TESTIMONY OF

UIL HOLDINGS CORPORATION

Before the Appropriations, Energy & Technology and Human Services Committees

On

2011/2012 ALLOCATION PLAN FOR THE LOW INCOME HOME ENERGY ASSISTANCE PROGRAM BLOCK GRANT

Legislative Office Building

September 27, 2011

Good afternoon members of the Appropriations, Energy & Technology, and Human Services Committees. My name is James McNally and I am the Director of Customer Service at The Southern Connecticut Gas Company and Connecticut Natural Gas Corporation (SCG/CNG). With me is Laura Gonzalez, Director of Collections at The United Illuminating Company ("UI"). We are here today to offer our comments regarding the proposed **2011/2012 Allocation Plan for the Low Income Home Energy Assistance Program Block Grant** as proposed by the Department of Social Services.

The Company understands the reasoning to prioritize deliverable fuels given the proposed reductions to the federal LIHEAP grants this year. With the very real potential for a zero CEAP benefit level for our utility customers this coming winter season, our comments and suggestions center on effective outreach, enrollment and winter protection, as well as the necessity of dealing with the financial impacts of this proposal.

This is a significant issue for the Company. Last year we served over 40,000 utility heated households receiving energy assistance with awards totaling almost $24 million. In addition to these direct grants from CEAP, Matching Payment Program

(MPP) utility awards were made for $4.5 million. This combined $28.4 million of energy assistance and utility matching payments was credited directly to outstanding utility bills of our gas and electric utility households.

As one might expect, even with these substantial historic benefits, outstanding debt owed from hardship customers represents a disproportionate percentage of our overall accounts receivables. With the natural gas businesses, CNG and SCG hardship customers account for only about 12% of the total customer base but 36% of the accounts receivables (A/R). As of June 30th 2011, the gas companies carried $23.8 million in hardship A/R, $17.4 million (73%) of which exceeded 120 days in arrears. Losing CEAP benefits will only worsen these already poor A/R statistics.

Many customers applied for EA because they had the prospect of a CEAP award plus a possible utility matching payment. The top CEAP award last year was $880. The Company is concerned that without any monetary incentive under this proposal customers will simply not apply for CEAP *and, importantly, its attendant benefit of winter protection,* this coming year. To protect our hardship customers we therefore recommend that the Plan be modified to include at least some basic benefit award (minimum $50) to provide customers with some level of financial incentive to apply for CEAP.

Because we are concerned customers may not apply for CEAP this year given a zero or nominal benefit, and therefore will be subject to service disconnection, the Company plans to automatically designate any customer as hardship if the customer has qualified for a CEAP benefit within the past three years. This automatic designation will protect even those customers who choose not to apply for CEAP this heating season. We will also continue to conduct aggressive outreach as in prior years to ensure our customers understand that applying for CEAP, no matter the funding level, provides other benefits; i.e., guarantees winter service protection, ensures that they are "in the pipeline" for possible future funding, and allows them to participate in other state assistance programs such as free weatherization services. We believe both this auto enrollment and continued aggressive outreach are essential this year so that we can continue to protect low income customers. By law, customers must submit income documentation each year to qualify for and receive a CEAP grant award, and that will not change this year.

The lack of CEAP grants will cause utility hardship receivables and write offs to increase dramatically, particularly at the gas companies where there is a much larger customer base qualified for low income heating assistance. The Public Utilities Regulatory Authority (PURA, formerly the DPUC) has traditionally authorized the gas companies an annual expense level for hardship write offs in rate cases, and allowed the companies to defer additional hardship bad debt recovery until future rate proceedings.

The lack of CEAP funding for utility households this year will cause a spike in these deferred balances. CNG and SCG currently hold $29 million in deferred balances on their books for previous annual hardship write-offs that have yet to be recovered. The gas companies are allowed $4.4 million in annual expense recovery. Last year hardship write offs exceeded $14 million, which means the deferred balance grew by nearly $10 million, *in a year CEAP was fully funded*. Without CEAP awards this year, one could easily foresee this $14 million in hardship write offs doubling or tripling in 2011/2012, and the deferred accounts rising to unsustainable levels.

Given the critical state-mandated service which the gas companies continue to provide in these difficult times, we are hopeful that policymakers will recognize the economic harm which is caused by delaying these expense recovery decisions to some point down the road and consider a change to allow our companies to deal with this bad debt aggressively. With the spike in the deferred balances, the Company believes that the gas utilities should be allowed to implement a systems benefit charge (SBC), similar to the SBC mechanism in place with the electric utilities in the state, whereby these incremental hardship write offs can be trued-up and recovered on an annual basis. These expenses are out of the Company's control and are expected to degrade its financial condition significantly if not addressed in a timely manner. It could also create a cliff or spike in rates if the existing recovery process is maintained.

An SBC-type mechanism would apply a long term recovery mechanism to a seemingly long term problem – continued congressional budgetary battles over funding of LIHEAP. SBC recovery would help lessen the degradation of cash flows and returns, while allowing the Company to continue to serve and balance the interests of the low income customer base and the general body of ratepayers. We believe that state energy policymakers including PURA, the administration and the legislature should be committed to this equitable resolution of the financial consequences of this proposal.

We appreciate the opportunity to address the committees and provide comments on this important matter. We will be happy to answer any questions that you may have. Thank you.