**CONNECTICUT GENERAL ASSEMBLY**
**ENERGY & TECHNOLOGY COMMITTEE**

**S.B. 1 – AN ACT CONCERNING CONNECTICUT'S ENERGY FUTURE**

**PUBLIC HEARINGS – MARCH 15, 2011**

**STATEMENT OF JAY L. KOOPER**
**ON BEHALF OF HESS CORPORATION**

Good afternoon. My name is Jay Kooper and I am the Director of Regulatory Affairs for the Hess Corporation ("Hess"). Hess, a Fortune 100 company and global energy company with over $29 billion in worldwide assets, is a licensed retail supplier of electricity to commercial and industrial ("C&I") customers in Connecticut. These customers include hospitals, schools and universities, factories, supermarkets and superstores and a wide range of C&I businesses, all of whom like Hess invest substantial capital and resources in Connecticut. Hess' New England regional office for its electric marketing operations is headquartered in Rocky Hill, Connecticut and is fully staffed by Connecticut residents.

Hess submits this statement today **to oppose S.B. 1** because this bill – particularly Sections 66 and 71 – eviscerates Connecticut's competitive electricity markets for much of the state's C&I sector and with it the value-added products, innovations and savings that customer choice has provided and continues to provide for Connecticut businesses.

According to the DPUC, as of January 31, 2011, 602,349 customers representing 61% of the total statewide electric load, 87% of the entire large commercial and industrial electric load and 77% of the small and medium-sized commercial electric load is served by a competitive electric supplier. For the C&I customer segments, the competitive choice model has been an undisputed success by every objective measure. S.B. 1, however, will replace the competitive choice model that is working well for Connecticut businesses with a regime that will restrict choice and force Connecticut businesses to bear the costs of new, enormous billion-dollar risks.

Specifically, Section 66 replaces the current "full-requirements" Standard Service procurement process in which suppliers bear the risks of any changes in wholesale market costs with a managed portfolio structure that requires Standard Service customers – including business customers up to 500 kW in peak demand, the size of large big-box retail stores – to bear 100 percent of the risks for procurement. Section 71 requires the DEEP to issue an RFP to consider approval of mandatory bilateral purchasing contracts for electricity from new or existing generators for non-market reflective 5 to 15 year contract terms. Make no mistake, the costs of these proposals – the risks of which can total into the billions of dollars – will be borne by Connecticut ratepayers including Connecticut businesses at a time of deep economic recession and unemployment when they can least afford these costs. And on top of this, both mechanisms significantly undermine the structure enabling customer choice in Connecticut for even C&I customers who have overwhelmingly exercised their choice of competitive electric supplier.

Thus, passage of S.B. 1 in its current form will result in lost economic development and investment in Connecticut in the form of capital, jobs and innovation through the eradication of customer choice that will drive businesses out of Connecticut and leave remaining businesses with fewer options and billions of dollars in additional risk. For these reasons Hess urges the Committee to, above all, do no harm to Connecticut's businesses, do not take away their ability to choose, and **reject** S.B. 1.

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Section 66 (Managed Portfolio): Section 66 alters the Standard Service procurement structure from full-requirements auctions by requiring Connecticut's electric utilities to manage a portfolio of electric supply contracts, with the costs and risks associated with the managed portfolio to be borne by Standard Service customers. **Section 66 undermines the current Standard Service structure that has enabled 77% of the small and medium-sized commercial customer load to shop for and switch to a competitive electric supplier, and replaces it with a structure that will cause the following harms:**

1. Exposes Customers To 100% of Costs and Risks: Managed Portfolio exposes customers to the risks of unexpected rate increases. Under the current "full requirements" auction process, competitive suppliers bid a firm price and then shoulder the risks of any stranded costs or sudden changes in wholesale market costs not anticipated at the time of the auction. By contrast, under Managed Portfolio, customers bear 100% of these risks and they can be passed on to customers in the form of rate increases at any time. Indeed, this very scenario happened in 2009 in New Hampshire when PSNH requested a rate increase for standard offer service because lower energy costs had induced more customers to switch to a competitive electric supplier and save money. This left PSNH with "stranded power" in its portfolio, which it sought to recover by increasing rates on standard offer service customers at a time when the market price of power had actually fallen.

2. Harms Retail Choice: When the utility manages a portfolio, it buys fixed amounts of power that can become "stranded" when customers – in this case, Standard Service customers – choose to switch to a competitive electric supplier. Costs associated with this "stranded power" can be recovered in one of two ways:

    a. New Stranded Cost Charges: These charges undermine the ability of customers to lower or manages their energy bills by switching to a competitive electric supplier, which lessens the value of choice and leaves customers with less of a reason to switch; and

    b. Economic Motive To Prevent Exercise of Customer Choice: To avoid seeking new stranded cost charges, utilities will have an economic motive to discourage customer switching in subtle ways. At a minimum, it dampens their enthusiasm for being proactive in making customer choice easier and more efficient for customers.

3. Net Results: Takes from Connecticut small and medium-sized businesses their right to exercise choice of electric supply service, and replaces choice with a model that can expose them to millions, if not billions, of dollars in additional risks from utilities in their new, yet unnatural, role as supply portfolio managers trying to outguess markets.

Section 71 (DEEP RFP For Long-Term Cost-of-Service Generation): Section 71 requires the DEEP to issue an RFP to consider bilateral purchasing contracts for electricity from new or existing generators for a term not less than 5 years or more than 15 years with the purpose of reducing electricity rates by pricing the electricity on a cost-of-service basis. **Section 71 eviscerates customer choice – even for medium-sized and large commercial and industrial customers – by circumventing the wholesale electricity markets and exposing to ratepayers to the risks of the investments in utility-owned or utility-built generation, the costs of which could expose ratepayers to billions of dollars in additional risks they do not incur under the current competitive market structure.**