

LOCAL DISTRIBUTION ADJUSTMENT CLAUSE

1.0 PURPOSE

The Local Distribution Adjustment Clause (“LDAC”) establishes the procedures that allow The Berkshire Gas Company (“Company”), subject to the jurisdiction of the Department of Telecommunications and Energy (“Department”), to adjust on a semi-annual basis, its rates to recover Demand Side Management (“DSM”) costs, environmental response costs, FERC Order 636 transition costs, and certain costs incurred by the Company as a result of its participation in the Massachusetts Gas Unbundling Collaborative, and to return to firm ratepayers balancing penalties, a portion of non-firm distribution margins allocated to firm distribution services, and charges related to Interim Transportation Service. Any costs recovered through the application of this LDAC shall be identified and explained in the Company’s annual filing as outlined in Section 12.0.

2.0 APPLICABILITY

This LDAC shall be applicable to all of the Company’s firm Customers. As stated in Section 13.0, the application of the clause may, for good cause shown, be modified by the Department.

3.0 DEFINITIONS

The following terms shall be as defined in this section, unless the context requires otherwise:

- (1) Peak Season is the winter heating season as designated by Berkshire and approved by the Department, currently the consecutive months November to April, inclusive.
- (2) Off-Peak Season is the complementary summer season as designated by Berkshire, currently the consecutive months May to October, inclusive.
- (3) Total Throughput (T:Thru) is the forecasted firm throughput volumes in Therms for twelve consecutive months November to October, inclusive.
- (4) Number of Days Lag (DL) is the number of days lag to calculate the working capital requirement as approved by the Department.
- (5) Tax Rate (TR) is the combined state and federal tax rate.
- (6) Weighted Cost of Capital is the weighted cost of capital as set in the Company’s most recent rate case.
- (7) Cost of Debt (CD) is the weighted cost of debt as set in the Company’s most recent rate case.
- (8) Cost of Equity (CE) is the weighted cost of equity as set in the Company’s most recent rate case.
- (9) DSM Program Costs (DSM) are Demand Side Management program costs as approved by the Department.

DEFINITIONS (CONT'D)

- (10) DSM Lost Margins (LM) are margins lost as a result of the implementation of DSM measures, calculated by identifying total volumes of gas saved as a result of DSM measures, times the margin that would have been earned on those volumes.
- (11) Conservation Charge (CC) is the allowable per-unit collection rate derived from the DSM Program costs, specified by rate category.
- (12) DSM Residential Reconciliation (DSMr) is the balance in account 175.40 and DSM C & I Reconciliation (DSMci) is the balance in account 175.50 as outlined in Section 10.0
- (13) Environmental Response Costs (ERC) shall include all costs of investigation, testing, remediation, litigation expenses, and other liabilities relating to manufactured gas plant sites, disposal sites, or other sites onto which material may have migrated, as a result of the operating or decommissioning of Massachusetts gas manufacturing facilities.
- (14) Unamortized Environmental Responses Costs (UERC) are the portion of the environmental responses costs approved for recovery but not yet included in any LDAC recovery calculation.
- (15) Deferred Tax Benefit (DTB) shall be the unamortized portion of actual environmental responses costs multiplied by the effective statutory federal and state income tax rates and by the Company's tax-adjusted cost of capital as approved in its last rate proceeding.
- (16) Expenses (IE) and Recoveries (IR) associated with insurance and third-party claims shall include fifty percent of the expenses incurred and fifty percent of any net recoveries or other benefits received by the Company as a result of such claims. Any insurance or third party recoveries to be passed back to ratepayers through this Clause will be net of any insurance or third party expenses not collected from ratepayers.
- (17) Remediation Adjustment Clause Reconciliation Adjustment (RRAC) is the balance in account 175.60 as outlined in Section 10.0.
- (18) Transition Costs (TC) are costs incurred by pipeline as a result of the restructuring of their operations and services in compliance with FERC Order 636 as defined by FERC including: 1) gas supply realignment or GSR costs; 2) stranded costs; and, 3) new facilities costs.
- (19) Transition Costs Reconciliation Adjustment (TCRA) is the balance in Account 175.70 as outlined in Section 11.0.
- (20) Transition Cost Working Capital Requirement (TCWCreq) is the allowable working capital derived from FERC Order 636 Transition Costs.
- (21) Transition Cost Working Capital Allowance (TCWC) is the allowable working capital cost per-unit collection rate derived from the Transition Cost Working Capital Requirement.

DEFINITIONS (CONT'D)

- (22) Transition Cost Working Capital Reconciliation Adjustment (TCWCR) is the balance in account 142.70 as outlined in Section 10.0.
- (23) Unbundling Costs (UC) are all costs associated with the Company's participation in the Massachusetts Gas Unbundling Collaborative, including but not limited to any legal, consulting, materials, customer education/advertising, and facilities expenses as approved by the Department.
- (24) Unbundling Cost Reconciliation Adjustment (UCR) is the balance in [account 175.80] as outlined in Section 10.0.
- (25) Unbundling Cost Working Capital Requirement (UCWCreq) is the allowable working capital derived from Unbundling Costs.
- (26) Unbundling Cost Working Capital Allowance (UCWC) is the allowable working capital cost per-unit collection rate derived from the Unbundling Cost Working Capital Requirement.
- (27) Unbundling Cost Working Capital Reconciliation Adjustment (UCWCR) is the balance in account 142.80 as outlined in Section 10.0.
- (28) Balancing Penalties (BP) are the penalty revenues collected by the Company in accordance with its Terms and Conditions.
- (29) Economic Benefit is the difference between the revenue and the marginal cost determined to provide non-firm distribution service.
- (30) Threshold Level is a level based on a historical twelve-month period ending April 30 of each year.
- (31) Non-Firm Distribution Margin (NFM) is the economic benefit derived from the provision of non-firm distribution services. If the total credit exceeds the Threshold Level, then only seventy-five (75) percent of the credit earned in excess of the Threshold Level will be credited as established in DPU 93-141-A.
- (32) Rate Category is a rate schedule for Distribution Service, or a group of such rate schedules, for which the Department has approved a single Conservation Charge for Demand-Side Management services provided by the Company, as follows: Residential, Commercial/Industrial, and Other.

4.0 DEMAND SIDE MANAGEMENT COSTS ALLOWABLE FOR LDAC

4.1 Purpose

This provision establishes the procedures that allow the Company, subject to the jurisdiction of the Department, to adjust on an annual basis, the Conservation Charge to recover from firm ratepayers DSM Program Costs and associated expenditures.

4.2 Applicability

The Conservation Charge shall be applied to firm throughput of the Company, subject to the jurisdiction of the Department, as determined in accordance with the provisions of this rate schedule. Such Conservation Charge shall be determined annually by the Company separately for each Rate Category subject to review and approval by the Department. The Conservation Charge shall be incorporated within the calculation of the LDAF for each Rate Category as set forth in Section 9.0.

4.3 Calculation of Conservation Charges

The Company will forecast Conservation Expenditures for each Rate Category subject to this rate schedule for a future twelve-month period commencing November 1st of each year. The total of such Conservation Expenditures plus any prior period Reconciling Adjustment plus Lost Margins shall be divided by each rate categories firm throughput as forecast by the Company for the same annual period. The resulting Conservation Charge shall be incorporated within the calculation of the LDAFs applied to firm Customers during such twelve-month period commencing with the Peak Season.

5.0 ENVIRONMENTAL RESPONSE COSTS ALLOWABLE FOR LDAC

All environmental response costs associated with manufactured gas plants, adjusted for deferred tax benefits, and one half of the expenses incurred by the Company in pursuing insurance and third-party claims, less one half of any recoveries received by the Company as a result of such claims. Any insurance or third party recoveries to be passed back to ratepayers through the clause will be net of any insurance or third party expenses not collected from ratepayers.

The total annual charge to the Company's ratepayers for Environmental Response Costs during any Remediation Cost Recovery Year shall not exceed five (5) percent of the Company's total revenues from firm gas sales during the preceding calendar year. If this limitation results in the Company recovering less than the amount that would otherwise be recovered in a particular Remediation Cost Recovery Year, then beginning with the date upon which the annual charge would have been effective, carrying costs shall accrue to the Company upon the unrecovered portion of the Remediation costs that otherwise would have been allowable. Carrying costs shall accrue through the Remediation Cost Recovery Year in which such amount, together with any accumulated carrying costs, is actually recovered by the Company from its ratepayers and shall accrue at the pre-tax weighted cost of capital rate as defined in Section 3.0.

6.0 FERC ORDER 636 TRANSITION COSTS ALLOWABLE FOR LDAC

All costs as defined and approved by the FERC, other than those transition costs pertaining to account No. 191, including: (1) gas supply realignment or GSR costs; (2) stranded costs; and (3) new facilities costs, may be included in the LDAC.

7.0 UNBUNDLING COSTS ALLOWABLE FOR LDAC

All costs associated with the Company's participation in the Massachusetts Gas Unbundling Collaborative, including but not limited to any legal, consulting, materials, customer education/advertising, and facilities expenses, may be included in the LDAC as approved by the Department.

8.0 FORMULAS

8.1 Local Distribution Adjustment Factor ("LDAF")

The semi-annual LDAF shall comprise a Rate Category specific Conservation Charge, the Remediation Adjustment Factor ("RAF"), the Transition Cost Factor ("TCF"), the Unbundling Charge Factor ("UCF"), the Balancing Penalty Credit Factor ("BPCF") and the Non-Firm Distribution Credit Factor ("NFC") calculated prior to the first day of each season as designated by the Company according to the following formula:

$$\text{LDAF} = \text{CC} + \text{RAF} + \text{TCF} + \text{UCF} - \text{BPCF} - \text{NFCF}$$

8.2 Conservation Charge Factor

The DSM Factor for residential customers (DSMr) shall be calculated at the beginning of each season according to the following formula:

$$\text{DSMr} = \frac{\text{PCr} + \text{LMr} + \text{Rr}}{\text{R:Vol}}$$

Where:

PCr: Demand side management program costs for residential customers.

LMr: Demand side management lost margins from residential customers as defined in Section 3.0.

Rr: Demand side management residential reconciliation adjustment – Account 175.40 balance, inclusive of the associated Account 175.40 interest, as outlined in Section 3.0.

R:Vol: Forecasted residential annual throughput volumes to which the DSMr applies.

FORMULAS (CONT'D)

The DSM Factor for commercial and industrial customers (DSMci) shall be calculated at the beginning of each season according to the following formula:

$$\text{DSMci} = \frac{\text{PCci} + \text{LMci} + \text{Rci}}{\text{CI:Vol}}$$

Where:

PCci: Demand side management program costs for commercial and industrial customers.

LMci: Demand side management lost margins from commercial and industrial customers as defined in Section 3.0.

Rci: Demand side management commercial and industrial reconciliation adjustment – Account 175.50 balance, inclusive of the associated Account 175.50 interest, as outlined in Section 3.0.

CI:Vol: Forecasted commercial and industrial annual throughput volumes to which the DSMci applies.

8.3 Remediation Adjustment Factor

The RAF consists of one-seventh of the actual Environmental Response Costs incurred by the Company in any calendar year for each year until fully amortized, less a deferred tax benefit, plus one-half of insurance and third-party expenses for the calendar year, less one-half of the insurance and third-party recoveries for the calendar year, plus the prior year's RAF reconciliation adjustment. This amount is then divided by the Company's forecast of total firm throughput volumes for the upcoming year.

The Deferred Tax Benefit is calculated by applying the Effective Tax Rate to the Company's Unamortized Environmental Response Costs to arrive at the deferred tax. The deferred tax is then multiplied by the Tax Adjusted Cost of Capital to arrive at the Deferred Tax Benefit.

The RAF shall be calculated according to the following formula:

$$\text{RAF} = \frac{\text{Sum}(\text{ERC}/7) - \text{DTB} + ((\text{IE} - \text{IR}) * 0.5) + \text{Rrac}}{\text{T:Thru}}$$

Where:

$$\text{DTB} = \text{UERC} * \text{TR} * (\text{CD} + (\text{CE}/(1-\text{TR})))$$

FORMULAS (CONT'D)

8.4 Transition Cost Factor

The TCF shall be calculated according to the following formula:

$$\text{TCF} = \frac{\text{TC} + \text{TCR}}{\text{T:Thru}} + \text{TCWC}$$

Where:

$$\text{TCWC} = \frac{\text{TCWCreq} * (\text{CD} + (\text{CE}/(1-\text{TR}))) + \text{TCWCR}}{\text{T:Thru}}$$

$$\text{TCWCreq} = \text{TC} * (\text{DL}/365)$$

8.5 Unbundling Charge Factor

The UCF shall be calculated according to the following formula:

$$\text{UCF} = \frac{\text{UC} + \text{UCR}}{\text{T:Thru}} + \text{UCWC}$$

Where:

$$\text{UCWC} = \frac{\text{UCWCreq} * (\text{CD} + (\text{CE}/(1-\text{TR}))) + \text{UCWCR}}{\text{T:Thru}}$$

$$\text{UCWCreq} = \text{UC} * (\text{DL}/365)$$

8.6 Balancing Penalty Credit Factor

The BPCF shall be calculated according to the following formula:

$$\text{BPCF} = \frac{\text{BP}}{\text{T:Thru}}$$

8.7 Annual Non-Firm Distribution Credit Factor

The NFCF shall be calculated according to the following formula:

$$\text{NFCF} = \frac{\text{NFM}}{\text{T:Thru}}$$

9.0 RECONCILIATION ADJUSTMENTS

9.1 Conservation Charges

Account 175.40 shall contain the accumulated difference between DSMr revenues toward DSMr costs as calculated by multiplying the DSMr times monthly residential volumes and DSM costs allowable per base formula. Account 175.50 shall contain the accumulated difference between DSMci revenues toward DSMci costs as calculated by multiplying the DSMci times monthly commercial and industrial volumes and DSM costs allowable per base formula. Interest shall be calculated on the average monthly balance of the DSM accounts using The BankBoston prime lending rate, then added to each end-of-month balance. The residential DSM reconciliation adjustment shall be taken as the Account 175.40 balance as of a reconciliation date as designated by Berkshire. The commercial and industrial DSM reconciliation adjustment shall be taken as the Account 175.50 balance as of a reconciliation date as designated by Berkshire.

9.2 Environmental Response Cost

Account 175.60 shall contain the accumulated difference between revenues toward environmental response costs as calculated by multiplying the RAF times monthly firm sales plus transportation throughput and environmental response costs allowable per formula. A RAF reconciliation adjustment shall be taken as the Account 175.60 balance as of a reconciliation date as designated by Berkshire.

9.3 Transition Costs

Account 175.70 shall contain the accumulated difference between revenues toward transition costs as calculated by multiplying the transition cost factor times monthly firm sales plus transportation throughput and transition costs allowed. The transition cost reconciliation adjustment shall be taken as the Account 175.70 balance as of a reconciliation date as designated by Berkshire.

9.4 Unbundling Costs

Account 175.80 shall contain the accumulated difference between the Unbundling Costs allowable per the UCF formula and the revenue toward Unbundling Costs as calculated by multiplying the UCF times firm throughput volumes. The UCF Reconciliation Adjustment shall be taken as the Account 175.80 balance as of a reconciliation date as designated by Berkshire.

9.5 Working Capital Costs

(a) Account 142.40 shall contain the accumulated difference between the Residential Demand Side Management Working Capital Allowance and the Revenue toward the Demand Side Management Working Capital Allowance. The Residential Demand Side Management Cost Working Capital Reconciliation Adjustment shall be taken as the Account 142.40 balance as of a reconciliation date as designated by Berkshire.

(b) Account 142.50 shall contain the accumulated difference between the C & I Demand Side Management Working Capital Allowance and the Revenue toward the Demand Side Management Working Capital Allowance. The C & I Demand Side Management Cost Working Capital Reconciliation Adjustment shall be taken as the Account 142.50 balance as of a reconciliation date as designated by Berkshire.

RECONCILIATION ADJUSTMENTS (CONT'D)

- (c) Account 142.70 shall contain the accumulated difference between the Transition Cost Working Capital Allowance and the Revenue toward the Transition Cost Working Capital Allowance. The Transition Cost Working Capital Reconciliation Adjustment shall be taken as the Account 142.70 balance as of a reconciliation date as designated by Berkshire.
- (d) Account 142.80 shall contain the accumulated difference between the Unbundling Cost Working Capital Allowance and the Revenue toward the Unbundling Cost Working Capital Allowance. The Unbundling Cost Working Capital Reconciliation Adjustment shall be taken as the Account 142.80 balance as of a reconciliation date as designated by Berkshire.

10.0 EFFECTIVE DATE OF LOCAL DISTRIBUTION ADJUSTMENT FACTORS

The date on which the semi-annual Local Distribution Adjustment Factors ("LDAF") become effective will be the first day of each season as designated by the Company. Unless otherwise notified by the Department, the Company shall submit an LDAF filing as outlined in Section 12.0 at least 45 days before it is to take effect.

11.0 APPLICATION OF LDAF TO BILLS

The LDAF will be applied to the monthly firm throughput volumes for each Customer in a Rate Category. The annual LDAF for each Rate Category shall be calculated to the nearest-hundredth of a cent per Therm.

12.0 INFORMATION TO BE FILED WITH THE DEPARTMENT

Information pertaining to the LDAF shall be filed with the Department in accordance with the standardized forms approved by the Department. Required filings include a monthly report which shall be submitted to the Department on the twentieth of each month, a semi-annual LDAF filing which shall be submitted to the Department at least 45 days before the date on which the new LDAF is to be effective, and an annual RAC filing which shall be submitted at least 90 days before the date on which the new LDAF is to be effective.

The annual RAC filing will include copies of all bills and receipts relating to any environmental response costs and expenses related to insurance and third-party recoveries incurred in the preceding calendar year. The annual RAC reconciliation shall be submitted with each LDAF filing along with documents of the RAC reconciliation adjustment calculations.

Additionally, the Company shall file with the Department a complete list by (sub) account of all local distribution costs claimed as recoverable through the LDAC over the previous year, as included in the annual reconciliation. This information shall be submitted with each annual LDAF filing, along with complete documentation of the reconciliation adjustment calculations.

13.0 OTHER RULES

The Department may, where appropriate, on petition or on its own motion, grant an exception from the provisions of the applicable regulations and this rate schedule, upon such terms that it may determine to be in the public interest.

At any time, the Department may require the Company to file, or the Company may file with the Department, an amended LDAF. Said filing must be submitted at least ten (10) days before the proposed effective date of the amended LDAF.

The operation of this rate schedule is subject to all powers of suspension and investigation vested in the Department by Chapter 164 of the General Laws of the Commonwealth of Massachusetts.

14.0 CUSTOMER NOTIFICATION

The Company will design a notice which explains in simple terms to customers the LDAF, the nature of any change in the LDAF, and the manner in which the LDAF is applied to the bill. The Company will submit this notice for approval at the time of each LDAF filing. Upon approval by the Department, the Company shall immediately distribute these notices to all of its customers either through direct mail or with its bills.