Statement of
UIL Holdings Corporation
Re:
Proposed Substitute Bill 1138

AN ACT CONCERNING CONNECTICUT'S CLEAN ENERGY GOALS.

Legislative Office Building
March 19, 2013

Senator Duff, Representative Reed and members of the Energy and Technology Committee. My name is Alan Trotta and I am Director of Wholesale Power Contracts for UIL Holdings Corporation (UIL). Please accept this statement on behalf of the United Illuminating Company (UI) on Proposed Substitute Bill 1138.

UI generally supports Bill 1138, but is seeking two minor, but important, clarifications to minimize the potential for adverse financial impacts on UI and its customers. UI looks forward to working with the Department of Energy and Environmental Protection in seeking opportunities for customers to benefit from competitively priced clean energy, and we believe that the measures presented in the Bill can help Connecticut achieve its clean energy goals.

1. Clarification to Cost Recovery Language

UI is seeking clarification to the cost recovery language for long-term renewable energy contracts. Specifically, there is identical cost recovery language in lines 256 – 258, and 276 – 278 that states:

> The costs of such agreements shall be recovered through a fully reconciling component of electric rates to all customers of the electric distribution companies.

UI is highly supportive of the language above, and believes that the codification of cost recovery as set forth in the bill is the single most important item in minimizing the potential for rating agencies and creditors to take an adverse view of long-term contracts. However, the language can be further clarified to ensure that rating agencies and creditors understand that the intent is for all costs associated with the contracts to be recoverable by the electric distribution companies (EDCs). In its May 7, 2007 "Methodology For Imputing Debt For U.S. Utilities' Power Purchase Agreements," Standard and Poor (S&P) stated that:

> we view legislatively created cost recovery mechanisms as longer lasting and more resilient to change than regulatory cost recovery vehicles. Consequently, such mechanisms lead to risk factors between 0% and 15%, ***depending on the legislative provisions for cost recovery*** and the supply function borne by the utility. Legislative guarantees of complete and timely recovery of costs are particularly important to achieving the lowest risk factors. (emphasis added)

In the passage above, the 0% - 15% "risk factor" refers to the percentage of future contract obligations that S&P would impute as balance sheet debt when calculating an electric distribution company's debt or credit rating. While there are no clear cut guidelines or guarantees for achieving a very low risk factor, UI believes that the following minor changes will minimize the potential for adverse financial impacts such as imputed debt by rating agencies by clarifying that the intent is that the contracts will in no way harm the EDCs financially. UI recommends the following edits to the cost recovery language on lines 256 – 258 and 276 – 278:

> ~~The~~ All direct and indirect costs associated with such agreements shall be recovered through a fully reconciling component of electric rates to all customers of the electric distribution companies.

The minor wording changes above will clearly demonstrate to the financial community that it is the intent of the State that the EDCs will recover not only the costs of the contracts, but also any costs associated with administering such contracts and, if necessary, carrying such contracts on their balance sheets.

2. Clarification to Class I Renewable Resource Qualification

UI is concerned that the new language on Lines 23 – 27 of the Bill could be interpreted in a manner that substantially limits the number of renewable generation facilities that can qualify to produce Class I Renewable Energy Credits (RECs) for compliance with Connecticut's renewable portfolio standard (RPS), and that such an interpretation could result in higher RPS compliance costs for Connecticut electric customers. The new language in lines 23 – 27 states that:

> …, provided on and after January 1, 2014, any renewable energy source described under this subparagraph used for compliance with renewable portfolio standards or renewable energy goals in another state shall not be considered a Class I renewable energy source.

UI believes that the intent of this language is to ensure that renewable energy is not double counted and used for RPS compliance, or to meet renewable energy goals, in multiple states. UI concurs fully with that intent. However, the language could be interpreted as requiring renewable generators to be 100% dedicated to serving Connecticut in order to qualify as Class I resources. The net effect of this interpretation could be to disconnect Connecticut from the regional market for Class I RECs, and place Connecticut on a renewable energy island. This could substantially increase the cost of RPS compliance for customers because electric suppliers to Connecticut customers would only be able to procure Class I RECs from resources that are fully dedicated to Connecticut, which would eliminate, among others, most or all of the existing and future wind farms in New England.

> …, provided on and after January 1, 2014, any renewable energy produced by sources described under this subparagraph used for compliance with renewable portfolio standards or renewable energy goals in another state ~~shall~~ may not be ~~considered a~~ used to meet Connecticut's Class I renewable energy ~~source~~ requirements.

You may direct your questions concerning these comments to Carlos Vazquez, UIL's Senior Director of Government Relations, at (203) 499-2825 or (203) 521-2455.