

The Energy and Technology Committee

February 24, 2009

Raised Bill No. 6507, AAC REDUCING AND STABILIZING ELECTRIC RATES FOR RESIDENTIAL AND BUSINESS CUSTOMERS

Testimony of

The Office of Consumer Counsel

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The Office of Consumer Counsel (OCC) has carefully reviewed and SUPPORTS Raised Bill No. 6507, AAC REDUCING AND STABILIZING ELECTRIC RATES FOR RESIDENTIAL AND BUSINESS CUSTOMERS.

This bill would reduce and stabilize the bills of all customers, in two different ways:

- For residential and small business customers, by instituting a new and attractively-priced "basic service" that would be procured for all such customers by the electric distribution companies under procurement plans approved by the Department of Public Utility Control (DPUC); and
- For large commercial and industrial customers, by allowing the electric distribution companies to procure power on their behalf using longer-term contracts or other measures that will lead to lower prices and/or more stable prices.

Basic Service for Residential and Small Business Customers

Under present law, residential and small business customers can receive standard service from their electric distribution company (CL&P or UI) or can choose to receive generation services from a competitive supplier. Section 1 and parts of Section 2 of this bill would replace this approach with a new basic service that would be received by all such customers, ending "electricity shopping" for such customers. Electricity shopping would continue for large commercial and industrial customers, but would end for residential and small business customers. It is also important to note that the bill does not abrogate any existing contracts between residential or small business customers and their suppliers.

Replacing electricity shopping for residential and small business customers with basic service would have the following benefits:

- It would lower prices by requiring all generators who wish to sell power to Connecticut residents and/or small business customers to sell their output to the electric distribution companies for provision of basic service. This creates robust buyer market power that can be used to benefit the public;
- It would stabilize prices by facilitating entry by the electric distribution companies into long-term contracts. With financing issues troubling the utility industry, power developers need long-term contracts with electric distribution companies to build their projects. Conversely, the public needs power developers to build the new and more efficient power plants that the economy and environment demand. The long-term contracts that the public and developers need also require a stable customer base. Residential choice threatens the existence of this stable customer base; and
- It would eliminate customer frustration and regulatory burdens associated with residential choice and small business customer choice. Customers of competitive suppliers receive promises of savings, but these promises often prove faulty after an initial "trial period." After the trial period, if a customer's costs are actually higher than they would be under utility standard service, the customer often ends up still on the hook due to fine print in the contract with the supplier or because of the length of time it takes to "process a cancellation." It was of course never possible for competitive suppliers to provide significant savings because the suppliers are buying from the same wholesale market as the electric distribution companies. Legitimate customer dissatisfaction has in turn led to burdensome regulatory proceedings before the DPUC.

In short, basic service for all residential and small business customers will lead to fair pricing, lower pricing and stable pricing, and would create more opportunities for long-term contracting for the benefit of the public.

Service for Large Commercial and Industrial Customers

The bill creates a suite of options that the electric distribution companies, with DPUC approval, can use to reduce and stabilize prices for such customers including:

- Allowing the electric distribution companies to enter into attractive, fixed price contracts (including long-term contracts) with power plant owners and pass the savings onto large customers;
- Letting some large customers be included with the procurement of basic service (described above) if doing so would reduce or stabilize costs by creating a larger and more stable load; or
- Other, creative methods that are as yet unspecified.

This bill could save thousands of jobs at manufacturing and commercial centers by lowering electricity prices and making them more predictable. The existing utility product available to such customers, supplier of last resort service, is a product that has volatile pricing because the electric distribution companies are forced to procure the power using only short-term contracts. This means that the price of supplier of last resort service ends up essentially tracking the volatility in the oil and natural gas markets, which creates unacceptable risks for customers.

This bill presents plenty of upside and no downside for large commercial and industrial customers. The existing options, including supplier of last resort service or service from a competitive supplier, would continue to exist. The proposal would create an *additional* utility service option or options for customers that would be attractively-priced. This would in turn cause the competitive suppliers to have to lower their prices to beat the utility's price. Large customers deserve the opportunity to choose an attractively-priced power supply option from their utility, and this bill provides that opportunity.