

Initial Document in Docket No. 4857 (From Initial Settlement in Docket No. 4770, pp. 63-67).

18. Capital Efficiency Mechanism for Narragansett Electric

For purposes of incentivizing efficient capital spending for the electric distribution business, 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 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 ISReligible 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.