

**Testimony  
of  
UIL HOLDINGS CORPORATION  
Before The  
ENERGY AND TECHNOLOGY COMMITTEE  
Re**

**Raised Bill No. 1078: An Act Concerning Affordable and Reliable Energy**

**Governor's Bill No. 6838: An Act Concerning the Encouragement of Local  
Economic Development and Access to Residential Renewable Energy**

**Raised Bill No. 6985: An Act Increasing Natural Gas Transportation Capacity**

**March 17, 2015**

Good afternoon Senator Doyle, Representative Reed, members of the Energy and Technology Committee. My name is Alan A. Trotta, Director of Wholesale Power Contracts for UIL Holdings Corporation. UIL Holdings Corporation (“UIL” or the “Company”) submits these comments on the three raised bills referenced above. Section I of these comments proposes consistent, unambiguous cost recovery language, and provides for appropriate remuneration for the use of electric distribution company (“EDC”) balance sheets, for all three bills, and Sections II – IV address other concerns that the Company has with each bill on an individual basis.

**I. Cost Recovery and Remuneration (applicable to all three bills)**

All three bills create obligations for electric distribution companies (“EDCs”) to enter into long-term contracts to provide creditworthy backing for energy projects

developed to meet public policy goals (i.e. to utilize the EDCs' balance sheets). All three bills also provide the EDCs with – *at best* – the opportunity to break even on the use of their balance sheets. Rating agencies such as Standard and Poor and Moody's view such obligations unfavorably. However, adverse credit rating impacts can be at least partially avoided through clear, unambiguous cost recovery language in statute. To that end, UIL recommend the adoption of the following consistent cost recovery language:

*The electric distribution companies' costs associated with complying with this provision shall be recovered through a fully reconciling, non-bypassable rate component.*

This language should replace the cost recovery language in lines 20 – 23, 144 – 145, 196 - 200 and 201 – 207 of Raised Bill No. 1078, lines 178 – 190 of Governor's Bill No. 6838 (with associated clarification noted below), and in lines 6 – 10 of Raised Bill No. 6985.

While the cost recovery language proposed above helps to mitigate the risk of adverse credit impacts, it does not fully address the inequity that arises from the uncompensated utilization of investor-owned EDC balance sheets. The long-accepted utility business model is to earn a fair rate of return on its assets. Utilizing a utility's balance sheet without compensation creates a liability for the utility without a corresponding asset upon which to earn a reasonable return. Entering into transactions that provide the ability to – *at best* – break even is not a reasonable business proposition from any rational investor's perspective, yet this is exactly the type of obligation that the bills would impose on EDCs. In Massachusetts, lawmakers have long-recognized that the EDCs should be partners in implementing public policy, and in 2008 enacted Section

83 of Chapter 169 which, among other things, provided the Massachusetts EDCs with remuneration for implementing public policy through long-term renewable contracts in addition to recovery of all costs incurred under the contracts. Per Section 83, the remuneration was intended to “compensate the company for accepting the financial obligation of the long-term contract.” The current remuneration for long-term contracts in Massachusetts is 2.75% of all contract payments. If Connecticut wishes to pursue public policy objectives by utilizing the balance sheets of investor-owned EDCs, the EDCs should be reasonably compensated.

## **II. Raised Bill No. 1078**

Raised Bill No. 1078 vests an extraordinary amount of power in the Department of Energy and Environmental Protection (the “Department”). Taken together, the various sections of the bill allow the Department nearly unfettered authority to bind the EDCs, and through them the majority of the State’s electric consumers, into long-term commitments that may become uneconomic or stranded in the future. Energy markets are dynamic and complex, and the balance of supply and demand and associated energy prices can change rapidly to the benefit or detriment of electric consumers. Nobody, including the Department, can predict whether a long-term contractual commitment will actually produce the benefits that are projected at the time of execution. While it may be appropriate to partially mitigate market risk through long-term commitments, Raised Bill No. 1078 does not provide for adequate boundaries and limitations to minimize the risk of today’s mitigation efforts becoming tomorrow’s uneconomic stranded costs. By contrast, Public Act 13-303 included appropriate strict limitations on the Department’s

procurement authority, for example 13-03 limited the allowed procurement of energy from large hydropower resources to 5% of load (Section 7 of that act). Each of the procurement sections of Raised Bill No. 1078 should be revised to provide similar strict limitations on the Department's procurement authority. Also, the EDCs have a wealth of experience and track record of success procuring energy resources, and as such should be partners with the Department in any procurement process.

Section 4 of the bill creates a multi-resource procurement effort that appears to be designed to address winter electric reliability and economic concerns associated with the region's reliance on natural gas generation in a time when gas pipelines are constrained. It's well acknowledged by most stakeholders, including the Department in its Integrated Resources Plan ("IRP"), that New England faces a simple, critical issue – interstate gas infrastructure is inadequate to support needed gas-fired generation during the winter. It is the Company's view that the optimal solution is to directly solve the problem, and limit the solicitation under Section 4 to gas pipeline capacity and liquefied natural gas ("LNG"). There are several reasons that the Company believes that a direct solution is compelling. First, the region already has a significant quantity of new, clean gas-fired generation, and additional gas-fired generation can be added by market participants at capital costs that may be low enough to allow for development without the burden of long-term contracts. Second, information presented in the IRP and other recent studies suggests that an appropriately sized expansion of gas infrastructure could have annual customer benefits that are *multiples* of the annual customer cost (it's estimated that customers in New England paid an extra \$3 billion in the winter of 2013-2014 alone due to gas pipeline constraints). Also, the State already has procurement mechanisms for

Class I renewable energy, demand-side measures and distributed generation (“DG”). Adding these resources unnecessarily muddies the procurement effort by introducing resources that have a much more negligible benefit on solving the winter gas issue, and in the case of DG may even exacerbate the issue. Finally, the addition of gas transportation capacity or LNG will work hand in hand with the gas expansion goals of the Comprehensive Energy Strategy by increasing the potential economies of scale of gas infrastructure expansion for both electric and gas customers. For these reasons, the Company suggests that the solicitation of solutions directly address the issue at hand by being focused on gas pipeline capacity and LNG. If Section 4 of the bill is modified as suggested by the Company, Raised Bill No. 6985 will become superfluous and unnecessary because the procurement of gas infrastructure contemplated through a non-competitive process in Raised Bill 6985 would be handled through a competitive process under the revised Section 4 process.

### **III. Governor’s Bill No. 6838**

The Company does not oppose this bill, but seeks minor changes. First, to accommodate the Company’s proposed cost recovery language set forth above, the following should be added at the end of line 156 in Section 2(c): “, or may resell such renewable energy credits, with the proceeds from resale to be netted against contract costs.”

Additionally, the regulatory proceeding for approval of the master purchase agreement should be a contested case, not an uncontested case (lines 169 – 172) because the rights, duties and privileges of parties are being adjudicated in such proceedings.

#### **IV. Raised Bill No. 6985**

This bill would allow, but not require, an EDC to contract for the development of interstate pipeline capacity without the benefit of a competitive procurement process. While the Company agrees with the underlying goal of this bill – increasing gas infrastructure in New England - the procurement of such capacity should be conducted by an impartial third party (such as the Department), and should consider all available gas pipeline and LNG options. It would be inappropriate to simply allow an EDC to directly negotiate with, and contract with, a pipeline developer without all available options being pursued on an unbiased basis. As noted above, if Section 4 of Raised Bill No. 1078 is modified as suggested above by the Company, then this bill becomes superfluous and unnecessary. Thus, the Company opposes Raised Bill No. 6985 and favors appropriate revisions to Section 4 of Raised Bill No. 1078 instead.

Also, any regulatory proceeding approving a contract should be contested because the rights, duties and privileges of parties are being adjudicated in such proceedings.

Thank you. I would be happy to answer any questions the committee may have.