The Energy And Technology Committee

March 3, 2011

R.B. 1079: An Act Concerning

Operations of Public Service Companies

Testimony of

The Office of Consumer Counsel

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The Office of Consumer Counsel (OCC) has carefully reviewed and DOES NOT SUPPORT **Raised Bill 1079: AAC Operations of Public Service Companies**. Several aspects of the bill are inconsistent with the interests of ratepayers and may well raise rates.

OCC has particular concerns with three sections of this Bill.

Section 1 of the Bill amends Conn. Gen. Stat. § 16-19tt, such that it would mandate that the DPUC implement full decoupling of utility revenue from utility sales. What this means is that the utility would no longer have any risk of recovering its distribution revenue based on reduced sales; if sales volume decline, the utility would be made whole.

At present, the DPUC has the flexibility under § 16-19tt to promote decoupling of distribution revenues from sales through a variety of means, including rate design changes that increase the amount of revenue recovered through fixed charges. DPUC has exercised this flexibility wisely and well, and is promoting decoupling, to the extent warranted, through rate design changes. There has been only one case where DPUC has chosen to implement decoupling in the manner that this bill would now require. In that case, a January 2009 Rate Case Decision involving United Illuminating, the DPUC established a full decoupling *pilot* that will continue until United Illuminating's next distribution rate case.

The fact that DPUC, our expert administrative agency in utility matters, has chosen only once in several cases to implement decoupling in the manner that this provision would now require is telling. The results of the pilot for United Illuminating should be reviewed and studied by the DPUC before this manner of decoupling becomes mandatory.

More generally, decoupling in Connecticut is a solution in search of a problem. The national justification for decoupling is that it gets utilities "out of the way" of conservation and efficiency efforts by making the utility indifferent to sales volumes. However, our Connecticut electric and gas utilities do not have an incentive to block conservation or efficiency. The electric and gas companies are all now under control of United Illuminating and Northeast Utilities, and United Illuminating and NU/Connecticut Light & Power are compensated very handsomely to promote efficiency through the Energy Efficiency Fund. There might be some states where the utilities need to be compensated for lost sales so that efficiency efforts may go forward. Connecticut is not one of those states. Decoupling and compensation through the Energy Efficiency Fund can in fact lead to something of a double payment.

How to balance utility risk and utility return on equity, and the degree to which DPUC needs to promote decoupling to strike that balance, are complicated questions. DPUC should retain the flexibility to give enlightened answers.

Section 4 of the Bill would allow utilities to terminate service on Fridays if certain circumstances are met. This is a potentially dangerous situation that risks vulnerable populations being without power, gas etc. for several days. Although the bill attempts to reduce the risks by conditioning Friday termination on the existence of Saturday business hours, there is no indication of the number of hours that the business office would need to be open on Saturday. OCC cautions against removing the current ban on Friday residential terminations during these difficult economic times.

Section 6 of the Bill, repeatedly rejected by the Legislature and the DPUC, returns once again this year, seeking an amendment to Conn. Gen. Stat. § 16-19b(b), the purchased gas adjustment (PGA) clause. It would allow gas companies to pass through indirect gas costs, including the commodity portion of uncollectibles, commodity-related working capital and the carrying costs of commodity inventory, through the PGA. This would violate traditional rate principles, in that it would eliminate gas company risk as to items that are not completely outside of gas company control. For example, the number and amount of uncollected bills is *partially* a reflection of local, national and global and economic conditions but can often be also *partially* a reflection of insufficient company collection efforts. Since all gas ratepayers pay for uncollected bills, the gas company should continue to be encouraged through rates to make robust efforts to collect bills, not be "let off the hook" by turning uncollectibles into a mere pass-through.

More generally, passing indirect gas costs through the PGA constitutes single-issue ratemaking, which is well known as a practice to be avoided. It is true that some indirect gas costs may rise between rate cases, and the utility may have a perfectly legitimate claim that such rise is unexpected and not their fault. At the same time, (1) the stock market can rise, reducing pension expenses drastically from what the most recent rate case anticipated, or (2) a revised property tax assessment could be issued that reduces tax obligations or (3) a hundred other expenses may fall (or rise). Once the rate case is over, the utility manages its expenses, with some going up, and some going down, and few requirements that a certain amount of dollars be spent on certain items. If the rates prove inadequate, a new rate case is filed by the utility. There is no reason of which OCC is aware that this one type of expense, indirect gas costs, should be singled out as a pass-through item.

The DPUC has studied this issue and has repeatedly rejected, as both a legal matter and a policy matter, the efforts of the gas companies to pass indirect gas costs through the PGA. These rulings were sound and OCC respectfully suggests that the Legislature should not override them.