

# Legal Assistance Resource Center

## ❖ of Connecticut, Inc. ❖

363 Main Street, Suite 301 ❖ Hartford, Connecticut 06106  
phone (860) 616-4472 ❖ cell (860) 836-6355 ❖ RPodolsky@LARCC.org

### S.B. 573 -- Variable electric rates

### Testimony of Raphael L. Podolsky

Energy and Technology Committee public hearing -- February 24, 2015

**Recommended Committee action: APPROVAL OF THE BILL**

S.B. 573 would abolish variable rate contracts for residential electricity. Such a ban is critical to ensure consumers are able to purchase generation at rates and costs they understand and for which they can budget. We support the bill as the most effective way to eliminate the harm to consumers that is inherent in variable rates and the abusive practices that have become associated with this particular product and its marketing.

Variable rate pricing assumes a level of sophistication that most consumers -- and especially most low-income consumers -- do not have. It represents a type of gambling for a product that is a necessity and throws the entire risk of price changes in the market onto the consumer. Customers are routinely drawn to suppliers by low "teaser" rates that, within a short period of time, can turn into something much more expensive. Last year's huge price spike -- 100% and 200% rate increases -- illustrates some of the dangers involved. That problem was compounded by poor customer service and support, which left many customers unable to reach anyone who could explain what was going on until it was too late. This, however, is only one aspect of the problem. Some customers never signed up for a variable rate at all. Instead they were defaulted into a variable rate if they did not respond quickly enough. For a consumer, this is counter-intuitive. The normal expectation is that contract renewal extends the same contract, not a completely different one. Defaults should always be into the company's lowest fixed-rate plan.

Abolition of variable rate contracts is not inconsistent with the competitive structure of the electricity marketplace. Suppliers would remain free to compete for customers with fixed rate contracts -- a rate structure that better promotes the kind of customer understanding that is necessary for them to make rational decisions.

P.A. 14-75 was a good first step in trying to promote disclosure, but disclosure alone is not adequate when dealing with electricity, a necessity that must be maintained at an affordable level. Marketing practices that reduce affordability, particularly for vulnerable households, should be curtailed. Banning variable electric generation rates will help level the playing field, assisting consumers in making the most affordable choice in generation provider.