

Testimony
of
THE UNITED ILLUMINATING COMPANY
before the
ENERGY AND TECHNOLOGY COMMITTEE

Re
RAISED SENATE BILL No. 587

**AN ACT CONCERNING ELECTRIC AND GAS CONSERVATION
INCENTIVES**

LEGISLATIVE OFFICE BUILDING

HARTFORD, CT

March 7, 2008

Good morning, Senator Fonfara, Representative Fontana, and members of the Energy and Technology Committee. My name is Michael A. Coretto and I am the Senior Director of Regulatory Strategy and Retail Access for The United Illuminating Company. I am here today to testify on **Raised Senate Bill 587 – An Act Concerning Electric and Gas Conservation Incentives.**

The United Illuminating Company (“UI” or the “Company”), an electric distribution company with general offices in New Haven, CT respectfully submits these comments in support of the concepts included in Raised Senate Bill 587 – An Act Concerning Electric and Gas Conservation Incentives.

UI supports the initiative to “decouple” the utilities revenues from the volume of kilowatt-hour sales. In fact, in the recently completed rate case for the Connecticut Light and Power Company (“CL&P”), UI testified and submitted comments on a proposed decoupling mechanism. This proposal was to true up the utilities revenues to the level approved by the Department of Public Utility Control (“DPUC”) in the companies most recent rate case.

The proposed mechanism is based on fundamental ratemaking concepts whereby the DPUC establishes a revenue requirement that is, by definition, just and reasonable. In fact, if there were perfect foresight the Company would realize those exact revenue requirements. In addition, the proposed mechanism does not remove incentives for the Company to manage its expenses. If actual expenses exceed the level assumed when rates were set, then the Company’s earnings will be impacted, even with the decoupling mechanism as proposed.

A copy of the Company’s testimony from CL&P’s rate case is included with these written comments.

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STATE OF CONNECTICUT
DEPARTMENT OF PUBLIC UTILITY CONTROL

DOCKET NO. 07-07-01

DPUC REVIEW
OF

APPLICATION OF CONNECTICUT LIGHT AND POWER COMPANY TO AMEND
RATES SCHEDULE (DECOUPLING)

DIRECT TESTIMONY
OF

ANTHONY J. VALLILLO

OCTOBER 19, 2007

Q. PLEASE STATE YOUR FULL NAME AND BUSINESS ADDRESS.

A. My name is Anthony J. Vallillo. My business address is 157 Church Street, New Haven,

CT.

Q. WHAT IS YOUR POSITION WITH THE UNITED ILLUMINATING COMPANY?

A. I am the President and Chief Operating Officer of UI.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. I am testifying regarding decoupling mechanisms. Section 107 of Public Act 07-242 provides a legislative determination that the revenues of electric distribution companies and gas distribution companies should be decoupled from these companies' sales:

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1 In any rate case initiated on and after the effective date of this section, the Department of
2 Public Utility Control shall order the state's gas and electric distribution companies to
3 decouple distribution revenues from the volume of natural gas or electricity sales through
4 any of the following strategies, singly or in combination: (1) A mechanism that adjusts
5 actual distribution revenues to allowed distribution revenues, (2) rate design changes that
6 increase the amount of revenue recovered through fixed distribution charges, or (3) a
7 sales adjustment clause, rate design changes that increase the amount of revenue
8 recovered through fixed distribution charges, or both. In making its determination on this
9 matter, the department shall consider the impact of decoupling on the gas or electric
10 distribution company's return on equity and make necessary adjustments thereto.

11
12 **Q. DOES UI HAVE A SUGGESTION ABOUT HOW TO STRUCTURE AN**
13 **APPROPRIATE DECOUPLING MECHANISM, CONSISTENT WITH THE**
14 **LEGISLATION?**

15 **A.** Yes, we do. A decoupling mechanism must start with a company's revenue
16 requirements, and the mechanism addresses variations in actual revenues from the revenue
17 requirements previously determined by the Department. The mechanism is premised on
18 fundamental ratemaking concepts. When the Department establishes a company's revenue
19 requirements in a rate case, the Department – by definition – expects the company to realize
20 revenues at the level of the approved revenue requirements. If there were perfect foresight, the
21 revenues would match exactly to the revenue requirements. As such, neither the Department nor
22 any other entity should have any regrets or concerns if the company actually realizes the
23 approved revenue requirements.

24 **Q. HOW DOES THIS WORK IN THE DECOUPLING MECHANISM?**

25 **A.** By truing up actual revenues (up or down) to approved revenue requirements, a
26 decoupling mechanism assures that the revenue the Department approved in a rate case will
27 actually be realized, no more and no less. If sales differ from the sales forecast for any reason
28 utilized in establishing revenue requirements, the decoupling mechanism assures that the

1 company is neutral to those sales variations.

2 **Q. DOES THIS INSULATE A COMPANY'S MANAGEMENT FROM HAVING TO**
3 **MAKE REASONABLE BUSINESS DECISIONS IN OPERATING THE COMPANY?**

4 **A.** No, not at all. The company's management still must work hard to manage the
5 company's operations, to contain costs, provide high quality customer service, deliver electricity
6 (gas) reliably, and achieve the company's Department-allowed return on equity (established in
7 the rate case at the same time as the revenue requirements). The proposed decoupling
8 mechanism does not guarantee that the company will achieve its allowed return on equity.

9 **Q. SHOULD ADJUSTMENTS BE MADE TO THE REVENUE REQUIREMENTS**
10 **TO ADDRESS THE EFFECTS OF WEATHER, THE EFFECTS OF SPECIFIC**
11 **PROGRAMS, OR OTHER FACTORS?**

12 **A.** No. Such adjustments are not contemplated in the legislation and are not good policy.
13 Quantifying the impacts of factors such as weather can lead to arguments about what factors
14 should be considered, how to quantify, what modeling should be done -- all of which result in
15 time, expense and administrative burden without any resulting benefit.

16 **Q. IS SOMETHING AS SIMPLE AS ADJUSTING ACTUAL REVENUE**
17 **REQUIREMENTS TO THE PREVIOUSLY DETERMINED DEPARTMENT-**
18 **APPROVED REVENUE REQUIREMENTS FAIR TO CUSTOMERS?**

19 **A.** Yes. The adjustment is dollar for dollar, and can be up or down. The result is that a
20 company's revenues are at the level that the Department determined in a rate proceeding to be
21 the right level.