

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**FORM 10-K**

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended December 31, 2012

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 1-15052



(Exact name of registrant as specified in its charter)

**Connecticut**  
(State or other jurisdiction of incorporation or organization)

**06-1541045**  
(I.R.S. Employer Identification No.)

**157 Church Street, New Haven, Connecticut**  
(Address of principal executive offices)

**06506**  
(Zip Code)

Registrant's telephone number, including area code: **203-499-2000**

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**Securities registered pursuant to Section 12(b) of the Act:**

<u>Title of each class</u>	<u>Name of each exchange on which registered</u>
Common Stock, no par value	New York Stock Exchange

**Securities registered pursuant to Section 12(g) of the Act: None**

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Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes  No

The aggregate market value of the UIL Holdings' voting stock held by non-affiliates, computed by reference to the price at which the common equity was last sold as of the last business day of UIL Holdings' most recently completed second fiscal quarter (June 30, 2012) was \$1,791,227,691 based on a closing sales price of \$35.86 per share.

The number of shares outstanding of the registrant's only class of common stock, as of February 15, 2013 was 50,665,114.

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**DOCUMENTS INCORPORATED BY REFERENCE**

Document  
**Part I Definitive Proxy Statement for Annual Meeting of the  
Shareowners to be held on May 14, 2013**

Part of this Form 10-K into which document is incorporated  
**III**

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**UIL HOLDINGS CORPORATION**  
**FORM 10-K**  
**December 31, 2012**  
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## GLOSSARY OF TERMS

**AFUDC** (Allowance for Funds Used During Construction) – The cost of utility equity and debt funds used to finance construction projects that is capitalized as part of construction cost.

**Bcf** – One billion cubic feet or 1,000 Mcf.

**Bypassable Federally Mandated Congestion Charges** – A federally mandated charge, as defined by Connecticut electric industry restructuring legislation, related to the generation of electricity.

**Btu** (British Thermal Unit) – Amount of heat required to raise the temperature of one pound of water one degree Fahrenheit under standard conditions. Natural gas is commonly measured in millions of Btus or MMBtu.

**Ccf** – One hundred cubic feet, approximately one therm.

**city gate** – The point or measuring station at which a natural gas distribution company takes delivery of natural gas from an interstate natural gas pipeline.

**C&LM (assessment/charge)** (Conservation and Load Management) – Statutory assessment on electric utility retail customer bills placed in a State of Connecticut fund used to support energy conservation and load management programs.

**CTA** (Competitive Transition Assessment) – The component of electric utility retail customer bills assessed to allow utilities in the State of Connecticut to recover allowable Stranded Costs, as determined by PURA.

**Dth** (Dekatherm) – Unit of heating value equivalent to 10 therms or 1,000,000 Btus (about one Mcf).

**FERC** (Federal Energy Regulatory Commission) – Federal agency that regulates interstate transmission and wholesale sales of electricity and related matters.

**Federally Mandated Congestion Charges** – A federally mandated charge, as defined by Connecticut electric industry restructuring legislation, related to the supply of electricity or the reliability of supply in the electricity market.

**GSC** (Generation services charge) – The rate, as determined by PURA, charged to electric utility retail customers for the generation service and ancillary products purchased at wholesale and delivered by UI as part of fully bundled services.

**kV** (kilovolt) – 1,000 volts. A volt is a unit of electromotive force.

**kW** (kilowatt) – 1,000 watts.

**kWh** (kilowatt-hour) – The basic unit of electric energy equal to one kilowatt of power supplied to or taken from an electric circuit steadily for one hour.

**LNG** (Liquefied Natural Gas) – natural gas (methane) after being cooled to about negative 160°C for storage or shipment as a liquid in high pressure cryogenic containers.

**LDC** (Local Distribution Company) – A company that obtains the major portion of its operating revenues from the operation of a retail gas distribution system. Generally, LDCs are regulated at the state level, and they operate no transmission systems other than incidental connections.

**Mcf** – one thousand cubic feet, nearly equal to one MMBtu, or one dekatherm.

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**MVA** (megavoltampere) – 1,000 kilovoltamperes.

**MW** (megawatt) – 1,000 kilowatts.

**NBFMCC** (Non-Bypassable Federally Mandated Congestion Charges) – A federally mandated charge, as defined by Connecticut electric utility restructuring legislation, related to the delivery of electricity.

**PCB** (Polychlorinated Biphenyl) – Additive to oil used in certain industrial and commercial applications up to the late-1970s; now classified as a hazardous chemical.

**PURA** (Connecticut Public Utilities Regulatory Authority) – State agency that regulates certain ratemaking, services, accounting, plant and operations of Connecticut utilities.

**REI** (Renewable Energy Investment) – Statutory assessment on electric utility retail customer bills placed in a State of Connecticut fund to support renewable energy projects.

**SBC** (Systems Benefits Charge) – The component of electric utility retail customer bills, in the State of Connecticut, representing public policy costs such as generation decommissioning and displaced worker protection costs, as determined by PURA.

**Stranded Costs** – Costs that are recoverable from retail customers, as determined by PURA, including above-market long-term purchased power obligations, regulatory assets, and above-market investments in power plants.

**Therm** – Unit of heat equal to 100,000 Btu's, approximately one Ccf.

**Transitional Standard Offer** – UI's obligation under Connecticut electric industry restructuring legislation, to offer a regulated "transitional standard offer" retail service from January 1, 2004 through December 31, 2006 to each customer who did not choose an alternate electricity supplier.

**VEBA** (Voluntary Employee Benefit Association Trust) – Trust accounts for health and welfare plans for future payments to employees, retirees or their beneficiaries.

**Watt** – A unit of electrical power equal to one joule per second.

## Part I

### Item 1. Business.

#### GENERAL

The primary business of UIL Holdings Corporation (UIL Holdings) is ownership of its operating regulated utility businesses. The utility businesses consist of the electric distribution and transmission operations of The United Illuminating Company (UI) and the natural gas transportation, distribution and sales operations of The Southern Connecticut Gas Company (SCG), a subsidiary of Connecticut Energy Corporation (CEC), Connecticut Natural Gas Corporation (CNG), a subsidiary of CTG Resources, Inc. (CTG), and The Berkshire Gas Company (Berkshire), a subsidiary of Berkshire Energy Resources (BER, and together with SCG, CNG, Berkshire, CEC and CTG, the Gas Companies). CEC, CTG and BER are holding companies whose sole business is ownership of their respective operating regulated gas utility. UI is also a 50-50 joint venturer with NRG Energy, Inc. (NRG) in GCE Holding LLC, whose wholly owned subsidiary, GenConn Energy LLC (collectively, GenConn), operates two peaking generation plants in Connecticut. UIL Holdings is headquartered in New Haven, Connecticut, where its senior management maintains offices and is responsible for overall executive, financial and planning functions.

UIL Holdings electronically files the following with the United States Securities and Exchange Commission (SEC): required reports on Form 8-K, Form 10-Q and Form 10-K; proxy materials; ownership reports for insiders as required by Section 16 of the Securities and Exchange Act of 1934, as amended (the Exchange Act); and registration statements on Forms S-3 and S-8, as necessary. The public may read and copy any materials UIL Holdings has filed with the SEC at the SEC's Public Reference Room at 100 F Street, N.E., Washington, DC 20549. The public may also obtain information on the operation of the Public Reference Room by calling the SEC toll-free at 1-800-SEC-0330. The SEC maintains an Internet site ([www.sec.gov](http://www.sec.gov)) that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. Copies of UIL Holdings' annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and any amendments to these reports filed with the SEC may be requested, viewed, or downloaded on-line, free of charge, at UIL Holdings' website ([www.uil.com](http://www.uil.com)).

UIL Holdings makes available on its website ([www.uil.com](http://www.uil.com)) the charters of its Audit Committee, Corporate Governance and Nominating Committee, Compensation and Executive Development Committee and Retirement Benefits Plans Investment Committee, as well as its corporate governance guidelines, code of business conduct for its employees, code of ethics for the chief executive officer, presidents and senior financial officers, and code of business conduct for the Board of Directors.

In accordance with the requirements of Accounting Standards Codification (ASC) 280 "Segment Reporting," UIL Holdings has divided its regulated businesses into Electric Distribution and Transmission and Gas Distribution operating segments for financial reporting purposes to reflect the way that UIL Holdings manages its business. Electric Distribution and Transmission is further separated into distribution and transmission operating segments. For further information, refer to Part II, Item 8, "Financial Statements and Supplementary Data – Notes to Consolidated Financial Statements – Note (M), Segment Information," of this Form 10-K, which is hereby incorporated by reference.

#### UTILITY BUSINESSES

##### Electric Distribution and Transmission

UI is a regulated operating electric public utility established in 1899. It is engaged principally in the purchase, transmission, distribution and sale of electricity for residential, commercial and industrial purposes in a service area of about 335 square miles in the southwestern part of the State of Connecticut. The population of this area is approximately 761,000, which represents approximately 21% of the population of Connecticut. The service area, largely urban and suburban, includes the principal cities of Bridgeport (population of approximately 146,000) and New Haven (population of approximately 130,000) and their surrounding areas. The service territory is home to a diverse array of business sectors including aerospace manufacturing, healthcare, biotech, financial services, precision manufacturing, retail and education. As of December 31, 2012, UI had approximately 321,000 customers. Of UI's 2012 retail revenues, 57.3% were derived from residential sales, 35.6% from commercial sales, 5.6% from industrial sales and 1.5% from street lighting and other sales. UI's retail electric revenues vary by season, with the highest revenues typically in the third quarter of the year reflecting seasonal rates, hotter weather and air conditioning use. UI is regulated as an electric distribution company by PURA in Connecticut and is also subject to regulation by the Federal Energy Regulatory Commission (FERC). For additional information regarding UI's revenues refer to Part II, Item 6, "Selected Financial Data," of this Form 10-K, which is hereby incorporated by reference.

## **Franchises**

UI has valid franchises to engage in the purchase, transmission, distribution and sale of electricity in its service area, the right to erect and maintain certain facilities over, on and under public highways and grounds, and the power of eminent domain. These franchises are subject to alteration, amendment or revocation by the Connecticut legislature, and revocation by PURA under circumstances specified by statute, and subject to certain approvals, permits and consents of public authorities and others prescribed by statute.

## **Regulation**

UI is subject to regulation by several regulatory bodies, including PURA, the Connecticut Siting Council (CSC) and the FERC.

PURA has jurisdiction with respect to, among other things, rates, accounting procedures, certain dispositions of property and plant, construction of certain electric facilities, mergers and consolidations, the issuance of securities, the condition of plant and equipment and the manner of operation in relation to safety, adequacy and suitability to provide service to customers, including efficiency.

The location and construction of certain electric facilities, including electric transmission lines and bulk substations, are subject to regulation by the CSC with respect to environmental compatibility and public need.

UI is a “public utility” within the meaning of Part II of the Federal Power Act (FPA). Under the FPA, the FERC governs the rates, terms and conditions of transmission of electric energy in interstate commerce, interconnection service in interstate commerce (which applies to independent power generators, for example), and the rates, terms and conditions of wholesale sales of electric energy in interstate commerce (which includes cost-based rates, market-based rates and the operations of regional capacity and electric energy markets in New England administered by an independent entity, ISO-New England, Inc. (ISO-NE)). The FERC approves UI’s transmission revenue requirements, which are collected through UI’s retail transmission rates. The FERC also has authority to ensure the reliability of the high voltage electric transmission system through mandatory reliability standards, monitor and investigate wholesale electric energy markets and entities that have been authorized to sell wholesale power at market-based rates, impose civil and criminal penalties for violations of the FPA (including market manipulation) and require public utilities subject to its jurisdiction to comply with a variety of accounting, reporting and record-keeping requirements. For further information, refer to “—Arrangements with Other Industry Participants”, below.

UI is required to comply with reliability standards issued by the North American Electric Reliability Corporation (NERC), a not-for-profit corporation whose mission is to improve the reliability and security of the bulk power system. NERC reliability standards may be enforced by NERC, the FERC (which oversees NERC), and by the regional entity for New England (Northeast Power Coordinating Council, Inc.) to the extent approved by the FERC.

Connecticut Yankee Atomic Power Company, in which UI has a 9.5% common stock ownership interest, is subject to the jurisdiction of the United States Nuclear Regulatory Commission and the FERC. The Connecticut Yankee nuclear unit was retired in 1996 and has been decommissioned. For further information, refer to Part II, Item 8, “Financial Statements and Supplementary Data – Notes to Consolidated Financial Statements – Note (J), Commitments and Contingencies – Connecticut Yankee Atomic Power Company,” of this Form 10-K, which is hereby incorporated by reference.

**Rates**

Utilities are entitled by Connecticut law to charge rates that are sufficient to allow them an opportunity to cover their reasonable operating and capital costs, to attract needed capital and maintain their financial integrity, while also protecting relevant public interests.

Regulated Electric Distribution and Transmission

UI's retail electric service rates are subject to regulation by PURA. UI's present general retail rate structure consists of various rate and service classifications covering residential, commercial, industrial and street lighting and other services.

The revenue components of UI's retail charges to customers, effective as of January 1, 2013, reflect a total average price of 17.6395 ¢ per kilowatt-hour (kWh) and consist of the following:

Unbundled Revenue Component	Description	Authorized Return on Equity	Average Price per kWh
Distribution	The process to delivering electricity through local lines to customers' homes or businesses.	8.75% (1)	4.8793¢
Transmission	The process of delivering electricity over high voltage lines to local distribution lines.	12.15-12.35% (2)	1.9243¢
Competitive Transition Assessment (CTA) (3)	Component of retail customer bills designed to allow UI to recover Stranded Costs.	8.75% (3)	1.5066¢
Generation Services Charge (GSC) (4)	The average rate charged to retail customers for the generation services purchased at wholesale by UI for standard service and last resort service.	N/A	7.8336¢
System Benefits Charge (SBC) (5)	Charges representing public policy costs, such as generation decommissioning and displaced worker protection costs.	N/A	0.3142¢
Conservation & Load Management (CL&M) (6)	Statutory assessment used to support energy conservation and load management programs.	N/A	0.3000¢
Non-Bypassable Federally Mandated Congestion Charges (NBFMCC) (7)	Federally mandated charge, as defined by Connecticut electric industry restructuring legislation, related to the reliability of supply delivered by the electric system.	N/A	0.7815¢
Renewable Energy Investment (REI) (8)	Statutory assessment used to support renewable energy projects.	N/A	0.1000¢

- (1) PURA authorized return on equity. Earnings above 8.75% will be shared 50% with customers and 50% with shareowners.
- (2) Weighted average estimate based upon the FERC authorized rates.
- (3) UI earns the authorized distribution return on equity on CTA rate base. UI defers or accrues additional amortization to achieve the authorized return on equity on unamortized CTA rate base.
- (4) This rate includes \$0.007 per kWh for retail access and load settlement costs. GSC has no impact on results of operations, because revenue collected equals expense incurred (which is referred to as a "pass-through" in this Form 10-K).
- (5) SBC has no impact on results of operations, because SBC billing is a "pass-through" with the exception of carrying charges which are applied to any under or over collections in between the annual reconciliation filing.
- (6) UI has the opportunity to earn a nominal "incentive" for managing the C&LM programs. Except for the incentive, C&LM has no impact on results of operations, because C&LM billing is a "pass-through."
- (7) NBFMCC rate includes funding of customer initiatives such as distributed generation in accordance with the State of Connecticut's Energy Independence Act. Part of the funding is an incentive to UI helping to bring those

customer initiatives on-line. Except for the incentive, NBFMCC has no impact on results of operations, because NBFMCC billing is a “pass-through.”  
(8) REI has no impact on results of operations, because REI billing is a “pass-through.”

For further information, refer to Part II, Item 8, “Financial Statements and Supplementary Data – Notes to Consolidated Financial Statements – Note (C), Regulatory Proceedings,” of this Form 10-K, which information is hereby incorporated by reference.

### **Power Supply Arrangements**

UI’s retail electricity customers are able to choose their electricity supplier. Since January 1, 2007, UI has been required to offer standard service to those of its customers who do not choose a retail electric supplier and have a maximum demand of less than 500 kilowatts. In addition, UI is required to offer supplier of last resort service to customers who are not eligible for standard service and who do not choose to purchase electric generation service from a retail electric supplier licensed in Connecticut.

UI must procure its standard service power pursuant to a procurement plan approved by PURA. The procurement plan must provide for a portfolio of service agreements procured in a manner that maintains standard service cost volatility within reasonable levels. In October 2012, PURA approved the Standard Service Procurement Plan (the Procurement Plan) submitted by the Department of Energy and Environmental Protection’s (DEEP) procurement manager to PURA for approval as required by Connecticut law. The Procurement Plan, which was developed by the procurement manager, in consultation with UI, CL&P and the Connecticut Office of Consumer Counsel (OCC), provides for UI to continue to procure wholesale power for standard service customers on a full requirements basis, but reduces the maximum duration of contracts from three years to 12 months, with the delivery of such wholesale power to commence no later than six months from the applicable bid day. The length of term and tranche sizes may be modified by the mutual agreement of UI and the procurement manager.

UI has wholesale power supply agreements in place for the supply of all of its standard service customers for all of 2013, and 30% for the first half of 2014. Supplier of last resort service is procured on a quarterly basis. UI determined that its contracts for standard service and supplier of last resort service are derivatives under ASC 815 “Derivatives and Hedging” and elected the “normal purchase, normal sale” exception under ASC 815 “Derivatives and Hedging.” As such, UI regularly assesses the accounting treatment for its power supply contracts. These wholesale power supply agreements contain default provisions that include required performance assurance, including certain collateral obligations, in the event that UI’s credit rating on senior debt was to fall below investment grade. In November 2012, Moody’s Investor Services released its updated credit opinion for UI and maintained its Baa2 rating with a stable outlook. In May 2012, Standard & Poor’s Investor Services released its updated credit opinion for UI, maintaining its BBB rating with a stable outlook. If UI’s credit rating were to decline one rating and UI were to be placed on negative credit watch, monthly amounts due and payable to the power suppliers would be accelerated to semi-monthly payments. UI’s credit rating would have to decline two ratings to fall below investment grade at either rating service. If this were to occur, UI would have to deliver collateral security in an amount equal to the receivables due to the sellers for the thirty-day period immediately preceding the default notice. If such a situation had been in effect as of December 31, 2012, UI would have had to post approximately \$10.5 million in collateral.

UI is permitted to seek long-term contracts for up to 20% of standard service requirements, in order to obtain long-term energy supply contracts and Connecticut Class I Renewable Energy Certificates for UI’s standard service customers that will result in an economic benefit to ratepayers, both in terms of risk and cost mitigation. UI continues to keep apprised of possible long-term contracts that could benefit customers, but has not executed any long-term contracts.

### **New Renewable Source Generation**

Under Connecticut law, electric distribution companies were required to enter into contracts to purchase the output of new renewable generation totaling at least 150 MW, at prices and upon terms approved by PURA in accordance with statutory requirements. PURA approved a number of these projects from 2007 through 2009, all of which are governed by a cost sharing agreement with CL&P whereby UI pays approximately 20% of the costs and obtains approximately

20% of the benefits of such contracts. UI was a direct party to two of the contracts. UI's costs associated with all such contracts are recoverable, whether UI is a direct party or pursuant to the sharing agreement. In September 2011, PURA issued a report to the legislature stating that, of the original 150 MW, only 47 MW have the capability of achieving commercial operation within contractual deadlines. One of the contracts to which UI was a direct party has since been terminated. Many of the other contracts are also expected to be terminated as the commercial operation deadlines expire. In September 2012, PURA approved a request by Bridgeport Fuel Cell Park, LLC to extend the in-service date under its contract with CL&P to February 14, 2014. To date, none of the projects have achieved commercial operation.

Under a 2011 Connecticut law (PA 11-80), UI and CL&P are required to enter into long-term contracts to purchase Renewable Energy Credits (RECs) from small renewable generators located on customer premises. Under this program, UI will be required to enter into contracts totaling approximately \$200 million in commitments over an approximate 21 year period. The obligations will phase in over a six year solicitation period, and are expected to peak at an annual commitment level of about \$13.6 million/year after six years. Upon purchase, the RECs will be accounted for as inventory. UI expects to partially mitigate the cost of the contracts through the resale of the RECs. PA 11-80 provides that the remaining costs of the contracts, including any gain or loss resulting from the resale of the RECs, are recoverable through electric rates. In December 2011, UI and CL&P submitted a joint petition to PURA outlining a plan to address the new requirements and in April 2012, PURA approved the program. In October 2012, UI received PURA approval for executed REC purchase contracts totaling up to approximately \$1.5 million annually in payments for 15 year delivery terms commencing in 2013. On January 8, 2013, UI opened a tariff-based application process to procure RECs from small renewable projects, and expects to enter into REC purchase contracts in the first quarter of 2013 totaling up to approximately \$0.6 million annually in payments for 15 year delivery terms commencing in 2013 and 2014.

PA 11-80 also allows for the development of up to 30 MW of grid-connected renewable energy. UI and CL&P are each allowed to develop projects capable of generating up to 10 MW and DEEP is to solicit proposals for projects capable of generating 10 MW. In December 2011, DEEP announced that it had selected two 5 MW solar projects in CL&P service territory. CL&P executed contracts with the developers of the two 5 MW solar projects to purchase energy and associated products from both projects. These contracts, and the associated cost recovery, have been approved by DEEP and PURA, respectively. UI and CL&P executed a sharing arrangement, pursuant to which UI will pay 20% of the costs, and receive 20% of the revenues, associated with the projects. Pursuant to PURA's approval of the cost recovery, the costs of payments made to projects are recoverable through electric rates. In January 2012, UI filed a proposal with PURA outlining a framework for approval of UI's renewable connections program under which UI would develop up to 10 MW of renewable generation for recovery on a cost of service basis. PURA issued a final decision in July 2012, in which it approved the construction of one solar facility and two fuel cell facilities. The decision approves a return on equity (ROE) equal to the then currently allowed distribution ROE over the life of the investment, which is currently 8.75%. UI had requested a ROE of 9.5% for the renewable connections program projects. In September 2012, PURA reopened the proceeding on its own motion and issued interrogatories, responses to which were filed by UI. UI's participation in the program is voluntary.

## **Arrangements with Other Industry Participants**

### ISO-NE and Regional Transmission Organization (RTO)

ISO-NE, an independent, not-for-profit corporation, is the RTO for New England. ISO-NE is responsible for the reliable operation of the region's bulk electric power system, which includes UI's electric system, and administration of the region's wholesale electricity marketplace. ISO-NE also is responsible for the management of the comprehensive bulk electric power system and wholesale markets' planning processes that address the region's electricity needs.

### Transmission Return on Equity (ROE)

The FERC has issued orders establishing allowable ROEs for transmission projects of transmission owners in New England, including UI. The FERC established a base-level ROE of 11.14%, as well as a 50 basis point ROE adder on Pool Transmission Facilities (PTF) for participation in the RTO for New England and a 100 basis point ROE incentive for projects included in the ISO-NE Regional System Plan that were completed and on line as of December 31, 2008. For projects placed in service after December 31, 2008, incentives may be requested from the FERC, through a specific showing justifying the incentive, on a project-specific basis. Complaints seeking proposed reductions of the base ROE of 11.14% have been filed with FERC. For further information, refer to Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations – Major Influences on Financial Condition – Electric Distribution and Transmission – Transmission" of this Form 10-K, which is hereby incorporated by reference.

UI's overall transmission ROE is determined by the mix of UI's transmission rate base between new and existing transmission assets, and whether such assets are PTF or non-PTF. UI's transmission assets are primarily PTF. For 2012, UI's overall allowed weighted-average ROE for its transmission business was 12.3%.

### New England East-West Solution

Pursuant to an agreement with CL&P (the NEEWS Agreement), UI has the right to invest in, and own transmission assets associated with, the Connecticut portion of CL&P's New England East West Solution (NEEWS) projects to improve regional energy reliability. NEEWS consists of four inter-related transmission projects being developed by subsidiaries of Northeast Utilities (NU), the parent company of CL&P, in collaboration with National Grid USA. Three of the projects have portions located in Connecticut: (1) the Greater Springfield Reliability Project, which is currently under construction, (2) the Interstate Reliability Project, which has CSC approval and (3) the Central Connecticut Reliability Project, which is currently being considered by ISO-NE as part of a broader study that includes other electrically connected areas within Connecticut.

Under the terms of the NEEWS Agreement, UI has the option to make quarterly deposits to CL&P in exchange for ownership of specific transmission assets as they are placed in service. UI has the right to invest up to the greater of \$60 million or an amount equal to 8.4% of CL&P's costs for the Connecticut portions of the NEEWS projects. Based upon the current projected costs, this amount is approximately \$60 million. As assets are placed in service, CL&P will transfer title to certain transmission assets to UI in proportion to its investments, but CL&P will continue to maintain these portions of the transmission system pursuant to an operating and maintenance agreement with UI. There are certain circumstances under which CL&P can terminate the NEEWS Agreement, but such termination would have no effect on the assets previously transferred to UI.

In June 2012, NU, on behalf of CL&P, submitted the operation and maintenance agreement (the O&M Agreement) between UI and CL&P to the FERC, which the FERC accepted. Under the O&M Agreement, CL&P will serve as a contractor to manage, operate and maintain transmission assets in Connecticut that the FERC has authorized UI to acquire from CL&P.

In September 2012, CL&P transferred approximately \$6.2 million of transmission assets associated with the Greater Springfield Reliability Project to UI, upon which the O&M Agreement became effective. CL&P and UI plan to transfer the remaining portion of this project's assets from CL&P to UI by the end of the first quarter of 2013.

UI made deposits in NEEWS totaling \$33.5 million and \$9.6 million as of December 31, 2012 and 2011, respectively. The total deposits made as of December 31, 2012 include the transferred assets noted above. UI expects to make the remaining deposits over a period of three to five years, depending on the timing and amount of CL&P's capital expenditures and the projects' in service dates. UI earned pre-tax income of approximately \$1.6 million and \$1.0 million on such deposits in the years ended December 31, 2012 and 2011, respectively.

### **Gas Distribution**

The Gas Companies engage in natural gas transportation, distribution and sales operations in Connecticut and western Massachusetts serving approximately 385,000 customers in service areas totaling approximately 1,966 square miles. The service area in Connecticut includes the greater Hartford-New Britain area, Greenwich and the southern Connecticut coast from Westport to Old Saybrook, including the cities of Bridgeport and New Haven. The population of this service area is approximately 1.6 million, which represents approximately 45% of the population of Connecticut. The service area in Massachusetts includes Berkshire County and portions of Franklin and Hampshire Counties, and includes the cities of Pittsfield, North Adams and Greenfield. The population of this area is approximately 191,000, which represents 3.0% of the population of Massachusetts. Of the Gas Companies' 2012 retail revenues, 63.5% were derived from residential sales, 23.7% from commercial sales, 5.6% from industrial sales and 7.2% from other sales. Retail revenues vary by season, with the highest revenues typically in the first quarter of the year reflecting seasonal rates and cooler weather. SCG and CNG are regulated by PURA in Connecticut, and Berkshire is regulated by the Massachusetts Department of Public Utilities (DPU). For further information, refer to Item 6, "Selected Financial Data," of this Form 10-K, which is hereby incorporated by reference.

### **Franchises**

The Gas Companies have valid franchises to engage in the transportation, distribution and sale of natural gas in their respective service areas. The franchise agreements allow the Gas Companies to construct and maintain certain facilities over, on and under public highways and grounds, and to exercise the power of eminent domain. The SCG and CNG franchises are subject to alteration, amendment or revocation by the Connecticut legislature, and revocation by PURA under circumstances specified by statute, and subject to certain approvals, permits and consents of public authorities and others prescribed by statute. In Connecticut, a gas company may serve customers in an area where it does not have franchise rights provided that the gas company holding the franchise is not serving that area and PURA approval has been obtained. In Massachusetts, Berkshire may petition the DPU for authority to serve areas for which it does not currently hold franchise rights.

### **Regulation**

The Gas Companies are subject to regulation by several regulatory bodies, including PURA, which regulates SCG and CNG, and the DPU, which regulates Berkshire. PURA and the DPU have jurisdiction with respect to, among other things, rates, accounting procedures, certain dispositions of property and plant, construction and operation of distribution, production and storage facilities, mergers and consolidations, the issuance of securities, the condition of plant and equipment and the manner of operation in relation to safety, adequacy and service.

The Gas Companies are subject to federal safety regulations promulgated by the United States Department of Transportation, including safety measures related to natural gas distribution facilities. Both Connecticut and Massachusetts have adopted these federal regulations and certain other safety. All of these regulations are administered and enforced by PURA in Connecticut and the DPU in Massachusetts.

### **Rates**

Utilities are entitled by Connecticut and Massachusetts law to charge rates that are sufficient to allow them an opportunity to cover their reasonable operating and capital costs, to attract needed capital and maintain their financial integrity, while also protecting relevant public interests. The Gas Companies' present general retail rate structure consists of various rate and service classifications covering residential, commercial and industrial services. The current revenue components of the Gas Companies' retail charges to customers can vary significantly from customer class and

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individual customer depending on individual usage characteristics. The table below illustrates average charges as of January 1, 2013 for a typical residential heating customer using 1,000 Ccf of natural gas annually:

Unbundled Revenue Component	Description	CNG		SCG		Berkshire	
		Authorized Return on Equity	Average Price per CCF	Authorized Return on Equity	Average Price per CCF	Authorized Return on Equity	Average Price per CCF
Distribution	The process of delivering natural gas through local pipes to the customer's home or business.	9.41%	\$ 0.6639	9.36%	\$ 0.5868	10.50%	\$ 0.6444
Supply (1)	The rate charged to retail customers for the gas commodity. This rate is determined and filed for approval with PURA/DPU.	N/A	\$ 0.6810	N/A	\$ 0.7052	N/A	\$ 0.6300
Sales Services Charge (SSC)	Company administrative costs associated with providing Supply service.	9.41%	\$ 0.0408	9.36%	\$ 0.0488	N/A	N/A
Conservation Adjustment Mechanism (CAM) (2)	Rate established by PURA to support energy conservation programs.	N/A	\$ 0.0654	N/A	\$ 0.0682	N/A	N/A
Local Distribution Adjustment (3)	The per-unit rate charged to customers to recover costs associated with societal programs, including energy efficiency, environmental remediation and arrearage forgiveness program costs. The rate is sector specific, seasonal and filed for approval semi-annually with the DPU.	N/A	N/A	N/A	N/A	N/A	\$ 0.1080

(1) SCG and CNG each have purchased gas adjustment clauses and Berkshire has a cost of gas adjustment clause, approved by PURA and DPU, respectively, which enable them to pass their reasonably incurred cost of gas purchases through to customers. These clauses allow utilities to recover costs associated with changes in the market price of purchased natural gas, substantially eliminating exposure to natural gas price risk. Additionally, Berkshire's mechanism allows for the recovery of the gas-cost portion of bad debt.

(2) CNG and SCG can collect lost margins associated with CAM funded conservation activities. All other CAM charges have no impact on operations as CAM charges are a pass-through.

(3) Berkshire can collect lost margins associated with energy efficiency installations. All other LDA items have no impact on Berkshire operations since they are a pass-through. Berkshire may request DPU approval to amend the rate periodically.

### Gas Supply Arrangements

The Gas Companies satisfy their natural gas supply requirements through purchases from various producer/suppliers, withdrawals from natural gas storage capacity contracts and winter peaking supplies and resources. The Gas Companies operate diverse portfolios of gas supply, firm transportation, gas storage and peaking resources. Actual reasonable gas costs incurred by each of the Gas Companies are passed through to customers through state regulated purchased gas adjustment mechanisms, subject to regulatory review.

The Gas Companies purchase the majority of their natural gas supply at market prices under seasonal, monthly or mid-term supply contracts and the remainder is acquired on the spot market. The Gas Companies diversify their sources of supply by amount purchased and location. The Gas Companies primarily acquire gas at various locations in the US Gulf of Mexico region, in the Appalachia region and in Canada.

The Gas Companies acquire firm transportation capacity on interstate pipelines under long-term contracts and utilize that capacity to transport both natural gas supply purchased and natural gas withdrawn from storage to the local distribution system. Collectively, the Gas Companies hold 92 firm transportation contracts on 12 different pipelines. Three of those pipelines, Tennessee Gas Pipeline, Algonquin Gas Transmission and Iroquois Gas Transmission,

interconnect with one or more of the Gas Companies' distribution system and the other pipelines provide indirect services upstream of the city gates. The prices and terms and conditions of the firm transportation capacity long-term contracts are regulated by the FERC. The actual reasonable cost of such contracts is passed through to customers through state regulated purchased gas adjustment mechanisms.

The Gas Companies acquire firm underground natural gas storage capacity using long-term contracts and fill the storage facilities with gas in the summer months for subsequent withdrawal in the winter months. Collectively, the Gas Companies hold 24 gas storage contracts with seven different storage contractors. The storage facilities are located in Pennsylvania, New York, West Virginia and Michigan.

Winter peaking resources are primarily attached to the local distribution systems and are either owned or are contracted for by the Gas Companies, each of which is a Local Distribution Company (LDC). Each LDC owns or has rights to the natural gas stored in a Liquefied Natural Gas (LNG) facility directly attached to its distribution system.

## **ENVIRONMENTAL REGULATION**

The National Environmental Policy Act (NEPA) requires that detailed statements of the environmental effect of UIL Holdings' facilities be prepared in connection with the issuance of various federal permits and licenses. Federal agencies are required by NEPA to make an independent environmental evaluation of the facilities as part of their actions during proceedings with respect to these permits and licenses. In Connecticut, the CSC serves as the designated authority to ensure that UIL Holdings' facilities are in compliance with NEPA, except as otherwise specified in certain permits, such as those required by the U.S. Army Corps of Engineers. Massachusetts has enacted its own Massachusetts Environmental Policy Act (MEPA) to address the requirements of NEPA at the state level. Under MEPA, the Massachusetts Environmental Policy Act Office reviews projects, including utility projects and siting decisions, for their environmental and community impact.

Under the federal Toxic Substances Control Act (TSCA), the United States Environmental Protection Agency (EPA) has issued regulations that control the use and disposal of Polychlorinated Biphenyls (PCBs). PCBs were widely used as insulating fluids in many electric utility transformers and capacitors manufactured before TSCA prohibited any further manufacture of such PCB equipment. Fluids with a concentration of PCBs higher than 500 parts per million and materials (such as electrical capacitors) that contain such fluids must be disposed of through burning in high temperature incinerators approved by the EPA. Presently, no equipment having fluids with levels of PCBs higher than 500 parts per million are known by UI to remain in service in its system. For the Gas Companies, PCBs are sometimes found in the distribution system. The Gas Companies test any distribution piping being removed or repaired for the presence of PCBs and comply with relevant disposal procedures, as needed.

Under the federal Resource Conservation and Recovery Act (RCRA), the generation, transportation, treatment, storage and disposal of hazardous wastes are subject to regulations adopted by the EPA. Connecticut has adopted state regulations that parallel RCRA regulations but are more stringent in some respects. All of UIL Holdings' subsidiaries have complied with the notification and application requirements of present regulations, and the procedures by which the subsidiaries handle, store, treat and dispose of hazardous waste products comply with these regulations.

RCRA also regulates underground tanks storing petroleum products or hazardous substances, and Connecticut and Massachusetts have adopted state regulations governing underground tanks storing petroleum and petroleum products that, in some respects, are more stringent than the federal requirements. UIL Holdings' subsidiaries currently own ten underground storage tanks, used primarily for gasoline and fuel oil, which are subject to these regulations. A testing program has been implemented to detect leakage from these tanks, and substantial costs may be incurred for any future actions deemed necessary to prevent the tanks from leaking, to remedy any contamination of groundwater or soil, and to modify, remove and/or replace older tanks in compliance with federal and state regulations.

In accordance with applicable regulations, UIL Holdings' subsidiaries have disposed of residues from operations at landfills. In recent years it has been determined that such disposal practices, under certain circumstances, can cause groundwater contamination. Although UIL Holdings' subsidiaries have no current knowledge of the existence of any such contamination, the subsidiaries or applicable regulatory agencies may determine in the future that remedial actions must be taken in relation to past disposal practices.

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The Gas Companies own or have previously owned property where Manufactured Gas Plants (MGPs) historically operated. MGP operations have led to contamination of soil and groundwater with petroleum hydrocarbons, benzene and metals, among other things, at these properties, the regulation and cleanup of which is regulated by RCRA as well as other federal and state statutes and regulations. Each of the Gas Companies has or had an ownership interest in one of such properties contaminated as a result of MGP-related activities, as discussed below. Under the existing regulations, the cleanup of such sites requires state and at times, federal, regulators' involvement and approval before cleanup can commence. In certain cases, such contamination has been evaluated, characterized and remediated. In other cases, the sites have been evaluated and characterized, but not yet remediated. Finally, at some of these sites, the scope of the contamination has not yet been fully characterized; no liability was recorded in respect of these sites as of December 31, 2012. In the past, the Gas Companies have received approval for the recovery of MGP-related remediation expenses from customers through rates and will seek recovery in rates for ongoing MGP-related remediation expenses for all of their MGP sites.

The Gas Companies are also subject to permitting and reporting requirements under the federal Clean Air Act (CAA) and related federal and state regulations. These regulations cover the various emissions from the Gas Companies' equipment, primarily turbines and stacks, limiting emissions levels depending on the location of the facility and the existing air quality in the region. Recent regulations will require UIL Holdings' subsidiaries to report the amount of greenhouse gases that are emitted from their facilities. There may be significant costs to UIL Holdings associated with ongoing compliance with CAA regulations for which UIL Holdings would seek recovery through the regulatory process.

The Gas Companies are also subject to permitting and reporting requirements associated with the Federal Clean Water Act (CWA) and the Connecticut and Massachusetts state programs enacted under the authority of the CWA. These regulations establish limits on various discharges into navigable waters and/or publicly-owned treatment works facilities and the Gas Companies have established procedures to ensure compliance with these limits at their various facilities.

In complying with existing and future environmental statutes and regulations relating to water and air quality, hazardous waste handling and disposal, toxic substances, electric and magnetic fields, and global climate change, UIL Holdings' subsidiaries may incur substantial capital expenditures for equipment modifications and additions, monitoring equipment and recording devices, consulting fees and testing expenses as well as other additional operating expenses. Litigation expenditures may also increase as a result of ongoing scientific investigations, speculation and debate concerning the possibility of harmful health effects of electric and magnetic fields.

If any of the aforementioned events occurs, a UIL Holdings subsidiary may experience substantial costs prior to seeking regulatory recovery. Additional discussion regarding environmental issues may be found in Part II, Item 8 of this Form 10-K under the caption, "Financial Statements and Supplementary Data – Notes to Consolidated Financial Statements – Note (J), Commitments and Contingencies – Environmental Concerns," which information is hereby incorporated by reference.

## **FINANCING**

Information regarding UIL Holdings' capital requirements and resources and its financings and financial commitments may be found in Part II, Item 7 of this Form 10-K under the caption, "Management's Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources," which information is hereby incorporated by reference.

## EMPLOYEES

As of December 31, 2012, UIL Holdings and its subsidiaries had a total of 1,865 employees, of which 866 were members of local unions. UI and Utility Workers Union of America, Local 470-1 are parties to a six-year collective bargaining agreement (the Agreement) which expires on May 17, 2017 and shall thereafter be renewed automatically from year to year until canceled in accordance with the provisions of the Agreement. In addition, UI is currently in negotiations for an initial collective bargaining agreement with a new bargaining unit of approximately 40 dispatchers, field technicians and test technicians. These negotiations are expected to be completed during 2013. CNG and Connecticut Independent Utilities Workers, Local 12924 are parties to a four-year collective bargaining agreement which expires on November 30, 2013. As of December 31, 2012, 208 employees were covered under this contract. CNG is also party to a five-year collective bargaining agreement which expires on March 31, 2016 with Utility Workers Union of America, Local 380. SCG and United Steel Workers, Local 12000 are parties to a five-year collective bargaining agreement which expires on March 23, 2015 and Berkshire and United Steel Workers, AFL, CIO, CLC, Local 12325 are parties to a five-year collective bargaining agreement which expires on March 31, 2014 that covered 66 employees as of December 31, 2012.

### Item 1A. Risk Factors

The financial condition and results of operations of UIL Holdings are subject to various risks, uncertainties and other factors, some of which are described below. Additional risks, uncertainties and other factors not presently known or currently deemed not to be material may also affect UIL Holdings' financial condition and results of operations.

#### ***Legislation and regulation can significantly affect the structure, operations and financial results of UIL Holdings' regulated subsidiaries.***

The rates and authorized returns on equity of UIL Holdings' regulated subsidiaries are regulated by the FERC, PURA and DPU, as applicable. The legislation and the regulatory decisions implementing such legislation establish a framework for its operations. Such legislation and regulatory decisions may result in the establishment of revenue requirements that are insufficient for the regulated subsidiaries to maintain customer services at current levels while still earning their allowed return. Legislation and regulatory decisions, including initiatives to promote energy conservation, could negatively impact the ability to reach earnings targets and to obtain debt and equity financing at reasonable costs and on acceptable terms. Such decisions could also impact UIL Holdings' ability to recover its regulatory assets, including deferred major storm costs. For a further discussion of legislative and regulatory actions, refer to Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations – Major Influences on Financial Condition – UIL Holdings Corporation – Legislation & Regulation," of this Form 10-K.

#### ***UIL Holdings' ability to maintain future cash dividends at the level currently paid to shareowners is dependent upon the ability of its subsidiaries to pay dividends to UIL Holdings.***

UIL Holdings is dependent on dividends from its subsidiaries and on external financings to provide the cash that is necessary for debt service, to pay administrative costs, and to pay common stock dividends to its shareowners. As UIL Holdings' sources of cash are limited to dividends from its subsidiaries and external financings, its ability to maintain future cash dividends at the level currently paid to shareowners will be primarily dependent upon sustained earnings from the operations of its subsidiaries.

#### ***Financial market disruptions could negatively impact UIL Holdings' cost of and ability to access capital in the debt and equity markets, thus impacting its ability to meet its financing and liquidity requirements and fund its capital program.***

All of UIL Holdings' financing, liquidity and capital requirements that exceed available cash will be provided by external financing. There is no commitment to provide such financing from any source of funds, other than the short-term credit facilities currently available to UIL Holdings and its subsidiaries, but UIL Holdings expects to satisfy future external financing needs by the issuance of additional short-term or long-term debt and equity securities. The continued availability of these methods of financing will be dependent on many factors, including conditions in the securities and

credit markets and economic conditions generally, as well as the debt ratings, current debt levels and future income and cash flow of UIL Holdings and its subsidiaries. See Part II, Item 8, “Financial Statements and Supplementary Data – Notes to Consolidated Financial Statements – Note (B), Capitalization and Note (D), Short Term Credit Arrangements” of this Form 10-K for a discussion of UIL Holdings’ financing arrangements.

***Increases in interest rates could have an adverse impact on the financial condition and results of operations of UIL Holdings.***

Credit market trends impact the cost of UIL Holdings’ borrowings. Increases in interest rates could result in increased cost of capital in the refinancing of fixed rate debt at maturity, in the resetting of rates of the Auction Rate Bonds, and in the remarketing of tax-exempt bonds. UIL Holdings and its subsidiaries have short-term credit agreements that permit borrowings at fluctuating interest rates and also permit borrowings for fixed periods of time specified by each borrower at fixed interest rates determined by the Eurodollar interbank market in London (LIBOR). Changes in LIBOR will have an impact on interest expense. For further discussion of UIL Holdings’ cost of capital and interest rate risk, see Part II, Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources,” and Item 7A, “Quantitative and Qualitative Disclosures About Market Risk,” of this Form 10-K. For further discussion of UIL Holdings’ and its subsidiaries’ revolving credit facilities, see Part II, Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources,” and Part II, Item 8, “Financial Statements and Supplementary Data – Notes to Consolidated Financial Statements – Note (D) Short-Term Credit Arrangements.”

***Pension and postretirement benefit plans could require significant future contributions to such plans.***

UIL Holdings provides defined benefit pension plans and other postretirement benefits for a significant number of employees, former employees and retirees. Financial market disruptions and significant declines in the market values of the investments held to meet the pension and postretirement obligations, discount rate assumptions, participant demographics, and changes in laws and regulations may require UIL Holdings to make significant contributions to the plans. Large funding requirements could adversely impact UIL Holdings’ financial condition and results of operations.

***UIL Holdings may incur substantial capital expenditures and operating expenses in complying with environmental regulations, which could have an adverse impact on its results of operations and financial condition.***

In complying with existing environmental statutes and regulations and further developments in areas of environmental concern, UIL Holdings may incur substantial capital expenditures for equipment modifications and additions, monitoring equipment and recording devices, as well as additional operating expenses. Environmental damage claims may also arise from the operations of UIL Holdings’ regulated subsidiaries. For further discussion of significant environmental issues known to UIL Holdings at this time, see Part II, Item 8, “Financial Statements and Supplementary Data – Notes to Consolidated Financial Statements – Note (J), Commitments and Contingencies – Environmental Concerns,” of this Form 10-K.

In addition, governmental policy makers, industry representatives and scientists continue to discuss global climate change and potential legislation to reduce greenhouse gases. Due to the high level of uncertainty regarding the character and timing of any legislation or regulations that may be adopted, management is unable to evaluate the potential economic impact of any such measures at this time.

***Current economic conditions could cause reductions in the demand for electricity and natural gas and impair the financial soundness of customers, which could adversely affect our results of operation. Such conditions could also impair the financial soundness of UI’s and the Gas Companies’ vendors and service providers.***

The economic conditions in Connecticut and Massachusetts in recent years have reduced, and could in the future further reduce, the demand for electricity and natural gas. The economies of Connecticut and Massachusetts have experienced a sustained decline in the housing market and high unemployment in recent years as evidenced by seasonally-adjusted unemployment rates of 8.6% and 6.7% for Connecticut and Massachusetts, respectively, in December 2012. Furthermore, as a result of the continued economic uncertainties affecting the economies of Connecticut, Massachusetts, the United States and other parts of the world, UI’s and the Gas Companies’ vendors and service providers could

experience serious cash flow problems. As a result, such vendors and service providers may be unable to perform under existing contracts or may significantly increase their prices or reduce their output or performance on future contracts.

***The loss of key personnel or the inability to hire and retain qualified employees could have an adverse effect on operations.***

Currently, 37% of the work force of UIL Holdings' regulated subsidiaries, including many experienced workers with specialized skills in constructing and maintaining the electrical and gas infrastructures, is eligible to retire by the end of 2015. The difficulty in finding experienced replacements for these employees, combined with the significant length of time to train such replacements, could lead to an inability to replace all retirees and negatively impact the ability of UIL Holdings' regulated subsidiaries to maintain system reliability at its current levels. For further discussion refer to Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations – Major Influences on Financial Condition," of this Form 10-K.

***The inability of management to maintain good relations and effectively negotiate future collective bargaining agreements with the bargaining units could have an adverse impact on the financial condition and results of operations of UIL Holdings.***

Approximately 46% of the work force at UIL Holdings' regulated subsidiaries is covered by collective bargaining agreements that expire between March 2013 and May 2017. The inability of management to maintain good relations and effectively negotiate future collective bargaining agreements with the bargaining units could result in increased expenses related to wages and benefits, inefficient and/or ineffective job performance or organized work stoppages.

***Grid disturbances, disruption in our networks, pipeline curtailments, security breaches, cyber attacks, or acts of war or terrorism could negatively impact UIL Holdings' operating systems, compromise customer or other information and result in potential financial liability.***

A disruption or black-out caused by an event that impacts the regional electric grid, regional gas pipelines, or UIL Holdings' regulated subsidiaries' local systems, such as, but not limited to, a transmission facility outage, interstate pipeline curtailments, a security breach, a cyber attack, an act of war, a geomagnetic disturbance or a terrorist action, could negatively impact the operation and sustainability of UIL Holdings' operating systems. Furthermore, any threats or actions that negatively impact the integrity of, security of, or ability to manage UIL Holdings' facilities, computer networks, systems, or programs, could cause the information stored there to be accessed, publicly disclosed, lost or stolen and could result in legal claims or proceedings that damage UIL Holdings' reputation and adversely effect UIL Holdings' financial condition and results of operations.

***Weather could adversely impact UIL Holdings' financial condition and results of operations.***

Severe weather, such as ice and snowstorms, hurricanes and other natural disasters, may cause outages and substantial property damage which may result in additional costs that are generally not insured. This could result in a significant decrease in revenues, as could extremely warmer than normal winter temperatures, and significant additional costs to repair assets, which could have an adverse impact on UIL Holdings' financial condition and results of operations if costs are not recovered through the regulatory process.

***UIL Holdings is exposed to risks and uncertainties with respect to the Gas Companies and their operations.***

Natural gas distribution activities involve numerous risks that may result in accidents and other operating costs. The Gas Companies depend on gas supply and transportation from gas suppliers on interstate pipelines that are potentially subject to curtailment for various reasons, including loss of supply, accidents and severe weather. There are also inherent in natural gas distribution activities a variety of hazards, including the risk of explosions on natural gas distribution systems, and other operating risks, all of which could cause financial losses and exposure, significant damage to person and property, environmental contamination and impairment of operations.

**Item 1B. Unresolved Staff Comments.**

None

**Item 2. Properties.**

The corporate headquarters of UIL Holdings are located in New Haven, Connecticut. Additionally, UI and the Gas Companies occupy several facilities within their service territories for administrative and operational purposes.

UI's transmission lines consist of approximately 102 circuit miles of overhead lines and approximately 28 circuit miles of underground lines, all operated at 345-kV or 115-kV and located in Connecticut, with the majority located within or adjacent to the territory served by UI. These transmission lines are part of the New England transmission grid. A major portion of UI's transmission lines is constructed on railroad rights-of-way pursuant to two Transmission Line Agreements. One of the agreements expires in May 2030 and will be automatically extended for up to two successive renewal periods of 15 years each, unless UI provides timely written notice of its election to reject the automatic extension. The other agreement will expire in May 2040.

UI owns and operates 27 bulk electric supply substations with a capacity of 1,886 megavoltampere (MVA), and 16 distribution substations with a capacity of 82 MVA. UI has 3,289 pole-line miles of overhead distribution lines and 194 distribution conduit-bank miles.

The Gas Companies' natural gas systems consist of approximately 4,303 miles and 744 miles of distribution pipeline in Connecticut and Massachusetts, respectively. SCG and CNG also operate and maintain numerous gate stations, and have firm pipeline capacity under contract totaling 447,819 Mcf of natural gas for a maximum peak delivery day.

CNG owns and operates a liquefied natural gas plant which can store up to 1.2 Bcf of natural gas and can vaporize up to 90,000 Mcf per day of liquid natural gas to meet peak demand. SCG has contract rights to and operates a similar plant to the CNG plant with the same capabilities to store up to 1.2 Bcf of natural gas. SCG's LNG facilities can vaporize up to 82,000 Mcf per day of liquid natural gas to meet peak demands. SCG and CNG have also contracted for 21 Bcf of storage with a maximum peak day delivery capability of 204,099 Mcf per day (included in the total pipeline deliveries noted above).

Berkshire delivers approximately 60,000 Mcf on a peak day through its distribution system. Berkshire operates and maintains six gate stations in its service territory and has contracted 1.2 Bcf of storage. Berkshire owns and operates a liquefied natural gas plant which can store up to 10,000 Mcf of liquid natural gas and has the ability to vaporize up to 3,400 Mcf per day of liquid natural gas necessary to meet peak demands based on its 3-day peak day storage requirement.

**Item 3. Legal Proceedings.**

There were no legal proceedings required to be reported under this item.

**Item 4. Mine Safety Disclosures.**

Not Applicable.

## EXECUTIVE OFFICERS OF UIL HOLDINGS

The names and ages of all executive officers of UIL Holdings and the period during which he or she has held the corporate office indicated, are as follows:

Name	Age*	Position	Effective Date
James P. Torgerson**	60	President and Chief Executive Officer	(1)
Anthony J. Vallillo**	63	Executive Vice President and Chief Operating Officer	(2)
Richard J. Nicholas**	57	Executive Vice President and Chief Financial Officer	March 1, 2005
Linda L. Randell**	62	Senior Vice President, General Counsel and Chief Compliance Officer	(3)
Alex J. DeBoissiere	57	Senior Vice President of Government Relations	May 10, 2011
Steven P. Favuzza**	59	Vice President and Controller	July 23, 2007
John J. Prete**	55	Vice President of Technical Services	(4)
Anthony Marone III**	49	Vice President of Business Services	(5)
Diane Pivrotto**	62	Vice President of Human Resources and Assistant Secretary	November 16, 2010
Robert M. Alessio	62	Vice President of Connecticut Gas Operations	November 16, 2010

\* Age as of December 31, 2012

\*\* Executive officer has entered into an employment agreement.

(1) James P. Torgerson was appointed President of UIL Holdings, effective January 23, 2006. Mr. Torgerson was appointed Chief Executive Officer of UIL Holdings, effective July 1, 2006.

(2) Anthony J. Vallillo was appointed President and Chief Operating Officer of UI on January 1, 2001. Mr. Vallillo was appointed Executive Vice President and Chief Operating Officer of UIL Holdings, effective November 16, 2010. Mr. Vallillo retired on December 31, 2012.

(3) Linda L. Randell was appointed Senior Vice President and General Counsel of UIL Holdings commencing March 26, 2007. Ms. Randell was appointed Chief Compliance Officer of UIL Holdings on May 10, 2011.

(4) John J. Prete was appointed Vice President – Transmission Business of UI on October 1, 2007. Mr. Prete’s job title was changed to Senior Vice President – Electric Transmission and Distribution of UI, effective November 16, 2010. Mr. Prete was appointed Vice President of Technical Services of UIL Holdings, effective November 16, 2010. Mr. Prete assumed the additional role of Chief Operating Officer of UI Electric Operations on January 1, 2013.

(5) Anthony Marone III was appointed Vice President – Client Services of UI on October 1, 2007. Mr. Marone’s job title was changed to Vice President – Client & External Relations of UI effective July 1, 2009 and to Senior Vice President – Business Services of UI effective November 16, 2010. Mr. Marone was appointed Vice President of Business Services of UIL Holdings, effective November 16, 2010. Mr. Marone was appointed Vice President of Customer and Business Services of UI on January 1, 2013.

There is no family relationship between any director, executive officer, or person nominated or chosen to become a director or executive officer of UIL Holdings. There is no arrangement or understanding between any executive officer of UIL Holdings and any other person pursuant to which such officer was selected as an officer.

A brief account of the business experience during the past five years of each executive officer of UIL Holdings is as follows:

**James P. Torgerson.** Mr. Torgerson was appointed President of UIL Holdings on January 23, 2006, Chief Executive Officer of UI on April 24, 2006 and Chief Executive Officer of UIL Holdings on July 1, 2006. Effective November 16, 2010, Mr. Torgerson was appointed Chairman of each of UI, BER, CTG, CEC, Berkshire, CNG and SCG. Effective December 31, 2012, Mr. Torgerson was appointed President of UI.

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**Richard J. Nicholas.** Mr. Nicholas was appointed Executive Vice President and Chief Financial Officer of UIL Holdings and UI on March 1, 2005. Effective November 16, 2010, Mr. Nicholas was appointed Chief Financial Officer and Treasurer of each of BER, CTG and CEC and Chief Financial Officer of each of Berkshire, CNG and SCG.

**Linda L. Randell.** Ms. Randell was appointed Senior Vice President and General Counsel of UIL Holdings and UI on March 26, 2007. Effective November 16, 2010, Ms. Randell was appointed General Counsel of each of BER, CTG, CEC, Berkshire, CNG and SCG. Ms. Randell was appointed Chief Compliance Officer of UIL Holdings on May 10, 2011.

**Alex J. DeBoissiere.** Mr. DeBoissiere was appointed Senior Vice President of Governmental Relations of UIL Holdings on May 10, 2011. Mr. DeBoissiere served as the Director Government Affairs for Duane Morris LLP from 2008 through 2011 and as Vice President Government Relations for Midwest Independent Systems Operator, Inc. from 2002 through 2008.

**Steven P. Favuzza.** Mr. Favuzza served as Assistant Vice President – Corporate Planning of UI and of UIL Holdings from March 2005 to July 2007. Mr. Favuzza was appointed Vice President and Controller of UI and of UIL Holdings on July 23, 2007.

**John J. Prete.** Mr. Prete was appointed Vice President – Transmission Business of UI on October 1, 2007. Mr. Prete’s job title was changed to Senior Vice President – Electric Transmission and Distribution of UI, effective November 16, 2010. Mr. Prete was appointed Vice President of Technical Services of UIL Holdings, effective November 16, 2010. Mr. Prete assumed the additional role of Chief Operating Officer of UI Electric Operations on January 1, 2013.

**Anthony Marone III.** Mr. Marone served as Vice President – Client Services of UI from October 2007 to July 2009. Mr. Marone’s job title was changed to Vice President – Client and External Relations of UI on July 1, 2009 and to Senior Vice President – Business Services of UI effective November 16, 2010. Mr. Marone was appointed Vice President of Business Services of UIL Holdings, effective November 16, 2010. Mr. Marone was appointed Vice President of Customer and Business Services of UI on January 1, 2013. Mr. Marone is also the President of GenConn Energy LLC (GenConn), a 50-50 joint venture of UI and NRG. For further information on GenConn, refer to Part II, Item 8, “Financial Statements and Supplementary Data – Notes to Consolidated Financial Statements – Note (H), Related Party Transactions,” of this Form 10-K, which is hereby incorporated by reference.

**Diane Pivrotto.** Ms. Pivrotto served as Associate Vice President of Human Resources of UI from June 2005 to May 2010. Ms. Pivrotto served as Vice President Human Resources of UI from May 11, 2010 to November 16, 2010. Ms. Pivrotto was appointed as Vice President of Human Resources of UIL Holdings, effective November 16, 2010.

**Robert M. Alessio.** Mr. Alessio served as President and Chief Executive Officer of CNG and SCG, Chief Executive Officer of Berkshire and BER, and President of New Hampshire Gas Corporation and Maine Natural Gas Corporation prior to November 16, 2010. Mr. Alessio was appointed Vice President of Gas Operations of UIL Holdings, effective November 16, 2010, and remains as President and CEO of CNG and SCG as well as Chief Executive Officer of Berkshire.

**Part II**

**Item 5. Market for UIL Holdings’ Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.**

UIL Holdings’ common stock is traded on the New York Stock Exchange, where the quarterly high and low closing sale prices during 2012 and 2011 were as follows:

	2012 Sale Price		2011 Sale Price	
	High	Low	High	Low
First Quarter	35.92	33.92	\$ 31.05	\$ 28.72
Second Quarter	35.86	32.70	\$ 34.10	\$ 29.99
Third Quarter	37.51	35.07	\$ 33.96	\$ 30.28
Fourth Quarter	36.69	32.76	\$ 35.66	\$ 31.43

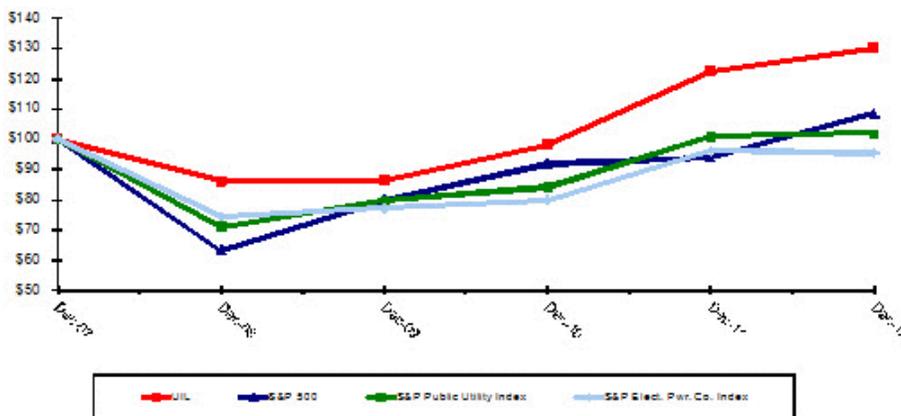
Quarterly dividends on the common stock have been paid since 1900. The quarterly cash dividends declared in 2012 and 2011 were at a rate of \$0.432 per share.

UIL Holdings expects to continue its policy of paying regular cash dividends, although there is no assurance as to the amount of future dividends which depends on future earnings, capital requirements, and financial condition.

Further information regarding payment of dividends is provided in Part II, Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resource and Expenditure Projections,” of this Form 10-K.

As of February 15, 2013, there were 6,794 common stock shareowners of record.

The line graph appearing below compares the yearly change in UIL Holdings’ cumulative total shareowner return on its common stock with the cumulative total return on the S&P Composite-500 Stock Index, the S&P Public Utility Index and the S&P Electric Power Companies Index for the period of five fiscal years commencing 2008 and ending 2012.



	Dec-07	Dec-08	Dec-09	Dec-10	Dec-11	Dec-12
UIL	\$ 100	\$ 86	\$ 87	\$ 98	\$ 122	\$ 130
S&P 500	\$ 100	\$ 63	\$ 80	\$ 92	\$ 94	\$ 109
S&P Public Utility Index	\$ 100	\$ 71	\$ 80	\$ 84	\$ 101	\$ 102
S&P Elect. Pwr. Co. Index	\$ 100	\$ 74	\$ 77	\$ 80	\$ 96	\$ 96

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\* Assumes that the value of the investment in UIL Holdings' common stock and each index was \$100 on December 31, 2007 and that all dividends were reinvested. For purposes of this graph, the yearly change in cumulative shareowner return is measured by dividing (i) the sum of (A) the cumulative amount of dividends for the year, assuming dividend reinvestment, and (B) the difference in the fair market value at the end and the beginning of the year, by (ii) the fair market value at the beginning of the year. The changes displayed are not necessarily indicative of future returns measured by this or any other method.

UIL Holdings repurchased 19,889 shares of common stock in open market transactions to satisfy matching contributions for participants' contributions into UIL Holdings 401(k) in the form of UIL Holdings stock as follows:

<b>Period</b>	<b>Total Number of Shares Purchased*</b>	<b>Average Price Paid Per Share</b>	<b>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</b>	<b>Maximum Number of Share that May Yet Be Purchased Under the Plans or Programs</b>
October 1-31	14,540	\$ 35.79	None	None
November 1-30	5,334	\$ 33.72	None	None
December 1-31	15	\$ 36.49	None	None
Total	19,889	\$ 35.24	None	None

\* All shares were purchased in open market transactions. The effects of these transactions did not change the number of outstanding shares of UIL Holdings' common stock.

**Item 6. Selected Financial Data. (1)**

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
<b>Financial Results of Operation (\$000's)</b>					
Electric Distribution and Transmission					
Retail					
Residential	\$ 357,150	\$ 384,967	\$ 439,357	\$ 473,813	\$ 495,440
Commercial	221,820	224,028	248,028	273,759	302,765
Industrial	34,953	37,927	39,154	39,524	47,918
Other	9,597	9,611	10,037	9,569	9,403
Wholesale	378	491	505	235	42,291
Other operating revenues	159,564	140,985	122,466	98,781	50,123
<b>Total Electric Distribution and Transmission</b>	<b>783,462</b>	<b>798,009</b>	<b>859,547</b>	<b>895,681</b>	<b>947,940</b>
Gas Distribution					
Retail					
Residential	388,483	413,797	78,346	N/A	N/A
Commercial	144,996	195,774	31,981	N/A	N/A
Industrial	34,364	35,886	8,961	N/A	N/A
Other	44,198	37,613	3,678	N/A	N/A
Wholesale	75,426	65,943	12,917	N/A	N/A
Other operating revenues	15,420	23,322	2,222	N/A	N/A
<b>Total Gas Distribution</b>	<b>702,887</b>	<b>772,315</b>	<b>138,105</b>		
Non-utility Businesses	152	123	14	869	780
<b>Total operating revenues</b>	<b>\$ 1,486,501</b>	<b>\$ 1,570,447</b>	<b>\$ 997,666</b>	<b>\$ 896,550</b>	<b>\$ 948,720</b>
<b>Operating income</b>	<b>\$ 230,590</b>	<b>\$ 219,382</b>	<b>\$ 125,299</b>	<b>\$ 122,168</b>	<b>\$ 113,451</b>
<b>Net Income attributable to UIL Holdings</b>	<b>\$ 103,637</b>	<b>\$ 99,656</b>	<b>\$ 54,854</b>	<b>\$ 54,317</b>	<b>\$ 48,148</b>

**Financial Condition (\$000's)**

Property, plant and equipment in service - net	\$ 2,476,014	\$ 2,202,855	\$ 2,084,762	\$ 1,028,860	\$ 986,777
Goodwill	266,205	266,797	298,890	-	-
Other deferred charges and regulatory assets	1,250,061	1,189,476	1,161,803	882,662	779,587
<b>Total Assets</b>	<b>4,960,098</b>	<b>4,744,609</b>	<b>4,481,838</b>	<b>2,221,760</b>	<b>2,083,186</b>
Current portion of long-term debt	48,296	13,712	154,114	58,256	55,286
Net long-term debt excluding current portion	1,600,354	1,548,347	1,511,768	673,549	549,031
Net common stock equity	1,116,553	1,094,361	1,076,142	574,176	474,579

**Common Stock Data**

Average number of shares outstanding - basic (000's)	50,831	50,609	35,722	28,027	25,114
Number of shares outstanding at year-end (000's)	50,875	50,644	50,505	29,977	25,174
Earnings per share - basic	\$ 2.04	\$ 1.96	\$ 1.53	\$ 1.94	\$ 1.92
Earnings per share - diluted	\$ 2.02	\$ 1.95	\$ 1.52	\$ 1.93	\$ 1.89
Book value per share	\$ 21.95	\$ 21.61	\$ 21.31	\$ 19.15	\$ 18.85
Dividends declared per share	\$ 1.728	\$ 1.728	\$ 1.728	\$ 1.728	\$ 1.728
Market Price:					
High	\$ 37.51	\$ 35.66	\$ 30.78	\$ 30.93	\$ 35.17
Low	\$ 32.70	\$ 28.72	\$ 24.00	\$ 17.15	\$ 26.80
Year-end	\$ 35.81	\$ 35.37	\$ 29.96	\$ 28.08	\$ 30.03

**Other Financial and Statistical Data**

Electric Distribution and Transmission sales by class (millions of kWh's)					
Residential	2,246	2,275	2,311	2,187	2,273
Commercial	2,643	2,661	2,760	2,669	2,724
Industrial	495	594	617	593	690
Other	48	46	47	44	42
<b>Total</b>	<b>5,432</b>	<b>5,576</b>	<b>5,735</b>	<b>5,493</b>	<b>5,729</b>

Electric Distribution and Transmission retail customers as of December 31,					
	<u>321,213</u>	<u>323,284</u>	<u>325,456</u>	<u>325,754</u>	<u>325,741</u>

Gas Distribution sales by class (millions of cubic feet)					
Residential	28,230	30,612	6,506	N/A	N/A
Commercial	11,776	13,790	3,778	N/A	N/A
Industrial	1,755	1,046	1,783	N/A	N/A

Other	<u>23,182</u>	<u>22,603</u>	<u>1,371</u>	N/A	N/A
Total	<u>64,943</u>	<u>68,051</u>	<u>13,438</u>	N/A	N/A
Gas Distribution retail customers as of December 31,	<u>379,664</u>	<u>376,367</u>	<u>374,536</u>	N/A	N/A

(1) 2010 Financial data includes Gas Distribution activity as of and for the 45 day period beginning with the acquisition of the Gas Companies by UIL Holdings and ending December 31, 2010.

## **Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.**

*Certain statements contained herein, regarding matters that are not historical facts, are forward-looking statements (as defined in the Private Securities Litigation Reform Act of 1995). These include statements regarding management's intentions, plans, beliefs, expectations or forecasts for the future. Such forward-looking statements are based on UIL Holdings' expectations and involve risks and uncertainties; consequently, actual results may differ materially from those expressed or implied in the statements. Such risks and uncertainties include, but are not limited to, general economic conditions, conditions in the debt and equity markets, legislative and regulatory changes, changes in demand for electricity, gas and other products and services, unanticipated weather conditions, changes in accounting principles, policies or guidelines, and other economic, competitive, governmental, and technological factors affecting the operations, markets, products and services of UIL Holdings' subsidiaries. The foregoing and other factors are discussed and should be reviewed in this Annual Report on Form 10-K and other subsequent periodic filings with the Securities and Exchange Commission. Forward-looking statements included herein speak only as of the date hereof and UIL Holdings undertakes no obligation to revise or update such statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events or circumstances.*

### **OVERVIEW AND STRATEGY**

The primary business of UIL Holdings Corporation (UIL Holdings) is ownership of its operating regulated utility businesses. UIL Holdings is headquartered in New Haven, Connecticut, where its senior management maintains offices and is responsible for overall planning, operating and financial functions. UIL Holdings' current overall corporate strategy is to create shareowner value by investing in its utility businesses to increase earnings and cash flow, while maintaining safety and reliability standards consistent with its public service obligation. The utility businesses consist of the electric distribution and transmission operations of The United Illuminating Company (UI) and the natural gas transportation, distribution and sales operations of The Southern Connecticut Gas Company (SCG), a subsidiary of Connecticut Energy Corporation (CEC), Connecticut Natural Gas Corporation (CNG), a subsidiary of CTG Resources, Inc. (CTG), and The Berkshire Gas Company (Berkshire), a subsidiary of Berkshire Energy Resources (BER, and together with SCG, CNG, Berkshire, CEC and CTG, the Gas Companies). CEC, CTG and BER are holding companies whose sole business is ownership of their respective operating regulated gas utility. The Gas Companies were acquired by UIL Holdings in November 2010 for a purchase price of approximately \$1.3 billion (the Acquisition).

Included in UIL Holdings' results of operations for the year ended December 31, 2010 are the results of operations of the Gas Companies for the period of November 17, 2010 through December 31, 2010.

UI is also a 50-50 joint venturer with NRG Energy, Inc. (NRG) in GCE Holding LLC, whose wholly owned subsidiary, GenConn Energy LLC (collectively GenConn), operates two peaking generation plants in Connecticut.

### **Electric Distribution and Transmission**

UI is an electric distribution and transmission utility, the primary objective of which is to provide high-quality customer service, including the safe, reliable and cost-effective delivery of electricity to its customers in 17 municipalities in southwest Connecticut. To maintain system reliability and meet customer requirements, UI invests in its distribution and transmission infrastructure, which includes infrastructure replacement and capacity and reliability upgrades in accordance with its current ten-year capital investment plan.

The transmission business explores future transmission opportunities both within and outside of its service territory, pursues the Federal Energy Regulation Commission (FERC) incentives, acts to influence the ISO planning process as appropriate, and develops additional transmission infrastructure projects. As part of this effort, UI is party to an agreement with the Connecticut Light & Power Company (CL&P) whereby UI has the right to invest in, and own transmission assets associated with, the Connecticut portions of CL&P's New England East West Solution (NEEWS) projects to improve regional energy reliability. UI has the right to invest up to the greater of \$60 million or an amount equal to 8.4% of CL&P's costs for the Connecticut portions of the NEEWS projects. Based upon the current projected costs, this amount is approximately \$60 million. UI is also party to an operation and maintenance agreement (O&M Agreement) with CL&P under which CL&P manages, operates and maintains transmission assets in Connecticut that the

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FERC has authorized UI to acquire from CL&P. In September 2012, CL&P transferred approximately \$6.2 million of transmission assets associated with NEEWS to UI and plans to make an additional transfer by the end of the first quarter of 2013. Through December 31, 2012, UI made deposits totaling \$33.5 million in NEEWS. UI expects to make the remaining deposits over a period of three to five years, depending on the timing and amount of CL&P's capital expenditures and the projects' in-service dates.

UI is a 50-50 joint venturer with NRG in GenConn, which operates two peaking generation plants in Connecticut. The two peaking generation plants, GenConn Devon and GenConn Middletown, both participate in the ISO-New England markets. UI continues to pursue other potential opportunities in electricity generation consistent with state statute and regulatory policies. Additionally, UI will continue to execute state authorized Conservation and Load Management (C&LM) programs and regional demand response initiatives.

UI manages operating and maintenance costs to have a reasonable opportunity to achieve its authorized return on equity, while producing earnings and cash flow, consistent with maintaining reliable service to customers. UI expects that earnings from the Competitive Transition Assessment (CTA) portion of customer electric bills will end by the end of 2013 as UI's stranded cost rate base is fully amortized.

### **Gas Distribution**

The Gas Companies transport, distribute and sell natural gas to their customers in 63 cities and towns in Connecticut and western Massachusetts. To provide safe, secure and reliable service, the Gas Companies maintain and invest in their distribution infrastructure and pursue growth through efficient expansion of customer gas utilization. In efforts to enhance system reliability, the Gas Companies continue to invest in distribution infrastructure and are focusing on the replacement of their cast iron and bare steel mains and services, customer growth through new business construction and customer conversions and other projects such as the replacement, upgrade or modernization of gate and district regulator station equipment, the Liquefied Natural Gas (LNG) facility in Rocky Hill, Connecticut and their supervisory control and data acquisition systems.

The Gas Companies manage operating and maintenance costs to have a reasonable opportunity to achieve their authorized return on equity, while producing earnings and cash flow, consistent with maintaining reliable service to customers.

## **MAJOR INFLUENCES ON FINANCIAL CONDITION**

### **UIL Holdings Corporation**

UIL Holdings' financial condition and financing capability will be dependent on many factors, including the level of income and cash flow of UIL Holdings' subsidiaries, conditions in the securities markets, economic conditions, interest rates, legislative and regulatory developments, and its ability to retain key personnel. The loss of key personnel or the inability to hire and retain qualified employees could have an adverse effect on the business, financial condition and results of operations for UIL Holdings and its subsidiaries. These operations depend on the continued efforts of their respective current and future executive officers, senior management and management personnel. UIL Holdings cannot guarantee that any member of management at the corporate or subsidiary level will continue to serve in any capacity for any particular period of time. In an effort to enhance UIL Holdings' ability to attract and retain qualified personnel, UIL Holdings continually evaluates the overall compensation packages offered to employees at all levels of the organization.

### **Legislation and Regulation**

In July 2011, as a result of Connecticut Public Act 11-80 (PA 11-80), the Department of Energy and Environmental Protection (DEEP) was created by merging the Department of Environmental Protection (DEP) and the Department of Public Utility Control (DPUC). As part of the reorganization, the DPUC became the Public Utilities Regulatory Authority (PURA) and is responsible for the rate review and compliance of regulated utilities in Connecticut, including electric and gas. The term PURA is used in this filing to refer to PURA's future actions as well as the actions of its

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predecessor organization, the DPUC and the term DEEP is used in this filing to refer to DEEP's actions as well as the actions of its predecessor organization, the DEP.

PA 11-80 also allows each electric distribution company to develop and own up to 10 MW of renewable source generation if DEEP finds that it is in the long-term interest of customers and modifies the current power procurement process that the electric distribution companies.

Electric Restructuring As a result of Connecticut laws passed in 1998 and the decade that followed (collectively, the Restructuring Legislation), UI's distribution and transmission rates are "unbundled" on customers' bills, which also include separate charges for the Competitive Transition Assessment (CTA), Generation Services Charge (GSC), a combined public benefits charge that includes the C&LM charge, Renewable Energy Investment (REI) charge, and Systems Benefits Charge (SBC), and Federally Mandated Congestion Charges (FMCCs), each as defined in the Restructuring Legislation.

Transitional Standard Offer Incentive (TSO) The Restructuring Legislation includes Public Act 98-28 (the 1998 Restructuring Legislation) and Public Act 03-135, as amended in part by Public Act 03-221 (the 2003 Restructuring Legislation). The 2003 Restructuring Legislation provided for PURA to establish an incentive plan for the procurement of long-term contracts for transitional standard offer service that compares UI's actual average contract price to a regional average price for electricity, making adjustments as deemed appropriate by PURA. For each of 2004, 2005 and 2006, if UI's price was lower than the average, the legislation provided for the plan to allocate \$0.00025/kilowatt-hour of transitional standard offer service to the distribution company. PURA issued a final decision in January 2009 that found UI was not eligible for a procurement incentive for 2004. UI appealed PURA's final decision to the state superior court. By decision filed February 5, 2010, the superior court determined that PURA did not apply the proper standard in determining whether UI qualified for the incentive and that PURA made other errors, and remanded the case to PURA for further proceeding in accordance with the court's decision. PURA appealed the superior court's decision to the state appellate court. On October 2, 2012, UI, CL&P and the Connecticut Office of Consumer Counsel (OCC) filed with PURA a joint motion for approval of a settlement agreement by and among UI, CL&P, and the OCC. On October 31, 2012, PURA issued a final decision approving the settlement agreement which resolves all of the issues relating to the incentive for the procurement of power for 2004 through 2006. The settlement agreement provides that UI has met the statutory standard for receiving 2005 and 2006 TSO incentives previously collected of approximately \$2.7 million, which were recorded in the third quarter of 2012 and are included in "Other Income and (Deductions)" in UIL Holdings' Consolidated Statement of Income. The settlement agreement also provides that no further amounts are due from UI to customers relating to the 2004 incentive, in light of amounts refunded to customers in 2009.

Comprehensive Energy Strategy On February 19, 2013, DEEP issued its final comprehensive energy strategy (the Strategy) for Connecticut which offers recommendations in five major priority areas as follows: (1) expanding energy choices, (2) lowering utility bills, (3) improving the environment, (4) creating clean energy jobs and (5) enhancing quality of life. UIL Holdings is currently assessing the impacts of the final Strategy.

Emergency Preparedness and Response Connecticut Public Act 12-148, (PA-12-148), requires PURA to review the performance of Connecticut's electric distribution companies and gas companies after an emergency when (1) more than 10% of any such company's customers were without service for more than 48 consecutive hours or (2) at PURA's discretion.

Performance Standards In June 2012, pursuant to Connecticut law PA 11-80, PURA initiated a docket for the establishment of performance standards for electric distribution and gas companies. PA 11-80 requires PURA to, among other things, establish industry specific standards, review service restoration practices, and establish standards for acceptable performance in an emergency in which more than 10% of any utility's customers are without service for more than 48 hours.

Transmission Adjustment Clause PURA has approved a transmission adjustment clause (TAC) for UI, implementing provisions of the 2005 Transportation Act enacted in Connecticut, to establish a "transmission tracker" mechanism by which PURA adjusts an electric distribution company's retail transmission rate periodically to "track" and recover the transmission costs, rates, tariffs and charges approved by the FERC. UI makes a semi-annual filing with PURA, setting

forth its actual transmission revenues, projected transmission revenue requirement, and the required TAC charge or credit so that any under- or over-collections of transmission revenues from prior periods are reconciled along with the expected revenue requirements for the next six months from filing. PURA holds an administrative proceeding to approve the TAC charge or credit and holds a hearing to determine the accuracy of customer billings under the TAC. The TAC tariff and this semi-annual change of the TAC charge or credit mitigates the lag between changes in UI's FERC-approved transmission revenue requirements and its retail transmission rate and facilitates the timely matching of transmission revenues and transmission revenue requirements.

Greenhouse Gas Reporting Program In November 2010, EPA published final rules for monitoring and reporting requirements for petroleum and natural gas systems that emit greenhouse gases (GHG) under the authority of the Clean Air Act. These regulations apply to facilities that emit GHGs above the threshold level of 25,000 metric tons equivalent per year. SCG and CNG both exceed this threshold and are subject to reporting requirements. The liquefied natural gas facilities owned and/or contracted by SCG and CNG will also be subject to the monitoring and reporting requirements of the new regulations. Similarly, UI is subject to reporting requirements under provisions of the GHG Regulations, which regulate electric transmission and distribution equipment that emit sulfur hexafluoride. UIL Holdings expects that its subsidiaries will incur operating and capital costs to comply with the regulations, the amount of which is not yet known.

## **Derivatives**

In accordance with FASB ASC 820 "Fair Value Measurements and Disclosures," UIL Holdings applies fair value measurements to certain assets and liabilities, a portion of which fall into Level 3 of the fair value hierarchy as pricing inputs include significant inputs that are generally less observable from objective sources. As of December 31, 2012, the assets and liabilities that are accounted for at fair value on a recurring basis as Level 3 instruments, which consist primarily of contracts for differences, represent 79.9% of the total amount of assets, and 11.9% of the total amount of liabilities accounted for at fair value on a recurring basis. The determination of fair value of the contracts for differences is based on a probability-based expected cash flow analysis that is discounted at risk-free interest rates and an adjustment for non-performance risk using credit default swap rates. Certain management assumptions were made in this valuation process, including development of pricing that extended over the term of the contracts. In addition, UIL Holdings performs an assessment of risks related to obtaining regulatory, legal and siting approvals, as well as obtaining financing resources and ultimately attaining commercial operation.

PURA has determined that costs associated with the contracts for differences are fully recoverable. As a result, there is no impact on UIL Holdings' net income, because any unrealized gains/ (losses) resulting from quarterly mark-to-market adjustments are offset by the establishment of regulatory assets/ (liabilities) that have been recognized for the purpose of such recovery.

On an annual basis, SCG and CNG assess the need for weather insurance contracts for the winter period of November 1 through April 30 in order to provide financial protection from significant weather fluctuations. According to the terms of such contracts, if temperatures are warmer than normal at a prescribed level for the contract period, SCG and CNG each receive a payment, up to the maximum amount allowed under the contracts; however, if temperatures are colder than normal at a prescribed level for the contract period, SCG and CNG each make a payment of up to a maximum amount. The premiums paid are amortized over the terms of the contracts. The fair value of the contracts is carried on the balance sheet as a derivative with changes in value recorded in the income statement as Other Income and (Deductions).

In May 2012, each of SCG and CNG received a payment of \$3 million upon the expiration of their respective contracts for the winter period of November 1, 2011 through April 30, 2012.

In October 2012, SCG and CNG each entered into weather insurance contracts for the winter period of November 1, 2012 through April 30, 2013. If temperatures are warmer than normal, SCG and CNG will each receive a payment, up to the maximum amount allowed under the contracts of \$3 million; however, if temperatures are colder than normal, SCG and CNG will each make a payment of up to a maximum of \$2 million. As of December 31, 2012, the variations from normal weather during the contract periods are not projected to reach the prescribed level stated in the contracts. Accordingly, no amounts were accrued by either SCG or CNG.

In November 2011, Berkshire entered into a weather insurance contract for 2012 in order to provide financial protection from significant weather fluctuations. According to the terms of the contract, if temperatures were warmer than normal for the contract period, Berkshire would receive a payment, up to the maximum amount allowed under the contract of \$1 million. The premiums paid were amortized over the term of the contract. The fair value of the contract is carried on the balance sheet as a derivative with changes in value recorded in the income statement as Other Income and (Deductions). The derivative asset related to this contract totaled \$1 million at December 31, 2012. On January 8, 2013, Berkshire received a payment of \$1 million upon the expiration of the contract. Berkshire did not enter into a weather insurance contract for 2013.

### **Risk Management and Insurance**

UIL Holdings' primary risk management and insurance exposures include bodily injury, property damage, fiduciary responsibility, and injured workers' compensation. UIL Holdings is insured for general liability, automobile liability, property loss, fiduciary liability and workers' compensation liability. UIL Holdings' general liability and automobile liability programs provide insurance coverage for third party liability claims for bodily injury (including pain and suffering) and property damage, subject to a deductible. Losses are accrued based upon UIL Holdings' estimates of the liability for claims incurred and an estimate of claims incurred but not reported. UIL Holdings reviews the general liability reserves quarterly to ensure the adequacy of those reserves. The reserves are based on historical claims, business events, industry averages and actuarial studies. Insurance liabilities are difficult to assess and estimate due to unknown factors such as claims incurred but not reported and awards greater than expected; therefore, reserve adjustments may become necessary as cases unfold. UIL Holdings insures the majority of its properties subject to deductibles depending on the type of property. UIL Holdings' fiduciary liability program and workers' compensation program provide insurance coverage, also subject to deductibles.

### **Electric Distribution and Transmission**

UI is an electric distribution and transmission utility whose structure and operations are significantly affected by legislation and regulation. UI's rates and authorized return on equity are regulated by PURA and the FERC. Legislation and regulatory decisions implementing legislation establish a framework for UI's operations. Other factors affecting UI's financial results are operational matters, such as the ability to manage expenses, uncollectibles and capital expenditures, in addition to sales volume and major weather disturbances. Sales volume is not expected to have an impact on distribution earnings during the decoupling pilot program established in the UI's 2008 distribution rate case final decision. The extent to which sales volume will have an impact on UI's financial results beyond such period will depend upon the nature and extent of decoupling implemented by PURA during UI's next general rate proceeding. UI expects to continue to make capital investments in its distribution and transmission infrastructure.

### **Rates**

On February 15, 2013, UI filed an application to amend its existing distribution rate schedules for two rate years. The changes are designed to produce additional distribution revenues of approximately \$69 million in rate year one (from July 1, 2013 through June 30, 2014) and an additional \$26 million in rate year two (from July 1, 2014 through June 30, 2015). For rate year one, these additional revenues represent an increase of approximately 8.7% over the total revenues that would be expected under current rate schedules and projected sales on a total bill basis. For rate year two, the additional revenues represent an increase of approximately 3.0% over rate year one revenues. Included in this request is the initiation of the recovery of UI's storm regulatory asset of approximately \$52 million for previously incurred storm costs not included in rates. UI's application proposes a six-year recovery period for these costs along with the establishment of a storm reserve of \$2 million per year to help address future storm costs and the ability to defer additional storm costs above the reserve amount as a regulatory asset for recovery in a future proceeding. UI does not currently have a storm reserve funded in rates. In addition, UI proposed to use revenue from other sources, such as the 2010 and 2012 earning sharing amounts owed to customers along with anticipated excess CTA revenue collections, to recover increased distribution revenue requirements through the end of 2013, which allows the implementation of the distribution rate increase to be deferred until January 1, 2014 coincident with the expiration of the CTA rate. PURA is expected to issue a final decision in the third quarter of 2013.

UI's allowed distribution return on equity established by PURA is 8.75%. UI has an earnings sharing mechanism in place that allows the Company to retain 50% of any distribution earnings above the allowed 8.75% ROE in a calendar year.

UI filed its revised distribution 2011 rate year decoupling results with PURA in June 2012. The decoupling results included a decoupling adjustment of approximately \$4.4 million which is to be collected from customers beginning in the first quarter of 2013, pending PURA approval. PURA is expected to issue a decision on the decoupling adjustment in the first quarter of 2013. Additionally, PURA approved last resort service Generation Services Charge rates for the period through March 31, 2013.

### **Power Supply Arrangements**

UI's retail electricity customers are able to choose their electricity supplier. Since January 1, 2007, UI has been required to offer standard service to those of its customers who do not choose a retail electric supplier and have a maximum demand of less than 500 kilowatts. In addition, UI is required to offer supplier of last resort service to customers who are not eligible for standard service and who do not choose to purchase electric generation service from a retail electric supplier licensed in Connecticut.

UI must procure its standard service power pursuant to a procurement plan approved by PURA. The procurement plan must provide for a portfolio of service agreements procured in a manner that maintains standard service cost volatility within reasonable levels. On October 10, 2012, PURA approved the Standard Service Procurement Plan (the Procurement Plan) submitted by DEEP's procurement manager to PURA for approval as required by Connecticut law. The Procurement Plan, which was developed by the procurement manager, in consultation with UI, CL&P and the OCC, provides for UI to continue to procure wholesale power for standard service customers on a full requirements basis but reduces the maximum duration of contracts from three years to 12 months, with the delivery of such wholesale power to commence no later than six months from the applicable bid day. The length of term and tranche sizes may be modified by the mutual agreement of UI and the procurement manager.

UI has wholesale power supply agreements in place for the supply of all of its standard service customers for all of 2013, and 30% for the first half of 2014. Supplier of last resort service is procured on a quarterly basis. UI determined that its contracts for standard service and supplier of last resort service are derivatives under ASC 815 "Derivatives and Hedging" and elected the "normal purchase, normal sale" exception under ASC 815 "Derivatives and Hedging." As such, UI regularly assesses the accounting treatment for its power supply contracts. These wholesale power supply agreements contain default provisions that include required performance assurance, including certain collateral obligations, in the event that UI's credit rating on senior debt was to fall below investment grade. In November 2012, Moody's Investor Services released its updated credit opinion for UI and maintained its Baa2 rating with a stable outlook. In May 2012, Standard & Poor's Investor Services released its updated credit opinion for UI, maintaining its BBB rating with a stable outlook. If UI's credit rating were to decline one rating and UI were to be placed on negative credit watch, monthly amounts due and payable to the power suppliers would be accelerated to semi-monthly payments. UI's credit rating would have to decline two ratings to fall below investment grade at either rating service. If this were to occur, UI would have to deliver collateral security in an amount equal to the receivables due to the sellers for the thirty-day period immediately preceding the default notice. If such a situation had been in effect as of December 31, 2012, UI would have had to post approximately \$10.5 million in collateral.

UI is permitted to seek long-term contracts for up to 20% of standard service requirements, in order to obtain long-term energy supply contracts and Connecticut Class I Renewable Energy Certificates for UI's standard service customers that will result in an economic benefit to ratepayers, both in terms of risk and cost mitigation. UI continues to keep apprised of possible long-term contracts that could benefit customers, but has not executed any long-term contracts.

### **New Renewable Source Generation**

Under Connecticut law, electric distribution companies were required to enter into contracts to purchase the output of new renewable generation totaling at least 150 MW, at prices and upon terms approved by PURA in accordance with

statutory requirements. PURA approved a number of these projects from 2007 through 2009, all of which are governed by a cost sharing agreement with CL&P whereby UI pays approximately 20% of the costs and obtains approximately 20% of the benefits of such contracts. UI was a direct party to two of the contracts. UI's costs associated with all such contracts are recoverable, whether UI is a direct party or pursuant to the sharing agreement. In September 2011, PURA issued a report to the legislature stating that, of the original 150 MW, only 47 MW have the capability of achieving commercial operation within contractual deadlines. One of the contracts to which UI was a direct party has since been terminated. Many of the other contracts are also expected to be terminated as the commercial operation deadlines expire. On September 20, 2012, PURA approved a request by Bridgeport Fuel Cell Park, LLC to extend the in-service date under its contract with CL&P to February 14, 2014. To date, none of the projects have achieved commercial operation.

Under a 2011 Connecticut law (PA 11-80), UI and CL&P are required to enter into long-term contracts to purchase Renewable Energy Credits (RECs) from small renewable generators located on customer premises. Under this program, UI will be required to enter into contracts totaling approximately \$200 million in commitments over an approximate 21 year period. The obligations will phase in over a six year solicitation period, and are expected to peak at an annual commitment level of about \$13.6 million/year after six years. Upon purchase, the RECs will be accounted for as inventory. UI expects to partially mitigate the cost of the contracts through the resale of the RECs. PA 11-80 provides that the remaining costs of the contracts, including any gain or loss resulting from the resale of the RECs, are recoverable through electric rates. In December 2011, UI and CL&P submitted a joint petition to PURA outlining a plan to address the new requirements and in April 2012, PURA approved the program. In October 2012, UI received PURA approval for executed REC purchase contracts totaling up to approximately \$1.5 million annually in payments for 15 year delivery terms commencing in 2013. On January 8, 2013, UI opened a tariff-based application process to procure RECs from small renewable projects, and expects to enter into REC purchase contracts in the first quarter of 2013 totaling up to approximately \$0.6 million annually in payments for 15 year delivery terms commencing in 2013 and 2014.

PA 11-80 also allows for the development of up to 30 MW of grid-connected renewable energy. UI and CL&P are each allowed to develop projects capable of generating up to 10 MW and DEEP is to solicit proposals for projects capable of generating 10 MW. In December 2011, DEEP announced that it had selected two 5 MW solar projects in CL&P service territory. CL&P executed contracts with the developers of the two 5 MW solar projects to purchase energy and associated products from both projects. These contracts, and the associated cost recovery, have been approved by DEEP and PURA, respectively. UI and CL&P executed a sharing arrangement, pursuant to which UI will pay 20% of the costs, and receive 20% of the revenues, associated with the projects. Pursuant to PURA's approval of the cost recovery, the costs of payments made to projects are recoverable through electric rates. In January 2012, UI filed a proposal with PURA outlining a framework for approval of UI's renewable connections program under which UI would develop up to 10 MW of renewable generation for recovery on a cost of service basis. PURA issued a final decision in July 2012, in which it approved the construction of one solar facility and two fuel cell facilities. The decision approves a return on equity (ROE) equal to the then currently allowed distribution ROE over the life of the investment, which is currently 8.75%. UI had requested a ROE of 9.5% for the renewable connections program projects. In September 2012 PURA reopened the proceeding on its own motion and issued interrogatories, responses to which were filed by UI. UI's participation in the program is voluntary.

## **Transmission**

PURA decisions do not affect the revenue requirements determination for UI's transmission business, including the applicable return on equity (ROE), which are within the jurisdiction of the FERC. The FERC has issued orders establishing allowable ROEs for transmission projects of transmission owners in New England, including UI. The FERC established a base-level ROE of 11.14%, as well as a 50 basis point ROE adder on Pool Transmission Facilities (PTF) for participation in the RTO for New England and a 100 basis point ROE incentive for projects included in the ISO-NE Regional System Plan that were completed and on line as of December 31, 2008. For projects placed in service after December 31, 2008, incentives may be requested from the FERC, through a specific showing justifying the incentive, on a project-specific basis.

UI's overall transmission ROE is determined by the mix of UI's transmission rate base between new and existing transmission assets, and whether such assets are PTF or non-PTF. UI's transmission assets are primarily PTF. For 2012, UI's overall allowed weighted-average ROE for its transmission business was 12.3%.

In September 2011, several New England governmental entities, including PURA, the Connecticut Attorney General and the Connecticut Office of Consumer Counsel, filed a complaint with the FERC against ISO-NE and several New England transmission owners, including UI, claiming that the current approved base ROE on transmission investments of 11.14% is not just and reasonable and seeking a proposed reduction of the base ROE to 9.20%. The New England transmission owners filed their response to the complaint in October 2011, opposing any change to the base ROE as unsupported. In May 2012, the FERC issued an order setting the matter for hearing and establishing settlement procedures. The parties have been unable to reach a settlement. Settlement proceedings have terminated, and a hearing judge has been assigned. Pursuant to the procedural schedule, the direct case of the complainants was filed in October 2012, seeking a base ROE of 9.0%. Respondents filed their answer to the direct case in November 2012. In January 2013, FERC trial staff filed testimony supporting a base ROE of 9.66%. Respondents filed reply testimony to the trial staff's testimony in February 2013. A hearing is scheduled for the second quarter of 2013, with an initial decision by the hearing judge expected in the third quarter of 2013. UI is unable to predict the outcome at this time. A 25 basis point change in the weighted-average ROE for UI's transmission business would change net income by approximately \$0.6 million annually, for example. In the event there is a reduction to the ROE, the May 2012 order established a refund effective date of October 1, 2011, for a period of 15 months.

In December 2012, various customer entities filed a complaint with the FERC against several New England transmission owners, including UI, seeking a proposed reduction of the base ROE to 8.70%. The transmission owners filed an answer and request for dismissal in January 2013, including opposition to the establishment of a second 15 month refund period because the complaint seeks substantially the same relief against the same respondents but for a different 15 month period as the pending complaint of governmental entities. The complainants filed their answer to the respondents' answer in February 2013. UI is unable to predict the outcome at this time.

### **New England East-West Solution**

Pursuant to an agreement with CL&P (the NEEWS Agreement), UI has the right to invest in, and own transmission assets associated with, the Connecticut portion of CL&P's New England East West Solution (NEEWS) projects to improve regional energy reliability. NEEWS consists of four inter-related transmission projects being developed by subsidiaries of Northeast Utilities (NU), the parent company of CL&P, in collaboration with National Grid USA. Three of the projects have portions located in Connecticut: (1) the Greater Springfield Reliability Project, which is currently under construction, (2) the Interstate Reliability Project, which has Connecticut Siting Council approval and (3) the Central Connecticut Reliability Project, which is currently being considered by ISO-NE as part of a broader study that includes other electrically connected areas within Connecticut.

Under the terms of the NEEWS Agreement, UI has the option to make quarterly deposits to CL&P in exchange for ownership of specific transmission assets as they are placed in service. UI has the right to invest up to the greater of \$60 million or an amount equal to 8.4% of CL&P's costs for the Connecticut portions of the NEEWS projects. Based upon the current projected costs, this amount is approximately \$60 million. As assets are placed in service, CL&P will transfer title to certain transmission assets to UI in proportion to its investments, but CL&P will continue to maintain these portions of the transmission system pursuant to an operating and maintenance agreement with UI. There are certain circumstances under which CL&P can terminate the NEEWS Agreement, but such termination would have no effect on the assets previously transferred to UI.

In June 2012, NU, on behalf of CL&P, submitted the operation and maintenance agreement (O&M Agreement) between UI and CL&P to the FERC, which the FERC accepted. Under the O&M Agreement, CL&P will serve as a contractor to manage, operate and maintain transmission assets in Connecticut that the FERC has authorized UI to acquire from CL&P.

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In September 2012, CL&P transferred approximately \$6.2 million of transmission assets associated with the Greater Springfield Reliability Project to UI, upon which the O&M Agreement became effective. CL&P and UI plan to transfer the remaining portion of this project's assets from CL&P to UI by the end of the first quarter of 2013.

UI made deposits in NEEWS totaling \$33.5 million and \$9.6 million as of December 31, 2012 and 2011, respectively. The total deposits made as of December 31, 2012 include the transferred assets noted above. UI expects to make the remaining deposits over a period of three to five years, depending on the timing and amount of CL&P's capital expenditures and the projects' in service dates. UI earned pre-tax income of approximately \$1.6 million and \$1 million on such deposits in the years ended December 31, 2012 and 2011, respectively.

### **Competitive Transition Assessment**

UI's CTA collection recovers costs that have been reasonably incurred, or will be incurred, to meet its public service obligations and that will likely not otherwise be recoverable in a competitive market. These "stranded costs" include above-market long-term purchased power contract obligations, regulatory asset recovery and above-market investments in power plants. A portion of UI's earnings is generated by the authorized return on the equity portion of unamortized stranded costs in the CTA rate base. UI's after-tax earnings attributable to CTA for the years ended December 31, 2012, 2011 and 2010 were \$2.2 million, \$3.9 million and \$5.6 million, respectively. A portion of UI's cash flow from operations is also generated from those earnings and from the recovery of the CTA rate base and other stranded costs. Cash flow from operations related to CTA amounted to \$41.1 million, \$41.2 million and \$41.8 million for the years ended December 31, 2012, 2011 and 2010, respectively. The CTA rate base has declined from year to year for a number of reasons, including amortization of stranded costs, the sale of UI's nuclear units, and adjustments made through the annual PURA review process. The original rate base component of stranded costs, as of January 1, 2000, was \$433 million. It has since declined to \$30.4 million as of December 31, 2012. Based upon current projections, UI's CTA earnings will be complete by the end of 2013, as CTA rate base will be fully amortized. Cash flow from non-rate base stranded cost recovery is currently projected to be completed in 2015. Dependent upon the outcome of UI's rate request filing on February 15, 2013, remaining cash flows could end effective January 1, 2014, if PURA approves UI's proposed rate treatment to recover all remaining CTA stranded costs in 2013.

### **Equity Investment in Peaking Generation**

UI is a 50-50 joint venturer with NRG in GenConn, which operates two peaking generation plants in Connecticut. The two peaking generation plants, GenConn Devon and GenConn Middletown, are both participating in the ISO-New England markets. PURA has approved revenue requirements for the period from January 1, 2013 through December 31, 2013 of \$33.1 million and \$40.2 million for GenConn Devon and GenConn Middletown, respectively. In addition, PURA has ruled that GenConn project costs that were in excess of the proposed costs originally submitted in 2008 were prudently incurred and are recoverable. Such costs are included in the determination of the 2013 approved revenue requirements. The increase in project costs was driven primarily by increased financing costs and the cost to build interconnection facilities at GenConn Middletown.

As of December 31, 2012, UI's equity investment in GenConn was \$124.8 million. UI's income from its equity investment in GenConn was \$15.3 million, \$11.3 million and \$1.3 million for years ended December 31, 2012, 2011 and 2010, respectively. During 2012, UI received cash distributions from GenConn of \$21.5 million. As of December 31, 2012, there was \$0.1 million of undistributed earnings from UI's equity investment in GenConn.

### **Operations**

For regulatory and accounting purposes, UI separates its transmission and distribution operations into separate divisions. Changes to income and expense items related to transmission and distribution have a direct impact on net income and earnings per share, while changes to items in "other unbundled utility components," as presented on customer bills, do not have such an impact. Such other components include the CTA, the SBC, the GSC, the C&LM charge, and REI charge. The CTA earns an authorized 8.75% return on the equity portion of rate base. Returns are achieved either by accruing additional amortization expenses, or by deferring such expenses, as required to achieve the authorized return. Amortization expense within CTA impacts earnings indirectly through changes to the rate base. The SBC, GSC, C&LM and REI are essentially pass-through components (revenues are matched to recover costs). The majority of expenses are either accrued or deferred such that there is no net income associated with these four unbundled components.

The primary operational factors affecting UI's financial results are the ability to control expenses and capital expenditures. Retail electric sales volume can be significantly affected by economic conditions, customer conservation efforts, and weather. Sales volume is not expected to have an impact on distribution earnings during the decoupling pilot program established in UI's 2008 distribution rate case final decision. The extent to which sales volume will have an impact on UI's financial results beyond such period will depend upon the nature and extent of decoupling implemented by PURA during UI's next general rate proceeding. The level of economic growth can be impacted by job growth or workforce reductions, plant relocations into or out of UI service territory, and expansions or contractions of facilities within UI's service territory, all of which can affect demand for electricity. The weather can also have an impact on expenses, dependent on the level of work required as a result of storms or other extreme conditions.

During 2012, UI completed construction and took occupancy of its consolidated operations center and general office building in Orange, CT.

### **Capital Projects**

In order to maintain and improve its electricity delivery system and to provide quality customer service, UI is required to spend a significant amount each year on capital projects in the distribution business as well as the transmission business. A large portion of the funds required for capital projects is provided by operating activities, and the remainder must be financed externally. The capital projects in the distribution business involve transformer replacement, load relief and energy projects while those in the transmission business relate to new and upgraded substations, railroad upgrades and joint projects with CL&P.

### **Gas Distribution**

The Gas Companies are natural gas transportation and distribution utilities whose structure and operations are significantly affected by legislation and regulation. SCG's and CNG's rates and authorized ROE are regulated by PURA. Berkshire's rates and authorized ROE are regulated by the Massachusetts Department of Public Utilities (DPU). Legislation and regulatory decisions implementing legislation establish a framework for the Gas Companies' operations. Other factors affecting the Gas Companies' financial results are operational matters, such as the ability to manage expenses, uncollectibles and capital expenditures, in addition to sales volume. Sales volumes are affected, for the most part, by the weather during the winter heating season months given the variability of average daily temperatures compared to normal. The Gas Companies expect to continue to make capital investments in their distribution infrastructures.

### **Rates**

Utilities are entitled by Connecticut and Massachusetts statute to charge rates that are sufficient to allow them an opportunity to cover their reasonable operating and capital costs, to attract needed capital and to maintain their financial integrity, while also protecting relevant public interests.

The allowed returns on equity established by PURA are 9.41% and 9.36% for CNG and SCG, respectively. Berkshire's rates are established by the DPU. Berkshire's 10-year rate plan, which was approved by the DPU and included an approved ROE of 10.5%, expired on January 31, 2012. Berkshire continues to charge the rates that were in effect at the end of the rate plan.

SCG and CNG each have purchased gas adjustment clauses and Berkshire has a cost of gas adjustment clause, approved by PURA and DPU, respectively, which enable them to pass their reasonably incurred cost of gas purchases through to customers. These clauses allow utilities to recover costs associated with changes in the market price of purchased natural gas, substantially eliminating exposure to natural gas price risk. Additionally, Berkshire's mechanism allows for the recovery of the gas-cost portion of bad debt.

## **Approval for the Issuance of Debt**

Berkshire has DPU approval to issue, from time to time, long-term debt in an aggregate principal amount not to exceed \$20 million through a period ending December 14, 2014. The proceeds from any such debt issuances may be used by Berkshire for the following purposes: (1) to finance capital expenditures; (2) to refinance short-term debt; (3) to pay anticipated environmental expenditures; (4) to provide general working capital; and (5) any other purposes as the DPU may authorize. Berkshire may issue long-term debt with maturities up to 30 years and issue secured or unsecured securities or execute a bank financing.

## **Gas Supply Arrangements**

The Gas Companies satisfy their natural gas supply requirements through purchases from various producer/suppliers, withdrawals from natural gas storage capacity contracts and winter peaking supplies and resources. The Gas Companies operate diverse portfolios of gas supply, firm transportation, gas storage and peaking resources. Actual reasonable gas costs incurred by each of the Gas Companies are passed through to customers through state regulated purchased gas adjustment mechanisms, subject to regulatory review.

The Gas Companies purchase the majority of their natural gas supply at market prices under seasonal, monthly or mid-term supply contracts and the remainder is acquired on the spot market. The Gas Companies diversify their sources of supply by amount purchased and location. The Gas Companies primarily acquire gas at various locations in the US Gulf of Mexico region, in the Appalachia region and in Canada.

The Gas Companies acquire firm transportation capacity on interstate pipelines under long-term contracts and utilize that capacity to transport both natural gas supply purchased and natural gas withdrawn from storage to the local distribution system. Collectively, the Gas Companies hold 92 firm transportation contracts on 12 different pipelines. Three of those pipelines, Tennessee Gas Pipeline, Algonquin Gas Transmission and Iroquois Gas Transmission, interconnect with one or more of the Gas Companies' distribution system and the other pipelines provide indirect services upstream of the city gates. The prices and terms and conditions of the firm transportation capacity long-term contracts are regulated by the FERC. The actual reasonable cost of such contracts is passed through to customers through state regulated purchased gas adjustment mechanisms.

The Gas Companies acquire firm underground natural gas storage capacity using long-term contracts and fill the storage facilities with gas in the summer months for subsequent withdrawal in the winter months. Collectively, the Gas Companies hold 24 gas storage contracts with seven different storage contractors. The storage facilities are located in Pennsylvania, New York, West Virginia and Michigan.

Winter peaking resources are primarily attached to the local distribution systems and are either owned or are contracted for by the Gas Companies, each of which is a Local Distribution Company (LDC). Each LDC owns or has rights to the natural gas stored in a Liquefied Natural Gas (LNG) facility directly attached to its distribution system.

## LIQUIDITY AND CAPITAL RESOURCES

At December 31, 2012, UIL Holdings had \$17.9 million of unrestricted cash and temporary cash investments. This represents a decrease of \$13.1 million from the corresponding balance at December 31, 2011. The components of this decrease, which are detailed in the Consolidated Statement of Cash Flows, are summarized as follows:

	(In Millions)
Unrestricted cash and temporary cash investments, December 31, 2011	\$ 31.0
Net cash provided by operating activities	333.9
Net cash provided by (used in) investing activities:	
Cash invested in plant - including AFUDC debt	(288.6)
Deposits in NEEWS	(24.1)
Cash distributions from GenConn	1.9
Restricted cash (1)	3.7
Other	0.9
	(306.2)
Net cash provided by (used in) financing activities:	
Issuances of common stock	1.9
Issuances (payments) of long-term debt, net	93.6
Line of credit borrowings (repayments), net	(48.0)
Dividend payments	(87.5)
Other financing activities	(0.8)
	(40.8)
Net change in cash	(13.1)
Unrestricted cash and temporary cash investments, December 31, 2012	\$ <u>17.9</u>

*(1) As of December 31, 2012, UIL Holdings had \$2.8 million in restricted cash, which primarily relates to Electric Distribution and Transmission capital projects, and which has been withheld by UI and will remain in place until the verification of fulfillment of contractor obligations.*

### Cash Flows

UIL Holdings expects to fund capital requirements that exceed available cash through external financings. Although there is currently no commitment to provide such financing from any source of funds, other than from the credit facilities discussed below, UIL Holdings expects to satisfy future external financing needs by the issuance of additional equity and/or short-term and long-term debt. The continued availability and timing of such financings will be dependent on many factors, including conditions in the securities markets, general economic conditions, and UIL Holdings' future income and cash flow.

Multiple series of pollution control revenue bonds, in the aggregate principal amount outstanding of \$103.5 million, for which UI was responsible for the payment of principal and interest, were due to be remarketed in the municipal bond market on February 1, 2012. Due to conditions in the municipal bond market, UIL Holdings determined it was economically favorable to refinance the bonds with senior unsecured notes issued in the private placement market. UI issued such notes in January 2012 as follows: 3.61%, Series B, due January 31, 2022, in the principal amount of \$51.5 million and 4.89%, Series D, due January 30, 2042, in the principal amount of \$52 million. In addition, in April 2012, UI issued \$100 million of senior unsecured notes were issued as follows: 2.98%, Series A, due January 31, 2019, in the principal amount of \$31 million, 3.61%, Series C, due January 31, 2022 in the principal amount of \$34 million and 4.89%, Series E, due January 30, 2042, in the principal amount of \$35 million.

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During 2012, UIL Holdings received tax refunds of approximately \$65.8 million resulting from an accounting change for tax purposes as well as a federal income tax refund generated by the carryback of a portion of UIL Holdings' 2011 net operating loss to the 2009 and 2010 tax years. Also in 2012, UI received cash distributions from GenConn of \$21.5 million.

Other Sources of Funding

UIL Holdings, UI, CNG, SCG, and Berkshire are parties to a revolving credit agreement with a group of banks that will expire on November 30, 2016 (the UIL Holdings Credit Facility). The borrowing limit under the UIL Holdings Credit Facility is \$400 million, all of which is available to UIL Holdings, \$250 million of which is available to UI, \$150 million of which is available to each of CNG and SCG, and \$25 million of which is available to Berkshire. The UIL Holdings Credit Facility permits borrowings at fluctuating interest rates and also permits borrowings for fixed periods of time specified by each borrower at fixed interest rates determined by the Eurodollar interbank market in London (LIBOR). The UIL Holdings Credit Facility also permits the issuance of letters of credit of up to \$50 million.

As of December 31, 2012, there was \$87 million outstanding under the UIL Holdings Credit Facility. UIL Holdings also has outstanding standby letters of credit in the aggregate amount of \$4.4 million, which expire on January 31, 2014 and June 16, 2013. Available credit under the UIL Holdings Credit Facility at December 31, 2012 totaled \$308.6 million for UIL Holdings and its subsidiaries in the aggregate. UIL Holdings records borrowings under the UIL Holdings Credit Facility as short-term debt, but the UIL Holdings Credit Facility provides for longer term commitments from banks allowing UIL Holdings to borrow and reborrow funds, at its option, until the UIL Holdings Credit Facility expires, thus affording UIL Holdings flexibility in managing its working capital requirements. On February 15, 2013, UIL Holdings issued an additional standby letter of credit in the amount of \$1 million which expires on January 14, 2014.

In January 2012, UI entered into a revolving credit agreement that expired in July 2012 (the UI Credit Facility). The borrowing limit under the UI Credit Facility was \$105 million. The UI Credit Facility provided additional liquidity for UI's obligation to either remarket or repay and cancel \$103.5 million of pollution control revenue bonds, due to be remarketed in the municipal bond market on February 1, 2012. The pollution control revenue bonds were repaid and cancelled with the issuance of senior unsecured notes that UI issued to a group of institutional accredited investors on January 30, 2012, as discussed above. Subsequently, the UI Credit Facility was terminated.

For purposes of providing additional liquidity, in October 2012, UIL Holdings entered into a credit agreement with a borrowing limit of \$100 million that expires on October 31, 2013 (the Credit Agreement). As of December 31, 2012, there was \$100 million outstanding under the Credit Agreement.

UIL Holdings filed a shelf registration statement with the SEC on March 8, 2012. As permitted by the registration statement, UIL Holdings may, from time to time, sell debt, equity or other securities in one or more transactions. The registration statement expires on March 8, 2015.

UI has PURA approval for the issuance of up to \$379 million principal amount of debt securities from 2010 through 2013 (the Proposed Notes). The proceeds from the sales of any Proposed Notes may be used by UI for the following purposes: (1) to finance capital expenditures; (2) the repayment, in July 2011, of the equity bridge loan, the proceeds of which were used to finance UI's equity contribution in GenConn for the development and construction of GenConn Devon and GenConn Middletown; (3) to fund UI's pension plan; (4) to partially repay short-term borrowings that are incurred to temporarily fund the preceding needs; (5) to pay for issuance costs related to the Proposed Notes; (6) to repay \$103.5 million principal amount outstanding of pollution control revenue bonds, which were repaid with the issuance of \$103.5 million of senior unsecured notes in January 2012, and (7) for general corporate purposes. UI has issued \$303.5 million principal amount of senior unsecured notes pursuant to such PURA approval, \$100 million of which were issued in July 2010, \$103.5 million of which were issued in January 2012 and \$100 million of which were issued in April 2012.

To afford UI additional flexibility to market outstanding tax-exempt bonds in the municipal bond market, PURA has also approved UI's request to refund \$64.5 million principal amount of tax-exempt bonds outstanding with the proceeds

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of the issuance of new bonds, without insurance. UI continues to review conditions in the municipal bond market and plans to refund these bonds at such time when market conditions and financing terms are economically favorable.

UI expects to receive periodic cash distributions from GenConn, similar to those discussed in “– Cash Flows” above. Future cash distributions, however, are subject to GenConn generating sufficient cash flows to fund operations and the reserves required by its project financing as well as continued compliance with the terms and conditions of its project financing documents.

Berkshire has DPU approval to issue, from time to time, long-term debt in an aggregate principal amount not to exceed \$20 million through a period ending December 14, 2014. The proceeds from any such debt issuances may be used by Berkshire for the following purposes: (1) to finance capital expenditures; (2) to refinance short-term debt; (3) to pay anticipated environmental expenditures; (4) to provide general working capital; and (5) any other purposes as the DPU may authorize. Berkshire may issue long-term debt with maturities up to 30 years and issue secured or unsecured securities or execute a bank financing.

Uses of Funds

Asset values of funded pension plans as of December 31, 2012 and 2011 were approximately \$623.2 million and \$548.1 million, respectively. During 2012, UIL Holdings made pension contributions of approximately \$48.5 million. UIL Holdings currently expects to make pension contributions of approximately \$50 million to \$60 million in 2013, of which \$30 million was contributed on January 4, 2013. Such contribution levels will be adjusted if necessary, based on final actuarial calculations.

Other Matters

As of December 31, 2012, UI would have had to post approximately \$10.5 million in collateral pursuant to its wholesale power supply arrangements if certain conditions existed at that time. See “– Major Influences on Financial Condition – Electric Distribution and Transmission – Power Supply Arrangements” for additional information.

**Financial Covenants**

UIL Holdings and its subsidiaries are required to comply with certain covenants in connection with their respective loan agreements. The covenants are normal and customary in bank and loan agreements. The summary below describes only the financial covenants, certain events of default and dividend restrictions in the agreements.

**Long-Term Debt**

The long-term debt agreements describe typical events of default, including the situation in which the borrower defaults on indebtedness in the aggregate principal amount of at least \$1 million, \$5 million or \$10 million due to (i) a default in payment or payments due on the indebtedness, or (ii) default in the performance of or compliance with any term or condition of the indebtedness, which could result in the requirement that such indebtedness be repaid, or (iii) the occurrence of any event or condition that could require the purchase or repayment of the indebtedness prior to maturity.

UI

Under each of its taxable long-term debt agreements, UI is required to maintain a ratio of consolidated debt to consolidated capital of not greater than 65% (debt ratio). As of December 31, 2012, UI’s debt ratio was 50%. For additional information on UI’s taxable long-term debt agreements, see Part II, Item 8, “Financial Statements and Supplementary Data – Notes to Consolidated Financial Statements – Note (B), Capitalization,” of this Form 10-K.

There are no dividend restrictions in connection with the above agreements. In addition, there are no repayment triggers specified in the above agreements related to changes in debt ratings.

Gas Companies

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Under the Amended and Restated Note Agreement in connection with the 7.8% Senior Unsecured Note, due November 15, 2021, in the original principal amount of \$16 million, Berkshire is required to maintain a ratio of consolidated funded debt to consolidated adjusted capitalization of not greater than 65%. As of December 31, 2012, such ratio was 35.7% (adjusted capitalization excludes the impact of goodwill). In addition, Berkshire is required to maintain a fixed charges coverage ratio of no less than 1.50 to 1.00. As of December 31, 2012, such ratio was 3.97 to 1.00. The Amended and Restated Note Agreement describes typical events of default, including the situation in which Berkshire defaults on any payment required in connection with the Amended and Restated Note Agreement or on any other indebtedness in the aggregate principal amount of at least \$1 million.

Under the Indenture in connection with the 10.06% First Mortgage Bond Series P, due February 1, 2019, in the principal amount of \$10 million, Berkshire is required to maintain a fixed charge ratio of at least 2.00 to 1.00. As of December 31, 2012, Berkshire's fixed charge ratio was 4.01 to 1.00. Pursuant to the Indenture, Berkshire is also subject to cash dividend, distribution and common stock share purchase restrictions if the aggregate amount of such dividends, distributions and purchases exceeds Berkshire's earned surplus, plus \$3 million. During 2012, there were no such dividends, distributions and purchases.

Under the 9.6% Senior Notes, Series A, due September 1, 2020, in the principal amount of \$8 million, Berkshire is required to maintain tangible net worth greater than \$9 million. As of December 31, 2012, Berkshire's tangible net worth was \$56.1 million.

SCG is subject to dividend restrictions pursuant to the terms of all of its senior secured notes. The most limiting of these dividend restrictions relates to the most recently issued notes, which are the 3.88% medium-term notes, due September 22, 2021, in the principal amount of \$25 million, the secured 5.39% medium-term notes, due September 22, 2041, in the principal amount of \$25 million, Series MTN-IV, constituting a series of first mortgage bonds and the 7.5% Senior Secured Medium Term Note IV in the principal amount of \$50.0 million, due 2018, all of which were issued under SCG's Thirty-First Supplemental Indenture. The restrictions are based upon cumulative net income available for dividends since January 1, 2008, plus \$60 million, offset by adjustments related to aggregate depreciation expense and dividends declared. As of December 31, 2012, \$55.4 million was unrestricted for dividend distributions.

#### **Short-term Debt**

UIL Holdings has a \$400 million credit facility under which UIL Holdings, UI, SCG, CNG and Berkshire are each required to maintain a ratio of consolidated debt to consolidated capital of not greater than 65% (debt ratio) and UIL Holdings has a separate \$100 million credit facility under which it also must maintain a debt ratio of 65%. As of December 31, 2012, UIL Holdings' debt ratio was 62%, UI's debt ratio was 50%, SCG's debt ratio was 35%, CNG's debt ratio was 29% and Berkshire's debt ratio 22%.

Each of the credit facilities describes typical events of default, including the situation in which the borrower fails to pay when due any interest or principal due on indebtedness in the principal amount of at least \$10 million or any interest or premium thereon in the aggregate amount of at least \$10 million; or any other default or other event shall occur related to such indebtedness if the effect of such default or event is to accelerate, or to permit the acceleration of, the maturity of such indebtedness, or any such indebtedness shall be declared due and payable, or required to be prepaid, prior to the stated maturity. Notwithstanding anything to the contrary in the foregoing, a default by UIL Holdings generally does not create a cross-default in respect of outstanding indebtedness of UI, SCG, CNG or Berkshire (except in the case of a default arising from a Change of Control of UIL Holdings, as defined in each of the UIL Holdings credit facilities).

There are no dividend restrictions in connection with the credit facilities. In addition, there are no automatic repayments specified in the credit facilities related to changes in debt ratings.

### 2013 Capital Resource and Expenditure Projections

For financial planning purposes, the amount of UIL Holdings' quarterly per share cash dividend in 2013 is currently projected to be equal to the cash dividend of \$0.432 per share paid in each quarter of 2012. UIL Holdings will continue to be dependent on dividends from its subsidiaries and from external borrowings to provide the cash in excess of the amount currently on hand that is necessary for debt service, to pay administrative costs, and to pay common stock dividends to UIL Holdings' shareowners. As UIL Holdings' sources of cash are limited to cash on hand, dividends from its subsidiaries and external capital raising activities, the ability to maintain future cash dividends at the level currently paid to shareowners will be dependent primarily upon sustained earnings from current operations of UI and the Gas Companies.

In order to achieve long-term growth in earnings, UI and the Gas Companies will likely need to increase their rate base through distribution, transmission and transportation reliability and capacity enhancement capital investment programs. If additions to the rate base and returns on equity investments are lower than the annual amount of depreciation and amortization, the earnings of UI and the Gas Companies may decline. See "–Major Influences on Financial Condition" for more information.

UIL Holdings expects to generate cash flow from operating activities of approximately \$244 million in 2013 and to incur capital expenditures of approximately \$315 million. Additional cash requirements in excess of cash flows generated from operating activities are expected to be funded by short-term debt.

#### Contractual and Contingent Obligations

The following are contractual and contingent obligations as of December 31, 2012.

	(In Millions)						
	2013	2014	2015	2016	2017	Thereafter	Total
<b>Debt Maturities:</b>							
UIL Holdings	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 450.0	\$ 450.0
UI	-	-	-	-	70.0	700.5	770.5
Gas Companies	41.4	6.4	1.4	11.5	21.5	307.8	390.0
<b>Total</b>	<b>\$ 41.4</b>	<b>\$ 6.4</b>	<b>\$ 1.4</b>	<b>\$ 11.5</b>	<b>\$ 91.5</b>	<b>\$ 1,458.3</b>	<b>\$ 1,610.5</b>
<b>Contractual Obligations:</b>							
<b>UIL Holdings</b>							
Lease payments	\$ 1.3	\$ 1.3	\$ 1.3	\$ 1.3	\$ 1.3	\$ 6.2	\$ 12.7
Interest on long-term debt (1)	20.8	20.8	20.8	20.8	20.8	57.2	161.2
Purchase commitments (2)	6.3	-	-	-	-	-	6.3
<b>UI (4)</b>							
Lease payments	\$ 2.7	\$ 2.1	\$ 1.6	\$ 1.7	\$ 1.7	\$ 35.6	\$ 45.4
Interest on long-term debt (1)	39.4	39.4	39.4	39.4	38.6	372.6	568.8
Pension contribution	33.0	-	-	-	-	-	33.0
Renewable Energy Credits	0.8	1.5	1.5	1.5	1.5	16.1	22.9
Purchase commitments (2)	16.1	-	-	-	-	-	16.1
<b>Gas Companies</b>							
Lease payments	\$ 0.6	\$ 0.2	\$ 0.2	\$ 0.2	\$ 0.2	\$ 0.7	\$ 2.1
Interest on long-term debt (1)	25.9	23.4	23.0	22.7	20.5	221.5	337.0
Pension contribution	22.0	-	-	-	-	-	22.0
Gas Purchase Commitments (3)	123.4	119.7	97.4	83.1	66.6	99.2	589.4
Purchase commitments (2)	1.0	-	-	-	-	-	1.0
<b>Total</b>	<b>\$ 293.3</b>	<b>\$ 208.4</b>	<b>\$ 185.2</b>	<b>\$ 170.7</b>	<b>\$ 151.2</b>	<b>\$ 809.1</b>	<b>\$ 1,817.9</b>

- (1) Amounts represent interest payments on long-term debt outstanding at December 31, 2012. Interest payments will change if additional long-term debt is issued, if current long-term debt is refinanced at different rates, in the future, and when interest rates on auction rate bonds reset.
- (2) Amounts represent contractual obligations for material and services on order but not yet delivered at December 31, 2012.
- (3) The Gas Companies depend on various FERC-regulated long term firm transportation and storage contracts with Tennessee Gas Pipeline, Texas Eastern Transmission, Algonquin Gas Transmission, Iroquois Gas Transmission and TransCanada Pipeline (regulated in Canada) to provide reliable service to its customers. These agreements typically range in term from two years to ten years, and certain of these agreements renew on an annual basis. The rate paid for such contracts typically varies with the FERC-regulated rate. Payments under these agreements are required regardless of whether the Gas Companies utilize the transportation or storage service during the course of any given year.
- (4) Excludes amounts procured under power supply arrangements due to variability in obligation levels and the lack of minimum purchase obligations under the arrangements.

### **CRITICAL ACCOUNTING POLICIES**

UIL Holdings' Consolidated Financial Statements are prepared based on certain critical accounting policies that require management to make judgments and estimates that are subject to varying degrees of uncertainty. Investors need to be aware of these policies and how they impact UIL Holdings' financial reporting to gain a more complete understanding of UIL Holdings' Consolidated Financial Statements as a whole, as well as management's related discussion and analysis presented herein. While UIL Holdings believes that these accounting policies are grounded on sound measurement criteria, actual future events can and often do result in outcomes that can be materially different from these estimates or forecasts.

#### **Accounting for Regulated Public Utilities**

Generally accepted accounting principles in the United States of America (GAAP) allow regulated entities to give accounting recognition to the actions of regulatory authorities in accordance with the provisions of the ASC 980 "Regulated Operations." In order to apply such regulatory accounting treatment and record regulatory assets and liabilities, certain criteria must be met. In determining whether the criteria are met for its operations, UIL Holdings' management makes significant judgments, which involve (i) determining whether rates for services provided to customers are subject to approval by an independent, third-party regulator, (ii) determining whether the regulated rates are designed to recover specific costs of providing the regulated service, (iii) considering relevant historical precedents and recent decisions of the regulatory authorities and (iv) considering the fact that decisions made by regulatory commissions or legislative changes at a later date could vary from earlier interpretations made by management and that the impact of such variations could be material. In accordance with ASC 980, UIL Holdings' regulated subsidiaries have deferred recognition of costs (a regulatory asset) or have recognized obligations (a regulatory liability) if it is probable that such costs will be recovered or obligations relieved in the future through the ratemaking process. In addition to the Regulatory Assets and Liabilities identified on the Consolidated Balance Sheet, and in Part II, Item 8, "Financial Statements and Supplementary Data – Notes to Consolidated Financial Statements – Note (A) – Regulatory Accounting," there are other regulatory assets and liabilities included in the Consolidated Balance Sheet such as certain deferred tax assets and liabilities. UIL Holdings' regulated subsidiaries also have obligations under power contracts, the recovery of which is subject to regulation. Management regularly reviews its regulatory assets and liabilities to determine whether adjustments to its previous conclusions are necessary based on the current regulatory and legislative environment as well as recent rate orders. If UIL Holdings' regulated subsidiaries, or a portion of their assets or operations, were to cease meeting the criteria for application of these accounting rules, accounting standards for businesses in general would become applicable and immediate recognition of any previously deferred costs would be required in the year in which such criteria are no longer met (if such deferred costs are not recoverable in the portion of the business that continues to meet the criteria for application of ASC 980).

#### **Accounting for Pensions and Other Postretirement Benefits**

UIL Holdings accounts for its pension and postretirement benefit plans in accordance with ASC 715 "Compensation – Retirement Benefits." In applying these accounting practices, assumptions are made regarding the valuation of benefit

obligations and the performance of plan assets. Delayed recognition of differences between actual results and those assumed allows for a smoother recognition of changes in benefit obligations and plan performance over the working lives of the employees who benefit under the plans. The primary assumptions are as follows:

- Discount rate – this rate is based upon a portfolio of bonds, selected to settle pension liabilities as of the reporting date and is adjusted annually to reflect the movement of long-term interest rates
- Expected return on plan assets – the expected return is based upon a combination of historical performance and anticipated future returns for a portfolio reflecting the mix of equity, debt and other investments included in plan assets.
- Average wage increase – projected annual pay increases, which are used to determine the wage base used to project employees' pension benefits at retirement.
- Health care cost trend rate – projections of expected increases in health care costs.

These assumptions are the responsibility of management, in consultation with its outside actuarial and investment advisors. A variance in the discount rate, expected return on assets or average wage increase could have a significant impact on pension costs, assets and obligations recorded under ASC 715. In addition to a change in the discount rate and the expected return on assets, a variance in the health care cost trend assumption could have a significant impact on postretirement medical expense recorded under ASC 715.

UIL Holdings applies consistent estimation techniques regarding its actuarial assumptions, where appropriate, across the pension and postretirement plans of its operating subsidiaries. The estimation technique utilized to develop the discount rate for its pension and postretirement benefit plans is based upon the settlement of such liabilities as of December 31, 2012 utilizing a hypothetical portfolio of actual, high quality bonds, which would generate cash flows required to settle the liabilities. UIL Holdings believes such an estimate of the discount rate accurately reflects the settlement value for plan obligations and results in cash flows which closely match the expected payments to participants.

UIL Holdings is utilizing a discount rate of 4.25% as of December 31, 2012 for all of its qualified pension plans, compared to a rate of 5.30% in 2011. The decline in the discount rate resulted in an increase to the projected benefit obligation of approximately \$100 million from 2011 to 2012. The discount rate for non-qualified pension plans as of December 31, 2012 was 4.0% compared to 5.05% in 2011. The discount rates for UIL Holdings' other postretirement benefits plans reflects the differing plan requirements and expected future cash flows. For the UI other postretirement plan, the discount rate at December 31, 2012 and 2011 was 4.25%. For the Gas Companies' other postretirement plans, the December 31, 2012 discount rate is a composite rate of 4.0% compared to 5.05% the previous year. UIL Holdings' expected return on plan assets ranged from 5.56% to 8.0% compared to a range from 5.86% to 8.50% the previous year.

The assumptions listed above may be revised over time as economic and market conditions change. Changes in those assumptions could have a material impact on pension and other postretirement expenses. For example, if there had been a 0.25% change in the discount rate assumed for the pension plans, the 2012 pension expense would have increased or decreased inversely by \$2.5 million. If there had been a 1% change in the expected return on assets assumed for the pension plans, the 2012 pension expense would have increased or decreased inversely by \$6.4 million. If there had been a 0.25% change in the discount rate assumed for the other postretirement benefits plans, the 2012 other postretirement benefits plan expenses would have increased or decreased inversely by \$0.4 million. If there had been a 1% change in the expected return on assets assumed for the other postretirement benefits plans, the 2012 other postretirement benefits plan expenses would have increased or decreased inversely by \$0.1 million.

The projected, long-term average wage increases ranged from 3.5% to 3.8% in 2012. The health care cost trend rate assumption for all retirees was set at 8.0% in 2012, with such rate decreasing by 0.5% per year to 5.0% in 2018.

UIL Holdings' 2012 pension and other postretirement benefits expenses were \$32.4 million and \$7.5 million, respectively, net of amounts deferred as a regulatory asset.

The assumptions are used to predict the net periodic expense on a forward-looking basis. To the extent actual investment earnings, actual wage increases and other items differ from the assumptions, a gain or loss is created, and subsequently amortized into expense.

UIL Holdings reflects all unrecognized prior service costs and credits and unrecognized actuarial gains and losses as regulatory assets as it is probable that such items will be recovered through the ratemaking process in future periods.

#### **Accounting for Contingencies**

ASC 450 "Contingencies" applies to an existing condition, situation or set of circumstances involving uncertainty as to possible loss that will ultimately be resolved when one or more future events occur or fail to occur. In accordance with ASC 450, UIL Holdings accrues estimated losses related to each contingency as to which a loss is probable and can be reasonably estimated; no liability is accrued for any contingency as to which a loss is not probable or cannot be reasonably estimated. With respect to amounts accrued for contingencies related to UIL Holdings' regulated subsidiaries, if it is probable that such estimated costs will be recovered through the ratemaking process, recognition of such costs is deferred in accordance with the provisions of ASC 980 (see "Accounting for Regulated Public Entities – ASC 980" of this item). Refer to Part II, Item 8, "Financial Statements and Supplementary Data – Notes to Consolidated Financial Statements – Note (J), Commitments and Contingencies" of this Form 10-K for a detailed discussion of UIL Holdings' current known material contingencies.

#### **Goodwill**

Pursuant to the authoritative guidance on goodwill and other intangible assets, goodwill is not amortized; rather, impairment tests are performed at least annually or more frequently if circumstances indicate an impairment may have occurred. If an impairment exists, the goodwill is immediately written down to its fair value through a current charge to income. Accordingly, the goodwill arising from the Acquisition is subject to an impairment test at least annually.

The fair market value of each of UIL Holdings' applicable reporting units is estimated using certain key assumptions that require significant judgment. This judgment includes developing cash flow projections (including the selection of appropriate returns on equity, long-term growth rates, and capital expenditure levels), selecting appropriate discount rates, and identifying relevant market comparables.

UIL Holdings completed its annual goodwill impairment tests for all of its reporting units that carry a goodwill balance as of October 1, 2012. The estimated fair values for the reporting units were determined by using the income approach and the market approach methodologies.

The income approach was based on discounted cash flows which were derived from internal forecasts and economic expectations. Key assumptions used to determine fair value under the income approach included the cash flow period, terminal values based on a terminal growth rate, and the discount rate. The discount rate represents the estimated cost of debt and equity financing weighted by the percentage of debt and equity in a company's target capital structure.

The market approach utilized the guideline company method, which calculates valuation multiples based on operating and valuation metrics from publicly traded guideline companies in the regulated natural gas distribution industry. Multiples derived from the guideline companies provided an indication of how much a knowledgeable investor in the marketplace would be willing to pay for an investment in a similar company. These multiples were then applied to the appropriate operating metric to determine indications of fair value.

As of October 1, 2012, the fair values of UIL Holdings' applicable reporting units exceeded their carrying values and therefore no impairment was recognized. No events or circumstances occurred subsequent to October 1, 2012 that would make it more likely than not that the fair value of the reporting units fell below their respective carrying values.

## OFF-BALANCE SHEET ARRANGEMENTS

UIL Holdings occasionally enters into guarantee contracts in the ordinary course of business. At the time a guarantee is provided, an analysis is performed to assess the expected financial impact, if any, based on the likelihood of certain events occurring that would require UIL Holdings to perform under such guarantee. Subsequent analysis is performed on a periodic basis to assess the impact of any changes in events or circumstances.

As of December 31, 2012, UIL Holdings had certain immaterial guarantee contracts outstanding for which no liability has been recorded in the Consolidated Financial Statements.

## NEW ACCOUNTING STANDARDS

UIL Holdings reviews new accounting standards to determine the expected financial impact, if any, that the adoption of each such standard will have. As of the filing of this Annual Report on Form 10-K, there were no new accounting standards issued that were projected to have a material impact on UIL Holdings' consolidated financial position, results of operations or liquidity. Refer to Part II, Item 8, "Financial Statements and Supplementary Data – Notes to Consolidated Financial Statements – Note (A), Statement of Accounting Policies – New Accounting Standards," for further discussion regarding new accounting standards.

## RESULTS OF OPERATIONS

### Use of Non-GAAP Measures

Within the "Results of Operations" section of this Form 10-K, tabular presentations showing a comparison of UIL Holdings' net income and earnings per share (EPS) for 2012 and 2011, as well as 2011 and 2010, are provided, along with reconciliations for certain non-GAAP measures. The amounts presented show the EPS for each of UIL Holdings' lines of business, as well as non-utility acquisition and closing-related expenses, calculated by dividing the income of each line of business by the average number of shares of UIL Holdings' common stock outstanding for the periods presented. UIL Holdings believes this information is useful in understanding the fluctuations in EPS between the current and prior year periods.

### Results of Operations: 2012 vs. 2011

	<b>Year Ended December 31,</b>		<b>2012 More</b>
	<b>2012</b>	<b>2011</b>	<b>(Less)</b>
			<b>than 2011</b>
<b>Net Income (Loss) (In Millions except per share amounts)</b>			
Electric Distribution and Transmission	\$ 84.7	\$ 68.9	\$ 15.8
Gas Distribution	32.2	43.8	(11.6)
Non-Utility	(13.3)	(13.0)	(0.3)
Net Income attributable to UIL Holdings	<u>\$ 103.6</u>	<u>\$ 99.7</u>	<u>\$ 3.9</u>
<b>EPS</b>			
Electric Distribution and Transmission	\$ 1.67	\$ 1.36	\$ 0.31
Gas Distribution	0.63	0.87	(0.24)
Non-Utility	(0.26)	(0.27)	0.01
Total EPS - Basic	<u>\$ 2.04</u>	<u>\$ 1.96</u>	<u>\$ 0.08</u>
Total EPS - Diluted	<u>\$ 2.02</u>	<u>\$ 1.95</u>	<u>\$ 0.07</u>

UIL Holdings' net income was \$103.6 million, or \$2.04 per share, an increase of \$3.9 million, or \$0.08 per share, compared to 2011. The table above presents a comparison of UIL Holdings' net income and EPS for 2012 and 2011.

## **Electric Distribution and Transmission**

Overall, UI's operating revenue decreased by \$14.2 million, from \$797.7 million in 2011 to \$783.5 million in 2012. Retail revenue decreased \$33.0 million, which was primarily attributable to decreases in distribution sales volume resulting from warmer than normal winter temperatures in 2012 compared to 2011. Retail sales decreased by 145 million kWh, from 5,576 million kWh in 2011, to 5,431 million kWh in 2012. Retail sales normalized for the weather impact decreased 74 million kWh, from 5,485 million kWh in 2011, to 5,411 million kWh in 2012. Other revenues increased \$18.6 million, which was primarily attributable to higher transmission revenue as well as the net activity of the SBC working capital allowances due to timing differences, partially offset by the net activity of the GSC working capital allowance due to timing differences.

Purchased power expense decreased by \$25.6 million, from \$180.1 million in 2011 to \$154.5 million in 2012. The decrease was primarily attributable to decreased prices of procured wholesale power and decreased sales volume, as discussed above. UI receives electricity to satisfy its standard service and supplier of last resort requirements through fixed-price purchased power agreements. The variance does not impact net income as these costs are recovered through the GSC and Bypassable Federally Mandated Congestion Charges portions of UI's unbundled retail customer rates.

UI's O&M expenses decreased by \$26.3 million, from \$248.3 million in 2011, to \$222.0 million in 2012. The decrease was primarily attributable to a decrease in outside services expenses due primarily to decreased maintenance related to certain projects, a decrease in rent expense due to a reduction in office space utilized by UIL Holdings headquarters, and decreased uncollectible expense, primarily due to a decrease in customer account write-off activity.

UI's transmission wholesale expenses increased by \$1.5 million, from \$78.0 million in 2011 to \$79.5 million in 2012. The increase was primarily attributable to higher regional transmission expenses, of which UI pays a portion based upon its relative load and which are recovered through rates and, as a result, does not impact net income.

UI's depreciation and amortization increased by \$7.2 million, from \$96.4 million in 2011 to \$103.6 million 2012. The increase was primarily attributable to increased depreciation due to increases in plant and equipment.

UI's interest expense decreased by \$2.5 million, from \$43.7 million in 2011 to \$41.2 million in 2012. The decrease was primarily attributable to a reduction in carrying charges on deferred amounts due to customers, along with the reversal of the interest accrued on an uncertain tax position related to the tax deduction for repairs and maintenance expenses.

UI's income tax expense increased by \$18.1 million, from \$44.0 million in 2011 to \$62.1 million in 2012. The increase was primarily attributable to higher pre-tax book income in 2012 compared to 2011 as a result of the items described above as well as an increase in the effective income tax rate due primarily to a decrease in the equity portion of allowance for funds used during construction (AFUDC), which is a flow-through book/tax difference.

UI's income from equity investments increased by \$4.0 million, from \$11.3 million in 2011 to \$15.3 million in 2012. The increase was primarily attributable to increased income from the investment in GenConn due to both of GenConn's peaking generation projects now participating in the ISO-New England markets.

Many of the changes in UI's unbundled revenue and expense components impact line items in its Consolidated Statement of Income, but do not affect net income, because the costs associated with those components are passed through to customers. The following discussion details variances which have the most significant impact on net income in the periods presented.

## Distribution

The distribution business, which includes all electric utility revenue and expenses except for transmission, had total net income of \$52.7 million, an increase of \$15.1 million, compared to 2011. The increase in net income was primarily attributable to increased income from the investment in GenConn as well as decreases in outside services, facilities rent and uncollectible expenses.

## Transmission

The transmission business had total net income of \$32.0 million, an increase of \$0.7 million, compared to 2011. The increase was primarily attributable to income earned on an increase in rate base, partially offset by a decrease in AFUDC.

## **Gas Distribution**

The gas distribution business had net income of \$32.2 million, a decrease of \$11.6 million, compared to 2011. The decrease was primarily attributable to lower sales volume due to the impact of warmer weather and reduced per customer usage in 2012 compared to 2011. The warmer temperatures and reduced per customer usage in 2012 compared to 2011 resulted in a \$11.1 million decrease, pre-tax, in gross margin (operating revenues less natural gas purchased) in 2012 compared to 2011. The decrease in net income was partially offset by a decrease in interest expense.

The Gas Companies' operating revenue decreased by \$69.4 million, from \$772.3 million in 2011 to \$702.9 million in 2012. The decrease was primarily attributable to lower sales volume due to warmer weather. Retail sales decreased by 2.9 million mcf, from 72.2 million mcf in 2011, to 69.3 million mcf in 2012. Temperatures were warmer in 2012 compared to 2011 which resulted in 10.8% fewer heating degree days. Compared to normal temperatures for 2012, there was 16.4% fewer heating degree days.

Purchased gas expense decreased by \$58.9 million, from \$429.1 million in 2011 to \$370.2 million in 2012. The decrease was primarily attributable to lower sales volume due to warmer weather.

The Gas Companies' O&M expense increased by \$4.6 million, from \$133.1 million in 2011 to \$137.7 million in 2012. The increase was primarily attributable to increased general and administrative expenses primarily due to increased shared services costs and increased uncollectible expenses primarily due to increased customer account write-off activity.

The Gas Companies' depreciation and amortization increased by \$4.5 million, from \$70.7 million in 2011 to \$75.2 million 2012. The increase was primarily attributable to the implementation of new depreciation and amortization rates resulting from the settlement of rate case appeals, which became effective in August 2011, and to increased investment in plant and equipment.

The Gas Companies' taxes other than income taxes decreased by \$1.2 million, from \$43.5 million in 2011 to \$42.3 million in 2012. The decrease was primarily attributable to lower gross receipts tax due to the decrease in operating revenues.

The Gas Companies' other income and deductions decreased by \$2.5 million, from \$6.6 million in 2011 to \$4.1 million in 2012. The decrease was primarily attributable to the absence in 2012 of a non-recurring adjustment recorded in 2011 related to carrying charges resulting from the settlement of rate case appeals.

## **Non-Utility**

UIL Holdings retains certain costs, primarily interest expense on holding company debt, at the holding company, or UIL Holdings Corporate level, which are not allocated to its various subsidiaries. UIL Corporate incurred net after-tax costs of \$13.3 million, or \$0.26 per share, in 2012 compared to net after-tax costs of \$13.0 million, or \$0.26 per share, in 2011.

**Results of Operations: 2011 vs. 2010**

The table below presents a comparison of UIL Holdings' net income and EPS for 2011 and 2010 as well as reconciliations for certain non-GAAP measures. EPS excluding the impact of the Acquisition and September 2010 equity issuance is provided per basic share. The financial results for 2010 include the operations of the Gas Companies for the post-acquisition period of November 17, 2010 through December 31, 2010.

	<b>Year Ended December 31,</b>		<b>2011 More</b>
	<b>2011</b>	<b>2010</b>	<b>(Less)</b>
			<b>than 2010</b>
<b>Net Income (Loss) (In Millions except per share amounts)</b>			
Electric Distribution and Transmission	\$ 68.9	\$ 63.8	\$ 5.1
Non-Utility excluding the impact of the Acquisition	(0.3)	(2.5)	2.2
Net Income excluding the impact of the Acquisition	68.6	61.3	7.3
Gas Distribution	43.8	12.9	30.9
Non-Utility impact of the Acquisition (1)	(12.7)	(19.3)	6.6
Total Net Income	<u>\$ 99.7</u>	<u>\$ 54.9</u>	<u>\$ 44.8</u>
<b>EPS</b>			
Electric Distribution and Transmission	\$ 1.36	\$ 1.78	\$ (0.42)
Non-Utility excluding the impact of the Acquisition	(0.02)	(0.07)	0.05
Net Income excluding the impact of the Acquisition	1.34	1.71	(0.37)
Gas Distribution	0.87	0.36	0.51
Non-Utility impact of the Acquisition	(0.25)	(0.54)	0.29
Total EPS - Basic	<u>\$ 1.96</u>	<u>\$ 1.53</u>	<u>\$ 0.43</u>
Total EPS - Diluted	<u>\$ 1.95</u>	<u>\$ 1.52</u>	<u>\$ 0.43</u>
<b>EPS - Basic: Equity Issuance Impact</b>			
Net Income excluding the impact of the Acquisition	\$ 1.34	\$ 1.71	\$ (0.37)
September 2010 equity issuance	0.92	0.33	0.59
EPS excluding the impact of the Acquisition and September 2010 equity issuance	<u>\$ 2.26</u>	<u>\$ 2.04</u>	<u>\$ 0.22</u>

(1) For the year ended December 31, 2011, the non-utility impact of the Acquisition includes interest expense related to the October 2010 issuance of \$450 million of debt used to partially fund the Acquisition. For the year ended December 31, 2010, the non-utility impact of the Acquisition includes acquisition-related costs as well as interest expense related to the October 2010 issuance of \$450 million of debt used to partially fund the Acquisition.

UIL Holdings' net income was \$99.7 million, or \$1.96 per share, an increase of \$44.8 million, or \$0.43 per share, compared to 2010. Excluding the after-tax impact of the Acquisition and the impact of the earnings dilution associated with the September 2010 equity issuance, net income for 2011 was \$2.26 per share.

**Electric Distribution and Transmission**

Overall, UI's operating revenue decreased by \$61.8 million, from \$859.5 million in 2010 to \$797.7 million in 2011. Retail revenue decreased \$80.0 million, which was primarily attributable to the impact of customers switching to alternate suppliers to supply the generation portion of their customer bill, which has no impact on net income. During 2011, there was an 11.1% increase in kWh provided by alternate suppliers, compared to 2010 which was primarily attributable to an average increase of 43,374 alternate supplier customers in 2011, compared to 2010. Decreases in distribution rates and sales volume also contributed to the decrease in retail revenue. Retail sales decreased by 159 million kWh, from 5,735 million kWh in 2010, to 5,576 million kWh in 2011. Retail sales normalized for the weather impact decreased 102 million kWh, from 5,587 million kWh in 2010, to 5,485 million kWh in 2011. Other revenues increased \$18.2 million, which was primarily attributable to higher transmission revenue as well as the distribution revenue decoupling adjustment, partially offset by the net activity of the GSC working capital allowance due to timing differences.

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Purchased power expense decreased by \$62.2 million, from \$242.3 million in 2010 to \$180.1 million in 2011. The decrease was primarily attributable to the impact of customers switching to alternate suppliers to supply the generation portion of their customer bill, as discussed above, partially offset by higher costs to procure power. UI receives electricity to satisfy its standard service and supplier of last resort requirements through fixed-price purchased power agreements. The variance does not impact net income as these costs are recovered through the GSC and Bypassable Federally Mandated Congestion Charges portions of UI's unbundled retail customer rates.

UI's O&M expenses increased by \$10.0 million, from \$238.3 million in 2010, to \$248.3 million in 2011. The increase was primarily attributable to increases in outside services expenses, primarily relating to line maintenance.

UI's transmission wholesale expenses increased by \$5.8 million, from \$72.2 million in 2010 to \$78.0 million in 2011. The increase was primarily attributable to higher regional transmission expenses, of which UI pays a portion based upon its relative load, and which are recovered through rates.

UI's depreciation and amortization decreased by \$12.0 million, from \$108.4 million in 2010 to \$96.4 million 2011. The decrease was primarily attributable to decreased amortization of software and decreased amortization of the 2009 pension regulatory asset, which has been recovered through rates.

UI's other income and deductions, net increased by \$5.3 million, from \$16.0 million in 2010 to \$21.3 million in 2011. The increase was primarily attributable to an increase in the allowance for funds used during construction (AFUDC) due to UI's average construction work in progress (CWIP) balance increasing by approximately \$115.5 million in 2011 compared to 2010.

UI's interest expense increased by \$3.1 million, from \$40.6 million in 2010 to \$43.7 million in 2011. The increase was primarily attributable to increased short-term borrowings.

UI's income from equity investments increased by \$10.0 million, from \$1.3 million in 2010 to \$11.3 million in 2011. The increase was primarily attributable to increased income from the investment in GenConn due to the completion of GenConn Middletown.

Many of the changes in UI's unbundled revenue and expense components impact line items in its Consolidated Statement of Income, but do not affect net income, because the costs associated with those components are passed through to customers. The following discussion details variances which have the most significant impact on net income in the periods presented.

### Distribution

The distribution business, which includes all electric utility revenue and expenses except for transmission, had total net income of \$37.6 million, an increase of \$2.2 million, compared to 2010. The increase in net income was primarily attributable to increased income from the investment in GenConn, partially offset by lower CTA rate base and increased outside services expenses.

### Transmission

The transmission business had total net income of \$31.3 million, an increase of \$3.0 million, compared to 2010. The increase was primarily attributable to an increase in AFUDC.

### **Gas Distribution**

The gas distribution business had net income of \$43.8 million, which includes the impact of temperatures being an average of 6.9% warmer than normal in 2011.

### **Non-Utility**

UIL Holdings retains certain costs, primarily interest expense on holding company debt, at the holding company, or UIL Holdings Corporate level, which are not allocated to its various subsidiaries. UIL Corporate incurred net after-tax costs of \$13.0 million, or \$0.26 per share, in 2011 compared to net after-tax costs of \$21.8 million, or \$0.61 per share, in 2010. The decrease was primarily attributable to the absence in 2011 of acquisition-related expenses incurred in 2010, partially offset by interest expense related to the October 2010 issuance of \$450 million of public debt, the proceeds of which were used to partially fund the Acquisition.

**Item 7A. Quantitative and Qualitative Disclosures About Market Risk.**

The following discussion details the primary market risks applicable to UIL Holdings and its subsidiaries.

UIL Holdings faces the risks that UIL Holdings and its subsidiaries will not be able to access the bank and/or debt and equity capital markets or be able to access these markets on favorable terms to refinance debt as it matures, to remarket debt in the municipal bond market, to issue new debt or equity to support capital requirements, or to secure bank credit facilities to provide sufficient liquidity.

There has been considerable dislocation in the auction rate municipal bond market, and there have been failed auctions, resulting from insufficient clearing bids. The auctions for the \$64.5 million principal amount of auction rate bonds have failed, beginning with the March 2008 auction. When there are insufficient clearing bids as a result of an auction, the interest rates are set at a rate equal to one-month LIBOR times a multiple of 125% to 225%, based on the credit rating on the auction rate bonds assigned by Moody's or S&P. The principal and interest payments on \$64.5 million principal amount of tax-exempt auction rate bonds are insured by Ambac Assurance Corporation (Ambac), but the bonds are currently rated based on the underlying credit rating of UI of Baa2. In the event of subsequent failed auctions of these bonds, the interest rate will continue to be reset as described above. The interest rate on these bonds was 0.52% at February 6, 2012 which was equal to two times LIBOR. The interest rate risk of variable rate financings, including the reset at auction of the interest rate on this \$64.5 million principal amount of auction rate bonds, is \$0.2 million of increased interest expense for every 0.25% increase in interest rates. UI continues to review conditions in the municipal bond market and plans to refund the \$64.5 million principal amount of these bonds, at such time when market conditions and financing terms are economically favorable.

The 4.50% Series 2010 notes, due July 1, 2027 in the principal amount outstanding of \$25.7 million, are due to be remarketed in the municipal bond market on July 1, 2015.

The weighted-average remaining fixed rate period of outstanding long-term debt obligations of UIL Holdings and its subsidiaries as of December 31, 2012 was 12.0 years, at an average interest rate of 5.6%.

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The table below provides information about the long-term debt of UIL Holdings and its subsidiaries that exposes UIL Holdings to interest rate risk. The table presents principal cash flows and related weighted-average interest rates by expected maturity dates and by fixed interest rate expiration dates.

	<u>2013</u>	<u>2014</u>	<u>2015</u>		<u>2016</u>	<u>2017</u>	<u>Thereafter</u>	<u>Total</u>	<u>Fair Value</u>
	<b>Expected Maturity Date (In Thousands)</b>								
UIL Holdings									
Long-Term Debt	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 450,000	\$ 450,000	\$ 476,875
Average interest rate	-	-	-	-	-	-	4.63%	4.63%	
UI									
			(1)	(2)			(3)		
Long-Term Debt	\$ -	\$ -	\$ 27,500	\$ 70,000	\$ -	\$ -	\$ 672,960	\$ 770,460	\$ 900,614
Average interest rate	-	-	4.50%	6.06%	-	-	5.04%	5.11%	
Gas Companies									
Long-Term Debt	\$ 41,455	\$ 6,455	\$ 1,455	\$ 11,455	\$ 21,455	\$ 307,815	\$ 390,090	\$ 508,950	
Average interest rate	6.71%	8.05%	7.80%	8.93%	8.88%	6.49%	6.74%		

(1) Includes \$27.5 million of 4.50% pollution control revenue bonds due July 2027.

(2) Includes \$70 million of 6.06% Senior Notes due 2017.

(3) Includes \$77 million of 6.26% Senior Notes due 2022, \$28 million of 6.51% Senior Notes due 2037, \$50 million of 6.46% Senior Notes due 2018, \$50 million of 6.51% Senior Notes due 2018, \$50 million of 6.61% Senior Notes due 2020, \$50 million of 5.61% Senior Notes due 2025, \$100 million of 6.09% Senior Notes due 2040, \$31 million of 2.98% Senior Unsecured Notes due 2019, \$85.5 million of 3.63% Senior Unsecured Notes, \$87 million of 4.89% Senior Unsecured Notes, and \$64.5 million Auction Rate Bonds.

The short-term borrowing costs of UIL Holdings and its subsidiaries fluctuate with the upward and downward movements of LIBOR, JPMorgan Chase Bank's prime rate and the Federal Funds Rate (as defined in the short-term credit facility of UIL Holdings and its subsidiaries and the short-term credit facility of UIL Holdings described in Part II, Item 8. "Financial Statements and Supplementary Data – Notes to Consolidated Financial Statements" – Note (D) "Short-Term Credit Arrangements" of this Form 10-K, respectively). Rates associated with the money market loan arrangement that UIL Holdings has with JPMorgan Chase Bank fluctuate based on rates in the money market. Such rates are influenced by financial market conditions and the actions of the Federal Reserve.

In addition, UI requires that its energy suppliers provide performance security to guarantee performance under contracts for standard service and supplier of last resort service. Specifically, UI requires wholesale suppliers to provide both parent guarantees and letters of credit. This performance assurance is intended to allow UI to recover for its customers the cost of replacement power, as well as administrative and legal costs, associated with a supplier default.

Asset values of funded plans as of December 31, 2012 and December 31, 2011 were approximately \$623.2 million and \$548.1 million, respectively. During the year ended December 31, 2012, UIL Holdings made total pension contributions of \$48.5 million. UIL Holdings currently expects to make pension contributions of approximately \$50 million to \$60 million in 2013, of which \$30 million was contributed on January 4, 2013. Such contribution levels will be adjusted, if necessary, based upon final actuarial calculations.

**Item 8. Financial Statements and Supplementary Data.**

**UIL HOLDINGS CORPORATION**  
**CONSOLIDATED STATEMENT OF INCOME**  
**For the Years Ended December 31, 2012, 2011 and 2010**  
**(In Thousands except per share amounts)**

	<u>2012</u>	<u>2011</u>	<u>2010</u>
<b>Operating Revenues</b>	\$ 1,486,501	\$ 1,570,094	\$ 997,666
<b>Operating Expenses</b>			
Operation			
Purchased power	154,546	180,149	242,268
Natural gas purchased	370,234	429,079	81,428
Operation and maintenance	356,277	381,814	258,282
Transmission wholesale	79,469	77,997	72,169
Depreciation and amortization (Note F)	181,348	167,462	113,946
Taxes - other than income taxes (Note F)	114,037	114,211	78,702
Acquisition-related costs	-	-	25,572
Total Operating Expenses	<u>1,255,911</u>	<u>1,350,712</u>	<u>872,367</u>
<b>Operating Income</b>	<u>230,590</u>	<u>219,382</u>	<u>125,299</u>
<b>Other Income and (Deductions), net (Note F), (Note H)</b>	<u>25,246</u>	<u>26,932</u>	<u>17,262</u>
<b>Interest Charges, net</b>			
Interest on long-term debt	86,469	87,394	50,357
Other interest, net (Note F)	<u>3,636</u>	<u>5,216</u>	<u>1,553</u>
	90,105	92,610	51,910
Amortization of debt expense and redemption premiums	<u>2,437</u>	<u>2,775</u>	<u>1,788</u>
Total Interest Charges, net	<u>92,542</u>	<u>95,385</u>	<u>53,698</u>
<b>Income Before Income Taxes, Equity Earnings</b>	163,294	150,929	88,863
Income Taxes (Note E)	<u>74,866</u>	<u>62,501</u>	<u>35,284</u>
<b>Income Before Equity Earnings</b>	88,428	88,428	53,579
Income from Equity Investments	<u>15,273</u>	<u>11,282</u>	<u>1,278</u>
<b>Net Income</b>	103,701	99,710	54,857
<b>Less:</b>			
<b>Preferred Stock Dividends of</b>			
<b>Subsidiary, Noncontrolling Interests</b>	<u>64</u>	<u>54</u>	<u>3</u>
<b>Net Income attributable to UIL Holdings</b>	<u>\$ 103,637</u>	<u>\$ 99,656</u>	<u>\$ 54,854</u>
<b>Average Number of Common Shares Outstanding - Basic</b>	50,831	50,609	35,722
<b>Average Number of Common Shares Outstanding - Diluted</b>	51,108	50,926	36,083
<b>Earnings Per Share of Common Stock - Basic (Note A)</b>	<u>\$ 2.04</u>	<u>\$ 1.96</u>	<u>\$ 1.53</u>
<b>Earnings Per Share of Common Stock - Diluted (Note A)</b>	<u>\$ 2.02</u>	<u>\$ 1.95</u>	<u>\$ 1.52</u>
<b>Cash Dividends Declared per share of Common Stock</b>	<u>\$ 1.728</u>	<u>\$ 1.728</u>	<u>\$ 1.728</u>

**UIL HOLDINGS CORPORATION**  
**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
**For the Years Ended December 31, 2012, 2011 and 2010**  
**(Thousands of Dollars)**

2012                      2011                      2010

<b>Net Income</b>	\$ 103,701	\$ 99,710	\$ 54,857
<b>Other Comprehensive Income (Loss), net</b>	(74)	(541)	166
<b>Comprehensive Income</b>	<u>103,627</u>	<u>99,169</u>	<u>55,023</u>
<b>Less:</b>			
<b>Preferred Stock Dividends of Subsidiary, Noncontrolling Interests</b>	64	54	3
<b>Comprehensive Income attributable to UIL Holdings</b>	<u>\$ 103,563</u>	<u>\$ 99,115</u>	<u>\$ 55,020</u>

The accompanying Notes to the Consolidated Financial Statements are an integral part of the financial statements.

**UIL HOLDINGS CORPORATION**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**For the Years Ended December 31, 2012, 2011 and 2010**  
**(Thousands of Dollars)**

	<u>2012</u>	<u>2011</u>	<u>2010</u>
<b>Cash Flows From Operating Activities</b>			
Net income	\$ 103,701	\$ 99,710	\$ 54,857
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	183,785	170,237	115,734
Deferred income taxes	68,121	83,273	57,042
Allowance for funds used during construction (AFUDC) - equity	(7,480)	(10,539)	(7,174)
Stock-based compensation expense (Note A)	4,907	5,286	4,080
Pension expense	39,906	39,028	28,811
Undistributed (earnings) losses in equity investments	(15,440)	(11,702)	(1,440)
Excess generation service charge	4,894	(5,047)	(28,217)
Deferred Transmission (income) expense	(33,007)	(15,408)	36,009
Other non-cash items, net	4,962	(48,632)	(14,643)
Changes in:			
Accounts receivable, net	(51,301)	34,654	(62,370)
Unbilled revenues	(11,999)	9,693	(9,830)
Natural gas in storage	26,748	(3,436)	23,553
Cash distribution received from GenConn	19,672	7,977	-
Accounts payable	(20,221)	4,446	25,209
Interest accrued	900	(1,341)	8,954
Taxes accrued/refundable, net	60,614	(41,366)	(29,598)
Accrued liabilities	16,271	(2,528)	7,962
Accrued pension	(59,317)	(77,005)	(8,862)
Other assets	6,811	2,750	2,605
Other liabilities	(8,586)	(17,188)	12,651
Total Adjustments	<u>230,240</u>	<u>123,152</u>	<u>160,476</u>
<b>Net Cash provided by Operating Activities</b>	<u>333,941</u>	<u>222,862</u>	<u>215,333</u>
<b>Cash Flows from Investing Activities</b>			
Acquisition of Gas Companies, net of cash acquired	-	11,211	(856,952)
Related party note receivable	-	(1,050)	(9,750)
Plant expenditures including AFUDC debt	(288,633)	(328,079)	(203,530)
Investment in GenConn	-	(2,000)	(6,000)
Cash distributions from GenConn	1,872	-	-
Changes in restricted cash	3,717	(4,123)	1,297
Deposits in New England East West Solution (NEEWS) (Note C)	(24,059)	(2,393)	(7,231)
Other	844	401	(114)
<b>Net Cash (used in) Investing Activities</b>	<u>(306,259)</u>	<u>(326,033)</u>	<u>(1,082,280)</u>
<b>Cash Flows from Financing Activities</b>			
Issuances of common stock	1,943	200	502,220
Issuances of long-term debt	203,500	51,050	556,109
Payments on long-term debt	(109,955)	(146,573)	(59,826)
Line of credit borrowings (repayments), net	(48,000)	228,000	2,100
Payment of common stock dividend	(87,490)	(87,274)	(51,836)
Other	(822)	(1,514)	(6,808)
<b>Net Cash provided by (used in) Financing Activities</b>	<u>(40,824)</u>	<u>43,889</u>	<u>941,959</u>
<b>Unrestricted Cash and Temporary Cash Investments:</b>			
<b>Net change for the period</b>	(13,142)	(59,282)	75,012
<b>Balance at beginning of period</b>	30,999	90,281	15,269
<b>Balance at end of period</b>	17,857	30,999	90,281
<b>Cash paid during the period for:</b>			
Interest (net of amount capitalized)	<u>\$ 81,658</u>	<u>\$ 83,365</u>	<u>\$ 33,395</u>
Income taxes	<u>\$ 4,750</u>	<u>\$ 11,475</u>	<u>\$ 24,600</u>
<b>Non-cash investing activity:</b>			
Plant expenditures included in ending accounts payable	<u>\$ 47,475</u>	<u>\$ 45,046</u>	<u>\$ 54,492</u>
Related party note receivable (Note H)	<u>\$ -</u>	<u>\$ 62,833</u>	<u>\$ 55,540</u>

Equity investment in Related Party (Note H)	\$ -	\$ (62,833)	\$ (55,540)
Plant expenditures funded by deposits in NEEWS	\$ (6,346)	\$ -	\$ -
Deposits in New England East West Solution (NEEWS)	\$ 6,346	\$ -	\$ -

The accompanying Notes to the Consolidated Financial Statements are an integral part of the financial statements.

**UIL HOLDINGS CORPORATION**  
**CONSOLIDATED BALANCE SHEET**  
**December 31, 2012 and 2011**

**ASSETS**  
**(In Thousands)**

	<u>2012</u>	<u>2011</u>
Current Assets		
Unrestricted cash and temporary cash investments	\$ 17,857	\$ 30,999
Restricted cash	2,805	6,522
Accounts receivable less allowance of \$11,867 and \$10,939, respectively	230,799	180,465
Unbilled revenues	83,956	71,957
Current regulatory assets (Note A)	118,961	102,900
Natural gas in storage, at average cost	84,768	111,516
Materials and supplies, at average cost	10,709	8,370
Deferred income taxes	41,605	41,635
Refundable taxes	1,686	74,983
Current portion of derivative assets (Note A)	12,671	14,189
Other	20,892	23,692
Total Current Assets	<u>626,709</u>	<u>667,228</u>
Other investments		
Equity investment in GenConn (Note A)	124,799	131,082
Other	23,931	22,571
Total Other investments	<u>148,730</u>	<u>153,653</u>
Net Property, Plant and Equipment	<u>2,787,354</u>	<u>2,570,355</u>
Regulatory Assets <i>(future amounts due from customers through the ratemaking process)</i> (Note A)	<u>1,017,220</u>	<u>983,222</u>
Deferred Charges and Other Assets		
Unamortized debt issuance expenses	16,625	17,631
Other long-term receivable	1,501	1,278
Derivative assets (Note A)	67,167	73,264
Goodwill	266,205	266,797
Other	28,587	11,181
Total Deferred Charges and Other Assets	<u>380,085</u>	<u>370,151</u>
Total Assets	<u>\$ 4,960,098</u>	<u>\$ 4,744,609</u>

The accompanying Notes to the Consolidated Financial  
Statements are an integral part of the financial statements.

**UIL HOLDINGS CORPORATION**  
**CONSOLIDATED BALANCE SHEET**  
**December 31, 2012 and 2011**

**LIABILITIES AND CAPITALIZATION**  
**(In Thousands)**

	<u>2012</u>	<u>2011</u>
Current Liabilities		
Line of credit borrowings	\$ 187,000	\$ 235,000
Current portion of long-term debt	48,296	13,712
Accounts payable	176,861	194,641
Dividends payable	21,887	21,847
Accrued liabilities	98,262	78,138
Current regulatory liabilities (Note A)	21,284	26,245
Taxes accrued	18,235	21,870
Interest accrued	22,427	21,527
Current portion of derivative liabilities (Note A)	30,804	28,888
Total Current Liabilities	<u>625,056</u>	<u>641,868</u>
Noncurrent Liabilities		
Pension accrued	325,547	243,980
Connecticut Yankee contract obligation (Note J)	11,129	14,247
Other post-retirement benefits accrued	98,147	84,810
Derivative liabilities (Note A)	224,639	239,147
Other	49,506	68,371
Total Noncurrent Liabilities	<u>708,968</u>	<u>650,555</u>
Deferred Income Taxes ( <i>future tax liabilities owed to taxing authorities</i> )	<u>456,411</u>	<u>388,553</u>
Regulatory Liabilities ( <i>future amounts owed to customers through the ratemaking process</i> ) (Note A)	<u>452,416</u>	<u>420,175</u>
Commitments and Contingencies (Note J)		
Capitalization (Note B)		
Long-term debt, net of unamortized discount and premium	1,600,354	1,548,347
Preferred Stock of Subsidiary		
Redeemable preferred stock, noncontrolling interests	340	750
Common Stock Equity		
Common stock	936,702	931,153
Paid-in capital	20,400	19,791
Retained earnings	159,900	143,792
Accumulated other comprehensive loss	(449)	(375)
Net Common Stock Equity	<u>1,116,553</u>	<u>1,094,361</u>
Total Capitalization	<u>2,717,247</u>	<u>2,643,458</u>
Total Liabilities and Capitalization	<u>\$ 4,960,098</u>	<u>\$ 4,744,609</u>

The accompanying Notes to the Consolidated Financial  
Statements are an integral part of the financial statements.

**UIL HOLDINGS CORPORATION**  
**Consolidated Statement of Changes in Shareholders' Equity**  
**December 31, 2012, 2011 and 2010**  
**(Thousands of Dollars)**

	Common Stock		Paid-in	Retained	Accumulated Other Comprehensive	Total
	Shares (a)	Amount	Capital	Earnings	Income (Loss)	
Balance as of December 31, 2009	29,976,506	\$ 422,008	\$ 14,859	\$ 137,309	\$ -	\$ 574,176
Net income for 2010				54,857		54,857
Cash dividends on common stock - \$1.728 per share				(60,707)		(60,707)
Preferred stock dividends of subsidiary, noncontrolling interests				(3)		(3)
Issuance of 20,513,492 shares of common stock - no par value	20,528,945	505,486				505,486
Stock based compensation			2,167			2,167
Other comprehensive income (net of deferred tax benefit of \$111)					166	166
Balance as of December 31, 2010	50,505,451	\$ 927,494	\$ 17,026	\$ 131,456	\$ 166	\$ 1,076,142
Net income for 2011				99,710		99,710
Cash dividends on common stock - \$1.728 per share				(87,320)		(87,320)
Preferred stock dividends of subsidiary, noncontrolling interests				(54)		(54)
Issuance of 102,404 shares of common stock - no par value	140,039	3,659				3,659
Stock based compensation			2,765			2,765
Other comprehensive loss (net of deferred tax benefit of \$361)					(541)	(541)
Balance as of December 31, 2011	50,645,490	\$ 931,153	\$ 19,791	\$ 143,792	\$ (375)	\$ 1,094,361
Net income for 2012				103,701		103,701
Cash dividends on common stock - \$1.728 per share				(87,529)		(87,529)
Preferred stock dividends of subsidiary, noncontrolling interests				(64)		(64)
Issuance of 119,627 shares of common stock - no par value	229,093	5,549				5,549
Stock based compensation			609			609
Other comprehensive loss (net of deferred tax benefit of \$49)					(74)	(74)
Balance as of December 31, 2012	50,874,583	\$ 936,702	\$ 20,400	\$ 159,900	\$ (449)	\$ 1,116,553

(a) There were 125,000,000 shares authorized in 2012 and 2011

The accompanying Notes to Consolidated Financial  
Statements are an integral part of the financial statements.

**UIL HOLDINGS CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (continued)**

**(A) STATEMENT OF ACCOUNTING POLICIES**

UIL Holdings is headquartered in New Haven, Connecticut, where its senior management maintains offices and is responsible for overall planning, operating and financial functions. The primary business of UIL Holdings is ownership of its operating regulated utility businesses. The utility businesses consist of the electric distribution and transmission operations of The United Illuminating Company (UI) and the natural gas transportation, distribution and sales operations of The Southern Connecticut Gas Company (SCG), a subsidiary of Connecticut Energy Corporation (CEC), Connecticut Natural Gas Corporation (CNG), a subsidiary of CTG Resources, Inc. (CTG), and The Berkshire Gas Company (Berkshire), a subsidiary of Berkshire Energy Resources (BER, and together with SCG, CNG, Berkshire, CEC and CTG, the Gas Companies). Each of CEC, CTG and BER is a holding company whose sole business is ownership of its respective operating regulated gas utility. The Gas Companies were acquired by UIL Holdings in November 2010 for a purchase price of approximately \$1.3 billion (the Acquisition).

UI is also a 50-50 joint venturer with NRG Energy, Inc. (NRG) in GCE Holding LLC, whose wholly owned subsidiary, GenConn Energy LLC (collectively, GenConn) operates two peaking generation plants in Devon, Connecticut (GenConn Devon) and Middletown, Connecticut (GenConn Middletown).

**Accounting Records**

The accounting records of UIL Holdings are maintained in conformity with generally accepted accounting principles in the United States of America (GAAP).

The accounting records for UI and the Gas Companies are also maintained in accordance with the uniform systems of accounts prescribed by the Federal Energy Regulatory Commission (FERC), PURA, and the Massachusetts Department of Public Utilities (DPU), as applicable.

**Basis of Presentation**

The Consolidated Financial Statements include the accounts of UIL Holdings and its subsidiaries. Intercompany accounts and transactions have been eliminated in consolidation.

The preparation of financial statements in conformity with GAAP requires management to use estimates and assumptions that affect (1) the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and (2) the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Certain immaterial amounts that were reported as such in the Consolidated Financial Statements in previous periods have been reclassified to conform to the current presentation.

**Allowance for Funds Used During Construction**

In accordance with the uniform systems of accounts, the Company capitalizes AFUDC, which represents the approximate cost of debt and equity capital devoted to plant under construction. The portion of the allowance applicable to borrowed funds and the allowance applicable to equity funds are presented as other income in the Consolidated Statement of Income. Although the allowance does not represent current cash income, it has been recoverable under the ratemaking process over the service lives of the related properties. Weighted-average AFUDC rates for 2012, 2011 and 2010 were 5.61%, 5.75% and 6.65%, respectively.

UIL HOLDINGS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (continued)

**Asset Retirement Obligations**

The fair value of the liability for an asset retirement obligation (ARO) and/or a conditional ARO is recorded in the period in which it is incurred and the cost is capitalized by increasing the carrying amount of the related long-lived asset. The liability is adjusted to its present value periodically over time, and the capitalized cost is depreciated over the useful life of the related asset. Upon settlement, the obligation is settled either at its recorded amount or a gain or a loss is incurred. Any timing differences between rate recovery and depreciation expense are deferred as either a regulatory asset or a regulatory liability.

The term conditional ARO refers to an entity's legal obligation to perform an asset retirement activity in which the timing and/or method of settlement are conditional on a future event that may or may not be within the control of the entity. If an entity has sufficient information to reasonably estimate the fair value of the liability for a conditional ARO, it must recognize that liability at the time the liability is incurred.

As of December 31, 2012 and 2011, UIL Holdings' ARO, including estimated conditional AROs, was \$18.3 million and \$18.1 million, respectively, and consisted primarily of obligations related to the removal or retirement of asbestos, polychlorinated biphenyl (PCB)-contaminated equipment, gas pipeline and cast iron gas mains. The long-lived assets associated with the AROs are gas storage property, distribution property and other property. UIL Holdings' ARO is carried on the balance sheet as other long-term liabilities.

**Cash and Temporary Cash Investments**

UIL Holdings considers all of its highly liquid debt instruments with an original maturity of three months or less at the date of purchase to be cash and temporary cash investments.

**Depreciation**

Provisions for depreciation on utility plant for book purposes are computed on a straight-line basis, using estimated service lives. For utility plant other than software, service lives are determined by independent engineers and subject to review and approval by PURA and DPU. Software service life is based upon management's estimate of useful life. The aggregate annual provisions for depreciation for the years 2012, 2011 and 2010 were approximately 3.5%, 3.3%, and 3.6%, respectively, of the original cost of depreciable property.

**Derivatives**

UIL Holdings' regulated subsidiaries are parties to contracts, and involved in transactions, that are derivatives. The fair values of the gross derivative assets and liabilities as of December 31, 2012 and 2011 were as follows:

UIL HOLDINGS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (continued)

<b>December 31, 2012</b>				
<b>(In Thousands)</b>				
	<b>Current Assets</b>	<b>Deferred Charges and Other Assets</b>	<b>Current Liabilities</b>	<b>Noncurrent Liabilities</b>
Contracts for differences	\$ 11,671	\$ 67,167	\$ (30,804)	\$ (224,639)
Weather insurance contracts	1,000	-	-	-
Total derivative assets/(liabilities), gross	<u>\$ 12,671</u>	<u>\$ 67,167</u>	<u>\$ (30,804)</u>	<u>\$ (224,639)</u>
<b>December 31, 2011</b>				
<b>(In Thousands)</b>				
	<b>Current Assets</b>	<b>Deferred Charges and Other Assets</b>	<b>Current Liabilities</b>	<b>Noncurrent Liabilities</b>
Contracts for differences	\$ 10,678	\$ 73,264	\$ (28,888)	\$ (239,147)
Weather insurance contracts	3,511	-	-	-
Total derivative assets/(liabilities), gross	<u>\$ 14,189</u>	<u>\$ 73,264</u>	<u>\$ (28,888)</u>	<u>\$ (239,147)</u>

Contracts for Differences (CfDs)

Pursuant to Connecticut’s 2005 Energy Independence Act (EIA), PURA solicited bids to create new or incremental capacity resources in order to reduce federally mandated congestion charges, and selected four new capacity resources. To facilitate the transactions between selected capacity resources and Connecticut electric customers, and provide the commitment necessary for owners of these resources to obtain necessary financing, PURA required that UI and The Connecticut Light and Power Company (CL&P) execute long-term contracts with the selected resources. In August 2007, PURA approved four CfDs, each of which specifies a capacity quantity and a monthly settlement that reflects the difference between a forward market price and the contract price. UI executed two of the contracts and CL&P executed the other two contracts. The cost of the contracts will be paid by customers and will be subject to a cost-sharing agreement whereby approximately 20% of the cost is borne by UI customers and approximately 80% by CL&P customers.

PURA has determined that costs associated with these CfDs will be recoverable by UI and CL&P, and in accordance with ASC 980 “Regulated Operations,” UI has deferred recognition of costs (a regulatory asset) or obligations (a regulatory liability). The CfDs are marked-to-market in accordance with ASC 815 “Derivatives and Hedging.” For those CfDs signed by CL&P, UI records its approximate 20% portion, pursuant to the cost-sharing agreement noted above. As of December 31, 2012, UI has recorded a gross derivative asset of \$78.8 million, a regulatory asset of \$176.6 million, and a gross derivative liability of \$255.4 million (\$156.9 million of which is related to UI’s portion of CL&P’s derivative liabilities). See Note (K) “Fair Value of Financial Instruments” for additional CfD information.

UIL HOLDINGS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (continued)

The unrealized gains and losses from fair value adjustments to these derivatives recorded in regulatory assets or regulatory liabilities for years ended December 31, 2012 and 2011 were as follows:

	Year Ended December 31,	
	2012	2011
	(In Thousands)	
Regulatory Assets - Derivative assets	\$ (7,500)	\$ 69,397
Regulatory Liabilities - Derivative liabilities	\$ 12	\$ 5,736

Weather Insurance Contracts

On an annual basis, SCG and CNG assess the need for weather insurance contracts for the winter period of November 1 through April 30 in order to provide financial protection from significant weather fluctuations. According to the terms of such contracts, if temperatures are warmer than normal at a prescribed level for the contract period, SCG and CNG each receive a payment, up to the maximum amount allowed under the contracts; however, if temperatures are colder than normal at a prescribed level for the contract period, SCG and CNG each make a payment of up to a maximum amount. The premiums paid are amortized over the terms of the contracts. The fair value of the contracts is carried on the balance sheet as a derivative with changes in value recorded in the income statement as Other Income and (Deductions).

In May 2012, each of SCG and CNG received a payment of \$3 million upon the expiration of their respective contracts for the winter period of November 1, 2011 through April 30, 2012.

In October 2012, SCG and CNG each entered into weather insurance contracts for the winter period of November 1, 2012 through April 30, 2013. If temperatures are warmer than normal, SCG and CNG will each receive a payment, up to the maximum amount allowed under the contracts of \$3 million; however, if temperatures are colder than normal, SCG and CNG will each make a payment of up to a maximum of \$2 million. As of December 31, 2012, the variations from normal weather during the contract periods are not projected to reach the prescribed level stated in the contracts. Accordingly, no amounts were accrued by either SCG or CNG.

In November 2011, Berkshire entered into a weather insurance contract for 2012 in order to provide financial protection from significant weather fluctuations. According to the terms of the contract, if temperatures were warmer than normal for the contract period, Berkshire would receive a payment, up to the maximum amount allowed under the contract of \$1 million. The premiums paid were amortized over the term of the contract. The fair value of the contract is carried on the balance sheet as a derivative with changes in value recorded in the income statement as Other Income and (Deductions). The derivative asset related to this contract totaled \$1 million at December 31, 2012. On January 8, 2013, Berkshire received a payment of \$1 million upon the expiration of the contract. Berkshire did not enter into a weather insurance contract for 2013.

## UIL HOLDINGS CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (continued)

**Earnings per Share**

The following table presents a reconciliation of the basic and diluted earnings per share calculations for the years 2012, 2011 and 2010:

	Year Ended December 31,		
	2012	2011	2010
	(In Thousands, except per share amounts)		
<b>Numerator:</b>			
Net income attributable to UIL Holdings	\$ 103,637	\$ 99,656	\$ 54,854
Less: Net income allocated to unvested units	184	210	149
Net income attributable to common shareholders	<u>\$ 103,453</u>	<u>\$ 99,446</u>	<u>\$ 54,705</u>
<b>Denominator:</b>			
Basic average number of shares outstanding	50,831	50,609	35,722
Effect of dilutive securities	277	317	361
Diluted average number of shares outstanding	<u>51,108</u>	<u>50,926</u>	<u>36,083</u>
<b>Earnings per share:</b>			
Basic	<u>\$ 2.04</u>	<u>\$ 1.96</u>	<u>\$ 1.53</u>
Diluted	<u>\$ 2.02</u>	<u>\$ 1.95</u>	<u>\$ 1.52</u>

All outstanding options to purchase shares of common stock during 2012 were included in the computation of diluted earnings per share because the options' exercise prices were lower than the average market price of the common shares during such period. Options to purchase 89,336 and 98,079 shares of common stock were outstanding during 2011 and 2010, respectively, but were not included in the computation of diluted earnings per share because the options' exercise prices were greater than the average market price of the common shares during such period.

**Equity Investments**

In February 2008, UI and an NRG affiliate formed GenConn, a 50-50 joint venture, for the purpose of constructing peaking generation plants in Connecticut. UI's investment in GenConn is being accounted for as an equity investment, the carrying value of which was \$124.8 million and \$131.1 million as of December 31, 2012 and 2011, respectively.

UI's pre-tax income from its equity investment in GenConn was \$15.3 million, \$11.3 million and \$1.3 million for the years ended December 31, 2012, 2011 and 2010, respectively. During the years ended December 31, 2012 and 2011, UI received cash distributions from GenConn of approximately \$21.5 million and \$8.0 million, respectively, which are reflected as either distributions of earnings or as returns of capital in the operating and investing sections of the Consolidated Statement of Cash Flows, respectively. As of December 31, 2012, there was \$0.1 million of undistributed earnings from UI's equity investment in GenConn.

**Goodwill**

UIL Holdings may be required to recognize an impairment of goodwill in the future due to market conditions or other factors related to its results of operations and performance. Those market events could include a decline in the forecasted results in the company business plan, significant adverse rate case results, changes in capital investment budgets or changes in interest rates that could permanently impair the fair value of a reporting unit. Recognition of impairments of a significant portion of goodwill

UIL HOLDINGS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (continued)

would negatively affect reported results of operations and total capitalization, the effect of which could be material and could make it more difficult to maintain credit ratings, secure financing on attractive terms, maintain compliance with debt covenants and meet expectations of regulators.

A goodwill impairment test is performed each year and the test will be updated between annual tests if events or circumstances occur that may reduce the fair value of a reporting unit below its carrying value. The annual analysis of the potential impairment of goodwill is a two step process. Step one of the impairment test consists of comparing the fair values of reporting units with their aggregate carrying values, including goodwill. If the carrying amount of a reporting unit exceeds the reporting unit's fair value, step two must be performed to determine the amount, if any, of the goodwill impairment loss. If the carrying amount is less than fair value, further testing of goodwill impairment is not performed.

Step two of the goodwill impairment test consists of comparing the implied fair value of the reporting unit's goodwill against the carrying value of the goodwill. Determining the implied fair value of goodwill requires the valuation of a reporting unit's identifiable tangible and intangible assets and liabilities as if the reporting unit had been acquired in a business combination on the testing date. The difference between the fair value of the entire reporting unit as determined in step one and the net fair value of all identifiable assets and liabilities represents the implied fair value of goodwill. A goodwill impairment charge, if any, would be the difference between the carrying amount of goodwill and the implied fair value of goodwill upon the completion of step two.

As of October 1, 2012, the fair values of UIL Holdings' applicable reporting units exceeded their carrying values and therefore no impairment was recognized. No events or circumstances occurred subsequent to October 1, 2012 that would make it more likely than not that the fair value of the reporting units fell below their respective carrying values.

**Impairment of Long-Lived Assets and Investments**

ASC 360 "Property, Plant, and Equipment" requires the recognition of impairment losses on long-lived assets when the book value of an asset exceeds the sum of the expected future undiscounted cash flows that result from the use of the asset and its eventual disposition. If impairment arises, then the amount of any impairment is measured based on discounted cash flows or estimated fair value.

ASC 360 also requires that rate-regulated companies recognize an impairment loss when a regulator excludes all or part of a cost from rates, even if the regulator allows the company to earn a return on the remaining costs allowed. Under this standard, the probability of recovery and the recognition of regulatory assets under the criteria of ASC 980 must be assessed on an ongoing basis. As discussed in the description of ASC 980 in this Note (A) under "Regulatory Accounting," determination that certain regulatory assets no longer qualify for accounting as such could have a material impact on the financial condition of UI, the Gas Companies and UIL Holdings. At December 31, 2012, UI and the Gas Companies, as rate-regulated entities, did not have any assets that were impaired under this standard.

ASC 323 "Investments" requires that a loss in the value of an investment that is other than a temporary decline should be recognized. In accordance with ASC 323, UIL Holdings reviews its investments accounted for by the equity method for impairment by identifying and measuring losses in the value based upon a comparison of fair value to carrying value. At December 31, 2012, UIL Holdings did not have any equity investments that were impaired under this standard.

**Income Taxes**

In accordance with ASC 740 "Income Taxes," UIL Holdings has provided deferred taxes for all temporary book-tax differences using the liability method. The liability method requires that deferred tax balances be adjusted to reflect enacted future tax rates that are anticipated to be in effect when the temporary differences reverse. In accordance with generally accepted accounting principles for regulated industries, UIL Holdings' regulated subsidiaries have established a regulatory asset for the net revenue requirements to be recovered from customers for the related future tax expense associated with certain of these temporary

## UIL HOLDINGS CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (continued)

differences. For ratemaking purposes, UIL Holdings' regulated subsidiaries normalize all investment tax credits (ITCs) related to recoverable plant investments.

Under ASC 740, UIL Holdings may recognize the tax benefit of an uncertain tax position only if management believes it is more likely than not that the tax position will be sustained on examination by the taxing authority based upon the technical merits of the position. The tax benefits recognized in the financial statements from such a position should be measured based upon the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement. UIL Holdings' policy is to recognize interest accrued and penalties associated with uncertain tax positions as a component of operating expense. See – Note (E), Income Taxes for additional information.

UIL Holdings files consolidated federal tax return which include all of the activities of its subsidiaries. Each subsidiary company is treated as a member of the consolidated group and each subsidiary company's current and deferred tax expense or benefit is calculated based on the separate return method.

**Pension and Other Postretirement Benefits**

UIL Holdings accounts for pension plan costs and other postretirement benefits, consisting principally of health and life insurance, in accordance with the provisions of ASC 715 "Compensation - Retirement Benefits." See – Note (G), Pension and Other Benefits.

**Property, Plant and Equipment**

The cost of additions to property, plant and equipment and the cost of renewals and betterments are capitalized. Cost consists of labor, materials, services and certain indirect construction costs, including an allowance for funds used during construction (AFUDC). The costs of current repairs, major maintenance projects and minor replacements are charged to appropriate operating expense accounts as incurred. The original cost of utility property, plant and equipment retired or otherwise disposed of and the cost of removal, less salvage, are charged to the accumulated provision for depreciation.

UIL and the Gas Companies accrue for estimated costs of removal for certain of their plant-in-service. Such removal costs are included in the approved rates used to depreciate these assets. At the end of the service life of the applicable assets, the accumulated depreciation in excess of the historical cost of the asset provides for the estimated cost of removal. In accordance with ASC 980 "Regulated Operations," the accrued costs of removal have been recorded as a regulatory liability. Accrued costs of removal as of December 31, 2012 and 2011 were \$243.9 million and \$224.1 million, respectively.

UIL Holdings' property, plant and equipment as of December 31, 2012 and 2011 were comprised as follows:

	<u>2012</u>	<u>2011</u>
	<u>(In Thousands)</u>	
Electric distribution plant	\$ 860,096	\$ 822,899
Electric transmission plant	577,669	508,738
Gas distribution plant	1,386,288	1,318,914
Software	136,219	139,241
Building and improvements	219,234	112,146
Land	64,421	64,137
Other plant	185,648	166,181
Total property, plant & equipment	3,429,575	3,132,256
Less accumulated depreciation	953,561	929,401
	2,476,014	2,202,855
Construction work in progress	311,340	367,500
Net property, plant & equipment	<u>\$ 2,787,354</u>	<u>\$ 2,570,355</u>

UIL HOLDINGS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (continued)

**Regulatory Accounting**

Generally accepted accounting principles for regulated entities in the United States of America allow UIL Holdings' regulated subsidiaries to give accounting recognition to the actions of regulatory authorities in accordance with the provisions of Accounting Standards Codification (ASC) 980 "Regulated Operations." In accordance with ASC 980, UIL Holdings' regulated utilities have deferred recognition of costs (a regulatory asset) or have recognized obligations (a regulatory liability) if it is probable that such costs will be recovered or obligations relieved in the future through the ratemaking process. UIL Holdings' regulated utilities are allowed to recover all such deferred costs through its regulated rates. See Note (C), "Regulatory Proceedings," for a discussion of the recovery of certain deferred costs, as well as a discussion of the regulatory decisions that provide for such recovery.

UI also has obligations under long-term power contracts, the recovery of which is subject to regulation. If UIL Holdings' regulated utilities, or a portion of their assets or operations, were to cease meeting the criteria for application of these accounting rules, accounting standards for businesses in general would become applicable and immediate recognition of any previously deferred costs would be required in the year in which such criteria are no longer met (if such deferred costs are not recoverable in the portion of the business that continues to meet the criteria for application of ASC 980). UIL Holdings expects its regulated utilities to continue to meet the criteria for application of ASC 980 for the foreseeable future. If a change in accounting were to occur, it could have a material adverse effect on the earnings and retained earnings of the applicable regulated utility and UIL Holdings in that year and could also have a material adverse effect on the on going financial condition of the applicable regulated utility and UIL Holdings.

UIL HOLDINGS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (continued)

UIL Holdings' regulatory assets and liabilities as of December 31, 2012 and 2011 included the following:

	<u>Remaining Period</u>	<u>December 31, 2012</u>	<u>December 31, 2011</u>
(In Thousands)			
Regulatory Assets:			
Nuclear plant investments – above market	(a)	\$ 252,498	\$ 272,943
Connecticut Yankee	3 years	11,129	14,247
Unamortized redemption costs	9 to 21 years	12,103	12,906
Pension and other post-retirement benefit plans	(b)	458,019	344,746
Environmental remediation costs	4 to 5 years	14,772	19,101
Customer rate surcharge	(c)	-	15,757
Hardship programs	(d)	29,852	37,420
Debt premium	1 to 25 years	41,016	48,275
Deferred purchased gas	(e)	12,444	15,558
Deferred income taxes	(f)	731	20,994
Unfunded future income taxes	(f)	17,319	11,657
Contracts for differences	(g)	176,597	184,105
Excess generation service charge	(h)	8,864	13,758
Deferred transmission expense	(i)	21,379	-
Storm Costs	(j)	52,009	29,618
Other	(k)	27,449	45,037
Total regulatory assets		1,136,181	1,086,122
Less current portion of regulatory assets		118,961	102,900
Regulatory Assets, Net		<u>\$ 1,017,220</u>	<u>\$ 983,222</u>
Regulatory Liabilities:			
Accumulated deferred investment tax credits	31 years	\$ 4,612	\$ 4,758
Income taxes due principally to book-tax differences	(k)	41,928	14,445
Deferred gain on sale of property	(a)	37,933	37,798
Middletown/Norwalk local transmission network service collections	37 years	21,975	22,548
Pension and other post-retirement benefit plans	1 to 8 years	15,016	17,956
Deferred income taxes	(f)	48,951	48,740
Asset retirement obligation	(l)	4,995	8,941
Low income programs	(m)	17,651	9,958
Unfunded future income taxes	(f)	125	9,735
Asset removal costs	(k)	243,854	224,125
Deferred transmission expense	(i)	-	11,628
Other	(k)	36,660	35,788
Total regulatory liabilities		473,700	446,420
Less current portion of regulatory liabilities		21,284	26,245
Regulatory Liabilities, Net		<u>\$ 452,416</u>	<u>\$ 420,175</u>

(a) Asset/Liability relates to the Competitive Transition Assessment (CTA). Total CTA costs recovery is currently projected to be completed in 2015, with stranded cost amortization expected to end in 2013. The remaining balances will be fully offset by amounts primarily included in income taxes, due principally to book-tax differences.

(b) Asset life is dependent upon timing of final pension plan distribution; balance is recalculated each year in accordance with ASC 715 "Compensation-Retirement Benefits" (Note G).

(c) Deferral of revenue received for excess refund of overearnings, recovery of which was completed in November 2012.

(d) Hardship customer accounts deferred for future recovery to the extent they exceed the amount in rates.

(e) Deferred purchase gas costs balances at the end of the rate year are normally recorded/returned in the next year.

(f) The balance will be extinguished when the asset or liability has been realized or settled, respectively.

**UIL HOLDINGS CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (continued)**

- (g) Asset life is equal to delivery term of related contracts (which vary from approximately 7 - 15 years); balance fluctuates based upon quarterly market analysis performed on the related derivatives (Note K).
- (h) Working capital allowance for generation service charge; this amount fluctuates based upon cash inflows and outflows in a given period.
- (i) Regulatory asset or liability which defers transmission income or expense and fluctuates based upon actual revenues and revenue requirements.
- (j) Storm costs include accumulated costs for major storms occurring from January 2009 forward. UI will seek recovery of these costs in future rate proceedings.
- (k) Amortization period and/or balance vary depending on the nature, cost of removal and/or remaining life of the underlying assets/liabilities.
- (l) The liability will be extinguished simultaneous with the retirement of the assets and settlement of the corresponding asset retirement obligation.
- (m) Various hardship and payment plan programs approved for recovery.

**Restricted Cash**

UIL Holdings' restricted cash at December 31, 2012 and 2011 totaled \$2.8 million and \$6.5 million, respectively, which primarily relates to electric distribution and transmission capital projects, which have been withheld by UI and will remain in place until the verification of fulfillment of contractor obligations.

**Revenues**

Regulated utility revenues are based on authorized rates applied to each customer. These retail rates are approved by regulatory bodies and can be changed only through formal proceedings.

UI utilizes a customer accounting software package integrated with the network meter reading system to estimate unbilled revenue on a customer-by-customer basis, utilizing actual daily meter readings at the end of each month to calculate consumption and pricing for each customer. A significant portion of utility retail kilowatt-hour consumption is read through the network meter reading system. For those customers still requiring manual meter readings, consumption is estimated based upon historical usage and actual pricing for each customer.

The Gas Companies' unbilled revenues represent estimates of receivables for products and services provided but not yet billed. The estimates are determined based on various assumptions, such as current month energy load requirements, billing rates by customer classification and weather.

**Stock-Based Compensation**

Certain members of management have the opportunity to earn a pre-determined number of performance shares, the number of which is predicated upon the achievement of various pre-defined performance measures over a three-year period. These performance shares are issued under the UIL Holdings 2008 Stock and Incentive Compensation Plan (2008 Stock Plan). Each award of performance shares vests at the end of a three-year cycle with the actual issuance of UIL Holdings' common stock in respect of such performance shares following the end of each three-year cycle. A new three-year cycle begins in January of each year.

UIL Holdings records compensation expense for these performance shares ratably over the three-year period, except in the case of retirement-eligible employees, for whom compensation expense is immediately recognized in accordance with ASC 718 "Compensation-Stock Compensation," based on the value of the expected payout at the end of each year relative to the performance measures achieved.

Pursuant to the 2008 Stock Plan, a target amount of 119,640 performance shares was granted to certain members of management in March 2012; the average of the high and low market price on the grant date was \$34.45 per share.

**UIL HOLDINGS CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (continued)**

Also in March 2012, UIL Holdings granted a total of 2,286 shares of restricted stock to its President and Chief Executive Officer under the 2008 Stock Plan and in accordance with his employment agreement; the average of the high and low market price on the date of grant was \$34.45 per share. Such shares vest in equal annual installments over a five year period.

In May 2012, UIL Holdings granted a total of 23,461 shares of restricted stock to non-employee directors under the 2008 Stock Plan; the average of the high and low market price on the date of grant was \$33.42 per share. Such shares vest in May 2013.

In September 2012, 10,220 shares of previously-granted performance shares were forfeited upon the resignation of a member of management.

Total stock-based compensation expense for the years ended December 31, 2012, 2011 and 2010 was \$4.9 million, \$5.3 million and \$4.1 million, respectively.

**Variable Interest Entities**

UIL Holdings has identified GenConn as a variable interest entity (VIE), which is accounted for under the equity method. UIL Holdings is not the primary beneficiary of GenConn, as defined in ASC 810 “Consolidation,” because it shares control of all significant activities of GenConn with its joint venturer, NRG. As such, GenConn is not subject to consolidation. GenConn recovers its costs through CfDs, which are cost of service-based and have been approved by PURA. As a result, with the achievement of commercial operation by GenConn Devon and GenConn Middletown, UIL Holdings’ exposure to loss is primarily related to the potential for unrecovered GenConn operating or capital costs in a regulatory proceeding, the effect of which would be reflected in the carrying value of UIL Holdings’ 50% ownership position in GenConn and through “Income from Equity Investments” in UIL Holdings’ Consolidated Financial Statements. Such exposure to loss cannot be determined at this time. For further discussion of GenConn, see “–Equity Investments” as well as Note (C) “Regulatory Proceedings – Electric Distribution and Transmission – Equity Investment in Peaking Generation.”

UIL Holdings has identified the selected capacity resources with which UI has CfDs as VIEs and has concluded that UI is not the primary beneficiary as UI does not have the power to direct any of the significant activities of these capacity resources. As such, UIL Holdings has not consolidated the selected capacity resources. UI’s maximum exposure to loss through these agreements is limited to the settlement amount under the CfDs as described in “–Derivatives – Contracts for Differences (CfDs)” above. UI has no requirement to absorb additional losses nor has UI provided any financial or other support during the periods presented that were not previously contractually required.

UIL Holdings has identified the entities for which UI is required to enter into long-term contracts to purchase Renewable Energy Credits (RECs) as VIEs. In assessing these contracts for VIE identification and reporting purposes, UIL Holdings has aggregated the contracts based on similar risk characteristics and significance to UI. UI is not the primary beneficiary as UI does not have the power to direct any of the significant activities of these entities. UI’s exposure to loss is primarily related to the purchase and resale of the RECs, but, any losses incurred are recoverable through electric rates. For further discussion of RECs, see Note (C) “Regulatory Proceedings – Electric Distribution and Transmission – New Renewable Source Generation..

**New Accounting Standards**

In May 2011, the FASB issued amendments to ASC 820 “Fair Value Measurements and Disclosures,” which UIL Holdings adopted on a prospective basis on January 1, 2012. The adoption of the amendments resulted in additional details being included in new and existing tabular fair value disclosures as well as additional discussion regarding unobservable inputs. The implementation of this guidance did not have a material impact on UIL Holdings’ consolidated financial statements.

**(B) CAPITALIZATION**

**Common Stock**

UIL HOLDINGS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (continued)

UIL Holdings had 50,665,114 shares of its common stock, no par value, outstanding as of December 31, 2012 and 50,545,487 shares of its common stock, no par value, outstanding at December 31, 2011. Not included in such shares were 209,469 and 100,003 shares of restricted stock as of December 31, 2012 and 2011, respectively. These shares of restricted stock are, however, recognized as outstanding for purposes of calculating basic earnings per share because such shares represent the net of the amount of deferred vested restricted stock, less the amount of non-deferred unvested restricted stock.

Stock option transactions for 2012, 2011 and 2010 are as follows:

	Number of Options	Option Price per Share	Average Exercise Price
Balance – December 31, 2009	168,501	\$ 21.68-\$34.51	\$ 30.32
Granted	-	N/A	N/A
Forfeited	(3,202)	N/A	N/A
Exercised	(30,305)	\$ 21.68-\$23.64	N/A
Balance – December 31, 2010	134,994	\$ 21.68-\$34.51	\$ 31.70
Granted	-	N/A	N/A
Forfeited	(7,910)	N/A	N/A
Exercised	(28,864)	\$ 21.68-\$31.25	N/A
Balance – December 31, 2011	98,220	\$ 21.68-\$33.96	\$ 33.39
Granted	-	N/A	N/A
Forfeited	(38,000)	N/A	N/A
Exercised	(56,887)	\$ 31.25-\$33.96	N/A
Balance – December 31, 2012	3,333	\$ 21.68	\$ 21.68
Exercisable at December 31, 2010	134,994	\$ 21.68-\$34.51	\$ 31.70
Exercisable at December 31, 2011	98,220	\$ 21.68-\$33.96	\$ 33.39
Exercisable at December 31, 2012	3,333(1)	\$ 21.68	\$ 21.68

(1) The intrinsic value of exercisable stock options at December 31, 2012 was \$0.05 million.

As of December 31, 2012, 2011 and 2010, the weighted-average remaining contractual lives for those options outstanding was 0.3 years, 0.5 years, and 1.3 years, respectively.

As of December 31, 2012, total stock option compensation costs were zero, performance share costs were \$2.4 million, and restricted stock costs related to non-vested awards not yet recognized were \$0.7 million. The weighted-average period over which the stock option compensation costs, performance-share cost, and restricted stock cost will be recognized is zero months, 10 months, and 8 months, respectively.

Cash received from options exercised under all share-based payment arrangements for the years ended December 31, 2012, 2011 and 2010, was \$1.9 million, \$0.8 million, and \$0.7 million, respectively. The actual tax benefit realized by UIL Holdings for the tax deductions from the exercises totaled \$0.1 million for each of 2012, 2011 and 2010.

The shares issued to non-employee directors as well as employee performance shares and options are drawn from the 2008 Stock Plan.

**Redeemable Preferred Stock of Subsidiaries, Noncontrolling Interests**

**UIL HOLDINGS CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (continued)**

The redeemable preferred stock of subsidiaries are noncontrolling interests because they contain a feature that allows the holders to elect a majority of the subsidiary's board of directors if preferred stock dividends are in default in an amount equivalent to four full quarterly dividends. Such a potential redemption-triggering event is not solely within the control of the subsidiary.

CNG has one 8.00% non-callable series of cumulative preferred stock authorized with a par value of \$3.125 per share. As of December 31, 2012, there were 108,706 shares issued and outstanding with a value of approximately \$0.3 million and 775,609 shares authorized but unissued.

CNG also has one 6.00% series of cumulative preferred stock authorized with a par value of \$100 per share. Effective November 30, 2012, CNG redeemed all of its 6.00% series preferred stock, which had 4,104 shares issued and outstanding. As of December 31, 2012, CNG had 9,999,068 shares of \$100 par value preferred stock authorized but unissued.

UIL HOLDINGS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (continued)

Long-Term Debt

	December 31,	
	2012	2011
	(In Thousands)	
<b>UIL Holdings</b>		
4.625% Unsecured Senior Notes, due 2020	\$ 450,000	\$ 450,000
<b>UI</b>		
Pollution Control Revenue Bonds:		
5.75%, 1996 Series, due 2026 (1)	-	7,500
4.50% 2010 Series, due 2027	27,500	27,500
7.13%, 1997 Series, due 2027 (1)	-	71,000
6.88%, 2009 Series, due 2029 (1)	-	25,000
Auction Rate, 2003 Series, due 2033 (2)	64,460	64,460
Senior Unsecured Notes:		
6.06% Senior Notes, Series A and B, due 2017	70,000	70,000
2.98% Senior Notes, Series A due 2019	31,000	-
3.61% Senior Notes, Series B and C and 6.26% Senior Notes, Series C and D, due 2022	162,500	77,000
6.51% Senior Notes, Series E and F due 2037	28,000	28,000
6.46% Senior Notes, Series A and 6.51%, Senior Notes, Series B, due 2018	100,000	100,000
6.61% Senior Notes, Series C, due 2020	50,000	50,000
5.61% Senior Notes, due 2025	50,000	50,000
6.09% Senior Notes, due 2040	100,000	100,000
4.89% Senior Notes, Series D and E, due 2042	87,000	-
<b>Gas Companies</b>		
Senior Secured Notes:		
3.88% - 7.50% Senior Secured Medium Term Note IV, due 2018 - 2041	100,000	100,000
5.77% - 6.38% Senior Secured Medium Term Notes III, due 2025 - 2037	85,000	85,000
6.88% - 7.95% Senior Secured Medium Term Notes I, due 2026 - 2028	29,000	29,000
10.06% First Mortgage Bond Series P, due 2019	10,000	10,000
Unsecured Notes:		
4.76% - 9.60% Senior Unsecured Notes, due 2020 - 2021	21,090	22,545
6.85% - 9.10% Unsecured Medium Term Notes, Series A, due 2013 - 2017	50,000	55,000
6.50% Unsecured Medium Term Note, Series D, due 2013	20,000	20,000
8.12% - 8.49% Unsecured Medium Term Notes, Series B, due 2014 - 2024	10,000	10,000
5.63% - 6.66% Unsecured Medium Term Notes, Series C, due 2035 - 2037	65,000	65,000
Long-Term Debt	1,610,550	1,517,005
Less: Current portion of long-term debt (3)	48,296	13,712
Less: Unamortized discount	2,916	3,221
Plus: Unamortized premium	41,016	48,275
Net Long-Term Debt	<u>\$ 1,600,354</u>	<u>\$ 1,548,347</u>

UIL HOLDINGS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (continued)

- (1) The interest rates on these bonds were due to be remarketed on February 1, 2012; however such bonds were refinanced in January 2012, as discussed below.
- (2) The interest rate on these Bonds is reset through an auction held every 35 days. On January 18, 2013, the interest rate on the Bonds was 0.41%.
- (3) Includes the current portion of unamortized premium.

Substantially all of the respective utility's properties are pledged as collateral for the applicable Senior Secured Medium Term Notes and First Mortgage Bonds.

The weighted-average remaining fixed rate period of outstanding long-term debt obligations of UIL Holdings and its subsidiaries as of December 31, 2012 was 12 years, at an average interest rate of 5.6%.

The fair value of UIL Holdings' long-term debt was \$1.9 billion and \$1.7 billion as of December 31, 2012 and 2011, respectively, which was estimated by UIL Holdings based on market conditions. The expenses to issue long-term debt are deferred and amortized over the life of the respective debt issue or the fixed interest-rate period in the case of pollution control revenue bonds.

Information regarding maturities and mandatory redemptions/repayments are set forth below:

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017 &amp; thereafter</u>
	<b>(In Thousands)</b>				
Maturities	\$ 41,455	\$ 6,455	\$ 1,455	\$ 11,455	\$ 1,549,730

Due to conditions in the municipal bond market, UIL Holdings determined it was economically favorable to refinance multiple series of pollution control revenue bonds in the aggregate principal amount outstanding of \$103.5 million with notes issued in the private placement market. On January 30, 2012, UI entered into a Note Purchase Agreement with a group of institutional accredited investors to issue \$203.5 million principal amount of senior unsecured notes. On January 30, 2012, \$103.5 million of such notes were issued as follows: 3.61%, Series B, due January 31, 2022, in the principal amount of \$51.5 million and 4.89%, Series D, due January 30, 2042, in the principal amount of \$52 million. On April 2, 2012, the remaining \$100 million of such notes were issued as follows: 2.98%, Series A, due January 31, 2019, in the principal amount of \$31 million, 3.61%, Series C, due January 31, 2022 in the principal amount of \$34 million and 4.89%, Series E, due January 30, 2042, in the principal amount of \$35 million.

In September 2011, SCG repaid, upon maturity, the outstanding balance of its 6.59% senior secured medium term notes totaling \$30 million.

On August 29, 2011, SCG entered into a note purchase agreement with a group of institutional accredited investors providing for the sale to such investors of (1) secured 3.88% medium-term notes due September 22, 2021 (constituting a series of first mortgage bonds) in the principal amount of \$25 million, and (2) secured 5.39% medium-term notes due September 22, 2041 (constituting a series of first mortgage bonds) in the principal amount of \$25 million. SCG received \$25 million, upon the issuance of such notes on September 22, 2011.

In July 2011, UI repaid, upon maturity, approximately \$63 million of borrowings under its equity bridge loan (EBL) relating to GenConn. The EBL was used by UI to fund its commitments as a 50-50 joint venturer in GenConn.

In May 2011, Berkshire repaid, upon maturity, the outstanding balance of its 4.76% unsecured notes totaling \$3.0 million.

In February 2011, UIL Holdings repaid, upon maturity, the outstanding balances of its 7.23% Series A Senior Notes totaling \$4.3 million and its 7.38% Series B Senior Notes totaling \$45 million.

**UIL HOLDINGS CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (continued)**

**(C) REGULATORY PROCEEDINGS**

In August 2012, PURA issued a final decision in its investigation of the service response and communications of utilities, including UI, CNG and SCG, after Tropical Storm Irene, which passed through Connecticut in August 2011, and the autumn nor'easter, which passed through Connecticut in October 2011. The decision contains reporting requirements for UI (including with respect to improving mutual assistance and the release of customer information in emergency situations) and CNG and SCG (including with respect to a fueling plan).

In November 2012, pursuant to Connecticut Law (PA 12-148), PURA opened a docket to investigate UI's and the Gas Companies' performance in restoring service following Hurricane Sandy, which passed through Connecticut in October 2012. Hearings are scheduled for the second quarter of 2013 with a final decision expected in the third quarter of 2013.

**Electric Distribution and Transmission**

ISO-NE, an independent, not-for-profit corporation, is the Regional Transmission Organization (RTO) for New England. ISO-NE is responsible for the reliable operation of the region's bulk electric power system, which includes UI's electric system, and administration of the region's wholesale electricity marketplace. ISO-NE also is responsible for the management of the comprehensive bulk electric power system and wholesale markets' planning processes that address the region's electricity needs.

Hurricane Sandy caused extensive damage to the electric system in UI's service territory and resulted in approximately 284,000 customer outages. In accordance with PURA regulatory decisions and past storm cost guidance, UI has established a regulatory asset for its storm-related expense. As of December 31, 2012, UI's estimate of the cost of repairing the damage resulting from the storm and restoring service to customers is approximately \$37.5 million, of which approximately \$12.5 million has been capitalized as property plant and equipment and the remainder as a regulatory asset. UI is seeking recovery of these costs in its rate proceeding discussed below.

**Rates**

On February 15, 2013, UI filed an application to amend its existing distribution rate schedules for two rate years. The changes are designed to produce additional distribution revenues of approximately \$69 million in rate year one (from July 1, 2013 through June 30, 2014) and an additional \$26 million in rate year two (from July 1, 2014 through June 30, 2015). For rate year one, these additional revenues represent an increase of approximately 8.7% over the total revenues that would be expected under current rate schedules and projected sales on a total bill basis. For rate year two, the additional revenues represent an increase of approximately 3.0% over rate year one revenues. Included in this request is the initiation of the recovery of UI's storm regulatory asset of approximately \$52 million for previously incurred storm costs not included in rates. UI's application proposes a six-year recovery period for these costs along with the establishment of a storm reserve of \$2 million per year to help address future storm costs and the ability to defer additional storm costs above the reserve amount as a regulatory asset for recovery in a future proceeding. UI does not currently have a storm reserve funded in rates. In addition, UI proposed to use revenue from other sources, such as the 2010 and 2012 earning sharing amounts owed to customers along with anticipated excess CTA revenue collections, to recover increased distribution revenue requirements through the end of 2013, which allows the implementation of the distribution rate increase to be deferred until January 1, 2014 coincident with the expiration of the CTA rate. PURA is expected to issue a final decision in the third quarter of 2013.

UI's allowed distribution return on equity established by PURA is 8.75%. UI has an earnings sharing mechanism in place that allows the Company to retain 50% of any distribution earnings above the allowed 8.75% ROE in a calendar year.

UI filed its revised distribution 2011 rate year decoupling results with PURA in June 2012. The decoupling results included a decoupling adjustment of approximately \$4.4 million which is to be collected from customers beginning in the first quarter of 2013, pending PURA approval. PURA is expected to issue a decision on the decoupling adjustment in the first quarter of 2013. Additionally, PURA approved last resort service Generation Services Charge rates for the period through March 31, 2013.

UIL HOLDINGS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (continued)

**Power Supply Arrangements**

UI's retail electricity customers are able to choose their electricity supplier. Since January 1, 2007, UI has been required to offer standard service to those of its customers who do not choose a retail electric supplier and have a maximum demand of less than 500 kilowatts. In addition, UI is required to offer supplier of last resort service to customers who are not eligible for standard service and who do not choose to purchase electric generation service from a retail electric supplier licensed in Connecticut.

UI must procure its standard service power pursuant to a procurement plan approved by PURA. The procurement plan must provide for a portfolio of service agreements procured in a manner that maintains standard service cost volatility within reasonable levels. On October 10, 2012, PURA approved the Standard Service Procurement Plan (the Procurement Plan) submitted by DEEP's procurement manager to PURA for approval as required by Connecticut law. The Procurement Plan, which was developed by the procurement manager, in consultation with UI, CL&P and the Connecticut Office of Consumer Counsel (OCC), provides for UI to continue to procure wholesale power for standard service customers on a full requirements basis but reduces the maximum duration of contracts from three years to 12 months, with the delivery of such wholesale power to commence no later than six months from the applicable bid day. The length of term and tranche sizes may be modified by the mutual agreement of UI and the procurement manager.

UI has wholesale power supply agreements in place for the supply of all of its standard service customers for all of 2013, and 30% for the first half of 2014. Supplier of last resort service is procured on a quarterly basis. UI determined that its contracts for standard service and supplier of last resort service are derivatives under ASC 815 "Derivatives and Hedging" and elected the "normal purchase, normal sale" exception under ASC 815 "Derivatives and Hedging." As such, UI regularly assesses the accounting treatment for its power supply contracts. These wholesale power supply agreements contain default provisions that include required performance assurance, including certain collateral obligations, in the event that UI's credit rating on senior debt was to fall below investment grade. In November 2012, Moody's Investor Services released its updated credit opinion for UI and maintained its Baa2 rating with a stable outlook. In May 2012, Standard & Poor's Investor Services released its updated credit opinion for UI, maintaining its BBB rating with a stable outlook. If UI's credit rating were to decline one rating and UI were to be placed on negative credit watch, monthly amounts due and payable to the power suppliers would be accelerated to semi-monthly payments. UI's credit rating would have to decline two ratings to fall below investment grade at either rating service. If this were to occur, UI would have to deliver collateral security in an amount equal to the receivables due to the sellers for the thirty-day period immediately preceding the default notice. If such a situation had been in effect as of December 31, 2012, UI would have had to post approximately \$10.5 million in collateral.

UI is permitted to seek long-term contracts for up to 20% of standard service requirements, in order to obtain long-term energy supply contracts and Connecticut Class I Renewable Energy Certificates for UI's standard service customers that will result in an economic benefit to ratepayers, both in terms of risk and cost mitigation. UI continues to keep apprised of possible long-term contracts that could benefit customers but, UI has not executed any long-term contracts.

**New Renewable Source Generation**

Under Connecticut law, electric distribution companies were required to enter into contracts to purchase the output of new renewable generation totaling at least 150 MW, at prices and upon terms approved by PURA in accordance with statutory requirements. PURA approved a number of these projects from 2007 through 2009, all of which are governed by a cost sharing agreement with CL&P whereby UI pays approximately 20% of the costs and obtains approximately 20% of the benefits of such contracts. UI was a direct party to two of the contracts. UI's costs associated with all such contracts are recoverable, whether UI is a direct party or pursuant to the sharing agreement. In September 2011, PURA issued a report to the legislature stating that, of the original 150 MW, only 47 MW have the capability of achieving commercial operation within contractual deadlines. One of the contracts to which UI was a direct party has since been terminated. Many of the other contracts are also expected to be terminated as the commercial operation deadlines expire. On September 20, 2012, PURA approved a request by Bridgeport

UIL HOLDINGS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (continued)

Fuel Cell Park, LLC to extend the in-service date under its contract with CL&P to February 14, 2014. To date, none of the projects have achieved commercial operation.

Under a 2011 Connecticut law (PA 11-80), UI and CL&P are required to enter into long-term contracts to purchase RECs from small renewable generators located on customer premises. Under this program, UI will be required to enter into contracts totaling approximately \$200 million in commitments over an approximate 21 year period. The obligations will phase in over a six year solicitation period, and are expected to peak at an annual commitment level of about \$13.6 million/year after six years. Upon purchase, the RECs will be accounted for as inventory. UI expects to partially mitigate the cost of the contracts through the resale of the RECs. PA 11-80 provides that the remaining costs of the contracts, including any gain or loss resulting from the resale of the RECs, are recoverable through electric rates. In December 2011, UI and CL&P submitted a joint petition to PURA outlining a plan to address the new requirements and in April 2012, PURA approved the program. In October 2012, UI received PURA approval for executed REC purchase contracts totaling up to approximately \$1.5 million annually in payments for 15 year delivery terms commencing in 2013. On January 8, 2013, UI opened a tariff-based application process to procure RECs from small renewable projects, and expects to enter into REC purchase contracts in the first quarter of 2013 totaling up to approximately \$0.6 million annually in payments for 15 year delivery terms commencing in 2013 and 2014.

PA 11-80 also allows for the development of up to 30 MW of grid-connected renewable energy. UI and CL&P are each allowed to develop projects capable of generating up to 10 MW and DEEP is to solicit proposals for projects capable of generating 10 MW. In December 2011, DEEP announced that it had selected two 5 MW solar projects in CL&P service territory. CL&P executed contracts with the developers of the two 5 MW solar projects to purchase energy and associated products from both projects. These contracts, and the associated cost recovery, have been approved by DEEP and PURA, respectively. UI and CL&P executed a sharing arrangement, pursuant to which UI will pay 20% of the costs, and receive 20% of the revenues, associated with the projects. Pursuant to PURA's approval of the cost recovery, the costs of payments made to projects are recoverable through electric rates. In January 2012, UI filed a proposal with PURA outlining a framework for approval of UI's renewable connections program under which UI would develop up to 10 MW of renewable generation for recovery on a cost of service basis. PURA issued a final decision in July 2012, in which it approved the construction of one solar facility and two fuel cell facilities. The decision approves a return on equity (ROE) equal to the then currently allowed distribution ROE over the life of the investment, which is currently 8.75%. UI had requested a ROE of 9.5% for the renewable connections program projects. In September 2012 PURA reopened the proceeding on its own motion and issued interrogatories, responses to which were filed by UI. UI's participation in the program is voluntary.

**Transitional Standard Offer Incentive (TSO)**

State legislation significantly restructured the electric utility industry in Connecticut in 1998 and 2003. The primary restructuring legislation includes Public Act 98-28 (the 1998 Restructuring Legislation) and Public Act 03-135, as amended in part by Public Act 03-221 (the 2003 Restructuring Legislation). The 2003 Restructuring Legislation provided for PURA to establish an incentive plan for the procurement of long-term contracts for transitional standard offer service that compares UI's actual average contract price to a regional average price for electricity, making adjustments as deemed appropriate by PURA. For each of 2004, 2005 and 2006, if UI's price was lower than the average, the legislation provided for the plan to allocate \$0.00025/kilowatt-hour of transitional standard offer service to the distribution company. PURA issued a final decision in January 2009 that found UI was not eligible for a procurement incentive for 2004. UI appealed PURA's final decision to the state superior court. By decision filed February 5, 2010, the superior court determined that PURA did not apply the proper standard in determining whether UI qualified for the incentive and that PURA made other errors, and remanded the case to PURA for further proceeding in accordance with the court's decision. PURA appealed the superior court's decision to the state appellate court. On October 2, 2012, UI, CL&P and the Connecticut Office of Consumer Counsel (OCC) filed with PURA a joint motion for approval of a settlement agreement by and among UI, CL&P, and the OCC. On October 31, 2012, PURA issued a final decision approving the settlement agreement which resolves all of the issues relating to the incentive for the procurement of power for 2004 through 2006. The settlement agreement provides that UI has met the statutory standard for receiving 2005 and 2006 TSO incentives previously collected of approximately \$2.7 million, which were recorded in the third quarter of 2012 and are included in "Other Income and (Deductions)" in UIL Holdings' Consolidated Statement of Income.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (continued)

The settlement agreement also provides that no further amounts are due from UI to customers relating to the 2004 incentive in light of amounts refunded to customers in 2009.

**Transmission**

PURA decisions do not affect the revenue requirements determination for transmission, including the applicable return on equity (ROE), which are within the jurisdiction of the FERC. The FERC has issued orders establishing allowable ROEs for transmission projects of transmission owners in New England, including UI. The FERC established a base-level ROE of 11.14% in November 2006, as well as a 50 basis point ROE adder on Pool Transmission Facilities (PTF) for participation in the RTO for New England and a 100 basis point ROE incentive for projects included in the ISO-NE Regional System Plan that were completed and on line as of December 31, 2008. For projects placed in service after December 31, 2008, incentives may be requested from the FERC, through a specific showing justifying the incentive, on a project-specific basis.

UI's overall transmission ROE is determined by the mix of UI's transmission rate base between new and existing transmission assets, and whether such assets are PTF or non-PTF. UI's transmission assets are primarily PTF. For 2012, UI's overall allowed weighted-average ROE for its transmission business was 12.3%. UI recovers its transmission revenue requirements on a prospective basis, subject to reconciliation with actual revenue requirements. UI is required to file information regarding its approved formula rates on an annual basis with the FERC.

In September 2011, several New England governmental entities, including PURA, the Connecticut Attorney General and the Connecticut Office of Consumer Counsel, filed a complaint with the FERC against ISO-NE and several New England transmission owners, including UI, claiming that the current approved base ROE on transmission investments of 11.14% is not just and reasonable and seeking a proposed reduction of the base ROE to 9.20%. The New England transmission owners filed their response to the complaint in October 2011, opposing any change to the base ROE as unsupported. In May 2012, the FERC issued an order setting the matter for hearing and establishing settlement procedures. The parties have been unable to reach a settlement. Settlement proceedings have terminated, and a hearing judge has been assigned. Pursuant to the procedural schedule, the direct case of the complainants was filed in October 2012, seeking a base ROE of 9.0%. Respondents filed their answer to the direct case in November 2012. In January 2013, FERC trial staff filed testimony supporting a base ROE of 9.66%. Respondents filed reply testimony to the trial staff's testimony in February 2013. A hearing is scheduled for the second quarter of 2013, with an initial decision by the hearing judge expected in the third quarter of 2013. UI is unable to predict the outcome at this time. A 25 basis point change in the weighted-average ROE for UI's transmission business would change net income by approximately \$0.6 million annually, for example. In the event there is a reduction to the ROE, the May 2012 order established a refund effective date of October 1, 2011, for a period of 15 months.

In December 2012, various customer entities filed a complaint with the FERC against several New England transmission owners, including UI, seeking a proposed reduction of the base ROE to 8.70%. The transmission owners filed an answer and request for dismissal in January 2013, including opposition to the establishment of a second 15 month refund period because the complaint seeks substantially the same relief against the same respondents but for a different 15 month period as the pending complaint of governmental entities. The complainants filed their answer to the respondents' answer in February 2013. UI is unable to predict the outcome at this time.

**New England East-West Solution**

Pursuant to an agreement with CL&P (the NEEWS Agreement), UI has the right to invest in, and own transmission assets associated with, the Connecticut portion of CL&P's New England East West Solution (NEEWS) projects to improve regional energy reliability. NEEWS consists of four inter-related transmission projects being developed by subsidiaries of Northeast Utilities (NU), the parent company of CL&P, in collaboration with National Grid USA. Three of the projects have portions located in Connecticut: (1) the Greater Springfield Reliability Project, which is currently under construction, (2) the Interstate Reliability Project, which has Connecticut Siting Council approval and (3) the Central Connecticut Reliability Project, which is

UIL HOLDINGS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (continued)

currently being considered by ISO-NE as part of a broader study that includes other electrically connected areas within Connecticut.

Under the terms of the NEEWS Agreement, UI has the option to make quarterly deposits to CL&P in exchange for ownership of specific transmission assets as they are placed in service. UI has the right to invest up to the greater of \$60 million or an amount equal to 8.4% of CL&P's costs for the Connecticut portions of the NEEWS projects. Based upon the current projected costs, this amount is approximately \$60 million. As assets are placed in service, CL&P will transfer title to certain transmission assets to UI in proportion to its investments, but CL&P will continue to maintain these portions of the transmission system pursuant to an operating and maintenance agreement with UI. There are certain circumstances under which CL&P can terminate the NEEWS Agreement, but such termination would have no effect on the assets previously transferred to UI.

In June 2012, NU, on behalf of CL&P, submitted the operation and maintenance agreement (the O&M Agreement) between UI and CL&P to the FERC, which the FERC accepted. Under the O&M Agreement, CL&P will serve as a contractor to manage, operate and maintain transmission assets in Connecticut that the FERC has authorized UI to acquire from CL&P.

In September 2012, CL&P transferred approximately \$6.2 million of transmission assets associated with the Greater Springfield Reliability Project to UI, upon which the O&M Agreement became effective. CL&P and UI plan to transfer the remaining portion of this project's assets from CL&P to UI by the end of the first quarter of 2013.

UI made deposits in NEEWS totaling \$33.5 million and \$9.6 million as of December 31, 2012 and 2011, respectively. The total deposits made as of December 31, 2012 include the transferred assets noted above. UI expects to make the remaining deposits over a period of three to five years, depending on the timing and amount of CL&P's capital expenditures and the projects' in service dates. UI earned pre-tax income of approximately \$1.6 million and \$1 million on such deposits in the years ended December 31, 2012 and 2011, respectively.

**Approval for the Issuance of Debt**

UI has PURA approval for the issuance of up to \$379 million principal amount of debt securities from 2010 through 2013 (the Proposed Notes). The proceeds from the sales of any Proposed Notes may be used by UI for the following purposes: (1) to finance capital expenditures; (2) the repayment, in July 2011, of the equity bridge loan, the proceeds of which were used to finance UI's equity contribution in GenConn for the development and construction of GenConn Devon and GenConn Middletown; (3) to fund UI's pension plan; (4) to partially repay short-term borrowings that are incurred to temporarily fund the preceding needs; (5) to pay for issuance costs related to the Proposed Notes; (6) to repay \$103.5 million principal amount outstanding of pollution control revenue bonds, which were remarketed in the municipal bond market in February 2012 and (7) for general corporate purposes. UI has issued \$303.5 million principal amount of senior unsecured notes pursuant to such PURA approval, \$100 million of which were issued in July 2010, \$103.5 million of which were issued in January 2012 and \$100 million of which were issued in April 2012.

**Pension and Postretirement Expenses**

In response to the Internal Revenue Service (IRS) mandated change in mortality tables utilized for certain Employee Retirement Income Security Act of 1974 (ERISA)-related liability calculations, effective January 1, 2007, PURA allowed regulatory treatment for the change in pension and postretirement expenses resulting from the use of the new mortality tables. In 2009, PURA approved the recovery of these expenses over a four-year period beginning in 2009. As of December 31, 2012, the remaining regulatory asset was approximately \$0.1 million.

In 2009, PURA also approved the establishment of an annual regulatory asset to address a portion of the actual increase in pension and postretirement expense for each of 2009 and 2010. As of December 31, 2009, UI had recorded a regulatory asset

**UIL HOLDINGS CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (continued)**

of approximately \$10.2 million which was fully recovered in 2010. Additionally, \$11.4 million was included in rates in 2010 for UI's estimate of 2010 pension and postretirement expense.

**Other Proceedings**

UI generally has several regulatory proceedings open and pending at PURA at any given time. Examples of such proceedings include an annual PURA review and reconciliation of UI's Competitive Transition Assessment (CTA) and Systems Benefits Charges (SBC) revenues and expenses, dockets to consider specific restructuring or electricity market issues, consideration of specific rate or customer issues, and review of conservation programs.

UI files semi-annual true-ups with PURA regarding Bypassable Federally Mandated Congestion Charges and Non-Bypassable Federally Mandated Congestion Charges. These customer charges relate to "congestion costs" associated with not having adequate transmission infrastructure to move energy from the generating sources to the consumer and costs associated with ensuring adequate capacity on the electric system, such as peaking generation and capacity CfDs with generators. These costs change from time to time and the semi-annual true-ups provide a mechanism for the electric distribution companies to adjust the charges to customers that allow the companies to recover the Federally Mandated Congestion Charges.

UI makes a semi-annual transmission adjustment clause (TAC) filing with PURA setting forth its actual transmission revenues, projected transmission revenue requirement, and the required TAC charge or credit so that any under- or over-collections of transmission revenues from prior periods are reconciled along with the expected revenue requirements for the next six months from filing. PURA holds an administrative proceeding to approve the TAC charge or credit and holds a hearing to determine the accuracy of customer billings under the TAC. The TAC tariff and this semi-annual change of the TAC charge or credit facilitates the timely matching of transmission revenues and transmission revenue requirements.

**Equity Investment in Peaking Generation**

UI is a 50-50 joint venturer with NRG in GenConn, which operates two peaking generation plants in Connecticut. The two peaking generation plants, GenConn Devon and GenConn Middletown, are both participating in the ISO-New England markets. PURA has approved revenue requirements for the period from January 1, 2013 through December 31, 2013 of \$33.1 million and \$40.2 million for GenConn Devon and GenConn Middletown, respectively. In addition, PURA has ruled that GenConn project costs that were in excess of the proposed costs originally submitted in 2008 were prudently incurred and are recoverable. Such costs are included in the determination of the 2013 approved revenue requirements. The increase in project costs was driven primarily by increased financing costs and the cost to build interconnection facilities at GenConn Middletown.

UIL HOLDINGS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (continued)

**Gas Distribution**

**Rates**

The allowed returns on equity established by PURA are 9.41% and 9.36% for CNG and SCG, respectively. Berkshire's rates are established by the Massachusetts Department of Public Utilities (DPU). Berkshire's 10-year rate plan, which was approved by the DPU and included an approved ROE of 10.5%, expired on January 31, 2012. Berkshire continues to charge the rates that were in effect at the end of the rate plan.

Purchased Gas Adjustment Clause

SCG and CNG each have purchased gas adjustment clauses and Berkshire has a cost of gas adjustment clause, approved by PURA and DPU, respectively, which enable them to pass their reasonably incurred cost of gas purchases through to customers. These clauses allow utilities to recover costs associated with changes in the market price of purchased natural gas, substantially eliminating exposure to natural gas price risk. Additionally, Berkshire's mechanism allows for the recovery of the gas-cost portion of bad debt.

**Approval for the Issuance of Debt**

Berkshire has DPU approval to issue, from time to time, long-term debt in an aggregate principal amount not to exceed \$20 million through a period ending December 14, 2014. The proceeds from any such debt issuances may be used by Berkshire for the following purposes: (1) to finance capital expenditures; (2) to refinance short-term debt; (3) to pay anticipated environmental expenditures; (4) to provide general working capital; and (5) any other purposes as the DPU may authorize. Berkshire may issue long-term debt with maturities up to 30 years and issue secured or unsecured securities or execute a bank financing.

**Gas Supply Arrangements**

The Gas Companies satisfy their natural gas supply requirements through purchases from various producer/suppliers, withdrawals from natural gas storage capacity contracts and winter peaking supplies and resources. The Gas Companies operate diverse portfolios of gas supply, firm transportation, gas storage and peaking resources. Actual reasonable gas costs incurred by each of the Gas Companies are passed through to customers through state regulated purchased gas adjustment mechanisms, subject to regulatory review.

The Gas Companies purchase the majority of their natural gas supply at market prices under seasonal, monthly or mid-term supply contracts and the remainder is acquired on the spot market. The Gas Companies diversify their sources of supply by amount purchased and location. The Gas Companies primarily acquire gas at various locations in the US Gulf of Mexico region, in the Appalachia region and in Canada.

The Gas Companies acquire firm transportation capacity on interstate pipelines under long-term contracts and utilize that capacity to transport both natural gas supply purchased and natural gas withdrawn from storage to the local distribution system. Collectively, the Gas Companies hold ninety-two firm transportation contracts on twelve different pipelines. Three of those pipelines, Tennessee Gas Pipeline, Algonquin Gas Transmission and Iroquois Gas Transmission, interconnect with one or more of the Gas Companies' distribution system and the other pipelines provide indirect services upstream of the city gates. The prices and terms and conditions of the firm transportation capacity long-term contracts are regulated by the FERC. Similar to the treatment of gas costs, the actual reasonable cost of such contracts is passed through to customers through state regulated purchased gas adjustment mechanisms. The future obligations under these contracts as of December 31, 2012 are as follows:

UIL HOLDINGS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (continued)

	(In Thousands)
2013	\$ 123,376
2014	119,744
2015	97,415
2016	83,070
2017	66,634
2018-after	99,226
	<u>\$ 589,465</u>

The Gas Companies acquire firm underground natural gas storage capacity using long-term contracts and fill the storage facilities with gas in the summer months for subsequent withdrawal in the winter months. Collectively, the Gas Companies hold 24 gas storage contracts with seven different storage contractors. The storage facilities are located in Pennsylvania, New York, West Virginia and Michigan.

Winter peaking resources are primarily attached to the local distribution systems and are either owned or are contracted for by the Gas Companies, each of which is a Local Distribution Company (LDC). Each LDC owns or has rights to the natural gas stored in a Liquefied Natural Gas (LNG) facility directly attached to its distribution system.

**(D) SHORT-TERM CREDIT ARRANGEMENTS**

UIL Holdings, UI, CNG, SCG, and Berkshire are parties to a revolving credit agreement with a group of banks that will expire on November 30, 2016 (the UIL Holdings Credit Facility). The borrowing limit under the UIL Holdings Credit Facility is \$400 million, all of which is available to UIL Holdings, \$250 million of which is available to UI, \$150 million of which is available to each of CNG and SCG, and \$25 million of which is available to Berkshire. The UIL Holdings Credit Facility permits borrowings at fluctuating interest rates and also permits borrowings for fixed periods of time specified by each Borrower at fixed interest rates determined by the Eurodollar interbank market in London (LIBOR). The UIL Holdings Credit Facility also permits the issuance of letters of credit of up to \$50 million.

As of December 31, 2012, there was \$87 million outstanding under the UIL Holdings Credit Facility. Under the UIL Holdings Credit Facility, UIL Holdings has outstanding standby letters of credit in the aggregate amount of \$4.4 million, which expire on January 31, 2014 and June 16, 2013. Available credit under the UIL Holdings Credit Facility at December 31, 2012 totaled \$308.6 million for UIL Holdings and its subsidiaries in the aggregate. UIL Holdings records borrowings under the UIL Holdings Credit Facility as short-term debt, but the UIL Holdings Credit Facility provides for longer term commitments from banks allowing UIL Holdings to borrow and reborrow funds, at its option, until its expiration on November 17, 2014, thus affording UIL Holdings flexibility in managing its working capital requirements. On February 15, 2013, UIL Holdings issued an additional standby letter of credit in the amount of \$1 million which expires on January 31, 2014.

As of December 31, 2012, UIL Holdings had no short-term borrowings outstanding under its money market loan arrangement with JPMorgan Chase Bank.

In October 2012, UIL Holdings entered into a credit agreement with a borrowing limit of \$100 million that expires on October 31, 2013 (the Credit Agreement). As of December 31, 2012, there was \$100 million outstanding under the Credit Agreement.

In January 2012, UI entered into a revolving credit agreement with JPMorgan Chase Bank, N.A. that expired on July 13, 2012 (the UI Credit Facility). The borrowing limit under the UI Credit Facility was \$105 million. The use of funds under the UI Credit Facility provided additional liquidity for UI's obligation to either remarket or repay and cancel \$103.5 million of pollution control revenue bonds, due to be remarketed in the municipal bond market on February 1, 2012. The pollution

UIL HOLDINGS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (continued)

control revenue bonds were repaid and cancelled with the issuance of senior unsecured notes that UI issued to a group of institutional accredited investors in January 2012, as discussed above. Subsequently, the UI Credit Facility was terminated.

Information with respect to short-term borrowings is set forth below:

	<u>2012</u>	<u>2011</u>
	(\$ In Thousands)	
<b>UIL Holdings</b>		
Maximum aggregate principal amount of short-term borrowing outstanding at any month-end	\$ 168,000	\$ 46,000
Average aggregate short-term borrowings outstanding during the year*	\$ 109,268	\$ 20,310
Weighted average interest rate*	1.61%	2.02%
Principal amounts outstanding at year-end	\$ 157,000	\$ 35,000
<b>UI</b>		
Maximum aggregate principal amount of short-term borrowing outstanding at any month-end	\$ 243,000	\$ 200,000
Average aggregate short-term borrowings outstanding during the year*	\$ 78,533	\$ 82,690
Weighted average interest rate*	1.58%	1.91%
Principal amounts outstanding at year-end	\$ 30,000	\$ 200,000
<b>Gas Companies</b>		
Maximum aggregate principal amount of short-term borrowing outstanding at any month-end	\$ 6,000	\$ 10,000
Average aggregate short-term borrowings outstanding during the year*	\$ 128	\$ 1,222
Weighted average interest rate*	1.59%	1.80%
Principal amounts outstanding at year-end	\$ -	\$ -

\* Average short-term borrowings represent the sum of daily borrowings outstanding, weighted for the number of days outstanding and divided by the number of days in the period. The weighted average interest rate is determined by dividing interest expense by the amount of average borrowings.

UIL HOLDINGS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (continued)

(E) INCOME TAXES

	<u>2012</u>	<u>2011</u>	<u>2010</u>
	(In Thousands)		
Income tax expense consists of:			
Income tax provisions:			
Current			
Federal	\$ 5,830	\$ (16,626)	\$ (21,059)
State	1,110	(3,951)	(547)
Total current	<u>6,940</u>	<u>(20,577)</u>	<u>(21,606)</u>
Deferred			
Federal	61,510	72,840	56,484
State	6,611	10,433	558
Total deferred	<u>68,121</u>	<u>83,273</u>	<u>57,042</u>
Investment tax credits	<u>(195)</u>	<u>(195)</u>	<u>(152)</u>
Total income tax expense	<u>\$ 74,866</u>	<u>\$ 62,501</u>	<u>\$ 35,284</u>
The following table details the components of the deferred income tax provision:			
Property related (accelerated depreciation and other)	\$ 36,140	\$ 43,734	\$ 76,168
Pension benefits	36,409	11,653	(11,182)
Regulatory deferrals	8,820	6,570	(19,213)
Storm costs	8,715	8,922	2,358
Goodwill	2,038	4,668	588
Investment in GenConn	893	32,694	19,201
Corporate acquisition costs	212	6,260	(9,206)
Net operating loss carryforward	(3,475)	(23,300)	-
Post retirement benefits	(1,474)	(2,117)	(2,271)
Alternative minimum tax	(2,488)	-	-
Seabrook lease buyout	(3,151)	(2,985)	(2,542)
Deferred gas costs	(3,288)	(1,608)	4,216
Conservation and customer payment programs	(7,930)	864	418
Other - net	<u>(3,300)</u>	<u>(2,082)</u>	<u>(1,493)</u>
Deferred income tax provision - net	<u>\$ 68,121</u>	<u>\$ 83,273</u>	<u>\$ 57,042</u>

UIL HOLDINGS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (continued)

Total income taxes differ from the amounts computed by applying the federal statutory tax rate to income before taxes. The reasons for the differences are as follows:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
	<b>(In Thousands)</b>		
Computed tax at federal statutory rate	\$ 62,499	\$ 56,774	\$ 31,549
Increases (reductions) resulting from:			
Investment tax credits	(195)	(195)	(152)
Allowance for equity funds used during construction	(2,749)	(3,689)	(2,511)
Amortization of nuclear plant regulatory assets	9,334	8,885	7,661
Book depreciation more (less) than non-normalized tax depreciation	(1,163)	(1,023)	(734)
State income taxes, net of federal income tax benefits	5,018	4,214	7
ESOP dividend payments	(555)	(526)	(488)
Mark-to-market adjustments to non-qualified pension investments	(274)	3	(208)
Customer conservation and payment programs	2,886	1,477	159
Gas acquisition costs	-	6	967
Other items, net	65	(3,425)	(966)
<b>Total income tax expense</b>	<b>\$ 74,866</b>	<b>\$ 62,501</b>	<b>\$ 35,284</b>
<b>Book income before income taxes</b>	<b>\$ 178,567</b>	<b>\$ 162,211</b>	<b>\$ 90,141</b>
<b>Effective income tax rates</b>	<b><u>41.9%</u></b>	<b><u>38.5%</u></b>	<b><u>39.1%</u></b>

For 2012, the combined statutory federal and state income tax rate was 40.9%. In 2011 and 2010, the combined statutory federal and state income tax rate for UIL Holdings was 40.4%. Legislation enacted in Connecticut in 2011 imposed an additional 10% surcharge on the corporation business tax for the years 2012 and 2013. This additional surcharge increased the statutory rate of the Connecticut corporation business tax from 8.25% to 9% and increased the combined statutory federal and state income tax rate for UIL Holdings for 2012 to 40.9%.

Differences in the treatment of certain transactions for book and tax purposes occur which cause the rate of UIL Holdings' reported income tax expense to differ from the statutory tax rate described above. The effective book income tax rate for the year ended December 31, 2012 was 41.9%, as compared to 38.5% for the year ended December 31, 2011. The increase in the 2012 effective book income tax rate was primarily due to costs associated with customer conservation and payment programs.

During 2011, UIL Holdings incurred a net operating loss (NOL) for federal income tax purposes of approximately \$136 million, which was primarily due to bonus depreciation on capital additions during that year. UIL Holdings carried back approximately \$33 million of the NOL and has received a refund amounting to \$10.0 million of federal income taxes paid in the carryback years. The remaining \$103 million of the 2011 NOL and an additional \$12 million of a prior years' NOL were carried forward, of which an anticipated \$39 million will be utilized for the 2012 tax year and the remainder utilized for the 2013 tax year. As a result of the carryback of the NOL to prior years and the utilization of a portion of the NOL in 2012, UIL Holdings has accrued an Alternative Minimum Tax (AMT) liability of approximately \$2.5 million as of December 31, 2012. This AMT liability is available as an income tax credit which will be carried forward and applied to reduce UIL Holdings regular federal income tax liability in future years.

Federal income tax legislation enacted during the fourth quarter of 2010 provided for accelerated capital recovery for federal income tax purposes for certain capital additions placed in service during the fourth quarter of 2010 and calendar years 2011 and 2012. As a result, during these periods, UIL Holdings recognized additional tax deductions for capital recovery that resulted in cash benefits that were recognized through lower cash requirements for federal income tax deposits.

## UIL HOLDINGS CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (continued)

During 2010, UIL Holdings recognized a significant current income tax deduction, which it reflected on its 2009 state and federal income tax returns, related to repair and maintenance costs it had previously capitalized for tax purposes. This current income tax deduction resulted in a cash benefit of approximately \$40.5 million. As a result of this change in accounting for tax purposes, as of December 31, 2011, UIL Holdings had gross unrecognized tax benefits of approximately \$13.7 million, including approximately \$0.5 million of interest, of which none would impact the effective tax rate if recognized. In December 2011 and during 2012, the Internal Revenue Service (IRS) issued new and clarifying regulations with respect to the tax deductibility of previously capitalized repair and maintenance costs. These regulations replaced previous proposed regulations issued by the IRS in March 2008. During 2012, UIL Holdings recognized the impact of implementing these new regulations which resulted in an increase in current income tax expense and a decrease in deferred income tax expense of approximately \$12 million that was deferred for book purposes. As a result of implementing these new regulations, which included an audit safe harbor from the IRS if the regulations were fully implemented, UIL Holdings reversed a gross reserve for unrecognized tax benefits of approximately \$13.7 million, including \$0.8 million of interest, none of which had an impact on the effective tax rate. As a result of this reversal, UIL Holdings did not have any gross income tax reserves for uncertain tax positions as of December 31, 2012.

The following table sets forth a reconciliation of the changes in the gross income tax reserves for the years ended December 31, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
	<b>(In Thousands)</b>	
Balance as of December 31	\$ 13,676	\$ 11,349
Increases for tax positions related to current year	-	2,327
Reductions for tax positions of prior years	(13,676)	-
Balance as of December 31	<u>\$ -</u>	<u>\$ 13,676</u>

UIL Holdings and its subsidiaries are subject to the United States federal income tax statutes administered by the Internal Revenue Service (IRS). UIL Holdings and its subsidiaries are also subject to the income tax statutes of the State of Connecticut and, in the case of Berkshire Energy Resources, the income tax statutes of the Commonwealth of Massachusetts. As of December 31, 2012, the tax years 2009, 2010 and 2011 are open and subject to audit for federal, State of Connecticut, and State of Massachusetts income tax purposes.

The Company files a consolidated federal income tax return with its subsidiaries, all of which have joint and several liability for any potential assessments against the consolidated group.

At December 31, 2012, UIL Holdings had non-current deferred tax liabilities for taxable temporary differences of \$720.7 million and non-current deferred tax assets for deductible temporary differences of \$264.3 million, resulting in a net non-current deferred tax liability of \$456.4 million. UIL Holdings had current deferred tax assets of \$41.6 million at December 31, 2012. UIL Holdings did not have any current deferred tax liabilities at December 31, 2012.

UIL HOLDINGS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (continued)

The following table summarizes UIL Holdings’ deferred tax assets and liabilities as of December 31, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
	(In Thousands)	
Deferred income tax assets:		
Regulatory asset related to pension and other post-retirement benefits	\$ 93,619	\$ 83,057
Post-retirement benefits	37,005	69,624
Accrued removal obligation	78,956	78,610
Net operating loss carry forward	26,775	23,300
Long-term incentive plan	5,305	4,622
Gross-up effect on deferred taxes	8,745	3,531
Connecticut Yankee equity investment	3,140	3,145
Acquisition costs	2,735	2,947
Vacation accrual	3,016	2,927
Incentive compensation plans	3,336	2,895
Deferred compensation plan	5,947	2,708
Stock compensation plans	2,263	2,037
Alternative minimum tax	2,488	-
Uncollectibles	1,277	1,359
Other	31,269	19,908
	<u>\$ 305,876</u>	<u>\$ 300,670</u>
Deferred income tax liabilities:		
Accelerated depreciation timing differences	\$ 270,825	\$ 220,030
Plant basis differences	178,989	169,890
Storm regulatory asset	21,102	11,955
Regulatory asset related to pension and other post-retirement benefits	93,619	71,325
Investment in GenConn Energy	52,920	52,027
Seabrook lease buyout	10,505	13,656
Bond redemption costs	5,107	5,446
Hardship programs	14,272	5,037
Other	73,343	98,222
	<u>\$ 720,682</u>	<u>\$ 647,588</u>

ASC 740 requires that all current deferred tax assets and liabilities within each particular tax jurisdiction be offset and presented as a single amount in the Consolidated Balance Sheet. A similar procedure is followed for all non-current deferred tax assets and liabilities. Amounts in different tax jurisdictions cannot be offset against each other. The amount of deferred income taxes as of December 31, 2012 and 2011 included on the following lines of the Consolidated Balance Sheet is as follows:

UIL HOLDINGS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (continued)

	<u>2012</u>	<u>2011</u>
	(In Thousands)	
Assets:		
Deferred and refundable income taxes	\$ 41,605	\$ 41,635
Liabilities:		
Deferred income taxes	456,411	388,553
Deferred income taxes – net	<u>\$ 414,806</u>	<u>\$ 346,918</u>

**(F) SUPPLEMENTARY INFORMATION**

	<u>2012</u>	<u>2011</u>	<u>2010</u>
	(In Thousands)		
<b><u>Depreciation and Amortization</u></b>			
Property, plant, and equipment depreciation	\$ 112,002	\$ 98,343	\$ 55,118
Amortization of nuclear plant regulatory assets	46,550	44,635	45,898
Amortization of other regulatory assets	22,745	24,436	12,885
Other	51	48	45
Total Amortization	<u>69,346</u>	<u>69,119</u>	<u>58,828</u>
Total Depreciation and Amortization	<u>\$ 181,348</u>	<u>\$ 167,462</u>	<u>\$ 113,946</u>

**Taxes - Other than Income Taxes**

Operating:			
Connecticut gross earnings	\$ 65,753	\$ 69,906	\$ 51,708
Local real estate and personal property	40,588	34,902	21,130
Payroll taxes	7,274	9,373	5,659
Other	422	30	205
Total Taxes - Other than Income Taxes	<u>\$ 114,037</u>	<u>\$ 114,211</u>	<u>\$ 78,702</u>

**Other Income and (Deductions), net**

Interest income	\$ 2,631	\$ 3,483	\$ 4,163
Allowance for funds used during construction - equity	7,480	10,539	7,180
Allowance for funds used during construction - debt	6,979	9,143	4,735
Weather insurance	3,488	3,090	(100)
TSO incentives	2,745	-	-
Other	1,923	677	1,284
Total Other Income and (Deductions), net	<u>\$ 25,246</u>	<u>\$ 26,932</u>	<u>\$ 17,262</u>

UIL HOLDINGS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (continued)

**(G) PENSION AND OTHER BENEFITS**

Disclosures pertaining to UIL Holdings' pension and other postretirement benefit plans (the Plans) are in accordance with ASC 715 "Compensation-Retirement Benefits." UIL Holdings has an investment policy addressing the oversight and management of pension assets and procedures for monitoring and control. UIL Holdings has engaged State Street Bank as the trustee and investment manager to assist in areas of asset allocation and rebalancing, portfolio strategy implementation, and performance monitoring and evaluation.

The goals of the asset investment strategy are to:

- Achieve long-term capital growth while maintaining sufficient liquidity to provide for current benefit payments and UIL Holdings' pension plan operating expenses.
- Provide a total return that, over the long term, provides sufficient assets to fund UIL Holdings' pension plan liabilities subject to an appropriate level of risk, contributions and pension expense.
- Optimize the return on assets, over the long term, by investing primarily in a diversified portfolio of equities and additional asset classes with differing rates of return, volatility and correlation.
- Diversify investments within asset classes to maximize preservation of principal and minimize over-exposure to any one investment, thereby minimizing the impact of losses in single investments.

The Plans seek to maintain compliance with the Employee Retirement Income Security Act of 1974 (ERISA) as amended, and any applicable regulations and laws.

The Retirement Benefits Plans Investment Committee of the Board of Directors oversees the investment of the Plans' assets in conjunction with management and has conducted a review of the investment strategies and policies of the Plans. This review included an analysis of the strategic asset allocation, including the relationship of Plan assets to Plan liabilities, and portfolio structure. The 2013 target asset allocations, which may be revised by the Retirement Benefits Plans Investment Committee, are approximately as follows: 50% equity securities, 40% debt securities and 10% other securities, which consist primarily of real assets, hedge funds and high yield securities. In the event that the relationship of Plan assets to Plan liabilities changes, the Retirement Benefits Plans Investment Committee will consider changes to the investment allocations. The other postretirement employee benefit fund assets are invested in a balanced mutual fund and, accordingly, the asset allocation mix of the balanced mutual fund may differ from the target asset allocation mix from time to time.

The funding policy for the Plans is to make annual contributions that satisfy the minimum funding requirements of ERISA, but that do not exceed the maximum deductible limits of the Internal Revenue Code. These amounts are determined each year as a result of an actuarial valuation of the Plans. UIL Holdings has a minimum funding requirement for 2013 currently estimated at \$20 million. Depending upon final actuarial calculations, the 2013 contribution may ultimately range between \$50 million and \$60 million.

UIL Holdings applies consistent estimation techniques regarding its actuarial assumptions, where appropriate, across the pension and postretirement plans of its operating subsidiaries. The estimation technique utilized to develop the discount rate for its pension and postretirement benefit plans is based upon the settlement of such liabilities as of December 31, 2012 utilizing a hypothetical portfolio of actual, high quality bonds, which would generate cash flows required to settle the liabilities. UIL Holdings believes such an estimate of the discount rate more accurately reflects the settlement value for plan obligations than the different yield curve methodologies used in prior years, and results in cash flows which closely match the expected payments to participants.

UIL Holdings is utilizing a discount rate of 4.25% as of December 31, 2012 for all of its qualified pension plans, compared to 5.30% in 2011. The decline in the discount rate resulted in an increase to the projected benefit obligation of approximately \$100 million from 2011 to 2012. The discount rate for non-qualified pension plans as of December 31, 2012 was 4.0% compared to 5.05% in 2011.

The discount rate for UIL Holdings' postretirement benefits plans reflects the differing plan requirements and expected future cash flows. For the UI postretirement plan, the discount rate at December 31, 2012 and 2011 was 4.25%. For the Gas

UIL HOLDINGS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (continued)

Company postretirement plans, the December 31, 2012 discount rate was a composite rate of 4.0%, weighted by expected future cash outflows, compared to 5.05% for the previous year.

The December 31, 2012 discount rate was selected based on the yield of a portfolio of high quality corporate bonds that could be purchased as of the measurement date to produce cash flows matching the expected plan disbursements within reasonable tolerances.

The pension and other postretirement benefits plans assumptions may be revised over time as economic and market conditions change. Changes in those assumptions could have a material impact on pension and other postretirement expenses. For example, if there had been a 0.25% change in the discount rate assumed for the pension plans, the 2012 pension expense would have increased or decreased inversely by \$2.5 million. If there had been a 1% change in the expected return on assets assumed for the pension plans, the 2012 pension expense would have increased or decreased inversely by \$6.4 million. If there had been a 0.25% change in the discount rate assumed for the other postretirement benefits plans, the 2012 other postretirement benefits plan expenses would have increased or decreased inversely by \$0.4 million. If there had been a 1% change in the expected return on assets assumed for the other postretirement benefits plans, the 2012 other postretirement benefits plan expenses would have increased or decreased inversely by \$0.4 million.

Pension Plans

The United Illuminating Company Pension Plan (the UI Pension Plan) covers the majority of employees of UIL Holdings Corporate and UI. UI also has a non-qualified supplemental pension plan for certain employees and a non-qualified retiree-only pension plan for certain early retirement benefits.

The Gas Companies have multiple qualified pension plans covering substantially all of their union and management employees. These entities also have non-qualified supplemental pension plans for certain employees. The qualified pension plans are traditional defined benefit plans or cash balance plans for those hired on or after specified dates. In some cases, neither of these plans is offered to new employees and have been replaced with enhanced 401(k) plans for those hired on or after specified dates.

UI has established a supplemental retirement benefit trust and through this trust purchased life insurance policies on certain officers of UIL Holdings and UI to fund the future liability under the non-qualified supplemental plan. The cash surrender value of these policies is included in “Other investments” on the Consolidated Balance Sheet.

In addition, regarding the non-qualified plans, UIL Holdings has several rabbi trusts which were established to provide a supplemental retirement benefit for certain officers and directors of the Gas Companies.

Other Postretirement Benefits Plans

In addition to providing pension benefits, UI also provides other postretirement benefits, consisting principally of health care and life insurance benefits, for retired employees and their dependents. UI does not provide prescription drug benefits for Medicare-eligible employees in its other postretirement health care plans. Non-union employees who are 55 years of age and whose sum of age and years of service at time of retirement is equal to or greater than 65 are eligible for benefits partially subsidized by UI. The amount of benefits subsidized by UI is determined by age and years of service at retirement. For funding purposes, UI established a 401(h) account in connection with the UI Pension Plan and Serial Voluntary Employee Benefit Association Trust (VEBA) accounts for the years 2007 through 2020 to fund other postretirement benefits for UI’s non-union employees who retire on or after January 1, 1994. These VEBA accounts were approved by the IRS and UI contributed \$4.5 million to fund the Serial VEBA accounts in 2007. UI does not expect to make a contribution in 2013 to fund OPEB for non-union employees.

Union employees whose sum of age and years of service at the time of retirement is equal to or greater than 85 (or who are 62 with at least 20 years of service) are eligible for benefits partially subsidized by UI. The amount of benefits subsidized by UI is

UIL HOLDINGS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (continued)

determined by age and years of service at retirement. For funding purposes, UI established a VEBA to fund other postretirement benefits for UI's union employees. The funding strategy for the VEBA is to select funds that most clearly mirror the pension allocation strategy. Approximately 51% of UI's employees are represented by Local 470-1, Utility Workers Union of America, AFL-CIO, for collective bargaining purposes. Plan assets for the union VEBA consist primarily of equity and fixed-income securities. UI does not expect to make a contribution in 2013 to fund other postretirement benefits for union employees.

SCG and CNG also have plans providing other postretirement benefits for substantially all of their employees. These benefits consist primarily of health care, prescription drug and life insurance benefits, for retired employees and their dependents. The eligibility for these benefits is determined by the employee's date of hire, number of years of service, age and whether the employee belongs to a certain group, such as a union. Dependents are also eligible at the employee's date of retirement provided the retired participant pays the necessary contribution. These plans are contributory with the level of participant's contributions evaluated annually. Benefits payments under these plans include annual caps for CNG participants hired after 1993 and SCG participants hired after 1996. SCG non-union employees hired after November 1995 are not eligible for these benefits. Union employees hired after April 1, 2010 and December 1, 2009 at SCG and CNG, respectively, are not eligible for these benefits. As such, Gas Company OPEB liabilities are not especially sensitive to increases in the healthcare trend rate. These plans are funded through a combination of 401(h) accounts and Voluntary Employee Benefit Association Trust (VEBA) accounts. UIL Holdings did not make any contributions to these plans in 2012, nor does it currently plan to make a contribution in 2013.

Other Accounting Matters

ASC 715 requires an employer that sponsors one or more defined benefit pension or other postretirement plans to recognize an asset or liability for the overfunded or underfunded status of the plan. For a pension plan, the asset or liability is the difference between the fair value of the plan's assets and the projected benefit obligation. For any other postretirement benefit plan, the asset or liability is the difference between the fair value of the plan's assets and the accumulated postretirement benefit obligation. UIL Holdings reflects all unrecognized prior service costs and credits and unrecognized actuarial gains and losses as regulatory assets rather than in accumulated other comprehensive income, as management believes it is probable that such items will be recoverable through the ratemaking process. As of December 31, 2012 and 2011, UIL Holdings has recorded regulatory assets of \$264.6 million and \$146.6 million, respectively.

In accordance with ASC 715, UIL Holdings utilizes an alternative method to amortize prior service costs and unrecognized gains and losses. UIL Holdings amortizes prior service costs for both the pension and other postretirement benefits plans on a straight-line basis over the average remaining service period of participants expected to receive benefits. UIL Holdings utilizes an alternative method to amortize unrecognized actuarial gains and losses related to the pension and other postretirement benefits plans over the lesser of the average remaining service period or 10 years. For ASC 715 purposes, UIL Holdings does not recognize gains or losses until there is a variance in an amount equal to at least 5% of the greater of the projected benefit obligation or the market-related value of assets. There is no such allowance for a variance in capturing the amortization of other postretirement benefits unrecognized gains and losses.

The following table represents the change in benefit obligation, change in plan assets and the respective funded status of UIL Holdings' pension and other postretirement plans as of December 31, 2012 and 2011. Plan assets and obligations have been measured as of December 31, 2012 and 2011.

UIL HOLDINGS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (continued)

	Pension Benefits		Other Post-Retirement Benefits	
	2012	2011	2012	2011
<b>(In Thousands)</b>				
<b>Change in Benefit Obligation:</b>				
Benefit obligation at beginning of year	\$ 792,101	\$ 776,131	\$ 122,382	\$ 130,633
Net transfer in due to acquisition of the Gas Companies	-	-	-	-
Service cost	12,032	12,574	1,604	2,164
Interest cost	41,470	40,484	6,246	6,634
Participant contributions	-	-	1,305	3,020
Actuarial (gain) loss	149,088	5,492	12,500	(9,072)
Benefits paid (including expenses)	(44,083)	(42,580)	(7,350)	(10,997)
Benefit obligation at end of year	\$ 950,608	\$ 792,101	\$ 136,687	\$ 122,382
<b>Change in Plan Assets:</b>				
Fair value of plan assets at beginning of year	\$ 548,122	\$ 502,327	\$ 37,573	\$ 40,762
Net transfer in due to acquisition of the Gas Companies	-	-	-	-
Actual return on plan assets	71,595	13,848	4,092	501
Employer contributions	49,427	74,542	-	-
Participant contributions	-	-	1,305	3,020
Benefits paid (including expenses)	(44,083)	(42,596)	(4,430)	(6,711)
Fair value of plan assets at end of year	\$ 625,061	\$ 548,121	\$ 38,540	\$ 37,572
<b>Funded Status at December 31:</b>				
Projected benefits (less than) greater than plan assets	\$ 325,547	\$ 243,980	\$ 98,147	\$ 84,810
<b>Amounts Recognized in the Statement of Financial Position consist of:</b>				
Non-current assets	\$ -	\$ -	\$ -	\$ -
Current liabilities	\$ 3,488	\$ 914	\$ 214	\$ 194
Non-current liabilities	\$ 322,059	\$ 243,065	\$ 97,933	\$ 84,615
<b>Amounts Recognized as a Regulatory Asset consist of:</b>				
Transition obligation (asset)	\$ -	\$ -	\$ -	\$ 392
Prior service cost	859	1,506	45	(23)
Net (gain) loss	244,032	134,838	19,643	9,847
Total recognized as a regulatory asset	\$ 244,891	\$ 136,344	\$ 19,688	\$ 10,216
<b>Information on Pension Plans with an Accumulated Benefit Obligation in excess of Plan Assets:</b>				
Projected benefit obligation	\$ 950,608	\$ 776,133	N/A	N/A
Accumulated benefit obligation	\$ 858,803	\$ 709,235	N/A	N/A
Fair value of plan assets	\$ 625,060	\$ 532,595	N/A	N/A
<b>The following weighted average actuarial assumptions were used in calculating the benefit obligations at December 31:</b>				
Discount rate (Qualified Plans)	4.25%	5.30%	N/A	N/A
Discount rate (Non-Qualified Plans)	4.00%	5.05%	N/A	N/A
Discount rate (Other Post-Retirement Benefits)	N/A	N/A	4.00-4.25%	5.05-5.30%
Average wage increase	3.50-3.80%	3.50-3.80%	N/A	N/A
Health care trend rate (current year)	N/A	N/A	7.50%	8.00%
Health care trend rate (2019-2028 forward)	N/A	N/A	5.00%	5.00%

UIL HOLDINGS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (continued)

The components of net periodic benefit cost are:

	For the Year Ended December 31,					
	Pension Benefits			Other Post-Retirement Benefits		
	2012	2011	2010	2012	2011	2010
	(In Thousands)					
<b>Components of net periodic benefit cost:</b>						
Service cost	\$ 12,032	\$ 12,574	\$ 7,675	\$ 1,604	\$ 2,164	\$ 1,450
Interest cost	41,470	40,484	22,702	6,246	6,634	4,285
Expected return on plan assets	(44,874)	(42,588)	(20,739)	(2,503)	(2,965)	(1,910)
Amortization of:						
Prior service costs	647	643	646	(69)	(101)	(103)
Transition obligation (asset)	-	-	-	392	1,020	1,058
Actuarial (gain) loss	13,173	14,032	(23,978)	965	2,008	690
Net periodic benefit cost	\$ 22,448	\$ 25,145	\$ (13,694)	\$ 6,635	\$ 8,760	\$ 5,470
<b>Other Changes in Plan Assets and Benefit Obligations Recognized as a Regulatory Asset:</b>						
Net (gain) loss	\$ 122,368	\$ 34,524	\$ 21,425	\$ 10,760	\$ (6,608)	\$ 2,173
Amortization of:						
Prior service costs	(647)	(626)	(646)	69	101	103
Transition obligation (asset)	-	-	-	(392)	(1,020)	(1,058)
Actuarial (gain) loss	(13,173)	(14,032)	23,978	(965)	(2,008)	(690)
Total recognized as regulatory asset	\$ 108,548	\$ 19,866	\$ 44,757	\$ 9,472	\$ (9,535)	\$ 528
<b>Total recognized in net periodic benefit costs and regulatory asset</b>	<u>\$ 130,996</u>	<u>\$ 45,011</u>	<u>\$ 31,063</u>	<u>\$ 16,107</u>	<u>\$ (775)</u>	<u>\$ 5,998</u>
<b>Estimated Amortizations from Regulatory Assets into Net Periodic Benefit Cost for the period January 1, 2012 - December 31, 2012:</b>						
Amortization of transition obligation	\$ -	\$ -	\$ -	\$ -	\$ 392	\$ 1,020
Amortization of prior service cost	605	647	643	(50)	(69)	(101)
Amortization of net (gain) loss	20,808	13,173	14,032	1,939	965	2,008
Total estimated amortizations	<u>\$ 21,413</u>	<u>\$ 13,820</u>	<u>\$ 14,675</u>	<u>\$ 1,889</u>	<u>\$ 1,288</u>	<u>\$ 2,927</u>
<b>The following actuarial weighted average assumptions were used in calculating net periodic benefit cost:</b>						
Discount rate	5.05-5.30%	5.10-5.35%	5.00-5.35%	5.05-5.30%	5.15-5.30%	5.00-5.30%
Average wage increase	3.50-3.80%	3.50-3.80%	3.80-4.00%	N/A	N/A	N/A
Return on plan assets	7.75-8.00%	8.25-8.50%	8.25-8.50%	5.56-8.00%	5.86-8.25%	5.89-8.25%
Health care trend rate (current year)	N/A	N/A	N/A	8.00%	7.80-8.50%	8.10-8.50%
Health care trend rate (2019 forward)	N/A	N/A	N/A	5.00%	4.50-5.00%	4.50-5.00%

A one percentage point change in the assumed health care cost trend rate would have the following effects:

	<u>1% Increase</u> <u>1% Decrease</u>	
	(In Thousands)	
Aggregate service and interest cost components	\$ 836	\$ (676)
Accumulated post-retirement benefit obligation	\$ 12,162	\$ (10,000)

## UIL HOLDINGS CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (continued)

**Estimated Future Benefit Payments**

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

Year	Pension Benefits	Other Postretirement Benefits	
		(In Thousands)	
2013	\$ 49,350	\$	7,446
2014	\$ 48,447	\$	7,593
2015	\$ 49,385	\$	7,713
2016	\$ 49,625	\$	7,750
2017	\$ 50,484	\$	7,903
2018-2022	\$ 265,991	\$	40,146

Defined Contribution Retirement Plans/401(k)

Since 2005, new UIL Holdings and UI employees do not participate in the UI Pension Plan or receive retiree medical plan benefits. These employees participate in a different retirement plan, which is a “defined contribution plan,” consisting of the current provisions of UI’s 401(k)/Employee Stock Ownership Plan (KSOP) plus the following benefits:

- An additional cash contribution of 4.0% of total annual compensation (as defined in the KSOP Plan) to a separate account in the KSOP of new hires.
- An additional cash contribution of \$1,000 per year (pro rata per pay period) into a separate Retiree Medical Fund within the KSOP account for new hires.
- New employees do not need to contribute to the KSOP to receive these additional cash contribution amounts; they only need to be enrolled in the KSOP Plan.
- Both additional cash contributions to the KSOP vest 100% after five years of service.

The KSOP, in which substantially all of UIL Holdings’ and UI’s employees are eligible to participate, enables employees to defer receipt of a portion of their compensation, up to statutory limits, and to invest such funds in a number of investment alternatives. Matching contributions are made to the KSOP, in the form of UIL Holdings’ common stock, based on each employee’s salary deferrals in the KSOP. For union employees, the matching contribution to the KSOP is 100% of the first 3% of employee compensation deferred and 50% of the next 2% deferred. The maximum match is 4% of annual salary. For non-union employees, the matching contribution to the KSOP is 100% of the first 2% of employee compensation deferred and 50% of the next 2% deferred. All matching contributions are made in the form of UIL Holdings’ common stock. Matching contributions to the KSOP during 2012, 2011 and 2010 were \$3.3 million, \$2.6 million and \$2.4 million, respectively. UIL Holdings pays dividends on the shares of stock in the KSOP to the participant and UIL Holdings receives a tax deduction for the dividends paid.

The Gas Companies have several 401(k) plans in which substantially all of its employees are eligible to participate. Employees may defer a portion of the compensation and invest in various investment alternatives. Matching contributions are made in the form of cash and are dependent on the specific provisions of each of the plans. The matching expense related to the Gas Companies for UIL Holdings for 2012 and 2011 were \$1.6 million and \$2.0 million and was immaterial for the post-acquisition period in 2010.

UIL HOLDINGS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (continued)

**(H) RELATED PARTY TRANSACTIONS**

During the years ended December 31, 2012 and 2011, UI received cash distributions from GenConn. See Note (A) “Business Organization and Statement of Accounting Policies – Equity Investments.”

A Director of UIL Holdings holds a beneficial interest in the building located at 157 Church Street, New Haven, Connecticut, where UIL Holdings leases office space. UIL Holdings’ lease payments for this office space for the years ended December 31, 2012, 2011 and 2010 totaled \$4.8 million, \$11.4 million and \$10.8 million, respectively. The decrease in lease payments in 2012 is due to a reduction in office space utilized by UIL Holdings headquarters.

Interest income related to a promissory note from UI to GenConn, which was converted to an equity investment in July 2011, is included in “Other Income and (Deductions), net” in the accompanying Consolidated Statements of Income, in the amounts of \$1.2 million and \$3.3 million for the years ended December 31, 2011 and 2010, respectively.

**(I) LEASE OBLIGATIONS**

UIL Holdings and its wholly-owned direct and indirect subsidiaries have lease arrangements for data processing equipment, office equipment, office space and land.

Operating leases, which are charged to operating expense, consist principally of leases of office space and facilities, land, railroad rights of way and a wide variety of equipment. The future minimum lease payments under these operating leases are estimated to be as follows:

	<b>(In Thousands)</b>
2013	\$ 4,591
2014	3,686
2015	3,181
2016	3,196
2017	3,189
2018-after	42,313
	<u>\$ 60,156</u>

Rental payments charged to operating expenses in 2012, 2011 and 2010 were as follows:

	<b>Year Ended December 31,</b>		
	<b>2012</b>	<b>2011</b>	<b>2010</b>
	<b>(In Thousands)</b>		
Rental payments	\$ 14,548	\$ 17,949	\$ 13,997
Less: Sublease rental payments received	241	1,148	1,120
Rental payments charged to operating expenses	<u>\$ 14,307</u>	<u>\$ 16,801</u>	<u>\$ 12,877</u>

UIL HOLDINGS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (continued)

**(J) COMMITMENTS AND CONTINGENCIES**

In the ordinary course of business, UIL Holdings and its subsidiaries are involved in various proceedings, including legal, tax, regulatory and environmental matters, which require management's assessment to determine the probability of whether a loss will occur and, if probable, an estimate of probable loss. When assessments indicate that it is probable that a liability has been incurred and an amount can be reasonably estimated, UIL Holdings accrues a reserve and discloses the reserve and related matter. UIL Holdings discloses matters when losses are probable but for which an estimate is reasonably possible. Subsequent analysis is performed on a periodic basis to assess the impact of any changes in events or circumstances and any resulting need to adjust existing reserves or record additional reserves.

**Connecticut Yankee Atomic Power Company**

UI has a 9.5% stock ownership share in the Connecticut Yankee Atomic Power Company (Connecticut Yankee), the carrying value of which was \$0.2 million as of December 31, 2012. In 1996, the Board of Directors of Connecticut Yankee voted unanimously to retire the Connecticut Yankee nuclear plant (the Connecticut Yankee Unit) from commercial operation. Connecticut Yankee updates the cost of its remaining decommissioning activity, which consists primarily of groundwater monitoring and nuclear fuel storage, at least annually, and provides UI with a projected recovery schedule depicting annual costs expected to be billed to UI, including a return on investment over the term of the projected recovery period. The present value of these costs is calculated using UI's weighted-average cost of capital and, after consideration of recoverability, recorded as a Connecticut Yankee Contract Obligation and a corresponding regulatory asset. At December 31, 2012, UI has regulatory approval to recover in future rates (through the CTA) its \$11.1 million regulatory asset for Connecticut Yankee over a term ending in 2015.

**DOE Spent Fuel Litigation**

In the Nuclear Waste Policy Act of 1982 (the Act), Congress provided for the United States Department of Energy (DOE) to dispose of spent nuclear fuel and other high-level waste (Nuclear Waste) from nuclear generating plants. In 1983, Connecticut Yankee and the DOE entered into a standard disposal contract mandated by the Act which required the DOE to begin disposing of Connecticut Yankee's Nuclear Waste by the end of January 1998.

In 1998, Connecticut Yankee filed claims in the United States Court of Federal Claims seeking damages resulting from the breach of the 1983 contracts by the DOE. In September 2010, the Court issued its decision and awarded Connecticut Yankee damages of \$39.7 million for its spent fuel-related costs through 2001. In May 2012, the United States Court of Appeals affirmed the September 2010 United States Court of Federal Claims award and in August 2012 the DOE filed a petition for rehearing with the appellate court which was subsequently denied. Connecticut Yankee has received payment of the damage award and, in light of its ownership share, UI will receive approximately \$3.8 million of such award which will be refunded to customers.

In December 2007, Connecticut Yankee filed a second set of complaints with the United States Court of Federal Claims against the DOE seeking unspecified damages incurred since January 1, 2002 for the DOE's failure to remove Connecticut Yankee's spent fuel. In July 2009, Connecticut Yankee provided the DOE with a second set of damage claims totaling approximately \$135 million for damages incurred from January 1, 2002 through December 31, 2008. In light of its ownership share, UI would receive approximately \$12.8 million of such award which would be refunded to customers. As an interim measure until the DOE complies with its contractual obligation to dispose of Connecticut Yankee's spent fuel, Connecticut Yankee constructed an independent spent fuel storage installation (ISFSI), utilizing dry-cask storage, on the site of the Connecticut Yankee Unit and completed the transfer of its Nuclear Waste to the ISFSI in 2005.

UIL HOLDINGS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (continued)

**Environmental Concerns**

In complying with existing environmental statutes and regulations and further developments in areas of environmental concern, including legislation and studies in the fields of water quality, hazardous waste handling and disposal, toxic substances, climate change and electric and magnetic fields, UIL Holdings and its wholly-owned direct and indirect subsidiaries may incur substantial capital expenditures for equipment modifications and additions, monitoring equipment and recording devices, as well as additional operating expenses. The total amount of these expenditures is not now determinable. Environmental damage claims may also arise from the operations of UIL Holdings' subsidiaries. Significant environmental issues known to UIL Holdings at this time are described below.

**Site Decontamination, Demolition and Remediation Costs**

In June 2006, UI executed an agreement with the City of Bridgeport and its Redevelopment Authority (the City) to transfer title of UI's Steel Point property to the City. Pursuant to a Memorandum of Understanding (MOU) among UI, the City, and the City's selected developer for the property, the City and the developer released UI from any further liability with respect to the Steel Point property after title transferred, and the City and/or the developer has indemnified UI for environmental matters related to the Steel Point property. The Steel Point property includes the land up to the bulkhead. The MOU provides that there is no indemnity for liability related to contaminated harbor sediments, and UI is not aware of any such claims. UI would seek to recover any uninsured costs related to such sediments that are UI's responsibility, to the extent incurred, through the CTA, in accordance with the ratemaking treatment approved in PURA's July 2006 decision.

A site on the Mill River in New Haven was conveyed in 2000 by UI to an unaffiliated entity, Quinnipiac Energy LLC (QE), reserving to UI permanent easements for the operation of its transmission facilities on the site. At the time of the sale, a fund of approximately \$1.9 million, an amount equal to the then-current estimate for remediation, was placed in escrow for purposes of bringing soil and groundwater on the site into compliance with applicable environmental laws. As of December 31, 2012, approximately \$0.1 million of the escrow fund remained. In 2006, QE sold the property to Evergreen Power, LLC (Evergreen Power) and Asnat Realty LLC (Asnat). UI is unaware of what agreement was reached between QE and Evergreen Power and Asnat regarding future environmental liability and of what remediation activity remains to be undertaken at the site. In January 2012, Evergreen Power and Asnat filed a lawsuit in federal district court in Connecticut against UI seeking, among other things: (i) an order directing UI to reimburse the plaintiffs for costs they have incurred and will incur for the testing, investigating and remediation of hazardous substances at the property and (ii) an order directing UI to investigate and remediate the property. In May 2012, UI filed an answer and counterclaims, and the plaintiffs filed an answer to UI's counterclaims. In July 2012, Evergreen Power and Asnat filed a motion for partial summary judgment with respect to UI's liability under the federal Comprehensive Environmental Response, Compensation, and Liability Act. On October 12, 2012, the motion for summary judgment was denied without prejudice. UI's knowledge of the current conditions at the site is insufficient to make a reasonable update of the original \$1.9 million remediation estimate. UIL Holdings cannot presently assess the potential financial impact, if any, of the suit, and thus has not recorded a liability related to it.

In April 1999, UI completed the sale of its Bridgeport Harbor Station and New Haven Harbor Station generating plants in compliance with Connecticut's electric utility industry restructuring legislation. With respect to the portion of the New Haven Harbor Station site that UI retained, UI has performed an additional environmental analysis, indicating that approximately \$3.2 million in remediation expenses will be incurred. Actual remediation costs may be higher or lower than what is currently estimated. The required remediation is virtually all on transmission-related property and UI has accrued these estimated expenses, which were recovered in transmission rates.

From 1961 to 1976, UI owned a parcel of property in Derby, CT, on which it operated an oil-fired electric generating unit. For several years, DEEP has been monitoring and remediating a migration of fuel oil contamination from a neighboring parcel of property into the adjacent Housatonic River. Based on its own investigation to date, UI believes it

UIL HOLDINGS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (continued)

has no responsibility for this contamination. If regulatory agencies determine that UI is responsible for the cost of these remediation activities, UI may incur substantial costs, no estimate of which is currently available.

The Gas Companies own or have previously owned properties where Manufactured Gas Plants (MGPs) historically operated. MGP operations have led to contamination of soil and groundwater with petroleum hydrocarbons, benzene and metals, among other things, at these properties, the regulation and cleanup of which is regulated by the federal Resource Conservation and Recovery Act as well as other federal and state statutes and regulations. Each of the Gas Companies has or had an ownership interest in one of such properties contaminated as a result of MGP-related activities. Under the existing regulations, the cleanup of such sites requires state and at times, federal, regulators' involvement and approval before cleanup can commence. In certain cases, such contamination has been evaluated, characterized and remediated. In other cases, the sites have been evaluated and characterized, but not yet remediated. Finally, at some of these sites, the scope of the contamination has not yet been fully characterized; no liability was recorded in respect of these sites as of December 31, 2012. In the past, the Gas Companies have received approval for the recovery of MGP-related remediation expenses from customers through rates and will seek recovery in rates for ongoing MGP-related remediation expenses for all of their MGP sites.

SCG owns property on Housatonic Avenue in Bridgeport, CT, a former MGP site. Costs associated with the remediation of the site could be significant and will be subject to a review by PURA as to whether these costs are recoverable in rates. UIL Holdings cannot presently estimate the costs of remediation or the likelihood of recoverability. As such, as of December 31, 2012, no liability related to this claim has been recorded.

SCG owns property located on Chapel Street in New Haven, CT, the site of one of its former operations centers and a former MGP site. SCG may be subject to remediation expenses for part of the site, which could be significant and will be subject to a review by PURA as to whether these costs are recoverable in rates. UIL Holdings cannot presently estimate the costs of remediation or the likelihood of recoverability. As such, as of December 31, 2012, no liability related to this claim has been recorded.

A property located on Columbus Boulevard in Hartford, CT is the former Operations Center and Corporate Headquarters of CNG. The property is also a former MGP site. Costs associated with the remediation of the site could be significant and will be subject to a review by PURA as to whether these costs are recoverable in rates. UIL Holdings cannot presently estimate the costs of remediation or the likelihood of recoverability. As such, as of December 31, 2012, no liability related to this claim has been recorded.

A site on Mill Street in Greenfield, MA is currently owned by Berkshire and is used as a regional operations center. This site is on the Massachusetts Department of Environmental Protection (MDEP) list of confirmed disposal sites and investigation and remediation of contamination resulting from disposal of byproducts and wastes generated by the historic coal and water gas manufacturing operations is ongoing. Extensive soil, and coal tar product non-aqueous phase liquid (NAPL) recovery and remediation work on the land side of the property has been completed, and sediments containing NAPL have been removed from the adjoining Green River. Evaluation of the NAPL distribution in the river sediments and in the subsurface in stream banks on an adjacent property is complete. Installation of land based containment systems was completed in 2012. River sediments, stream bank and adjacent properties are scheduled for remediation in 2013. After completion of the additional remedial activities, there will be ongoing monitoring and reporting to the MDEP that will continue on the site for the foreseeable future. UIL Holdings estimates that expenses will most likely amount to \$4.5 million and has recorded a liability and offsetting regulatory asset for such expenses as of December 31, 2012. Historically, Berkshire has received approval from the DPU for recovery of environmental expenses in its customer rates. While management cannot predict the exact costs of the ongoing and future remediation and monitoring expenses, Berkshire will seek regulatory rate recovery of these expenses.

Berkshire formerly owned a site on East Street (the East Street Site) in Pittsfield, MA that was used for gas manufacturing operations. The East Street Site is part of a larger site known as the GE-Pittsfield/Housatonic River Site.

**UIL HOLDINGS CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (continued)**

Berkshire sold the East Street Site to the General Electric Company (GE) in the 1970s and was named a potentially responsible party by the EPA in 1990. GE filed suit against Berkshire in 2000 seeking reimbursement of and contribution toward costs incurred by GE in responding to releases of hazardous substances attributed to Berkshire's predecessor at the East Street Site. Berkshire was found liable to GE under the federal Comprehensive Environmental Response, Compensation and Liability Act and the Massachusetts Oil and Hazardous Materials Release Prevention and Response Act for costs that GE has and will incur in response to historic releases attributed to Berkshire's predecessor. In December 2002, Berkshire reached a settlement with GE (the Settlement Agreement) which provides, among other things, a framework for Berkshire and GE to allocate various monitoring and remediation costs at the East Street Site. Pursuant to an agreement signed in July 2012, by Berkshire and GE, Berkshire paid GE approximately \$0.9 million for its share of remediation expenses incurred by GE at the East Street Site from 2006 through 2010. Berkshire expects that it and GE will continue to operate under the terms of the Settlement Agreement in connection with the East Street Site. As of December 31, 2012, UIL Holdings has accrued approximately \$2.0 million and established a regulatory asset for these and future costs incurred by GE in responding to releases of hazardous substances at the East Street Site. Historically, Berkshire has received approval from the DPU for recovery of remediation expenses in its customer rates. While management cannot predict the exact costs of the ongoing and future remediation and monitoring expenses, Berkshire will seek regulatory rate recovery of these expenses.

**Middletown/Norwalk Transmission Project**

The general contractor and two subcontractors responsible for civil construction work in connection with the installation of UI's portion of the Middletown/Norwalk Transmission Project's underground electric cable system filed lawsuits in Connecticut state court on September 22, 2009, March 23, 2009 and January 25, 2010, respectively. The claims, as revised by the general contractor in October 2011, sought payment for change order requests of approximately \$33.3 million, a 10% general contractor mark-up on any approved subcontractor change order claims (approximately \$2.3 million), interest, costs, and attorneys' fees. In December 2011, UI settled claims brought by the two subcontractors and their respective lawsuits were dismissed with prejudice. The claim by the general contractor was not settled and UI is vigorously defending the litigation. Based on the settlement of the subcontractors' claims, and after the completion of evidence in the state court trial, UI estimates that the general contractor's claims have been reduced to approximately \$7.7 million, exclusive of the contractor's claims for interest, costs, and attorneys' fees.

UI also is pursuing an indemnification claim against the general contractor. The trial on the general contractor's claims and UI's indemnification claim concluded in December 2012. Post-trial briefing and oral argument are scheduled to be completed in the first quarter of 2013. A decision by the judge could be issued as early as the second quarter of 2013. UI expects to recover amounts paid to resolve the contractor and subcontractor claims through UI's transmission revenue requirements. In October 2012, the general contractor filed a complaint against UI with the FERC alleging that UI's inclusion of certain costs incurred by UI in connection with the Middletown/Norwalk Transmission Project were not reasonably and/or prudently incurred and/or were not incurred in good faith by UI, and subsequently filed an amended complaint. UI vigorously defended against these allegations, pursuant to FERC rules of practice. On February 21, 2013, FERC dismissed the complaint, without prejudice.

**Purchase and Sale Agreement**

As part of its plan to consolidate operations and office personnel, in July 2011, UI entered into an agreement for the sale of the Electric System Work Center (ESWC) located at 801 Bridgeport Avenue in Shelton, CT for approximately \$10.2 million. Prior to the expiration of the due diligence period, the buyer requested a price reduction and certain other changes to the agreement. The parties were unable to reach an agreement and in November 2012, the buyer sent UI notice terminating the agreement. UI expects to return or recover any gain or loss, respectively, that may result from the future sale of the property through the regulatory process.

**(K) FAIR VALUE MEASUREMENTS**

UIL HOLDINGS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (continued)

As required by ASC 820 “Fair Value Measurements and Disclosures,” financial assets and liabilities are classified in their entirety, based on the lowest level of input that is significant to the fair value measurement. UIL Holdings’ assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect the valuation of the fair value of assets and liabilities and their placement within the fair value hierarchy levels.

The following tables set forth UIL Holdings’ financial assets and liabilities, other than pension benefits and OPEB, which were accounted for at fair value on a recurring basis as of December 31, 2012 and December 31, 2011.

	Fair Value Measurements Using			Total
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
	(In Thousands)			
<b>December 31, 2012</b>				
Assets:				
Contracts for differences	\$ -	\$ -	\$ 78,838	\$ 78,838
Weather insurance contracts	-	-	1,000	1,000
Noncurrent investments available for sale	9,902	-	-	9,902
Deferred Compensation Plan	3,745	-	-	3,745
Supplemental retirement benefit trust life insurance policies	-	6,438	-	6,438
	<u>\$ 13,647</u>	<u>\$ 6,438</u>	<u>\$ 79,838</u>	<u>\$ 99,923</u>
Liabilities:				
Contracts for differences	\$ -	\$ -	\$ 255,443	\$ 255,443
Long-term debt	-	1,886,440	-	1,886,440
	<u>\$ -</u>	<u>\$ 1,886,440</u>	<u>\$ 255,443</u>	<u>\$ 2,141,883</u>
Net fair value assets/(liabilities), December 31, 2012	<u>\$ 13,647</u>	<u>\$ (1,880,002)</u>	<u>\$ (175,605)</u>	<u>\$ (2,041,960)</u>
<b>December 31, 2011</b>				
Assets:				
Contracts for differences	\$ -	\$ -	\$ 83,942	\$ 83,942
Weather insurance contracts	-	-	3,512	3,512
Noncurrent investments available for sale	9,152	-	-	9,152
Deferred Compensation Plan	3,739	-	-	3,739
Supplemental retirement benefit trust life insurance policies	-	5,655	-	5,655
	<u>\$ 12,891</u>	<u>\$ 5,655</u>	<u>\$ 87,454</u>	<u>\$ 106,000</u>
Liabilities:				
Contracts for differences	\$ -	\$ -	\$ 268,035	\$ 268,035
Long-term debt	-	1,715,724	-	1,715,724
	<u>\$ -</u>	<u>\$ 1,715,724</u>	<u>\$ 268,035</u>	<u>\$ 1,983,759</u>
Net fair value assets/(liabilities), December 31, 2011	<u>\$ 12,891</u>	<u>\$ (1,710,069)</u>	<u>\$ (180,581)</u>	<u>\$ (1,877,759)</u>

The determination of fair value of the CfDs was based on a probability-based expected cash flow analysis that was discounted at the December 31, 2012 or December 31, 2011 risk-free interest rates, as applicable, and an adjustment for non-performance risk using credit default swap rates. Certain management assumptions were required, including development of pricing that extended over the term of the contracts. For information regarding the determination of the fair value of the weather insurance contracts, see Note (A) “Business Organization and Statement of Accounting Policies – Derivatives.” Additional quantitative information about Level 3 fair value measurements is as follows:

UIL HOLDINGS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (continued)

	Unobservable Input	Range
Contracts for differences	Risk of non-performance	0.78% - 1.54%
	Discount rate	1.18% - 1.48%
	Forward pricing (\$ per MW)	\$ 1.40 - \$9.83
Weather insurance contracts	Heating degree days	4,625 -
		4,904

Significant isolated changes in the risk of non-performance, the discount rate or the contract term pricing would result in an inverse change in the fair value of the CfDs. A significant change in heating degree days would result in an inverse change in the fair value of the weather derivative contracts.

In addition, UIL performed an assessment of risks related to obtaining regulatory, legal and siting approvals, as well as obtaining financing resources and ultimately attaining commercial operation. PURA has determined that changes in fair value associated with the CfDs are fully recoverable. As a result, such changes have no impact on UIL Holdings' net income.

Fair value of long-term debt is based on evaluated prices that reflect significant observable market information such as reported trades, actual trade information of similar securities, benchmark yields, broker/dealer quotes of new issue prices and relevant credit information.

The fair value of the noncurrent investments available for sale is determined using quoted market prices in active markets for identical assets. The investments primarily consist of money market funds.

Under the UIL Deferred Compensation Plan (DCP), directors, named executive officers and certain other executives may elect to defer certain elements of compensation. Participants in the DCP are permitted to direct investments of their elective deferral accounts into "deemed" investments consisting of mutual funds and UIL Holdings common stock equivalents. These investments, which are actively traded in sufficient frequency and volume to provide pricing information on an ongoing basis, are marked-to-market based upon such pricing information.

The determination of the fair value of the supplemental retirement benefit trust life insurance policies was based on quoted prices as of December 30, 2012 and December 31, 2011 in the active markets for the various funds within which the assets are held.

The following tables set forth a reconciliation of changes in the fair value of the assets and liabilities above that are classified as Level 3 in the fair value hierarchy for the twelve month periods ended December 31, 2012 and 2011.

UIL HOLDINGS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (continued)

	Year Ended December 31, 2012 <u>(In Thousands)</u>
Net derivative assets/(liabilities), December 31, 2011	\$ (180,581)
Unrealized gains and (losses), net	
Included in earnings	3,488
Included in regulatory assets/(liabilities)	7,488
Settlements	<u>(6,000)</u>
Net derivative assets/(liabilities), December 31, 2012	<u>\$ (175,605)</u>
Change in unrealized gains (losses), net relating to net derivative assets/(liabilities), still held as of December 31, 2012	<u>\$ 7,488</u>
	Year Ended December 31, 2011 <u>(In Thousands)</u>
Net derivative assets/(liabilities), December 31, 2010	\$ (108,618)
Unrealized gains and (losses), net	
Included in earnings	3,090
Included in other comprehensive income	64
Included in regulatory assets/(liabilities)	<u>(75,117)</u>
Net derivative assets/(liabilities), December 31, 2011	<u>\$ (180,581)</u>
Change in unrealized gains (losses), net relating to net derivative assets/(liabilities), still held as of December 31, 2011	<u>\$ (71,963)</u>

The following table sets forth a reconciliation of changes in the net regulatory asset/(liability) balances that were established to recover any unrealized gains/(losses) associated with the CfDs for the years ended December 31, 2012 and 2011. The amounts offset the net CfDs liabilities included in the derivative liabilities detailed above.

UIL HOLDINGS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (continued)

	<b>Year Ended December 31, 2012 (In Thousands)</b>
Net regulatory assets/(liabilities), December 31, 2011	\$ 184,093
Unrealized (gains) and losses, net	(7,488)
Net regulatory assets/(liabilities), December 31, 2012	<u>\$ 176,605</u>

	<b>Year Ended December 31, 2011 (In Thousands)</b>
Net regulatory assets/(liabilities), December 31, 2010	\$ 108,976
Unrealized (gains) and losses, net	75,117
Net regulatory assets/(liabilities), December 31, 2011	<u>\$ 184,093</u>

The following tables set forth the fair values of UIL Holdings' pension and OPEB assets that were accounted for at fair value on a recurring basis as of December 31, 2012 and 2011.

	<b>Fair Value Measurements Using</b>			<b>Total</b>
	<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>	
<b>December 31, 2012</b>	<b>(In Thousands)</b>			
<b>Pension assets</b>				
Cash and cash equivalents	\$ 1,606	\$ -	\$ -	\$ 1,606
Mutual funds	-	595,772	-	595,772
Hedge fund	-	-	27,683	27,683
	<u>1,606</u>	<u>595,772</u>	<u>27,683</u>	<u>625,061</u>
<b>OPEB assets</b>				
Mutual funds	38,540	-	-	38,540
	<u>38,540</u>	<u>-</u>	<u>-</u>	<u>38,540</u>
Fair value of plan assets, December 31, 2012	<u>\$ 40,146</u>	<u>\$ 595,772</u>	<u>\$ 27,683</u>	<u>\$ 663,601</u>

UIL HOLDINGS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (continued)

	Fair Value Measurements Using			Total
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
<b>December 31, 2011</b>	(In Thousands)			
Pension assets				
Cash and cash equivalents	\$ 27,204	\$ -	\$ -	\$ 27,204
Mutual funds	-	520,917	-	520,917
	<u>27,204</u>	<u>520,917</u>	<u>-</u>	<u>548,121</u>
OPEB assets				
Mutual funds	37,572	-	-	37,572
	<u>37,572</u>	<u>-</u>	<u>-</u>	<u>37,572</u>
Fair value of plan assets, December 31, 2011	<u>\$ 64,776</u>	<u>\$ 520,917</u>	<u>\$ -</u>	<u>\$ 585,693</u>

The determination of fair value of the Level 1 and Level 2 pension and OPEB assets was based on quoted prices, as of December 31, 2012 and 2011, in the active markets for the various funds within which the assets are held. The determination of fair value of the Level 3 pension assets was based on the Net Asset Value (NAV) provided by the managers of the underlying fund investments and the unrealized gains and losses. The NAV provided by the managers typically reflect the fair value of each underlying fund investment. Changes in the fair value of pension benefits and OPEB are accounted for in accordance with ASC 715 Compensation – Retirement Benefits as discussed in Note (G) “Pension and Other Benefits”.

The following tables set forth a reconciliation of changes in the fair value of the assets above that are classified as Level 3 in the fair value hierarchy for the twelve month periods ended December 31, 2012 and 2011.

	Year Ended December 31, 2012 (In Thousands)
Pension assets-Level 3, December 31, 2011	\$ -
Unrealized/Realized gains and (losses), net	479
Purchases	27,204
Pension assets-Level 3, December 31, 2012	<u>\$ 27,683</u>
	Year Ended December 31, 2011 (In Thousands)
Pension assets-Level 3, December 31, 2010	\$ 390
Unrealized/Realized gains and (losses), net	(6)
Settlements	(384)
Pension assets-Level 3, December 31, 2011	<u>\$ -</u>

UIL HOLDINGS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (continued)

**(L) QUARTERLY FINANCIAL DATA (UNAUDITED)**

Selected quarterly financial data for 2012 and 2011 are set forth below:

<b>(In Thousands, Except Per Share Amounts)</b>	<b>1<sup>st</sup> Quarter</b>	<b>2<sup>nd</sup> Quarter</b>	<b>3<sup>rd</sup> Quarter</b>	<b>4<sup>th</sup> Quarter</b>
<b>2012</b>				
Operating Revenues	\$ 458,338	\$ 283,508	\$ 323,809	\$ 420,846
Operating Income	\$ 87,461	\$ 36,507	\$ 39,126	\$ 67,496
Net Income attributable to UIL Holdings	<u>\$ 47,050</u>	<u>\$ 11,999</u>	<u>\$ 15,749</u>	<u>\$ 28,839</u>
Earnings Per Share of Common Stock – Basic: (1)	<u>\$ 0.93</u>	<u>\$ 0.24</u>	<u>\$ 0.31</u>	<u>\$ 0.57</u>
Earnings Per Share of Common Stock – Diluted: (2)	<u>\$ 0.92</u>	<u>\$ 0.23</u>	<u>\$ 0.31</u>	<u>\$ 0.56</u>
<b>2011</b>				
Operating Revenues	\$ 561,053	\$ 314,049	\$ 321,427	\$ 373,565
Operating Income	\$ 99,815	\$ 40,224	\$ 34,253	\$ 45,090
Net Income attributable to UIL Holdings	<u>\$ 52,044</u>	<u>\$ 14,156</u>	<u>\$ 12,180</u>	<u>\$ 21,276</u>
Earnings Per Share of Common Stock – Basic: (1)	<u>\$ 1.03</u>	<u>\$ 0.28</u>	<u>\$ 0.24</u>	<u>\$ 0.42</u>
Earnings Per Share of Common Stock – Diluted: (2)	<u>\$ 1.02</u>	<u>\$ 0.28</u>	<u>\$ 0.24</u>	<u>\$ 0.42</u>

(1) Based on weighted average number of shares outstanding each quarter.

(2) Based on weighted average number of shares outstanding each quarter. Reflecting the effect of dilutive stock options, performance shares and restricted stock.

UIL HOLDINGS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (continued)

(M) SEGMENT INFORMATION

UIL Holdings is organized between Electric Distribution, Electric Transmission and Gas Distribution reporting segments based on several factors including, but not limited to, the nature of each segment’s products and services, the sources of operating revenues and expenses and the regulatory environment in which each segment operates. The following measures of segment profit and loss are utilized by management to make decisions about allocating resources to the segments and assessing performance. The following table reconciles certain segment information with that provided in UIL Holdings’ Consolidated Financial Statements. In the table, distribution includes all electric utility revenue and expenses except for transmission, which is provided in a separate column. “Other” includes the information for the remainder of UIL Holdings’ non-utility activities and unallocated corporate costs, including minority interest investments and administrative costs. Revenues from inter-segment transactions are not material. All of UIL Holdings’ revenues are derived in the United States.

(In Thousands)

	December 31, 2012					
	Electric Distribution and Transmission			Gas Distribution	Other	Total
	Distribution	Transmission	Total			
Operating Revenues	\$ 561,148	\$ 222,314	\$ 783,462	\$ 702,887	\$ 152	\$ 1,486,501
Purchased power and gas	154,546	-	154,546	370,234	-	524,780
Operation and maintenance	178,862	43,185	222,047	137,707	(3,477)	356,277
Transmission wholesale	-	79,469	79,469	-	-	79,469
Depreciation and amortization	88,672	14,890	103,562	75,205	2,581	181,348
Taxes - other than income taxes	44,845	26,773	71,618	42,254	165	114,037
Operating Income	94,223	57,997	152,220	77,487	883	230,590
Other Income and (Deductions), net	16,562	3,945	20,507	4,071	668	25,246
Interest Charges, net	28,308	12,941	41,249	28,001	23,292	92,542
Income Before Income Taxes and Equity Earnings	82,477	49,001	131,478	53,557	(21,741)	163,294
Income Taxes	45,091	17,025	62,116	21,305	(8,555)	74,866
Income Before Equity Earnings	37,386	31,976	69,362	32,252	(13,186)	88,428
Income from Equity Investments	15,273	-	15,273	-	-	15,273
Net Income (Loss)	52,659	31,976	84,635	32,252	(13,186)	103,701
Less:						
Preferred Stock Dividends of Subsidiary, Noncontrolling Interests	-	-	-	64	-	64
Net Income (Loss) attributable to UIL Holdings	\$ 52,659	\$ 31,976	\$ 84,635	\$ 32,188	\$ (13,186)	\$ 103,637

	Electric Distribution and Transmission (1)			Gas Distribution	Other	Total (2)
	Distribution	Transmission	Total			
Total Assets at December 31, 2012	\$ -	\$ -	\$ 2,875,765	\$ 1,994,291	\$ 90,042	\$ 4,960,098

- (1) Information for segmenting total assets between Distribution and Transmission is not available. Total Electric Distribution and Transmission assets are disclosed in the Total Electric Distribution and Transmission column. Net plant in service is segregated by segment and, as of December 31, 2012, was \$1,058.6 million and \$607.8 million for Distribution and Transmission, respectively.
- (2) Includes \$266.2 million of goodwill in the Gas Distribution segment as of December 31, 2012.

UIL HOLDINGS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (continued)

(M) SEGMENT INFORMATION (Continued)

(In Thousands)

December 31, 2011

	Electric Distribution and Transmission			Gas Distribution	Other	Total
	Distribution	Transmission	Total			
Operating Revenues	\$ 599,153	\$ 198,503	\$ 797,656	\$ 772,315	\$ 123	\$ 1,570,094
Purchased power and gas	180,149	-	180,149	429,079	-	609,228
Operation and maintenance	216,361	32,027	248,388	133,126	300	381,814
Transmission wholesale	-	77,997	77,997	-	-	77,997
Depreciation and amortization	83,725	12,690	96,415	70,694	353	167,462
Taxes - other than income taxes	45,967	24,736	70,703	43,494	14	114,211
Operating Income (Loss)	72,951	51,053	124,004	95,922	(544)	219,382
Other Income and (Deductions), net	14,697	6,651	21,348	6,571	(987)	26,932
Interest Charges, net	30,489	13,235	43,724	28,939	22,722	95,385
Income Before Income Taxes and Equity						
Earnings	57,159	44,469	101,628	73,554	(24,253)	150,929
Income Taxes	30,865	13,186	44,051	29,721	(11,271)	62,501
Income Before Equity Earnings	26,294	31,283	57,577	43,833	(12,982)	88,428
Income from Equity Investments	11,282	-	11,282	-	-	11,282
Net Income (Loss)	37,576	31,283	68,859	43,833	(12,982)	99,710
Less:						
Preferred Stock Dividends of						
Subsidiary, Noncontrolling Interests	-	-	-	54	-	54
Net Income (Loss) attributable to UIL Holdings	\$ 37,576	\$ 31,283	\$ 68,859	\$ 43,779	\$ (12,982)	\$ 99,656

Electric Distribution and Transmission (1)

	Distribution	Transmission	Total	Gas Distribution	Other	Total (2)
Total Assets at December 31, 2011	\$ -	\$ -	\$ 2,716,460	\$ 1,953,079	\$ 75,070	\$ 4,744,609

December 31, 2010

	Electric Distribution and Transmission			Gas Distribution	Other	Total
	Distribution	Transmission	Total			
Operating Revenues	\$ 667,737	\$ 191,810	\$ 859,547	\$ 138,105	\$ 14	\$ 997,666
Purchased power and gas	242,268	-	242,268	81,428	-	323,696
Operation and maintenance	210,646	27,699	238,345	19,297	640	258,282
Transmission wholesale	-	72,169	72,169	-	-	72,169
Depreciation and amortization	96,007	12,402	108,409	5,492	45	113,946
Taxes - other than income taxes	44,206	27,435	71,641	7,054	7	78,702
Acquisition-related costs	-	-	-	-	25,572	25,572
Operating Income (Loss)	74,610	52,105	126,715	24,834	(26,250)	125,299
Other Income and (Deductions), net	13,101	2,939	16,040	107	1,115	17,262
Interest Charges, net	28,539	12,034	40,573	4,014	9,111	53,698
Income Before Income Taxes and Equity						
Earnings	59,172	43,010	102,182	20,927	(34,246)	88,863
Income Taxes	25,026	14,682	39,708	8,026	(12,450)	35,284
Income Before Equity Earnings	34,146	28,328	62,474	12,901	(21,796)	53,579
Income from Equity Investments	1,278	-	1,278	-	-	1,278
Net Income (Loss)	35,424	28,328	63,752	12,901	(21,796)	54,857
Less:						
Preferred Stock Dividends of						
Subsidiary, Noncontrolling Interests	-	-	-	3	-	3
Net Income (Loss) attributable to UIL						

Holdings	\$ 35,424	\$ 28,328	\$ 63,752	\$ 12,898	\$ (21,796)	\$ 54,854
	<b>Electric Distribution and Transmission (1)</b>					
	<b>Distribution</b>	<b>Transmission</b>	<b>Total</b>	<b>Gas Distribution</b>	<b>Other</b>	<b>Total (2)</b>
Total Assets at December 31, 2010	\$ -	\$ -	\$ 2,383,057	\$ 2,050,332	\$ 48,449	\$ 4,481,838

(1) Information for segmenting total assets between Distribution and Transmission is not available. Total Electric Distribution and Transmission assets are disclosed in the Total Electric and Distribution and Transmission column. Net plant in service is segregated by segment and, as of December 31, 2011, was \$1,029.8 million and \$495.8 million for Distribution and Transmission, respectively. As of December 31, 2010, net plant in service was \$820.9 million and \$512.2 million for Distribution and Transmission, respectively.

(2) Includes \$266.8 million and \$298.9 million of goodwill in the Gas Distribution segment as of December 31, 2011 and 2010, respectively.



Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of UIL Holdings Corporation:

In our opinion, the consolidated financial statements listed in the index appearing under Item 15(a)(1) present fairly, in all material respects, the financial position of UIL Holdings Corporation and its subsidiaries (the Company) at December 31, 2012 and December 31, 2011, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2012 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the index appearing under Item 15 (a)(2) presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements and financial statement schedule, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on these financial statements, on the financial statement schedule, and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP  
Boston, Massachusetts  
February 21, 2013

**Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.**

None

**Item 9A. Controls and Procedures.**

**Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures**

UIL Holdings maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in its periodic reports to the SEC is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to UIL Holdings' management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure based on the definition of "disclosure controls and procedures" in Rule 13a-15(e) and Rule 15d-15(e) under the Exchange Act. Management designed its disclosure controls and procedures to provide reasonable assurance of achieving the desired control objectives.

UIL Holdings carried out an evaluation, under the supervision and with the participation of its management, including its Chief Executive Officer and its Chief Financial Officer, of the effectiveness of the design and operation of UIL Holdings' disclosure controls and procedures as of December 31, 2012. As of December 31, 2012, UIL Holdings' Chief Executive Officer and its Chief Financial Officer concluded that its disclosure controls and procedures were effective and provided reasonable assurance that the disclosure controls and procedures accomplished their objectives.

**Changes in Internal Control Over Financial Reporting**

There have been no changes in UIL Holdings' internal control over financial reporting during the quarter ended December 31, 2012 that have materially affected, or are reasonably likely to materially affect, UIL Holdings' internal control over financial reporting.

**Report of Management on Internal Control Over Financial Reporting**

Management of UIL Holdings is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. UIL Holdings' internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America. Internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of UIL Holdings; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America; (3) provide reasonable assurance that receipts and expenditures of UIL Holdings are being made only in accordance with authorization of management and directors of UIL Holdings; and (4) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of assets that could have a material effect on the consolidated financial statements.

Internal control over financial reporting includes the controls themselves, monitoring (including internal auditing practices) and actions taken to correct deficiencies as identified.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Further, one cannot assume that existing internal control over financial reporting will be effective in future periods due to changes in conditions, or deterioration in the degree of compliance with existing policies or procedures.

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Management assessed the effectiveness of UIL Holdings' internal control over financial reporting as of December 31, 2012. Management based this assessment on criteria for effective internal control over financial reporting described in "Internal Control – Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management determined that, as of December 31, 2012, UIL Holdings maintained effective internal control over financial reporting.

The effectiveness of the Company's internal control over financial reporting as of December 31, 2012, has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which appears in Part II, Item 8, "Financial Statements and Supplementary Data – Report of Independent Registered Public Accounting Firm," of this Form 10-K.

**Item 9B. Other Information.**

None.

**Part III**

**Item 10. Directors, Executive Officers and Corporate Governance.**

The information appearing under the captions "Proposal No. 1 - ELECTION OF DIRECTORS" and "SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE" in UIL Holdings Corporation's (UIL Holdings) definitive Proxy Statement for the Annual Meeting of the Shareowners scheduled to be held on May 14, 2013, which Proxy Statement is expected to be filed with the Securities and Exchange Commission on or about April 3, 2013, is incorporated by reference in partial answer to this item. See also "EXECUTIVE OFFICERS OF UIL HOLDINGS," following Part I, Item 4 of this Form 10-K. The UIL Holdings Code of Ethics for the Chief Executive Officer, Presidents, and Senior Financial Officers is available on UIL Holdings' website ([www.uil.com](http://www.uil.com)), and is included as Exhibit 14 to this filing on Form 10-K.

**Item 11. Executive Compensation.**

The information appearing under the captions "REPORT OF THE COMPENSATION AND EXECUTIVE DEVELOPMENT COMMITTEE," "COMPENSATION DISCUSSION AND ANALYSIS," "COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION," "SUMMARY COMPENSATION TABLE," "GRANTS OF PLAN-BASED AWARDS," "OUTSTANDING EQUITY AWARDS AT FISCAL YEAR END," "OPTIONS EXERCISES AND STOCK VESTED," "PENSION BENEFITS," and "DIRECTORS COMPENSATION," in UIL Holdings' definitive Proxy Statement for the Annual Meeting of the Shareowners scheduled to be held on May 14, 2013, which Proxy Statement is expected to be filed with the Securities and Exchange Commission on or about April 3, 2013, is incorporated by reference in answer to this item.

**Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.**

The information appearing under the captions "PRINCIPAL SHAREOWNERS," "STOCK OWNERSHIP OF DIRECTORS AND OFFICERS" and "EQUITY COMPENSATION PLAN INFORMATION" in UIL Holdings' definitive Proxy Statement for the Annual Meeting of the Shareowners scheduled to be held on May 14, 2013, which Proxy Statement is expected to be filed with the Securities and Exchange Commission on or about April 3, 2013, is incorporated by reference in partial answer to this item.

**Item 13. Certain Relationships and Related Transactions, and Director Independence.**

The information appearing under the captions “TRANSACTIONS WITH RELATED PERSONS AND CODES OF CONDUCT,” and “INFORMATION REGARDING THE BOARD OF DIRECTORS – DIRECTOR INDEPENDENCE” in UIL Holdings’ definitive Proxy Statement for the Annual Meeting of the Shareowners scheduled to be held on May 14, 2013, which Proxy Statement is expected to be filed with the Securities and Exchange Commission on or about April 3, 2013, is incorporated by reference in answer to this item.

**Item 14. Principal Accounting Fees and Services.**

The information appearing under the caption “BOARD OF DIRECTORS REPORT OF THE AUDIT COMMITTEE” in UIL Holdings’ definitive Proxy Statement for the Annual Meeting of the Shareowners scheduled to be held on May 14, 2013, which Proxy Statement is expected to be filed with the Securities and Exchange Commission on or about April 3, 2013, is incorporated by reference in answer to this item.

**Part IV**

**Item 15. Exhibits and Financial Statement Schedules.**

The following documents are filed as a part of this report:

(a) 1. Financial Statements (see Item 8):

Consolidated Statement of Income for the years ended December 31, 2012, 2011 and 2010

Consolidated Statement of Comprehensive Income for the years ended December 31, 2012, 2011 and 2010

Consolidated Statement of Cash Flows for the years ended December 31, 2012, 2011 and 2010

Consolidated Balance Sheet, December 31, 2012 and 2011

Consolidated Statement of Changes in Shareholders’ Equity for the years ended December 31, 2012, 2011 and 2010

Notes to Consolidated Financial Statements

Report of independent registered public accounting firm

2. Financial Statement Schedule (see S-1):

Schedule II - Valuation and Qualifying Accounts for the years ended December 31, 2012, 2011 and 2010

3. Exhibits:

Pursuant to Rule 12b-32 under the Securities Exchange Act of 1934, certain of the following listed exhibits, which are annexed as exhibits to previous statements and reports filed by UIL Holdings Corporation (Commission File Number 1-15052) and/or The United Illuminating Company (Commission File Number 1-6788), are hereby incorporated by reference as exhibits to this report.

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(b) Exhibits:

<u>Exhibit No.</u>	<u>Description</u>
2.1	Purchase Agreement, dated as of May 25, 2010 by and between Iberdrola USA, Inc. and UIL Holdings Corporation (pursuant to Item 601(b)(2) of Regulation S-K, schedules to the Purchase Agreement have been omitted; schedules will be provided supplemental to the SEC upon request), (incorporated herein by reference to Form 8-K filed with the Securities and Exchange Commission on May 25, 2010).
2.2	Agreement, dated as of July 14, 2010 by and between The United Illuminating Company and The Connecticut Light & Power Company (incorporated herein by reference to Form 8-K filed with the Securities and Exchange Commission on July 15, 2010) .
3.1	Certificate of Incorporation of UIL Holdings Corporation, as amended through May 10, 2011 (incorporated herein by reference to Form 10-Q filed with the Securities and Exchange Commission for the fiscal quarter ended June 30, 2011).
3.2	Bylaws of UIL Holdings Corporation as amended through April 27, 2009 (incorporated herein by reference to Form 10-Q filed with the Securities and Exchange Commission for the fiscal quarter ended June 30, 2009).
4.1	Indenture, dated as of August 1, 1991, from The United Illuminating Company to The Bank of New York, Trustee (incorporated herein by reference to UI Registration Statement No. 33-40169 effective August 12, 1991) .
4.2	Note Purchase Agreement, dated July 29, 2008, for 6.46% Series A Senior Notes, 6.51% Series B Senior Notes, and 6.61% Series C Senior Notes (incorporated herein by reference to Form 8-K filed with the Securities and Exchange Commission on August 1, 2008) .
4.3	Note Purchase Agreement, dated December 10, 2009, for 5.61% Senior Notes (incorporated herein by reference to Form 10-K filed with the Securities and Exchange Commission for the fiscal year ended December 31, 2009).
4.4	Note Purchase Agreement, dated May 13, 2010, for 6.09% Senior Notes (incorporated herein by reference to Form 8-K filed with the Securities and Exchange Commission on May 14, 2010) .
4.5	Senior Indenture, dated as of October 7, 2010, between UIL Holdings Corporation and The Bank of New York Mellon, as trustee (incorporated herein by reference to Form 8-K filed with the Securities and Exchange Commission on October 7, 2010) .
4.6	First Supplemental Indenture, dated as of October 7, 2010, between UIL Holdings Corporation and The Bank of New York Mellon, as trustee (incorporated herein by reference to Form 8-K filed with the Securities and Exchange Commission on October 7, 2010) .
4.7	Form of Note (incorporated herein by reference to Form 8-K filed with the Securities and Exchange Commission on October 7, 2010) .

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<u>Exhibit No.</u>	<u>Description</u>
4.8	Note Purchase Agreement, dated August 29, 2011, for 3.88% and 5.39% Medium-Term Notes (incorporated herein by reference to Form 8-K filed with the Securities and Exchange Commission on September 1, 2011).
4.9	Thirty-First Supplemental Indenture, dated November 1, 2008 (incorporated herein by reference to Form 8-K filed with the Securities and Exchange Commission on September 1, 2011).
4.10	Note Purchase Agreement, dated January 30, 2012, for \$31,000,000 2.98% Senior Notes, Series A, due January 30, 2019; \$51,500,000 3.61% Senior Notes, Series B, due January 31, 2022; \$34,000,000 3.61% Senior Notes, Series C, due January 31, 2022; \$52,000,000 4.89% Senior Notes, Series D, due January 30, 2042 and \$35,000,000 4.89% Senior Notes, Series E, due January 30, 2042. (incorporated herein by reference to Form 8-K filed with the Securities and Exchange Commission on February 1, 2012).
10.1	Amended and Restated Transmission Line Agreement, dated May 15, 2003, between the State of Connecticut Department of Transportation and The United Illuminating Company (incorporated herein by reference to Form 10-K filed with the Securities and Exchange Commission for the fiscal year ended December 31, 2003).
10.2	Agreement, effective May 16, 2011, between The United Illuminating Company and Local 470-1, Utility Workers Union of America, AFL-CIO (incorporated herein by reference to Form 10-Q filed with the Securities and Exchange Commission for the fiscal quarter ended June 30, 2011).
10.2a	Supplemental Agreement, effective May 16, 2011, between The United Illuminating Company and Local 470-1, Utility Workers Union of America, AFL-CIO (incorporated herein by reference to Form 10-Q filed with the Securities and Exchange Commission for the fiscal quarter ended June 30, 2011).
10.3*	Employment Agreement, dated as of July 8, 2005, between The United Illuminating Company and Richard J. Nicholas (incorporated herein by reference to Form 8-K filed with the Securities and Exchange Commission on July 11, 2005).
10.3a*	First Amendment, dated August 4, 2008, to Employment Agreement, dated as of July 8, 2005, between The United Illuminating Company and Richard J. Nicholas (incorporated herein by reference to Form 10-Q filed with the Securities and Exchange Commission for the fiscal quarter ended June 30, 2008).
10.4*	Employment Agreement, dated as of January 10, 2006, between UIL Holdings Corporation and James P. Torgerson (incorporated herein by reference to Form 8-K filed with the Securities and Exchange Commission on January 11, 2006).
10.4a*	First Amendment, dated August 4, 2008, to Employment Agreement, dated as of January 10, 2006, between UIL Holdings Corporation and James P. Torgerson (incorporated herein by reference to Form 10-Q filed with the Securities and Exchange Commission for the fiscal quarter ended June 30, 2008).
10.5*	Amended and Restated UIL Holdings Corporation Change In Control Severance Plan dated August 4, 2008 (incorporated herein by reference to Form 10-Q filed with the Securities and Exchange Commission for the fiscal quarter ended June 30, 2008).

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<u>Exhibit No.</u>	<u>Description</u>
10.6*	Non-Employee Directors' Common Stock and Deferred Compensation Plan of UIL Holdings Corporation, as amended through December 31, 2000 (incorporated herein by reference to Form 10-K filed with the Securities and Exchange Commission for the fiscal year ended December 31, 2000).
<a href="#">10.7*</a>	Non-Employee Directors' Common Stock and Deferred Compensation Plan of UIL Holdings Corporation, as amended through December 16, 2008.
10.8*	UIL Holdings Corporation Non-Employee Directors Change in Control Severance Plan (incorporated herein by reference to Form 10-Q filed with the Securities and Exchange Commission for the fiscal quarter ended September 30, 2000) .
10.9*	Employment Agreement, dated February 28, 2007, between UIL Holdings Corporation and Linda L. Randell (incorporated herein by reference to Form 10-Q filed with the Securities and Exchange Commission for the fiscal quarter ended March 31, 2007) .
10.10a*	First Amendment, dated August 4, 2008, to Employment Agreement, dated as of February 28, 2007, between UIL Holdings Corporation and Linda L. Randell (incorporated herein by reference to Form 10-Q filed with the Securities and Exchange Commission for the fiscal quarter ended June 30, 2008).
10.11*	Employment Agreement, dated January 26, 2004, between The United Illuminating Company and Anthony J. Vallillo (incorporated herein by reference to Form 10-K filed with the Securities and Exchange Commission for the fiscal year ended December 31, 2007).
10.11a*	First Amendment, dated November 18, 2004, to Employment Agreement, dated as of January 26, 2004, between The United Illuminating Company and Anthony J. Vallillo (incorporated herein by reference to Form 10-K filed with the Securities and Exchange Commission for the fiscal year ended December 31, 2007).
10.11b*	Second Amendment, dated November 28, 2005, to Employment Agreement, dated as of January 26, 2004, between The United Illuminating Company and Anthony J. Vallillo (incorporated herein by reference to Form 10-K filed with the Securities and Exchange Commission for the fiscal year ended December 31, 2007).
10.11c*	Third Amendment, dated August 4, 2008, to Employment Agreement, dated as of January 26, 2004, between The United Illuminating Company and Anthony J. Vallillo (incorporated herein by reference to Form 10-Q filed with the Securities and Exchange Commission for the fiscal quarter ended June 30, 2008).
10.11d*	Fourth Amendment, dated March 4, 2011, to Employment Agreement, dated as of January 26, 2004, between The United Illuminating Company and Anthony J. Vallillo (incorporated here in by reference to Form 10-Q filed with the Securities and Exchange Commission for the fiscal quarter ended March 31, 2011).

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<u>Exhibit No.</u>	<u>Description</u>
10.12*	Employment Agreement, dated July 1, 2005, between The United Illuminating Company and Steven P. Favuzza (incorporated herein by reference to Form 10-K filed with the Securities and Exchange Commission for the fiscal year ended December 31, 2007).
10.13*	UIL Holdings Corporation 2008 Stock and Incentive Compensation Plan, dated May 14, 2008 (incorporated herein by reference to Form 10-Q filed with the Securities and Exchange Commission for the fiscal quarter ended June 30, 2008) .
10.14*	UIL Holdings Corporation Deferred Compensation Plan Grandfathered Benefits Provisions, dated August 4, 2008 (incorporated herein by reference to Form 10-Q filed with the Securities and Exchange Commission for the fiscal quarter ended June 30, 2008) .
10.15*	UIL Holdings Corporation Deferred Compensation Plan Non-Grandfathered Benefits Provisions, dated August 4, 2008 (incorporated herein by reference to Form 10-Q filed with the Securities and Exchange Commission for the fiscal quarter ended June 30, 2008) .
10.16*	The United Illuminating Company Supplemental Executive Retirement Plan Grandfathered Benefits Provisions, dated August 4, 2008 (incorporated herein by reference to Form 10-Q filed with the Securities and Exchange Commission for the fiscal quarter ended June 30, 2008) .
10.17*	The United Illuminating Company Supplemental Executive Retirement Plan Non-Grandfathered Benefits Provisions, dated August 4, 2008 (incorporated herein by reference to Form 10-Q filed with the Securities and Exchange Commission for the fiscal quarter ended June 30, 2008) .
10.18	Agreement effective March 24, 2010, between the Southern Connecticut Gas Company and Local 12000, the United Steelworkers of America (incorporated herein by reference to Form 10-K filed with the Securities and Exchange Commission for the fiscal year ended December 31, 2010).
10.19	Agreement effective December 1, 2009, between the Connecticut Natural Gas Corporation and Local 12924, the Connecticut Independent Utility Workers (incorporated herein by reference to Form 10-K filed with the Securities and Exchange Commission for the fiscal year ended December 31, 2010).
10.20	Agreement effective March 5, 2010, between The Berkshire Gas Company and Local 12325, the United Steelworkers, AFL-CIO-CLC (incorporated herein by reference to Form 10-K filed with the Securities and Exchange Commission for the fiscal year ended December 31, 2010).
10.21	Agreement effective April 1, 2011, between the Connecticut Natural Gas Corporation and Local 380, the Utility Workers Union of America (incorporated herein by reference to Form 10-K filed with the Securities and Exchange Commission for the fiscal year ended December 31, 2011).

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<u>Exhibit No.</u>	<u>Description</u>
10.22	UIL Holdings Corporation 2012 Non-Qualified Employee Stock Purchase Plan (incorporated herein by reference to Form 8-K filed with the Securities and Exchange Commission on February 16, 2012).
10.22a	UIL Holdings Corporation 2012 Non-Qualified Employee Stock Purchase Plan, as amended through April 10, 2012 (incorporated herein by reference to Form 10-Q filed with the Securities and Exchange Commission for the fiscal quarter ended March 31, 2012).
10.23	\$400,000,000 Amended and Restated Credit Agreement, dated as of November 30, 2011, among UIL Holdings Corporation, The United Illuminating Company and the other Borrowers from time to time parties thereto, as Borrowers, the banks named therein, as Banks, JPMorgan Chase Bank, N. A. and Union Bank, N.A. as LC Banks, and JPMorgan Chase Bank, N.A., as Administrative Agent (incorporated herein by reference to Form 8-K filed with the Securities and Exchange Commission on December 2, 2011).
10.24	\$105,000,000 Credit Agreement, dated as of January 13, 2012, among The United Illuminating Company, as Borrower, JP Morgan Chase Bank, N.A., as Administrative Agent and the banks named therein (incorporated herein by reference to Form 8-K filed with the Securities and Exchange Commission on January 17, 2012).
10.25	\$100,000,000 Credit Agreement, dated October 31, 2012, among UIL Holdings Corporation, as borrower, JPMorgan Chase Bank, as Administrative Agent, and the banks named therein (incorporated herein by reference to Form 10-Q filed with the Securities and Exchange Commission for the fiscal quarter ended September 30, 2012).
<u>10.26</u>	Amended and Restated UIL Holdings Corporation Deferred Compensation Plan Non-Grandfathered Benefit Provisions dated January 1, 2013.
14	UIL Holdings Corporation Code of Ethics for the Chief Executive Officer, Presidents, and Senior Financial Officers (incorporated herein by reference to Form 10-K filed with the Securities and Exchange Commission for the fiscal year ended December 31, 2003).
21.1	List of Subsidiaries of UIL Holdings Corporation (incorporated herein by reference to Form 10-K filed with the Securities and Exchange Commission for the fiscal year ended December 31, 2010).
<u>23</u>	Consent of Independent Registered Public Accounting Firm.
<u>31.1</u>	Certification of Periodic Financial Report.
<u>31.2</u>	Certification of Periodic Financial Report.
<u>32</u>	Certification of Periodic Financial Report.

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<u>Exhibit No.</u>	<u>Description</u>
101.INS	The following financial information from the UIL Holdings Annual Report on Form 10-K for the year ended December 31, 2012, filed with the
101.SCH	SEC on February 21, 2013, is formatted in Extensible Business Reporting Language (XBRL): (i) the Consolidated Statement of Income for the
101.CAL	years ended December 31, 2012, 2011 and 2010, (ii) the Consolidated Statement of Comprehensive Income (Loss) for the years ended
101.LAB	December 31, 2012, 2011 and 2010, (iii) the Consolidated Balance Sheet as of December 31, 2012 and December 31, 2011, (iv) the
101.PRE	Consolidated Statement of Cash Flows for the years ended December, 31 2012, 2011 and 2010 and (v) the Notes to Consolidated Financial
101.DEF	Statements.

\* Management contract or compensatory plan or arrangement.

\*\* UIL Holdings agrees to furnish a supplementary copy of any omitted schedules to this Agreement to the Securities and Exchange Commission upon request.

The foregoing list of exhibits does not include instruments defining the rights of the holders of certain long-term debt of UIL Holdings Corporation and its subsidiaries where the total amount of securities authorized to be issued under the instrument does not exceed ten percent (10%) of the total assets of UIL Holdings Corporation and its subsidiaries on a consolidated basis; and UIL Holdings Corporation hereby agrees to furnish a copy of each such instrument to the Securities and Exchange Commission on request.

## SIGNATURES

Pursuant to the requirements of Section 13 of the Securities Exchange Act of 1934, UIL Holdings has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: February 21, 2013

### UIL HOLDINGS CORPORATION

By: /s/ James P. Torgerson

James P. Torgerson

President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<b><u>Signature</u></b>	<b><u>Title</u></b>	<b><u>Date</u></b>
<u>/s/ James P. Torgerson</u> (James P. Torgerson) (Principal Executive Officer)	Director, President and Chief Executive Officer	February 21, 2013
<u>/s/ Richard J. Nicholas</u> (Richard J. Nicholas) (Principal Financial Officer)	Executive Vice President and Chief Financial Officer	February 21, 2013
<u>/s/ Steven P. Favuzza</u> (Steven P. Favuzza) (Principal Accounting Officer)	Vice President and Controller	February 21, 2013
<u>/s/ Thelma R. Albright</u> (Thelma R. Albright)	Director	February 21, 2013
<u>/s/ Arnold L. Chase</u> (Arnold L. Chase)	Director	February 21, 2013
<u>/s/ Betsy Henley-Cohn</u> (Betsy Henley-Cohn)	Director	February 21, 2013
<u>/s/ Suedeem G. Kelly</u> (Suedeem G. Kelly)	Director	February 21, 2013
<u>/s/ John L. Lahey</u> (John L. Lahey)	Director	February 21, 2013
<u>/s/ Daniel J. Miglio</u> (Daniel J. Miglio)	Director	February 21, 2013
<u>/s/ William F. Murdy</u> (William F. Murdy)	Director	February 21, 2013
<u>/s/ Donald R. Shassian</u> (Donald R. Shassian)	Director	February 21, 2013

**UIL Holdings Corporation**  
**Schedule II - Valuation and Qualifying Accounts**  
**For the Years Ended December 31, 2012, 2011 and 2010**  
(Thousands of Dollars)

<u>Col. A.</u>	<u>Col. B.</u>	<u>Col. C.</u>	<u>Col. D.</u>		<u>Col. E.</u>	<u>Col. F.</u>
<u>Classification</u>	<u>Balance at Beginning of Period</u>	<u>Acquired Balance</u>	<u>Additions</u>		<u>Deductions</u>	<u>Balance at End of Period</u>
			<u>Charged to Costs and Expenses</u>	<u>Charged to Other Accounts</u>		
<b>RESERVE DEDUCTION FROM ASSETS TO WHICH IT APPLIES:</b>						
Reserve for uncollectible accounts (consolidated):						
2012	\$ 10,939	\$ -	\$ 36,850	\$ -	\$ 35,922 (A)	\$ 11,867
2011	\$ 10,571	\$ -	\$ 32,829	\$ -	\$ 32,461 (A)	\$ 10,939
2010	\$ 4,500	\$ 9,051	\$ 17,479	\$ -	\$ 20,459 (A)	\$ 10,571

(A) Accounts written off, net of recoveries

**UIL HOLDINGS CORPORATION**  
**NON-EMPLOYEE DIRECTORS COMMON STOCK AND**  
**DEFERRED COMPENSATION PLAN**

**SECTION 1. ESTABLISHMENT OF THE PLAN**

- 1.01 *The Plan.* The Non-Employee Directors Common Stock and Deferred Compensation Plan (the “Plan”) was established for the benefit of the Eligible Directors.
- 1.02 *Purpose of the Plan.* The purpose of the Plan is to provide a mechanism for payment to each Eligible Director of a portion of his or her compensation for Service as a Director in shares of Stock of UIL Holdings Corporation (the “Company”), and to allow each Eligible Director to defer the payment of part of the Fees payable to him or her for Service as a Director, including Fees payable to an Eligible Director for Service as the chairperson or a member of one or more committees of the Board. It is also the purpose of the Plan to provide an incentive for Eligible Directors to continue to contribute to the growth and profitability of the Company by enabling them to share in the appreciation of the value of the Company’s Stock.
- 1.03 *Plan Documents.* The Company hereby amends and restates the Plan in accordance with Section 409A of the Internal Revenue Code (“Code”). This amendment and restatement applies to all amounts previously deferred under the Plan, it being expressly intended that this amendment and restatement shall constitute a material modification of the Plan as in effect on October 3, 2004, such that all amounts deferred under the Plan prior to January 1, 2005 shall be subject to Code Section 409A.
- 1.04 *Applicability of the Plan.* The provisions set forth herein are applicable only to Directors serving on the Board of the Company on or after January 1, 2008. The benefits of Directors terminating Service prior to that date shall be governed by the terms of the Plan in effect on the date each of them terminated Service.

**SECTION 2. DEFINITIONS**

- 2.01 Whenever used in the Plan, the following terms shall have the respective meanings set forth below, unless otherwise expressly provided in the Plan:
- (a) “Beneficiary” or “Beneficiaries” shall mean the person or persons designated by a Participant in accordance with Subsection 6.02 hereof.
  - (b) “Board” shall mean the Board of Directors of the Company.
-

- (c) “Cash Account” shall mean the unfunded memorandum sub-account maintained by the Company to record that portion of an Eligible Director’s Fees that he or she has elected to have deferred and credited with interest pursuant to Subsection 5.02(a) of the Plan, together with the amount of the interest credited from time to time to such sub-account.
- (d) A “Change in Control” of the Company occurs on the date on which any of the following events occur: a change in the ownership of the Company; a change in the effective control of the Company; or a change in the ownership of a substantial portion of the assets of the Company.

For purposes of this Section:

(i) A change in the ownership of the Company occurs on the date on which any one person, or more than one person acting as a group, acquires ownership of stock of the Company that, together with stock held by such person or group constitutes more than fifty percent (50%) of the total fair market value or total voting power of the stock of the Company.

(ii) A change in the effective control of the Company occurs on the date on which either (a) a person, or more than one person acting as a group, acquires ownership of stock of the Company possessing thirty percent (30%) or more of the total voting power of the stock of the Company, taking into account all such stock acquired during the 12-month period ending on the date of the most recent acquisition, or (b) a majority of the members of the Company’s Board of Directors is replaced during any 12-month period by directors whose appointment or election is not endorsed by a majority of the members of such Board of Directors prior to the date of the appointment or election, but only if no other corporation is a majority shareholder of the Company.

(iii) A change in the ownership of a substantial portion of assets occurs on the date on which any one person, or more than one person acting as a group, other than a person or group of persons that is related to the Company, acquires assets from the Company that have a total gross fair market value equal to or more than fifty percent (50%) of the total gross fair market value of all of the assets of the Company immediately prior to such acquisition or acquisitions, taking into account all such assets acquired during the 12-month period ending on the date of the most recent acquisition.

In determining whether a person or group has acquired a percentage of stock, stock of the Company held pursuant to the terms of an employee benefit plan of the Company or any subsidiary thereof in a suspense account or otherwise unallocated to a participant’s account shall be disregarded to the extent that expressing the applicable percentage as a fraction, such shares shall not be included in the numerator, but such shares will be included in the denominator.

An event constitutes a Change in Control with respect to a Participant only if the Participant's relationship to the Company satisfies the requirements of Treasury Regulation Section 1.409A-3(2)(i)(5)(ii).

The determination as to the occurrence of a Change in Control shall be made by the Committee based on objective facts and in accordance with the requirements of Code Section 409A.

- (e) "Committee" shall mean the Corporate Governance and Nominating Committee of Directors of the Board. No member of the Committee shall participate in a discretionary decision relating to his or her benefit under this Plan.
- (f) "Company" shall mean UIL Holdings Corporation and any successor.
- (g) "Deferred Compensation Account" shall mean the unfunded memorandum account maintained by the Company to record that portion of an Eligible Director's Phantom Stock Awards and Fees deferred under the Plan, their hypothetical investment in either a Cash Account, Phantom Stock Unit Account, or some combination thereof, and the accretions to and payments from each such Account.
- (h) "Director" shall mean any person who is duly elected and qualified to serve on the Board and renders Service to the Company or The United Illuminating Company.
- (i) "Eligible Director" shall mean a Director who renders Service to the Company or The United Illuminating Company on or after May 15, 1996 at a time when he or she is not an employee of the Company or The United Illuminating Company.
- (j) "Fair Market Value" shall mean the average on a particular date of the high and low per share sale prices of shares of Stock on the New York Stock Exchange, or, if there is no sale on such date, then such average price on the last previous date on which a sale is reported.
- (k) "Fees" shall mean amounts earned for Service as an Eligible Director, including quarterly retainers, Board meeting fees and Board committee chairperson and meeting fees, and any other similar compensation paid to a Director.
- (l) "Grant Date" shall mean a date, on or about March 1, in each of the years 1997 through 2010, inclusive, on which the New York Stock Exchange conducts business; and, unless another date is designated as the Grant Date for such year by the Secretary of the Company (the "Corporate Secretary") on or before February 1 of such year, the Grant Date for such year shall be the first day in March on which the New York Stock Exchange conducts business.
- (m) "Participant" shall mean a person for whom a Deferred Compensation Account has been established and is being maintained under the Plan.

- (n) "Phantom Stock Unit" shall mean a unit of measurement equivalent to one share of Common Stock of the Company, but excluding all of the attendant rights of a shareholder of such Stock (for example, the right to own, control and vote such Stock) other than the right to be credited with dividends thereon.
- (o) "Phantom Stock Account" shall mean the unfunded memorandum sub-account maintained by the Company pursuant to Subsection 5.02(b) of the Plan to record the number of Phantom Stock Units resulting from Phantom Stock Awards and an election by an Eligible Director to have some portion or all of his or her deferred Fees invested in Phantom Stock Units, and shall include all Phantom Stock Units credited as a result of the reinvestment of dividends on Phantom Stock Units.
- (p) "Phantom Stock Award" shall mean a number of whole and fractional Phantom Stock Units, computed to three decimal places, equal to the sum of two hundred (200) plus the quotient resulting from dividing (a) the quarterly retainer Fee payable to an Eligible Director for Service during the first quarter of the fiscal year of the Company by (b) the Fair Market Value of the Stock on the Grant Date of such year. Phantom Stock Awards hereunder were made during the period commencing January 1, 1997 and ending December 31, 2006, and may be made in other years if so determined by the Board, provided, however, that no Phantom Stock Award may be made hereunder with respect to any fiscal year ending after December 31, 2010.
- (q) "Plan" means the UIL Holdings Corporation Non-Employee Directors Common Stock and Deferred Compensation Plan, as amended from time to time.
- (r) "Plan Year" means a twelve month period from January 1 through December 31.
- (s) "Separation from Service" shall mean a Separation from Service within the meaning of Code Section 409A and related regulations. The Committee will determine, in accordance with Code Section 409A, whether a Separation from Service has occurred. Generally, a Director incurs a Separation from Service upon termination of Service as a Director of the Company and all subsidiaries.

The Committee specifically reserves the right to determine whether a sale or other disposition of substantial assets to an unrelated party constitutes a Separation from Service with respect to a Participant providing services to the seller immediately prior to the transaction and providing services to the buyer after the transaction. Such determination shall be made in accordance with the requirements of Code Section 409A.

- (t) "Service" shall mean service as a Director, including service as a member of the Board of Directors, service as a member of a committee or committees of the Board of Directors, and service as a member of the Board of Directors or a committee or committees of the Board of Directors of The United Illuminating Company.

- (u) "Stock" shall mean the Common Stock of the Company.

### SECTION 3. AWARDS

- 3.01 *Annual Awards.* For Plan Years beginning prior to January 1, 2007 (and in subsequent years if so determined by the Board), on each Grant Date, in lieu of the quarterly retainer Fee payable to each Participant who has served as a Director for at least six (6) months immediately preceding such Grant Date, a Phantom Stock Award (as defined in Section 2, above) shall be credited to the Phantom Stock Account of such Participant.
- 3.02 *Election to Receive Annual Award in Shares of Stock.* With respect to each Grant Date, each Eligible Director who would receive a Phantom Stock Award pursuant to Subsection 3.01 of the Plan may elect to waive such Phantom Stock Award and receive a whole number of shares of Stock, issued by the Company or purchased by the Company for and in the name of such Eligible Director, in lieu of such Phantom Stock Award. To the extent that the formula for such Phantom Stock Award does not result in a whole number of shares of Stock, the result shall be rounded downwards to the next whole number, and the value of the fractional share shall be distributed and paid to the Eligible Director in cash within ten (10) days after (and in the same calendar year as) the Grant Date. The stock certificate for shares of Stock issued to or purchased for and in the name of an Eligible Director pursuant to this Subsection 3.02 shall be held by the Company for a period of six (6) months following the Grant Date and shall be distributed to him or her as soon as practicable following the expiration of such period; and during such period he or she shall have all the rights of a shareholder of the Company with respect to such shares of Stock, except that such shares of Stock shall not be transferable other than by will or the laws of descent and distribution.
- 3.03 *Annual Award Waiver Elections and Form of Payment Distribution Elections.* An election to waive a Phantom Stock Award pursuant to Subsection 3.02 shall be irrevocable and must be made by no later than the last day of the calendar year prior to the calendar year in which the retainer and related Phantom Stock Award are earned (or by such earlier date as shall be determined by the Committee). If an Eligible Director does not timely waive the Phantom Stock Award as provided in Subsection 3.02, the Eligible Director shall file a form of payment distribution election with respect to the Phantom Stock Award no later than the last day of the calendar year prior to the calendar year in which the retainer and related Phantom Stock Award are earned. At the election of the Eligible Director, distributions may be made in a single lump sum on the first business day of the month following the date of the Eligible Director's Separation from Service or the first business day of the calendar year following the Eligible Director's Separation from Service, or in equal annual installments paid over five (5) or ten (10) calendar years beginning on the first business day of the calendar year following the Eligible Director's Separation from Service.
- 3.04 *Retirement Program Termination Awards.* Any Eligible Director serving as such as of May 16, 1996, the original effective date of this Plan, who made an irrevocable election to waive participation in, and any and all benefits under, any prior retirement program maintained by the Company for Directors, has been credited with a given number of Phantom Stock Units as a Retirement Program Termination Award, as shown on Schedule A, hereto. A Participant's Retirement Program Termination Award shall be credited to, and administered as part of, the Participant's Phantom Stock Account.

#### **SECTION 4. DEFERRAL OF FEES**

- 4.01 *General Participation Rule.* An Eligible Director may elect, by written notice delivered to the Corporate Secretary, to defer payment of all or a specific portion of all Fees (other than an Annual Award deferred as provided in Section 3.01) payable to the Eligible Director in the next following calendar year. Such Fees are deferred until the Eligible Director has a Separation from Service with the Company or the Company has a Change in Control, in which event the Eligible Director's Deferred Compensation Account shall be distributed in accordance with Subsection 6.01 of the Plan. Fees shall be considered deferred on the date on which they would have been earned absent the election to defer (the "Deferral Date"). Any Fees deferred pursuant to the Plan shall not be affected by any prospective revocation of a Participant's election for future calendar years and shall be paid only in accordance with Section 6 of the Plan, together with increments thereon determined in accordance with Subsection 5.02 of the Plan. Deferral elections with respect to a calendar year are irrevocable once the calendar year begins.
- 4.02 *Deemed Investment Alternatives.* The election made pursuant to Subsection 4.01 shall designate some portion or all of such Fees treated as if invested in the Participant's (a) Cash Account, or (b) Phantom Stock Account, or some combination thereof. Investment elections shall be made in multiples of twenty-five percent (.25) (for example, seventy five percent (.75) of such deferred Fees treated as being invested in a Cash Account and twenty-five percent (.25) treated as being invested in a Phantom Stock Account). Deemed investment elections with respect to deferrals in a given calendar year are irrevocable once the calendar year begins.
- 4.03 *Form of Payment Distribution Elections.* No later than the last day of the calendar year prior to the year in which a deferred Fee would have been earned, the Eligible Director shall file with the Corporate Secretary a form of payment distribution election with respect to the deferred Fee. At the election of the Eligible Director, distributions may be made in a single lump sum on the first business day of the month following the date of the Eligible Director's Separation from Service or the first business day of the calendar year following the Eligible Director's Separation from Service, or in equal annual installments paid over five (5) or ten (10) years beginning on the first business day of the calendar year following the date of the Eligible Director's Separation from Service.
- 4.04 *Initial Year of Eligibility.* For the first calendar year that an Eligible Director becomes eligible to participate in this Plan, provided that the Eligible Director has not participated in any other account balance nonqualified deferred compensation plan maintained by the Company, the Eligible Director shall have thirty (30) days in which to file a deferral election, a deemed investment election and a payment distribution election. Any such election shall be effective only with respect to Fees earned for services to be rendered after the deferral election is made. Except as expressly provided otherwise in this Section 4.04, the provisions of this Section 4 shall apply to each such election.

**SECTION 5. ACCOUNTING FOR AWARDS AND DEFERRALS; HYPOTHETICAL INVESTMENT OF DEFERRALS**

5.01 *Separate Accounts.* The Company shall maintain a Deferred Compensation Account for each Participant. Such Account shall be maintained with enough specificity to enable the Company to determine the amounts credited at any particular point in time to the Participant's Cash Account and/or Phantom Stock Account and the payment distribution elections applicable to such deferred amounts.

5.02 *Hypothetical Investment of Deferred Compensation Accounts.*

- (a) Credits to Cash Account. A Participant's Cash Account shall be credited on each Deferral Date with the amount of Fees then deferred and elected to be invested in a Cash Account. On the first day of each calendar quarter, interest shall be credited to the Cash Account of each Participant for each month of the preceding quarter, calculated on the basis of 30-day months and a 360-day year and the balance of such Account on the first day of each month of the preceding quarter (including interest for the preceding month) at the prime rate of Citibank, N.A., its successor, or any other bank approved by the Committee for such purpose, in effect on the first day of each such month.
- (b) Crediting of Phantom Stock Units; Reinvestment of Dividends in Phantom Stock Account; Capital Adjustments. The number of whole and fractional Phantom Stock Units, computed to three decimal places, to be credited to the Phantom Stock Account of a Participant on each Deferral Date shall be equal to the amount of Fees then deferred and elected to be invested in a Phantom Stock Account, divided by Fair Market Value on the Deferral Date. On each dividend payment date with respect to the Stock, the Phantom Stock Account of a Participant shall be credited with an additional number of whole and fractional Phantom Stock Units, computed to three (3) decimal places, equal to the product of the dividend per share then payable, multiplied by the number of Phantom Stock Units then credited to such account, divided by Fair Market Value on the dividend payment date.

In the event that the number of outstanding shares of Common Stock of the Company shall be increased or decreased by reason of a stock split, stock dividend, recapitalization, reclassification or other similar change in the Company's capital structure, the number of Phantom Stock Units credited to a Participant's Phantom Stock Account shall be adjusted accordingly by and at the direction of the Board.

In the event of a Change of Control or of a termination of the Plan pursuant to Subsection 8.03 of the Plan, the Phantom Stock Units credited to a Participant's Phantom Stock Account shall be converted immediately into a cash equivalent amount and credited to, and shall thereafter be treated in all respects as part of, such Participant's Cash Account. The cash equivalent amount added to the Cash Account pursuant to the preceding sentence shall be determined by multiplying the number of Phantom Stock units then standing to the Participant's credit by the highest Fair Market Value on any day within the sixty (60) calendar days preceding the Change in Control or termination of the Plan.

## **SECTION 6. PAYMENT OF DEFERRED COMPENSATION ACCOUNT**

### **6.01 *Benefits Following Separation from Service or Upon a Change in Control.***

- (a) **Cash Accounts.** Upon a Separation from Service, the amount of a Participant's Cash Account, together with interest accrued thereon, shall be calculated and shall be distributed in a lump sum and/or in substantially equal annual installments (together with interest on the undistributed amount, credited in accordance with Subsection 5.02(a) of the Plan and payable annually, in arrears, with each annual installment) over a period of five (5) or ten (10) years, as elected by the Participant on his or her form of payment distribution election (as provided in Subsection 3.03 or 4.03, above) with respect to each deferral. All amounts distributed shall be paid in cash.
- (b) **Phantom Stock Accounts.** The number of Phantom Stock Units in a Participant's Phantom Stock Account, including Phantom Stock Units credited as a result of reinvested dividends, shall be calculated, and Stock shall be distributed to the Participant, in a single distribution and/or in substantially equal annual installments (together with additional Phantom Stock Units credited as a result of reinvested dividends) over a period of five (5) or ten (10) years, as elected by the Participant on his or her form of payment distribution election (as provided in Subsection 3.03 or 4.03, above) with respect to each deferral. In the event the Participant elected a lump sum distribution of Stock as of the first day of the month following the Participant's Separation from Service, (i) the value of any fractional Phantom Stock Unit, calculated by reference to the Fair Market Value of a share of Stock on the date of the Participant's Separation from Service, shall be distributed and paid in cash to the Participant at the same time such shares are distributed, and (ii) the whole number of Phantom Stock Units shall be and become payable in an equal number of shares of Stock, issued by the Company or purchased by the Company for and in the name of the Participant. In the event the Participant elected a lump sum distribution of Stock as of the first day of the calendar year following the year of the Participant's Separation from Service, (i) the value of any fractional Phantom Stock Unit, valued by reference to the Fair Market Value of a share of Stock on the first business day of the calendar year of payment, shall be distributed and paid in cash to the Participant at the same time such shares are distributed, and (ii) the whole number of Phantom Stock Units shall be and become payable in an equal number of shares of Stock, issued by the Company or purchased by the Company for and in the name of the Participant. In the event of payment of Stock in installments, the first installment shall be distributed as of the first business day of the calendar year following the calendar year in which the Participant has a Separation from Service, and subsequent installments shall be distributed as of the first business day of each succeeding calendar year until the entire amount credited to the Participant's Phantom Stock Account shall have been distributed. To the extent that an installment calculation does not result in a whole number, the result shall be rounded downwards to the next whole number and that number of shares of Stock, issued by the Company or purchased by the Company for and in the name of the Participant, shall be distributed as and for that installment. Any fractional Phantom Stock Unit payable as part of the final installment shall be valued by reference to the Fair Market Value of a share of Stock on the first business day of the calendar year of payment of the final installment and shall be distributed and paid in cash to the Participant within ten (10) days after the first business day of the calendar year in which the final installment is paid. In the event of a single distribution of Stock, or in connection with the first installment of a distribution of Stock in installments, a stock certificate for any shares of Stock distributable on account of Phantom Stock Units credited to the Participant's Phantom Stock Account pursuant to Section 3 or Section 4 of the Plan within six (6) months prior to the distribution date elected by the Participant shall be held by the Company for a period of six (6) months following such crediting date and shall be released to the former Director as soon as practicable following the expiration of such six-month period; provided, however, that as of the distribution date elected by the Participant the former Director shall have all rights of a shareholder of the Company with respect to such shares of Stock, except that such shares of Stock shall not be transferable by the former Director other than by will or the laws of descent and distribution.

- (c) Subsequent Elections as to Timing and Form of Payment. A Participant may change an election as to the timing or form of payment amounts in the Participant's Account by filing a subsequent written distribution election, provided, however, that:
- (i) such subsequent election is consistent with one of the forms of benefit payment provided in Sections 3.03 and 4.03 (i.e., a permitted installment form or a lump sum);
  - (ii) such subsequent election does not take effect until at least twelve (12) months after the date on which the subsequent election is made; and
  - (iii) except with respect to a payment on account of death, the first payment with respect to which such election is made is deferred for a period of not fewer than five (5) years from the date that payment would otherwise have been made or commenced.

No change of election shall permit the acceleration or delay of the time or schedule of any payment under the Plan, except as may be provided by regulation or other guidance issued pursuant to Code Section 409A (including, but not limited to, Treasury Regulation Section 1-409A-3(j)(4)).

- (d) Default Payment Schedule. In the event that no timely filed form of payment distribution election is on record with respect to a Participant, and except in the event of a Change of Control, payment of the Participant's Cash Account and Phantom Stock Account shall be made in equal annual installments over a 5-year period commencing on the first business day of the calendar year following the calendar year in which the Eligible Director's Separation from Service occurs. Except in the event of a Change of Control or the termination of the Plan, no portion of a Deferred Compensation Account shall be distributed to a Participant prior to his or her Separation from Service.

- (e) Code Section 409A Specified Employee Delay of Payment. Notwithstanding the foregoing, if as of a Participant's Separation from Service date, the Participant is a "specified employee" as defined for purposes of Code Section 409A as a result of prior or current employment with the Company, and a distribution is to be made to the Participant on account of a Separation from Service, other than on account of death, no distribution shall be made to the Participant before (i) the date which is six (6) months after the date of the Participant's Separation from Service, or (ii) if earlier, the date of death of the Participant (the "Distribution Restriction Period"). Any amount that would have otherwise been paid to the Participant during the Distribution Restriction Period shall be withheld and paid (along with any allocable earnings credited during the Distribution Restriction Period) on the first day of the first month after the Distribution Restriction Period ends.
- (f) Modification of Elections as to Time and Form of Payment During Transition Period. Notwithstanding the above, Participants may change payment elections with respect to their Deferred Compensation Accounts during the period from January 1, 2005 through December 31, 2008 with respect to benefits accrued prior to the election, provided the election is timely made and in accordance with the transition relief published by the Internal Revenue Service in Notice 2005-1, Notice 2006-64, Notice 2007-86, the preamble to the proposed and final regulations under Code Section 409A and other IRS guidance.
- (g) Change of Control. Notwithstanding the foregoing and regardless of any form of payment distribution election otherwise in effect, in the event of a Change of Control, whether the same occurs before or after a Participant's Separation from Service or after termination of the Plan, all of the Phantom Stock Units credited to a Participant's Phantom Stock Account, including Phantom Stock Units credited as a result of reinvested dividends, shall be converted into a cash equivalent amount, in accordance with Subsection 5.02(b) of the Plan, and all amounts credited to a Participant's Deferred Compensation Account, including the amounts converted into cash equivalents from the Participant's Phantom Stock Account, shall be distributed and paid in cash to the Participant in a single lump sum. Such payment shall be made within ten (10) days of the Change in Control and within the same calendar year as the Change in Control.

6.02 *Designation of Beneficiaries.* A Participant's spouse shall be the Participant's Beneficiary under the Plan unless the Participant designates a different Beneficiary and the Participant's spouse consents to such designation. If a Participant leaves no surviving spouse, his or her estate shall be the Beneficiary unless the Participant had designated a different Beneficiary prior to his or her death. A Participant may designate, on a form provided for that purpose by the Corporate Secretary, a Beneficiary or Beneficiaries to receive the cash distributions and/or Stock payments from the Participant's Deferred Compensation Account in the event of his or her death; and a Participant may direct that such payments be divided in specific portions among two or more Beneficiaries; but no such designation shall be effective until it has been filed by the Participant during his or her lifetime with the Corporate Secretary. Each Participant may, from time to time during his or her lifetime, on a form filed with the Corporate Secretary, revoke or change such designation in any or all respects; and the death of a designated Beneficiary prior to or simultaneously with the death of the designating Participant shall automatically revoke such designated Beneficiary's status as a Beneficiary.

- 6.03 *Payments Upon Death.* Upon a Participant's death, the provisions of Section 6.01 of the Plan shall become applicable to the Participant's Deferred Compensation Account, except that distributions and payments of cash and Stock shall be made to the Participant's Beneficiary or Beneficiaries at the time or times designated by the Participant for payments on account of a Separation from Service.
- 6.04 *Payments to Incompetents.* If a court of competent jurisdiction determines that a person entitled to receive any cash amount or Stock to be distributed or paid hereunder is under a legal disability or is otherwise incapacitated so that he or she is unable to manage his or her financial affairs to his or her own best interest and advantage, the Company shall distribute or pay such cash amount or Stock to (a) the incapacitated person's spouse, or (b) the incapacitated person's legal guardian or conservator, or (c) any person, to be held and/or used for the incapacitated person's benefit, with no responsibility on the part of the Committee or the Company to monitor the application of the same. Distributions and/or payments made pursuant to this Subsection 6.04 shall operate as a complete discharge of the obligations under the Plan of the Company and the Committee in respect of the applicable Participant and all other persons.
- 6.05 *Procedure for Claiming a Payment.* Any person who believes himself or herself to be entitled to a distribution or payment pursuant to the Plan may request, in writing, a review by the Committee of such person's entitlement under the Plan. Such a request must be sent to the Corporate Secretary within one year after the Director's Separation from Service, or the termination of the Plan or a Change of Control, or, in the case of a Beneficiary, within one year after a Participant's death. After review, the Committee shall, within a reasonable period of time, give, or cause to be given, to the requesting person written notice of its decision. If distribution of any cash amount or payment of any Stock claimed is denied, the decision shall set forth the specific reason(s) for the denial.
- 6.06 *Unclaimed Benefits.* Neither the Company nor the Committee shall be responsible for locating any person to whom cash amounts or Stock are distributable or payable pursuant to the Plan.

## **SECTION 7. ADMINISTRATION OF THE PLAN**

- 7.01 *Accounts and Records.* The accounts and all records necessary for the administration of the Plan shall be maintained by the Corporate Secretary and shall accurately disclose the history and status of each Participant's Deferred Compensation Account and his or her Cash Account and/or Phantom Stock Account, and all distributions and payments made to each Participant or Beneficiary or other person under the Plan.
- 7.02 *Expenses.* The expenses of administering the Plan shall be paid out of the general funds of the Company.

## **SECTION 8. AMENDMENT OR TERMINATION OF THE PLAN**

- 8.01 *Amendment.* The Plan may, at any time and from time to time, be amended or modified in whole or in part by action of the Board, except to the extent that such power has been expressly reserved otherwise under the terms of the Plan; provided, however, that:
- (a) no such amendment shall become effective without the approval of the shareholders of the Company, if and to the extent shareholder approval is required in order to comply with Rule 16b-3 promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934; and
  - (b) the provisions of the Plan that set forth the amounts and the formula for determining the amounts, pricing and timing of Phantom Stock Awards may not be amended more than once every six (6) months, other than to comport with changes in the Internal Revenue Code, the Employee Retirement Income Security Act, or rules promulgated by the Internal Revenue Service thereunder; and
  - (c) unless required by law, no such amendment or modification shall deprive a Participant of any portion of those Phantom Stock Awards and deferred Fees that have been credited to the Participant's Deferred Compensation Account as of the date of such amendment or modification; and
  - (d) notice of every such amendment shall be given to each Director and Beneficiary of a deceased Director.
- 8.02 *Termination of Phantom Stock Awards.* Unless the Plan is sooner terminated or amended to provide otherwise, no Phantom Stock Award shall be made pursuant to the terms of this Plan after March 5, 2010.
- 8.03 *Termination of Plan.* The Board may terminate the Plan and pay Participants (and beneficiaries) their Account Balances in a single lump sum at any time, to the extent permitted by, and in accordance with, Treasury Regulation Section 1.409A-3(j)(4)(ix).

## **SECTION 9. MISCELLANEOUS PROVISIONS**

- 9.01 *Funding.* The Company's obligations under the Plan shall be unfunded; and the Company is not, under any circumstances, required to fund its obligations hereunder. The Company may, in its sole discretion, purchase shares of Stock and/or set aside or invest funds to meet its obligations hereunder in whole or in part. If the Company determines to make such provisions, the manner of making it, and the continuance or discontinuance of such provision is solely within the discretion of the Company.

- 9.02 *A Participant's Right to Assets; Assignments; Encumbrances.* Except with respect to Stock purchased by the Company for and in the name of a Participant pursuant to Subsection 3.02 or Subsection 6.01(b) of the Plan, the Plan confers on a Participant no right, title or interest whatsoever in or to any shares of Stock, or any specific funds or assets of the Company. The Participant has the rights solely of a general, unsecured creditor with respect to the enforcement of and payment from the Plan. Except as aforesaid, if any Stock funds or assets are acquired by the Company in connection with its obligations under this Plan, they shall not be deemed to be held in trust or otherwise for the benefit of the Participant, and the Participant shall have no property right or security interest in such funds or assets; and any Stock funds or assets so acquired shall be, and remain, in the general, unpledged and unrestricted funds or assets of the Company. A Participant's right to receive a Phantom Stock Award, shares of Stock in lieu of a Phantom Stock Award, and/or payment with respect to Phantom Stock Units, under the Plan is not assignable or transferable and shall not be subject to any encumbrances, liens, pledges or charges of the Participant or his or her creditors. Any attempt to assign, transfer or hypothecate any such Phantom Stock Award, Retirement Program Termination Award, shares of Stock or right to receive payment shall be null and void and of no force or effect whatsoever.
- 9.03 *Stock.* The aggregate number of shares of Stock that may be issued by the Company under the Plan shall not exceed 200,000 as of May 15, 1996 (333,333.333 as of July 3, 2006); provided, however, that in the event of a stock split, stock dividend, recapitalization, reclassification or other similar change in the Company's capital structure, the number of shares of Stock that may be issued by the Company under the Plan shall be appropriately adjusted by and at the direction of the Board. The grant of Phantom Stock Awards and the crediting of Phantom Stock Units to Phantom Stock Accounts under the Plan shall not affect in any way the right, power or authority of the Company to issue additional Stocks or other securities, to make adjustments, reclassifications, reorganizations or other changes in its corporate, capital or other business structure, to participate in a merger, consolidation or share exchange, or to transfer its assets, dissolve or liquidate.
- 9.04 *Government Regulations.*
- (a) The obligations of the Company to issue, or purchase, and deliver any shares of Stock payable under the Plan shall be subject to all applicable laws, rules and regulations, and to the obtaining of all such approvals by governmental agencies as may be deemed necessary or appropriate by the Board.
  - (b) Except as otherwise provided in Subsection 8.01 of the Plan, the Board may make such changes in the Plan as may be necessary or appropriate to comply with the rules and regulations of any governmental authority.



**UIL HOLDINGS CORPORATION**  
**NON-EMPLOYEE DIRECTORS COMMON STOCK**  
**AND DEFERRED COMPENSATION PLAN**

**SCHEDULE A**

**Retirement Program Termination Awards**

**As of May 15, 1996**

<u>Non-Employee Director</u>	<u>Phantom Share Award</u>
Ms. Albright	88
Mr. Breslawsky	127
Mr. Carson	717
Mr. Croweak	1,343
Mr. Devlin	672
Ms. Henley-Cohn	326
Mr. Lahey	183
Mr. McFadden	1,250
Mr. O'Keefe	2,059
Mr. Thomas	568

**UIL HOLDINGS CORPORATION  
DEFERRED COMPENSATION PLAN**

**NON-GRANDFATHERED BENEFIT PROVISIONS**

**originally adopted effective January 27, 2003,  
as amended and restated effective January 1, 2013**

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**UIL HOLDINGS CORPORATION  
DEFERRED COMPENSATION PLAN  
NON-GRANDFATHERED BENEFIT PROVISIONS**

INTRODUCTION

Effective as of February 1, 2003, UIL Holdings Corporation (the "Company") established the UIL Holdings Corporation Deferred Compensation Plan to provide a select group of its senior management and the senior management of its selected Business Units with the opportunity to accumulate capital by deferring compensation on a pre-tax basis, and to provide the Company and its Business Units with a method of rewarding and retaining top executives and managerial employees. The Plan also permits those eligible executive employees whose matching allocations under applicable qualified defined contribution plans of the Company or one of its Affiliates (such as the United Illuminating Company 401(k)/Employee Stock Ownership Plan ("UI KSOP")) would be limited by virtue of their Compensation Deferrals under this Plan to make up for such limitations with certain supplemental benefits, and provides non-Employee Directors of the Company with a means to defer receipt of certain shares of Restricted Stock and Performance Share awards.

The terms of the Plan as set forth in this Plan document apply solely with respect to deferrals made pursuant to the terms of the Plan on and after January 1, 2005, and with respect to deferrals made pursuant to the terms of the Plan before January 1, 2005, that vest on or after January 1, 2005. With respect to deferrals made and vested pursuant to the terms of the Plan prior to January 1, 2005, the terms of the Plan are as described in the separate Plan document relating to "Grandfathered Benefits." This amended and restated Plan document is effective on and after January 1, 2013. With respect to amounts subject to this Plan document, this Plan document supersedes the prior UIL Holdings Corporation Deferred Compensation Plan Non-Grandfathered Benefit Provisions document (as amended from time to time).

Effective as of January 1, 2013, the UIL Holdings Corporation Deferred Compensation Plan for Selected Employees (the "Selected Employees Plan") is merged into the Plan. Provisions relating to deferral and payment elections made with respect to compensation earned prior to January 1, 2013, pursuant to the terms of the Selected Employees Plan are found in Exhibit B to this Plan document.

ARTICLE I

TITLE AND DEFINITIONS

1.1 Definitions.

Capitalized terms used in this Plan, shall have the meanings specified below.

"**Account**" or "**Accounts**" shall mean a Participant's Non-Grandfathered Amounts under this Plan, including all subaccounts as are specifically authorized for inclusion in this portion of the Plan.

"**Affiliate**" shall mean any corporation, trade or business that, together with the Company, is treated as a single employer under Code Section 414(b) or (c).

"**Base Salary**" shall mean an Eligible Employee's annual base salary, excluding commissions, incentive and all other remuneration for services rendered to the Company, but prior to reduction for any salary contributions to a plan established pursuant to Sections 125 or 132(f) of the Code or qualified pursuant to Section 401(k) of the Code.

**"Beneficiary" or "Beneficiaries"** shall mean the person or persons, including a trustee, personal representative or other fiduciary, last designated in writing by a Participant in accordance with procedures established by the Committee to receive the benefits specified hereunder in the event of the Participant's death. No beneficiary designation shall become effective until it is filed with the Committee (or the Recordkeeper). Any designation shall be revocable at any time through a written instrument filed by the Participant with the Committee (or the Recordkeeper) with or without the consent of the previous Beneficiary, provided, however, that no designation of a Beneficiary other than the Participant's spouse shall be valid unless consented to in writing by such spouse. If there is no such designation or if there is no surviving designated Beneficiary, then the Participant's surviving spouse shall be the Beneficiary. If there is no surviving spouse to receive any benefits payable in accordance with the preceding sentence, the duly appointed and currently acting personal representative of the Participant's estate shall be the Beneficiary. In any case where there is no such personal representative of the Participant's estate duly appointed and acting in that capacity within 90 days after the Participant's death (or such extended period as the Committee determines is reasonably necessary to allow such personal representative to be appointed, but not to exceed 180 days after the Participant's death), then Beneficiary shall mean the person or persons who can verify by affidavit or court order to the satisfaction of the Committee that they are legally entitled to receive the benefits specified hereunder. In the event any amount is payable under the Plan to a minor, payment shall not be made to the minor, but instead be paid to such minor's legal guardian duly appointed and currently acting to hold the funds for such minor. If no guardian of the estate for the minor is duly appointed and currently acting within 60 days after the date the amount becomes payable, payment shall be deposited with the court having jurisdiction over the estate of the minor. Payment by the Company pursuant to any unrevoked Beneficiary designation, or to the Participant's estate if no such designation exists, of all benefits owed hereunder shall terminate any and all liability of the Company.

**"Board of Directors" or "Board"** shall mean the Board of Directors of UIL Holdings Corporation.

**"Business Unit"** means any subsidiary of the Company which has adopted the Plan. Business Units shall be listed on Exhibit A to the Plan.

A **"Change in Control"** of the Company or any Business Unit (an "Employing Company") occurs on the date on which any of the following events occur: a change in the ownership of the Employing Company; a change in the effective control of the Employing Company; and a change in the ownership of a substantial portion of the assets of the Employing Company.

For purposes of this definition:

(i) A change in the ownership of the Employing Company occurs on the date on which any one person, or more than one person acting as a group, acquires ownership of stock of the Employing Company that, together with stock held by such person or group constitutes more than 50% of the total fair market value or total voting power of the stock of the Employing Company.

(ii) A change in the effective control of the Employing Company occurs on the date on which either (A) a person, or more than one person acting as a group, acquires ownership of stock of the Employing Company possessing 30% or more of the total voting power of the stock of the Employing Company, taking into account all such stock acquired during the 12-month period ending on the date of the most recent acquisition, or (B) a majority of the members of the Employing Company's Board of Directors is replaced during any 12-month period by directors whose appointment or election is not endorsed by a majority of the members of such Board of Directors prior to the date of the appointment or election, but only if no other corporation is a majority shareholder of the Employing Company.

(iii) A change in the ownership of a substantial portion of assets occurs on the date on which any one person, or more than one person acting as a group, other than a person or group of persons that is related to the Employing Company, acquires assets from the Employing Company that have a total gross fair market value equal to or more than 50% of the total gross fair market value of all of the assets of the Employing Company immediately prior to such acquisition or acquisitions, taking into account all such assets acquired during the 12-month period ending on the date of the most recent acquisition.

In determining whether a person or group has acquired a percentage of stock, stock of the Company held pursuant to the terms of an employee benefit plan of the Company or any subsidiary thereof in a suspense account or otherwise unallocated to a participant's account shall be disregarded to the extent that expressing the applicable percentage as a fraction, such shares shall not be included in the numerator, but such shares will be included in the denominator.

An event constitutes a Change in Control with respect to a Participant only if the Participant performs services for the Employing Company that has experienced the Change in Control, or the Participant's relationship to the affected Employing Company otherwise satisfies the requirements of Treasury Regulation Section 1.409A-3(2)(i)(5)(ii).

The determination as to the occurrence of a Change in Control shall be based on objective facts and in accordance with the requirements of Code Section 409A.

"**Code**" shall mean the Internal Revenue Code of 1986, as amended.

"**Committee**" shall mean the Compensation and Executive Development Committee of the Board (or such other committee as shall be designated by the Board), or its delegate.

"**Company**" shall mean UIL Holdings Corporation, a Connecticut corporation.

"**Company Discretionary Contribution**" shall mean such discretionary contributions, if any, credited by the Company to the Company Discretionary Contribution Subaccount of a Participant for a Plan Year. Such contribution may differ from Participant to Participant both in amount (including no contribution) and as a percentage of Compensation.

"**Company Discretionary Contribution Subaccount**" shall mean the bookkeeping account maintained by the Company for each Participant that is credited with an amount equal to (i) the Company Discretionary Contribution Amount, if any, paid by the Company, and (ii) net earnings and losses attributable thereto.

"**Company Matching Contribution**" shall mean such matching contributions, if any, made by the Company with respect to a Participant, in order to make up for the loss of a matching contribution under an applicable qualified defined contribution plan of the Company or one of its Affiliates resulting from the Participant's Compensation Deferrals under this Plan.

"**Company Matching Contribution Subaccount**" shall mean the bookkeeping account maintained by the Company for each Participant that is credited with an amount equal to (i) the Company Matching Contribution Amount, , if any, plus (ii) net earnings and losses attributable thereto.

"**Compensation**" shall mean, in the case of all Eligible Employees, Base Salary, increases in Base Salary received during the Plan Year, incentive awards, deferrals of compensation in excess of the amount deductible under Section 162(m) of the Code, and any other compensation permitted by the Committee to be deferred.

"**Compensation Deferrals**" shall mean the Compensation deferred by a Participant pursuant to Section 3.1 of this Plan.

"**Compensation Deferral Subaccount**" shall mean the bookkeeping account maintained by the Recordkeeper for each Participant that is credited with amounts equal to (i) the portion of the Participant's Compensation that he or she elects to defer, and (ii) net earnings and losses attributable thereto.

"**Designated Individuals**" shall mean those Eligible Employees and Eligible Directors designated as eligible to defer Restricted Stock Awards and/or Performance Shares Awards.

"**Disability**" or "**Disabled**" shall mean that the Participant is, by reason of any medically-determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than twelve months, (i) unable to engage in any substantial gainful activity, or (ii) receiving income replacement benefits for a period of not less than three months under an accident and health plan covering employees of the Participant's employer. The Committee shall determine whether a Participant is Disabled in accordance with Code Section 409A and related regulations, provided, however, that a Participant shall be deemed to be Disabled if determined to be totally disabled by the Social Security Administration or if the Participant becomes eligible for disability benefits under the Company's long-term disability plan.

"**Distributable Amount**" shall mean the vested balance in the Participant's Accounts subject to distribution in a given Plan Year.

"**Dividend Equivalents**" shall mean the amount of cash dividends or other cash distributions paid by the Company on that number of shares equal to the number of Stock Units credited to a Participant's Stock Unit Subaccount as of the applicable record date for the dividend or other distribution, which amount shall be credited in the form of additional Stock Units to the Participant's Stock Unit Subaccount.

"**Effective Date**" of this amended and restated Plan document means January 1, 2013. The original effective date of the Plan was February 1, 2003.

"**Election Period**" shall mean the time period provided to elect to defer Compensation under the Plan, as provided in Section 3.1.

"**Eligible Director**" shall mean each non-Employee Director of the Company who is eligible to participate in the Plan, as determined in Section 2.1.

"**Eligible Employee**" shall mean each Employee of the Company or a participating Business Unit who is eligible to participate in the Plan, as determined in Section 2.1.

"**Eligible Person**" shall mean each Eligible Employee or Eligible Director of the Company or a participating Business Unit, to the extent that such individual is eligible to participate in the Plan, as determined in Section 2.1.

"**Employer**" shall mean the Company and its Affiliates.

"**ERISA**" shall mean the Employee Retirement Income Security Act of 1974, as amended.

"**Exchange Act**" shall mean the Securities Exchange Act of 1934, as amended.

"**Fund**" or "**Funds**" shall mean one or more of the investment funds selected by the Committee pursuant to Section 3.2.

"**Hardship Distribution**" shall mean a distribution made on account of an Unforeseeable Emergency as defined for purposes of Code Section 409A, including Treasury Regulation Section 1.409A-3(i)(3). Generally, this means a severe financial hardship of the Participant resulting from a sudden and unexpected illness or accident of the Participant or of his or her spouse, beneficiary or dependent, loss of a Participant's property due to casualty, or other similar extraordinary and unforeseeable circumstances arising as a result of events beyond the control of the Participant.

"**Investment Rate**" shall mean, for each Fund, an amount equal to the closing price of such Fund during each business day, recorded for internal reporting to the Company on a monthly basis and reported to Participants on a calendar quarterly basis. Notwithstanding the foregoing, on and after January 1, 2009, the Investment Rate for the Company Stock Fund shall be determined based on the average of the high and low price of the Stock for the given date.

"**Non-Grandfathered Amount**" means any amount deferred under the Plan which is not a Grandfathered Amount. A "Grandfathered Amount" means the vested Account Balances of Plan Participants determined as of December 31, 2004, together with actual or notional earnings thereon accruing after December 31, 2004. Non-Grandfathered Amounts shall be subject to the requirements of Code Section 409A and the terms of this Plan document. Grandfathered Amounts shall be subject to the terms of the Plan document entitled "UIL Holdings Corporation Deferred Compensation Plan Grandfathered Benefit Provisions."

"**Participant**" shall mean any Eligible Person who becomes a Participant in this Plan in accordance with Article II.

"**Payment Date**" shall mean the date for payment of Distributable Amounts, as provided in Article VI.

"**Performance Share Award**" or "Performance Share" shall mean a long-term incentive performance share award which, if deferred under this Plan, is credited in Stock Units when such Performance Share is vested at the end of the performance period, and which is settled in shares of Company Stock that may be drawn from this Plan, the UIL Holdings Corporation 2008 Stock and Incentive Compensation Plan or any other stock plan of the Company which allows for awards to be deferred pursuant to the terms of this Plan, to the extent permitted under the terms of said plans.

"**Plan**" shall mean the UIL Holdings Corporation Deferred Compensation Plan. The terms of the Plan are reflected in this document entitled "UIL Holdings Corporation Deferred Compensation Plan – Non-Grandfathered Benefit Provisions" and the document entitled "UIL Holdings Corporation Deferred Compensation Plan – Grandfathered Benefit Provisions."

"**Plan Year**" shall mean January 1 to December 31 of each year.

"**Recordkeeper**" shall mean the administrator appointed by the Committee from time to time.

"**Restricted Stock**" shall mean shares of Stock issued under the Restricted Stock feature of the UIL Holdings Corporation 2008 Amended and Restated Stock Plan, the UIL Holdings Corporation 2008 Stock and Incentive Compensation Plan or any other stock plan of the Company, which shares are subject to forfeiture based on non-compliance with certain enumerated criteria.

"**Restricted Stock Award**" shall mean any award of Restricted Stock which, if deferred under this Plan, shall be credited as Restricted Stock Units, and which is settled in shares of Company Stock that may be drawn from this Plan, the UIL Holdings Corporation 2008 Stock and Incentive Compensation Plan or any other stock plan of the Company which allows for awards to be deferred pursuant to the terms of this Plan, to the extent permitted under the terms of said plans.

"**Retirement**" shall mean termination of service after the Participant has satisfied the age and service requirements for early retirement under the terms of The United Illuminating Company Pension Plan.

"**Scheduled In-Service Withdrawal Date**" shall mean February of the year elected by the Participant to withdraw, or begin to withdraw, balances attributable to amounts deferred in a given Plan Year, and earnings and losses attributable thereto. A Participant's Scheduled In-Service Withdrawal Date in a given Plan Year may be no earlier than three years from the last day of the Plan Year for which Compensation Deferrals, deferrals of Restricted Stock, deferrals of Performance Shares, and contributions of Company Discretionary and Matching Contribution Amounts, are made; expressly provided, however, that in the case of the deferrals of Restricted Stock, Performance Shares, and any other Compensation subject to a vesting schedule, the three year period shall be deemed to begin running from the date on which such Restricted Stock, Performance Shares or Compensation would otherwise vest.

"**Separation from Service**" shall mean a Separation from Service within the meaning of Code Section 409A and related regulations. The Committee will determine, in accordance with Code Section 409A, whether a Separation from Service has occurred.

(i) An Employee incurs a Separation from Service upon termination of employment with the Employer. Except in the case of an Employee on a bona fide leave of absence as provided below, an Employee is deemed to have incurred a Separation from Service if the Employer and the Employee reasonably anticipated that the level of services to be performed by the Employee after a date certain would be reduced to 20% or less of the average services rendered by the Employee during the immediately preceding 36-month period (or the total period of employment, if less than 36 months), disregarding periods during which the Employee was on a bona fide leave of absence.

(ii) An Employee who is absent from work due to military leave, sick leave, or other bona fide leave of absence shall incur a Separation from Service on the first date immediately following the later of the six-month anniversary of the commencement of the leave or the expiration of the Employee's right, if any, to reemployment under statute or contract.

(iii) For purposes of determining whether a Separation from Service has occurred, the Employer means the Employer as defined above, except that for purposes of determining whether another organization is an Affiliate of the Company, common ownership of at least 50% shall be determinative.

(iv) Generally, a Director incurs a Separation from Service upon termination of service as a Director of the Company.

(v) The Committee specifically reserves the right to determine whether a sale or other disposition of substantial assets to an unrelated party constitutes a Separation from Service with respect to a Participant providing services to the seller immediately prior to the transaction and providing services to the buyer after the transaction. Such determination shall be made in accordance with the requirements of Code Section 409A.

**"Specified Employee"** means a Specified Employee as defined for purposes of Code Section 409A and related regulations. Specified Employee means an Employee who, as of the date of his or her Separation from Service, is a "key employee" of the Company or any Affiliate, any stock of which is actively traded on an established securities market or otherwise. An Employee is a key employee if he or she meets the requirements of Code Section 416(i)(1)(A)(i), (ii), or (iii) (applied in accordance with applicable regulations thereunder and without regard to Code Section 416(i)(5)) at any time during the 12-month period ending on the Specified Employee Identification Date. Such Employee shall be treated as a key employee for the entire 12-month period beginning on the Specified Employee Effective Date. In the event of corporate transactions described in Treasury Regulation Section 1.409A-1(i)(6), the identification of Specified Employees shall be determined in accordance with the default rules described therein, unless the Committee elects to utilize the available alternative methodology through designations made within the timeframes specified therein. For purposes of this definition, Specified Employee Effective Date means the first day of the fourth month following the Specified Employee Identification Date, or such earlier date as is selected by the Committee; and Specified Employee Identification Date means December 31, unless the Committee has elected a different date through action that is legally binding with respect to all nonqualified deferred compensation plans maintained by the Company.

**"Stock"** shall mean common stock of UIL Holdings Corporation, or any successor to UIL Holdings Corporation.

**"Stock Fund"** or **"Company Stock Fund"** shall mean the deemed, unitized, investment Fund established to record (i) Participants' deemed investments in Stock Units, (ii) Designated Individuals' deferrals of Restricted Stock in Stock Units, (iii) Company Matching Contributions invested in Stock Units, (iv) Stock Units credited to Participants' Accounts upon the vesting of deferred Performance Shares, and (v) Dividend Equivalents deemed reinvested in Stock Units. The Company has reserved 83,333 (post-split) shares of Company Stock for deemed investment in this Plan. Such Stock Units shall be settled in Shares of Company Stock that may be drawn from this Plan, the UIL Holdings Corporation 2008 Stock and Incentive Compensation Plan or any other stock plan of the Company which allows for awards to be deferred pursuant to the terms of this Plan, to the extent permitted under the terms of said plans.

**"Stock Unit"** shall mean a unit of value, equivalent to the value of a share of Stock, or Restricted Stock, or a Performance Share, established by the Committee as a means of measuring value of the Stock-related portion of an Account under the Plan.

**"Stock Unit Subaccount"** shall mean the bookkeeping account maintained by the Committee on behalf of each Participant who is credited with Stock Units and, as applicable, Dividend Equivalents, resulting from Compensation Deferrals, Company Matching Contributions deemed invested in Stock Units, deferred Restricted Stock Units and deferred Performance Shares.

“**Unforeseeable Emergency**” shall mean the circumstances under which a Hardship Distribution may be made.

ARTICLE II  
PARTICIPATION

2.1 Determination of Eligible Persons.

All officers of the Company and its Business Units who have been selected by the Committee shall be eligible to participate in this Plan. Any other key management or highly compensated Employee from time to time designated by the Committee to be eligible to participate shall also be considered an Eligible Employee under the Plan.

Non-Employee Directors of the Company and its Participating Business Units shall be eligible to participate in that portion of the Plan permitting deferral of Restricted Stock and Performance Shares. Such Directors shall be eligible to participate prospectively in that portion of the Plan permitting elective deferrals of Compensation and other features of the Plan, to the extent that they are made applicable to Directors through subsequent Plan amendment. A Director shall be deemed an Eligible Person with respect to elective deferrals of Compensation (including fees and retainers) and other features of the Plan at such time as such provisions are made applicable to the Directors.

Notwithstanding the foregoing, this portion of the Plan applies only to Eligible Employees and Directors who are Eligible Persons on or after January 1, 2005, and only Non-Grandfathered Amounts shall be subject to the terms of this Plan document. In addition, this amended and restated Plan document is effective on and after January 1, 2013.

2.2 Enrollment; Duration of Participation.

An Eligible Person shall become a Participant in the Plan by filing a Deferral Election in accordance with Section 3.1 during an Election Period, in accordance with such procedures as may be established from time to time by the Committee. An individual who, at any time, ceases to be an Eligible Person as determined in the discretion of the Committee shall not be permitted to enter into future Deferral Elections, and no such Deferral Elections will be allowed until such time as the individual again becomes an Eligible Person; expressly provided, however, that nothing herein shall prohibit the Company from giving effect to any previously filed Deferral Election that was timely made. An individual shall remain a Participant in the Plan with respect to amounts already deferred that have not yet been distributed or forfeited.

2.3 Transfers to Non-Participating Related Companies.

An Eligible Employee who becomes employed by an Affiliate which is not a participating Business Unit, shall no longer be eligible to make any future deferral elections under the Plan. However, such individual shall remain a participant in the Plan with respect to amounts already deferred and deferral elections that became irrevocable prior to the date of transfer.

2.4 Amendment of Eligibility Criteria.

The Committee may change the criteria for eligibility on a prospective basis.

ARTICLE III  
DEFERRAL ELECTIONS

3.1 Elections to Defer Compensation.

(a) Election to Defer. Subject to the provisions of Article II and this Article III, each Eligible Employee may elect to defer Compensation earned for services after the Election Period ends, by filing an election with the Recordkeeper (a "Deferral Election") that conforms to the requirements of this Section 3.1 either via the internet or mail, on a form provided by the Recordkeeper, by no later than the last day of the Election Period. Except as expressly provided in (b), (c) or (d) below, an Eligible Person may elect to defer Compensation by an election filed by December 20th (or such later date as determined by the Committee, but in no event later than December 31st) of the year preceding the year in which the services are to be performed and the Compensation earned. Deferral elections shall become irrevocable as of the last day of the Election Period and shall remain irrevocable for any subsequent Plan Year to which such Deferral Election relates, except as otherwise expressly provided in the Plan. Except as otherwise determined by the Committee, Deferral Elections will continue in effect from Plan Year to Plan Year, unless decreased, increased, or terminated during an Election Period with respect to a subsequent Plan Year.

(b) First Year of Eligibility. If permitted by the Committee, an Eligible Person shall have a 30 day Election Period beginning as of the date the Eligible Person becomes eligible to participate in the Plan in which to file an initial Deferral Election, provided that the Eligible Person has not participated in any other account balance nonqualified deferred compensation plan maintained by the Company. Any such Deferral Election shall only be effective with respect to Compensation earned for services to be rendered after the Deferral Election is made. The amount of annual incentive Compensation that is subject to a first year Deferral Election must be pro-rated in accordance with Treasury Regulation Section 1.409A-2(a)(7)(i).

(c) Deferral of Performance Share Awards. If permitted by the Committee, the Election Period with respect to the deferral by a Designated Individual of some portion or all of a Performance Share Award shall be any period designated by the Committee, which ends no later than 6 months prior to the end of the performance period related to such Performance Share Award (12 months in the case of Deferral Elections filed prior to January 1, 2007), provided that in no event may an election to defer Performance Shares be made (i) if the performance period is not at least 12 consecutive months in duration, or (ii) after such compensation has become both substantially certain to be paid and readily ascertainable (both as defined in Treasury Regulation Section 1.409A-2(a)(8)). In addition, the Designated Individual must have provided services continuously from the later of the beginning of the performance period or the date the performance criteria are established, through the date that the Deferral Election is filed. All deferrals of Performance Shares shall be credited as, and invested only in, Stock Units, without voting rights or any property right.

(d) Deferral of Restricted Stock Units. The Election Period with respect to deferral by a Designated Individual of some portion or all of a Restricted Stock Unit Award shall end on December 20th (or such later date as determined by the Committee, but in no event later than December 31st) of the year prior to the year in which such Award is granted, and which shall be deemed effective contemporaneously with the granting of such Award with respect to any Restricted Stock Unit vesting at least one year after such Election. Notwithstanding the foregoing, with respect to deferrals of Restricted Stock Unit Awards made in 2006 and later, if permitted by the Committee the Election Period with respect to the deferral by a Designated Individual of some portion or all of a Restricted Stock Unit Award shall be a date that ends no later than the thirtieth day following the date of the grant, provided that the Deferral Election is made at least 12 months in advance of the earliest vesting date applicable to such award and subject to such other requirements as set forth in Treasury Regulations Section 1.409A-2(a)(5). Notwithstanding anything to the contrary, any deferral of Restricted Stock shall be deemed to be a rejection of the Restricted Stock Award and a simultaneous award of Restricted Stock Units, all effective as of the date of such Award. All deferrals of Restricted Stock Units shall be credited as, and invested only in, Stock Units, without voting rights or any property right.

(e) Deferral Amounts. Subject to the provisions of this Section 3.1 with respect to each Plan Year, an Eligible Employee may defer, in either whole percentages or a flat dollar amount, up to 85% of annual Base Salary and up to 100% of increases in Base Salary that become effective during the year following the year in which the Deferral Election is made; and up to 100% of incentive awards (including Performance Share Awards and Restricted Stock Unit Awards). Notwithstanding the foregoing, the total amount deferred shall be limited, as necessary, to satisfy income tax and Social Security Tax (including Medicare) withholding obligations, and employee benefit plan withholding requirements as determined in the sole and absolute discretion of the Committee. The minimum contribution that must be made in any Plan Year by an Eligible Employee shall not be less than \$5,000, which may be satisfied from any deferral source (e.g., Base Salary, annual incentive, etc.).

### 3.2 Deemed Investment Elections.

(a) With Respect to Compensation Deferrals. Except as otherwise provided in this Section 3.2, at the time of making a Deferral Election, the Participant shall designate, on a form provided by the Recordkeeper, or, if allowed by the Committee, via voice response, internet or other technology, the types of investment Funds (selected and made available by the Committee), in which the Participant's Compensation Deferral Subaccount will be deemed to be invested for purposes of determining the amount of net earnings or losses to be credited to that Subaccount. In making the designation pursuant to this Section 3.2, the Participant may specify that all, or any portion, of his or her Compensation Deferral Subaccount be deemed to be invested, in whole percentage increments, in one or more of the types of investment Funds provided under the Plan, as communicated from time to time by the Committee.

A Participant may change the designation made under this Section 3.2 by filing an election, on a form provided by the Recordkeeper, or, if allowed by the Committee, via voice response, Internet or other technology on any business day; provided, however, that a Participant who has elected to have some portion of his Compensation Deferrals deemed invested in the Company Stock Fund may not transfer out of such investment with respect to such Compensation Deferral amount. A Participant may elect to have each Plan Year of Compensation Deferrals hypothetically invested in investment allocations different or distinct from his or her prior elections.

A Participant's Compensation Deferral will be deemed invested in the Money Market investment Fund (i) if a Participant fails to make a deemed investment election under this Section 3.2, or (ii) pending the establishment of a full array of deemed investment options by the Committee, or (iii) pending the effective date of the deemed investment in the Company Stock Fund as provided in Section 3.2(e).

(b) With Respect to Deferrals of Restricted Stock Awards and Performance Share Awards. As of the date Restricted Stock would be payable to the Participant in the absence of a Deferral Election made pursuant to Section 3.1, a Participant's Stock Unit Subaccount shall be credited with the number of Stock Units that would be payable to the Participant in settlement of the Restricted Stock absent such Deferral Election. As of the date that Performance Shares would be payable to the Participant in the absence of a Deferral Election made pursuant to Section 3.1, the Participant's Stock Unit Subaccount shall be credited with a number of Stock Units equivalent in value to the number of Shares that would be payable to the Participant in settlement of the Performance Share Award absent such Deferral Election.

(c) With Respect to Company Contribution Subaccounts. Contributions to a Participant's Company Discretionary Contributions Subaccount, if any, shall be deemed invested, and valued, in the same manner and proportion as the Participant's Compensation Deferral Subaccount under the Plan, unless otherwise determined by the Company. Contributions to a Participant's Company Matching Contribution Subaccount, if any, shall be deemed invested in the Company Stock Fund. Notwithstanding the foregoing, on and after January 1, 2009, for all purposes under the Plan, Stock Units and the Company Stock Fund shall be valued based on the average of the high and low price of the Company Stock for the business day on which a given transaction or investment is deemed made.

(d) Deemed Investments Will Be Valued Daily. Except as otherwise provided in Subsection 3.2(e) with respect to deemed investments in the Company Stock Fund, a deemed investment direction, or change in deemed investment direction, shall be processed based on the closing values for the date received, if such direction is received by the Recordkeeper by the designated time (currently, 4 p.m. Eastern Time). Otherwise, such direction shall be processed based on the closing values of the particular investment Funds on the next business day on which the markets are open. The net gain or loss of each deemed investment Fund (the "Investment Rate") shall be recorded monthly, and reported quarterly as provided in (g), below. Except as provided in Section 6.4, below, a Participant's Account shall be credited with earnings (and losses) until all amounts credited to such Account have been distributed or forfeited.

(e) Company Stock Fund. Except as provided in Subsection 3.2(b), above, a deemed investment in the Company Stock Fund shall be deemed to be a direction to invest in the Money Market Investment Fund pending the end of the quarter, and shall be credited with the rate of return of such deemed investment in the Money Market Investment Fund, with the direction to invest in the Company Stock Fund to be effective as of the third business day following the end of the quarter in which such direction is received, based on the closing price of the Company Stock Fund as of the end of the business day on which such investment is deemed acquired. Except as provided in Subsection 3.2(b), above, deemed purchases in the Company Stock Fund shall be made on a non-calendar quarter basis, beginning with the third business day following the non-calendar quarter ending with the month of February, and continuing quarterly thereafter. Once the investment in the Company Stock Fund is effective, a Participant may not re-direct such investment back into other deemed investment Funds available under the Plan.

(f) Committee Discretion Concerning Deemed Investment Designations. Although the Participant may designate deemed investments for his Compensation Deferrals, the Committee shall not be bound by such designation. The Committee shall have no obligation to actually make any hypothetical investment, but may do so if it chooses. If a hypothetical investment is actually made by the Committee, then for the period the investment is held, the timing of actual investment changes and the actual value of investments, less actual costs, fees and expenses incurred, shall be used to measure investment return of the deemed investment under this Plan. The Committee shall select from time to time, in its sole and absolute discretion, investment funds and shall communicate the same to the Recordkeeper.

(g) Quarterly Reports. The Investment Rate of each such deemed investment fund shall be used to determine the amount of earnings or losses to be credited to all of Participants' Subaccounts under Article IV, and shall be reported on a calendar quarterly basis to Participants.

(h) Administration and Costs. The Committee in its discretion shall establish reasonable and uniform rules applicable to all Participants for hypothetical investments under the Plan, which rules shall include, but not be limited to, rules governing the frequency of permitted changes in hypothetical investments and the effective date of such changes. All direct costs, management fees and other expenses that would have been incurred if a hypothetical investment or change in investment had actually been made shall be charged against a Participant's Account, unless otherwise determined by the Committee.

### 3.3 Elections as to Form and Timing of Payment.

(a) At the same time that the Participant makes the Deferral Elections described in Section 3.1, the Participant shall elect, on a form provided by the Recordkeeper:

(i) to receive his or her Compensation Deferral Account, deferred Restricted Stock Account, deferred Performance Share Account, and any Company Contributions made with respect to such Plan Year either (A) commencing upon his or her Separation from Service (due to Retirement, death, Disability, or voluntary or involuntary termination) or (B) at a specified future date while the Participant remains employed (a "Scheduled In-Service Withdrawal Date"), and

(ii) the payment method in which such amounts (and hypothetical net earnings thereon) shall be distributed from among the forms of benefit payment available under Section 6.2.

In determining the Scheduled In-Service Withdrawal Date, the Participant and the Recordkeeper shall take into account the fact that, with respect to Restricted Stock and Performance Share Awards, the Scheduled In-Service Withdrawal Date shall be measured from the date on which such Awards would otherwise vest.

(b) The Participant may, but is not required to, elect to subject each Plan Year's Compensation Deferrals and earnings thereon to a separate distribution schedule.

(c) Except as otherwise provided by the Committee, each election as to the timing and form of payment shall carry forward from year to year, unless modified by the Participant by means of filing a subsequent election in accordance with Section 3.3(d). Elections as to time and form of payment are irrevocable as of the end of the related Deferral Election Period (as provided in Section 3.1) except as provided in Section 3.3(d). Timing and form of payment elections applicable to Company contributions shall become irrevocable in accordance with the timing rules applicable to Compensation Deferral Elections (as provided in Section 3.1(a)). To the extent that a Participant does not file an election as to form and timing of payment with respect to Compensation Deferrals, Deferrals of Restricted Stock, Deferrals of Performance Shares, and Company Contributions for a Plan Year, the deemed distribution election automatically shall be a lump sum paid upon the Participant's Separation from Service.

(d) Subsequent Elections as to Timing and Form of Payment. A Participant may change an election as to the timing or form of payment of Non-Grandfathered Amounts in the Participant's Account by filing a subsequent written distribution election, provided, however, that with respect to such Non-Grandfathered Amounts:

(i) such subsequent election is consistent with one of the forms of benefit payment provided in Section 6.2 (i.e., a permitted installment form or a lump sum);

(ii) such subsequent election does not take effect until at least 12 months after the date on which the subsequent election is made;

(iii) in the case of an election relating to a payment other than on account of death, Disability or the occurrence of an Unforeseeable Emergency, the first payment with respect to which such election is made is deferred for a period of not fewer than five (5) years from the date that payment would otherwise have been made or commenced; and

(iv) with respect to any election relating to a distribution to be made (or to commence) as of a specified time or fixed schedule (as defined in Code Section 409(a)(2)(A)(iv)), the subsequent election is made not fewer than 12 months prior to the date of the first scheduled payment.

No change of election shall permit the acceleration or delay of the time or schedule of any payment under the Plan, except as may be provided by regulation or other guidance issued pursuant to Code Section 409A(a)(3) (including, without limitation, Treasury Regulation Section 1.409A-3(j)(4)).

#### 3.4 Code Section 409A Transition Provisions.

(a) Grandfathering Pre-2005 Accruals; Time and Form of Payment. The vested Account Balances of Plan Participants determined as of December 31, 2004, together with actual or notional earnings thereon accruing after December 31, 2004 (the "Grandfathered Amount") shall be subject to the provisions of the Plan and tax law in effect immediately prior to the enactment of Section 409A of the Internal Revenue Code (i.e., as of October 3, 2004), including without limitation requirements as to election of the timing and form of payment; expressly provided, however that the Grandfathered Amounts shall be so grandfathered only to the extent that the Plan terms governing such Amounts are not materially modified after October 3, 2004. Grandfathered Amounts shall be subject to the terms of the Plan document entitled "UIL Holdings Corporation Deferred Compensation Plan Grandfathered Benefit Provisions," and not this Plan document.

(b) Non-Grandfathered Amounts. That portion of a Participant's Account Balance attributable to Deferral Elections and/or Company contributions made with respect to the 2005 Plan Year and thereafter, and amounts subject to earlier Deferral Elections that did not vest prior to January 1, 2005, together with actual or notional earnings thereon, are a Participant's Non-Grandfathered Amounts. Non-Grandfathered Amounts are subject to the provisions of Code Section 409A and guidance issued thereunder, and the terms of this Plan document. Non-Grandfathered Amounts shall be subject to the terms of the applicable Plan document entitled "UIL Holdings Corporation Deferred Compensation Plan Non-Grandfathered Benefit Provisions."

#### ARTICLE IV

#### COMPENSATION DEFERRAL AND COMPANY CONTRIBUTION ACCOUNTS

##### 4.1 Compensation Deferral Subaccount.

The Recordkeeper shall establish and maintain a Compensation Deferral Subaccount for each Participant under the Plan. Each Participant's Compensation Deferral Subaccount shall be further divided into separate Subaccounts ("Investment Fund Subaccounts"), each of which corresponds to an investment Fund elected by the Participant pursuant to Section 3.2. A Participant's Compensation Deferral Subaccount shall be credited as follows:

(a) As soon as administratively feasible, and in no event later than ten (10) days, after amounts are withheld and/or deferred from a Participant's Compensation, the Committee shall credit the Investment Fund Subaccounts of the Participant's Compensation Deferral Subaccount with an amount equal to Compensation deferred by the Participant in accordance with the Participant's election under Section 3.1.

(b) Each business day, each Investment Fund Subaccount of a Participant's Compensation Deferral Subaccount shall be credited with earnings or losses in an amount equal to that determined by multiplying the balance credited to such investment Fund Subaccount as of the prior day plus contributions credited that day to the Investment Fund Subaccount by the Investment Rate for the corresponding deemed Fund selected by the Participant.

#### 4.2 Company Discretionary Contribution Subaccount.

With approval of the Board, the Company or any Business Unit may from time to time make Discretionary Contributions to the Accounts of Participants or selected Participants, and, if it so decides, may impose a vesting schedule on such Contributions. In the event that the Company or any Business Unit determines to make such a contribution, the Recordkeeper shall establish and maintain a Company Discretionary Contribution Subaccount for each Participant under the Plan. Each Participant's Company Discretionary Contribution Subaccount shall be further divided into separate Subaccounts, each of which corresponds to a Fund elected by the Participant pursuant to Section 3.2. A Participant's Company Discretionary Contribution Subaccount shall be credited as follows:

(a) The Recordkeeper shall credit the Investment Fund Subaccounts of the Participant's Company Discretionary Contribution Subaccount with an amount equal to the Company Discretionary Contribution Amount, if any, applicable to that Participant, within ten (10) business days after such amount is deemed contributed; and

(b) Such Subaccount shall be deemed invested, and valued, in the same manner and proportion as the Participant's other Account balances under the Plan, unless otherwise determined by the Company.

#### 4.3 Company Matching Contribution Subaccount.

(a) In the event that the Committee determines that a Participant is unable with respect to a calendar year to receive the maximum matching allocation in an applicable qualified defined contribution plan of the Company or one of its Affiliates due to the Compensation Deferrals made by the Participant to this Plan, the Company shall make a supplemental Company Matching Contribution in the amount of such shortfall to this Plan as soon as administratively feasible following the end of such calendar year.

(b) In such case, the Recordkeeper shall establish and maintain a Company Matching Contribution Subaccount for such Participant. Each such Participant's Company Matching Contribution Subaccount shall be deemed invested in the Company Stock Fund, at the end of the quarter in which such contribution is allocated to the Participant's Company Matching Contribution Subaccount, with such contribution deemed invested in the Money Market Fund pending the end of such quarter.

4.4 Deferred Restricted Stock Account.

- (a) The Recordkeeper shall maintain a Restricted Stock Unit Subaccount for each Designated Individual to record the number of Restricted Stock Units to be credited to such Designated Individual as of the date that such Stock Units vest. The Recordkeeper shall also maintain records of Deferral Elections relating to Restricted Stock Units that have not yet vested.
- (b) The number of Restricted Stock Units to be credited shall be equivalent in value to the number of shares of Restricted Stock when vesting restrictions (and any other applicable conditions) have been satisfied.
- (c) The Designated Individual's Restricted Stock Unit Subaccount shall be credited with Dividend Equivalents.
- (d) Until such time as such Subaccounts are actually paid in Stock to the Designated Individual, the Designated Individual shall have no voting rights associated with such Subaccounts.

4.5 Deferred Performance Share Account.

- (a) The Recordkeeper shall maintain a Stock Unit Subaccount for each Designated Individual to record the number of Stock Units to be credited to such Designated Individual as of the date that any Performance Shares would otherwise be payable to the Participant upon vesting thereof in the absence of a deferral election made pursuant to Section 3.1.
- (b) The number of Stock Units to be credited shall be equivalent in value to the number of shares of Stock that would have been payable to the Participant in settlement of the Performance Share Award absent his deferral election.
- (c) The Designated Individual's Performance Share Subaccount shall not be credited with Dividend Equivalents; expressly provided however, that with respect to Stock Units credited to a Participant's account in respect of Performance Shares that vest on or after December 31, 2006, such Stock Units shall be credited with Dividend Equivalents from, and after, the date of vesting of such Performance Shares.
- (d) Until such time as such Performance Share Subaccounts are actually paid in Stock to the Designated Individual, the Designated Individual shall have no voting rights associated with such Performance Share Subaccounts.

ARTICLE V  
VESTING

5.1 Vesting.

A Participant shall be 100% vested in his or her Compensation Deferral Account and Company Matching Contribution Subaccount. A Participant shall be vested in accordance with any schedule that the Committee may establish with respect to his or her Company Discretionary Contribution Account, if any. A Participant shall vest in his or her Restricted Stock Unit Account and Performance Share Unit Account in accordance with the terms of the applicable awards.

5.2 Vesting Upon Death/Change in Control.

Upon death of a Participant, or in the event of a Change in Control, the Participant shall be 100% vested in any Company Discretionary Contribution Subaccount.

ARTICLE VI  
DISTRIBUTIONS

6.1 Manner of Payment—Cash vs. Stock.

Distributions shall be made in cash, except to the extent that a Participant's Subaccounts are deemed invested in the Company Stock Fund. Distributions of Company Stock Fund Subaccounts shall be paid in shares of Company Stock, except to the extent that the Committee determines some portion of such Subaccount must be paid in cash due to limitations contained in the UIL Holdings Corporation 2008 Stock and Incentive Compensation Plan (or any other stock plan of the Company which allows for awards to be deferred pursuant to the terms of this Plan). All fractional shares in a Company Stock Fund Subaccount shall be paid in cash.

6.2 Distribution of Accounts.

Distribution of Non-Grandfathered Amounts shall be made only in the event of a Participant's Separation from Service (including on account of Retirement, death or Disability), or on account of a Scheduled In-Service Withdrawal Date. Benefits will be paid (or commence to be paid) as of the Participant's Payment Date.

(a) Distribution Due to Separation from Service.

(1) De Minimis Account Balances. Subject to Section 6.2(a)(6), in the case of a Participant who has a Separation from Service (other than on account of death) and who has a total Account balance of \$10,000 or less, the Amount shall be paid to the Participant in a lump sum distribution within 60 days of the Participant's Separation from Service Date, provided that in no event shall the Participant have a right to designate the date or taxable year of the payment.

(2) Distribution of Accounts over \$10,000. Subject to Section 6.2(a)(6), in the case of a Participant who has a Separation from Service (other than on account of death) and who has a total Account balance of more than \$10,000, the Distributable Amount shall be paid to the Participant in a single lump sum distribution as of the first day of the first calendar quarter following the calendar quarter in which the Participant has a Separation from Service, unless the Participant has made a timely election, in accordance with the provisions of Section 3.3, to receive payments in one of the optional installment forms set forth in Section 6.2(a)(3).

(3) Election of Payment Form. In accordance with Section 3.3, a Participant may elect to have Distributable Amounts distributed either in a single lump sum or in one of the following installment forms. The installment forms that are available are:

- (i) annual installments over five (5) years, beginning on the Participant's Payment Date;
- (ii) annual installments over ten (10) years, beginning on the Participant's Payment Date;

(iii) annual installments over fifteen (15) years, beginning on the Participant's Payment Date.

Notwithstanding the foregoing, in the event a Participant has a Separation from Service (other than on account of death) within 24 months after a Change in Control, the Distributable Amount shall be paid to the Participant in a single lump sum distribution as of the first day of the first calendar quarter following the calendar quarter in which the Participant's Separation from Service occurs, subject to Section 6.2(a)(6).

(4) Commencement of Distributions. Except with respect to de minimis Account balances, as provided in Section 6.2(a)(1) and subject to Section 6.2(a)(6), all installment payments and lump sum distributions shall commence to be paid, or be paid on the first day of the first calendar quarter following the calendar quarter in which the Participant Separates from Service.

(5) Modification of Election of Form of Payment. A Participant may change his or her election as to the timing and payment of Non-Grandfathered Amounts only in accordance with the provisions of Section 3.3(d) on subsequent elections and Section 3.4.

(6) Delay in Distribution for Specified Employees. Notwithstanding the foregoing, at any time the Company is publicly traded on an established securities market (as defined for purposes of Code Section 409A) and a distribution is to be made to a Specified Employee (as defined for purposes of Code Section 409A(a)(2)(B)(i)) on account of a Separation from Service, other than on account of death, no distribution shall be made to the Specified Employee before the date which is six months after the date of the Specified Employee's Separation from Service or, if earlier, the date of death of the Specified Employee (the "Distribution Restriction Period"), and the Specified Employee's Payment Date shall be the first day of the first calendar quarter beginning on or after the end of the Distribution Restriction Period.

(b) Distribution With a Scheduled In-Service Withdrawal Date.

(1) In the case of a Participant who has elected a Scheduled In-Service Withdrawal, such Participant shall receive his or her Distributable Amount as scheduled, but only with respect to those deferrals of Compensation, deferrals of Restricted Stock, deferral of Performance Shares, any vested Company Discretionary Contribution Amounts, Company Matching Contribution Amounts and earnings or losses attributable thereto, as shall have been elected by the Participant to be subject to the Scheduled In-Service Withdrawal Date (as defined in Section 1.1, above).

(2) A Participant's Scheduled In-Service Withdrawal Date in a given Plan Year may be no earlier than three (3) years from the last day of the Plan Year for which the deferrals of Compensation are deemed effective, provided, however that in the case of Restricted Stock Awards and Performance Share Awards, the Scheduled In-Service Withdrawal Date shall be measured from the date that such awards vest. A Participant may elect either a lump sum, or annual installments over a period ranging from two (2) years, up to and including five (5) years from the Scheduled In-Service Withdrawal Date.

(3) A Participant may elect to extend the Scheduled In-Service Withdrawal Date for any Plan Year, provided such election otherwise complies with the requirements of Section 3.3(d) on "subsequent elections." The Participant may modify any Scheduled In-Service Withdrawal Date in the manner set forth above, no more than two (2) times.

(4) The first annual installment subject to a Scheduled In-Service Withdrawal Date shall commence to be paid in February of the Plan Year in which the Scheduled In-Service Withdrawal Date falls. Subsequent annual installments will be distributed in February of each year.

(5) Lump sum distributions will be paid in February of the year specified on the Participant's election of a Scheduled In-Service Withdrawal Date.

(6) If a Participant has a Separation from Service prior to his or her Scheduled In-Service Withdrawal Date, any amounts subject to such Scheduled In-Service Withdrawal Date will instead be distributed in the form of a lump sum. Such lump sum distribution will be paid on the first day of the calendar quarter beginning on or after the Separation from Service, subject to the provisions of Section 6.2(a)(6) concerning distributions to a Specified Employee upon a Separation from Service.

(c) Death of a Participant. In the case of the death of a Participant while in the service of the Company or an Affiliate, the Participant's entire vested Account balance shall be distributed to the Participant's Beneficiary in a lump sum on the first day of the calendar quarter beginning after the death occurs. In the event a Participant dies while receiving installment payments, the remaining installments shall be paid to the Participant's Beneficiary in a lump sum on the first day of the calendar quarter beginning after the death occurs.

(d) Delayed Payment Date Attributable to Impracticability of Calculation. In accordance with Treasury Regulation Section 1.409A-3(d), if as of a Payment Date, calculation of the amount of the payment is not administratively practicable due to events beyond the control of the Participant (or the Participant's Beneficiary), payment shall be made during the first taxable year of the Participant (or Beneficiary) in which the calculation of the amount of the payment is administratively practicable.

(e) Delayed Distribution Attributable to Code Section 162(m). Notwithstanding the foregoing, to the extent the Company reasonably anticipates that if a payment were made at the time provided for in this Section 6.2, the Company's deduction with respect to such payment would not be permitted due to the application of Code Section 162(m), it may delay the payment until the Participant's first taxable year in which the Company reasonably anticipates (or should reasonably anticipate) that if the payment is made during the year, the deduction of such payment will not be barred by the application of Code Section 162(m). This Section 6.2(f) shall be administered in accordance with Treasury Regulation Section 1.409A-2(b)(7)(i).

### 6.3 Hardship Distribution.

(a) In the event of an Unforeseeable Emergency, a Participant shall be permitted to elect a Hardship Distribution from his or her Compensation Deferral Subaccount, Matching Contribution Subaccount, and any vested Company Discretionary Contribution Subaccounts prior to the Payment Date, subject to the following restrictions:

(1) The election to take a Hardship Distribution shall be made by filing a form provided by and filed with Committee or its delegate prior to the end of any calendar month.

(2) The Committee (or its delegate) shall have made a determination, in its sole discretion, that the requested distribution constitutes a Hardship Distribution as defined in Section 1.1 of the Plan.

(3) Notwithstanding anything to the contrary, no Hardship Distribution may be made to the extent that such Hardship is or may be relieved (i) through reimbursement or compensation by insurance or otherwise, (ii) by liquidation of the Participant's assets, to the extent the liquidation of assets would not itself cause severe financial hardship, or (iii) by cessation of deferrals under this Plan.

(b) The amount determined to qualify for a Hardship Distribution shall be paid in a cash lump sum as soon as practicable after the Hardship Distribution election is made and approved by the Committee or its delegatee. The amount paid shall be debited pro rata from the Participant's Compensation Deferral Subaccount, Matching Contribution Subaccount and vested Company Discretionary Contribution Subaccount.

(c) This Section 6.3 is intended to and shall be interpreted to be consistent with Treasury Regulations Section 409A-3(i)(3).

#### 6.4 Inability to Locate Participant.

In the event that the Committee is unable to locate a Participant or Beneficiary within two years following the required Payment Date, the amount allocated to the Participant's Account shall be forfeited. If, after such forfeiture, the Participant or Beneficiary later claims such benefit, such benefit shall be reinstated without additional interest or earnings.

6.5 Unvested Amounts. Any amounts that are not (or do not become) vested as of the date they would otherwise be paid shall be forfeited.

### ARTICLE VII ADMINISTRATION

#### 7.1 Committee Action.

The Committee shall act at meetings by affirmative vote of a majority of the members of the Committee. Any action permitted to be taken at a meeting may be taken without a meeting if, prior to such action, a written consent to the action is signed by all members of the Committee and such written consent is filed with the minutes of the proceedings of the Committee. A member of the Committee shall not vote or act upon any matter which relates solely to himself or herself as a Participant. The Chairman or any other member or members of the Committee designated by the Chairman may execute any certificate or other written direction on behalf of the Committee. Notwithstanding any provision of the Plan to the contrary, in the event of any conflict between the Plan and the Committee's charter, the Committee's charter shall govern.

#### 7.2 Powers and Duties of the Committee.

The Committee, on behalf of the Participants and their Beneficiaries, shall enforce the Plan in accordance with its terms, shall be charged with the general administration of the Plan, and shall have all powers necessary to accomplish its purposes, including, but not limited to, the following:

- (i) To select the funds in accordance with Section 3.2(a) hereof;
- (ii) To construe and interpret the terms and provisions of this Plan;

(iii) To compute and certify to the amount and kind of benefits payable to Participants and their Beneficiaries;

(iv) To maintain all records that may be necessary for the administration of the Plan, and to approve all administrative forms and procedures to be used in the establishment and maintenance of Accounts and Subaccounts;

(v) To provide for the disclosure of all information and the filing or provision of all reports and statements to Participants, Beneficiaries or governmental agencies as shall be required by law;

(vi) To make and publish such rules for the regulation of the Plan and procedures for the administration of the Plan as are not inconsistent with the terms hereof;

(vii) To appoint a Recordkeeper or any other agent, and to delegate to them such powers and duties in connection with the administration of the Plan as the Committee may from time to time prescribe; and

(viii) To take all actions necessary and appropriate for the administration of the Plan, including delegating authority to employees of the Company to handle Committee responsibilities.

The Committee shall be the named fiduciary and plan administrator of the Plan for purposes of ERISA.

### 7.3 Construction and Interpretation.

The Committee shall have full discretion to construe and interpret the terms and provisions of this Plan, which interpretations or construction shall be final and binding on all parties, including but not limited to the Company and any Participant or Beneficiary. The Committee shall administer such terms and provisions in a uniform and nondiscriminatory manner and in full accordance with any and all laws applicable to the Plan.

### 7.4 Information.

To enable the Committee to perform its functions, the Company shall supply full and timely information to the Committee on all matters relating to the Compensation of all Participants, their death or other events which cause termination of their participation in this Plan, and such other pertinent facts as the Committee may require.

### 7.5 Compensation, Expenses and Indemnity.

(a) The members of the Committee shall serve without additional compensation for their services hereunder.

(b) The Committee is authorized at the expense of the Company to employ such legal counsel as it may deem advisable to assist in the performance of its duties hereunder. Expenses and fees in connection with the administration of the Plan shall be paid by the Company.

(c) To the extent permitted by applicable state law, the Company shall indemnify and hold harmless the Committee and each member thereof, the Board of Directors and any delegate of the Committee who is an employee of the Company against any and all expenses, liabilities and claims, including legal fees to defend against such liabilities and claims arising out of their discharge in good faith of responsibilities under or incident of the Plan, other than expenses and liabilities arising out of willful misconduct. This indemnity shall not preclude such further indemnities as may be available under insurance purchased by the Company or provided by the Company under any bylaw, agreement or otherwise, as such indemnities are permitted under state law.

7.6 Filing a Claim. Any controversy or claim arising out of or relating to the Plan shall be filed in writing with the Committee which shall make all determinations concerning such claim. Any claim filed with the Committee and any decision by the Committee denying such claim shall be in writing and shall be delivered to the Participant or Beneficiary filing the claim (the "Claimant").

(a) In General. Notice of a denial of benefits (other than Disability benefits) will be provided within ninety (90) days of the Committee's receipt of the Claimant's claim for benefits. If the Committee determines that it needs additional time to review the claim, the Committee will provide the Claimant with a notice of the extension before the end of the initial ninety (90) day period. The extension will not be more than ninety (90) days from the end of the initial ninety (90) day period and the notice of extension will explain the special circumstances that require the extension and the date by which the Committee expects to make a decision.

(b) Disability Benefits. Notice of denial of Disability benefits will be provided within forty-five (45) days of the Committee's receipt of the Claimant's claim for Disability benefits. If the Committee determines that it needs additional time to review the Disability claim, the Committee will provide the Claimant with a notice of the extension before the end of the initial forty-five (45) day period. If the Committee determines that a decision cannot be made within the first extension period due to matters beyond the control of the Committee, the time period for making a determination may be further extended for an additional thirty (30) days. If such an additional extension is necessary, the Committee shall notify the Claimant prior to the expiration of the initial thirty (30) day extension. Any notice of extension shall indicate the circumstances necessitating the extension of time, the date by which the Committee expects to furnish a notice of decision, the specific standards on which such entitlement to a benefit is based, the unresolved issues that prevent a decision on the claim and any additional information needed to resolve those issues. A Claimant will be provided a minimum of forty-five (45) days to submit any necessary additional information to the Committee. In the event that a thirty (30) day extension is necessary due to a Claimant's failure to submit information necessary to decide a claim, the period for furnishing a notice of decision shall be tolled from the date on which the notice of the extension is sent to the Claimant until the earlier of the date the Claimant responds to the request for additional information or the response deadline.

(c) Contents of Notice. If a claim for benefits is completely or partially denied, notice of such denial shall be in writing and shall set forth the reasons for denial in plain language. The notice shall (i) cite the pertinent provisions of the Plan document and (ii) explain, where appropriate, how the Claimant can perfect the claim, including a description of any additional material or information necessary to complete the claim and why such material or information is necessary. The claim denial also shall include an explanation of the claims review procedures and the time limits applicable to such procedures, including a statement of the Claimant's right to bring a civil action under Section 502(a) of ERISA following an adverse decision on review. In the case of a complete or partial denial of a Disability benefit claim, the notice shall provide a statement that the Committee will provide to the Claimant, upon request and free of charge, a copy of any internal rule, guideline, protocol, or other similar criterion that was relied upon in making the decision.

7.7 Appeal of Denied Claims. A Claimant whose claim has been completely or partially denied shall be entitled to appeal the claim denial by filing a written appeal with a committee designated to hear such appeals (the "Appeals Committee"). A Claimant who timely requests a review of the denied claim (or his or her authorized representative) may review, upon request and free of charge, copies of all documents, records and other information relevant to the denial and may submit written comments, documents, records and other information relevant to the claim to the Appeals Committee. All written comments, documents, records, and other information shall be considered "relevant" if the information (i) was relied upon in making a benefits determination, (ii) was submitted, considered or generated in the course of making a benefits decision regardless of whether it was relied upon to make the decision, or (iii) demonstrates compliance with administrative processes and safeguards established for making benefit decisions. The Appeals Committee may, in its sole discretion and if it deems appropriate or necessary, decide to hold a hearing with respect to the claim appeal.

(a) In General. Appeal of a denied benefits claim (other than a Disability benefits claim) must be filed in writing with the Appeals Committee no later than sixty (60) days after receipt of the written notification of such claim denial. The Appeals Committee shall make its decision regarding the merits of the denied claim within sixty (60) days following receipt of the appeal (or within one hundred and twenty (120) days after such receipt, in a case where there are special circumstances requiring extension of time for reviewing the appealed claim). If an extension of time for reviewing the appeal is required because of special circumstances, written notice of the extension shall be furnished to the Claimant prior to the commencement of the extension. The notice will indicate the special circumstances requiring the extension of time and the date by which the Appeals Committee expects to render the determination on review. The review will take into account comments, documents, records and other information submitted by the Claimant relating to the claim without regard to whether such information was submitted or considered in the initial benefit determination.

(b) Disability Benefits. Appeal of a denied Disability benefits claim must be filed in writing with the Appeals Committee no later than one hundred eighty (180) days after receipt of the written notification of such claim denial. The review shall be conducted by the Appeals Committee (exclusive of the person who made the initial adverse decision or such person's subordinate). In reviewing the appeal, the Appeals Committee shall (i) not afford deference to the initial denial of the claim, (ii) consult a medical professional who has appropriate training and experience in the field of medicine relating to the Claimant's disability and who was neither consulted as part of the initial denial nor is the subordinate of such individual and (iii) identify the medical or vocational experts whose advice was obtained with respect to the initial benefit denial, without regard to whether the advice was relied upon in making the decision. The Appeals Committee shall make its decision regarding the merits of the denied claim within forty-five (45) days following receipt of the appeal (or within ninety (90) days after such receipt, in a case where there are special circumstances requiring extension of time for reviewing the appealed claim). If an extension of time for reviewing the appeal is required because of special circumstances, written notice of the extension shall be furnished to the Claimant prior to the commencement of the extension. The notice will indicate the special circumstances requiring the extension of time and the date by which the Appeals Committee expects to render the determination on review. Following its review of any additional information submitted by the Claimant, the Appeals Committee shall render a decision on its review of the denied claim.

(c) Contents of Notice. If a benefits claim is completely or partially denied on review, notice of such denial shall be in writing and shall set forth the reasons for denial in plain language. The decision on review shall set forth (i) the specific reason or reasons for the denial, (ii) specific references to the pertinent Plan provisions on which the denial is based, (iii) a statement that the Claimant is entitled to receive, upon request and free of charge, reasonable access to and copies of all documents, records, or other information relevant (as defined above) to the Claimant's claim, and (iv) a statement describing any voluntary appeal procedures offered by the plan and a statement of the Claimant's right to bring an action under Section 502(a) of ERISA. For the denial of a Disability benefit, the notice will also include a statement that the Appeals Committee will provide, upon request and free of charge, (i) any internal rule, guideline, protocol or other similar criterion relied upon in making the decision, (ii) any medical opinion relied upon to make the decision and (iii) the required statement under Section 2560.503-1(j)(5)(iii) of the Department of Labor regulations.

(d) Discretion of Appeals Committee. All interpretations, determinations and decisions of the Appeals Committee with respect to any claim shall be made in its sole discretion, and shall be final and conclusive.

ARTICLE VIII  
MISCELLANEOUS

8.1 Unsecured General Creditor.

Participants and their Beneficiaries, heirs, successors, and assigns shall have no legal or equitable rights, claims, or interest in any specific property or assets of the Company, including in any Compensation Deferrals made under this Plan. No assets of the Company shall be held in any way as collateral security for the fulfilling of the obligations of the Company under this Plan. Any and all of the Company's assets shall be, and remain, the general unpledged, unrestricted assets of the Company. The Company's obligation under the Plan shall be merely that of an unfunded and unsecured promise of the Company to pay money in the future, and the rights of the Participants and Beneficiaries shall be no greater than those of unsecured general creditors. It is the intention of the Company that this Plan be unfunded for purposes of the Code and for purposes of Title 1 of ERISA. Notwithstanding the foregoing, the Company may enter into one or more rabbi trusts, in accordance with the provisions of Revenue Procedure 92-64, to assist it and its Business Units in providing benefits under this Plan.

8.2 Restriction Against Assignment.

The Company shall pay all amounts payable hereunder only to the person or persons designated by the Plan and not to any other person or corporation. No part of a Participant's Accounts shall be liable for the debts, contracts, or engagements of any Participant, his or her Beneficiary, or successors in interest, nor shall a Participant's Accounts be subject to execution by levy, attachment, or garnishment or by any other legal or equitable proceeding, nor shall any such person have any right to alienate, anticipate, sell, transfer, commute, pledge, encumber, or assign any benefits or payments hereunder in any manner whatsoever. If any Participant, Beneficiary or successor in interest is adjudicated bankrupt or purports to anticipate, alienate, sell, transfer, commute, assign, pledge, encumber or charge any distribution or payment from the Plan, voluntarily or involuntarily, the Committee, in its discretion, may cancel such distribution or payment (or any part thereof) to or for the benefit of such Participant, Beneficiary or successor in interest in such manner as the Committee shall direct.

8.3 Withholding.

There shall be deducted from each payment made under the Plan or any other Compensation payable to the Participant (or Beneficiary) all taxes that are required to be withheld by the Company under applicable federal, state and local laws. The Company shall have the right to reduce any payment (or compensation) by the amount of cash sufficient to provide the amount of said taxes.

8.4 Amendment, Modification, Suspension or Termination.

The Committee may amend, modify or suspend this portion of the Plan in whole or in part, except to the extent that such power has been expressly reserved otherwise under the terms of this portion of the Plan. No amendment, modification or suspension shall have any retroactive effect to reduce any amounts allocated to a Participant's Accounts. The Committee may also terminate this portion of the Plan and pay Participants (and beneficiaries) their Account Balances in a single lump sum at any time, to the extent and in accordance with Treas. Reg. Section 1.409A-3(j)(4)(ix).

8.5 Governing Law.

This Plan shall be construed, governed and administered in accordance with the laws of the State of Connecticut without regard to the conflicts of law principles thereof.

8.6 Receipt or Release.

Any payment to a Participant or the Participant's Beneficiary in accordance with the provisions of the Plan shall, to the extent thereof, be in full satisfaction of all claims against the Committee and the Company. The Committee may require such Participant or Beneficiary as a condition precedent to such payment to execute a receipt and release to such effect.

8.7 Payments on Behalf of Persons Under Incapacity.

In the event that any amount becomes payable under the Plan to a person who, in the sole judgment of the Committee, is considered by reason of physical or mental condition to be unable to give a valid receipt therefore, the Committee may direct that such payment be made to any person found by the Committee, in its sole judgment, to have assumed the care of such person. Any payment made pursuant to such determination shall constitute a full release and discharge of the Committee and the Company.

8.8 Limitation of Rights and Employment Relationship.

Neither the establishment of the Plan nor any modification thereof, nor the creating of any fund or account, nor the payment of any benefits shall be construed as giving any Participant, or Beneficiary or other person any legal or equitable right against the Company except as provided in the Plan; and in no event shall the terms of employment of any Employee or Participant be modified or in any way be affected by the provisions of the Plan.

8.9 Adjustments; Assumptions of Obligations.

In the event of a reorganization, recapitalization, stock split, stock or extraordinary cash dividend, combination of shares, merger, consolidation, distribution of assets, or any other change in the corporate structure or shares of the Company, the Committee shall make the appropriate adjustments in (i) the number of Stock Units credited to Participants' Accounts, (ii) the number (or type) of shares of Stock reserved for issuance hereunder, (iii) the number (or type) of shares subject to any deferred Restricted Stock Units and deferred Performance Shares, and (iv) any Share limitations imposed under the Plan, in order to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under the Plan or any Stock Units credited hereunder. In the event of any merger, consolidation or other reorganization in which the Company is not the surviving or continuing entity, all Stock Units, deferred Restricted Stock and deferred Performance Shares hereunder shall be assumed by the surviving or continuing entity. In the event of any reorganization in which all of the shares of the Company's Stock are exchanged for shares of the common stock of another corporation, all Stock Units credited hereunder and all deferred Restricted Stock Units and deferred Performance Shares outstanding on the effective date of the share exchange shall be automatically converted into obligations of the other corporation on identical terms, and the other corporation shall assume this Plan. The Committee may also make adjustments to Stock Units, and deferred Restricted Stock Units and deferred Performance Shares under this Plan on account of those events set forth in Section 10(c) of the UIL Holdings Corporation 2008 Stock and Incentive Compensation Plan and comparable sections of any other stock plan of the Company which allows for awards to be deferred pursuant to the terms of this Plan.

8.10 Headings.

Headings and subheadings in this Plan are inserted for convenience of reference only and are not to be considered in the construction of the provisions hereof.

8.11 Interpretation.

The Plan is a deferred compensation plan within the meaning of Code Section 409A, and it is intended that the Plan shall be administered and, in the case of any ambiguity, interpreted, in a manner consistent with the terms of Code Section 409A so as to avoid adverse tax consequences to Participants.

Executed as of the 7th day of December, 2012.

**UIL HOLDINGS CORPORATION**

By /s/ J. P. Torgerson

Its President and Chief Executive Officer

**EXHIBIT A**

**PARTICIPATING BUSINESS UNITS**

As of January 1, 2013

<b><u>Company Name</u></b>	<b><u>Date of Participation</u></b>
The United Illuminating Company ("UI")	2/1/03
The Berkshire Gas Company	1/1/2013
Connecticut Natural Gas Corporation	1/1/2013
The Southern Connecticut Gas Company	1/1/2013

**EXHIBIT B**

PROVISIONS APPLICABLE TO PRE-2013 DEFERRALS WITH RESPECT TO ELIGIBLE  
EMPLOYEES OF THE BERKSHIRE GAS COMPANY, CONNECTICUT NATURAL GAS  
CORPORATION AND THE SOUTHERN CONNECTICUT GAS COMPANY

**EXHIBIT B  
TO THE UIL HOLDINGS CORPORATION  
DEFERRED COMPENSATION PLAN**

ARTICLE I

INTRODUCTION

- 1.1. Name. The Company established the UIL Holdings Corporation Deferred Compensation Plan For Selected Employees (“Selected Employees Plan”).
- 1.2. Effective Dates. The Effective Date of the Selected Employees Plan is the effective date of the closing of the sale contemplated under the Purchase Agreement, dated May 25, 2010, by and between UIL Holdings Corporation and Iberdrola USA, Inc. concerning the sale of certain corporations including Southern Connecticut Gas Company, Connecticut Natural Gas Company and Berkshire Gas Company (the “Purchase Agreement”), or, if the transactions contemplated under such Purchase Agreement close on more than one date, the first such closing date (the “Effective Date”). The Effective Date of participation in the plan by any Participating Employer shall be the closing date of the sale of such Participating Employer in accordance with the terms of the Purchase Agreement. Effective as of January 1, 2013, the Selected Employees Plan is merged into the UIL Holdings Corporation Deferred Compensation Plan. **Notwithstanding any provision of this Exhibit B to the contrary, no deferrals shall be made under the terms of this Exhibit B with respect to Compensation earned after December 31, 2012.** Deferral and payment elections in place under the Selected Employees Plan shall continue in effect after the merger and may not be changed except in accordance with Code Section 409A and the terms of the Selected Employees Plan.
- 1.3. Purpose. The Selected Employees Plan is established for the purposes of providing retirement benefits for a select group of management and/or highly compensated employees of certain Affiliates of the Company who are Participating Employers hereunder. The Selected Employees Plan provides a means whereby Eligible Employees may defer a portion of their annual cash wages and earnings and certain bonuses they otherwise would receive. All deferrals and contributions under this Plan shall be in the form of unfunded recordkeeping entries that shall be credited with earnings as specified in the Plan.
- 1.4. Successor Clause. The Selected Employees Plan is a successor plan to the Energy East Deferred Compensation Plan (also known as the Iberdrola USA Deferred Compensation Plan) (the “Predecessor Plan”) with respect to employers who participated in the Predecessor Plan that are acquired by UIL Holdings Corporation pursuant to the Purchase Agreement. Benefits payable under the Predecessor Plan with respect to employees of the participating employers that were acquired by UIL Holdings Corporation pursuant to the Purchase Agreement shall be paid pursuant to the terms of the Selected Employees Plan, and all deferral and payment elections in place under the Predecessor Plan for such employees shall continue under the Selected Employees Plan, and may not be changed except in accordance with Code Section 409A and the terms of the Selected Employees Plan.

## ARTICLE II

### DEFINITIONS

Whenever the following initially capitalized words and phrases are used in this Selected Employees Plan, they shall have the meanings specified below unless the context clearly indicates to the contrary:

- 2.1. “Administrator” shall mean the Compensation and Executive Development Committee of the Board of Directors of the Company (the “CEDC”), and any successor thereto. Administrator shall also refer to a delegate of the CEDC, if applicable. In the absence of such Committee, the Board of Directors of the Company shall be the Administrator.
- 2.2. “Affiliate” means any of the subsidiaries or affiliates of the Company, whether or not such entities have adopted the Plan, and any other entity which is a member of a “controlled group of corporations,” a “group under common control” or an “affiliated service group,” all as determined under Section 414(b), (c), (m), or (o) of the Code, of which the Company is the common parent.
- 2.3. “Beneficiary” shall mean such person or legal entity as may be designated by a Participant to receive benefits hereunder after such Participant’s death.
- 2.4. “Code” shall mean the Internal Revenue Code of 1986, as amended, and any related U.S. Treasury regulations.
- 2.5. “Company” shall mean UIL Holdings Corporation.
- 2.6. “Compensation” shall mean the taxable wages, earnings and commissions payable for a Plan Year together with cash payments under any calendar year performance based annual incentive plan (“Bonus”) designated by the Administrator, after reduction for applicable Federal Insurance Contributions Act (“FICA”) and Federal Unemployment Tax Act (“FUTA”) taxes but before any reduction to such taxable wages and earnings, Bonuses and commissions is effected in accordance with the Deferred Compensation Election Form, and before any reduction is made for elective deferrals to any cash or deferred arrangement maintained pursuant to Section 401(k) of the Code or to any cafeteria plan maintained pursuant to Section 125 of the Code in which the Eligible Employee participates.
- 2.7. “Deferred Compensation” shall mean that portion of the Participant’s Compensation which the Participant elects to defer pursuant to Section 4.1 of this Selected Employees Plan (or elected pursuant to the terms of the Predecessor Plan), in accordance with a Deferred Compensation Election Form. Deferred Compensation also means amounts designated as Employer Contributions under the Predecessor Plan and credited for the benefit of a Participant, if any.

- 2.8. “Deferred Compensation Account” shall mean the recordkeeping account established by the Administrator for each Participant to which the portion of a Participant’s taxable wages and earnings that is voluntarily deferred pursuant to Section 4.1 of this Selected Employees Plan (or otherwise pursuant to the terms of the Predecessor Plan) is credited. A Participant shall at all times be fully vested in the balance of his or her Deferred Compensation Account.
- 2.9. “Deferred Compensation Election Form” shall mean a document or form as made available from time to time by the Administrator (or the Administrator of the Predecessor Plan), whereby an Eligible Employee enrolls as a Participant and elects to defer Compensation.
- 2.10. “Deferred Compensation Investment Election Form” shall mean a document, form, voice response unit (VRU) or website as made available from time to time by the Administrator, whereby an Eligible Employee elects to invest, or modify a prior election to invest, his or her Deferred Compensation Account.
- 2.11. “Disability” shall mean a disability qualifying for benefits payable under the Participating Employer’s long-term disability plan under which the Participant is covered. A Participant will be considered to be eligible for payment under the Plan resulting from a Disability only after the Participant has received payments from a Participating Employer’s long-term disability plan for three consecutive months. Whether a Participant has a Disability shall be determined consistent with the definition of “disability” under Code Section 409A.
- 2.12. “Eligible Employee” shall mean an individual employed by a Participating Employer who (a) is a member of a select group of management and/or highly compensated employees and who is designated by the Administrator to be eligible to participate hereunder; or (b) was a Participant in the Predecessor Plan on the Effective Date (or, if later, the date such Participant’s employer became a Participating Employer hereunder).
- 2.13. “Hardship” shall mean a severe financial hardship to the Participant resulting from an illness or accident of the Participant, the Participant’s spouse or a dependent (as defined in Section 152(a) of the Code) of the Participant, loss of the Participant’s property due to casualty, or other similar extraordinary and unforeseeable circumstances arising as a result of events beyond the control of the Participant. Whether a Participant has incurred a Hardship will be determined consistent with the definition of an “unforeseeable emergency” under Code Section 409A.
- 2.14. “Key Employee” shall mean an employee defined as a key employee under Section 416(i) of the Code. In general, this includes an officer of the Company earning over \$135,000 (as adjusted as provided in Section 416(f) of the Code), a 5% owner of the Company or a 1% owner of the Company earning over \$150,000. Key Employees will be determined on December 31st of each year, based on compensation earned in the plan year ending on such December 31st. An Employee classified as a Key Employee as of such December 31st shall be considered a Key Employee for the twelve month period beginning the following April 1st. For purposes of this Plan, whether a Participant is a Key Employee shall be interpreted consistent with the definition of “specified employee” under Code Section 409A.

- 2.15. “Participant” shall mean an individual who has amounts standing to his or her credit under this Plan, regardless of whether the individual is currently deferring into this Plan.
- 2.16. “Participating Employer” shall mean the following Affiliates of the Company: The Berkshire Gas Company, Connecticut Natural Gas Corporation and The Southern Connecticut Gas Company.
- 2.17. “Plan Year” shall mean the calendar year.
- 2.18. “Plan” (or “Selected Employees Plan”) shall mean the UIL Holdings Corporation Deferred Compensation Plan For Selected Employees.
- 2.19. “Predecessor Plan” shall have the meaning set forth in Section 1.4.

2.20. “Separation from Service” shall mean a Separation from Service within the meaning of Code Section 409A and related regulations. The Administrator will determine, in accordance with Code Section 409A, whether a Separation from Service has occurred.

### ARTICLE III

#### PARTICIPATION BY ELIGIBLE EMPLOYEES

- 3.1. Participation. Participation in the Plan is limited to Eligible Employees. Employees who were previously eligible to participate in the Plan or the Predecessor Plan may continue to maintain account balances of amounts previously deferred under the Plan. An Eligible Employee shall participate in the Plan as determined by the Administrator. A Participant who separates from service with all Participating Employers will cease participation hereunder.
- 3.2. Failure to Designate. In the event that the Administrator fails to designate the group of Eligible Employees who shall be eligible to participate for any year, each Eligible Employee who was designated in the prior year shall be deemed to have been designated for the next succeeding Plan Year, provided that any such employee shall participate for purposes of the next succeeding Plan Year only if he or she is actively employed by a Participating Employer on the first day of such succeeding Plan Year and provided he or she is an Eligible Employee for such year.
- 3.3. Top Hat Plan. The Selected Employees Plan is intended to be an unfunded “top-hat” plan, maintained primarily for the purpose of providing benefits for a select group of management or highly compensated employees.

## ARTICLE IV

### PARTICIPANT DEFERRALS

4.1. Deferral of Compensation. An Eligible Employee may elect to defer up to one hundred percent (100%) of his future compensation in one percent (1%) increments, by completing and executing a Deferred Compensation Election Form which specifies the amount of Compensation to be deferred and filing it with the Administrator. Any election, modification or revocation shall be effective only for Compensation earned and payable after the Administrator receives the Deferred Compensation Election Form. An election to defer compensation may be made or modified (including revocation) only as of the first day of a Plan Year and during the election period in the immediately preceding Plan Year. The election period will be designated by the Administrator. No election, modification or revocation is permissible with respect to Compensation paid prior to the execution of a Deferred Compensation Election Form. Deferrals of Compensation hereunder shall always be one hundred percent (100%) vested.

4.2. Period for Which Deferral Election is Effective. A Participant's election to defer Compensation shall remain in effect until modified or revoked as provided in Section 4.1.

4.3. Newly Eligible Employees. Any Eligible Employee who first becomes eligible to participate in this Plan after the Effective Date, may elect to defer Compensation pursuant to Section 4.1 within thirty (30) days of the date such Eligible Employee first becomes eligible to participate in this Plan. If no such election is made pursuant to this Section 4.3, such Eligible Employee may only make a deferral of compensation in accordance with the election period set forth in Section 4.1. With respect to a Participant who first becomes eligible for the Plan on or after May 31st of a Plan Year, the Participant's deferral election for the year may apply only to a portion of the Participant's Bonus Compensation that is equal to the total Bonus amount multiplied by the ratio of (i) the number of days remaining in the performance period (after the election) over (ii) the total number of days in the performance period. This Section 4.3 shall be administered in accordance with Treas. Reg. Section 1.409A-2(a)(7).

## ARTICLE V

### DISTRIBUTIONS

5.1. Distribution Date. Distribution of a Participant's Deferred Compensation Account shall commence upon the earlier of the Participant's death, Disability, or Separation from Service for any reason, in accordance with the terms of Section 5.2.

5.2. Method of Payment. Subject to the provisions of Section 5.5 and this 5.2, distributions upon the earlier of the Participant's death, Disability or Separation from Service shall be paid in the form of either a lump sum or in annual installments for a period of either five (5) or ten (10) years, as elected by the Participant on his or her initial Deferred Compensation Election Form, and commencing as of the date of the permissible payment event unless a later commencement date which is consistent with the requirements of Code §409A was elected by the Participant on his or her initial Deferred Compensation Election Form. If no time and form of payment is timely elected the Participant's initial Deferred Compensation Election Form, distribution will be made in a lump sum as soon as administratively feasible following the date of the permissible payment event.

All amounts deferred under the Predecessor Plan will be paid in the same form and at the same time as elected by the Participant on the applicable Deferred Compensation Election Form in effect under the Predecessor Plan as of the Effective Date, and such elections may not be modified after the Effective Date. Likewise, all amounts deferred under the Selected Employees Plan by Participants who were Participants in the Predecessor Plan as of the Effective Date shall also be paid in the same form and at the same time as elected by the Participant on his or her Deferred Compensation Election Form in effect under the Predecessor Plan as of the Effective Date, and such elections may not be modified after the Effective Date. The form and timing of the distribution of amounts deferred after under the Selected Employees Plan by a Participant who first becomes a Participant after the Effective Date of the Selected Employees Plan shall be paid as elected by the Participant on his or her initial Deferred Compensation Election Form and may not be modified.

5.3. Hardship Distribution. A Participant may apply to the Administrator for early distribution of all or any part of his Deferred Compensation Account on account of Hardship, which application shall include a statement of the facts which the Participant considers to constitute a Hardship. The Administrator, in its sole and absolute discretion, shall determine whether the stated facts constitute a Hardship. A Participant shall be entitled to a Hardship distribution if (a) the Administrator determines, in accordance with the immediately preceding sentence, that the Participant has incurred a Hardship; (b) the Participant has taken all available distributions from all plans qualified pursuant to Section 401 of the Code which are maintained by the Company or an Affiliate of the Company in which the Participant participates, and (c) the Participant has exhausted the availability of funds through insurance or by liquidating the Participant's assets (to the extent such liquidation would not itself cause hardship). Such Hardship distribution shall be made in a single lump sum and in cash. The amount of the Hardship distribution may not exceed the amount required to satisfy the emergency (including any amounts necessary to pay federal, state or local income taxes reasonably anticipated to result from the distribution).

5.4. Distributions on Death. Subject to the provisions of Section 5.2, in the event of a Participant's death before distribution of his or her Deferred Compensation Account has commenced, distribution shall be made to the Beneficiary selected by the Participant in the form of payment elected by the Participant on his or her Deferred Compensation Election Form. Payment will be made or commence within sixty (60) days after the date of death. In the event that a Participant dies after commencing annual installment payments, the remaining payments will be made to the Beneficiary selected by the Participant. A Participant may from time to time change his or her designated Beneficiary without the consent of such Beneficiary by filing a new designation in writing with the Administrator. If no Beneficiary designation is in effect at the time of the Participant's death, or if the designated Beneficiary is missing or has predeceased the Participant, distribution shall be made to the Participant's estate.

5.5. Key Employees. Notwithstanding the provisions of Section 5.2, the payment to a Key Employee of amounts credited to the Plan (including Earnings) after December 31, 2004, which are payable on account of a Separation from Service (pursuant to a prior election made by the Participant) within the first six months following the Separation from Service will be delayed until the earlier of (i) the beginning of the seventh month following the month of the Participant's termination of employment or (ii) the Key Employee's death. The first payment to such Key Employee (either a lump sum or first annual installment as previously elected) will be made as of the beginning of the seventh month (or the first of the month immediately following the month of death, if earlier) following the Separation from Service and will be based on the value of the Participant's Deferred Compensation Account as of the date payments begin.

5.6. Valuation of Distributions. All distributions under this Plan shall be based upon the amount credited to a Participant's Deferred Compensation Account, as of the last business day of the month immediately preceding the date of the distribution. The amount of installments payable to a Participant electing such method of payment shall be determined by dividing the amount credited to the Participant's Deferred Compensation Account by the remaining number of installments, including the current installment, to be paid. It is understood that administrative requirements may lead to a delay between such valuation date and the date of distribution, not to exceed thirty (30) days.

## ARTICLE VI

### ACCOUNTS

6.1. Deferred Compensation Account. The Administrator shall establish and maintain, or cause to be established and maintained, a separate Deferred Compensation Account for each Participant hereunder. Each Participant's Compensation deferred under the Predecessor Plan and/or deferred pursuant to a Deferred Compensation Election Form under Section 4.1 shall be separately accounted for and credited with earnings, for recordkeeping purposes only, to his or her Deferred Compensation Account. A Participant's Deferred Compensation Account shall be solely for the purposes of measuring the amounts to be paid under the Selected Employees Plan. The Company shall not be required to fund or secure the Deferred Compensation Account in any way, the Company's obligation to Participants hereunder being purely contractual.

6.2. Crediting of Earnings and Statement of Account. The Participant's Deferred Compensation Account shall be credited with earnings daily. The amount of earnings to be credited each business day shall be equal to the investment return of the Plan investments selected by the Participant pursuant to Section 6.3. Earnings will be credited for whole days only. As soon as practicable after the end of each Plan Year (and at such additional times as the Administrator may determine), the Administrator shall furnish each Participant with a statement of the balance credited to the Participant's Deferred Compensation Account. The method of crediting earnings may not be modified or amended.

6.3. Investment Election. The earnings to be credited to each Deferred Compensation Account shall be calculated according to the investment elections made pursuant to this Section 6.4. Each Eligible Employee, within thirty (30) days of the date on which he or she becomes a Participant in the Plan, shall elect among the available investment options hereunder. The Administrator shall select the investment options under the Plan, and may change such investment options upon at least thirty (30) days' notice to Participants. A Participant may modify his or her investment election once each business day, to be effective the next business day.

6.4. Investment to Facilitate Payment of Benefits. Although the Employer is not obligated to invest in any specific asset or fund, or purchase any insurance contract in order to provide the means for the payment of any liabilities under this Selected Employees Plan, the Administrator may elect to do so.

## ARTICLE VII

### FUNDING AND PARTICIPANT'S INTEREST

7.1. Selected Employees Plan Unfunded. This Selected Employees Plan shall be unfunded and no trust shall be created by the Selected Employees Plan. The crediting to each Participant's Deferred Compensation Account shall be made through recordkeeping entries. No actual funds shall be set aside; provided, however, that nothing herein shall prevent any Participating Employer from establishing one or more grantor trusts from which benefits due under this Selected Employees Plan may be paid in certain instances. All distributions shall be paid by the Participating Employer from its general assets and a Participant (or his or her Beneficiary) shall have the rights of a general, unsecured creditor against the Participating Employer for any distributions due hereunder. The Selected Employees Plan constitutes a mere promise by the Participating Employer to make benefit payments in the future.

7.2. Participant's Interest in Plan. A Participant has an interest only in the cash value of the amount credited to his or her accounts. A Participant has no rights or interests in any specific funds, stock or securities.

## ARTICLE VIII

### ADMINISTRATION AND CLAIMS PROCEDURES

8.1 On or after January 1, 2013, the provisions of Article VII, Administration, of the UIL Holdings Corporation Deferred Compensation Plan Non-Grandfathered Benefit Provisions document shall apply with respect to amounts governed by the terms of the Selected Employees Plan.

ARTICLE IX

AMENDMENT AND TERMINATION

9.1 Amendment and Termination. The Administrator shall have the right, at any time, to amend or terminate this Selected Employees Plan in whole or in part, provided that such amendment or termination shall not adversely affect the right of any Participant or Beneficiary to a payment under the Selected Employees Plan on the basis of contributions credited to the Participant's Deferred Compensation Account. The Company, upon review of the effectiveness of the Selected Employees Plan, may at any time recommend amendments to, or termination of the Selected Employees Plan to the Administrator. If the Selected Employees Plan is terminated, Participants' Deferred Compensation Accounts shall be distributed in accordance with the provisions of Article V, notwithstanding such termination.

ARTICLE X

MISCELLANEOUS PROVISIONS

10.1. Right of Employer to Take Employment Actions. The adoption and maintenance of the Selected Employees Plan shall not be deemed to constitute a contract between the Company (including its Affiliates) and any Eligible Employee, nor to be a consideration for, nor an inducement or condition of, the employment of any person. Nothing herein contained, or any action taken hereunder, shall be deemed to give any Eligible Employee the right to be retained in the employ of the Company or its Affiliates or to interfere with the right of the Company or its Affiliates to discharge any Eligible Employee at any time, nor shall it be deemed to give to the Company or its Affiliates the right to require the Eligible Employee to remain in the employ of the Company or any of its Affiliates, nor shall it interfere with the Eligible Employee's right to terminate his or her employment at any time. Nothing in this Plan shall prevent the Company or any Affiliate from amending, modifying, or terminating any other benefit plan.

10.2. Alienation or Assignment of Benefits. A Participant's rights and interest under the Selected Employees Plan shall not be assigned or transferred except as otherwise provided herein, and the Participant's rights to benefit payments under the Selected Employees Plan shall not be subject to alienation, pledge or garnishment by or on behalf of creditors (including heirs, beneficiaries, or dependents) of the Participant or of a Beneficiary.

10.3. Right to Withhold. To the extent required by law in effect at the time a distribution is made from the Selected Employees Plan, the Company, its Affiliates or the agents of the foregoing shall have the right to withhold or deduct from any distributions or payments any taxes required to be withheld by federal, state or local governments.

10.4. Construction. All legal questions pertaining to the Selected Employees Plan shall be determined in accordance with the laws of the State of Connecticut, to the extent such laws are not superseded by the Code, Employee Retirement Income Security Act of 1974, as amended, or any other applicable federal law.

10.5. Headings. The headings of the Articles and Sections of the Selected Employees Plan provisions are for reference only. In the event of a conflict between a heading and the contents of an Article or Section, the contents of the Article or Section shall control.

10.6. Number and Gender. Whenever any words used herein are in the singular form, they shall be construed as though they were also used in the plural form in all cases where they would so apply, and references to the male gender shall be construed as applicable to the female gender where applicable, and vice versa.

10.7. Interpretation. Notwithstanding any provision in the Selected Employees Plan provisions to the contrary, the Selected Employees Plan is a deferred compensation plan within the meaning of Code Section 409A, and it is intended that it shall be administered and interpreted in a manner consistent with the terms of Code Section 409A so as to avoid adverse tax consequences to Participants.

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**Consent of Independent Registered Public Accounting Firm**

We hereby consent to the incorporation by reference in (i) the Registration Statement on Form S-8 (No. 333-107020) relating to the UIL Holdings Corporation Deferred Compensation Plan; (ii) the Registration Statement on Form S-8 (No. 333-107021) relating to the UIL Holdings Corporation 1999 Amended and Restated Stock Plan; (iii) the Registration Statement on Form S-8 (No. 333-156177) relating to the UIL Holdings Corporation 2008 Stock and Incentive Compensation Plan; (iv) the Registration Statement on Form S-8 (No. 333-156179) relating to the Amended and Restated United Illuminating Company 401(K)/Employee Stock Ownership Plan; (v) the Registration Statement on Form S-8 (No. 333-179995) relating to the Berkshire Gas Company 401(k) Plan, the Berkshire Gas Company 401(k) Plan for Union Employees, the Connecticut Natural Gas Corporation Employee Savings Plan, the Connecticut Natural Gas Corporation Union Employee Savings Plan, and the Southern Connecticut Gas Company Target Plan; (vi) the Registration Statement on Form S-8 (No. 333-179996) relating to the 2012 Non-Qualified Employee Stock Plan; and (vii) the Registration Statement on Form S-3 (No. 333-179998) of UIL Holdings Corporation of our report dated February 21, 2013 relating to the financial statements, financial statement schedule and the effectiveness of internal control over financial reporting, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP  
February 21, 2013

*PricewaterhouseCoopers LLP, 125 High Street, Boston, MA 02110  
T: (617) 530 5000, F: (617) 530 5001, [www.pwc.com/us](http://www.pwc.com/us)*

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CERTIFICATION

I, James P. Torgerson, certify that:

1. I have reviewed this annual report on Form 10-K of UIL Holdings Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 21, 2013

/s/ James P. Torgerson

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James P. Torgerson  
President and Chief Executive Officer

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CERTIFICATION

I, Richard J. Nicholas, certify that:

1. I have reviewed this annual report on Form 10-K of UIL Holdings Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 21, 2013

/s/ Richard J. Nicholas  
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Richard J. Nicholas  
Executive Vice President  
and Chief Financial Officer

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**Certification of Periodic Financial Report**

Pursuant to 18 U.S.C. 1350, the undersigned, James P. Torgerson and Richard J. Nicholas, the chief executive officer and chief financial officer, respectively, of UIL Holdings Corporation (the “issuer”), do each hereby certify that the report on Form 10-K to which this certification is attached as an exhibit (the “report”) fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)) and that information contained in the report fairly presents, in all material respects, the financial condition and results of operations of the issuer.

/s/ James P. Torgerson

James P. Torgerson  
President and Chief Executive Officer  
(chief executive officer)  
UIL Holdings Corporation  
February 21, 2013

/s/ Richard J. Nicholas

Richard J. Nicholas  
Executive Vice President and Chief Financial Officer  
(chief financial officer)  
UIL Holdings Corporation  
February 21, 2013

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