The Energy and Technology Committee

Public Hearing, February 24, 2015

Testimony of

Consumer Counsel Elin Swanson Katz

Presented by Consumer Counsel Elin Swanson Katz

Proposed S.B. 573, *An Act Concerning Variable Electric Rates*

Consumer Counsel Elin Swanson Katz and the Office of Consumer Counsel (collectively "OCC") support S.B. 573, which calls for a ban on variable electric rates for residential electric customers.

Over the years, variable rate plans offered by third-party electric suppliers have proven very costly for residential and small business consumers. Certain electric suppliers have offered plans that involve (i) a very brief fixed rate which is lower than the standard service offer of the electric distribution companies, followed by (ii) variable rates which are much higher than the standard service rate. Such suppliers often allege that the variable rates are based on "market conditions," but we have seen customers pay much more than the standard service rate even in mild weather months, such as May and October, when the wholesale market price is low. For example, research by OCC revealed that CL&P customers paid in the aggregate over $10 million more for electricity in September 2013 than they would have if they had remained on standard service. UI customers paid $2.96 million more for electricity during one billing cycle from December 2013 – January 2014. See March 12, 2014 Fact Sheet (attached).

The problems with variable rates were even worse during the "polar vortex" of 2014. Customers with fixed generation plans from electric suppliers that ended in the fall, charging in the neighborhood of seven to nine cents per kilowatt-hour ("kWh"), were followed by variable rates of twenty-five cents per kWh, with many suppliers charging in the neighborhood of twenty cents per kWh. Customers did not know of their generation rate increase until they received their bill, at which time it was too late to avoid the rate.

High prices for variable rates have continued. For example, in October 2014, when the "market conditions" involved low prices because of mild weather, pricing data submitted by the suppliers to the Rate Board reveals that consumers were paying as much as 24 cents/kWh, at a time when standard service was being offered for less than ten cents/kWh.

It is thus evident that low market conditions do not necessarily translate to low variable rate prices. Even the most savvy customers have difficulty saving money with variable rate products, and a much higher likelihood of paying more – sometimes multiples more – than if they choose the standard offer rate. There are really no reliable indices or principles that would guide customers as to how the suppliers develop their variable rates, and a supplier's variable rates may even deviate materially from customer to customer. .

Fortunately, the legislature has already taken some measures that assist with these problems. For example, section 16-245(g) was amended last year to provide that new contracts with a licensed electric supplier have to begin with a fixed price for the first three months of the contract. This avoids the situation where a supplier offers only a month of savings which are then reversed through variable rates, but it does not solve remaining price volatility concerns. The legislature has also passed several notice provisions that inform a customer of when their fixed rate plan will end and a variable rate period may begin. However, one key reform from last year, putting *next month's* electric generation rate on this month's utility bill (Section 16-245d(2)) in order to provide advance notice of rate changes, has not yet been implemented and it appears unlikely that it will be implemented by the statutory deadline of July 1. One of the complicating factors in achieving this key goal has been the continuing existence of variable rates for residential customers.

It is OCC's understanding that if structured appropriately, mandating fixed rate contracts will not harm electric suppliers or electric supply choice. Most suppliers have already moved their business model in the direction of more fixed rate offers, and at this time many of those offers provide savings when compared to standard service. One prominent supplier representative even expressed in a PURA technical meeting that variable rates are inappropriate for residential customers. Fixed rate offerings are giving customers the appropriate tools to make choices, as they can compare a six-month long standard service rate from the utilities (adjustments are made July 1 and January 1) with a six, twelve, or even 24 month offer from a supplier. However, some suppliers continue to charge high variable rates even in non-winter months, and customer fears of being burned by high variable rates based on recent experience have discouraged some from taking advantage of the currently available savings offers. Thus, mandating fixed plans may actually promote retail supply choice, as customers will have affirmatively agreed to a certain price and will know how long the price lasts.

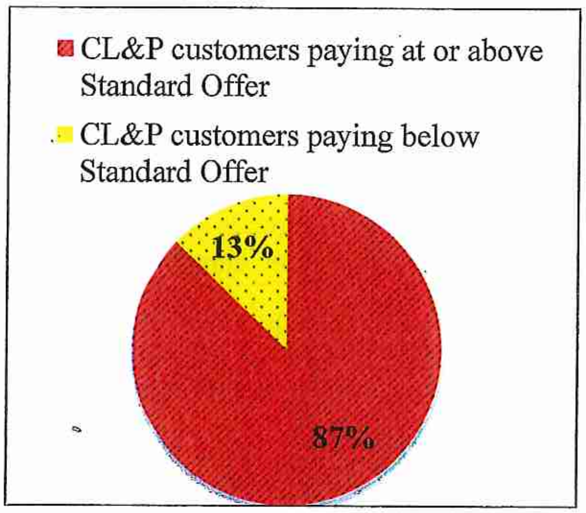
Obviously there are important details to work out in any bill that would eliminate variable rates for residential customers. First, the legislature would need to define the minimum period of an offer in order for it to be considered "fixed," so that one may distinguish fixed offers from variable offers. Second, language would presumably need to be developed to determine the customer's rate after a fixed rate plan has expired, if the customer did not respond to supplier notices to contact the supplier to renew at a new fixed price. A statutorily-defined interim rate might give the supplier and customer additional time to negotiate a new fixed rate without the supplier losing the customer relationship. OCC would be glad to offer any requested assistance as to these details and others that may arise.

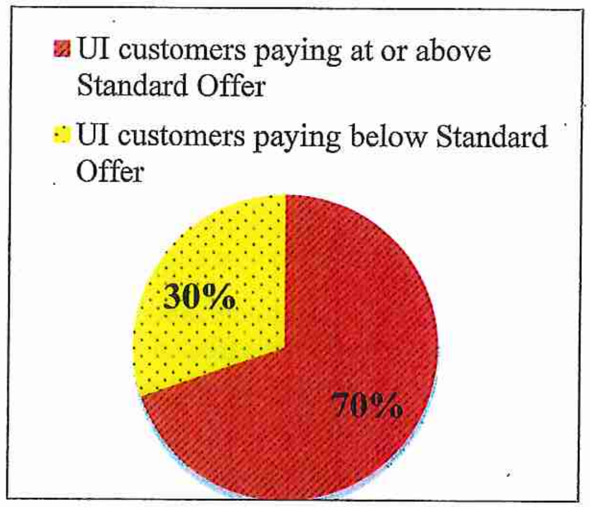
March 12, 2014

FACT SHEET: ELECTRIC SUPPLIER MARKET

The following is a summary of testimony submitted by the Office of Consumer Counsel ("OCC") in the Public Utilities Regulatory Authority's ("PURA") current proceeding regarding the establishment of rules for the electric supplier retail market, Docket No. 13-07-18.

- Retail suppliers serve 42% of CL&P and UI residential customers.
- Based on data from September, 2013, almost **nine out of ten** supplier customers paid more than the Standard Offer in CL&P territory. Based on data from December 2013/January 2014, **seven out of ten** supplier customers paid more than the Standard Offer in UI territory.



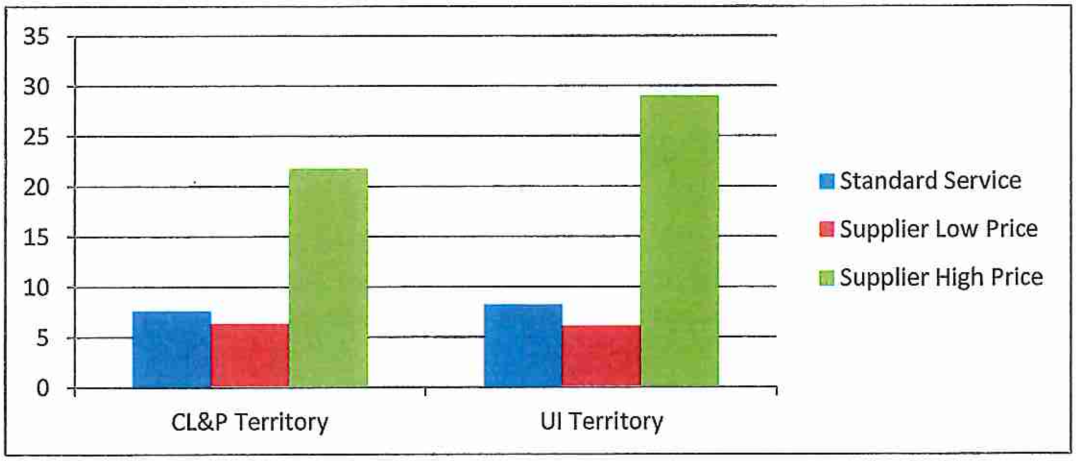


- In the month of September 2013, CL&P customers who chose suppliers paid in aggregate **$10.75 million more** than the Standard Offer for their electric generation *for that one month.*[1]
- For one 30-day billing cycle from December 2013-January 2014, UI customers who

[1,2]These calculations of the consumer harm from overpriced electricity are an underestimate, because they assume all non-electric heat customers. Were the additional usage by heating customers factored into this calculation, the estimated consumer harm would be even greater. Moreover, the CL&P-territory data was from September, before many of the extreme winter price spikes complained of by many consumers.

chose suppliers paid in aggregate **$2.96 million more**, *again just during that month.*[2]

- In CL&P's territory, the lowest price available from a supplier in September 2013 was 6.3 cents/kwh, while the highest price identified was 21.8 cents/kwh. Therefore, a residential customer could pay up to 14.2 cents over the Standard Offer, but potentially save no more than 1.3 cents below the Standard Offer.[3]
- In UI's region, the lowest price available from a supplier during a 30-day billing cycle in December 2013/January 2014 was 6.1 cents/kWh, while the highest price identified was 29 cents/kWh. Therefore, a residential customer could pay up to 20.7 cents over the Standard Offer, but potentially save no more than 2.1 cents below the Standard Offer.



- Consumers have filed record numbers of complaints in 2013 about "slamming," purportedly fixed rates unexpectedly becoming variable, phone harassment, misleading representations by sales representatives, and suppliers failing to provide adequately staffed customer service support lines, thereby thwarting consumers' cancellation efforts.
- Seniors, ESL consumers, and "hardship" customers are among those whose well-being and pocketbooks are affected by high prices and aggressive marketing practices of many suppliers. Certain suppliers serve a disproportionate share of these potentially vulnerable customers.
- As evidenced by the quantity and types of complaints that consumers are making to PURA, and by the high prices that households pay for electricity, the supplier market is creating more harm than benefit, and warrants serious reform.

Please feel free to contact Consumer Counsel Elin Swanson Katz at 860-827-2901 or Elin.Katz@ct.gov if you have any questions about this information. For a link to the complete version of OCC's testimony, please visit our website at http://www.ct.gov/occ.

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[3] Ten customers were dropped from both the high end and low end of the prices customers pay to eliminate any extreme outliers. Again, these CL&P-territory supplier prices are based on September 2013 data and do not reflect any winter price spikes.