

**ADDITIONAL DETAILS REGARDING RATE IMPLEMENTATION**

**Application of Savings Sharing Adjustment Mechanism (“SSAM”)**

Calculation of Base O&M Costs. Savings achieved by the merged company will be calculated by comparing actual post-merger operation and maintenance (“O&M”) costs to a benchmark of Base O&M Costs consisting of pre-merger O&M costs, escalated by the change in the Consumer Price Index for All Urban Consumers (CPI-U), Northeast Region.<sup>1</sup> The Base O&M costs will include the following accounts, based on the Federal Energy Regulatory Commission (“FERC”) Uniform System of Accounts:<sup>2</sup>

1. Power Production Expenses: FERC accounts 500 through 557
2. Transmission: FERC accounts 560 through 575
3. Distribution: FERC accounts 580 through 598
4. Customer Account expense: FERC accounts 901 through 916
5. Administrative and General: FERC accounts 920 through 935

The initial Base O&M Costs will be based on a calendar 2011 test year, adjusted to the base rate year beginning October 1, 2012 based on traditional ratemaking principles, except that no O&M integration-related cost changes will be included in the adjustment. This amount will be included in the base rate adjustment effective October 1, 2012. The Base O&M Cost amount will not change (other than for inflation) during the six-year savings sharing period, except as follows. Any change in O&M Costs resulting

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<sup>1</sup> This index is currently used in the inflation less productivity test for the GMP and CVPS Alternative Regulation Plans.

<sup>2</sup> These accounts are identified in further detail in **Exh. Pet.-RJG-3**. To the extent that any of the accounts include charges that are included in the Power Supply Adjustor calculation under GMP’s Alternative Regulation Plan, the charges will be excluded from the SSAM calculation. Most Power Production Expenses and Transmission expenses are included in the calculation of the Power Supply Adjustor.

from an Exogenous Change (as defined in GMP's Alternative Regulation Plan ("Plan")), will continue to be treated in the manner identified in the Plan.<sup>3</sup>

Calculation of SSAM. The SSAM is the difference between the Base O&M Costs included in the base rate adjustment, and the Actual O&M costs for the same period. The SSAM will be in effect for the first six years after the merger. The SSAM will be calculated at the time the Earnings Sharing Adjustment Mechanism ("ESAM") is calculated. The customer portion of the SSAM will be reflected as a billing credit for the same period that the ESAM is implemented. If the SSAM results in a cost increase (i.e., actual O&M Costs exceed Base O&M Costs), the increase will not be charged to customers.

### **Initial Period Integration Savings**

O&M integration savings net of O&M integration costs, if any, occurring prior to implementation of the October 1, 2012 Base Rate Adjustment will be deferred as a regulatory liability and returned entirely to customers at the same time and in the same manner as the first SSAM.

### **Earnings Sharing Adjustments and Power Adjustments**

The ESAM and Power Adjustor for GMP and CVPS Plans relating to periods prior to the consolidated rate adjustment (i.e., prior to October 1, 2012) will be charged or

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<sup>3</sup> The portion of the change that exceeds \$600,000 will be deferred and included in rates (without reduction for the earnings sharing band) during the next earnings sharing adjustment period, and if the Change is recurring, the entire amount will be recovered beginning in the year subsequent to the year the Change first occurred.

credited to each respective company's customers. The amounts will be calculated and implemented in accordance with their respective Plan terms.

For the rate periods beginning October 1, 2012, all customers of the Combined Company will receive uniform base rate adjustments, Power Adjustors and ESAMs. These adjustments will be calculated and implemented in accordance with the terms of the GMP Plan.

To avoid double-counting cost changes in both the ESAM and savings sharing calculation, the ESAM will be calculated using the Base O&M Costs (rather than actual O&M Costs).