

ENERGY AND TECHNOLOGY COMMITTEE

February 24, 2015

Testimony of

UIL HOLDINGS CORPORATION

Regarding

SB 570 AAC ELECTRIC SAVINGS AND FIXED BILL FEES

SB 573 AAC VARIABLE ELECTRIC RATES

SB 574 AAC ELECTRIC DISTRIBUTION COMPANY RATES AND CHARGES

SB 575 AAC ELECTRIC RATE TRANSPARENCY

SB 625 AAC ELECTRIC DISTRIBUTION COMPANY BILLS

**SB 728 AA REQUIRING THE PUBLIC UTILITIES REGULATORY
AUTHORITY TO DEVELOP POLICIES, PRACTICES AND PROCEDURES TO
LOWER ELECTRIC RATES**

**HB 5821 AA CAPPING THE FIXED CUSTOMER CHARGE FOR THE
RESIDENTIAL CUSTOMERS OF ELECTRIC DISTRIBUTION COMPANIES**

**HB 5402 AA LIMITING THE FIXED CUSTOMER CHARGE FOR
RESIDENTIAL CUSTOMERS OF ELECTRIC DISTRIBUTION COMPANIES**

**HB 6014 AAC ELECTRIC DISTRIBUTION COMPANIES' RESIDENTIAL
FIXED CUSTOMER CHARGE**

HB 6019 AAC ELECTRIC RATE AFFORDABILITY AND TRANSPARENCY

HB 6029 AAC ELECTRIC DISTRIBUTION COMPANY FEES

Good afternoon Senator Doyle, Representative Reed, members of the Energy and Technology Committee. My name is Michael A. Coretto –Vice President – Regulatory Affairs for UIL Holdings Corporation. UIL Holdings Corporation (“UIL” or the “Company”) submits these comments on several proposed bills concerning the Basic Service Charge and electric retail rate design.

As a way of providing some background and history, retail electric ratemaking has been guided by the principle of cost causation, meaning that those customers that impose a cost on the electric system should be the customers who pay the cost. UI performs annual cost of service studies which attempt to quantify which costs of the electric distribution

system are attributable to which customer classes (residential, commercial, industrial). During any distribution rate case litigated before the Public Utilities Regulatory Authority (PURA), these studies are analyzed, reviewed and questioned by both PURA staff and consultants working for the Office of Consumer Counsel as well as the Attorney General. As with other modelling and while the studies may not be perfect, they provide a very good directional signal as to what the costs of the system are and how they should be allocated to the different customer classes. They can also provide a good indication as to how current rates compare with the “theoretically-perfect” rate design. Often during these rate cases, the final approved rates will recognize the direction that the studies are indicating and the approved rates will make gradual progress from the current rate towards a true cost of service based rate. Said differently, if the cost of service studies indicate that the appropriate basic service charge should be \$25 per month and the current basic service charge is \$15 per month, the approved basic service charge should be increased. PURA, utilizing their authority, and balancing all factors associated with any rate increase, ultimately decides what that new basic service charge should be.

Of course, the utility files a proposed basic service charge as part of their rate filing. To the extent that the approved basic service charge differs from the proposal, adjustments are made to the variable, or kilowatt-hour based, portion of the distribution rate. A lower basic service charge results in higher kilowatt-hour-based charges. However, a basic service charge set below the cost of service study value indicates that certain customers may not be paying their fair share of the electric distribution system. It also indicates that fixed cost items are being collected through a volumetric charge. The result is a shift in cost from lower use customers to higher use customers and the potential that the fixed costs are not being collected from those who impose them.

So what types of costs are in the basic service charge? The basic service charge should collect those costs that are independent of the volume of electricity consumed. Some of the costs included in UI’s basic service charge include metering (the largest cost included in the basic service charge), billing, a portion of the costs of utility poles, wires and transformers and a portion of the costs associated with providing customer service functions, such as the customer care center and collections activities. Whether a customer uses 100 kWh per month or 1000 kWh per month, a meter must be installed and that meter must be read every month. Also, a bill must be calculated, printed and mailed (or provided by other means such as e-billing). Poles and wires must be installed and maintained. These costs are fixed and are independent of the level of consumption.

Is the Company financially impacted by the level of the basic service charge? No, it is not. This is not an issue of financial results for the electric distribution company. Current state law requires a “decoupling” mechanism which eliminates the link between the utilities revenues and the volume of kWh sales. This link was appropriately eliminated in past legislation and was done so to remove any perception or incentive that the electric distribution companies were not supporting and promoting the energy efficiency policies of the State. UI has had decoupling since 2008. So whether the basic service charge is set at \$5, or \$10, or \$20 or \$30, there is no financial impact to the Company. There are, however, large impacts to certain customers and costs shifts among customers of varying

usage. There also is the issue of fairness and whether customers are rightfully paying their fair share of the electric distribution system.

UI believes that the current rate design process is fair, open, and transparent and takes into account the positions of all interested parties. Through the exhaustive and detailed distribution rate case process, all parties are able to request the necessary information in order to reach their final positions as to the appropriateness of each distribution rate component, whether fixed or variable – for residential, commercial and industrial customers. PURA, after reviewing all of the evidence, renders its decision which balances all of the positions and impacts of any rate increase. Legislatively establishing an arbitrary cap on the basic service charge bypasses the rigorous review and analysis that takes place during a distribution rate case. UI believes the current process serves all parties well and provides the balance needed to resolve very complex issues.

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