The Energy And Technology Committee

February 26, 2009

R.B. 984: An Act Concerning

Telecommunications Companies' Audits And Filings

Testimony of

The Office of Consumer Counsel

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The Office of Consumer Counsel (OCC) has carefully reviewed and **Does Not Support** section two of R.B. 984 An Act Concerning Telecommunications Companies' Audits And Filings, a bill that would, among other things, exempt any public utility held by a holding company from filing an annual comprehensive audit and report made of its accounts and operations by independent public accountants satisfactory to the Department of Public Utility Control. The title of this bill is a misnomer since both of its sections pertain to all public utilities, not merely telecommunications companies. The OCC has no opinion on the filing section of this bill.

In this period of repeated investigations of poor consumer quality of service at the DPUC and in the media, and when the economic condition of the country and the state's corporations are on the front page everyday, this is hardly the time to reduce audit reports to the state's public utility regulator. By exempting all public service companies with a holding company structure, nearly all, and certainly all the largest such companies, will be released from necessary scrutiny by the DPUC and the OCC. This is completely unacceptable.

The inquiry and examination ordered by the existing statute, while perhaps not welcomed by the telecommunications company that has apparently proposed this bill, is all the more vital to the regulatory process that protects the state's consumers of public utility services today. While perhaps the argument will be made that reduced regulation in some aspects of utility services should invariably lead to reduced reporting requirements, surely the basic accounting audit must be the

very last report that should be eliminated.

The idea that the largest public utilities operating in Connecticut, and the express language exempting operating utilities owned by holding companies implies the largest companies will enjoy the proposed freedom from audits, will be allowed to bypass reporting to the DPUC, defeats the necessary transparency at the heart of utility regulation.

The DPUC and the OCC are a part of an entire system of gatekeepers -- auditors, corporate boards, analysts, ratings agencies, investment bankers, lawyers and accounting standard-setters -- who operate and regulate the regulated markets, be they the financial markets so much in the news of late, or the public utilities in question in this bill. In this case, the confidence of public utility ratepayers depends on fully informed gatekeepers such as the DPUC and the OCC. The basic financial audit lies at the heart of rate regulation and the proper maintenance of regulatory pressure on public utility conduct. That instrument must not be lost to the regulatory process.

There has been a recent example involving the largest of regulated telecommunications companies operating in this state that has caused a major DPUC investigation into the management audit conducted of that company. That experience, recently resolved by the DPUC after a rancorous docket of discovery and hearings, should serve as an example of why continued, if not indeed strengthened, oversight by audits is necessary for such public utilities.

The OCC will be happy to work with the Committee to craft statutory language to make vital instruments of regulation such as audits stronger and better suited to match the challenges presented by the attempts by certain public service companies operating in this state to avoid presenting regulators with transparent audits and other financial statements.