FITCHBURG GAS AND ELECTRIC LIGHT COMPANY
LOCAL DISTRIBUTION ADJUSTMENT CLAUSE

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1.0 PURPOSE

The Local Distribution Adjustment Clause ("LDAC") establishes the procedures that allow Fitchburg Gas and Electric Light Company ("Company"), subject to the jurisdiction of the Department of Telecommunications and Energy ("Department"), to adjust its rates to recover Demand Side Management ("DSM") costs, environmental response costs, FERC Order 636 transition costs, and 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 and a portion of interruptible transportation margins allocated to firm distribution services.

2.0 APPLICABILITY

This LDAC shall be applicable to all of the Company's firm Customers. As stated in Section 10.0, the application of the clause may, for good cause shown, be modified by the Department.

3.0 COSTS ALLOWABLE FOR LDAC

Any costs recovered through the application of this LDAC shall be identified and explained in the Company's annual filing as outlined in Section 9.0.

(1) Demand Side Management Costs Allowable for LDAC

All costs associated with Demand Side Management , as approved by the Department.

(2) ENVIRONMENTAL RESPONSE COSTS ALLOWABLE FOR LDAC

All costs and other liabilities, adjusted for deferred tax benefits, associated with the investigation, testing, remediation and litigation relating to manufactured gas plant sites, disposal sites or other sites onto which material may have migrated as a result of the Manufactured Gas Process ("MGP"), as fully defined in the Department's Order in DPU 89-161, may be included in the LDAC. In addition, one-half of the Insurance/Third-Party Expense less one-half of the Insurance/Third-Party Recovery, both as defined in Section 5.0, may be included.

(3) 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.

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(4) INTERRUPTIBLE TRANSPORTATION MARGIN ALLOWABLE FOR LDAC

Any profits on nonfirm transportation, less any margin sharing as calculated in accordance with Order D.P.U. 93-141-A, dated February 14, 1996. Margin sharing will be in effect until the M.D.T.E. approves an arrangement in the Company's performance based rate making filing, expected to be filed November 30, 1999.

(5) BALANCING PENALTY REVENUES ALLOWABLE FOR LDAC

Penalty revenues collected by the Company in accordance with its Terms and Conditions.

(6) UNBUNDLING COSTS ALLOWABLE FOR LDAC

All costs the Company has incurred for its participation in the Massachusetts Gas Unbundling Collaborative.

4.0 EFFECTIVE DATE OF LOCAL DISTRIBUTION ADJUSTMENT FACTOR

The date on which the Local Distribution Adjustment Factor ("LDAF") becomes effective will be May 1st and November 1st of each year.

5.0 DEFINITIONS

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

Balancing Penalties ("BP")	Penalty revenues collected by the Company in accordance with its Terms and Conditions.
Balancing Penalties Reconciliation Adjustment ("R_{BP}")	The balance in Account 175.11 as outlined in Section 7.0(4), inclusive of associated Account 175.11 interest.
Cost of Debt ("CD")	The debt component of the rate of return as approved by the Department in the Company's most recent base rate case.
Cost of Equity ("CE")	The equity component of the rate of return as approved by the Department in the Company's most recent base rate case.
Deferred Tax Benefit ("DTB")	The Unamortized Environmental Response Costs multiplied by the Effective Tax Rate and by the Tax Adjusted Cost of Capital.

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Effective Tax Rate ("TR")	The combined effective state and federal income tax rate.
Energy Efficiency Charge Reconciliation ("R_{EEC}")	The balance in Account 175.09 as outlined in Section 7.0(3), inclusive of the associated Account 175.09 interest.
Environmental Response Costs ("ERC")	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.
Insurance/Third-Party Expense ("IE")	Any expense incurred by the Company in pursuing insurance and third-party MGP claims.
Insurance/Third-Party Recovery ("IR")	Any recovery received by the Company as a result of insurance and third-party MGP claims net of any Insurance/Third-Party Expenses not collected from ratepayers.
Interruptible Transportation Margin ("ITM")	Any profits on nonfirm transportation as calculated by forecasting nonfirm rates, costs and associated transportation volumes for the twelve-month period. This amount is adjusted to account for margin sharing, calculated in accordance with Order D.P.U. 93-141-A dated February 14, 1996. Margins shall be adjusted to reflect additions or losses from Customers who switch from firm distribution to non-firm distribution, and conversely, from non-firm distribution to firm distribution.
Interruptible Transportation Margin Credit Reconciliation Adjustment ("R_{ITM}")	The balance in Account 175.5 as outlined in Section 7.0(5), inclusive of the associated Account 175.5 interest.
Lost Base Revenues ("LBR")	Revenues 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 base rate that would have been earned on those volumes.

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Number of Days Lag ("DL")	The number of days lag to calculate the purchased gas working capital requirement as defined in the Company's most recently available Lead Lag Study except that the 45 day convention shall be used for unbundling cost working capital.
Performance Incentive ("PI")	The Performance Incentive for Non-Low Income programs is a sliding scale incentive with two components. The first, *the cost-effectiveness component*, is based on the relationship between the projected sector-level total resource cost (TRC) test (as defined in Docket D.T.E. 98-100) and the actual year-end sector-level TRC. The second, *the energy savings component*, is based on the relationship between the projected lifetime therm savings from installed measures (planned savings) and the lifetime therm savings from actual installations (installed savings). The Performance Incentive for the Low-Income sector is earned upon successful completion of predefined performance metrics.
Program Costs ("PC")	Demand Side Management Program Costs.
Remediation Adjustment Clause Reconciliation Adjustment ("R_{RAC}")	The balance in Account 175.3 as outlined in Section 7.0(1), inclusive of the associated Account 175.3 interest.
Tax Adjusted Cost of Capital	The sum of (1) the Cost of Debt and (2) the Cost of Equity divided by one minus the Effective Tax Rate.
Therm	An amount of gas having a thermal content of 100,000 Btus.
Total Throughput ("T:Thru")	Forecasted firm throughput volumes in Therms for twelve consecutive months.
Transition Costs ("TC")	Costs associated with the implementation of FERC Order 636, including (1) gas supply realignment or GSR costs, (2) stranded costs and (3) new facilities costs.
Transition Cost Reconciliation Transition Cost Adjustment("R_{TC}")	The balance in Account 175.4 as outlined in Section 7.0(2), inclusive of the associated Account 175.4 interest and working capital.

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Transition Cost Working Capital Allowance ("TCWC")	The allowable working capital cost derived from the Transition Cost Working Capital Requirement.
Transition Cost Working Capital Requirement ("TCWCreq")	The allowable working capital derived from FERC Order 636 Transition Costs.
Unamortized Environmental Response Costs ("UERC")	The portion of the Environmental Response Costs approved for recovery but not yet included in any LDAC recovery calculation.
Unbundling Cost ("UC")	All costs the Company has incurred for its participation in the Massachusetts Gas Unbundling Collaborative.
Unbundling Cost Reconciliation Adjustment ("R_{UC}")	The balance in Account 175.10 as outlined in Section 7.0(6), inclusive of the associated Account 175.10 interest and Unbundling Cost working capital.
Unbundling Cost Working Capital Allowance ("UCWC")	The allowable working capital cost derived from the Unbundling Cost Working Capital Requirement.
Unbundling Cost Working Capital Requirement ("UCWCreq")	The allowable working capital derived from Unbundling Cost.

6.0 FORMULAS

(1) Local Distribution Adjustment Factor ("LDAF")

The LDAF shall comprise an annual Energy Efficiency Charge ("EEC"), the Remediation Adjustment Factor ("RAF"), the Transition Cost Factor ("TCF"), the Balancing Penalty Credit Factor ("BPCF"), the Interruptible Transportation Margin Credit ("ITMC"), and the Unbundling Cost Factor ("UCF"), calculated according to the formula below. The EEC and

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RAF will become effective May 1 of each year. All other components will become effective November 1.

LDAF = EEC + RAF + TCF - BPCF - ITMC + UCF

(2) Energy Efficiency Charge

The Company will forecast Program Costs for its Customers for a future twelve month period. The total of such Program Costs plus any prior period Reconciliation plus Lost Base Revenues plus Performance Incentive shall be divided by the Total Throughput as forecast by the Company for the same annual period.

The resulting Energy Efficiency Charge shall be incorporated within the calculation of the LDAFs applied to firm Customers during each such twelve month period.

The EEC shall be calculated according to the following formula:

$$EEC = \frac{PC + R_{EEC} + LBR + PI}{T:Thru}$$

Effective May 1, 2005~~November 1, 2003~~, PI is calculated as follows:

i) Residential Non-Low Income Sector Design-Level Performance Incentive = [actual TRC ÷ projected TRC] * [((1/2 * TB) ÷ (1 – TR)) * residential energy efficiency costs] + [installed savings ÷ planned savings] * [((1/2 * TB) ÷ (1 – TR)) * residential energy efficiency costs],

ii) C&I Sector Design-Level Performance Incentive = [actual TRC ÷ projected TRC] * [((1/2 * TB) ÷ (1 – TR)) * C&I energy efficiency costs] + [installed savings ÷ planned savings] * [((1/2 * TB) ÷ (1 - TR)) * C&I energy efficiency costs].

where TB is the average 3-month treasury bill rate for the prior 12 months.

iii) Residential Low-Income Sector Performance Incentive is earned upon successful completion of predefined performance metrics

a) Design Performance Level:

In each sector, if the actual TRC is equal to the projected TRC and installed lifetime savings equal to the planned lifetime savings, the Company will earn an after tax incentive calculated

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using the average 3-month treasury bill rate for the prior 12 months times its energy efficiency program costs (excluding Performance Incentive) for that sector.

b) Threshold Performance:

i) The cost-effectiveness component of the Company's performance incentive in a sector will be $0 if the actual TRC for the combined programs in that sector is less than 1.0,

ii) The lifetime savings component of the Company's incentive in a sector will be $0 if the actual lifetime savings for the combined programs in that sector is less than 75% of its planned lifetime savings.

c) Exemplary Performance Incentive:

The incentive in a given sector will be capped at 125% of the Design Performance Level for that sector. There is no cap on either component of the incentive as long as the combined incentive for any sector does not exceed 125% of that sector's Design Performance Level .

Conditions of Interim Energy Efficiency Charge Filing

~~If actual experience or updated estimates affecting the components of the calculated Energy Efficiency Charge indicate a deviance of greater than 20 percent over or under the amount the Department has authorized to be collected during the period, the Company may make an interim filing during the effective period of a Energy Efficiency Charge revising such rate either up or down for the remainder of the period with the approval of the Department.~~ The Company may refine or enhance programs and reallocate monies from measures/programs it deems to be non-cost effective, or less cost-effective than alternatives, or towards programs it deems relatively more beneficial without advance notice to the Department, provided such refinement, enhancement or reallocation does not exceed twenty-five (25%) percent of the applicable budget for either of the residential or C&I energy efficiency efforts and, provided further, that no funds be transferred from the low-income programs without 90 days notice and approval by the Department after public notice and the opportunity to be heard.

(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-

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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:

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

where:

$$DTB = UERC * TR * (CD + (CE/(1-TR)))$$

(4) Transition Cost Factor

The TCF shall be calculated by dividing a 12 month forecast of Transition Costs, including working capital, and reconciliation amount by the firm throughput for the same period according to the following formula:

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

where:

$$TCWC = TCWCreq * (CD + (CE/(1-TR)))$$

and

$$TCWCreq = TC * (DL/365)$$

(5) Balancing Penalty Credit Factor

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The BPFC shall be calculated by dividing a 12 month forecast of Balancing Penalties, and reconciliation amount by the firm throughput for the same period according to the following formula:

$$BPCF = \frac{BP + R_{BP}}{T:Thru}$$

(6) Interruptible Transportation Margin Credit Factor

The ITMC shall be calculated by dividing a 12 month forecast of Interruptible Transportation Margins and reconciliation amount by the firm throughput for the same period according to the following formula:

$$ITMC = \frac{ITM + R_{ITM}}{T:Thru}$$

(7) Unbundling Cost Factor

The UCF shall be calculated by dividing half of a 12 month forecast of Unbundling Costs, including working capital, and reconciliation amounts by the firm throughput for the same period according to the following formula:

$$UCF = \frac{(UC + R_{UC} + UCWC) * 0.5}{T:Thru}$$

where:

UCWC = UCWCreq * (CD + (CE/(1-TR)))

and

UCWCreq = UC * (DL/365)

7.0 RECONCILIATION ADJUSTMENTS

All reconciliations are to be made to actual costs.

(1) Environmental Response Cost

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(a) Remediation Adjustment Clause expenses allowable per the RAF formula:

i. One-seventh of each calendar year's Environmental Response Cost less the Deferred Tax Benefit.

ii. One-half of the Insurance/Third-Party Expense, less one-half of the Insurance/Third-Party Expense.

(b) The RAF portion of the LDAF will be used as the convention for recognizing revenue toward the Environmental Response Cost.

(c) Account 175.3 shall contain the accumulated difference between the actual Environmental Response Cost allowable per the RAF formula and the revenue toward Environmental Response Cost as calculated by multiplying the RAF times firm throughput volumes. Interest shall be calculated on the average monthly balance of Account 175.3 using the ~~BankBoston~~Bank of America's, or its successor's, prime lending rate, then added to each end-of-month balance.

(d) The RAF Reconciliation Adjustment shall be taken as the Account 175.3 balance as of April 30th of each year.

(2) Transition Costs

(a) FERC 636 Transition Costs other than Account No. 191 costs allowable per the TCF formula:

i. Gas Supply Realignment costs ("GSR costs")

ii. Asset costs not directly assignable to Customers of unbundled services ("Stranded Costs").

iii. Other costs associated with the implementation of Order No. 636 ("New Facility Costs").

(b) The TCF portion of the LDAF will be used as the convention for recognizing revenue toward the Transition Costs and Transition Cost Working Capital.

(c) Account 175.4 shall contain the accumulated difference between the Transition Costs allowable per the TCF formula and the revenue toward Transition Costs as calculated by multiplying the TCF times firm throughput volumes. Interest shall be calculated on the average monthly balance of Account 175.4 using the ~~BankBoston~~Bank of America's, or its successor's, prime lending rate, then added to each end-of-month balance.

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(d) The TCF Reconciliation Adjustment shall be taken as the Account 175.4 balance as of October 31st of each year.

(3) Energy Efficiency Costs

(a) Energy Efficiency Costs allowable per the EEC formula:

Costs associated with Demand Side Management.

(b) The EEC portion of the LDAF will be used as the convention for recognizing revenue toward the Energy Efficiency Costs.

(c) Account 175.09 shall contain the accumulated difference between the actual Energy Efficiency Costs allowable per the EEC formula and the revenue toward Energy Efficiency Costs as calculated by multiplying the EEC times firm throughput volumes.

Interest shall be calculated on the average monthly balance of Account 175.09 using the ~~BankBoston~~Bank of America's, or its successor's, prime lending rate, then added to each end-of-month balance.

(d) The EEC Reconciliation Adjustment shall be taken as the Account 175.09 balance as of April 30th~~October 31st~~ of each year.

(4) Balancing Penalties

(a) Balancing Penalties allowable per the BPCF formula:

Penalty revenues collected by the Company in accordance with its Terms and Conditions.

(b) The BPCF portion of the LDAF will be used as the convention for recognizing revenue toward the Balancing Penalty costs.

(c) Account 175.11 shall contain the accumulated difference between the actual Balancing Penalties allowable per the BPCF formula and the revenue toward Balancing Penalties as calculated by multiplying the BPCF times firm throughput volumes. Interest shall be calculated on the average monthly balance of Account 175.11 using the ~~BankBoston~~Bank of America's, or its successor's, prime lending rate, then added to each end-of-month balance.

(d) The BPCF Reconciliation Adjustment shall be taken as the Account 175.11 balance as of October 31st of each year.

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(5) Interruptible Transportation Margin

(a) Interruptible Transportation Margin allowable per the ITMC formula:

The margins associated with the interruptible transportation of gas, less any margin sharing as calculated in accordance with Order D.P.U. 93-141-A, dated February 14, 1996.

(b) The ITMC portion of the LDAF will be used as the convention for recognizing revenues toward interruptible transportation margins.

(c) Account 175.5 shall contain the accumulated difference between the actual Interruptible Transportation Margin allowable per the ITMC formula and the revenue toward Interruptible Transportation Margin as calculated by multiplying the ITMC by firm throughput volumes. Interest shall be calculated on the average monthly balance of Account 175.5 using the ~~BankBoston~~Bank of America's, or its successor's, prime lending rate, then added to each end-of-month balance.

(d) The ITMC Reconciliation Adjustment shall be taken as the Account 175.5 balance as of October 31st of each year.

(6) Unbundling Costs

(a) Unbundling Costs allowable per the UCF formula:

All costs the Company has incurred for its participation in the Massachusetts Gas Unbundling Collaborative.

(b) The UCF portion of the LDAF will be used as the convention for recognizing revenue toward the Unbundling Costs and Unbundling Cost Working Capital.

(c) Account 175.10 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. Interest shall be calculated on the average monthly balance of Account 175.10 using ~~BankBoston~~Bank of America's, or its successor's, prime lending rate, then added to each end of month balance.

(d) The UCF Reconciliation Adjustment shall be taken as the Account 175.10 balance as of October 31st of each year.

8.0 APPLICATION OF LDAF TO BILLS

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The LDAF will be applied to the monthly firm distribution volumes for each Customer . The LDAF shall be calculated to the nearest one hundredth of a cent per Therm.

9.0 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, and an 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.

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.

10.0 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.

11.0 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.