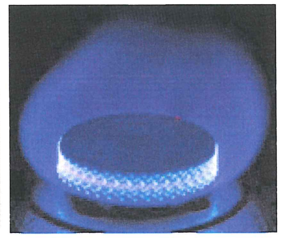
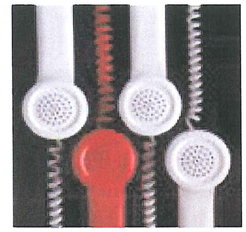
Connecticut Office of Consumer Counsel
Mary J. Healey, Consumer Counsel





Ten Franklin Square, New Britain, CT 06051 | Summer 2011
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OCC NEWSLETTER

Connecticut Legislature Passes Major Energy Legislation

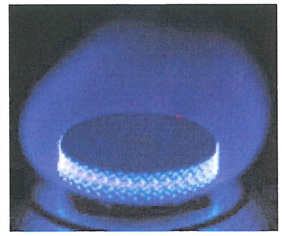
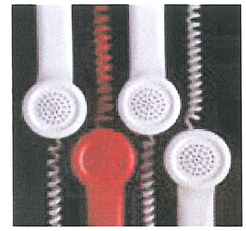
The Connecticut Senate and House of Representatives passed major energy legislation in June with bipartisan support and little opposition. The Energy Bill, Senate Bill 1243, reorganizes some of the government agencies that deal with energy issues, including the primary state regulator in this field, the Department of Public Utility Control (DPUC), institutes several new programs and studies, and bolsters some existing regulatory requirements.

Connecticut has been one of the few states that does not have a "Department of Energy." The functions of a Department of Energy have instead been performed by a variety of agencies and boards. The need for a centralized Department of Energy to proactively develop policies (in conjunction with the Legislature), implement policies, seek available resources including federal funds, promote economic development, and pursue other goals was felt by many. The Bill's solution to this perceived gap is the formation of the Department of Energy and Environmental Protection ("DEEP"), combining the functions of the existing Department of Environmental Protection and the DPUC and also increasing the energy-related powers of the new agency beyond their current scope under the DPUC.

Among other things, the bill:

- Requires DEEP to develop a comprehensive energy plan that assesses needs in electricity, heating, cooling, and even the transportation sector. Including the



transportation sector in planning has become increasingly important due to the increased price of oil, the reduction and stabilization of the price of natural gas, and the interest in promoting electric vehicle uses. Although Connecticut already does an integrated resource plan for electricity, a plan that also includes transportation, heating and cooling may well prove useful;

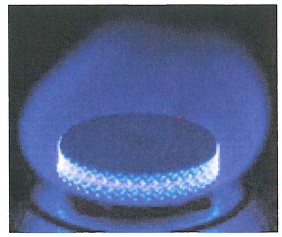
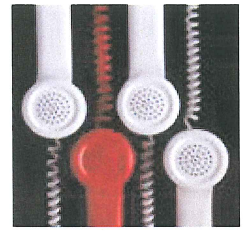
- Provides for a new position within DEEP of a Procurement Manager whose job it will be to try to reduce the price of residential standard service, the electricity generation product one receives if one stays with CL&P or UI. Reducing the price of standard service should in turn also lower the prices paid by customers of alternative retail suppliers, since such suppliers would have to compete with a lower standard service price (if such is indeed achieved);

- Allows long-term contracting for new or existing fossil generation (including potentially the replacement of older, inefficient units), renewable generation, distributed generation (small power plants used for example in a hospital or in an industrial building) and energy efficiency, and other resources, through a variety of programs and plans. Through this bill, Connecticut is clearly asserting its own authority over power resource decisions, and is not waiting to see what regional markets may or may not bring to fruition;

- Seeks to promote the development of solar energy in Connecticut for homes and businesses, which it is hoped may attract or retain solar manufacturing and installation businesses;

- Establishes a code of conduct for retail suppliers of electric generation service, with a particular focus on regulating door-to-door sales and requiring that certain types of information be provided to potential customers;



- Promotes replacement of inefficient heating equipment in residential homes through development of a new program by DEEP; and

- Requires DEEP to study the regional wholesale power market run by ISO-New England under the authority of the Federal Energy Regulatory Commission to see whether and how such market is or is not helping Connecticut reach its electricity price and environmental goals, with the possible outcome of recommending certain strategies or adjustments.

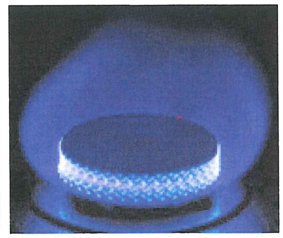
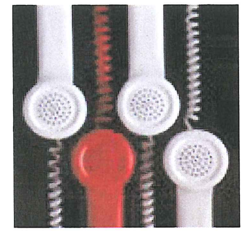
Although some drafts of the proposed legislation led to fears that your ratepayer advocate, the Office of Consumer Counsel, might be eliminated in the restructuring of energy agencies, such did not occur. We are happy to report that OCC's function is recognized by the legislation as something that should continue intact, and our status remains essentially the same as it has been. In other words, we are independent from DEEP to the same, substantial extent that we have been independent from DPUC. DEEP, like DPUC before it, will continue to assist OCC with some administrative functions that OCC, as a small agency (14 employees at present), cannot efficiently perform on its own, but OCC will still have an independent voice in utility rate and planning matters. We thank the Connecticut Legislature and the Governor's Office for recognizing OCC's value and for working together in support of OCC's continued existence.

NATIONAL ASSOCIATION OF STATE UTILITY CONSUMER ADVOCATES NASUCA

CT OCC Plays Leadership Role in the Critical Consumer Issues Forum

The Critical Consumer Issues Forum (CCIF) was launched in 2010 to bring together state commissioners, consumer advocates and utilities to discuss important consumer issues. As president of the National Association of State Utility Consumer Advocates, ("NASUCA"), CT. Consumer Counsel, Mary Healey, played a significant role in its formation and in the development of its first report entitled: Grid Modernization Issues with a Focus on Consumers (for the full report



go to the NASUCA website at www.nasuca.org).

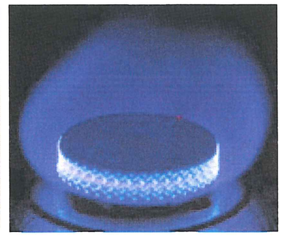
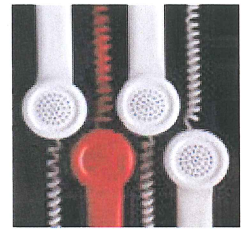
The first area of focus for CCIF was the "smart grid" (a term CCIF deemed too polarizing and so changed to "grid modernization") and its attendant issues on cost/rate impacts, customer privacy, and education and outreach among others. Following its launch at the 2010 NARUC and NASUCA Annual Meetings, the CCIF convened three regional summits in Phoenix, New Orleans and Baltimore to further the dialogue and to identify areas of consensus with the possibility of developing a joint report. 26 consumer advocates participated in the CCIF meetings (as well as reps from AARP, Consumers Union, Public Citizen, and National Consumers Law Center) for a total of 74 participants including commissioners and industry folks. The effort culminated in a consensus on 30 Principles all of which are consistent with NASUCA's two resolutions on the Smart Grid.

The 30 Principles are valuable in that they are an expression of consensus by three leading organizations in the utility regulatory area: NARUC, NASUCA and EEI. They also provide important guidance to state commissions and parties and intervenors in grid modernization dockets (and can be administratively noticed in those dockets); and they reflect a unified voice articulating consumer concerns and offering basic standards for many of the initiatives to modernize the electric grid for the benefit of all users.

OCC Reaches Proposed Deal with SCG, CNG to Settle Rate Case Litigation

In 2009, the Department of Public Utility Control ("DPUC") entered into rate case rulings for Connecticut Natural Gas Corporation ("CNG") and Southern Connecticut Gas Company ("SCG"), which rate case rulings provided each company with only a narrow rate increase over the rates then existing (which existing rates had in turn been reduced, on an interim basis, in a prior DPUC ruling finding that SCG and CNG had been over-earning). SCG and CNG sued DPUC in Superior Court on many counts, claiming among other things, that DPUC did not



follow relevant laws relating to interim rate decreases, that DPUC had acted inconsistently in a variety of ways as between the SCG and CNG rate rulings, and that certain DPUC rulings were unsupported by evidence in the respective administrative records. OCC supported the DPUC's rulings in Court and worked actively with DPUC counsel to defend the rulings.

The Superior Court upheld the DPUC's rate rulings as to CNG and SCG in separate 2010 decisions (in the meantime, DPUC had reopened each rate ruling to make corrections as to certain issues raised by CNG and SCG, so those issues were not addressed in the Superior Court rulings). CNG and SCG then appealed the Superior Court's rulings to the Connecticut Supreme Court. OCC and the other parties have filed lengthy and detailed briefs with the Supreme Court, but oral argument has not yet occurred.

After filing of the Supreme Court Briefs, the United Illuminating Company ("UI") purchased CNG and SCG from their former parent, Iberdrola. OCC and CNG/SCG, with UI as the new corporate parent, began settlement talks to determine whether the Supreme Court litigation might be amicably resolved after almost two years. On March 24, 2011, OCC, CNG and SCG indeed reached a proposed settlement that would result in a variety of benefits for the Companies and customers in the nature of a "fresh start." Among other things, CNG and SCG agreed to combine for regulatory purposes, meaning that the companies would no longer file separate rate cases. Having combined rate cases for the companies and customers should reduce costs for all. Under the proposed resolution, the rate increase for present rates would not be substantially higher than would have occurred under DPUC's 2009 rulings, while the costs and risks of litigation would be eliminated for all parties. One possible outcome from a Supreme Court ruling could be a remand to the DPUC as to certain rate issues, meaning that all the parties would have to develop positions, rehire consultants, respond to discovery, etc. as to rate issues that are now almost two years old.

DPUC is presently reviewing the proposed settlement. Hearings have already occurred, and a ruling is expected in early August.

DPUC Decision Slashes Yankee Gas Rate Increase

On January 7, 2011, Yankee filed an application to increase distribution rates by $32,765,000 in July 2011 and an incremental $13 million in July 2012. Yankee's proposed rate application if granted would have increased distribution rates by approximately 15% in Rate Year 1 and an incremental 5% in Rate Year 2. On a total bill basis, the Company's two-year rate plan would result in a 7.3% bill increase effective July 1, 2011 and an additional 2.8% bill increase effective July 1, 2012.

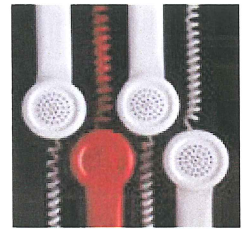
OCC argued that instead of a rate increase, Yankee's rates should be decreased by $5.38 million in Rate Year 1 and be increased by $659,000 above current levels in Rate Year 2. The DPUC accepted many of OCC's recommended adjustments to Yankee's request, and lowered the Company's allowed return on equity to 8.83%.

On June 29, 2011 in the last ever Regular Meeting of the DPUC, a rate decrease of $534,874 was approved for the first rate year effective July 20, 2011. A rate increase of $6,118,116 was approved for rate year 2 effective 7/20/12.

OCC believes that the Final Decision is a fair and reasonable result. The Department and its Staff did an excellent job sorting through a very complex case, which was the first multi-year rate application proposed for a Connecticut natural gas utility. Given these difficult economic times, the DPUC worked hard at reaching a balance of limiting rate increases while requiring significant investments in the Company's distribution system.

DPUC Rejects OCC's Attempt to Subject the Proposed Merger between Northeast Utilities and NStar to Rigorous State Review

In October 2010, Northeast Utilities ("NU"), the corporate parent for two local utilities, Connecticut Light & Power Company and Yankee Gas Services Company, and NStar, the corporate parent for Massachusetts-based NStar Electric and NStar Gas, announced that they were planning to merge. Under the



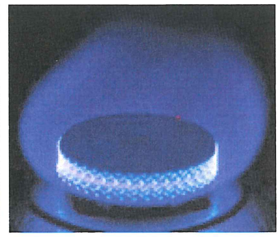
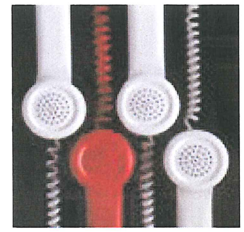
proposed merger, the combined entity would continue to have the name "NU," but more than half of the executive power to run the combined company would shift to NStar, with half of the top executives coming from NStar, half of the Board of Trustees coming from NStar, and the combined Company's President, after a short period, being Thomas May, the current President of NStar. The combined company is slated to have joint headquarters in Boston and Hartford.

The Office of Consumer Counsel ("OCC") and the Attorney General's Office sought review of the proposed merger by the Department of Public Utility Control ("DPUC") under relevant State laws. Among other things, OCC is seeking to have assurances and standards that will ensure that there continues to be customer service quality, timely service repair, that synergy savings resulting from the merger are shared equitably between the utilities and customers, that infrastructure development and maintenance dollars will be equitably apportioned between Connecticut and the utility service territories in other States served by the combined companies, and other issues.

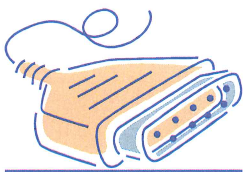
Massachusetts is reviewing the proposed merger in great detail for the protection of its citizens and for the promotion of the policies and goals of Massachusetts. However, DPUC, in a June 1, 2011 Decision, held that Connecticut law does not require a formal review of the proposed transaction, primarily because under the corporate structure of the transaction, the surviving holding company remains NU. OCC asked that the Department look past the form of the transaction to its substance. The substance of the transaction has been described by NU and NStar as a "merger of equals," not a takeover of NStar by NU, and, as discussed above, executives from what is now NStar would be taking over more than half of the executive authority of the merged company. OCC also noted that a relevant Connecticut law requires DPUC to take an expansive view of its power to regulate and review mergers. The Attorney General's Office advanced similar arguments. The DPUC nevertheless took a narrow view of its powers to review this major transaction and held that it will not review the merger.

OCC is seeking court review of the DPUC Decision. OCC continues to maintain that Connecticut should be conducting the same rigorous review of this merger that Massachusetts is conducting,



and that applicable laws call for such a review to occur.



OCC's Broadband Policy Coordinator Holds Focus Groups Across Connecticut To Develop A 5-Year Broadband Strategic Plan

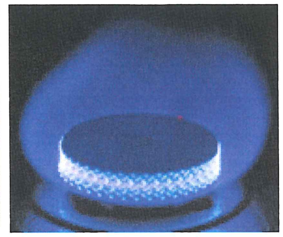
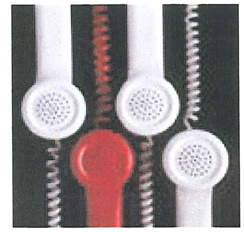
An OCC staff member is the state's Broadband Policy Coordinator and is charged by a $4mm federal stimulus grant with developing a plan to enhance access to and adoption of broadband services by residents and business across the state. Together with two of the grant's consultants, the Connecticut Academy of Science and Engineering (CASE) and Connecticut Economic Resource Center, Inc. (CERC), 14 focus group sessions were conducted to gather information from a variety of broadband users and non-users regarding their use of broadband services and needs for the future.

Approximately 114 people attended the sessions which were geographically dispersed throughout the state, including groups of youths and parents who have not adopted broadband in their homes yet manage to utilize the Internet in various creative ways. One high school senior in Manchester reported that she had completed a school report of 8 pages on her cellphone since she lacked Internet access at home.

A broad cross-section of people attended the sessions, including: librarians, hospital managers, business leaders, chief information officers and other information technology personnel, representatives from k-12 and higher education, state representative Roberta Willis from Litchfield County, community organization leaders and volunteers, town government representatives, economic development leaders, and young and senior members of the general public, with varying incomes.

The groups made it apparent that high-speed Internet access is a central part of residential and business life throughout Connecticut, and most participants stated they frankly could not imagine living without it. Also, it was strongly felt that robust broadband infrastructure and a digitally-skilled workforce are essential for a region to attract new jobs and investment. It was agreed

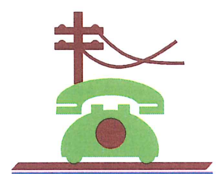


that nearly all Connecticut jobs now involve the use of high-speed Internet access, including those of janitors, plumbers, truck drivers, and flight attendants who all use handheld devices for a multitude of purposes, instantly connected to home offices, dispatchers, and financial transaction databases.

All the groups raised the question of what the priority should be for allocating the state's limited funds and resources available for supporting broadband technology and adoption methods. For instance, if the state pursues greater e-government functions involving its services and its customers, the residents and businesses of the state, shouldn't the state consequently have an obligation to make broadband access and digital literacy universally available? Further, the dilemma was repeatedly raised whether state assets should be devoted to make the state's primary business area, Fairfield Country (aka "the golden banana"), competitive for global economic development by increasing the already high-speed access and adoption? Or, should the focus be to assure state-wide universal average speed to rural areas and target inner-city residents for improved digital literacy?

The OCC Coordinator expects to continue his central role in helping the state government develop answers to these questions to enable Connecticut to increase its economic development and residential success as the state continues to address the problems presented by limited broadband access and adoption.

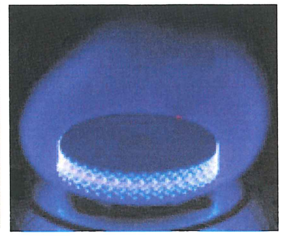
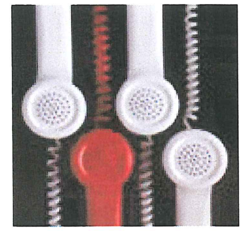


OCC Reaches Settlement with AT&T Regarding Longtime Under Performance on Out-of-Service Repairs

Reliable telephone service is necessary in case of emergencies and also to promote quality of life and convenience for the citizens who pay for such service. For this reason, Connecticut has had a strict regulatory requirement that 90% of out-of-service complaints received by a telephone company in any 24-hour period must be repaired within 24 hours.

The Department of Public Utility Control (DPUC) initially proposed a civil fine



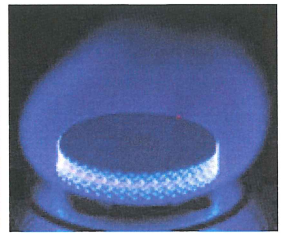
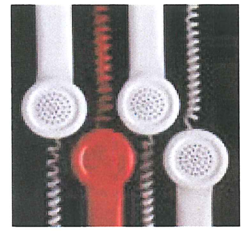




against AT&T (a/k/a SNET, the provider of landline telephone service in nearly the entire State of Connecticut) in the amount of $1,120,000 due to AT&T's underperformance with regard to the above service repair standard over the last ten years (from 2001 through the first four months of 2010). In Docket No. 10-04-12, the DPUC considered arguments for and against the imposition of the civil fine. The Office of Consumer Counsel ("OCC") and the Attorney General's Office supported the imposition of the fine in the full amount, based on the language of the regulation and the out-of-service repair data. AT&T made several arguments that the fine should either not be imposed at all or should be drastically reduced. Among other things, AT&T pointed to the increased competition in telecommunications from cable phone and internet phone products not subject to the regulation, the lack of a weather exception in the regulation, the lag in DPUC enforcement, and the fact that AT&T had issued customer credits to affected customers.

On March 2, 2011 DPUC issued its Final Decision in Docket No. 10-04-12 imposing a fine of $745,000 on AT&T, a reduction from the original proposed fine of $1,120,000. AT&T appealed the DPUC's Decision imposing the fine to the Superior Court. OCC intervened in AT&T's appeal, and ultimately OCC and AT&T were able to reach a proposed settlement of the matter. Under the settlement, AT&T would make a voluntary payment of $525,000 to the Treasurer of the State of Connecticut instead of the $745,000 fine, but would also be responsible for making additional $5,000 payments each month to the Treasurer if DPUC determines that AT&T is still not meeting the out-of-service repair metric in that month. Such $5,000 payments may extend as far into the future as December 2012, depending on whether the regulations change in the meantime. DPUC is considering new quality of service standards for telecommunications providers.

AT&T and OCC are jointly seeking approval of their proposed settlement by the DPUC. OCC maintains that this settlement is beneficial to the public because, among other things, it still requires a substantial and immediate payment by AT&T to the Treasurer of the State at this time of fiscal crisis, while eliminating the risks and burdens of lengthy litigation as to AT&T's several arguments. A ruling by DPUC as to the Settlement is due in late July.



Giant Electricity Tax on Ratepayers Eliminated in Legislative Session

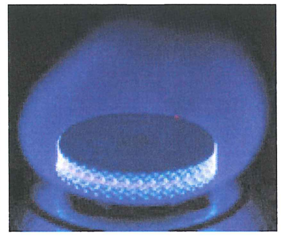
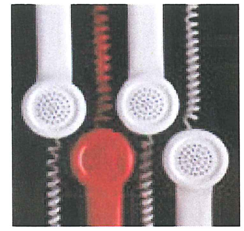
The Connecticut Legislature, near the end of the 2011 session, eliminated a much-maligned tax on electricity ratepayers that had been passed to balance the 2010 budget. The tax would have been in the form of bonds issued by the State that would have been paid back through charges on electricity bills for about eight years. Estimates of the costs of the tax to ratepayers were close to one billion dollars ($1,000,000,000). The line item of the electricity bill that would have been used to charge ratepayers is called the "competitive transition assessment" or "CTA," and so the tax was often referred to as the "CTA tax." The CTA line item had once been a large item on the electricity bill but had been shrinking in recent years. The tax would have reversed this trend and vastly increased CTA charges for an additional eight years.

This tax was the subject of litigation by State Senator Joe Markley that went all the way to the Connecticut Supreme Court. OCC filed a "friend of the Court" or "amicus curiae" brief with the Supreme Court in support of Senator Markley's position. Although the Supreme Court ultimately decided that the tax was legal, the litigation may have caused a delay in implementation of the bonds and the tax, allowing time for the Legislature to reconsider and repeal the tax in this session.

The only piece of the tax that had been implemented to date was a $40 million tax affecting customers in Connecticut Light & Power Company ("CL&P") territory. This tax arose from a statutory provision separate from the bonds but part of the same 2010 budgetary measure, and existed for the first six months of 2011. The Legislature, in repealing the larger tax, did not provide for a refund of the $40 million paid by CL&P customers.

OCC generally opposes taxes on ratepayers as "hidden" taxes. Utility bills should pay for utility service and not be used a vehicle for obtaining significant budget relief. Moreover, in comparison to income taxation or property taxation, taxes on utility bills, based on volume of service used, tend to be less progressive. For example, a struggling single parent household with 3 children and an income of $40,000 would not be charged if income taxes increase, which is appropriate since such a family likely has little or no extra money once



current bills are paid. However, that same household does use electricity and will face a burden when taxes are increased based on the volume of electricity used. An electricity tax, like a sales tax, is a blunt instrument that fails to account for the percentage of a household's resources that are being taken. It also keeps Connecticut Energy costs high, a further drag on a Connecticut economic recovery.

Accordingly, OCC commends the Legislature and the Governor for repealing the tax, commends Senator Markley for aggressively opposing the tax, and hopes we have seen the last of such proposals.

OCC's Scorecard

OCC's scorecard shows Ratepayer savings of approximately $2 Billion, for the period 2/2009-6/2011.
For details go to:
http://www.ct.gov/occ/site/default.asp

OCC Brochure Available

OCC has published an informational brochure to tell ratepayers who we are, what we do, and describes several docket and court wins on their behalf. The brochure has been distributed to all public libraries in Connecticut and is available for downloading from OCC's website (www.ct.gov/occ). Call OCC at 860-827-2900 to request copies

The State of Connecticut's Office of Consumer Counsel, located at Ten Franklin Square, New Britain, Connecticut 06051, is an independent state agency authorized by statute to act as the advocate for consumer interests in all matters which may affect Connecticut consumers with respect to public service companies, electric suppliers and persons, and certified intrastate telecommunications service providers.
The Office of Consumer Counsel is authorized to appear in and participate in any regulatory or judicial proceedings, federal or state, in which such interests of Connecticut consumers may be involved, or in which matters affecting utility services rendered or to be rendered in this state may be involved.