

Discussion of Proposed Generation Services Charge  
November 22, 2006

The Company's filing contains specific changes to the generation services charge (GSC), effective January 1, 2007.

Exhibit 1 shows the new GSC rates effective January 1, 2007 for each retail rate. These GSC rates reflect the Company's recently completed procurement activities for Standard Service and Supplier of Last Resort Service for the period beginning January 1, 2007. All of the Company's wholesale power supply contracts obligate the suppliers to deliver the necessary requirements to the Connecticut load zone. Therefore, any locational marginal price risks are borne by the supplier(s). The resulting bids did not break out any bypassable Federally Mandated Congestion Charges (FMCC). It is the Company's proposal to eliminate the current bypassable FMCC line item on customer bills, since the costs that typically may be contained in such a line item are included in the GSC prices obtained through the competitive solicitations.

Exhibit 2, page 1 of 2, shows the GSC rates by supply group as contained in the wholesale solicitation request for proposals. Exhibit 2, page 2 of 2, shows the Supplier of Last Resort GSC rates on a monthly basis as well as on a six month average basis. It is the Company's proposal that the Supplier of Last Resort GSC rates be set at the six month average values for this initial January 2007 – June 2007 period. This will mitigate to some extent the initial rate impact were the Supplier of Last Resort rates set at the monthly values.

For a typical residential customer on Rate R using 700kWh per month, the proposed GSC rates equate to an increase in their monthly electric bill of approximately 38%, or \$42 per month.

#### Working Capital Allowance

In the Department's decision in Docket 03-07-15, dated December 18, 2003, the Department established a \$5 million working capital allowance to allow the Company to manage the variations in monthly wholesale power supply expenses and monthly retail customer generation revenues. This allowance has worked well. With the conclusion of the Company's solicitations for Standard Service and Supplier of Last Resort Service for the first half of 2007, there remains an acute need to continue to manage this difference between monthly revenues and expenses.

As shown in the Company's filing, there is a large variation between the monthly wholesale power supply prices and the retail prices charged to customers, which will be averaged over the January – June period. As stated earlier, the Company has updated its reconciliation analysis to include actual data through October 2006. This analysis shows a projected surplus at the end of 2006 for both the Generation Services Charge and the nonbypassable FMCC charge of approximately \$13.7 million. The Company has

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proposed to return to customers \$3.7 million, effective January 1, 2007, through a reduction in the NBFMCC charge. This would leave a \$10 million balance which can be used to manage the monthly variations between revenues and expenses. The Company also proposes that the semiannual GSC and FMCC reconciliation proceedings and working capital mechanism be continued. This will allow all parties to track the current working capital allowance balances and make any necessary adjustments to rates in the future.

1 mil for Administrative Costs

Also in the December 18, 2003 final decision in Docket 03-07-15, the Department authorized a \$0.001 (one mil) increase to the wholesale power supply agreement GSC prices to cover certain administrative costs associated with the generation services supply obligation. Those costs are part of the semiannual true-up process. In this filing, the Company proposes to retain the one mil increase to the GSC supply prices. Many of the costs that have been charged to the GSC rate component, including payroll and overhead costs for personnel involved in power procurement, retail access, ISO load settlement and other generation-related regulatory activities will continue to be incurred and are not currently recovered in any other retail rate component. While the Company has made certain proposals in Docket 97-01-15RE02, *DPUC Review of Electric Companies Cost of Service and Unbundled Tariffs – Further Unbundling*, that docket has not yet reached a conclusion. Any decision resulting from that docket can be incorporated into the setting of future GSC rates.

However, there are a number of other pending Department proceedings which will affect other rate components of customers' bills. These additional changes will also be effective on January 1, 2007. Each line item charge is discussed below.

- 1) Distribution rates – On January 1, 2007, the Company will enter the second year of its 4-year rate plan. The Department has already approved an increase in the distribution revenue requirement of \$5.8 million for 2007. \$4.3 million of this amount was per the Department's January 26, 2006 decision in Docket 05-06-04 and \$1.5 million was from the Department's decision in Docket 05-06-04RE01, decision dated August 21, 2006. However, the specifics of the retail rate design for distribution rates for 2007 are still pending in Docket 05-06-04RE02. The Company complied with the Department's request regarding the distribution rate design in Docket 05-06-04RE02 in its response to Interrogatory EL-2. A final decision is expected in that docket on December 8, 2006.
- 2) Systems Benefits Charge (SBC) – In Docket 99-03-35RE12, decision dated September 27, 2006, the Department approved an increase in the SBC of \$1.8 million for 2007. This increase will be reflected in the SBC beginning January 1,

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2007 and is included on customers' bills in the "Combined Public Benefits" line item.

- 3) Competitive Transition Assessment (CTA) – There are three pending decisions which will affect the final CTA rate for 2007. Final rates will be filed at the beginning of December.
  - a) As a result of the Federal Energy Regulatory Commission's approval of a settlement agreement concerning decommissioning expense for the Connecticut Yankee nuclear facility, the decommissioning revenue requirement for 2007 is being reduced by \$5.32 million. This revenue requirement decrease will be reflected in the CTA rate effective January 1, 2007.
  - b) The Department's pending decision in Docket 05-06-04RE02, currently scheduled for December 8, 2006, may affect the rate design for the CTA rate component. The Company, in Late File Exhibit 1 in Docket 05-06-04RE02, replied to the Department's request to use an energy allocator to allocate CTA costs among all rate schedules. The impacts of that decision will be incorporated in the final CTA rate which will be effective January 1, 2007.
  - c) As in the prior three years, the impacts of the securitization of the Conservation and Load Management and Renewable Energy Investment charges are accounted for in the CTA. The revenues required to repay the bonds issued by the State of Connecticut are recovered from ratepayers through the CTA charge on customers' bills. This adjustment, whether it be an increase or decrease from the current charge, is completely offset by a corresponding decrease or increase in the Conservation and Load Management and Renewable Energy Investment charges. The Company anticipates filing this information with the Department early in December and the rate impacts will be reflected in the appropriate rate components on January 1, 2007.
- 4) Conservation and Load Management (CLM) Charge and Renewable Energy Investment (REI) Charge – As stated in 3c above, the increase or decrease in the CTA rate due to the impacts of the securitization bonds issued by the State of Connecticut is offset by an equal and opposite change in the combined CLM and REI charge. This change will be effective January 1, 2007.

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- 5) Transmission Adjustment Clause – On December 1, 2006, the Company will file its proposed Transmission Adjustment Clause (TAC) credit/charge. This change in the transmission rate component will be effective on January 1, 2007 and is reflected in the Transmission line item on customers' bills. In addition, on September 29, 2006 the Company complied with the Department's Order No. 12 in the Supplemental Decision dated August 29, 2006 in Docket 05-06-04 and allocated transmission costs using a 12 monthly Coincident Peak (CP) allocator.
- 6) Nonbypassable Federally Mandated Congestion Charge (NBFMCC) – In August 2006, the Company filed its semiannual reconciliation of NBFMCC revenues and expenses. That filing contained actual data through June 2006. Recently, the Company has updated that filing with actual data through October 2006. Based on that update, the Company proposes that the NBFMCC rate be *lowered* effective January 1, 2007 so as to return to customers approximately \$3.7 million. In addition, on September 29, 2006 the Company complied with the Department's Order No. 12 in the Supplemental Decision dated August 29, 2006 in Docket 05-06-04 and allocated nonbypassable FMCC costs using a single CP allocator.
- 7) Purchased Power Adjustment Clause (PPAC) – Currently, this charge is \$0.00264 for certain customers who have a special contract with the Company, and zero for all other customers. Per that clause, the new PPAC rate effective January 1, 2007 will be \$0.00368 per kWh, applicable only to the special contract customers. For Standard Service and Supplier of Last Resort customers, the GSC will be set effective January 1, 2007 in accordance with the power supply costs approved by the Department in Docket 06-08-01RE02 and the PPAC will be zero.