intervenor witnesses filed direct testimony in Docket No. 4780:

- Division Witnesses Gregory Booth, raising issues relating to the Company's proposed grid modernization investments, and Tim Woolf jointly with Melissa Whited, raising issues related to: (a) multi-year rate plans, (b) performance incentive mechanisms, (c) the Company's electric vehicle proposals, (d) the Company's electric heat proposals, (e) the Company's electric storage initiative, (f) the Company's proposal for Company-owned solar generation, (g) AMF, and (h) the Company's benefit-cost analyses;

- Navy/FEA Witness Ali Al-Jabir, raising issues relating to: (a) cost recovery mechanisms for PST proposals; (b) cost allocation and rate design; and (c) performance incentive mechanisms;
- CLF jointly with PPL/SC/NRDC Witness Douglas B. Jester, raising issues relating to AMF and the Company's electric vehicle proposals;
- CLF jointly with PPL/NRDC Witness Benjamin A. Stafford, raising issues relating to the Company's electric heat proposals;
- NERI Witness Karl Rabago, raising issues relating to: (a) overall PST policy and vision; (b) cost recovery mechanisms for PST investments; (c) performance incentive mechanisms; and (d) benefit cost analyses;
- NECEC and CLF Witness Nathan Phelps, raising issues relating to: (a) the Company's proposed grid modernization investments; (b) AMF; (c) the Company's electric storage initiative; (d) the Company's proposal for Company-owned solar generation; and (e) the Company's proposed Income Eligible Customer Rewards Program;
- NECEC and CLF Witness Ronald J. Binz, raising issues relating to performance-based regulation, performance incentive mechanisms, and recovery of PST-related costs;
- Direct Energy Witness Frank Lacey, raising issues relating to: (a) the Company's proposed grid modernization investments; (b) AMF; (c) time-varying rates and (d) the Company's electric vehicle proposals;

- Acadia Witness Mark LeBel, raising issues relating to: (a) performance incentive mechanisms; (b) AMF; (c) the Company's electric vehicle proposals, and (d) the Company's electric heat proposals; and
- ChargePoint Witness David Packard, raising issues relating to the Company's electric vehicle proposals.

OER also intervened in Docket No. 4780 and filed written comment raising issues relating to: (a) performance incentive mechanisms; (b) the Company's proposed grid modernization investments; (c) AMF; (d) the Company's electric vehicle proposals; (e) the Company's electric heat proposals; (f) the Company's electric storage initiative; (g) the Company's proposal for Company-owned solar generation; and (h) cost recovery mechanisms for PST proposals. The GWC also intervened in Docket No. 4780 but did not file direct testimony or written comment.

In addition to the pre-filed written testimony and the responses to data requests that have been filed in Docket No. 4780, the PUC also held technical sessions on the various elements of the Company's PST Plan. Specifically, on January 26, 2018, the PUC held a technical session on the Company's proposed grid modernization investments and cost recovery mechanisms. On January 31, 2018, the PUC held a technical session on the Company's proposed performance incentive mechanisms. On February 8, 2018, the PUC held a technical session on the Company's AMF proposal. On February 20, 2018, the PUC held two technical sessions: one on the Company's electric vehicle proposals, and another on the Company's electric heat proposals. On February 21, 2018, the PUC held two more technical sessions: one on the Company's electric storage initiative, and another on the Company's proposal for Company-owned solar generation.

The Settling Parties have conducted ongoing settlement discussions. The Company and the Division have conducted bilateral negotiations on the various proposals in the Application and the PST Plan. Additionally, the Company has held additional bilateral negotiations with certain other intervening parties to address specific areas of interest and concern to those parties. To supplement those bilateral negotiations and ensure that the positions of all the Settling Parties received appropriate attention and consideration, the Division and the Company arranged for several face-to-face meetings at which all intervenors had an opportunity to raise and advocate for the issues that were of principal concern to them and to negotiate the substance of this Settlement Agreement. Ultimately, the Company and the Division drafted the Settlement Agreement to include all the issues and matters raised by all the Settling Parties during these negotiations. After the Company and the Division completed drafting the Settlement Agreement, they shared the draft with all the intervenors and provided them an opportunity for further comments and revision. This Settlement Agreement, therefore, is the product of a collaborative, inclusive, and comprehensive process that fairly considered the interests of all parties and stakeholders.

The Settlement Agreement was initially filed with the PUC on June 6, 2018. The PUC commenced the hearing on the Settlement Agreement on June 12, 2018; held 11 days of settlement~~evidentiary~~ hearings on June 14, June 15, June 18 through June 22, June 25 through June 28, 2018; and concluded the hearing on July 18, 2018. The PUC subsequently held a series of open meetings on July 2, July 3, July 18, July 20, and July 31 to discuss the Settlement Agreement and the testimony from the settlement hearings. On August 3, 2018, the PUC held an open meeting at which the PUC approved the Settlement Agreement filed on June 6, 2018 with modifications. Following the PUC's open meeting decision, the Settling Parties convened to review and discuss the PUC's modifications, which have been incorporated into this Settlement Agreement.

B. Settling Parties' Statement

This Settlement Agreement is based on extensive discovery and negotiations among the Settling Parties concerning all issues involved in: (1) establishing new base distribution rates for the Company's electric and gas operations to become effective September 1, 2018; and (2) making investments in new programs and initiatives to facilitate power sector transformation. The Settling Parties agree that the outcome of this Settlement Agreement is just and reasonable and in the public interest.

C. Scope

The Settlement Agreement addresses the full scope of all issues presented in and resolves all issues contested among the Settling Parties in both Docket No. 4770 and Docket No. 4780 and establishes base distribution rates for the Company's electric and gas residential, commercial and industrial (C&I), and outdoor lighting customers in Rhode Island.

ARTICLE II: TERMS OF SETTLEMENT

A. Multi-Year Rate Plan Overall Framework

As a result of the collaborative and inclusive settlement negotiations among the Settling Parties in addition to bilateral negotiations between the Company and the Division on the various proposals in the Application and the PST Plan, the Settling Parties have developed a comprehensive set of terms and conditions for a three-year rate plan for Narragansett Electric and Narragansett Gas. The terms and conditions of this rate plan are set forth below and in the

Attachments to this Settlement Agreement. Specifically, this Settlement Agreement addresses the following topics:

1. Effective Date and Term;
2. Changes in Revenue Requirements for Three Rate Years;
3. Base Distribution Rate Changes for Rate Year 2 and Rate Year 3;
4. Narragansett Electric - Revenue Requirement;
5. Narragansett Electric - Revenue Allocation, Rate Design, and Tariffs;
6. Narragansett Electric - Earnings Report and Earnings Sharing Mechanism;
7. Narragansett Electric - Other Tariffs and Reconciling Mechanisms;
8. Narragansett Gas - Revenue Requirement;
9. Narragansett Gas - Revenue Allocation, Rate Design, and Tariff;
10. Narragansett Gas - Earnings Report and Earnings Sharing Mechanism;
11. Narragansett Gas - Other Tariffs and Reconciling Mechanisms;
12. Gas Business Enablement Program;
13. Cyber Security and Information Services (IS) Technology Modernization Programs;
14. Commencement of Investments to Enable a Modern Grid;
15. Grid Modernization Plan (GMP);
16. AMF;
17. Clean Energy Programs;
18. Capital Efficiency Mechanism for Narragansett Electric;
19. Performance-Based Incentive Mechanisms;
20. Tracking and Deferral of Certain “Special Sector” Program Costs and Revenues;
21. Next Rate Case Filing;

22. Additional Provisions; and

23. Other Provisions.

B. Definitions

~~"**Capital Spending Target**" means the three-year aggregate Capital spending targets for electric distribution established in Section 18 for ISR-eligible Capital Spending for Fiscal Year 2020 and, in the aggregate, Fiscal Years 2021 and 2022.~~

"**Docket 4600 Guidance Document**" means the PUC's Guidance on Goals, Principles and Values for Matters Involving The Narragansett Electric Company d/b/a National Grid adopted on October 27, 2017 in Docket No. 4600-A.

"**Effective Date**" means September 1, 2018, or such other date as the PUC may determine.

"**ISR**" means the infrastructure, reliability, and safety planning and cost recovery process governed by Section 39-1-27.7.1(c), (d) of Rhode Island General Laws.

~~"**ISR-eligible Capital Spending**" means capital spending for electric distribution that is eligible for approval by the PUC under the statutory provisions of the ISR.~~

"**Rate Year 1**," sometimes referred to herein as "RY1," means September 1, 2018 through August 31, 2019.

"**Rate Year 2**," sometimes referred to herein as "RY2," means September 1, 2019 through August 31, 2020.

"**Rate Year 3**," sometimes referred to herein as "RY3," means September 1, 2020 through August 31, 2021.

The three rate years are referred to herein collectively as "Rate Years," or "RYs," and individually as a "Rate Year," or "RY."

"**Test Year**," means July 1, 2016 through June 30, 2017.

C. Rate Plan

1. Effective Date and Term

The term of the Company's electric and gas rate plan is three years, beginning September 1, 2018 and continuing through August 31, 2021 (Rate Plan or MRP). For administrative reasons, certain targets and mechanisms are on different twelve-month schedules (*e.g.*, calendar year (CY) periods), as provided herein. In addition, unless specifically noted in this Settlement Agreement, all terms of this Settlement Agreement will continue in effect until changed by the PUC.

2. Changes in Revenue Requirements for Three Rate Years

This Settlement Agreement provides for the following changes in base distribution rate annual revenue requirements for Narragansett Electric and Narragansett Gas for each of the Rate Years of the Rate Plan (*i.e.*, Rate Year 1, Rate Year 2, and Rate Year 3) to provide funding for the Company's electric and gas operations and PST Plan initiatives, including: Updated AMF Business Case (as defined in Section 16 below); GIS Investments; System Data Portal; DSCADA; other Grid Modernization investments; Electric Transportation; ~~Electric Heat;~~ and Electric Storage.

	Narragansett Electric ($M)	Narragansett Gas ($M)	Total ($M)
Base Case			
Rate Year 1	$~~14.1~~X	$~~5.5~~X	$~~19.6~~X
Rate Year 2	$~~3.9~~X	$~~5.5~~X	$~~9.4~~X
Rate Year 3	$~~2.0~~X	$~~3.3~~X	$~~5.3~~X
Subtotal – Base Case	$~~20.0~~X	$~~14.3~~X	$~~34.3~~X
Power Sector Transformation			
Rate Year 1	$~~5.3~~X	$~~1.4~~X	$~~6.7~~X
Rate Year 2	$~~4.1~~X	$~~0.5~~X	$~~4.6~~X
Rate Year 3	$~~1.9~~X	$~~0.6~~X	$~~2.5~~X
Subtotal – PST	$~~11.3~~X	$~~2.5~~X	$~~13.8~~X

	Narragansett Electric ($M)	Narragansett Gas ($M)	Total ($M)
Base Case plus PST			
Rate Year 1	$~~19.4~~X	$~~6.9~~X	$~~26.3~~X
Rate Year 2	$~~8.0~~X	$~~6.0~~X	$~~14.0~~X
Rate Year 3	$~~3.9~~X	$~~3.9~~X	$~~7.8~~X
TOTAL	$~~31.3~~X	$~~16.8~~X	$~~48.1~~X

~~The~~A summary of the revenue requirement settlement terms is provided in Attachment 1, Page 1. The base case components of the base distribution revenue requirements for Narragansett Electric and Narragansett Gas are set forth in Attachment 2, Schedules 1-ELEC and 2-GAS, respectively. The PST Plan components of the base distribution revenue requirements for Narragansett Electric and Narragansett Gas are set forth in Attachment 4 and Attachment 5.

To reach a settlement in these proceedings, the Company accepted the majority of the downward adjustments to operating expenses and rate base that were recommended by the Division, as outlined in the table below.

	Rate Year ($M)		
	1	2	3
Company Base Rate Request			
March 2, 2018 (REV-1) Base Rate Request	$45.8		
Refund of Excess Deferred Taxes	($9.0)		
A&G Expense Reclassification to Capital	($4.5)		
March 2, 2018 (REV-1) Base Rate Request adjusted	$32.4[10]		
Settlement Adjustments			
Subtotal - Expense Adjustments	($~~12.5~~X)	$~~0.0~~X	$~~0.0~~X
Subtotal - Rate Base Adjustments	($~~3.1~~X)	$~~0.0~~X	$~~0.0~~X
Adjustment to Revenue Requirement for Rate Base Adjustments	($~~0.3~~X)		
Total Adjustments	($~~12.7~~X)	$~~0.0~~X	$~~0.0~~X
Subtotal - Adjusted Base Rate Request	$~~19.6~~X	$~~9.4~~X	$~~5.3~~X
PST Additions			

[10] As described in Section 4.h. (Narragansett Electric) and Section 8.h. (Narragansett Gas), the Company will include all other revenue requirement adjustments either (1) identified during discovery, (2) in the preparation of the May 9, 2018 rebuttal cost of service, and (3) resulting from changes presented in the rebuttal testimony in its compliance filing revenue requirement in this docket. These adjustments account for the difference between the Company's adjusted March 2, 2018 request of $32.4 million and the request of $34.3 million submitted with the Company's rebuttal filing on May 9, 2018.

	Rate Year ($M)		
	1	2	3
PST Adjustments	$~~6.7~~X	$~~4.6~~X	$~~2.5~~X
Total Settlement - Base Case plus PST	$~~26.3~~X	$~~14.0~~X	$~~7.8~~X

As detailed in Attachment 2, for Rate Year 1, the revenue requirements are based on the following parameters and adjustments:

a. A return on equity (ROE) of 9.275 percent;

b. A capital structure recommended by the Division and overall cost of capital, including a 51 percent common equity ratio. The resulting weighted average cost of capital (WACC) is applicable to the calculation of the revenue requirements associated with the ISR Plans and any other reconciling mechanism that calculates a return based on the approved WACC, which is the same as it is today;

c. A reduction in depreciation expense of $3.1 million. The Company's depreciation rates for Narragansett Electric and Narragansett Gas have been reduced and are set forth in Attachment 2, respectively;

d. The impacts of the tax rate change to 21 percent and the amortization of excess accumulated deferred income taxes (ADIT);

e. A reduction to Administrative and General expense to reflect a reclassification to capital;

f. An adjustment to labor expense to reflect a smooth hiring pattern over the term of the Rate Plan for all incremental full time equivalents (FTEs) that were included in the Company's November 27, 2017 initial filing but have not yet been filled, as shown on Attachment 2, Schedule 12 and Attachment 3, Workpaper 4;

g. An adjustment to the calculation of the average of net write-offs as a percentage of total revenues for the five years ended June 30, 2017 for Narragansett Gas to eliminate the twelve-month period ended June 30, 2013 from this calculation. The average write-off rate is applied to the Rate Year 1 revenue to calculate the pro forma Rate Year 1 uncollectible accounts expense. This adjustment reduces the average Narragansett Gas write-off rate from 2.08 percent to 1.91 percent;

h. An adjustment to reflect the Division's position on Gas Growth capital;

i. Adjustments to reflect the Division's position on Gas Business Enablement and the IS Technology Modernization Programs (see Sections 12 and 13 below);

j. Existing reconciling mechanisms for costs recovered outside of base distribution rates remain in effect as operating today, as listed in Attachment 22; and

k. Adjustment to Service Company rents and Gas Business Enablement for reduced ROE at 9.275 percent; and

l. Adjustment for the depreciation expense impact of the growth adjustment.

3. Base Distribution Rate Changes for Rate Year 2 and Rate Year 3

Under the Rate Plan governed by this Settlement Agreement, base distribution rates for Narragansett Electric and Narragansett Gas shall change annually at the start of each Rate Year, effective September 1, 2018, September 1, 2019, and September 1, 2020. The annual increase in base distribution rates shall be allocated to each of Narragansett Electric's and Narragansett Gas's respective rate classes in the same proportion as determined from the final revenue allocation of the revenue requirements for Rate Year 1. The allocation of the increases to rate classes is presented in Attachment 8 for Narragansett Electric and Attachment 16 for Narragansett Gas, and base distribution rates based upon each rate class's Rate Year revenue requirement for Rate Year 2 and Rate Year 3 is contained in Attachment 9 for Narragansett Electric and Attachment 16 for Narragansett Gas.

1. The development of each Rate Year's base distribution rates consistent with the Rate Plan governed by this Settlement Agreement is incorporated in this Settlement Agreement, and through the PUC's approval of this Settlement Agreement, the base distribution rates for the Rate Years are approved for implementation, subject to ~~and~~any changes pursuant to Sections 8, 15, and/or 16;
2. Bill impacts for all rate classes comparing the rates in effect at the time of the Company's initial filing and Rate Year 1; Rate Year 1 and Rate Year 2; and Rate Year 2 and Rate Year 3, are presented in Attachment 10 and Attachment 17 for Narragansett Electric and Narragansett Gas, respectively; and

The PUC's approval of the base distribution rates contained in this Settlement Agreement represents its determination that the proposed base distribution rates are reasonable and consistent with the MRP.

On or before June 1 of each year of the Rate Plan, Narragansett Electric shall submit to the PUC ~~no earlier than 45 days prior to September 1, 2019 and September 1, 2020,~~ its Summary of Retail Delivery Rates tariff updating this tariff to reflect the base distribution rates approved by the PUC as part of this Settlement Agreement, together with testimony and supporting schedules explaining and itemizing the change in revenue requirement from the prior September 1 through the upcoming September 1, unless otherwise changed pursuant to a separate proceeding before the PUC consistent with Sections 8, 15, and/or 16.

The rate schedule provisions of Narragansett Gas's tariff contained in Attachment 19 include the base distribution rates for each of the Rate Years.

4. **Narragansett Electric - Revenue Requirement**

a. *Revenue Requirements for the Rate Years*. This Settlement Agreement provides that the base distribution rates for Narragansett Electric shall be set in these proceedings based on a Rate Year 1 revenue requirement increase of $~~14.08~~X million, a Rate Year 2 revenue requirement increase of $~~3.91~~X million, and a Rate Year 3 revenue requirement increase of $~~1.99~~X million, using a test-year ended June 30, 2017 (Test Year), as detailed in Attachment ~~2~~1 to this Settlement Agreement.[11] The resulting revenue requirements for the Rate Years are: $~~293,273,900~~X for RY1, $~~297,179,112~~X for RY2, and $~~299,166,993~~X for RY3. The base case revenue requirement for Rate Year 1 was determined using a total rate base of $~~728.9~~X million; pro forma Test Year operating revenues of $~~279.19~~X million; distribution operating expenses of $~~152.904~~X million; income taxes of $~~0.687~~X million; and an overall rate of return of ~~9.275~~6.97 percent. The base case revenue requirement for Rate Year 1 established by the Settling Parties allows for recovery of a revenue deficiency of $~~14.1~~X million in Rate Year 1, which represents a reduction of $~~27.213~~X million from the November 27, 2017 original request and a reduction of $~~4.796~~X million from the May 9, 2018 second revision to the cost of service.

b. *Calculation of Rate Base*. The Settling Parties agree that rate base for Narragansett Electric for the Rate Years shall be calculated to include capital additions approved in the ISR Plans for Fiscal Year 2014 (Docket No. 4382), Fiscal Year 2015 (Docket No. 4473), Fiscal Year 2016 (Docket No. 4539), Fiscal Year 2017 (Docket No. 4592), and estimated Fiscal Year 2018 (Docket No. 4682), estimated Fiscal Year 2019, and estimated Fiscal Year 2020 additions through Rate Year 1 (*i.e.*, August 31, 2019). Narragansett Electric's rate base for the Rate Years also shall be calculated to include non-ISR capital additions through August 31,

[11] Schedule A to this Settlement Agreement lists the attachments supporting this Settlement Agreement. Schedule A also provides a cross-reference to the bound volume that contains each respective attachment.

2021.[12] Narragansett Electric's rate base for the Rate Years also shall reflect the unamortized cost of long-term debt issuance expense. ISR-eligible capital additions for Rate Year 2 and Rate Year 3 will be addressed in the ordinary course outside of base distribution rates through the ISR Plan and included for recovery in future ISR Plans~~, subject to the Capital Efficiency mechanism set forth in Section 28 to this Settlement Agreement.~~.

c. *Other Adjustments*. The revenue requirements contained in Attachment 2 reflect adjustments agreed to by the Settling Parties associated with the Tax Cuts and Jobs Act, a change in the Company's A&G capitalization policy, and estimated Service Company excess deferred federal income taxes.

d. *Operating Expenses*.

i. Uncollectible Accounts Expense

The Settling Parties agree that the recovery of distribution-related uncollectible-accounts expense[13] shall be calculated using Narragansett Electric's actual five-year average ratio of actual distribution net write-offs as a percentage of distribution revenues (as calculated in Docket No. 4323 and Docket No. 4065) ending with the Test Year, or 1.30 percent. The actual, five-year average write-off rate of 1.30 percent shall also be used to calculate recovery of the uncollectible accounts expense allowance in those reconciling mechanisms that provide for the recovery of uncollectible account expense.

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[12] Capital additions currently recovered through the ISR Plan will be included in rate base as of September 1, 2018, concurrent with the effective date of new base distribution rates in these proceedings. Therefore, the capital-related portion of the ISR factor will be set to zero as of September 1, 2018.

[13] This amount does not include the commodity-related portion of uncollectible accounts expense, which is recovered through various reconciling mechanisms as governed by their respective tariff provisions (see Pre-Filed Direct Testimony of Company Witness Melissa A. Little at Page 47 (Bates Page 51 of Book 8). The calculation of uncollectible account expense is provided in Schedule MAL-22 (Rev-2) (Rebuttal Book 3).

ii. Non-Deferrable Storm Expense

This Settlement Agreement provides that the amount of non-deferrable storm expense allowed for recovery through base distribution rates shall be set at $3,193,756[14] annually, subject to the following: If the actual level of non-deferrable storm expense in any calendar year commencing in 2019 is greater than $5,193,756, then the amount in excess of $5,193,756 shall be charged to the Storm Contingency Fund (the Storm Fund). If the actual level of non-deferrable storm expense in any calendar year commencing in 2019 is less than $1,193,756, then the amount by which $1,193,756 exceeds the actual non-deferrable storm expense in that calendar year shall be credited to the Storm Fund. Because new base distribution rates go into effect on September 1, 2018, the dead band for 2018 shall be applied to the average of $3,722,000[15] for 8/12ths of the year and $3,193,756 for 4/12ths of the year, or $3,545,919.

iii. Storm Contingency Fund

As further described on Attachment 23, the Storm Contingency Fund is subject to the provisions of the Joint Proposal and Settlement between the Company and the Division filed with the PUC on September 25, 2017 in Docket No. 4686 and approved by the PUC on April 27, 2018 (Docket No. 4686 Settlement Agreement).

The total base distribution rate contributions to Narragansett Electric's Storm Fund effective September 1, 2018 will be $7.3 million annually, which includes:

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[14] Represents the five-year average of non-deferrable storm expense for the twelve month periods ended June 30, 2013 to June 30, 2017 (see Schedule MAL-31 (Rev-2) at Page 7, Line 13, Column (e)).

[15] The amount of non-deferrable storm expense allowed for recovery through base distribution rates for Narragansett Electric was set at $3,722,000 in Docket No. 4323, representing the five-year average of non-deferrable storm costs for calendar years 2007 to the 2011 test year in Docket No. 4323. As approved in Docket No. 4323, a $2,000,000 dead band was established, which would trigger additional charges to the Storm Fund for non-deferrable storm costs in excess of $5,722,000 in a calendar year, or credits to the Storm Fund for non-deferrable storm costs less than $1,722,000. See Docket No. 4686 Settlement Agreement, Paragraph (9), at 3.

(1) $4.3 million in annual base distribution rate contributions; and

(2) $3.0 million of supplemental Hurricane Sandy base distribution rate contributions through their currently scheduled expiration in March 2021. Thereafter, the continuation of this supplemental $3.0 million annual Storm Fund contribution will be subject to PUC review.

In addition, a contribution of $21.1 million annually is credited to the Storm Fund from the Storm Fund Replenishment Factor through its currently scheduled expiration in June 2021.

e. *Return on Rate Base*

i. Capital Structure

The Settling Parties agree that the revenue requirement established by this Settlement Agreement for Narragansett Electric shall be determined by the WACC and its components, as shown in Attachment 2.

The actual capital structure shall be adjusted further to include the long-term debt ~~to be~~ issued on July 27, 2018 pursuant to the separate Settlement Agreement entered into between the Division and the Company dated February 15, 2017, in Division Docket D-17-36, which was approved as set forth in the Division's Report and Order issued February 19, 2017~~.~~, and as set forth in the statement of basic terms that the Company filed with the Division on August 1, 2018.

ii. Cost of Long-Term Debt

As stated above, the new long-term debt shall be pro-formed at an interest rate of 3.~~96~~919 percent and debt expense estimated at 0.~~935~~46 percent, or $~~2.34~~1.61 million. Upon completion of the long-term debt issuance, the revenue requirement established by the Settlement Agreement shall be adjusted to use the actual weighted cost of long-term debt and debt expense after the new debt issuance. ~~Unless the long-term debt issuance is completed prior to submission of the~~

~~compliance filing implementing rates as a result of this Settlement Agreement, the~~The Company shall make a filing to the PUC within 60 days of the completion of the long-term debt issuance to adjust base distribution rates for Narragansett Electric to incorporate the actual debt rate and issuance costs in base distribution rates.

iii. Return on Common Equity

The Settling Parties agree that the return on common equity shall be set at 9.275 percent.

iv. Weighted Average Cost of Capital

The computation of the WACC established by this Settlement Agreement~~, or 8.25 percent, as~~ is set forth in Attachment 2. The weighted average cost of capital set forth in Attachment 2, as adjusted pursuant to Section 4(e), above, shall be used for ratemaking purposes, including in the ISR Plan, until the next base distribution rate proceeding for Narragansett Electric.

f. *Miscellaneous Corrections*. The Settling Parties agree that Narragansett Electric shall make all corrections (1) identified during discovery, (2) in the preparation of the May 9, 2018 rebuttal cost of service, and (3) resulting from changes presented in the rebuttal testimony of Company Witness Melissa A. Little in finalizing the cost of service for Narragansett Electric.

5. Narragansett Electric - Revenue Allocation, Rate Design, and Tariffs

a. *Allocated Cost of Service*. The Settling Parties agree, for the purpose of settlement in these proceedings (except with respect to the customer charge as reflected in this Settlement Agreement), to use the allocated cost of service study (ACOSS) included in Attachment 6, consistent with the ACOSS filed by Narragansett Electric on May 9, 2018.[16] In

[16] See Rebuttal Testimony of Company Witness Howard S. Gorman, at Page 5 (Bates Page 7 of Rebuttal Book 6),

future rate cases, the Company shall include all costs associated with the PST programs and investments in its revenue requirements and ACOSS.

b. *Revenue Allocation and Rate Design*. The Settling Parties agree that Narragansett Electric's revenue allocation contained in Attachment 8, prepared consistent with the Updated Revenue Allocation (Schedule HSG-3(R)) filed with the PUC on May 9, 2018, and which shall be incorporated into the design of base distribution rates, shall include:

i. A reduction to present revenue for Rate X-01 of $322,000, which is a reduction from Rate X-01 present revenue of $692,000 (shown on Line 40 in Attachment 8, Page 2) to $370,000 to address the concerns raised by Amtrak in these proceedings regarding the significant difference between Rate X-01 revenue at present rates and Rate X-01's allocated rate year revenue requirement. This represents a reduction that balances a significant benefit to Amtrak with the impact this reduction will have on other customers. In addition, the Company will commit, on a going forward basis, to (1) in future general rate cases, propose other changes to address any remaining difference between Rate X-01 revenue at then-present rates and Rate X-01's allocated rate year revenue requirement resulting from an ACOSS filed in those general rate cases, and will specifically propose to address any difference, to the extent the ACOSS identifies a significant difference in relation to differences identified for the Company's other rate classes, and (2) inform Amtrak of its next general rate case filing for Narragansett Electric reasonably in advance of such filing.

ii. The allocation of the annual base distribution rate allowance of the revenue requirements associated with Grid Modernization programs and Special Sector

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and Schedule HSG-1A(R), at Bates Page 37 of Rebuttal Book 6.

Programs, as described in Sections 15 and 20, respectively, and the Rate Year 2 and Rate Year 3 annual base distribution rate increases as stated above in Section 4.

The Settling Parties agree with Narragansett Electric's rate design included in Attachment 9, which reflects:

i. The Rate A-16/Rate A-60 rate design reflects a monthly customer charge of $6.00 and a base distribution per-kWh rate sufficient to recover the remaining Rate A-16/Rate A-60 revenue requirement after consideration of the $6.00 customer charge.

ii. The Rate A-60 customer charge shall be phased-in over the term of the Rate Plan as proposed by the Company in its initial filing as follows: a customer charge of $2.00 effective September 1, 2018; a customer charge of $4.00 effective September 1, 2019; and a customer charge of $6.00 effective September 1, 2020.

iii. The Rate C-06 rate design reflects a monthly customer charge of $10.00 and a base distribution per-kWh rate sufficient to recover the remaining Rate C-06 revenue requirement after consideration of the $10.00 customer charge.

iv. The Rate G-32 rate design reflects impact of the results of the ACOSS submitted on May 9, 2018 in Schedule HSG-1A(R) which redefines transmission level voltage to be electric service received at no less than 69 kV.

c. *Other Settlement Provisions*. The Settling Parties agree to the following:

i. For customers receiving delivery service on Rate A-60, a total bill discount shall be applied. Specifically, (a) the percentage discount off of the total amount billed shall be 25 percent, and (b) for customers receiving benefits through Medicaid, General Public Assistance, and/or the Family Independence Program, an additional discount of 5 percent off of the total amount billed. The Settling Parties agree that Narragansett Electric shall implement the

Low Income Discount Recovery Factor (LIDRF) calculated in Attachment 20. Customers billed on Rate A-60 shall not be assessed the LIDRF.

ii. A revision to the Credit for High Voltage Delivery (HVD) provision contained in the Large Demand Rate (G-32) retail delivery service tariff (Rate G-32 Tariff) and Large Demand Backup Service Rate (B-32) retail delivery service tariff (Rate B-32 Tariff) that defines transmission level voltage to be electric service at no less than 69 kV.

iii. The Fox Point Hurricane Barrier (Hurricane Barrier) operated by the United States Army Corps of Engineers (USACE)[17] is designed to protect the City of Providence from flooding and is tested periodically. The USACE has begun conducting its periodic testing of the Hurricane Barrier during off-peak hours, as defined in the Rate G-32 Tariff, to avoid the demand ratchet provision for the assessment of billing demand that would occur for testing during peak hours.

To address the concerns raised by Navy/FEA with respect to the Hurricane Barrier, if the Hurricane Barrier is operated during peak hours, as defined in the G-32 Tariff, as a result of a weather event, (1) immediately following the operation of the Hurricane Barrier during peak hours, the USACE will contact the Company, in writing, notifying the Company that a weather event required the operation of the Hurricane Barrier; (2) after review and confirmation of the conditions at the time of the Hurricane Barrier's operation during peak hours, the Company will waive the demand ratchet provision resulting from the operation of the Hurricane Barrier during peak hours, for the 11 billing months following the month of peak hour operation (billing months 2 through 12). This waiver would be pursuant to the Rate G-32 Tariff under the Demand provision, which defined billing demand "under ordinary load conditions;" and (3) the USACE

[17] The USACE is represented in these proceedings by the Navy on behalf of the FEA.

will be billed based on the billing demand as determined pursuant to the Rate G-32 Tariff based on peak hours metered demand measured in kW and kVa during the month of operation. If the USACE tests the Hurricane Barrier during peak hours, the demand ratchet of the Rate G-32 Tariff would apply for the billing of distribution demand charges in months 2 through 12. However, the USACE can avail itself of the Optional Determination of Demand provision in the Rate G-32 Tariff.

To ensure that the billing account remains on Rate G-32 as a result of the Hurricane Barrier's continued testing during off-peak hours, the Company has revised the availability provision of the Rate G-32 Tariff and the Rate B-32 Tariff to define customers eligible for Rate G-32 and Rate B-32 based on metered demand during all hours, rather than billing demand, which is determined during peak hours. This change will allow a large customer, such as the Hurricane Barrier, respond to the price signals of Rate G-32 and Rate B-32 and remain on Rate G-32 and Rate B-32, and not be transferred to the General C&I Rate (G-02) tariff.

iv. The Company shall add to Rate S-05 another operating schedule allowing customer-owned light-emitting diode (LED) streetlights to operate at an output level that would result in 3,080 annual operating hour equivalents. As this operating schedule is preferred by NERI as compared to the operating schedule Narragansett Electric presented in its May 9, 2018 rebuttal testimony in Schedule PP-6(R), Narragansett Electric will withdraw its May 9, 2018 operating schedule proposal. In addition, for purposes of billing LED streetlights that operate at an output level that is less than the Dusk-to-Dawn operating schedule existing in the Rate S-05 tariff, the annual operating hour equivalent of such a streetlight shall be compared to the operating schedules contained in the Rate S-05 tariff. If the streetlight's annual operating hour equivalent is no more than five percent of an existing operating schedule's annual operating hour equivalent, the streetlight shall be placed on that operating schedule. If the streetlight's annual operating hour equivalent exceeds the annual operating hour equivalent of an existing operating schedule by more than five percent, the streetlight shall be placed on the operating schedule with the next highest annual operating hour equivalent.

v. The Company shall implement a returned check fee of $8.00.

vi. The Company shall cancel its Optional Telephone or Web Page Payment Provision, RIPUC No. 2154.

d. *Miscellaneous Corrections*. The Settling Parties agree that Narragansett Electric shall make all corrections (1) identified during discovery, (2) in the preparation of the May 9, 2018 rebuttal ACOSS and rate design, and (3) resulting from changes presented in the rebuttal testimony of Company Witness Howard S. Gorman in finalizing the ACOSS, revenue allocation, and rate design.

e. *Bill Impacts and Tariffs*. Attachment 10 sets forth the electric bill impacts resulting from this Settlement Agreement. Attachment 12 presents the other rates and charges that are impacted by this Settlement Agreement, consistent with what was initially filed on November 27, 2017. Attachment 13 contains the tariffs and tariff provisions, marked to show changes from those currently in effect, that are proposed to become effective September 1, 2018.

The impact of this Settlement Agreement on the monthly bill of a 500 kWh residential customer receiving Standard Offer Service, as compared to the rates which were in effect at the time of the Company's filing in this case, in each of the Rate Years is as follows:

	Dollar Increase	Percent Increase
Rate Year 1	$~~4.27~~	~~4.1~~X X%
Rate Year 2	$~~0.80~~	~~0.7~~X X%

Rate Year 3 $~~0.39~~ ~~0.4~~X X%

6. Narragansett Electric - Earnings Report and Earnings Sharing Mechanism

a. *Annual Earnings Report*. The Company shall file with the PUC and the Division annual earnings reports for Narragansett Electric consistent with and in a form similar to that which the Company has been filing for several years, most recently in Docket No. 4323, calculating electric regulatory earnings for the calendar year with the additions/changes set forth in subsections b. through ~~e~~d. below. The timing of the filing of the annual earnings report for Narragansett Electric shall be May 1 of each year.

b. *Definitions*.

i. **"Actual Earnings"** means earnings including all Performance Incentives earned for the applicable calendar year.

ii. **"Base Earnings"** means earnings excluding all Performance Incentives earned for the applicable calendar year. The Base Earnings calculation also shall exclude any financial penalties incurred by Narragansett Electric that may have been assessed by the PUC or the Division during the calendar year, and the report shall disclose those excluded amounts separately.

iii. **"EE Performance Incentive"** means the Energy Efficiency Program (EEP) Incentive.

~~iv. **"ESM Earnings"** means Base Earnings, plus earnings from the EE Performance Incentive, plus earnings from the Performance Incentive Mechanisms Incentives, each for the applicable calendar year, plus any earnings from any future incentive that may be approved by the PUC~~

~~which, at the time of approval, the PUC expressly specifies shall be included in the calculation of ESM Earnings (if not specified for inclusion, such new incentive shall be excluded from this calculation).~~

~~v~~iv. **"Performance Incentives"** means the EE Performance Incentive; any earned System Reliability Procurement incentives; ~~the~~ LTCR Remuneration Costs; ~~the~~ RE Growth Remuneration Costs~~; the Capital Efficiency Mechanism Incentive~~; Performance Incentive Mechanisms Incentives; and any other performance incentive that has been or may be approved by the PUC in a future proceeding and that was earned and recorded by Narragansett Electric for performance applicable to the calendar year.

~~vi~~v. **"Performance Incentive Mechanisms Incentives"** means the incentives earned from the incentive mechanisms as set forth in Section 19 of this Settlement Agreement.

~~vii. **"Sharing Threshold"** means the allowed ROE plus the maximum EE Performance Incentive earnings potential in the calendar year (in basis points) plus the maximum Performance Incentive Mechanisms Incentives earnings potential in the calendar year (in basis points), each for Narragansett Electric.~~

c. *Calculation of Earnings for Annual Earnings Report*. The Company shall show the calculation of the regulatory earned return on distribution rate base and the earned return on distribution common equity, in ~~three~~two ways:

i. Actual Earnings for the applicable calendar year; and

ii. Base Earnings for the applicable calendar year~~; and~~

~~iii. ESM Earnings for the applicable calendar year~~.

d. ~~*Basis Point Values*. For informational purposes, the Company shall include a separate calculation of the basis point value on the earned return on distribution common equity resulting from and for each of the individual Performance Incentives.~~

~~e.~~ *Earnings Sharing With Customers*. If and when the ~~ESM~~Base Earnings ~~for~~exceed the allowed ROE of 9.275 percent in any calendar year~~ exceeds~~, the ~~"Sharing Threshold," the~~amount in excess ~~earnings shall~~of 9.275 percent will be deemed "shared ~~as follows:~~earnings."

i. ~~For~~If the ~~first 100 basis points~~level of ~~excess earnings above the Sharing Threshold~~earnings is greater than the allowed ROE of 9.275 percent, but is less than or equal to 10.275 percent, 50 percent of the ~~excess~~shared earnings in this tier shall be credited to customers and the Company shall retain 50 percent of the shared earnings, which shall not be reflected in any earnings reports.

ii. If the level of earnings is greater than 10.275 percent, 75 percent of the shared earnings in this tier shall be credited to customers and ~~50 percent shall be retained by the~~ the Company~~.~~ shall retain 25 percent of the shared earnings, which shall not be reflected in any earnings report.

~~ii. For~~ Narragansett Electric shall retain 100 percent of any excess earnings ~~more than 100 basis points above~~of the ~~"Sharing Threshold," 75 percent of~~ Actual Earnings that are attributable to any of the ~~excess earnings shall be credited to customers and 25 percent shall be retained by the Company.~~

Performance Incentives. Any ~~excess electric~~shared earnings credited to customers shall be credited to the Storm Fund, unless the PUC otherwise directs the credit to customers in another manner.

7. Narragansett Electric - Other Tariffs and Reconciling Mechanisms

The Settling Parties agree that this Settlement Agreement does not (and is not intended to) amend, modify, or change in any respect any tariff or mechanism currently in effect for Narragansett Electric for costs recovered outside of base distribution rates pursuant to any statute or prior PUC order that is not specifically addressed in this Settlement Agreement, or contained in Attachment 22.

Consistent with the impact of the results of a general rate case and the PUC's rulings thereon, the Company shall implement changes to its other factors and charges associated with its various reconciling mechanisms, effective September 1, 2018, to reflect updated net write off percentages, WACCs, and consolidation of Rate G-32 and Rate G-62. In its compliance filing pursuant the PUC's approval of the Rate Plan, the Company shall file schedules in support of the requisite changes to its other factors and charges that will be reflected in its bills to customers effective September 1, 2018, as illustrated in Attachment 12.

8. Narragansett Gas - Revenue Requirement

a. *Revenue Requirements for the Rate Years*. This Settlement Agreement provides that base distribution rates for Narragansett Gas shall be set in these proceedings based on a Rate Year 1 revenue requirement increase of $~~5.60~~X million, a Rate Year 2 revenue requirement increase of $~~5.43~~X million, and a Rate Year 3 revenue requirement increase of $~~3.22~~X million, using a test-year ended June 30, 2017, as detailed in Attachment 2 to this Settlement Agreement. The resulting revenue requirements for the Rate Years are: $~~220.121~~X million for RY1, $~~225.553~~X million for RY2, and $~~228.774~~X million for RY3. The revenue requirement for Rate Year 1 was determined using a total rate base of $~~762.24~~X million; pro forma Test Year operating revenues of $~~214.52~~X million; distribution operating expenses of $~~87.17~~X million; income taxes of $~~5.93~~X million; and an overall rate of return of 7.~~19~~15 percent. The revenue requirement for Rate Year 1 established by the Settling Parties allows for recovery of a revenue deficiency of $~~5.5~~X million in Rate Year 1, which represents a reduction of $~~24.7~~X million from the November 27, 2017 original request and a reduction of $~~9.85~~X million from the May 9, 2018 second revision to the cost of service.

As noted in Attachment 23 , the Company will credit the Net Revenue received for Narragansett Gas storm response services performed in other jurisdictions, including those outside of National Grid USA operating companies' service territories, back to customers through the Distribution Adjustment Charge, applicable.

b. *Calculation of Rate Base*. The Settling Parties agree that rate base for Narragansett Gas for the Rate Years shall be calculated to include capital additions approved in the ISR plans for Fiscal Year 2014 (Docket No. 4380), Fiscal Year 2015 (Docket No. 4474), Fiscal Year 2016 (Docket No. 4540), Fiscal Year 2017 (Docket No. 4590), and estimated Fiscal Year 2018 (Docket No. 4678), estimated Fiscal Year 2019, and estimated Fiscal Year 2020 additions through Rate Year 1 (*i.e.*, August 31, 2019).[18] Narragansett Gas' rate base for the Rate Years also shall be calculated to include non-ISR capital additions through August 31, 2021. The Narragansett Gas rate base also shall reflect the unamortized cost of the long-term debt issuance expense. ISR-eligible capital additions for Rate Year 2 and Rate Year 3 will be addressed in the

[18] Capital additions that are being recovered currently through the ISR will be included in rate base as of September 1, 2018, concurrent with the effective date of new base rates in these proceedings. Therefore, the capital-related portion of the ISR factor will be set to zero as of September 1, 2018.

ordinary course outside of base distribution rates through the ISR and included for recovery in future ISR Plans.

c. *Other Adjustments.* The revenue requirements contained in Attachment 2 reflect adjustments agreed to by the Settling Parties associated with the Tax Cuts and Jobs Act, a change in the Company's A&G capitalization policy, and estimated Service Company excess deferred federal income taxes.

d. *Operating Expenses*

i. Uncollectible Accounts Expense

The Settling Parties agree that the recovery of distribution-related uncollectible-accounts expense[19] shall be calculated using Narragansett Gas's actual five-year average ratio of actual distribution net write-offs as a percentage of distribution revenues (as calculated in Docket No. 4323 and Docket No. 3943) ending with the Test Year, except as follows:

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[19] This amount does not include the commodity-related portion of uncollectible accounts expense (see Pre-Filed Direct Testimony of Company Witness Melissa A. Little at Page 47 (Bates Page 51 of Book 8). The calculation of uncollectible account expense is provided in Schedule MAL-22 (Rev-2) (Rebuttal Book 3).

The twelve-month period ended June 30, 2013 will be eliminated from this calculation for Narragansett Gas for the Rate Year(s) in these proceedings. This adjustment reduces the average write-off rate that is applied to the Rate Year 1 revenues to calculate the pro forma Rate Year 1 uncollectible accounts expense. This adjustment reduces the average Narragansett Gas write-off rate from 2.08 percent to 1.91 percent

The write-off rate of 1.91 percent also shall be used to calculate the uncollectible accounts expense allowance in those reconciling mechanisms that provide for the recovery of uncollectible account expense.

e. *Return on Rate Base*

i. Capital Structure

The Settling Parties agree that the revenue requirement established by this Settlement Agreement for Narragansett Gas shall be set, as shown on Attachment 2. The actual capital structure shall be adjusted further to include the long-term debt ~~to be~~ issued on July 27, 2018 pursuant to the separate Settlement Agreement entered into between the Division and the Company dated February 15, 2017, in Division Docket D-17-36, which was approved as set forth in the Division's Report and Order issued February 19, 2017~~.~~, and as set forth in the statement of basic terms that the Company filed with the Division on August 1, 2018.

ii. Cost of Long-Term Debt

As stated above, the new long-term debt shall be pro-formed at an interest rate of 3.~~96~~919 percent and debt expense estimated at 0.~~935~~46 percent, or $~~2.34~~1.61 million. Upon completion of the debt issuance, the revenue requirement established by the Settlement Agreement shall be adjusted to use the actual weighted cost of long-term debt and debt expense after the new debt issuance. ~~Unless the long-term debt issuance is completed prior to submission of the compliance~~

~~filing implementing rates as a result of this Settlement Agreement, the~~The Company shall make a filing to the PUC within 60 days of the completion of the issuance to adjust base distribution rates to incorporate the actual debt rate and issuance costs in distribution rates.

iii. Return on Common Equity

The Settling Parties agree that the return on common equity shall be set at 9.275 percent.

iv. Weighted Average Cost of Capital

The computation of the pre-tax WACC established by this Settlement Agreement~~, or 8.45 percent, as~~ is set forth in Attachment 2. The weighted average cost of capital set forth in Attachment 2, as adjusted pursuant to Section 8(e), above, shall be used for ratemaking purposes, including in the ISR Plan, until the next base-distribution rate proceeding for Narragansett Gas.

f. *Miscellaneous Corrections*. The Settling Parties agree that Narragansett Gas shall make all corrections (1) identified during discovery, (2) in the preparation of the May 9, 2018 rebuttal cost of service, and (3) resulting from changes presented in the rebuttal testimony of Company Witness Melissa A. Little in finalizing the cost of service for Narragansett Gas.

9. Narragansett Gas - Revenue Allocation, Rate Design, and Tariff

a. *Allocated Cost of Service*. The Settling Parties agree, for the purpose of settlement in these proceedings, to use the ACOSS included in Attachment 14, consistent with the ACOSS filed by Narragansett Gas on April 3, 2018.

b. *Revenue Allocation and Rate Design*. The Settling Parties agree that Narragansett Gas' revenue allocation contained in Attachment 16, prepared consistent with the Division's recommended revenue allocation filed with the PUC on April 6, 2018,[20] shall be

[20] Schedule BRO-4 of the Direct Testimony of Witness Bruce R. Oliver on behalf of the Division.

incorporated into the design of base distribution rates. The Settling Parties agree to the allocation of the annual base distribution rate allowance of the revenue requirements associated with Grid Modernization programs allocable to Narragansett Gas, as described in Section 15, and the Rate Year 2 and Rate Year 3 annual base distribution rate increases as stated above in Section 8.

The Settling Parties agree with Narragansett Gas' rate design included in Attachment 16, which reflects:

i. The rate designs for Rates 10/11 and Rates 12/13 reflect a monthly customer charge of $14.00 and uniform base distribution per-therm rates sufficient to recover the remaining revenue requirement of these two rate classes after consideration of the $14.00 customer charge.

ii. The rate designs for Rates 10/11 and Rates 12/13 reflect different uniform base distribution per-therm rates effective during the peak months of November through April as compared to uniform base distribution per-therm rates effective during the non-peak months of May through October.

iii. The rate design for Rate 21 reflects a monthly customer charge of $25.00 and uniform base distribution per-therm rates sufficient to recover the remaining revenue requirement of these two rate classes after consideration of the $25.00 customer charge.

iv. The rate designs for Rate 21 reflects different uniform base distribution per-therm rates effective during the peak months of November through April as compared to uniform base distribution per-therm rates effective during the non-peak months of May through October.

c. *Other Settlement Provisions.* The Settling Parties agree to the following

i. For customers receiving delivery service on Rates 11 and 13, a total bill discount shall be applied. Specifically, (a) the percentage discount off of the total amount billed shall be 25 percent, and (b) customers receiving benefits through Medicaid, General Public Assistance, and/or the Family Independence Program, an additional discount of 5 percent off the total amount billed. The Settling Parties agree that Narragansett Gas shall implement the LIDRF calculated in Attachment 20. Customers billed on Rates 11 or 13 shall not be assessed the LIDRF.

ii. The Company shall implement a returned check fee of $8.00.

iii. Narragansett Gas shall remove the Optional Credit Card Payment Provision from its tariff.

iv. Narragansett Gas will weather-normalize the demand billing units of its medium, large, and extra-large commercial and industrial rate classes in future general rate cases.

v. Narragansett Gas shall revise the language in the Distribution Adjustment Clause of its tariff to clarify the determination of System Pressure costs consistent with the Division's recommendation.

vi. Narragansett Gas shall revise the language in the Gas Cost Recovery (GCR) Clause of its tariff that will allow for it to include in its annual GCR factor filings an estimate of operation and maintenance (O&M) expense associated with its liquefied natural gas (LNG) activities as a component of fixed gas supply costs. This estimate is subject to reconciliation to actual LNG O&M expense incurred during the applicable GCR factor term, subject to the PUC's review of reasonableness and prudency, consistent with the other fixed gas supply costs, which also are subject to the PUC's review and approval. The implementation of this change in ratemaking treatment of LNG O&M expense is intended to capture any decreases in LNG O&M expense noted by the Division in its April 6, 2018 direct testimony. The amount of LNG O&M expense can be lower or higher than the amount removed from the Rate Year 1 distribution revenue requirement. The proposed revisions to the GCR Clause are included in Attachment 19.

d. *Miscellaneous Corrections*. The Settling Parties agree that, in finalizing the ACOSS, revenue allocation, and rate design, Narragansett Gas shall make all corrections identified during discovery.

e. *Bill Impacts and Tariff*. Attachment 17 sets forth the gas bill impacts resulting from this Settlement Agreement. Attachment 18 presents the other rates and charges that are impacted by this Settlement Agreement, consistent with what was initially filed on November 27, 2017. Attachment 19 contains the tariff, marked to show changes from that currently in effect, proposed to become effective September 1, 2018.

The impact of this Settlement Agreement on the annual bill of a 845 therm residential heating customer, as compared to the rates which were in effect at the time of the Company's filing in this case, in each of the Rate Years is as follows:

	Dollar Increase (Decrease)	Percent Increase (Decrease)
Rate Year 1	($~~2.01)~~X)	~~(0.2~~(X%)
Rate Year 2	$~~18.13~~X	~~1.5~~X%
Rate Year 3	$~~10.91~~X	~~0.9~~X%

10. Narragansett Gas - Earnings Report and Earnings Sharing Mechanism

a. *Annual Earnings Report*. The Company shall file with the PUC and the Division annual earnings reports for Narragansett Gas consistent with and in a form similar to that which the Company has been filing for several years, most recently in Docket No. 4323, calculating gas regulatory earnings for the calendar year with the additions/changes set forth in subsection b. below. The timing of the filing of the annual earnings report for Narragansett Gas shall change from September 1 to May 1 each year to align with the timing of the filing of the Company's earnings report for Narragansett Electric on May 1 of each year. The Company's Annual Report to the PUC for Narragansett Gas will reflect the twelve-month period ending December 31. The Company will file its gas earnings report for Fiscal Year 2018 on or before September 1, 2018. The Company will file its first gas earnings report for the twelve-month period ending December 31, 2018 by May 1, 2019.

b. *Calculation of Earnings for Annual Earnings Report*. The Company shall show the calculation of the regulatory earned return on distribution rate base and the earned return on distribution common equity, in two ways:

i. Earnings <u>including</u> all Performance Incentives (as hereinafter defined below) earned for the applicable calendar year (Actual Total Earnings); and

ii. Earnings <u>excluding</u> all Performance Incentives earned for the applicable calendar year (Base Earnings). The Base Earnings calculation also shall exclude any financial penalties incurred by Narragansett Gas that may have been assessed by the PUC or the Division and recorded during the calendar year, and the report shall disclose those excluded amounts separately.

For purposes of this Section, the term "Performance Incentives" refers to each of the following incentives:

i. Energy Efficiency Program (EEP) incentive;

ii. The Company's share of any incentive earned pursuant to the Natural Gas Portfolio Management Plan recorded during the calendar year;

iii. The Company's share of any incentive earned or penalties incurred pursuant to the Gas Procurement Incentive Plan recorded during the calendar year; and

iv. Any other performance incentive that may be approved by the PUC in a future proceeding that was earned and recorded by Narragansett Gas for performance applicable to the calendar year, unless the PUC determines at the time of approval that any such future incentive should be included in the calculation of Base Earnings.

For informational purposes, the Company shall include a separate calculation of the basis point value on the earned return on distribution common equity resulting from and for each of the individual Performance Incentives.

c. *Earnings Sharing With Customers*. If and when the Narragansett Gas Base Earnings exceed ~~9.5~~the allowed ROE of 9.275 percent in any ~~Rate Year~~calendar year, the amount in excess of 9.~~5~~275 percent will be deemed "shared earnings."

i. ~~ROE > 9.5% and <= 10.0%:~~ If the level of ~~earned~~Base Earnings is greater than the allowed ROE ~~exceeds~~of 9.~~5~~275 percent but is less than or equal to 10.~~0~~275 percent, 50 percent of the shared earnings in this tier shall be credited to customers and the Company shall retain 50 percent of the shared earnings, which shall not be reflected in any earnings reports.

ii. ~~ROE > 10.0% and <= 10.5%:~~ If the level of ~~earned ROE exceeds 10.0 percent but~~Base Earnings is ~~less~~greater than ~~or equal to~~ 10.~~5 percent~~275, 75 percent of the shared earnings in this tier shall be credited to customers and the Company shall retain 25 percent of the shared earnings, which shall not be reflected in any earnings reports.

~~iii. ROE > 10.5%: If the level of earned ROE exceeds 10.5 percent, 90 percent of the shared earnings in this tier shall be credited to customers and the Company shall retain 10 percent of the shared earnings, which shall not be reflected in any earnings reports.~~

~~The Company~~Narragansett Gas shall retain 100 percent of any excess gas earnings of the Actual Total Earnings that are attributable to any of the Performance Incentives. Any ~~excess~~shared gas earnings credited to customers shall be credited to the Distribution Adjustment Clause (DAC), unless the PUC otherwise directs the credit to customers in another manner.

11. Narragansett Gas - Other Tariffs and Reconciling Mechanisms

The Settling Parties agree that this Settlement Agreement does not (and is not intended to) amend, modify, or change in any respect any tariff or mechanism currently in effect for Narragansett Gas for costs recovered outside of base distribution rates pursuant to any statute or prior PUC order that are not specifically addressed in this Settlement Agreement, or contained in Attachment 22.

Consistent with the impact of the results of a general rate case and the PUC's rulings thereon, the Company shall implement changes to its other factors and charges associated with its various reconciling mechanisms, effective September 1, 2018, to reflect updated net write off percentages, LNG O&M expense, WACCs, and cash working capital percentages. In its compliance filing pursuant the PUC's approval of the Rate Plan, the Company shall file schedules in support of the requisite changes to its other factors and charges that will be reflected in its bills to customers effective September 1, 2018, as illustrated in Attachment 18.

12. Gas Business Enablement Program

a. *Program Scope; Service Company Rents; Overall Capital Investment.*

The Company will continue to implement the Gas Business Enablement Program during the term of the Rate Plan. The Gas Business Enablement Program is a shared investment across all National Grid USA operating companies, which will be implemented and owned by the National Grid USA Service Company, Inc. (Service Company), with a portion of the costs allocated to the Company. The total Service Company costs of the Gas Business Enablement Program for capital expenses and project operating expenses relating to the capital investment (excluding run the business costs) are forecasted to be $478.3 million through Fiscal Year (FY) 2023.

b. *Capital Investment Levels for the Company*. The revenue requirements for Narragansett Electric and Narragansett Gas include 85 percent of the Company's share, as charged to the Company by the Service Company as a rent expense, of the annual revenue requirement on forecasted Gas Business Enablement Program capital investments. The rent expense charged to the Company for the Gas Business Enablement Program includes the return on, and the amortization of, the Company's allocated portion of current Gas Business Enablement Program capital investments along with incremental Gas Business Enablement Program capital investments that are forecasted to be placed in service during the Rate Years. Notwithstanding the specified program level spending amounts, nothing in this Settlement Agreement is intended to alter the Company's flexibility during the term to substitute, change, or modify the timing of its Gas Business Enablement Program capital investments to deliver the scope of the Gas Business Enablement Program.

c. *10-Year Amortization of Operating and Maintenance (O&M) Costs for the Company*. The revenue requirements for Narragansett Electric and Narragansett Gas for each Rate Year include 85 percent of the Company's forecasted annual non-recurring O&M expense for the Gas Business Enablement Program to be charged to the Company during each Rate Year, amortized over 10 years and including a return at Narragansett Electric's and Narragansett Gas's WACC, as applicable. The revenue requirements include a reduction to the non-recurring O&M expense allowance in each Rate Year, representing 100 percent of Type I forecasted O&M savings and 85 percent of Type II forecasted O&M savings expected to be realized as a result of the Gas Business Enablement Program.

d. *Run-the-Business Costs.* The revenue requirements include forecasted incremental costs to maintain the Gas Business Enablement technology in the Rate Years at the level proposed by the Company in its initial filing: $779,580, $1.2 million, and $1.3 million, respectively, for Narragansett Gas. In the Company's initial request, it included an offset to these run-the-business costs representing 100 percent of Type I forecasted O&M savings. As part of the settlement, the Company has agreed to further offset these costs by an amount representing 85 percent of Type II forecasted O&M savings expected to be realized as a result of the Gas Business Enablement Program. The adjustment to reflect these additional savings result in a reduction to the revenue requirement of $49,823, $157,867, and $265,584 in each Rate Year, respectively.

e. *Deferral*. To the extent the Company incurs costs less than the Narragansett Electric and Narragansett Gas revenue requirement allowances included in base distribution rates for the items described in Section 12.b. and 12.c. above, the Company shall create a regulatory liability to defer that amount to be returned to customers. The credit to customers of the balance of the regulatory liability account shall be determined from the Company's next general rate case or extension of the Rate Plan governed by this Settlement Agreement. To the extent the Company incurs costs in excess of the Narragansett Electric and Narragansett Gas revenue requirement allowances included in base distribution rates for the items described in Section 12.b. and 12.c. above, the Company shall create a regulatory asset to defer that amount, but in no case will the deferral to the regulatory asset result in recovery of a total cost in excess of the Company's forecasted ~~allocated cost~~revenue requirement allowances included in base distribution rates for the items described in Section 12.b. and Section 12.c. above, of $43.8 million ($38.3 million for Narragansett Gas and $5.5 million for Narragansett Electric). The recovery of the balance of the regulatory asset account shall be determined from the Company's next general rate case or extension of the Rate Plan governed by this Settlement Agreement. All Gas Business Enablement costs to be recovered shall be subject to the PUC's review of the reasonableness and prudency of such costs. The Company will accrue carrying charges on the deferral balances using the pre-tax WACC.

~~e~~f. *Gas Business Enablement Program Reporting*. The Company will file quarterly Gas Business Enablement Program reports with the PUC and the Division within 60 days after the end of each quarter of each Rate Year. The report will address the status of the Gas Business Enablement Program and budget, including: (i) a narrative explaining overall program status; (ii) detail on budgets and actual spending; (iii) identification of allocations of costs to the Company; ~~and~~ (iv) explanations of variances between budgeted and actual spending; and (v) an update on the status of the deferral balance created pursuant to subsection e. above, including, at a minimum, the increase, decrease, and balance of the deferral at the end of each quarter.

The Company will work with the Division to accommodate more in-depth reviews by the Division, PUC Staff, or the Division's consultants of the systems associated with Gas Business Enablement during the term of the Rate Plan.

13. Cyber Security and Information Services (IS) Technology Modernization Programs

a. *Scope of Programs; Service Company Rents; Overall Capital Investment*. The Company will continue to implement the Cyber Security and IS Technology Modernization Programs during the term of the Rate Plan. The Cyber Security and IS Technology Modernization Programs are shared investments across all National Grid USA operating companies, which will be implemented and owned by the Service Company, with a portion of the costs allocated to the Company. The total Service Company costs of the Cyber Security and IS Technology Modernization Programs for capital investments and project operating expenses relating to the capital investment (excluding run the business costs) are included in the revenue requirement.

b. *Capital Investment Levels for the Company*. The revenue requirements for Narragansett Electric and Narragansett Gas include 85 percent of the Company's share, as charged to the Company by the Service Company as rent expense, of the annual revenue requirement on forecasted Cyber Security and IS Technology Modernization Programs capital investments. The rent expense charged to the Company for the Cyber Security and IS Technology Modernization Programs includes the return on, and the amortization of, the Company's allocated portion of current Cyber Security and IS Technology Modernization Program capital investments and incremental Cyber Security and IS Technology Modernization Programs capital investments that are forecast to be placed in service during the Rate Years. Notwithstanding the specified program level spending amounts, nothing in this Settlement Agreement is intended to alter the Company's flexibility during the term to substitute, change, or modify the timing of its Cyber Security and/or IS Technology Modernization Programs capital investments to deliver the scope of the Cyber Security and/or IS Technology Modernization Programs.

c. *Deferral*. To the extent the Company incurs costs less than the Narragansett Electric and Narragansett Gas revenue requirement allowances included in base distribution rates for the items described in Section 13.b. above, the Company shall create a regulatory liability to defer that amount to be returned to customers. The credit to customers of the balance of the regulatory liability account shall be determined from the Company's next general rate case or extension of the Rate Plan governed by this Settlement Agreement~~.~~. To the extent the Company incurs costs in excess of the Narragansett Electric and Narragansett Gas revenue requirement allowances included in base distribution rates for the items described in Section 13.b. above, the Company shall create a regulatory asset to defer that amount ~~for~~, but in no case will the deferral of the regulatory asset result in recovery ~~from customers.~~of a total cost in excess of the Company's forecasted revenue requirement of $[17.4] million ($[5.1] million for Narragansett Gas and $[12.3] million for Narragansett Electric). The recovery of the balance of the regulatory asset account shall be determined from the Company's next general rate case or extension of the Rate Plan governed by this Settlement Agreement. All Cyber Security and IS Technology Modernization Program costs to be recovered shall be subject to the PUC's review of the reasonableness and prudency of such costs. The Company will accrue carrying charges on the deferral balances using the pre-tax WACC.

d. *Cyber Security and IS Technology Modernization Programs Reporting*. The Company will file quarterly Cyber Security and IS Technology Modernization Programs reports with the PUC and the Division within 60 days after the end of each quarter of each Rate Year. The report will address the status of the Cyber Security and IS Technology Modernization

Programs and budgets, including: (i) a narrative explaining overall program status; (ii) detail on budgets and actual spending; (iii) identification of allocations of costs to the Company; ~~and~~ (iv) explanations of variances between budgets and actual spending, and (v) an update on the status of the deferral balance created pursuant to subsection c. above, including, at a minimum, the increase, decrease, and balance of the deferral at the end of each quarter. In the report for the last quarter of each Rate Year (quarter ending March 31), the Company will also include (i) any cost or timeline differences that exceed ten percent for the Rate Year; and (ii) the latest Cyber Security and IS Technology Modernization Programs sanction papers authorized during that Rate Year.

The Company will work with the Division to accommodate more in-depth reviews by the Division, PUC Staff, or the Division's consultants of these programs during the term of the Rate Plan. The Company commits to submit to the Division and PUC the report produced by the independent cyber security consultant who reviewed the Company's cyber security investments and strategy no later than 30 days after the approval of the Settlement Agreement. The report will be filed under the protection of confidentiality.

14. Commencement of Investments to Enable a Modern Grid

The Company shall commence implementation of the following initiatives that the Company originally identified in its PST Plan filing in Docket No. 4780, as provided below:

a. *System Data Portal*. Narragansett Electric will implement this project beginning in Rate Year 1. The revenue requirement in Rate Year 1 will include \$0.5 million for up to two FTEs in support of this project; the revenue requirement in Rate Year 2 will include an incremental \$0.2 million for one additional FTE in Rate Year 2.

b. *Control Center Enhancements.*

i. Geographic Information System (GIS) Data Enhancement Project.

Narragansett Electric will commence the GIS Data Enhancement Project, as proposed in its initial filing, in Rate Year 1, and will use reasonable efforts to complete it within 12 months after the project is commenced. The Company's allocated share of the GIS Data Enhancement Project is $427,000, which will be amortized over the three years of the MRP and included in Narragansett Electric's revenue requirement, with a return at the customer deposit rate~~Narragansett Electric's WACC~~. Narragansett Electric will commence populating the system with Rhode Island information in Rate Year 2. An allowance of $1 million will be included in the revenue requirements for Rate Year 2 and Rate Year 3 for this project.

ii. Distribution Supervisory Control and Data Acquisition (DSCADA) and Advanced Distribution Management System (ADMS).

Narragansett Electric shall begin the DSCADA/ADMS project, as proposed in its initial filing, during the MRP. To provide Narragansett Electric an opportunity to coordinate implementation of DSCADA/ADMS with its Massachusetts affiliates, Narragansett Electric shall have the discretion to determine the commencement date of the DSCADA/ADMS project. An allowance for the Company's multi-jurisdictional share of the DSCADA/ADMS project in an amount of $0.4 million to cover the initial costs for project Requirements and Definition will be included in the revenue requirement in Rate Year 2. If, however, the DSCADA/ADMS project commences on a later schedule during the MRP, the allowance shall be deferred and applied to the cost of the project, regardless of the timing of completion, and the deferral of which will accumulate interest at the customer deposit rate~~Narragansett Electric's WACC~~. A three-year project development and deployment phase will then commence with an expected in-service date beyond the term of the MRP; therefore, revenue requirements for the deployment are not included in this plan.

iii. Remote Terminal Unit (RTU) Separation. Narragansett Electric will begin a program to separate distribution RTUs from transmission RTUs in support of DSCADA/ADMS. Distribution system data will be disaggregated from transmission system data by separating the field RTUs that capture the data and incorporating it into the Company's Supervisory Control and Data Acquisition (SCADA) system. In addition to enabling dedicated DSCADA, a secondary benefit from creating a bright line separation between transmission operations and distribution operations is that it eliminates FERC Critical Infrastructure Protection (CIP) oversight, and its associated risks and costs, from distribution operations. Allowances of $0.1 million, $0.2 million, and $0.3 million are included in Rate Year 1, Rate Year 2, and Rate Year 3 revenue requirements, respectively, for RTU investments.

c. *Other Grid Modernization Investments*. In addition to these foundation initiatives, the following IS-related grid modernization investments are included in the Rate Year ~~1, Rate Year 2,~~2 and Rate Year 3 revenue requirements: Enterprise Service Bus, Data Lake, PI Historian, Advanced Analytics, Telecommunications, and Cybersecurity.

15. Grid Modernization Plan (GMP)

a. Narragansett Electric will engage with stakeholders via the PST Advisory Group or relevant subcommittee, to develop a comprehensive Grid Modernization Plan (GMP), in parallel with the collaborative effort to develop the Updated AMF Business Case. The GMP will provide a full assessment of the various initiatives being contemplated, including an explanation and evaluation of how the initiatives link to each other. The assessment will consider short and long-term initiatives to include active and future programs. The GMP will present implementation plans outlining the details and technologies over a five-year horizon plus an outline of how this plan aligns with the longer term (i.e., a ten year roadmap). The GMP will provide a roadmap of potential investments beyond the term of the current MRP; ~~however,~~ requests to fund those investments will be included as part of a ~~future~~ general rate case, MRP, or ISR Plan filings.

b. Narragansett Electric will ~~use reasonable efforts to~~ file the GMP with the PUC within a reasonable time after, or in conjunction with, the filing of the Updated AMF Business Case, as described in Section 16, below, but in any event no later than six (6) months following the filing of the Updated AMF Business Case to allow the PUC to consider the GMP and Updated AMF Business Case ~~(as defined below)~~ together.

c. The GMP will take into account the time period for any proposed AMF implementation, and it will include, at a minimum:

i. Objectives for the electric grid to advance the Goals for the Energy System and Rate Design Principles, and potential visibility requirements of the benefit-cost framework in Docket 4600 Guidance Document.

ii. Explanation of the role of currently active programs;

iii. Investments and technology deployments planned through the end of any proposed AMF implementation;

iv. Functionalities to achieve those objectives;

v. Review of options for candidate technologies to deliver those functionalities;

vi. Transparent, updated benefit cost analyses that fully incorporate the Docket 4600 framework;

vii. ~~c~~An implementation plan that provides a detailed explanation of the prioritization, sequencing, and pace of investments;

viii. A plan and explanation for the integration and leveraging of customer-side technologies and resources in the near and long-term;

ix. Identification of the possible communications solutions that address current and future needs and support a wide array of potential grid modernization programs and activities;

x. Explanation of congruency with grid modernization activities in New York and Massachusetts;

xi. A plan and explanation of how the selected investments and implementation plan address risks of redundancy or obsolescence; and

xii. A description of how the GMP, in particular the distribution planning components, addresses the relationship between electrification of heating and transportation and energy efficiency to allow for the furtherance of overall reduced peak demand while also encouraging electrification of heating and transportation.

d~~e~~. The Settling Parties recognize that the Company's GMP and associated Company proposals will be subject to consideration by the PUC in a separate docket in conjunction with the Updated AMF Business Case, and all interested parties will have an opportunity to participate in any such docket prior to PUC action on the GMP and proposals contained therein. The Settling Parties acknowledge and agree that the PUC will make a final determination on whether and how to implement the GMP.

e~~d~~. To the extent it is determined by the PUC that implementation of any grid modernization initiatives not already funded in the MRP should move forward, and Narragansett Electric must begin to incur costs during the MRP to begin the implementation process, the MRP may be re-opened to include the revenue requirement for any such approved initiatives during the term of the MRP in base distribution rates, as approved by the PUC.~~.~~

16. <u>AMF</u>

a. *Updated AMF Business Case.* Provided this Settlement Agreement is approved by the PUC, the Company will commence the next phase of work to refine and update its AMF business case (referred to herein as the Updated AMF Business Case) for the Company's proposed AMF investments. Design and procurement efforts undertaken during that phase will be in coordination with the development of a similarly updated AMF business case for the Company's New York affiliate as part of a collaborative with the New York Public Service Commission Staff and other interested parties in that jurisdiction. The Company will use reasonable efforts to file the Updated AMF Business Case for Rhode ~~Island, to be filed with~~Island with the PUC no later than ~~December~~February 1, ~~2018~~2019, which will include an evaluation of shared communications infrastructure and various ownership models for key AMF components, including the potential for incremental revenue that might be generated by these models in the future. Furthermore, the Updated AMF Business Case will address data governance regarding customer, non-regulated power producer (NPP), and third party access to system and customer data, with the proper privacy and security protections in place. The Updated AMF Business Case will propose to implement AMF in the most cost-effective way, and will provide a cost estimate that can be relied upon for purposes of establishing future revenue requirements for deployment of AMF in Rhode Island.

The Company's share of the costs to develop the Updated AMF Business Case is forecasted to be approximately $2 million. An allowance for this forecasted cost is included in the revenue requirements, which will be spread evenly over the three years of the MRP.

b. *Stakeholder Process and Regulatory Filing*. ~~By July 1, 2018, the~~The Company will convene a preliminary meeting with Division staff and the Office of Energy Resources (OER) to develop a common understanding of the next phase of work, to identify areas of the current AMF business plan (as filed in Docket No. 4780, Book One, Chapter 4) requiring further exploration or refinement, and to identify areas for input from the PST Advisory Group (as defined in Section 17(e) below), or relevant subcommittee. An output of this preliminary meeting of the Company, the Division, and OER will be a document to formally agree on additional areas of exploration, pending the PUC's approval of the Company's $2 million funding request for the Updated AMF Business Case. The schedule for the phase of work starting ~~July~~August 1, 2018 and concluding ~~December~~February 1, ~~2018~~2019 with the filing of the Updated AMF Business Case is further discussed below:

i. Between ~~July~~August 1, 2018 and November 15, 2018, the Company will refine and update its AMF business case. As part of this process, the Company will engage stakeholders, via the PST Advisory Group, or relevant subcommittee, to explore and develop a common understanding of specific AMF proposal areas, a customer engagement plan for AMF, including the role of non-regulated power producers (NPP), and assumptions and rationale upon which a proposal to develop time varying rates will be based.

ii. By September 15, 2018, the Company will convene a second meeting with Division staff and OER to present its Updated AMF Business Case addressing stakeholder identified areas, and further discuss additional questions, comments, or proposed modifications for the Company's consideration.

iii. By October 30, 2018, the Company will convene a third meeting with Division staff and OER. At this meeting, the Company will seek clarification, as required, of stakeholder concerns and comments on the Company's Updated AMF Business Case, and provide new information, if any, to address stakeholder concerns and comments.

iv. ~~No later than December 1, 2018, the~~The Company will use reasonable efforts to file the Updated AMF Business Case with the PUC for review and approval of the funding necessary to deploy statewide AMF in Rhode Island in a timeframe consistent with the Updated AMF Business Case~~.~~ no later than February 1, 2019. The Updated AMF Business Case will contain the following elements:

- A refined and updated AMF business plan, benefit-cost analysis (BCA), and a detailed customer engagement plan;
- An updated AMF deployment schedule with a BCA (using the Societal Cost Test) for different meter deployment periods;
- Revenue requirement for AMF deployment;
- Deployment proposals, a proposal for cost recovery of AMF, and any activities associated with implementation of AMF;
- A proposal to allocate AMF costs among rate classifications;
- Assumptions upon which a proposal to develop time varying rates will be based; ~~and~~
- A Data Governance Plan regarding timely customer, NPP, and third-party access to system and customer data, (e.g., elements may include, but are not limited to, customer assigned peak load contribution, energy and capacity loss factors, interval usage, or other information needed for efficient wholesale and retail market participation) in place and billing quality customer data (e.g., elements

may include, but are not limited to, electric usage in kilowatt-hours containing both "register reads" and "interval reads") with the proper privacy and security protections~~.~~;

- Updated costs for AMF deployment based on information gained from a procurement effort;
- Transparent, updated benefit cost analysis that fully incorporates the Docket 4600 framework;
- Investigation of alternative business models and ownership models;
- Analysis of data latency;
- Deployment details;
- Role of non-regulated power producers, including articles to share customer information and customer engagement;
- Ownership model for assets and telecom;
- Detailed AMF functionalities, how Rhode Island will achieve those functionalities, and a timeline for when those functionalities will be available;
- Identification of the most cost effective way to achieve the functionalities, and how the functionalities align to the policy objectives;
- Explanation of whether the realization of those functionalities will require additional future work and costs over 20 years;
- Identification of what functionalities the AMF will achieve that are part of the grid modernization plan and which are in addition to the Grid Modernization Plan;

- Identification of which functionalities are dependent on a full-scale roll out instead of a targeted roll out;
- Business cased based on both a Rhode Island-only scenario and a Rhode Island/New York scenario;
- A business case based on the length (duration) of meter deployment;
- Identification of the critically linked parts of grid modernization and AMF; and
- Identification of whether the AMF solution would allow for proper net metering according to the tariff.

The Settling Parties recognize that the Company's Updated AMF Business Case and associated Company proposals in relation to time varying rates ~~would~~will be subject to consideration by the PUC in a separate docket, and all interested parties will have an opportunity to participate in any process provided prior to PUC action on the Updated AMF Business Case and proposals contained therein. The Settling Parties acknowledge and agree that the PUC will make a final determination on whether and how to implement AMF and time varying rates in the Company's service territory.

c. To the extent it is determined by the PUC that deployment of AMF should move forward and the Company must incur costs during the MRP to begin the deployment process, the MRP may be re-opened to propose the revenue requirement for any such approved initiatives during the term of the MRP in base distribution rates, as approved by the PUC.

17. Clean Energy Programs

The Solar Demonstration Program for Income Eligible Customers and the Income Eligible Customer Rewards Program, originally proposed in the Company's PST Plan filing in Docket No. 4780, are hereby withdrawn. Narragansett Electric will implement a portfolio of

~~three~~ clean energy programs in ~~the~~ other areas that the Company originally identified in its PST Plan filing in Docket No. 4780, with some modifications to the programs, as provided below:

a. *Electric Transportation*. The Settling Parties recognize that the Company has a role in facilitating the growth of Electric Vehicle (EV) adoption and scaling of the market for EV charging equipment to advance Rhode Island's zero emission vehicles and greenhouse gas emissions policy goals. In furtherance of these goals, Narragansett Electric will implement a phased electric transportation initiative over the term of the MRP, which will be comprised of the following components: (i) Off-Peak Charging Rebate Pilot, (ii) Charging Station Demonstration Program, (iii) Discount Pilot for Direct Current Fast Charging (DCFC) Station Accounts, (iv) fleet advisory services, and (v~~i~~) Electric Transportation Initiative Evaluation. The revenue requirement for this initiative will include $0.7 million in Rate Year 1, $1.1 million in Rate Year 2, and $2.1 million in Rate Year 3. The costs of this initiative shall be subject to a deferral mechanism, as described in Section 20, below.

i. Off-Peak Charging Rebate Pilot. Narragansett Electric will offer an Off-Peak Charging Rebate as a pilot to reward customers for charging their EV during off-peak hours, study customer charging patterns at various charging locations and levels, understand customer responsiveness to time-differentiated price signals, and evaluate technology and partnership alternatives to monitor and report charging. Participating customers will earn a rebate for every kWh charged between 9 p.m. and 1 p.m. The off-peak charging rebate will be 6 cents per kWh during the summer months (June through September), and 4 cents per kWh in all other months. Narragansett Electric reserves the right to offer the higher rebate value in the winter months if, for example, system conditions warrant, or to otherwise modify the rebate value. Narragansett Electric will evaluate the rebate value following the first full year of the program~~,~~ and will include any findings and recommendations in the Annual Evaluation Report, as discussed in subsection d., below.

ii. Charging Station Demonstration Program. Narragansett Electric will demonstrate new approaches to electric charging infrastructure development. ~~As set out in the table below,~~ Narragansett Electric may not own ~~and operate up to thirty-nine percent (39%)~~any of the Level 2 charging ports (*i.e.*, charging power between 10-20 miles per hour) to be developed as part of this initiative ~~(*i.e.*, 126 out of a total of 320 ports currently forecasted to be deployed based on the proposed program budget).~~. Narragansett Electric ~~may~~ also may not own ~~and operate up to twenty two percent (22%)~~any of the DCFC ports to be developed as part of this initiative ~~(i.e. 10 out of a total of 46 ports currently forecast to be deployed based on the proposed program budget). Within the~~ . Prior to Rate Year 2, Narragansett Electric may propose to re-evaluate utility ownership of Level 2 and DCFC ports as a program design modification in the Annual Program Modification Report. The proposed categories~~, the Company's maximum potential ownership is limited to the percentages specified for each subcategory (e.g. 0% of workplaces, up to 100% of Apartment Buildings).~~ of charging stations under the program are set forth in the tables below.

Charging Station Demonstration Project: Level 2 ~~Maximum Potential Utility Ownership~~

Level 2	Total Sites	Ports Per Site	Total Ports	~~Max Potential Utility-Owned~~ ~~% of Sites~~	~~# of Sites~~	~~# of Ports~~
Workplaces	14	10	140	~~0%~~	~~0~~	~~0~~
Apartment Buildings	6	6	36	~~100%~~	~~6~~	~~36~~
Income Eligible Community Sites	6	6	36	~~100%~~	~~6~~	~~36~~
Public Transit Stations	6	10	60	~~50%~~	~~3~~	~~30~~
Government light-duty fleet	**3**	**8**	**24**	~~**100%**~~	~~**3**~~	~~**24**~~
Corporate light-duty fleet	3	8	24	~~0%~~	~~0~~	~~0~~
Total	**38**		**320**	~~**39%**~~	~~**18**~~	~~**126**~~

Charging Station Demonstration Project: DCFC ~~**Maximum Potential Utility Ownership**~~

DCFC	Total Sites	Ports per Site	Total Ports	~~Max Potential Utility-Owned~~		
				~~% of Sites~~	~~# of Sites~~	~~# of ports~~
Public DCFC	4	5	20	~~50%~~	~~2~~	~~10~~
Public transit buses	2	5	10	~~0%~~	~~0~~	~~0~~
Rideshare company charging hub	1	5	5	~~0%~~	~~0~~	~~0~~
Other heavy-duty/DCFC (port, airport)	2	4	8	~~0%~~	~~0~~	~~0~~
Municipal school buses	3	1	3	~~0%~~	~~0~~	~~0~~
Total	**12**		**46**	~~**22%**~~	~~**2**~~	~~**10**~~

Narragansett Electric may not act to preclude third party provider market development. This Settlement Agreement does not impose any limitations or prohibitions on non-utility product and competitive service providers from offering EV-related products and services, including charging station hardware and software, to the government light duty fleets or to site hosts located in underserved market segments.

~~There will be two models available to Site Hosts: (1) the Make-Ready option, in which~~As part of this program, Narragansett Electric will provide site hosts with the Make-Ready work necessary to host a charging station up to the costs as provided in this section. As such, Narragansett Electric will be responsible for making the site ready for charging to be installed, owned, and operated by the Site Host~~, and (2) the Company-operated option, in which Narragansett Electric will bear all costs for installing, owning and operating the EV supply equipment. The following conditions will apply to each of the models as follows:~~

- . For all Make-Ready sites~~:~~ , Site Hosts will have a choice of both EV charging equipment and network services. The Company will pre-qualify options for equipment and network services. All pre-qualified equipment will have open standards for communications and operations.

- ~~For Company-operated sites: Site Hosts have the option to determine its NPP or retail electricity supplier and pricing to the site customer or use a per-kWh regulated rate linked to the electric standard offer service commodity rate and service via the Company's EV supply equipment (the regulated charging rate). This charging rate structure will be set formulaically and detailed in a Company tariff that will be filed prior to deployment of any company owned stations, for review and approval by the PUC. The charging rate will be adjusted semi-annually via compliance filings, with modifications made to reflect changes in underlying rates. Site hosts have network access to the station to set pricing and review usage reports and will be required to provide pricing information, utilization information and other data to the Company. If the Site Host chooses to set a price that differs from the Company's regulated rate, the Site Host will be credited or charged, as applicable, the difference in the revenue collected net of the revenue that would otherwise be collected under the regulated rate.~~

~~The following conditions will apply to DCFC stations:~~

~~For Make Ready and Company-operated~~ For DCFC stations, the Company will work closely with the PST Advisory Group, or relevant subcommittee, to ensure that DCFC stations deployed via this initiative are complementary to deployments using the Volkswagen Settlement Agreement funds administered by the Rhode Island Department of Environmental Management. Narragansett Electric will coordinate ~~the Make-Ready sites~~ with OER and will reserve up to twenty-five percent (25%) of the DCFC ports to be allocated to State-funded, -supported, or -

hosted stations that deliver benefits to the public. The Company will seek to co-locate one of the DCFC sites ~~-~~with a storage unit, as further described in subsection d. of this section, below.

- ~~Of the four public DCFC locations, Narragansett Electric will operate no more than two, with an exclusive focus on "underserved" areas (as identified above). One of the DCFC sites will be co-located with a storage unit, as further described in subsection (d) of this section, below.~~
- ~~The remaining two public DCFC sites proposed in the original filing will become Make-Ready sites.~~
- ~~As originally proposed, the remaining eight DCFC sites (public transit buses, rideshare company charging hub, ports/airports, and municipal school buses) will remain Make-Ready sites.~~ Deployment of ~~these~~the remaining DCFC -sites will be in coordination with OER and the Division.

~~The following conditions will apply to the~~ For energy supply for the charging stations~~:~~

~~For Make-Ready sites~~, the site host is the customer of record and accordingly will select competitive generation supply or standard offer (the Company does not, and should not, have a say in the customer's decision on its choice of energy supplier).

- ~~For Company-operated sites (both Level 2 and DCFC), Narragansett Electric is customer of record and will undertake a commodity Request For Proposal (RFP) (including comparison with standard offer prices) to ensure the best value for customers when setting its regulated charging rate.~~

iii. Discount Pilot for Direct Current Fast Charging Station Accounts. Narragansett Electric will offer a time-limited discount on the electric bills for dedicated DCFC electric accounts. This discount pilot will be available on a first come, first served basis, with the annual value limited to $300,000 per year. Any existing or new customers with General C&I Rate G-02 or Large Demand Rate G-32 for dedicated DC Fast Charging purposes will be eligible for the discount, provided that twenty five percent (25%) of the stations receiving the discount shall be in stations that enable electric public transit. The monthly bill discount will be based on a per ~~kWh~~kW credit set at the same rate as the applicable (Rate G-02 or Rate G32) distribution demand charge. The discount for participants who enroll in Rate Year 1 will be equal to one hundred percent (100%) of the distribution demand charge for a period of three years from the start of service~~, and will be phased~~. Sixty (60) days prior to enrollment for Rate Year 2 and Rate Year 3, the Company shall make, as part of the Electric Transportation Evaluation and Annual Program Modification Report, with input from the PST Advisory Group, a recommendation for the appropriate level of discount for new participants in such Rate Year based on enrollment data and lessons learned, for approval by the PUC. The results of the pilot and any proposed DCFC demand charges or rebates will be reviewed as part of the next MRP, which may include a phase out over years four, five, and six with the details of such phasing out to be included in the next MRP.

iv. Fleet Advisory Services. As a new component of the program arising from the settlement discussions, and not included in the Company's original filing, Narragansett Electric will, through a combination of internal and third~~-~~-party expertise, offer a new advisory service to support electrification of customer fleets, the scope of which will include conducting long-term fleet electrification studies for a total of approximately twelve (12) fleet operators in Rhode Island, including government light-duty, corporate light-duty, public transit, government medium/heavy-duty (on-road and off-road), and municipal school buses. This program will replace Narragansett Electric's originally proposed Company Fleet Expansion program, which shall be eliminated, and Narragansett Electric will reallocate thirty-six percent (36%) of the funds previously identified for the Company Fleet Expansion program to fleet advisory services, provided that twenty-five percent (25%) of the funds address fleets owned by government or public transit entities.

v. Electric Transportation Initiative Evaluation. Narragansett Electric is committed to evaluating each element of the electric transportation initiative on an annual basis, and sharing its learnings with stakeholders and industry participants. In furtherance of this goal, Narragansett Electric will produce and publicly present an Annual Evaluation Report, using the metrics provided in the original filing, with appropriate modifications to be made to reflect the programs as approved in this Settlement Agreement~~,~~ within two months following the end of each Rate Year, describing implementation of the electric transportation initiative, and ~~document~~documenting the information gained through this initiative and any recommendations to enhance the program. The Company will file a copy of the Annual Evaluation Report with the PUC. ~~The process for implementing any findings or recommendations contained in the Annual~~ The Company's Annual Evaluation Report will include, at a minimum, the following information, if available:

- location, category (as defined in the table in Section 17.a.ii. of this Settlement Agreement), in-service date, and utilization of each charging station installed;
- effectiveness of the Discount Pilot for DCFC Station Accounts, accounting for free-ridership and spillover effects;
- learnings on how the Company can integrate Electric Vehicles with minimal impacts on the cost of the distribution system, including an understanding of the effectiveness of the Off-Peak Charging Rebate Pilot;
- evaluation of the effectiveness of each component of the initiative in stimulating consumer adoption of electric vehicles, including an understanding of the effectiveness of the type and level of the incentive;
- results of the Fleet Advisory Services program, including the number of fleet vehicles converted to electric vehicles at the end of each rate year and at the end of the rate plan;
- the incremental CO2 reductions resulting from incremental vehicle adoption as described under the Distributed Energy Resources, CO2: Electric Vehicles metric; and
- evaluation of the Company's impact on fleet electric vehicle adoption.

The process for implementing any findings or recommendations contained in the Annual Evaluation Report will be through the PST Advisory Group, as discussed in subsection (e), below.

b. *Electric Heat*. Narragansett Electric ~~will implement~~shall not receive any funding for its proposed electric heat initiative through base distribution rates. Narragansett Electric may propose an electric heat initiative~~. The purpose of this initiative~~ ~~is~~similar to ~~launch~~

~~new and innovative electric heat services for customers and to accelerate efficient heat electrification in Rhode Island through supporting market development strategies. The electric heat~~the initiative ~~will consist of~~proposed in this docket through the Energy Efficiency program plan, which, if proposed, will: (1) offer equipment incentives to lower the upfront cost barrier for Rhode Island residential customers to convert to efficient cold-climate air-source or ground-source heat pump systems~~. Narragansett Electric will~~; (2) offer rebates to a mix of standard offer service, competitive supply, and Income Eligible customers~~,~~ with approximately fifty percent (50%) of the rebate budget to be used for Income Eligible customers~~. Eligibility for the program will~~; and (3) be limited to residential customers for whom efficient electric heating has a Societal Cost Test ratio greater than 1 (e.g., currently delivered fuel customers and electric resistance customers). ~~Narragansett Electric will conduct and deliver this initiative in close alignment with the Company's Energy Efficiency program.~~ For standard offer service customers, the rebate level will depend on the installed system. For Income Eligible customers, the rebate level will be one hundred percent (100%) of the all-in cost of heating capacity. ~~The proposal previously included in Docket No. 4780 to convert one large commercial or industrial oil heated building to Geothermal Heat Pumps is eliminated from the electric heat initiative.~~

~~The revenue requirement for this initiative will include \$0.4 million in Rate Year 1, \$0.5 million in Rate Year 2, and \$0.5 million in Rate Year 3. The costs of this initiative shall be subject to a deferral mechanism, as described in Section 20, below.~~

~~c. *Strategic Electrification Marketing Fund*. In support of the electrification initiatives discussed above (electric transportation and electric heat), Narragansett Electric will create a strategic electrification marketing fund using amounts previously identified for~~

~~transportation outreach and education in the electric transportation initiative and oil dealer training in the electric heat initiative ($0.2 million in Rate Year 1; $0.2 million in Rate Year 2; and $0.3 million in Rate Year 3). Narragansett Electric will work with the Division and the PST Advisory Group, or relevant subcommittee, on the goals for the strategic electrification marketing fund and use of the fund during the MRP.~~c. *Strategic Electrification Education Fund*. The Settling P~~p~~arties acknowledge that the ongoing electrification of transportation in Rhode Island has the potential to significantly reduce greenhouse gas emissions and to provide significant distribution system benefits. At the same time, the Settling P~~p~~arties acknowledge that electric transportation, if not optimally integrated, has the potential to increase peak electric demand with negative consequences for system cost, system efficiency and emissions. To support the electric transportation initiatives discussed above, Narragansett Electric will create a Strategic Electrification Education Fund. The fund shall be administered consistent with R.I. Gen. Laws ~~RIGL~~ § 39-2-1.2. The revenue requirement shall include the following amounts for the fund: $7,500 in Rate Year 1 to inform customers of the availability of the off-peak charging rate; $11,250 in Rate Year 2 to inform customers of the availability of the off-peak charging rate; and $18,750 in Rate Year 3 to inform customers of the availability of the off-peak charging rate. The Settling P~~p~~arties also agree that, prior to the beginning of Rate Year 2, the Company may submit, in consultation with the Division, OER, and the members of the PST Advisory Group, a revised proposal to the PUC for funding the Strategic Electrification Education Fund, consistent with R.I. Gen. Laws § 39-2-1.2. ~~,~~The Settling P~~p~~arties agree that this provision may be severed from the remainder of this Settlement A~~a~~greement without affecting the validity of the overall settlement if the PUC~~Commission~~ deems this provision inconsistent with its motions.

d. *Energy Storage Demonstration*. The Settling Parties agree that energy storage is critical for achieving a clean energy future as it provides the ability to optimize system performance over time and allows intermittent renewable resources, such as wind and solar, to make a larger contribution to overall generation. The Settling Parties also recognize the Company has a role to effectively integrate storage. To this end, Narragansett Electric will demonstrate two energy storage solutions: (i) one behind-the-meter storage system co-located with a DCFC site, which will consist of an approximate 250 kW two hour energy storage system, supporting approximately two to six DCFC ports, and (ii) one front-of-the-meter storage system, which will consist of an approximate 500 kW three hour energy storage system for the primary purpose of realizing distribution system value, with the exact storage size and capacity to be determined by system need and location. The revenue requirement for this initiative will include \$0.1 million in Rate Year 1, \$0.2 million in Rate Year 2, and \$0.4 million in Rate Year 3. The costs of this initiative shall be subject to a deferral mechanism, as described in Section 20, below.

Narragansett Electric will procure each storage solution through a competitive RFP process, which will set forth the technical requirements, and will request proposals for both a third party-owned system with a service agreement, and an Engineering Procurement and Construction delivered ~~systems~~system owned by the utility, which will explore alternative ownership models on a like-for-like basis, and benefits associated with each model. Narragansett Electric will share the draft RFP with stakeholders, via the PST Advisory Group, for feedback. The Company will file each draft RFP with the PUC no fewer than 30 days before it is issued to ensure that the PUC understands the barriers the pilot demonstration is designed to overcome and the learnings the Company intends to obtain from the project. The proposal(s) that have the best value and that ~~are~~ also are compliant with the RFP will be selected. The

Company will work with the Division and OER to ensure the procurement process and selection process has been done in an independent, transparent, and fair manner. The costs included in the revenue requirement for this initiative are based on a Company ownership model. ~~-~~The Company will prepare a cost/benefit analysis at the conclusion of each pilot/demonstration using the Docket 4600 Benefit-Cost Framework.

e. *Engagement and guidance in support of PST Programs*. The Company and the Settling Parties recognize that the initiatives included in this section are new in nature, with a higher level of uncertainty about the performance and results and that delivery of these programs over the period of the MRP will benefit from broad stakeholder engagement, review, and guidance. To formalize engagement of stakeholders that will be additional to the regular engagement of the Company with the Division and OER, the Company proposes the following:

- Establishment of a "PST Advisory Group," to be chaired by the Company and whose members shall include the Division, OER, and representatives of the following interests: environment, clean energy industry or businesses, low income, NPP, community groups, and additional members as the Company, the Division, and OER may agree. The mission of the PST Advisory Group shall be to review at a high level progress on the delivery of all PST components of the MRP (Grid Modernization, AMF, time-varying rates, Electric Transportation, ~~Electric Heat,~~ Storage, and Performance Incentive Mechanisms) and to provide guidance, and prioritization to support successful delivery of the components as a holistic suite. The Advisory Group shall also serve as a connection with other relevant programs / proceedings outside the MRP, for example, the Energy Efficiency Resource Management Council

(EERMC), and to enable appropriate participation, alignment and coordination with such programs and proceedings.

- Creation of subcommittees under the PST Advisory Group, including but not limited to: 1) Strategic Electrification Subcommittee, and 2) AMF and Grid Modernization Subcommittee. Subcommittees shall be chaired by the Company and will include Division and OER participation. The mission of the subcommittees shall be to provide guidance and prioritization on a more granular level in relation to the individual program.
- Quarterly updates: on a quarterly basis, commencing October 2018, the PST Advisory Group, and relevant subcommittees, will each meet to discuss the progress and challenges in the development and implementation of the PST components of the MRP, along with emerging insights and learnings. The schedule will be designed such that, wherever possible, meetings will all take place in one day, with the PST Advisory Group in the morning, followed by sequential subcommittee meetings. Prior to each quarterly meeting the Company will consult with the Division and OER to plan the agenda and topics for discussion. All PST Advisory Group members will have an opportunity to provide input on the agendas for meetings. PUC staff and Commissioners may also provide input on the agendas for topics to be addressed at PST Advisory Group meetings.
- Annual evaluation and program modification: The first PST Advisory Group meeting after the end of each Rate Year shall include a review of results and learnings from the previous year's performance. The meeting will also review recommendations for any modifications to program design or funding for the electric transportation~~, electric~~

~~heat,~~ and storage programs. The Company will file any recommendations requiring a transfer of funds between programs, following review by the PST Advisory Group, with the PUC for review and approval.

- ~~Use of the Strategic Electrification Marketing Fund: The first meeting of the PST Advisory Group will include detailed proposals for use of this fund. The Company will consider feedback from members before filing the outreach and education plan with the Division for its agreement. In the event the Division and the Company reach accord within 30 days following the plan filing, the Company will then file its plan with the PUC for information. In the event the Company and the Division are not able to reach agreement within 30 days the Company may file its proposal for use of the fund to the PUC for review and approval. Ongoing review and guidance will subsequently be provided by the Strategic Electrification subcommittee.~~
- In the event that the Company, the Division, and OER unanimously agree to adjust the schedule of meetings in the public interest, they are empowered to do so without the agreement of all signatories to this Settlement Agreement, but they shall advise all signatories of the revised schedule.
- The Division and OER commit to leverage the guidance of the PST Advisory Group in its engagement with the Company on the development of future PST program development.
- The PST Advisory Group shall participate in two to four technical sessions or open meetings with the PUC. The PUC and all PST Advisory Group members shall have the opportunity to provide input on the creation of the agendas for these ~~semi-annual~~ technical sessions or open meetings. The subcommittees of the PST Advisory Group

shall attend and, if the PUC so directs, shall make presentations at these ~~semi-annual~~ technical sessions or open meetings.

18. Capital Efficiency Mechanism for Narragansett Electric

~~**For purposes of incentivizing efficient capital spending for the electric distribution business,**~~ **The PUC is considering the Capital Efficiency Mechanism for Narragansett Electric** ~~**shall compare the Capital Spending Target, as defined below, to the Actual Capital Spending and share in the over/under spending as shown**~~ **in** ~~**the table**~~~~**Docke**~~ **Docket No. 4857.**~~**t below.**~~

~~**Capital Efficiency Mechanism: Penalty and Incentive Values***~~

	~~Variance to Capital Spending Target $MM~~	~~Simplified Revenue Requirements Variance $MM~~	~~Penalty / Incentive values $MM~~
~~Capital Overspending Penalty~~	~~+$25.0~~	~~$5.0~~	~~-$2.0~~
	~~+$20.0~~	~~$4.0~~	~~-$2.0~~
	~~+$12.5~~	~~$2.5~~	~~-$2.0~~
	~~+$10.0~~	~~$2.0~~	~~-$1.5~~
	~~+$5.0~~	~~$1.0~~	~~-$0.5~~
~~Deadband~~	~~+$2.5~~	~~$0.5~~	~~$0.0~~
~~On budget~~	~~$0.0~~	~~$0.0~~	~~$0.0~~
~~Capital Spending Savings Incentive~~	~~-$2.5~~	~~-$0.5~~	~~$0.25~~
	~~-$5.0~~	~~-$1.0~~	~~$0.5~~
	~~-$10.0~~	~~-$2.0~~	~~$1.0~~
	~~-$12.5~~	~~-$2.5~~	~~$1.25~~
	~~-$20.0~~	~~-$4.0~~	~~$2.0~~
	~~-$25.0~~	~~-$5.0~~	~~$2.0~~

~~* Narragansett Electric share to be calculated proportionally for outcomes that fall between the variance levels show in the table.~~

~~Narragansett Electric's share of any overspending is intended to reflect 100 percent of the approximate revenue requirement variance associated with the overspending (over and above the Deadband described below), where the approximate revenue requirement for this purpose is assumed to be a simplified 20 percent of the capital spend. Narragansett Electric's share of the underspending is intended to reflect 50 percent of the approximate revenue requirement variance~~

~~associated with the underspending, where the approximate revenue requirement for this purpose is assumed to be a simplified 20 percent of the capital spending.~~

~~a. *Capital Spending Target*. A three-year capital spending target for ISR-eligible Capital Spending will be established in the aggregate, for the three fiscal years of 2020, 2021, and 2022, subject to the provisions of this section. The target for FY2020 will be established as part of the FY2020 ISR plan. The targets for FY2021 and FY2022 will be established as part of the FY2021 ISR plan. The three-year Capital Spending Target will be the aggregate of the capital spending of the three fiscal years.~~

~~b. *Deadband*. For purposes of determining whether there will be a penalty incurred under the Capital Efficiency Mechanism set forth in this section, there shall be a range above the Capital Spending Target equal to an overspend of $2,500,000 (equivalent to a simplified revenue requirement of $500,000) (Deadband). To the extent actual spending falls within the Deadband, there shall be no penalty incurred. To the extent actual spending falls above the Deadband, spending within the Deadband will be not be included in calculation of the resulting penalty.~~

~~c. *Capital Spending Savings Incentive*. Subject to the provisions of this section, to the extent the Company's aggregate ISR-eligible Capital Spending for FYs 2020, 2021, and 2022 is below the Capital Spending Target, customers and Narragansett Electric will share those savings, with the amount to be retained by Narragansett Electric calculated using the values in the table above. Narragansett Electric's share of the savings shall be retained by the Company through the recognition of a recoverable incentive expense separately allowed by the PUC at the time of reviewing and approving the Company's annual ISR Reconciliation filing.~~

~~d. *Capital Overspending Penalty*. Subject to the provisions of this section, to~~

~~the extent Narragansett Electric's aggregate ISR-eligible Capital Spending for FYs 2020, 2021, and 2022 is above the Deadband of the Capital Spending Target, the Company shall incur a penalty. The size of the penalty will be calculated using the values in the table above. In such case, Narragansett Electric will credit the Storm Fund by an amount equal to the Capital Overspending Penalty.~~

~~e. *Adjustments to the Capital Spending Target and Base Distribution Revenue Requirement*. During the ISR planning process for FYs 2020, 2021, and/or 2022, to the extent the Company and the Division mutually agree that there was or is a need to add, remove, or defer capital projects for events, conditions, or other reasons beyond the Company's reasonable control that were not anticipated when the Capital Spending Target was set, the Company and the Division may adjust the Capital Spending Target, subject to the approval of the PUC. Events or conditions resulting in a change to the Capital Spending Target could, among other things, include the impact of a critical system safety failure, unforeseen reliability need, legislative or regulatory changes, and/or major new customer requests. It is the intent of the Settling Parties that the collaboration that exists today in the ISR Plan process will not be impacted by the new capital efficiency incentive. It is the intention of the Settling Parties that to the extent a capital project is avoided or deferred because the Company has employed or will employ a non-wires alternative to a capital project, the Capital Spending Target should not be adjusted, in order to allow a sharing in the savings as an incentive to encourage non-wires alternatives. If the Company and the Division have a disagreement regarding any proposed adjustments to the Capital Spending Target, the PUC shall retain the authority to resolve the dispute and make a binding determination on the matter.~~

~~f. *Caps on Reward or Penalty*. The reward earned or penalty incurred from~~

~~the calculation of the Capital Efficiency Mechanism in this section shall be capped at $2 million.~~

~~g. *Effect on Earnings Sharing Mechanism.* Neither the Capital Spending Savings Incentive nor the Capital Overspending Penalty will be accounted for in the calculation of the Company's earnings for purposes of the Earnings Sharing Mechanism.~~

~~h. No *Effect on the ISR Plan.* The Capital Efficiency Mechanism set forth in this section shall have no effect on the implementation of the annual ISR Plan spending plan and the operation of the reconciliation of actual ISR Plan activity under the ISR Plan.~~

~~i. *Prudency Reviews Unaffected.* The implementation of the Capital Efficiency Mechanism set forth in this section shall have no effect on the authority of the Division and the PUC to review the prudency of Company decisions under the ordinary course of the ISR Plan process or any other rate proceeding. Notwithstanding the specified Capital Spending Target, nothing in this Settlement Agreement is intended to limit the Company's flexibility during the term of the ISR Plan to substitute, change, or modify its capital projects.~~

~~. 4857.~~19. Performance-Based Incentive Mechanisms

The Settling Parties agree that the goal of ~~the~~a performance incentive ~~mechanisms set forth in this section~~mechanism is the development of meaningful performance incentives in support of key state energy policy goals. This Settlement Agreement represents a starting point for the role of performance incentive mechanisms in Rhode Island, which the Settling Parties expect will grow over time~~ both in terms of their financial importance and their role in driving important outcomes.~~, both in terms of their financial importance and their role in driving important outcomes. Currently, the Company shall not earn any performance incentives based on values associated with unquantified benefits. The Settling Parties agree that the Division, in consultation with the Company, OER, and the members of the PST Advisory Group shall develop transparent and well-defined metrics for describing unquantified benefits and providing evidence that such unquantified benefits have been advanced, for purposes of providing a future value for a performance incentive to drive such unquantified benefits. The Settling Parties further acknowledge that the appropriate mix and definitions of performance incentive mechanisms may evolve over time as PST progresses.

Narragansett Electric will implement ~~seven~~the following performance incentive ~~mechanisms (in three categories) intended to advance state policy goals and drive benefits for its customers: (1)~~mechanism: System Efficiency: Annual MW Capacity Savings~~; (2) Distributed Energy Resources: Installed Energy Storage Capacity; (3) Distributed Energy Resources, CO2: Electric Vehicles; (4) Distributed Energy Resources, CO2: Electric Heat; (5) Distributed Energy Resources: Light Duty Government and Commercial Fleet Electrification; (6) PST Enablement: Awarded Low-income and Multi-unit EVSE Sites; and (7) PST Enablement: Distributed Generation (DG) Interconnection – Time to ISA.~~. The System Efficiency ~~and Distributed Energy Resource metrics include~~metric includes minimum, mid, and maximum targets, with an increasing earning opportunity at each level.~~-~~ The Company may earn proportionally for achievements that fall between target levels up to the maximum level.[21] ~~The metrics and maximum earnings are shown~~The potential earnings for the System Efficiency metric are calculated as 45% of the Quantified Net Benefits of achieving the metrics, as set forth in Attachment 28. The maximum earnings the Company can achieve from the System Efficiency metric are set forth in the table below.

[21] In other words, for achievement at or above the minimum and up to the target level, the award will be calculated as the product of the maximum earnings level and the ratio of the achieved level to the maximum target.

Category and Supporting Metrics	Maximum Annual Earnings Opportunity ($1,000)		
	2019	2020	2021
System Efficiency	**$456**	**$717**	**$1,039**
Annual MW Capacity Savings	$456	$717	$1,039
Distributed Energy Resources	**$694**	**$815**	**$998**
Installed Energy Storage Capacity	$139	$139	$148
CO2: Electric Vehicles	$276	$367	$497
Light Duty Government and Commercial Fleet Electrification	$92	$122	$166
CO2: Electric Heat	$187	$187	$187
PST Enablement	**$282**	**$283**	**$189**
Activated Apartment Building and Disadvantaged Community EVSE	$94	$94	$0
Interconnection -- Time to ISA	$188	$189	$189
Total	**$1,432**	**$1,815**	**$2,227**

2019	2020	2021
$362,085	$622,370	$944,141

Additionally, the Settling Parties have identified several additional metrics to be tracked at this time, and for some of which the Company may become eligible for a financial performance incentive during the term of the MRP. These additional metrics are: (1) Distributed Energy Resources: Installed Energy Storage Capacity; (2) Distributed Energy Resources, CO2: Electric Vehicles; (3) Distributed Energy Resources: Light Duty Government and Commercial Fleet Electrification; (4) PST Enablement: Awarded Low-income and Multi-unit EVSE Sites; and (5) PST Enablement: Distributed Generation (DG) Interconnection – Time to ISA.

a. *System Efficiency: Annual MW Capacity Savings*. The metric for this performance incentive mechanism will be the mega-~~watt~~watts (MW) of annual peak capacity savings. This metric is intended to reflect avoided capacity coincident with the ISO-NE peak hour. The proposed list of eligible resources for Annual MW Capacity Savings includes: (i) Demand Response, which will not be eligible for an incentive under the existing energy efficiency shareholder incentive; (ii) incremental net-metered behind-the-meter PV distributed generation in excess of Company forecast levels; ~~and (iii~~(iii) incremental installed energy storage capacity~~.~~; and (iv) any additional actions that the Company can identify to reduce peak demand, including non-wires alternatives expected to influence system peak that are not captured already under this or other metrics, and partnerships with third parties to provide peak reduction solutions. Achievement of the target is not based on any pre-determined mix of qualifying resources, but rather a total count of MW savings across all categories. The table below sets forth the targets and maximum earnings opportunity. ~~The maximum earnings opportunity reflects approximately $94,000 for unquantified benefits (reliability and demand response market development).~~

Annual MW Capacity Savings: Targets and Maximum Earnings Opportunity

	2019	2020	2021
Minimum	14	17	21
Target	17	21	24
Maximum	20	25	29
Earnings at Maximum ($1,000)	$~~456~~362.09	$~~717~~622.37	$~~1,039~~944.14

For reporting performance on this metric, Narragansett Electric will submit resource-specific estimated MW savings. For existing eligible resources, Narragansett Electric will base savings on the following assumptions:

- For solar PV, Narragansett Electric will estimate the peak impact as the product of annual incremental installed capacity in excess of forecast levels available at the time of the ISO New England system peak, multiplied by a coincidence factor of 0.21. Narragansett Electric will report the forecast capacity and peak impacts of PV included in its annual peak forecast for the compliance year from the most recent annual forecast.[22]
- For residential Demand Response under the Company's Connected Solutions program, Narragansett Electric will report the number of participating customers

[22] For example, the Company's 2018 peak forecast projects incremental peak impacts from load-reducing solar PV in 2019 of 7.41 MW (35.3 MW of incremental capacity) in 2019.

multiplied by a deemed kW savings value per thermostat of 0.46 kW. Should the Company modify the structure of this program or otherwise expand residential demand response offerings, the calculation of savings will be appropriately modified. Any such modifications to the incentive calculation will be presented to the PUC for approval prior to the commencement of the relevant performance year.

- For commercial and industrial Demand Response, Narragansett Electric will report the average observed MW savings over called events.
- For any resources not listed above, Narragansett Electric will report the calculation of resource-specific savings and provide explanation of any underlying assumptions.

b. *Distributed Energy Resources.*

~~i. Installed Energy Storage Capacity. This performance incentive mechanism is intended to encourage the Company's continuous evaluation of storage solutions to meet system needs, as well as the Company's enablement of customer and third-party owned energy storage. This metric is denoted in terms of installed capacity in recognition of the range of potential solutions and services that energy storage might provide (e.g., while one energy storage installation might be utilized to reduce system peak, another might be employed to reduce local distribution peaks or provide voltage regulation services), and to encourage the Company's evaluation and encouragement of cost-effective storage to meet a range of system needs. Both utility-scale and behind-the-meter storage may count toward achievement of targets, regardless of ownership. It is the intention of the Settling Parties that the Company will coordinate deployment of energy storage with its distribution system planning and heat map activities, and that storage activities undertaken by the Company should provide opportunities for market engagement by NPPs and other third-parties. The table below sets forth the targets~~

~~and maximum earnings opportunity. The maximum earnings opportunity reflects approximately $94,000 for unquantified benefits for market transformation, reliability and resilience, and in recognition of the potential value of energy storage to Rhode Island's state energy policy goals.~~

~~Installed Energy Storage Capacity: Targets (incremental MW of installed capacity and Maximum Earnings Opportunity~~

	~~2019~~	~~2020~~	~~2021~~
~~Minimum~~	~~2~~	~~2~~	~~2~~
~~Target~~	4	4	4
~~Maximum~~	~~8~~	~~8~~	~~8~~
~~Earnings at Maximum ($1,000)~~	~~$139~~	~~$139~~	~~$148~~

i. Installed Energy Storage Capacity. This metric will be a scorecard metric as described in subsection f., below.

ii. CO2: Consumer Electric Vehicles. The metric ~~for this performance incentive mechanism~~ is the incremental avoided tons of CO2 resulting from the Company's proposed Electric Transportation Initiative, as shown in the table below. ~~The targets were set to represent the CO2 reductions from incremental vehicle adoption above Company forecast levels.~~ The Company forecast was developed by applying a growth rate in EV sales for 2018 through 2021 derived from the Energy Information Administration's Annual Energy Outlook 2018 projection of EV sales in New England, to historic data on EV registrations in Rhode Island from R.L. Polk. ~~–~~The Company's forecast for incremental EVs adopted for years 2019 through 2021 is provided in the table below.

Narragansett Electric Forecast of Incremental EVs Registered in Rhode Island (Number of incremental vehicles)

	2019	2020	2021
Forecast incremental EVs	857	1,180	1,644

~~The proposed CO2 targets and potential earnings are summarized in the table below; targets reflect a 30%, 55%, and 80% improvement over Narragansett Electric's projected incremental annual EV adoption levels (corresponding to the minimum, target, and maximum levels, respectively). For example, the minimum target for 2019 represents the CO2 emissions impact of the adoption of an additional 257 EVs above the Company's forecast. The CO2 targets reflect a weighted average annual CO2 metric tons per vehicle factor of 2.15. The Company's consumer vehicle forecast and target calculations are provided in Attachment 29. The maximum earnings for this performance incentive mechanism represent three-fourths of the available incentive for Electric Vehicles as determined by the Company's benefit cost-analysis in support of the performance incentive mechanisms, included in Attachment 28. The available incentive at the maximum level includes approximately $47,000 for unquantified benefits for market transformation and in recognition of the importance of electric vehicle adoption to state policy goals.~~

~~CO2: Consumer Electric Vehicles – Targets (incremental avoided metric tons of CO2) and Maximum Earnings Opportunity~~

	~~2019~~	~~2020~~	~~2021~~
~~Minimum~~	~~553~~	~~761~~	~~1,060~~
~~Target~~	~~1,013~~	~~1,396~~	~~1,944~~
~~Maximum~~	~~1,474~~	~~2,030~~	~~2,828~~
~~Earnings at Maximum ($1,000)~~	~~$276~~	~~$367~~	~~$497~~

The Company will track and report performance by (1) calculating incremental vehicles above Company forecasts; (2) calculating the number of incremental BEVs and PHEVs by multiplying the total number of incremental vehicles by the share of all new registrations that were BEVs, and the share of all new registrations that were PHEVs; and (3) applying per vehicle annual CO2 emissions reduction values as follows:

- Incremental BEVs x 2.32 metric tons CO2
- Incremental PHEVs x 2.08 metric tons CO2

The PUC will evaluate whether to allow a financial performance incentive to be attached to the achievement of this metric prior to Rate Year 2.

iii. Light Duty Government and Commercial Fleet Electrification.

This metric is intended to capture the impact of Narragansett Electric's electric transportation initiative on light-duty fleet adoption in Rhode Island relative to predicted market trends. The metric will measure incremental increase – above predicted levels – of government and commercial light-duty fleet electric vehicles in the state on an annual basis. ~~The targets represent an improvement in Rhode Island upon the Company's forecast trend for electric vehicle sales in Rhode Island relative to an estimated growth rate based on light-duty fleet registrations from 2014-2016 (latest full year of data available). The table below sets forth the targets and maximum earnings opportunity, and reflects a 20%, 40%, and 60% improvement over the forecasted predictions (corresponding to the minimum, target, and maximum levels, respectively). The maximum earnings for this performance incentive mechanism represent one-fourth of the available incentive for EVs as determined by the Company's benefit cost-analysis in support of the performance incentive mechanisms, included in Attachment 28. The Company will report the incremental registrations (both in total and above~~The Company will track and report the incremental registrations (both in total and above the Company forecast included in

Attachment 29) based on R.L. Polk data or an acceptable substitute should the Polk data become unavailable.

~~Light Duty Government and Commercial Fleet Electrification: Targets (incremental annual light duty fleet vehicle registrations above forecast) and Maximum Earning Opportunity~~

	~~2019~~	~~2020~~	~~2021~~
~~Minimum~~	~~9~~	~~14~~	~~22~~
~~Target~~	~~19~~	~~29~~	~~44~~
~~Maximum~~	~~28~~	~~43~~	~~65~~
~~Earnings at Maximum ($1,000)~~	~~$92~~	~~$122~~	~~$166~~

The PUC will evaluate whether to allow a financial performance incentive to be attached to the achievement of this metric prior to Rate Year 2.

~~iv.~~ ~~CO2: Electric Heat. The metric for this performance incentive is the avoided annual metric tons of CO2 resulting from the incremental air source heat pumps installed under the Company's Electric Heat Initiative. Targets for these metrics were developed to represent the Company's effective delivery of program objectives, in particular, achieving effective targeting of highly-emitting customers, maximizing participation on a fixed incentive budget, and encouraging proper system design and utilization. Target calculations are provided in Attachment 30. The table below sets forth the targets and maximum earnings opportunity. Earnings at maximum target levels include approximately $47,000 for unquantified benefits, for market transformation, economic development, and benefits to low income customers.~~

~~The Company will calculate incremental avoided metric tons of CO2 as follows:~~

- ~~Oil conversions Incremental ASHP x 3.0 MT CO2~~
- ~~Electric resistance conversations: incremental ASHP x 6.0 MT CO2~~

~~CO2: Targets (Incremental annual avoided metric tons of CO2) and Maximum Earnings Opportunity~~

	~~2019~~	~~2020~~	~~2021~~
~~Minimum~~	~~194~~	~~194~~	~~194~~
~~Target~~	~~242~~	~~242~~	~~242~~
~~Maximum~~	~~290~~	~~290~~	~~290~~
~~Earnings at Maximum ($1,000)~~	~~$187~~	~~$187~~	~~$187~~

c. *PST Enablement*. This category of incentives will ~~reward~~track Narragansett ~~Electric for~~Electric's activities that support broad access to the benefits of power sector transformation activities, or otherwise provide foundational support for power sector transformation objectives. These incentives are reflective of the qualitative benefits of this support and enablement. Incentives are described in more detail below:

i. Activated Apartment Building and Disadvantaged Community EVSE Sites: This ~~performance incentive mechanism would award the Company for the~~ metric will track the Company's activation of EVSE sites for apartment buildings and disadvantaged communities ~~ahead of schedule and applies to both make ready and utility owned sites. The Company will be awarded approximately $23,500 for each activated site over the expected number of sites indicated in the Company's baseline site development schedule~~[23] ~~(totaled over the two site categories) in 2019 and 2020. The Company may earn up to approximately $94,000 in each of these years.~~. The Company will report the ~~number of sites activated ahead of schedule in both site categories. The earned incentive will be based on the Company's performance relative to the total number of sites in the two categories in the schedule for the relevant year. Narragansett Electric's baseline site development schedule for apartment building and disadvantaged community sites is shown below along with the maximum earnings~~

[23] ~~The baseline site development schedule represents the expected timing of development of sites based on the Company's program budget.~~

~~opportunity.~~in-service date for make-ready work and charging stations installed in both site categories.

~~**Activated Apartment Building and Disadvantaged EVSE Sites – Baseline Site Development Schedule and Maximum Earning Opportunity**~~[24]

	~~2019~~	~~2020~~	~~2021~~
~~Apartment Buildings~~	~~-~~	~~1~~	~~5~~
~~Disadvantaged Community Sites~~	~~-~~	~~1~~	~~5~~
~~Total~~	~~-~~	~~2~~	~~10~~
~~Earnings at Maximum~~	~~$94,019~~	~~$94,291~~	~~$0~~

ii. Distributed Generation (DG) Interconnection – Time to ISA. This ~~performance incentive mechanism would award the Company based on the extent to which it exceeds tariff timelines for providing an executable interconnection service agreement. The Company's performance will be measured by:~~[25]

- ~~aggregating the average time measured in Business Days necessary to issue an executable Interconnection Service Agreement commencing from the date an application is received, for each track (Aggregate Necessary Tariff Time Frames), and comparing such performance to~~
- ~~the total aggregate number of Business Days allowed by its Interconnection Tariff to issue an executable Interconnection Service Agreement commencing from the date an application is received (Aggregate Allowed Tariff Time Frames).~~

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[24] ~~Note that the baseline site development schedule indicates that zero sites in these two categories would be activated in 2019. Should the Company achieve activation of four sites in these categories in 2019, it would earn the maximum incentive. To achieve the maximum incentive in 2020, the Company would have to activate six sites in these two categories in that year.~~

[25] ~~Time Frames associated with the following will not be included in the metric:~~
~~(1) Expedited applications requiring a Supplemental Review;~~
~~(2) Applications with Time Frames negotiated by mutual agreement; and~~
~~(3) Simplified Spot and Area Network applications.~~

- ~~An incentive of approximately $94,000 will be paid if the calculation performed results in the Company having an average of 95% of the allotted time frames. If the calculation results in the Company having an average of 90% of the allotted time frames, the Company will earn approximately $189,000 with the basis points being pro-rated between 90% and 95% attainment.~~

~~Performance in each track will be weighted~~metric will be a scorecard metric, as described in subsection f., below. ~~follows:~~[26]

~~(1) Simplified: 20 percent~~

~~(2) Expedited: 40 percent~~

~~(3) Standard: 40 percent~~

~~An illustrative example of the metric is presented below:~~

~~-~~	~~Time Allowed (Days)~~	~~Average Time (Days)~~	~~Percent~~	~~Weighting~~	~~Weighted Allowed Time~~
~~Simplified projects not connecting to an area or spot network electric distribution system~~	~~20~~	~~12~~	~~60%~~	~~20%~~	~~12.0%~~

[26] ~~These weights are the same as those used in the Massachusetts Time Enforcement Mechanism (TEM), and were negotiated with multiple outside parties in 2012. The weights were established to reduce the value of smaller projects and increase the value of larger projects as the larger projects bring in a disproportionately higher share of proposed MWs.~~

~~Expedited w/o supplemental review~~	~~45~~	~~50~~	~~111%~~	~~40%~~	~~44.4%~~
~~Standard~~	~~135~~	~~145~~	~~107%~~	~~40%~~	~~43.0%~~
~~Measurement~~				~~100%~~	~~99.4%~~

~~The target levels and maximum earnings opportunity are summarized in the table below.~~

~~DG Interconnection – Time to ISA: Targets (% below allowed timeframe) and Maximum Earnings Opportunity~~

	~~2019~~	~~2020~~	~~2021~~
~~Minimum~~	~~95%~~	~~95%~~	~~95%~~
~~Maximum~~	~~90%~~	~~90%~~	~~90%~~
~~Earnings at Maximum ($1,000)~~	~~$188~~	~~$189~~	~~$189~~

d. *Calculating Incentive Value*. For ~~each of~~ the System Efficiency performance incentive ~~mechanisms in subparagraphs (a) and (b), above~~, the value of the incentive is established using the following steps:

- the quantified net benefits of the relevant initiative were estimated using the Company's BCA assumptions and methodology; and
- 45% of the quantified net benefits were used to determine the utility incentive~~,~~; the remaining 55% of net benefits will go to customers~~;~~.
- ~~the utility incentive was increased to account for unquantified benefits, in terms of improved reliability and market transformation of distributed energy resources; and~~
- ~~the utility incentive was estimated both in terms of dollars and basis points, using the return on equity that was agreed to as part of this rate case settlement.~~

When the Company achieves one of the ~~Performance Incentive Mechanism~~System Efficiency targets, it will receive an incentive based upon the dollar value associated with the relevant target. The magnitude of the utility incentive will be based upon the BCA results used at the time the Commission approves the Performance Incentive Mechanism. The utility incentive will not be modified based on after-the-fact reassessment of benefits and costs of the initiatives.

The Settling Parties agree that establishing a certain and meaningful incentive value is essential in order to most effectively drive Company performance in the delivery of the objectives supported by ~~these incentives~~the incentive, and for these reasons, the Settling Parties agree that the System Efficiency Annual MW Capacity Savings ~~performance incentive mechanism targets and the Installed Energy Storage Capacity~~ performance incentive mechanism targets require a presumption of cost-effectiveness to establish the incentive size based on the BCA results, as more fully described below. For ~~these initiatives~~this initiative, the Company will be allowed to earn the incentive regardless of whether ~~they turn~~it turns out to be cost-effective.

~~i. Annual MW Capacity Savings Incentive.~~ The Settling Parties agree and acknowledge that the Company's demand response initiatives are expected to play an important role in achievement of the System Efficiency Annual MW Capacity Savings targets. It is not clear that these programs will be demonstrated as cost-effective based on quantifiable benefits in their initial years; however, given their expected value to the system as they are further developed and expanded, their importance to enabling investment in and development of load management solutions, and the potential savings to participating customers, they are assumed to be cost-effective (via the assumed ratio of costs to benefits for the incentive) for the purpose of setting the value of the Annual MW Capacity Savings incentive.

~~ii. Installed Energy Storage Capacity Incentive. The Settling Parties agree that the Installed Energy Storage Capacity performance incentive mechanism targets are assumed to be cost-effective. This assumption is reasonable given that the Company would not utilize storage to meet a system need unless cost-effectiveness was clearly demonstrated, and customers would not be likely to install energy storage unless there was an economic benefit to doing so.~~

e. *Reporting Performance*. Narragansett Electric will file an annual performance incentive mechanism report with the PUC no later than March 1 annually (1) comparing the Company's performance relative to each performance incentive mechanism target; (2) describing the savings achieved, (3) calculating incentives earned, including proration of any incentives related to metric achievement between the minimum, midpoint, and the maximum target levels, ~~and~~ (4) any targets not achieved, and (5) demonstrating the cost and benefit impacts of the metric on the energy system, customers, and society using the Docket 4600 Benefit-Cost Framework. Narragansett Electric will file a mid-year update on or before September 1 annually that describes the Company's progress toward each Performance Incentive Mechanism metric target and the actions taken by the Company to achieve target performance. The mid-year update also will ~~also~~ include an assessment of whether (and, for the Annual MW Capacity Savings performance incentive mechanism, through which measures) the Company expects to meet its annual performance incentive mechanism targets.

f. *Scorecard Metrics*. The Company is proposing to track and report the following scorecard metrics:

i. DG Interconnections: Narragansett Electric will track the number of business days from executed ISA to distribution system modifications by category of interconnection (*i.e.*, simple, expedited, standard). For each category, the Company will calculate and report the averages and the variances from the averages.

ii. DG-Friendly Substation Transformers: Narragansett Electric will base reporting on the number of incremental 3VO installations completed.

iii. Utilization of EVSE in Low-income Areas: Narragansett Electric will report utilization rates at all EVSE sites installed through the Charging Station Demonstration Program. The reports will identify which EVSE sites are in low income areas.

iv. Reduction of Uncollectable Debt: Narragansett Electric will report enrollment in the Arrearage Management Plan (AMP) at the point of potential termination from service for purposes of developing a baseline and eventually setting an improvement target from this baseline, to maintain service to the low-income customer and prevent expansion of uncollectible debt.

v. Increased Stability of Service through Increased Enrollment in the Low Income Discount: Narragansett Electric will report enrollment in the low-income discount, represented by number of customers receiving delivery service on Rate A-60, for the purposes of developing a baseline and eventually setting an enrollment target that improves upon the baseline. Such a target would incentivize expanded enrollment on Rate A-60 thus increasing stability of service and reducing the frequency of the termination/reconnection cycle. This provision shall not be construed to allow customers to remain on Rate A-60 if they no longer are eligible for Rate A-60.

vi. NPP Residential Customer Demand Response Participation: ~~The Company~~ Narragansett Electric will work with NPPs to measure the number of NPP residential customers participating in ~~the Company's~~Narragansett Electric's Connected Solution program or any future demand response program that works with WiFi-enabled or smart thermostat(s) and other connected smart devices to reduce electricity use during periods of high energy demand.

vii. Distributed Energy Resources - Installed Energy Storage Capacity: Narragansett Electric will track incremental installed energy storage capacity. It is the intention of the Settling Parties that Narragansett Electric will coordinate deployment of energy storage with its distribution system planning and heat map activities, and that storage activities undertaken by Narragansett Electric should provide opportunities for market engagement by NPPs and other third-parties.

viii. PST Enablement - Distributed Generation (DG) Interconnection – Time to ISA: Narragansett Electric will track its performance for the simplified, expedited without supplemental review, and standard tracks in meeting or outperforming tariff timelines for providing an executable interconnection service agreement. Narragansett Electric's performance will be measured by:

- aggregating the average time measured in Business Days necessary to issue an executable Interconnection Service Agreement commencing from the date an application is received, for each track identified above (Aggregate Necessary Tariff Time Frames), and comparing such performance to
- the total aggregate number of Business Days allowed by its Interconnection Tariff to issue an executable Interconnection Service Agreement commencing from the date an application is received (Aggregate Allowed Tariff Time Frames).

g. *Recovery of Earned Incentives*. The Company shall recover any approved performance incentives earned for achieving the performance incentive mechanism targets listed above through the operation of ~~the electric Revenue Decoupling Mechanism (RDM) Provision, RIPUC No. 2201. Attachment 13 contains redline revisions to Narragansett Electric's currently effective RDM Provision, which, if approved, would allow the Company to include in the RDM Reconciliation Amount the performance incentives approved for recovery.~~a new reconciling mechanism pursuant to the Performance Incentive Recovery Provision. The Company will make an annual filing with the PUC to request recovery of performance incentives earned pursuant to the ~~above-listed metrics and targets, and if approved, such incentives will be included in the Company's annual RDM reconciliation filings.~~Performance Incentive Mechanisms authorized by the PUC and approval of a separate Performance Incentive Factor filing based upon the requested earned incentives.

20. <u>Deferral of Certain "Special Sector" Program Costs and Revenues</u>

a. In recognition of the uncertainty of timing and control of certain Special Sector Programs identified below, a deferral mechanism shall be implemented in accordance with this section.

b. The Special Sector Programs to which this section shall apply includes:

i. The Electric Transportation program, described in Section 17~~(~~.a~~)~~. of this Agreement; and

ii. The ~~Electric Heat program, described in Section 17(b); and~~

~~iii. The~~ Energy Storage Demonstration program, described in Section 17~~(~~.d~~)~~. (collectively referred to as the Special Sector Programs).

c. The costs and annual base distribution rate allowances allocated to each of the Special Sector Programs shall be separately monitored and reconciled at the end of each Rate Year.

d. To the extent the base distribution rate allowances allocated to the program exceed the actual costs incurred, the Company shall record the difference to a regulatory liability account. To the extent the deferral was caused by a reasonable delay in implementation, the deferral shall be applied to program cost incurrence when the program costs are later incurred. To the extent the deferral was caused by a cost reduction or funds not spent for reasons other than a reasonable delay, the deferral shall be held for the benefit of customers and the PUC shall determine how it shall be applied against other programs or costs that otherwise might have been borne by customers. The amount of any such deferral shall incur carrying charges at the WACC for Narragansett Electric for capital expenses and the customer deposit rate for Narragansett Electric for O&M costs.

e. To the extent the actual costs of a program exceed the base distribution rate allowances that were allocated to the program, the overspending shall be borne by the Company, unless the PUC allows the Company to record the difference to a regulatory asset for recovery at a later date. The PUC shall be under no obligation to approve a regulatory asset; however, a regulatory asset shall only be approved if the Company demonstrates that the costs were prudently incurred consistent with the program objectives and the overspending was out of its reasonable control.

21. Next Rate Case Filing

The Company's next general rate case shall be a combined electric and gas rate case unless the Company and the Division mutually agree that they should be filed separately. When the Company's next rate case is filed, the Company shall file complete revenue requirements for the rate year and no fewer than two additional consecutive twelve-month rate-year periods, to facilitate the PUC's and Division's review and potential approval of a multi-year rate plan.

a. The Company shall submit its next rate case filing to the PUC so that new base distribution rates take effect no later than September 1, 2022. Nothing in this Settlement Agreement shall preclude the Company from filing its next general rate case at any time earlier during the term of this Rate Plan or any extension thereof.

b. If the Division provides its consent to an extension of the term of this Rate Plan, the Division may specify another date upon which new base distribution rates are to become effective beyond September 1, 2022 in its place, but is not required to do so.

~~c.~~i. To the extent new base distribution rates resulting from the filing of the Company's next general rate case are not in effect by September 1, 2022, the Settlement Agreement shall remain in effect during the interim and if required, the ~~following provisions~~Performance Incentive Mechanism provision shall be extended to cover the additional interim period~~:~~.

~~i. The Performance Incentive Mechanisms; and~~

~~ii. Capital Efficiency Mechanism.~~

22. Additional Provisions

a. *Excess Deferred Taxes True Up*. As discussed in the Company's response to PUC 4-1 (Supplemental), a copy of which is provided as Attachment 24 hereto, to account for revisions to the corporate tax rate modified by the federal Tax Cuts and Jobs Act (Tax Act), the Company has recorded the $116 million and $51 million estimates of customer-related excess deferred federal income tax for Narragansett Electric and Narragansett Gas, respectively, to a tax regulatory liability account in recognition that customers will be refunded those excess deferred taxes. The Company will be able to calculate more accurately excess deferred taxes and the timing over which they should be returned when its fiscal year ended March 31, 2018 audited financial statements are completed during the late summer 2018. These estimates will become final with the filing of the fiscal year ended March 31, 2018 federal income tax return in December 2018, and the excess deferred tax regulatory liability will be adjusted to reflect that final balance.

This Settlement Agreement provides for a reduction to Narragansett Electric and Narragansett Gas revenue requirements by a high level estimate of excess deferred income tax amortization of $5.1 million and $2.0 million, respectively. The Company will true up these estimates in a supplemental compliance filing to be filed with the PUC in Docket No. 4770 after the Company files its Fiscal Year 2018 federal income tax return in December 2018. The true-up will reconcile the impact of the actual excess deferred tax amortization with the estimated amounts identified above, and will determine the final revenue requirements for Narragansett Electric and Narragansett Gas effective September 1, 2018. From these supplemental revenue requirements, the Company will calculate the difference between the revenue requirements it began recovering September 1, 2018 and the revenue requirements in the supplemental compliance filing in Docket No. ~~4770, and reflect the supplemental compliance revenue requirements, annual target revenue (for Narragansett Electric), and target revenue per customer (for Narragansett Gas) in the next electric and gas Revenue Decoupling Mechanism (RDM) reconciliation filings. In addition, the Company will also evaluate the appropriateness of proposing supplemental compliance rate design schedules based upon the amount of the true-up to the revenue requirements or, for Narragansett Electric, whether to provide an annual~~

~~adjustment in the RDM reconciliation filing if the difference is determined to be relatively small such that adjusting base distribution rates would not be needed. If the amount of the revision to Narragansett Gas's revenue requirement is also deemed relatively small such that adjusting base distribution rates would not be needed, Narragansett Gas shall submit a proposal with the PUC establishing a mechanism in its DAC whereby all customers would be subject to the annual change in revenue requirement in lieu of revising base distribution rates.~~4770 (Deferred Tax Differential). The Company will submit to the PUC for its review and approval a filing to address the ratemaking treatment of the Deferred Tax Differential for Narragansett Electric and Narragansett Gas no later than March 1, 2019. The filing shall propose the following:

Narragansett Electric: The Company will provide the calculation of the Narragansett Electric Deferred Tax Differential and the revised Annual Target Revenue (ATR) of its Revenue Decoupling Mechanism (RDM), reflecting an adjustment for the Deferred Tax Differential. In addition, Narragansett Electric will evaluate the appropriateness of proposing revised base distribution rates based upon the amount of the true-up to the revenue requirement to reflect the effect of the Deferred Tax Differential if the difference is determined to be of an amount that adjusting base distribution rates would be appropriate. The Company will present its evaluation on the necessity of revising base distribution rates as part of its proposal regarding the ratemaking treatment of the Deferred Tax Differential.

Narragansett Gas: The Company will provide the calculation of the Narragansett Gas Deferred Tax Differential. In addition, Narragansett Gas will evaluate the appropriateness of (i) proposing revised base distribution rates based upon the amount of the true-up to the revenue requirement to reflect the effect of the Deferred Tax Differential as described below, or (ii) proposing that the Deferred Tax Differential be credited through the DAC if the difference is determined to be relatively small such that adjusting base distribution rates would not be needed. The Company will present its evaluation on the necessity of revising base distribution rates as part of its proposal regarding the ratemaking treatment of the Deferred Tax Differential. If Narragansett Gas proposes to change base distribution rates, the filing shall include the following: (1) for all customers, new base distribution rates effective on a prospective basis on a date determined with respect to the timing of the supplemental compliance filing; (2) for customers included in Narragansett Gas's RDM,[27] revised target revenue-per-customer amounts based upon the supplemental revenue requirements; and (3) for customers excluded from Narragansett Gas's RDM,[28] the difference for this group of customers be credited to, or recovered from, these customers through a one-time adjustment included in the DAC filing submitted to the PUC by August 1, 2019. If Narragansett Gas revises its target revenue-per-customer amounts, the revised revenue-per-customer amounts shall be reflected in its subsequent RDM reconciliation filings submitted to the PUC annually by July 1 until the effective date of base distribution rates resulting from a future general rate case. Any revised target revenue-per-customer amounts shall be subject to Section 22.c. of this Settlement Agreement.

For this high level estimate, this Settlement Agreement provides for the amortization of all property related excess deferred taxes over an approximate 30 year average service life of its assets. The composite depreciation rate currently in effect is 3.40 percent and 3.38 percent for Narragansett Electric distribution plant and Narragansett Gas plant, respectively, both of which equate to average service lives of just under 30 years. The Company agrees to amortize its non-

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[27] Pursuant to Narragansett Gas's tariff, customers included in the RDM are those receiving service on Narragansett Gas's residential, small C&I, and medium C&I rate schedules.
[28] Pursuant to Narragansett Gas's tariff, customers excluded from the RDM are those receiving service on Narragansett Gas's large C&I, extra-large C&I, and non-firm rate schedules.

property related excess deferred taxes over a period of ten years, as was proposed by the Division, until the true-up is performed.

b. *Minimum Funding Obligation*. For the purpose of determining its "Minimum Funding Obligation" and the carrying costs that apply to that obligation, the Company shall be permitted to combine the funding of pensions and post-employment benefits other than pensions (PBOPs), thereby offsetting, for example, any deficiencies in PBOPs funding with any excess pension funding. The Company will be required to accrue and defer carrying charges on only the net unfunded pension/PBOP amount. The Minimum Funding Obligation is the Company's obligation to contribute amounts recovered from customers to the pension and PBOP plans as it is being recovered. The Minimum Funding Obligation level is equal to the amount billed to customers plus the amounts of capitalized pension and PBOP costs. The amount billed to customers includes (1) the pension and PBOP allowance in base distribution rates, and (2) plus or minus the amount billed or credited to customers through the PAF. If the Company does not fund its pension and PBOP plans at the Minimum Funding Obligation level, the Company will pay a carrying charge to customers at the weighted average cost of capital. This payment will be applied to the cumulative five-quarter average shortfall between the Minimum Funding Obligation level and amounts the Company contributes to the pension and PBOP plans, plus amounts paid to the Service Company for allocated pension and PBOP costs. The ability to combine the funding of pension and PBOPs will give the Company the flexibility to avoid permanently overfunding the PBOP plan, while at the same time, giving the Company the ability to meet its Minimum Funding Obligation.

c. *Narragansett Gas Forecast of Plant Additions for Gas Growth*. To ensure that customers will be credited with an accurate level of gas growth revenue and to address the

Division's concern regarding the Company's growth capital forecast, this Settlement Agreement provides that Narragansett Gas will calculate the difference between the forecast gas-growth capital revenue requirement and the actual gas growth capital revenue requirement in Rate Year 1. Attachment 25 provides an illustrative calculation to be employed at the end of Rate Year 1. As shown on this attachment, this difference shall be added to or subtracted from the total Revenue Decoupling Mechanism (RDM) class revenue requirement used to establish base distribution rates in these proceedings. This adjusted total RDM class revenue requirement will be divided by the actual average customer totals per rate class during Rate Year 1 to arrive at the class revenue per customer amount to be used in the calculation of RDM adjustments for all periods commencing September 1, 2018, and until new base distribution rates are established for gas service. The method illustrated in Attachment 25 does not establish any precedent for the calculation of RDM adjustments subsequent to future gas base distribution rate cases.

d. *Charitable Contributions*. ~~The Company shall be permitted to include an allowance in base distribution rates representing the recovery of a representative amount of Company donations as the Company is currently allowed. Based on a review of National Grid's charitable contributions in Rhode Island in recent years, many of the organizations listed in Attachment 26 would be likely recipients of Company donations funded by customers going forward, together with a description of how each organization provides benefits to customers. It is also likely that new/different not-for-profit organizations and programs will emerge in response to community priorities. To have the flexibility to respond to those opportunities as they arise, the Company will develop a process to inform the PUC and the Division if the mix of organizations changes significantly during the term of the Rate Plan.~~

~~The Company will identify charitable contributions funded by customers and~~

~~position them as investments in the community that the Company and its customers are making jointly. To accomplish this effectively and consistently, the Company will incorporate standard language into its advertising copy, public remarks, media releases, or other opportunities for public acknowledgement that may accompany a donation or sponsorship to a community organization.~~Intentionally Deleted.

e. *American Gas Association (AGA) and Edison Electric Institute (EEI) Annual Membership Dues*. To settle concerns raised by NERI associated with lobbying costs, which are not included in the Company's revenue requirements for Narragansett Gas and Narragansett Electric, charged to the Company by AGA and EEI, respectively, the Company has agreed to send letters to AGA and EEI requesting information regarding how such trade associations allocate costs between lobbying and non-lobbying expenses and substantiation of the allocation. The Company will provide the responses to the Division and the PUC.

f. *Low Income Reporting*. The Company, the Division, and GWC shall work together to develop reporting requirements for existing and new electric and natural gas low-income rates, programs, and discounts. These reporting requirements shall be designed to: (1) inform the PUC how the low-income rates, programs, and discounts advance the rate design principles set forth in the Docket 4600 Guidance Document, and (2) provide information needed to support future investigation into a more dynamic low-income-rate design.

23. Other Provisions

a. The Settling Parties agree to request that the PUC adopt the terms of this Settlement Agreement without modification. The Settling Parties intend that this Settlement Agreement will be adopted by the PUC as being in the public interest and agree individually to advocate its adoption by the PUC in its entirety and to act so as to expedite that result.

b. The Settling Parties intend this Settlement Agreement to be a complete resolution of all issues in Docket No. 4770 and Docket No. 4780. It is understood that each provision of this Settlement Agreement is in consideration and support of all the other provisions, and expressly conditioned upon acceptance by the PUC. Except as expressly set forth herein, none of the Settling Parties is deemed to have approved, agreed to, or consented to any principle, methodology, or interpretation of law underlying or supposed to underlie any provision herein~~.~~, including without limitation with respect to the PUC's August 3, 2018 open meeting decisions (and rationale therefor) regarding charitable contributions, carrying charges, and R.I. Gen. Laws § 39-2-1.2.

c. Except as otherwise stated in this Settlement Agreement, the provisions of the Settlement Agreement apply solely to, and are binding only in the context of, this Settlement Agreement and these proceedings. It is not the intention of this Settlement ~~agreement~~Agreement that it establishes any binding precedent. None of the positions taken by any Settling Party with respect to this Settlement Agreement nor the fact that a Settling Party is a signatory to this Settlement Agreement, may be referred to, cited by, or relied upon by anyone in any manner as precedent or otherwise in any other proceeding before the PUC or any other regulatory body or before any court of law as proof of assent or agreement by such Settling Party to the approval of any particular regulatory policy or principle that may be interpreted to arise out of this Settlement Agreement. Concessions made by any Settling Party on any issue do not preclude that party from addressing such issues in future rate proceedings or in other proceedings. Any failure by any Settling Party to abide by the terms of this subsection shall not give rise to any claim against such Settling Party for breach of this Settlement Agreement, unless: (i) the Settling Party is provided notice of such failure and an opportunity to cure such failure; and (ii) such

Settling Party does not cure such failure within seven (7) business days after such notice.

d. The Settling Parties recognize that certain provisions of this Settlement Agreement contemplate actions to be taken in the future and agree to cooperate with each other in good faith in taking such actions.

In the event of any disagreement over the interpretation of this Settlement Agreement that cannot be resolved informally among the Settling Parties, the party claiming a dispute will serve a Notice of Dispute on the remaining parties, briefly identifying the provision or provisions of this Settlement Agreement under dispute and the nature of the dispute, and convening a conference in a good faith attempt to resolve the dispute. If any such efforts are not successful in resolving the dispute among the Settling Parties, the matter will be submitted to the PUC for resolution.

e. Except as set forth herein, following the expiration of the term of the Rate Plan, all provisions of this Settlement Agreement will continue until changed by order of the PUC. Except as expressly provided otherwise, any targets, goals, deferral thresholds, or other similar items set forth in this Settlement Agreement for Rate Year 3 will continue beyond Rate Year 3 until modified by the PUC.

f. Nothing in this Settlement Agreement will be construed as precluding the active parties from convening additional conferences and from reaching agreement to extend this Settlement Agreement on mutually-acceptable terms and from presenting an agreement concerning such extension to the PUC for its approval.

g. The Settling Parties recognize that the PUC has an ongoing obligation to modify rates to protect the public against improper and unreasonable rates that cannot be precluded by a settlement agreement

h. This Settlement Agreement sets forth the entire agreement of the Settling Parties and supersedes any prior or contemporaneous written documents or oral understandings among the Settling Parties concerning the matters addressed herein. In the event of any conflict between this Settlement Agreement and any other document addressing the same subject matter, this Settlement Agreement will control. Notwithstanding the foregoing, nothing in this Settlement Agreement is intended to modify the terms of the Docket No. 4686 Settlement Agreement.

i. Notices and other communications required to be provided or made under the Settlement Agreement shall be in writing and shall be deemed to have been given:

i. When delivered by hand (with written confirmation of receipt);

ii. When received by the addressee if sent by a nationally recognized overnight courier or by certified or registered mail, return receipt requested, postage prepaid; or

iii. On the date sent by e-mail if sent before 5:00 p.m., recipient's time, and on the next day that is not a Saturday, Sunday, or Federal Holiday, if sent thereafter;

in each case, to the applicable address and/or email address set forth on Attachment 27; provided that, if any notice is tendered to an addressee and the delivery thereof is refused by such addressee, such notice shall be effective upon such tender.

Any party hereto may change its address and/or email address reflected in Attachment 27 upon 15 days' prior notice of such change to the other parties hereto.

ARTICLE III: SETTLEMENT CONDITIONS

A. This Settlement Agreement is the result of negotiations among the Settling Parties. The discussions that have produced this Settlement Agreement have been conducted on the explicit understanding that all offers of settlement and discussions relating hereto are and shall be privileged, shall be without prejudice to the position of any party or participant presenting such offer or participating in any such discussion, and are not to be used in any manner in connection with these or other proceedings involving any one or more of the parties to this Settlement Agreement or otherwise. The agreement by a party to the terms of this Settlement Agreement shall not be construed as an agreement as to any matter of fact or law for any other purpose.

B. Unless expressly stated herein, the making of this Settlement Agreement establishes no principles and shall not be deemed to foreclose any Settling Party from making any contention in any other proceeding or investigation.

C. The Settling Parties submit this Settlement Agreement on the condition that it be approved in full by the PUC and on the further condition that, if the PUC (i) rejects this Settlement Agreement; (ii) fails to accept this Settlement Agreement as filed; or (iii) accepts this Settlement Agreement subject to conditions unacceptable to any Settling Party hereto, then this Settlement Agreement shall be deemed withdrawn, shall not constitute part of the record in any proceeding or be used for any purpose, and shall be deemed null and void, and the Settling Parties will be free to pursue their respective positions in these proceedings without prejudice.

D. The Settling Parties recognize that the PUC has an ongoing obligation to modify rates to protect the public against improper and unreasonable rates, and that obligation cannot be precluded by a settlement agreement.

E. This Settlement Agreement may be signed in counterparts, each of which shall be deemed an original and all of which together shall constitute one in the same document, and will be binding on each Settling Party when the counterparts have been executed.

[SIGNATURE PAGES FOLLOW]

IN WITNESS WHEREOF, the parties agree that this Settlement Agreement is reasonable and have caused this document to be executed by their respective representatives, each being fully authorized to do so, as of this ~~5th~~___ day of ~~June~~August, 2018.

Respectfully submitted,

THE NARRAGANSETT ELECTRIC COMPANY D/B/A NATIONAL GRID	RHODE ISLAND DIVISION OF PUBLIC UTILITIES AND CARRIERS
By:____________________________ Its: Dated:__________________	By:____________________________ Its: Dated:__________________
RHODE ISLAND OFFICE OF ENERGY RESOURCES	CONSERVATION LAW FOUNDATION
By:____________________________ Its: Dated:__________________	By:____________________________ Its: Dated:__________________
DEPARTMENT OF THE NAVY AND THE FEDERAL EXECUTIVE AGENCIES	THE GEORGE WILEY CENTER
By:____________________________ Its: Dated:__________________	By:____________________________ Its: Dated:__________________
NORTHEAST CLEAN ENERGY COUNCIL	WAL-MART STORES, LP AND SAM'S EAST, INC.
By:____________________________ Its: Dated:__________________	By:____________________________ Their: Dated:__________________

ENERGY CONSUMERS ALLIANCE OF NEW ENGLAND , INC. D/B/A PEOPLE'S POWER AND LIGHT

By:________________________________
Its:
Dated:____________________

ENERGY CONSUMERS ALLIANCE OF NEW ENGLAND , INC. D/B/A PEOPLE'S POWER AND LIGHT; SIERRA CLUB; AND NATURAL RESOURCES DEFENSE COUNCIL, jointly

By:________________________________
Their:
Dated:____________________

CHARGEPOINT, INC.

By:________________________________
Its:
Dated:____________________

DIRECT ENERGY BUSINESS, LLC; DIRECT ENERGY SERVICES, LLC; AND DIRECT ENERGY SOLAR

By:________________________________
Their:
Dated:____________________

NEW ENERGY RHODE ISLAND

By:________________________________
Its:
Dated:____________________

NATIONAL RAILROAD PASSENGER CORPORATION

By:________________________________
Its:
Dated:____________________

ACADIA CENTER

By:________________________________
Its:
Dated:____________________

SCHEDULE A
List of Attachments

Attachment No.	Attachment Name	Book No.
1	Narragansett Electric and Narragansett Gas Revenue Requirement Settlement Terms (Rate Years 1, 2, 3)	#
2	Narragansett Electric and Narragansett Gas Revenue Requirements (Rate Years 1, 2, 3)	#
3	Narragansett Electric and Narragansett Gas Supporting Workpapers, including Cash Working Capital Studies	#
4	Narragansett Electric and Narragansett Gas Grid Modernization Revenue Requirements (Rate Years 1, 2, 3)	#
5	Narragansett Electric Special Sector Programs Revenue Requirements (Rate Years 1, 2, 3)	#
6	Narragansett Electric Allocated Cost of Service Study (Rate Year 1)	#
7	Narragansett Electric Allocator Study	#
8	Narragansett Electric Revenue Allocation (Rate Years 1, 2, 3) (including allocation of results of Rate Year 1 Allocated Cost of Service Study, plus (2) Years 2 and 3 increases, plus (3) PST revenue requirements for Rate Years 1, 2, 3))	#
9	Narragansett Electric Distribution Rate Design (Rate Years 1, 2, 3)	#
10	Narragansett Electric Bill Impacts (November 1, 2017 vs. Rate Year 1, Rate Year 1 vs. Rate Year 2, Rate Year 2 vs. Rate Year 3)	#
11	Narragansett Electric Streetlight Replacement Cost Study	#
12	Narragansett Electric Development of Rates Associated With Various Recovery Mechanisms	#
13	Narragansett Electric Redlined Tariffs (Marked to Show Changes from Those Currently in Effect)	#
14	Narragansett Gas Allocated Cost of Service Study (Rate Year 1)	#
15	Narragansett Gas Allocator Study	#
16	Narragansett Gas Revenue Allocation, Firm and Non-Firm Distribution Rate Design, and Revenue-per-Customer Targets by Rate Class (Rate Years 1, 2, 3; would include (1) allocation of results of Rate Year 1 Allocated Cost of Service Study, plus (2) Years 2 and 3 increases, plus (3) gas-related PST revenue requirements for Rate Years 1, 2, 3))	#
17	Narragansett Gas Bill Impacts (November 1, 2017 vs. Rate Year 1, Rate Year 1 vs. Rate Year 2, Rate Year 2 vs. Rate Year 3)	#
18	Narragansett Gas Development of Rates Associated With the Distribution Adjustment Clause and Gas Cost Recovery Clause	#

<u>SCHEDULE A</u>
List of Attachments