

STATEMENT OF
UIL HOLDINGS CORPORATION
Before the Committee on Energy and Technology

On

**RAISED HOUSE BILL 5543 – AN ACT CONCERNING THE CREATION AND
EXPANSION OF MUNICIPAL UTILITIES**

Legislative Office Building

March 20, 2012

UIL Holdings Corporation thanks you for the opportunity to offer these comments regarding **Raised House Bill 5543, AN ACT CONCERNING THE CREATION AND EXPANSION OF MUNICIPAL UTILITIES**. UIL's comments relates to specific aspects of the bill in addition to general commentary regarding the practical complexities that municipalities would need to think through carefully if the municipality considered making the very substantial expenditure and equally substantial ongoing and future commitment to become engaged in the business of power supply and delivery.

Section 1 of RHB 5543 would confer eminent domain authority on municipalities concerning the taking of electric distribution facilities by amending section 7-148(c)(3)(A) of the general statutes. In the event a municipality did not seek a willing sale pursuant to the process set forth in chapter 101, it is unclear how the fair market value of the utility facilities would be determined in the event of a taking by eminent domain. The lack of clarity could lead the parties to protracted litigation which would lead to additional costs for all. For clarity, UIL suggests the following changes to Section 7-226 of the general statutes to address this issue:

Sec. 7-226. Determination of plant value

The price to be paid for such plant, including through any eminent domain authority conferred by section 7-148 for the taking of any electric distribution facility, whether gas, electric or both, shall be its fair market value for the purposes of its use, no portion of such plant to be estimated at less than its fair market value for any other purpose, which shall be determined by considering the present-day reproduction cost of the plant or facilities being acquired, less depreciation and including as an element of value the earning capacity of such plant, based upon the actual earnings being derived from such use at the time of the final vote of such municipality to establish a plant, and also including the market value of any other locations or similar rights acquired by the owners of such plant or plants, intended and adapted for use in connection with such plant or plants, to be sold less the amount of any mortgage or other encumbrance or lien to which such plant or plants or any part thereof may be subject at the time of the transfer of title; but such municipality may require that such plant or property shall be transferred to it free and clear of any mortgage or lien, unless the Superior Court, through its special commission as provided in section 7-228, otherwise determines. The price to be paid for any plant or electric distribution facility shall include compensation for any diminution in value of the remaining plant or facilities, any electric system re-configuration costs necessitated by the sale or taking, and if the sale of assets to a municipality or the taking of assets by a municipality results in stranded assets, those stranded costs shall also be compensated.

Section 2 of RHB 5543 would allow municipalities to expand the service area of its municipal electric utility to any adjacent municipality, but would exempt the municipal electric utility that so expanded to be considered a “participating municipal electric utility” as defined in section 16-1 of the general statutes. This exemption would mean that such municipal electric utility would not be required to provide customers within its service area retail choice, which is currently required of a participating municipal electric utility under section 16-245c(c) of the general statutes. Subsection (c) requires each participating municipal electric utility to “allow customers within its service area to choose among electric suppliers for electric generation services in a manner comparable to all other end use customers of an

electric distribution company.” Retail choice has been the public policy of the State since the enactment of Public Act 98-28. Under current law, municipal utilities are not required to provide retail choice to their customers. The proposed exemption would further eliminate retail choice for consumers.

General Comments.

Acquisition is expensive and complex.

Municipalization is expensive at the point of initial acquisition and has significant ongoing costs required for infrastructure maintenance, repair and upgrade.

Municipalities would need to raise billions of dollars, in aggregate, to pay fair market value to acquire electric distribution company systems. This would burden, or overburden, the available bonding authority of municipalities and would mean tax increases to the resident-customers.

Acquiring an electric distribution system is complex. Electric utility circuits do not follow municipal boundaries, and existing substations can serve customers in more than one municipality. The costs of reconfiguring the company’s electric system in order to accommodate town boundaries would have to be considered in the acquisition costs, along with other costs, such as stranded costs, that may occur as part of the takeover of the system. Additionally, municipalities would need to be prepared to take on additional costs so the municipal system could provide capabilities presently provided by the electric company that cannot be separated and sold to municipalities, such as meter reading and customer billing.

In sum, municipalities would have to be operationally and financially responsible to manage all aspects of a complex overhead and underground transmission and distribution system. These include, for example, inspections to ensure reliability, testing and maintenance of relay protection systems, line clearance, and pole maintenance to name a few. The municipalities would also have to address system performance issues (such as voltage concerns or system overloads) as well as manage the system in concert with overall regional reliability concerns and requirements.

Ongoing Costs are Significant.

Electric distribution companies have large transmission and distribution capital programs associated with the requirement to plan, construct and pay for large-scale infrastructure replacement, upgrades and extension needed to maintain system reliability. In addition to financing these infrastructure programs, municipalities would also have to have the appropriate skilled resources to manage them and coordinate the planning and work on the system with other utilities, municipalities or region system operators and cooperate with other utilities to finance the design and construction of the system.

Potential Loss of Tax Revenue.

Shareholder-owned electric companies pay millions of dollars in state taxes and in property taxes associated with real and personal property located in the municipalities. If a municipality purchases a distribution company's system, this may result in a loss of some or all tax revenue to both the state and the municipality. Any loss of revenue

would be permanent, and any gaps in revenues to meet state and local budget requirements would have to be addressed if the facilities are sold to municipalities.

Other complexities.

In the event that a municipality were to acquire transmission assets, such transfer would be subject to federal jurisdiction as part of the interconnected interstate electric grid, and planning of the grid and infrastructure upgrade is a federally supervised process. Separating the transmission system into small pieces owned by municipalities complicates the already complex task of maintaining system reliability. Transmission operators are subject to a host of compliance requirements including the North American Electric Reliability Corporation (NERC) standards relating to Critical Infrastructure Protection (CIP) and Emergency Preparedness and Operations (EOP). There are also heightened cyber security requirements that municipalities would have to address. Municipalities operating transmission assets would be subject to these obligations, and would need to incur ongoing costs of compliance with existing and future standards, federal reporting and related commitments.

State Public Policies.

Municipalization impacts a number of State public policies, including promoting retail choice, as already discussed. Additionally, State public policy promoting energy efficiency, including weatherization of homes, and renewable generation is largely paid for by electric distribution company customers and is a component of the electric distribution companies' rates. Municipal utility customers have not historically paid

for these costs and currently do so at lower rates. Funding for energy efficiency and renewable generation programs would likely decrease under municipalization.

Municipalities will also be required to perform customer service functions - such as metering, billing, collections and overall account management. These functions would require a significant initial investment and ongoing cost in maintaining and operating these technologies such as billing systems, metering infrastructure, outage management and supervisory control and data acquisition systems (SCADA). The municipality would also be required to hire office and field resources to operate and maintain these systems in addition to meeting all regulatory, market and customer expectations. The municipality would also be required to hire resources to perform bill print, payment services including web access for customers to manage their energy usage and account information. Finally, the municipality would require the expertise to procure power and function in the ISO-NE regional marketplace.

Shareholder-owned electric companies are highly regulated by the Public Utilities Regulatory Authority.

Electric distribution companies are comprehensively reviewed and regulated by a state regulatory agency pursuant to Connecticut statutory requirements. This means that there is ongoing oversight and review of all aspects of utility operations. Procedures and processes are in place to foster safe, adequate and reliable services (including important customer service procedures). For example, termination of service by electric distribution companies must comply with state law.

Labor

Finally, municipalization has labor implications that require consideration. If utility workers lose their jobs as a result of the sale of facilities to municipalities this could increase unemployment in the State. Union employees, whose employment by electric distribution companies is governed by collective bargaining agreements, could not be compelled to work for the municipalities, and at a minimum would expect to enter into new agreements at least as favorable as existing agreements.

In summary, UIL believes the proposed legislation, if enacted, should address how the fair market value of the utility facilities would be determined in the event of a taking by eminent domain and that this can be accomplished through modification of section 7-226 of the general statutes. Additionally, the proposed legislation impacts retail choice and should be carefully considered. Finally, in our opinion there are practical complexities that municipalities would need to think through carefully if the municipality considered making the very substantial expenditure and equally substantial ongoing and future commitment to become engaged in the business of power supply.

If you wish to discuss this issue further or have any questions please contact Carlos M. Vázquez, Senior Director, Government Relations at your earliest convenience at 203-521-2455.