

**STATEMENT OF
CHRISTOPHER H. KALLAHER ON BEHALF OF
DIRECT ENERGY SERVICES, LLC**

**Regarding Proposed Senate Bill No. 573
An Act Concerning Variable Electric Rates**

Proposed Senate Bill No. 573 (“SB 573” or the “Bill”) would ban variable rates charged to residential electric ratepayers for electric generation service. Direct Energy Services, LLC (“Direct Energy”) opposes the Bill because it will negatively impact the competitive retail electric supply market and ratepayers.

In 1998, the General Assembly concluded that competition for retail electric generation service was in the public interest and required The Connecticut Light and Power Company and The United Illuminating Company (collectively, the “EDCs”) to divest their generation assets with the expectation that competitive suppliers would serve most, if not all, customer generation needs in those service areas. While it took some time to gain momentum, the retail electric market in Connecticut is now flourishing. As of January 31, 2015, more than 500,000 customers were receiving generation supply service from retail electric suppliers. Through the competitive market, these customers are able to avail themselves of a variety of product offerings that allow them to reduce their costs, obtain budget certainty and/or purchase renewable power and that would not otherwise be available.

One of these many options allows customers to purchase power through variable priced plans. These plans allow suppliers to quickly adjust prices to more closely align with underlying market conditions. Thus, when prices are decreasing, suppliers can quickly reduce prices and vice versa. Indeed, the Public Utilities Regulatory Authority (“PURA”) recently found in its November 5, 2014 Decision in Docket 13-07-18 that “[v]ariable plans allowed suppliers to regularly adjust rates (e.g., during a billing cycle) and have operated *for several years*, allowing customers to *lower their cost* when compared to Standard Service.” Thus, there is nothing inherently bad about variable price plans. In fact, variable price agreements generally provide customers with more accurate price signals as customer prices under such agreements are typically based on underlying market conditions. When customers receive more accurate price signals, they are better able to assess and understand their energy consumption vis-à-vis the cost of such consumption. Based on this information, customers can then better determine the value of energy efficiency or other load management opportunities.

Unfortunately, due to substantial increases in underlying wholesale costs, customers on variable price plans experienced significant price increases during late 2013 and early 2014. Many consumers expressed concern to the General Assembly and PURA that they were unaware of these price increases before they occurred. In order to protect consumers against such unexpected price increases in the future and to ensure that consumers are better informed about their electric supply options, the General Assembly through Public Acts 14-75 and 14-94 and the PURA through various decisions adopted a myriad of new consumer protection measures, including:

- Requiring suppliers to maintain an electric generation service price for residential customers that may not be exceeded for at least the first 3 billing cycles of any contract;
- Requiring suppliers to provide residential customers 45 days' notice before charging a month-to-month variable price following the expiration of a contract;
- Requiring suppliers to provide residential customers with 15 days' notice before charging a price that has increased by 25% or more;
- Eliminating early cancellation fees in residential variable price contracts;
- Requiring suppliers to provide consumers with information about historical variable prices;
- Requiring suppliers to provide quarterly notices to residential customers about their electricity supply prices;
- Requiring the EDCs to include information about electricity supply prices on their bills, including information about the price customers will be charged the following month;
- Requiring the EDCs to allow consumers to return to Standard Service within 72 hours;
- Requiring suppliers to provide residential customers with a contract summary form that identifies the key elements of the contract, including whether a price is fixed or variable;
- Developing supplier standards regarding abusive switching practices, solicitations and renewals by electric suppliers, the hiring and training of sales representatives, door-to-door sales and telemarketing practices; and
- Requiring PURA to redesign its rate board website (www.EnergizeCT.com) to "better enable customers to compare pricing policies and charges among electric suppliers."

These measures address the concerns raised by ratepayers during last year's unexpected price spike by providing consumers with additional information about their electric supply prices and affording them greater opportunities to understand and react to price signals. Thus, there is no need to ban variable prices.

The hallmark of a competitive market is choice, including the choice of pricing and product offerings. By removing the variable price choice, customers will be forced to take service under a fixed price. If customers enter into fixed price agreements, they could be stuck paying higher prices for a significant period of time with no ability to avail themselves of better pricing options without facing early termination fees or breach of

contract claims; thereby, creating a new source of complaints and frustration. Furthermore, since fixed prices do not provide the most accurate price signals, a ban on variable price products will also frustrate the State's energy efficiency goals.

Rather than banning variable price products to an entire class of customers, the General Assembly should allow the numerous consumer protections adopted and implemented during 2014 to do what they were intended to do; namely, provide consumers, especially residential consumers, with sufficient and timely information to make informed decisions about their electric supply options and to take appropriate action in response to that information. Thus, Direct Energy opposes SB 573 and urges the Committee to reject it.