TARGETED INFRASTRUCTURE REPLACEMENT ADJUSTMENT

1.0 Purpose

The purpose of the Targeted Infrastructure Replacement Adjustment (TIRA) is to provide for annual adjustments to distribution base rates to recover the TIRA Revenue Requirements associated with the Company's investments in specified targeted operational and safety-related infrastructure replacement and upgrade projects. This Tariff includes an Earnings Sharing Mechanism (ESM) to provide for a sharing of any excess earnings as specified herein.

2.0 Applicability

The TIRA, including its ESM, shall be applicable to all of the Company's firm Sales and Delivery service customers.

3.0 Term

The TIRA shall provide for annual adjustments to distribution base rates on May 1 of 2018, and May 1 of each year through 2025 or the year following the end of investment in Eligible Facilities, whichever is earlier. The Company may opt out of the TIRA at any point during the term upon 30-day written notice to the Commission and the Maine Office of Public Advocate.

4.0 Targeted Infrastructure Replacement Adjustment (TIRA)

4.01 Purpose

The purpose of the TIRA is to establish a mechanism to make annual adjustments to distribution base rates to recover the TIRA Revenue Requirements associated with the Company's investments in specified targeted operational and safety-related infrastructure replacement and upgrade projects, as further defined in Section 4.03 ("Eligible Facilities"). This mechanism applies to investments made in Eligible Facilities in each of the Calendar Years 2017 through 2024.

4.02 Effective Dates

The adjustments to distribution base rates pursuant to the TIRA shall be determined annually by the Company as defined below, subject to review and approval by the MPUC. The TIRA filing shall be made by February 28 of each year. The adjustment to distribution base rates pursuant to the TIRA shall become effective for service rendered on and after May 1 of 2018 and on and after May 1 of each year through 2025.

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4.03 Eligible Facilities

The TIRA allows for the recovery of the TIRA Revenue Requirements for prudently incurred investments, including all appropriately capitalized costs, in the following targeted operational and safety-related projects: (a) replacement of all facilities and performance of system pressure conversion upgrades in the scope of work for the Cast Iron Replacement Program (CIRP), approved by the MPUC in Docket Nos. 2008-151 and 2017-00065; (b) replacement of bare steel and non-cathodically protected (unprotected) coated steel mains and services; and (c) replacement of farm tap regulators (together, "Eligible Facilities"). The scope of work, costs, tracking mechanisms and TIRA Performance Indices for (b) and (c) will be as approved by the MPUC.

Investment in Eligible Facilities may include only the following plant accounts:

a. Account No. 367, Transmission Mains
b. Account No. 376, Distribution Mains
c. Account No. 378, Measuring and Regulating Stations
d. Account No. 380, Distribution Services
e. Account No. 381, Meters
f. Account No. 382, Meter Installations
g. Account No. 383, House Regulators
h. Account No. 385, Industrial Measuring and Regulating Equipment
i. Account No. 106, Completed but not yet classified [Eligible Facilities only]

4.04 Definitions

The following terms shall be used in this TIRA Tariff as defined in this section, unless the context requires otherwise.

(1) "Accumulated Deferred Income Taxes" is the net accumulated difference between actual accelerated depreciation expense used in the calculation of federal income and state franchise taxes and depreciation expense as determined by United States Generally Accepted Accounting Principles.

(2) "Accumulated Reserve for Depreciation" is the net balance arising from the provision for Depreciation Expense and the cost of removal.

(3) "Calendar Year" is the annual period beginning on January 1st and ending on December 31st.

(4) "Customer ESM Share" shall be an amount to be refunded to customers as provided in Section 5.03.

TARGETED INFRASTRUCTURE REPLACEMENT ADJUSTMENT

(5) "Depreciation Expense" is the return of the Company's investment in TIRA gross plant investments at annual rates approved by the MPUC in Docket No. 2023-00051.

(6) “Distribution Revenue” is the total revenue derived from the billing of Company’s distribution base rates to the Rate Classes.

(7) "Eligible Facilities" are those facilities as defined in Section 4.03.

(8) "MPUC" is the Maine Public Utilities Commission.

(9) “Operating and Maintenance Expense Offset” is an amount of $12,481 per mile of cast iron, bare steel and non-cathodically protected (unprotected) coated steel mains taken out of service in a Calendar Year preceding the TIRA annual recovery period that begins each May 1.

(10) "Property Tax Rate" is the average of the property tax rates in effect in the cities of Portland, South Portland and Westbrook, Maine, to be updated each year.

(11) "Rate Class" is the group of customers that receive service under one of the Company’s firm sales and delivery service rate schedules:

(a) Residential Non-Heating Rate R-1

(b) Residential Heating Rate R-2

(c) Commercial and Industrial Service (Low Annual Use, High Peak Period Use) Rate G-40

(d) Commercial and Industrial Service (Medium Annual Use, High Peak Period Use) Rate G-41

(e) Commercial and Industrial Service (High Annual Use, High Peak Period Use) Rate G-42

(f) Commercial and Industrial Service (Low Annual Use, Low Peak Period Use) Rate G-50

(g) Commercial and Industrial Service (Medium Annual Use, Low Peak Period Use) Rate G-51

(h) Commercial and Industrial Service (High Annual Use, Low Peak Period Use) Rate G-52

TARGETED INFRASTRUCTURE REPLACEMENT ADJUSTMENT

(12) "TIRA Adjustment Multiplier" is a multiplicative factor, a number greater than 1.0 determined pursuant to this Section 4.0, which is applied to the distribution base rate components for each Rate Class to recover TIRA Revenue Requirements for each annual recovery period beginning May 1.

(13) "TIRA Performance Indices" are based on meeting certain cost and scheduling metrics calculated by the Company's Earned Value Management (EVM) model. They include the Blended Performance Index (BPI) which is derived from the Cost Performance Index (CPI) and the Schedule Performance Index (SPI), where:

- CPI is the quotient produced by dividing the cumulative Earned Value (EV) during the Term by the cumulative Actual Cost (AC) during the Term. If the CPI is greater than 1.0, then the CPI shall be reduced to 1.0 for the purpose of calculating the BPI;
- SPI is the quotient produced by dividing the cumulative EV during the Term by the cumulative Planned Value (PV) during the Term. If the SPI is greater than 1.0, then the SPI shall be reduced to 1.0 for the purpose of calculating the BPI;; and
- BPI = 1 – ((1 – CPI) + (1 – SPI)).

(14) "TIRA Revenue Requirement" is the incremental revenue requirement through December 31 of the Calendar Year preceding the TIRA annual recovery period that begins each May 1.

4.05 Limitation on Recovery

The TIRA Revenue Requirements allowable for recovery in the current Calendar Year shall not exceed four percent (4.0%) of total weather-normalized Distribution Revenues for total sales in the above Rate Classes. Total weather-normalized Distribution Revenues will be calculated by multiplying the customer charge in effect just prior to May 1 of the current Calendar Year by the customer units for the immediately preceding Calendar Year plus the distribution peak and off-peak base rates that are in effect just prior to May 1 of the current Calendar Year by the weather-normalized sales for the immediately preceding Calendar Year. Any TIRA Revenue Requirements over this 4% limit will be deferred with interest at the prime rate and added to the TIRA Revenue Requirements for recovery in subsequent year(s), subject to this same 4% limitation. The Company may seek Commission approval to adjust this limitation if it has been exceeded two times during the term of the TIRA.

TARGETED INFRASTRUCTURE REPLACEMENT ADJUSTMENT

4.06 Calculation of TIRA Revenue Requirement

The annual TIRA, not to exceed the cap pursuant to §4.05, will be calculated as a percentage change to current base rates and will be based upon the TIRA Revenue Requirement as a percentage of the previous year's weather-normalized Distribution Revenue. The TIRA Revenue Requirement will be the sum of the annual Depreciation Expense, estimated property tax expense based on the Property Tax Rate, Operation and Maintenance Expense Offset and allowed return for the Eligible Facilities. The allowed return shall be calculated by multiplying the sum of the properly capitalizable costs less the related Accumulated Reserve for Depreciation and Accumulated Deferred Income Taxes by a pre-tax rate of return of 9.12%. The amount of the TIRA rate base included in the TIRA Revenue Requirement in any given year will be the product of the BPI and the TIRA rate base as of the end of the prior calendar year. The TIRA calculations shall use the methodology illustrated in the Order approved by the MPUC in Docket No. 2017-00065.

4.07 Adjustment to Distribution Base Rates

Effective each May 1 for the years 2018 through 2025 or the year following the end of investment in Eligible Facilities, whichever is earlier, the Company's distribution base rate customer and usage charges for each Rate Class shall be adjusted. To determine the Company's base distribution peak and off peak customer and volumetric rates to be effective May 1 of each current Calendar Year, the base distribution peak and off peak rates that are in effect just prior to May 1 of that Calendar Year will be multiplied by the TIRA Adjustment Multiplier. The TIRA Adjustment Multiplier will be calculated by dividing (1) the sum of the weather-normalized Distribution Revenues plus the current Calendar Year annual TIRA Revenue Requirement by (2) the weather-normalized Distribution Revenues. Weather-normalized Distribution Revenues will be calculated by multiplying the customer charge in effect just prior to May 1 of the current Calendar Year by the customer units for the immediately preceding Calendar Year plus the distribution peak and off peak base rates that are in effect just prior to May 1 of the current Calendar Year by the weather-normalized sales for the immediately preceding Calendar Year.

5.0 Earnings Sharing Mechanism ("ESM")

5.01 Purpose

The purpose of the ESM is to allow for the sharing with customers of any Company excess earnings, as defined below, which occur in Calendar Years 2017 through 2024. The Company shall be allowed to retain all earnings that result in a return on equity ("ROE") of up to and including 9.35%. Any earnings that result in a ROE in excess of 9.35% and up to and including 10.35% shall be shared equally (50/50) between the Company and customers. Any earnings that result in a ROE in excess of 10.35% shall be returned to customers in accordance with the procedures described below.

TARGETED INFRASTRUCTURE REPLACEMENT ADJUSTMENT

5.02 Effective Date

The ESM adjustment rate shall be determined annually by the Company during the term of the TIRA and subject to review and approval by the MPUC. The ESM filing shall be made by February 28 of each year and shall be based on earnings and sales for the most recent completed Calendar Year. The ESM adjustment rate (if applicable) shall become effective for service rendered on and after May 1 of 2018 and on and after May 1 of each year through 2025 or the year following the end of investment in Eligible Facilities, whichever is earlier.

5.03 ESM Calculation

The ESM calculation shall be made in accordance with the methodology approved by the MPUC in Docket No. 2017-00065. For purposes of the ESM, the calculation of the ROE shall be based on the calculation of the Return on Common Equity Subject to MPUC Jurisdiction (Page 16-A) as submitted in the Company's Annual Report to the MPUC, with modification to include a weather normalization and unbilled revenue adjustments.

The Customer ESM Share shall be a percentage of the ESM Amount as provided below:

1) For any year in which the Company's ROE is less than or equal to 9.35%, the Customer ESM Share shall be 0%.
2) For any year in which the Company's ROE is greater than 9.35% but less than or equal to 10.35%, the Customer ESM Share shall be 50% of all amounts above a 9.35% ROE.
3) For any year in which the Company's ROE is greater than 10.35%, the Customer ESM Share shall be 50% of all amounts from 9.35% up to and including 10.35%, and 100% of all amounts above 10.35%.

For any recently completed Calendar Year subject to this ESM in which the Company's earnings result in a ROE that exceeds 9.35%, the volumetric (per therm) base rates charged to Sales and Delivery service customers shall be adjusted by a uniform volumetric ESM adjustment rate effective for a 12-month period that begins each May 1. The ESM adjustment rate shall be calculated by dividing the Customer ESM Share by the total weather normalized customer volumes during the most recently completed Calendar Year in which the excess earnings occurred. For purposes of clarity, for each recently completed Calendar Year subject to this ESM, the ESM adjustment rate shall be effective for a 12-month period the begins each May 1 and ends on April 30 of the succeeding year.

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