TESTIMONY OF
CONNECTICUT NATURAL GAS CORPORATION AND
THE SOUTHERN CONNECTICUT GAS COMPANY

SB- 504 -- AN ACT CONCERNING NATURAL GAS CONSUMER CHOICE

Good morning. My name is John P. Rudiak, Director of Energy Services for the Connecticut Natural Gas Corporation (CNG) and The Southern Connecticut Gas Company (SCG). We appreciate the opportunity to submit testimony to you today on Raised Senate Bill No. 504 -- An Act Concerning Natural Gas Consumer Choice. We cannot support the proposal before us today, as we strongly feel its adoption would be detrimental to our customers by increasing their energy costs and reducing gas supply reliably.

I will start by providing an overview of our involvement in the wholesale gas supply markets. CNG and SCG acquire and manage gas supplies and interstate capacity in the US and Canada for our customers as a regulatory responsibility. CNG and SCG pass on to customers actual gas commodity, storage, and transportation costs with no markup with the sole objective of keeping rates as low as possible while providing fully reliable service. The process and price is regulated by the Department of Public Utility Control (DPUC). The price of the storage and transportation cost we pass on is regulated and fixed by the Federal Energy Regulatory Commission (FERC). All residential customers buy at this *regulated price* as do many commercial and industrial customers (larger, more stable volume users) despite having a choice for ten years.

Marketers, hedge funds, some mega-banks, and other unregulated entities sell at *market prices*. They seek to "buy low and sell high" to generate trading margins. Generally they have a short-term, arbitrage focus. Because they have little to no historical involvement in the market, they do not have contracts for regulated storage and transportation capacity. They would like to secure such contracts but these contracts are not available without building more capacity into the system and that takes a long time and requires a long-term commitment. The existing capacity is not available because it is used by Local Distribution Company's (LDC) to serve their customers at *regulated prices*.

The storage and pipeline companies that sell interstate service to companies such as CNG and SCG cannot sell it at higher than cost price (the FERC regulated price). A long-standing, unwavering FERC policy limits their sale price at cost because they could easily raise the price absent regulation.

However, there is a potential loophole for marketers and they could seek to leverage it here with Section 3 of this bill by requiring full capacity release from the LDC's at the low *regulated price* in order to sell the capacity together with gas supply at higher *market* *prices.* That transfers the benefit of such low cost capacity to the marketer and away from the customer where such value currently resides, thus increasing customer costs.

The scenario described above, reselling regulated capacity for higher market prices is a very real scenario given that surrounding states are also very tight in terms of gas capacity. Marketers may find it more profitable to use Connecticut's released capacity to serve neighboring markets such as New York or Boston. We are very concerned that this proposed legislation will negatively impact our ability to provide reliable, uninterrupted service that our customers expect and depend on and ultimately increase costs to our customers.

That is why we are opposed to this bill.

CNG/SCG do remain supportive of reasonable and structured changes to customer choice programs in our State regulatory system that can benefit our customers. This bill does not provide such benefit.

As further background, Connecticut, unlike other parts of the United States, has the challenge of being at the end of the interstate pipeline system. We have no access to local supply or local storage. CNG and SCG have put in place low cost, reliable portfolios that access supplies from a number of large producing areas. We have secured long-term contracts for access to underground storage facilities and the associated primary firm transportation, and have highly reliable on-system assets available. Providing safe, dependable service to our customers is the main concern and statutory responsibility of CNG and SCG.

Section 2 of the bill proposes that all retail customers may purchase gas supply services from any natural gas seller. Since 1996, all non-residential customers have had that choice in Connecticut. Before Connecticut extends choice to residential customers, it needs to look at similar programs in other states and judge their success rate. The expected benefits have not materialized even in states that do not have the capacity constraints of Connecticut, forcing some states to re-think their decisions to allow residential choice.

Are residential customers really interested in choice? Are marketers really interested in serving them? Can marketers provide a lower priced product? Based upon experience in Massachusetts and elsewhere the answer to all three is no.

CNG and SCG believe that before the legislature deregulates residential gas service for Connecticut customers, it carefully study all of the impacts on all interested stakeholders in the process and fully explores the issues, particularly the regulated versus market price issue and reliability issues. We need look no further than Massachusetts, which embarked on residential unbundling in 1996. Ten years later, the U.S. Department of Energy reports that only 1/10th of one percent of residential customers in Massachusetts use a marketer and marketers have little interest in serving them. The table below is from the DOE report for Massachusetts:

Eligibility and Participation in Retail Choice Programs:

Estimated Eligibility and Participation by Customer Class, December 2006						
Customer Type	2005 Customer Total	Eligible 2006		Participating 2006		
		Total	Percent of 2006 Customer Total	Total	Percent of Eligible	Percent of 2005 Customer Total
Residential	1,297,508	1,545,835	100	1,969	0.1	0.2
Commercial/Industrial	132,186	134,411	100	13,553	10.1	10.3
Total	**1,429,694**	**1,680,246**	**100**	**15,522**	**0.9**	**1.1**

Sources: **2005 Customer Total:** Energy Information Administration, *Natural Gas Annual 2005* (November 2006). **2006 Customer Total, Eligibility, and Participation:** Massachusetts Department of Telecommunications and Energy (February 2007).

The attractive feature of the proposed raised bill to marketers (which is detrimental to customers) is contained in Section 3 of the bill and it would provide that natural gas sellers would have unlimited access to the firm transportation rights that are held by gas companies. As explained earlier, doing so would remove the value and control of this vital asset which is regulated, held for Connecticut consumers, and paid by them, and place it in the hands of third parties charging market based rates. If SB 504 were adopted, the natural gas sellers themselves, other unregulated entities and even hedge funds would play a role in whether or not capacity formerly dedicated to Connecticut gas consumers would be available or not in Connecticut and, if so, at what market price. This change would be a radical policy departure and create a severely unfavorable situation for our gas customers.

Sections 3F, 3G and 5 fail to recognize that there was a proceeding that already addressed other topics in SB 504, through a DPUC decision reached following a careful and thorough review of all facts and testimony.

In conclusion, CNG and SCG have a long history of serving Connecticut gas customers in a reliable and low cost manner and are dedicated to doing the same for the future. SB 504 must be rejected as its passage would jeopardize reliability and increase customer costs by transferring the value of low cost storage and transportation rights away from customers to unregulated suppliers.

I would like to express our appreciation and support for your work on this complex policy issue and advise you that we are available to work with you on this matter.

Thank you for your consideration.