

November 6, 2023

Mr. Jeffrey R. Gaudiosi, Esq.
Executive Secretary
Public Utilities Regulatory Authority
10 Franklin Square
New Britain, CT 06051

Re: Docket No. 76-03-07RE01 Investigation to Consider Rate Adjustment Procedures and Mechanisms Appropriate to Charge or Reimburse the Consumer for Changes in the Cost of Fossil Fuel – Compliance Filing Placeholder

Dear Mr. Gaudiosi:

The United Illuminating Company (“UI or Company”) hereby submits the calculation of its earned return on equity on a Distribution-only basis in compliance with Order 1 and the Authority’s letter dated June 30, 2003, both issued in Docket No. 76-03-07.

Exhibits 1a through 1e, report the average return on equity for UI Distribution of 4.61% for the twelve months ended September 30, 2023, computed in compliance with Order 19 in Docket No. 22-08-08, using the common equity ratio authorized in the Decision (Exhibit 1d).

Exhibit 1e reports the average return on equity of 4.55% for the twelve months ended September 30, 2023, utilizing the Company’s actual common equity ratio, which is greater than the common equity balance authorized in the Decision. Both computations show that the Company’s earned return on equity has deteriorated below the earned return of 5.03% previously reported for the twelve months ended June 30, 2023.¹

Please note that the computation of an earned ROE of 4.61% for the twelve months ended September 30, 2023 does not account for the write-off of deferred assets required by the Authority’s Decision, valued at \$23.948M on a post-tax basis. The impact of these write-offs on the earned return on equity for the twelve months ended September 30, 2023 is -3.86%, causing an earned return on common equity of 0.75%, (where, 4.61% minus 3.86% = 0.75%).

Continuing Barrier to Availability of Investment Capital:

A return on equity below the cost of equity expected in the markets, and further a return on equity *below fixed income returns*, is not financeable in the equity markets. Equity investors take on more risk than Company bonds or debt, and therefore demand higher returns to

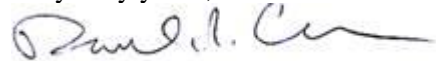
¹ The Decision in Docket No. 22-08-08 directs the Company to identify and exclude all disallowed expenses from the earned return on equity for earnings sharing purposes. This adjustment is not reflected herein because UI computes its earned return on equity for sharing purposes only at year end, based on calendar year results. Further, UI has appealed that directive because it represents an invalid method of computing regulated distribution earnings.

compensate for the higher volatility of returns than bond/debt markets, as well as the lower claim on Company assets in the case of default and discretionary dividends. With respect to “fixed income returns,” the 10-year Treasury rate closed at 4.62% on Friday, November 3, 2023. The expected spread for a 10-year debt issuance by UI is typically +160 basis points, producing a long-term financing cost for UI in the range of 6.2%. Consequently, the Company’s earned return on equity is substantially insufficient to attract equity capital to finance operations. Further, the rate of return now being realized by investors for assets already comprising rate base is confiscatory.

Exhibits 2a through 2e, report the average ROE for UI Distribution of 1.78% for the three months ended September 30, 2023.

I hereby certify service of this filing upon all parties and interveners of record in this proceeding.

Very truly yours,



Daniel R. Canavan
Vice President, Regulatory Affairs
UIL Holdings Corporation
As Agent for The United Illuminating Company

Attachments

THE UNITED ILLUMINATING COMPANY
STATEMENT OF INCOME
TWELVE MONTHS ENDED September 30, 2023
Distribution Company

SALES OF ELECTRICITY	
Residential Service	\$ 243,801,988
Commercial Service	130,822,463
Industrial Service	21,100,397
Other Sales to Ultimate Consumers	7,125,267
Total Sales of Electricity	<u>402,850,115</u>
OTHER ELECTRIC REVENUES	<u>63,657,194</u>
TOTAL ELECTRIC OPERATING REVENUES	<u>466,507,309</u>
ELECTRIC OPERATING EXPENSES:	
Operation & Maintenance Expenses	260,204,167
Depreciation and Amortization	77,377,011
Other Taxes	61,947,321
Income Taxes	11,812,313
Total Electric Operating Expenses	<u>411,340,813</u>
TOTAL UTILITY OPERATING INCOME	55,166,496
OTHER INCOME AND DEDUCTIONS - NET	2,119,703
ALLOWANCE FOR EQUITY FUNDS USED DURING CONSTRUCTION	6,886,448
TOTAL INCOME	<u>64,172,648</u>
INTEREST CHARGES AND DIVIDENDS ON PREFERRED SECURITIES	
Interest on L/T Debt and Amort. Debt Disc., Prem. & Expense	25,387,872
Other Interest Charges	2,162,501
Allowance for Borrowed Funds Used During Construction - Credit	<u>(2,938,247)</u>
Net Interest Charges	<u>24,612,127</u>
NET INCOME	<u><u>\$ 39,560,521</u></u>

THE UNITED ILLUMINATING COMPANY
STATEMENT OF INCOME
(RATEMAKING)
TWELVE MONTHS ENDED September 30, 2023
Distribution Company

SALES OF ELECTRICITY	
Residential Service	\$ 243,801,988
Commercial Service	130,822,463
Industrial Service	21,100,397
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TOTAL UTILITY OPERATING INCOME	<u><u>\$ 55,166,496</u></u>

THE UNITED ILLUMINATING COMPANY
RATE BASE AT September 30, 2023
AND RATE OF RETURN ON RATE BASE
TWELVE MONTHS ENDED September 30, 2023
REFLECTING THE DECISION TO DOCKET NOS. 840601, 880914, 920605, 960329, 990304, 9903
Distribution Company

	Average
Rate Base:	
Utility Plant in Service	\$ 2,384,885,361
Less: Accum. Prov. For Depr. & Amort. & Cost of Removal	784,011,757
Net Utility Plant in Service	1,600,873,604
Add:	
Working Capital	24,485,973
Prepaid Expenses	737,965
Regulatory Asset - SFAS 158	78,336,648
Deferred Taxes:	
Total UI-Distribution ADITs	(316,964,236)
Deduct:	
Customer Advances for Construction	552,935
Allowance for Bad Debt	13,053,846
Pension Liabilities	121,964,631
Reserve for Injuries and Damages	7,245,823
Accrued Vacation	3,285,231
Rate Base	\$ 1,241,367,487
Operating Income	\$ 55,166,496
Rate of Return on Rate Base	4.44%

Exhibit 1c

35 AND 01-10-10

End of Period
September
2023

\$ 2,428,260,125

817,337,137
1,610,922,988

9,184,120
3,325,756
86,021,811

(325,031,874)

552,935
14,000,000
109,734,036
6,156,186
3,249,000

\$ 1,250,730,644

\$ 55,166,496

4.41%

The United Illuminating Company
Rate of Return on Rate Base - Authorized Common Stock Equity
TWELVE MONTHS ENDED September 30, 2023
Distribution Company

	Average				End of Period			
	Capitalization Ratio	Average Rate Base	Embedded Cost	Return	Capitalization Ratio	Rate Base	Embedded Cost	Return
Total		\$ 1,241,367,487		\$ 55,166,496		\$ 1,250,730,644		\$ 55,166,496
Less Long-term Debt	50.00%	<u>620,683,744</u>	4.28%	<u>26,550,550</u>	50.00%	<u>625,365,322</u>	4.32%	<u>27,018,320</u>
Applicable to Common Stock	50.00%	<u>\$ 620,683,744</u>		<u>\$ 28,615,946</u>	50.00%	<u>\$ 625,365,322</u>		<u>\$ 28,148,176</u>
Rate of Return on Rate Base Common Stock Equity				<u>4.61%</u>				<u>4.50%</u>

The United Illuminating Company
Rate of Return on Rate Base - Actual Common Stock Equity
TWELVE MONTHS ENDED September 30, 2023
Distribution Company

	<u>Average</u>			<u>End of Period</u>				
	Capitalization Ratio	Average Rate Base	Embedded Cost	Return	Capitalization Ratio	Rate Base	Embedded Cost	Return
Total		\$ 1,241,367,487		\$ 55,166,496		\$ 1,250,730,644		\$ 55,166,496
Less Long-term Debt	39.51%	<u>490,464,294</u>	4.28%	<u>20,980,244</u>	38.74%	<u>484,533,051</u>	4.32%	<u>20,933,795</u>
Applicable to Common Stock	60.49%	<u>\$ 750,903,193</u>		<u>\$ 34,186,252</u>	61.26%	<u>\$ 766,197,592</u>		<u>\$ 34,232,702</u>
Rate of Return on Rate Base Common Stock Equity				<u>4.55%</u>				<u>4.47%</u>

The United Illuminating Company
Rate of Return on Common Stock Equity
TWELVE MONTHS ENDED September 30, 2023
Distribution Company

End of Period:

$$\frac{\text{Income for Common Stock}}{\text{Common Stock Equity}} = \frac{\$ 39,560,521}{\$ 1,462,103,143} = \underline{\underline{2.71\%}}$$

Average:

$$\frac{\text{Income for Common Stock}}{\text{Common Stock Equity}} = \frac{\$ 39,560,521}{\$ 1,409,291,856} = \underline{\underline{2.81\%}}$$

THE UNITED ILLUMINATING COMPANY
STATEMENT OF INCOME
QUARTER ENDED September 30, 2023
Distribution Company

SALES OF ELECTRICITY	
Residential Service	\$ 82,345,234
Commercial Service	38,308,190
Industrial Service	6,178,740
Other Sales to Ultimate Consumers	1,689,245
Total Sales of Electricity	<u>128,521,409</u>
OTHER ELECTRIC REVENUES	<u>1,288,147</u>
TOTAL ELECTRIC OPERATING REVENUES	<u>129,809,556</u>
ELECTRIC OPERATING EXPENSES:	
Operation & Maintenance Expenses	70,915,768
Depreciation and Amortization	19,353,227
Other Taxes	19,698,813
Income Taxes	2,437,879
Total Electric Operating Expenses	<u>112,405,687</u>
TOTAL UTILITY OPERATING INCOME	17,403,870
OTHER INCOME AND DEDUCTIONS - NET	905,079
ALLOWANCE FOR EQUITY FUNDS USED DURING CONSTRUCTION	1,891,674
TOTAL INCOME	<u>20,200,622</u>
INTEREST CHARGES AND DIVIDENDS ON PREFERRED SECURITIES	
Interest on L/T Debt and Amort. Debt Disc., Prem. & Expense	6,506,629
Other Interest Charges	(226,000)
Allowance for Borrowed Funds Used During Construction - Credit	(622,912)
Net Interest Charges	<u>5,657,717</u>
NET INCOME	<u><u>\$ 14,542,905</u></u>

THE UNITED ILLUMINATING COMPANY
STATEMENT OF INCOME
(RATEMAKING)
QUARTER ENDED September 30, 2023
Distribution Company

SALES OF ELECTRICITY	
Residential Service	\$ 82,345,234
Commercial Service	38,308,190
Industrial Service	6,178,740
Other Sales to Ultimate Consumers	1,689,245
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Total Electric Operating Expenses	<u>112,405,687</u>
TOTAL UTILITY OPERATING INCOME	<u><u>\$ 17,403,870</u></u>

THE UNITED ILLUMINATING COMPANY
RATE BASE AT September 30, 2023
AND RATE OF RETURN ON RATE BASE
FOR THE QUARTER ENDED September 30, 2023
REFLECTING THE DECISION TO DOCKET NOS. 840601, 880914, 920605, 960329, 990304, 990305
Distribution Company

	Average
Rate Base:	
Utility Plant in Service	\$ 2,420,793,448
Less: Accum. Prov. For Depr. & Amort. & Cost of Removal	809,458,179
Net Utility Plant in Service	1,611,335,269
Add:	
Working Capital	22,131,346
Prepaid Expenses	2,708,555
Regulatory Asset - SFAS 158	86,484,026
Deferred Taxes:	
Total UI-Distribution ADITs	(324,940,795)
Deduct:	
Customer Advances for Construction	552,935
Allowance for Bad Debt	13,500,000
Pension Liabilities	118,301,344
Reserve for Injuries and Damages	9,192,154
Accrued Vacation	3,249,000
Rate Base	\$ 1,252,922,967
Operating Income	\$ 17,403,870
Rate of Return on Rate Base	1.39%

Exhibit 2c

335 AND 01-10-10

End of Period
September
2023

\$ 2,428,260,125

817,337,137

1,610,922,988

9,184,120
3,325,756
86,021,811

(325,031,874)

552,935
14,000,000
109,734,036
6,156,186
3,249,000

\$ 1,250,730,644

\$ 17,403,870

1.39%

The United Illuminating Company
Rate of Return on Rate Base Common Stock Equity
FOR THE QUARTER ENDED September 30, 2023
Distribution Company

	<u>Average</u>				<u>End of Period</u>			
	Capitalization Ratio	Average Rate Base	Embedded Cost	Return	Capitalization Ratio	Rate Base	Embedded Cost	Return
Total		\$ 1,252,922,967		\$ 17,403,870		\$ 1,250,730,644		\$ 17,403,870
Less Long-term Debt	50.00%	<u>626,461,484</u>	1.08%	<u>6,766,420</u>	50.00%	<u>625,365,322</u>	1.07%	<u>6,687,703</u>
Applicable to Common Stock	50.00%	<u>\$ 626,461,484</u>		<u>\$ 10,637,450</u>	50.00%	<u>\$ 625,365,322</u>		<u>\$ 10,716,167</u>
Rate of Return on Rate Base Common Stock Equity				<u>1.70%</u>				<u>1.71%</u>

Notes:
As directed in Order 19 in Docket No. 22-08-08, the Company has computed the earned ROE above using the authorized allowed rate making common equity position which was less than the actual carried common equity position. That order also required the Company to identify and exclude all disallowed expenses from the earned ROE for sharing purposes. That adjustment is not reflected herein because UI only computes its earned ROE for sharing purposes at year end based on its calendar year results. Further, UI has appealed that finding because it represents a departure from traditional ratemaking principles.

The United Illuminating Company
Rate of Return on Common Stock Equity
FOR THE QUARTER ENDED September 30, 2023
Distribution Company

End of Period:

$$\frac{\text{Income for Common Stock}}{\text{Common Stock Equity}} = \frac{\$ 14,542,905}{\$ 1,462,103,143} = \underline{\underline{0.99\%}}$$

Average:

$$\frac{\text{Income for Common Stock}}{\text{Common Stock Equity}} = \frac{\$ 14,542,905}{\$ 1,450,787,874} = \underline{\underline{1.00\%}}$$