



## NATURAL GAS DISTRIBUTION \_\_\_\_\_ (JANUARY 2023)

Currently, The Narragansett Electric Company, d/b/a Rhode Island Energy (“Company”) is Rhode Island’s only natural gas distribution company. The Company distributes natural gas to approximately 273,000 customers through a network of 3,200 miles of main, which includes 1,000 miles of leak-prone pipe and 195,000 service connections. Total throughput amounts to 40,000,000 dth (decatherm) per year. The Company’s current total operating revenue is \$436 million, including \$150 million in gas recovery costs.

Other than a base rate filing, there are 5 principal filings that the Company makes with the Public Utilities Commission (Commission): (i) the Infrastructure, Safety and Reliability (“ISR”) Plan, (ii) the Distribution Adjustment Charge (“DAC”) Filing, (iii) the Gas Cost Recovery (“GCR”) Filing, (iv) the ISR Annual Reconciliation Filing and (v) the Long-Range Gas Plan. Recovery and reconciliation filings are prescribed by statute or regulatory directive and designed to monitor compliance and effectuate timely rate adjustments where appropriate.

**ISR Plan:** Filed annually pursuant to R.I. Gen. Laws § 39-1-27.7.1, the Company’s ISR Plan is submitted to the Division in September of each year, and the Division has 60 days to review it. The ISR Plan is the Company’s proposed capital spend for a 12-month period, designed to fund the Company’s pipeline replacement program. If the Company and the Division mutually agree on a plan, the agreed-to plan is filed with the Commission. If the spending is found to be “reasonably needed to maintain safe and reliable distribution service over the short and long term,” the Commission must give its approval within 90 days of the filing date. The Division’s focus is to ensure the Company “knows what it has,” by maintaining a master list of high-risk pipes, the necessity of ensuring the proactive pipe-replacement program is completed within a 20-year industry standard timetable, the need to implement isolated and copper service replacement programs, the overall reliability of the system, and the growth of the ISR budget subject to safety and reliability concerns.

**GCR Filing:** Filed annually with the Commission on September 1st, the Company’s GCR Filing includes total revenue to recover projected gas costs from November 1st through October 31<sup>st</sup> of the following calendar year. The filing includes estimated gas costs, assignments of pipeline capacity to marketers, and other items relating to gas costs, including administrative costs. The Commission has 60 days to review the GCR Filing, with the GCR factors going into effect on November 1st of each year.

Two important programs that are considered in conjunction with the GCR Filing are the Company’s Natural Gas Portfolio Management Plan (“NGPMP”) and the Gas Procurement Incentive Plan (“GPIP”). The NGPMP couples least-cost dispatch with asset optimization to achieve maximum value for customers from the Company’s gas supply portfolio resources. To encourage the Company to actively manage the plan, the NGPMP contains a performance-incentive mechanism whereby the Company shares with customers all savings generated under the plan.

The GPIP serves to reduce the volatility of gas costs and, ideally, lowers gas commodity costs for customers through a practice of discretionary and mandatory gas purchases. To incentivize the Company to operate the plan, the GPIP *also* contains a performance-incentive mechanism whereby the Company is allowed to participate with customers in any shared savings generated under the plan. Given the downward trend in commodity prices in recent years, shared savings generated from the GPIP recently have been lower than previous years when prices were rising.

**Distribution Adjustment Charge (“DAC”) Filing:** Filed annually with the Commission on August 1st, the DAC Filing provides factors for the recovery and reconciliation costs relating to the following programs, tariff provisions, and/or aspects of the Company’s operations: System Pressure, Advanced Gas Technology, Environmental Response, Pension Adjustment, Arrearage Management Adjustment, Service Quality Performance, Revenue Decoupling Adjustment, ISR, Earnings Sharing Mechanism, Low Income Discount Recovery, two Reconciliation Factors, and the Storm Fund.

**ISR Annual Reconciliation Filing:** Filed with the Commission each year in August, this filing reconciles the previous year’s ISR actual spend and is included in the DAC. The Division reviews the Company’s quarterly ISR reports with the Company and questions the Company regarding the bases underpinning any significant underspend or overspend that is reflected in this filing and the Company’s quarterly reports.

**Gas Long Range Plan (LRP):** While R.I. Gen. Laws § 39-24-2 requires the Company to file the LRP bi-annually with the Commission, the Company has agreed to submit the plan to the Division *annually*.<sup>1</sup> The filing consists of a long-range energy plan (for a five-year period) and is designed to show that the gas-resource planning process has resulted in a reliable resource portfolio that is able to meet the combined forecasted needs of the Company’s Rhode Island customers at least-cost.

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<sup>1</sup> The annual filing is made pursuant to a February 20, 2019, Joint Memorandum approved in Docket No. 4816.