AARP® Real Possibilities

Testimony of AARP in opposition to section 19 OF SB843
Presented by Barbara R. Alexander, Consumer Affairs Consultant
Finance Revenue and Bonding Committee
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My name is Barbara R. Alexander. I am a consultant to AARP and have appeared for AARP and other state and national consumer advocates on restructuring policies that impact residential customers in many States. AARP is a membership organization that helps people 50+ live their best life. AARP is a nonprofit, nonpartisan social mission organization with nearly 600,000 Connecticut members. AARP's mission includes support for affordable utilities. I appreciate the opportunity to testify today.

Stable and affordable electric rates and service are essential for older and low-income people's health and wellbeing. People living on low or fixed incomes are particularly vulnerable to high utility costs and are often forced to reduce expenditures on other basic needs, including food and medicine, or to reduce their levels of heating and cooling beyond safe levels if they cannot afford their utility bills. Older people are less able to maintain their internal body temperature and disproportionately suffer from certain medical conditions that make them especially sensitive to temperature extremes, such as diabetes, lung disease, and heart disease. High or unpredictable utility costs also threaten the ability of older people to continue to live independently, forcing some into nursing homes prematurely or even into homelessness.

AARP opposes the proposal to allow the state to auction Standard Offer customers to the highest bidder. Section 19 of SB 843 should be eliminated from the bill. There is no means by which this radical proposal can be fixed or altered to assure benefits to residential customers. This proposal is a thinly veiled effort to stimulate retail competition, but the bill will have the diametrically opposite impact and harm residential customers. The State of Connecticut should not seek to raise revenues by selling off residential customers to alternative energy suppliers against their will.

- The auction takes away choice from customers, by forcibly switching them to a service they did not select.
- The auction will disadvantage consumers in the electric market because they will no longer have the Standard Offer benchmark to use when comparing competing offers.
- Customers are likely to pay higher prices compared to the Standard Offer under this plan and many key details are not addressed or ignored.
- This initiative would constitute a radical move that no other state has adopted for retail electric competition. Contrary to the Comprehensive Energy Strategy (CES), —NO other state has adopted a similar auction for residential electric customers.

The Auction Limits Choice

The proposed auction represents the antithesis of choice. Customers would be given to alternative electric suppliers without any indication of affirmative agreement to this proposal. Customers would have no choice.

Connecticut's residential customers know how to choose and many have chosen. In the Connecticut Light & Power service territory, over 40% of the residential customers have chosen a third party supplier. But, that means that over 50% rely on CL&P's standard service.

Customers who have not selected a third party supplier have also made a choice to remain with the Standard Offer. The bill would eliminate that choice. Customers can choose not to choose. Customers can experiment with a competitive provider and then move back to the Standard Offer. These are choices that customers should have and the Legislature should not eliminate these choices. Consumers who remain on default service <u>may</u> be shoppers who did not find an offer attractive enough to entice them away from default service. Or they <u>may</u> be consumers who are too timid to dip their toes into the competitive waters. Or they <u>may</u> be consumers who are more concerned about the volatility and lack of stability in the pricing options available and make an affirmative decision to stay with default service.

The type of auction proposed in the Governor's budget has been considered, and rejected, by other states. A comment by Robert Powelson, Chairman of the Pennsylvania Public Utility Commission sums up the reason why: "[T]o the extent customers do not make an affirmative choice for themselves, the government should not make that choice for them." (Statement in Docket No. I-2011-2237952, Public Meeting September 12, 2012)

<u>This Proposal Harms Consumers</u>

AARP supports the obligation of the electric distribution utilities to provide a Standard Offer to its residential and small commercial customers who are not served by a third party supplier. AARP has been a leading proponent of ensuring consumers have access to stable and reasonably priced Standard Offer service. AARP worked for passage of the statutory reforms adopted in Public Act 11-80, requiring procurement of Standard Offer through a plan that specifically relies on competitive wholesale market contracts "that will enable each electric distribution company to manage a portfolio of contracts to reduce the average cost of standard service while maintaining standard service cost volatility within reasonable levels."[1] As a result, Connecticut law requires that Standard Offer will be procured pursuant to a plan that is designed to assure a reasonable level of price stability and that it is managed for the benefit of those customers who choose to receive this service. This proposed legislation would completely eviscerate those policies and protections for customers and turn Standard Offer Service into a program to benefit retail marketers.

AARP supports stable and reasonably priced Standard Offer only because it is the right policy but because that is what a vast majority of older Connecticut residents want as well. Most Connecticut residents age 50+ think it is important to have a standard offer plan that is priced at the lowest reasonable price. Two-thirds of respondents say it is extremely or very important for customers to have a standard Offer to use as a price point when comparing plans from alternative suppliers.

[1] Sec. 92, Public Act No. 11-80, effective July 1, 2011.

Additionally, 82 percent support the requirement that Connecticut distribution utilities continue to provide this standard Offer to customers. A copy of the survey is attached.

It is incorrect to say that Standard Offer is not market-based. Under Standard Offer the distribution utilities pass through the costs of competitively acquired wholesale market contracts. Retail suppliers also procure their power in the competitive wholesale market. Suppliers can offer variable rate contracts, fixed rate contracts, renewable energy, and bundle efficiency and other services with their electric contracts. The auctioning of customers, particularly if an early termination fee is charged, should be expected to limit their interest in considering alternative offers.

Consumer Likely to Pay Higher Prices; Key Details are Unknown

While the language in this proposed legislation appears to provide a benefit to customers auctioned off to third party suppliers, the required 5% reduction in generation supply price is only in effect on the day of the auction and the supplier would be free to raise prices, put the customer on a variable rate that changes every month, or change any of its contract terms on a negative option basis. In other words, once the winning supplier gets the customer, the supplier can keep the customer unless the customer understands the terms and conditions, reads the fine print carefully, and affirmatively leaves the supplier. Under this bill, the only practical option would be for the customer to choose another retail supplier. Standard Offer as currently in Connecticut law would be eliminated.

There are reasonable grounds to conclude the customers will end up paying higher prices compared to a managed portfolio for Standard Offer. Although proponents may suggest that by forcing customers to be served by retail suppliers customers will save and see benefits, that suggestion run contrary to the current reality of the marketplace in Connecticut or in other states.

Even a casual look at the supplier offers to residential customers of Connecticut Light and Power as shown on the Department's website confirms this concern. Of the 57 supplier offers listed, only 11 show that a customer using 750 kWh would see any savings at all on a fixed price contract comparable to the standard service plan. Other offers that appear to give consumers savings are "promotional" in nature and only provide a lower price for 1-2 months, then rates would vary. The vast majority of these offers are higher than the current Standard Plan price.

This finding is not unique to Connecticut:

- The Citizens Utility Board in Illinois has tracked actual natural gas supplier offers to residential customers over the term of the specific plans and compared those results to default natural gas supply service provided by Illinois natural gas utilities. Based on an analysis of how natural gas supplier plans have actually impacted customer bills since 2003, 94% of the supplier plans have resulted in higher prices for residential customers compared to default service. The average customer loss is $1,202.00.[2] This trend has been evident for many years and for almost all suppliers.
- In New York, the Public Utility Law Center obtained data from Niagara Mohawk (a National Grid affiliate in upstate New York) that documented that between August 2010 and

[2] See CUB's Gas Market Monitor, available at: http://www.citizensutilityboard.org/GasMarketMonitor.php

July 2012, 84 % of the electric bills and 92 % of the gas bills of those who switched to alternative suppliers were higher than the bills of those who decided to keep getting their supply from National Grid. And those statistics translated into huge disparities in consumer bills. For instance, the data showed that over that 24-month period, those with higher bills paid nearly $500 more for electricity and $260 for natural gas.[3]

- A similar study of PPL Electric in Pennsylvania low income customers served by electric suppliers in Pennsylvania resulted in the same unfortunate finding—over 70% were paying more than the PPL Electric default service price at the time of the evaluation.[4]

- In Ohio, data submitted by the Ohio Partners for Affordable Energy (OPAE) in two recent natural gas dockets clearly demonstrates that the bulk of competitive natural gas supplier offers are higher in price than standard service and standard choice offers. See: *In the Matter of the Joint Motion to Modify the June 18, 2008 Opinion and Order in Case No. 07-1224-GA-EXM,* Case No. 12-1842-GA-EXM, OPAE Exhibit 1, Direct Testimony of Stacia Harper (October 4, 2012) at 14 and Exhibit SH-3; *In the Matter of the Joint Motion to Modify the December 2, 2009 Opinion and Order and the September 7, 2011 Second Opinion and Order in Case No. 08-1344-GA-EXM,* Case No. 12-2637-GA-EXM, OPAE Exhibit 2A at SH-3, Direct Testimony of Stacia Harper (November 30, 2012). Data provided by Columbia Gas of Ohio makes clear that customers purchasing commodity natural gas from unregulated suppliers have paid over $861 million since the advent of CHOICE.[5] In the most recent six months for which data is available, customers served by marketers have paid $37 million more, and that figure does not include any winter heating months.[6]

The proposal itself is silent on key details that could increase costs to consumers. These missing details around consumer protections and implementation include:

- Would or could customers be charged a fee if they choose to leave the supplier who "won" them in the auction, and if so, how much? The budget language is silent on this essential question. While supporters claim that a customer can choose to return to the Standard Plan or another service after the switch, there is no assurance that this so-called right won't come at a high cost. It is reasonable to expect that a supplier who bids to service a group of 100,000 customers would expect to charge a fee to any customers who switch away during the first year. In fact, it is typical for many retail supplier offers to include an early termination fee if the customer cancels prior to the end of the contract term.

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[3] Direct Testimony of William Yates on behalf of the Public Utility Law Project of New York, Inc., before the New York Public Service Commission, Proceeding for Niagara Mohawk Power Co. for natural gas and electric rates, Case No. 12-G-0202 and Case No. 12-E-0201 (August 31, 2012).

[4] Direct Testimony of Stephen Krone, on behalf of Coalition for Affordable Utility Services and Energy Efficiency in Pennsylvania, before the Pennsylvania Public Utility Commission, Petition of PPL Electric Utilities Corporation for Approval of a Default Service Program and Procurement Plan for the period of June 1, 2013 through May 31, 2015, Docket No. P-2012-2302074 (July 20, 2012). According to the information provided by PPL in discovery, more than 73% of its low income customers enrolled in PPL's low income benefit program who were currently being served by an Electric Supplier were being charged a higher price than PPL's price to compare.

[5] Public Utility Commission of Ohio, Case No. 12-2637-GA-EXM, OPAE Ex. 2A at Exhibit SH-7.

[6] Id.

- What will happen to customer prices after the small discount that must be given at the time of the auction? Under this bill, suppliers will have complete discretion to change prices, establish monthly variable prices, and change other contract terms without the customer's affirmative consent.
- How will the Standard Offer service be structured going forward? The language in the budget proposal suggests that the state will continuously auction off blocks of customers who happen to be on the Standard Offer for whatever reason. The result of such a strategy is that the Standard Offer that reflects an obligation to provide an essential service with some attempt at price stability will be eliminated.
- Finally, the projected additional revenues contained in this bill of $80 million are highly questionable as well as bad public policy. There is no minimum bid established in the proposed auction process in this bill. Therefore, the actual revenue to the state could be far less than $80 million.

No Other State has adopted a the same type of auction for essential electric service

This proposal appears to be based at least in part on the Comprehensive Energy Strategy. However, the CES statements about this type of approach are just plain wrong; the proposed auction is nothing like any program or policy affecting residential customers in Chicago, Pennsylvania or Ohio.

Chicago: Under the municipal aggregation law adopted by the State of Illinois, Chicago recently became one of hundreds of Illinois cities to choose aggregation for the provision of electric service. Municipal aggregation is very different from this type of auction. First, a referendum must be held in which voters approve the move to aggregation, as Chicago voters did on November 6. Connecticut voters will not get the same opportunity. Second, even after the aggregation is approved, individual customers are allowed to opt-out of the aggregation before their service is changed, not after, as is the proposal in Connecticut. After customers choose whether to participate, the city negotiates a bulk purchase of electricity, seeking savings for its residents. Customers are not charged a fee if they decide to leave the aggregated group.

Pennsylvania: Pennsylvania does not auction customers to retail marketers for electric service without their affirmative consent. The Pennsylvania Public Utility Commission recently approved a pilot program called a retail opt-in auction for distribution utilities that will be implemented later in 2013 and 2014. Under this plan, residential customers will be offered the option to voluntarily sign up for this aggregation program. The utility will then conduct a competitive process to select one or more suppliers to serve that group of customers. Under these plans, the customer gets the bonus from the supplier for signing up.

Ohio: It is correct that the Ohio PUC has approved proposals by several natural gas utilities to conduct an auction to allow retail natural gas suppliers to replace the Standard Service Offer previously provided by the utilities. However, the natural gas standard offer provided by Ohio utilities consisted of a pass through of a wholesale market natural gas price with an adder to reflect other incremental costs incurred to transport the natural gas supply. The resulting policy adopted by the Ohio PUC is that the distribution utility will conduct an auction to use the same pricing methodology in seeking retail supplier bids to provide this service for a one-year period. The auction establishes a fixed "adder" to the published wholesale market price index by the winning retail suppliers. This program has only just been implemented and several public organizations, including the Ohio Office of Consumer Counsel and other consumer advocates in Ohio have filed appeals of the Commission's orders that are pending in court. This program has not been implemented for electric service; managed portfolios of wholesale market contracts are relied upon for standard offer service in Ohio. Furthermore, the "regulated" nature of the pricing mechanism required for the natural gas service in these decisions by the Ohio PUC are a far cry from the completely "hands off" approach reflected in this budget proposal.

In none of these examples has the City of Chicago, the Commonwealth of Pennsylvania, or the State of Ohio attempted to raise revenues for the state budget by selling electricity customers to the highest bidder.

Conclusion

The retail auction provision of the Governor's proposed budget should be rejected. There is no basis upon which this radical proposal can be fixed or altered to assure benefits to residential customers. This proposal is a thinly veiled effort to stimulate retail competition, but the bill will have the diametrically opposite impact and harm residential customers. The State of Connecticut should not seek to raise revenues by selling off residential customers to alternative energy suppliers against their will.