

**COMMENTS OF DIRECT ENERGY SERVICES, LLC ON SENATE BILL 22,
AN ACT CONCERNING A PROCUREMENT AUCTION FOR ELECTRIC GENERATION
SERVICES**

ENERGY AND TECHNOLOGY COMMITTEE

February 26, 2008

Direct Energy Services, LLC ("Direct Energy"), a licensed competitive supplier of electricity and natural gas in Connecticut, is pleased to provide these comments on SB 22, An Act Concerning a Procurement Auction for Electric Generation Services.

Direct Energy supports the concept of on-line auctions set forth in SB 22 based on our own experience with these auctions and with other mechanisms for procuring supply. Our most recent experience with on-line auctions came here in Connecticut. On two separate occasions last year, the Office of Policy and Management conducted on-line reverse auctions, implemented by World Energy, to procure electricity supplies for various state buildings and facilities. The first and larger of these, conducted on September 19, resulted in savings of approximately \$18 million versus the benchmark pricing over the terms of the seven contracts awarded. Most of the purchases also exceeded the State's renewable portfolio standard requirement in terms of the percentage of power supplied from renewable sources. The other auction, which included procurement of supply to serve the Capitol and Legislative Office Building, was also very successful. Direct Energy is pleased and honored to have been the winner of each of the contracts awarded through this auction process.

Direct Energy supports the concepts set forth in SB 22 for reasons other than that we were the successful bidder in the OPM's auctions, however. Where the right conditions and circumstances exist, we believe auctions can be a useful tool for price discovery. At the very least, the commodity being sought should be highly liquid over the term of any proposed agreement, making it amenable to the competitive pressure that auctions can bring to bear on multiple competitors who are relatively unconstrained by credit considerations. We believe the retail auction conducted last fall met this and other important criteria, but we recognize that that would not always be the case. For example, we believe the record in Connecticut and elsewhere shows that the market for all requirements contracts grows ever more illiquid as one goes beyond a term of one or two years. We have also observed that the market for some energy products or

services other than all requirements contracts would not have sufficient liquidity to conduct an efficient auction.

For this reason, we would recommend that any use, on a trial basis or otherwise, of reverse auctions be subject to parameters that would help ensure an efficient result. Direct Energy believes that this goal would be best served by focusing on a shorter term, preferably less than one year, for any agreements procured through this method, and that the commodity sought be limited to all requirements, load-following electric service.

We also note that the auction conducted by OPM was an auction for retail rather than wholesale service. We would recommend that the Committee and the Governor consider giving standard service retail customers an opportunity to join a pool of customers for whom retail service would be procured by means of an on-line auction similar to the one conducted by OPM last fall, rather than using the on-line auction as another means of wholesale procurement. We believe that this approach would be a good way to further test the usefulness of such auctions by adopting the goal of providing a group of willing customers with immediate savings versus the standard service rate. As with most auctions or requests for proposals in the energy industry, the state would be under no compulsion to award a contract to any participant in such an auction unless the winning bid were determined to be in the public interest by virtue of its price versus the standard service price or based on some other characteristic, such as impact on the environment or ability to reduce the participating customers' peak electricity consumption.

Direct Energy would be pleased to work with members of the Committee and the Governor to further investigate the optimal way to include on-line reverse auctions in the means at the Department's disposal for procuring supply for standard service customers. Thank you for the opportunity to provide these comments.

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