

Legislative History for Connecticut Act

SB 495 (PA 218) 1998

House 5166-5168 (3)

Senate 1911-1913, 1944-1946 (6)

Energy & Technology 558, 560-567, 569-571,
612, 613-615 (16)

(25)

Transcripts from the Joint Standing Committee Public Hearing(s) and/or Senate
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CONNECTICUT
GEN. ASSEMBLY
HOUSE

PROCEEDINGS
1998

VOL. 41
PART 15
4928-5327

kmr

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House of Representatives

Wednesday, May 6, 1998

CLERK:

On page fourteen, Calendar 530, substitute for SB495. AN ACT CONCERNING TAXES RELATED TO GAS COMPANIES. Favorable report of the Committee on Finance. The Senate has adopted Senate amendment schedule "A."

DEPUTY SPEAKER HARTLEY:

Representative Martinez, you have the floor.

REP. MARTINEZ: (95th)

Thank you Madam Speaker. Madam Speaker I move acceptance of the Joint Committee's favorable report and passage of the bill in concurrence with the Senate.

DEPUTY SPEAKER HARTLEY:

Motion is acceptance and passage in concurrence with the Senate, would you remark sir?

REP. MARTINEZ: (95th)

Yes Madam Speaker, the Clerk has LCO 3954, will he please call and I be allowed to summarize.

DEPUTY SPEAKER HARTLEY:

Clerk is in possession of LCO 3954 previously designated Senate amendment "A" will the Clerk please call.

CLERK:

LCO 3954, Senate "A" offered by Senator Peters.

DEPUTY SPEAKER HARTLEY:

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Representative Martinez has asked leave to summarize, you may proceed without objection sir.

REP. MARTINEZ: (95th)

Thank you Madam Speaker. Madam Speaker, this amendment basically strips the old bill which had originally a section with a half a million dollar fiscal note. That section is gone, there is no fiscal impact on this. What this bill will have affect is clarifying that all out of state sales for natural gas by Connecticut's local distribution companies fall within the exemption from the Connecticut gross receipts tax.

These out of sales tax are made by the LCDs to unload surplus of gas supply and have the effect of lowering the cost of gas for Connecticut rate payers. I move acceptance.

DEPUTY SPEAKER HARTLEY:

Question is adoption of Senate amendment "A" will you remark further? Will you remark further on Senate amendment "A"? If not I will try your minds, all those in favor please indicate by saying aye.

REPRESENTATIVES:

Aye.

DEPUTY SPEAKER HARTLEY:

Those opposed nay. The ayes have it the amendment

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is adopted. Will you remark further on the bill as amended? If not, staff and guests please come to the well, members take your seats, the machine will now be open.

CLERK:

The House of Representatives is voting by roll call members to the Chamber. The House is voting by roll call, members to the Chamber please.

DEPUTY SPEAKER HARTLEY:

Have all members have voted? Please check that your vote is properly recorded. If so the machine will now be locked. Clerk will please take a tally. Clerk please announce the tally.

CLERK:

SB495 as amended by Senate amendment schedule "A."

Total Number Voting 148

Necessary for Passage 75

Those voting Yea 147

Those voting Nay 1

Those absent and not voting 3

In concurrence with the Senate.

DEPUTY SPEAKER HARTLEY:

Bill as amended is passed. Representative

Godfrey.

REP. GODFREY: (110th)

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CONNECTICUT
GEN. ASSEMBLY
SENATE

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Senate

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take a tally.

THE CLERK:

Motion is on adoption of SR28.

Total number voting, 34; necessary for adoption,
18; those voting "yea", 34; those voting "nay", 0.

Those absent and not voting, 2.

THE CHAIR:

The resolution is adopted.

THE CLERK:

Favorable Reports. Calendar Page 5, Calendar 327,
File 511, Substitute for SB495 An Act Concerning Taxes
Relating to Gas Companies. Favorable Report of the
Committee on Energy and Technologies and Finance,
Revenue and Bonding. The Clerk is in possession of one
amendment.

THE CHAIR:

Senator Peters. Senator Peters, please.

SEN. PETERS:

Thank you, Madam President. I move acceptance of
the Joint Committee's Favorable Report and passage of
the bill.

THE CHAIR:

The question is on passage. Will you remark?

SEN. PETERS:

Thank you, Madam President. I would ask the Clerk

pat

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to call LCO3954.

THE CLERK:

LCO3954 which will be designated Senate Amendment
Schedule "A". It is offered by Senator Peters of the
20th District.

THE CHAIR:

Senator Peters.

SEN. PETERS:

Thank you, Madam President. I would move
adoption.

THE CHAIR:

The question is on adoption. Will you remark?

SEN. PETERS:

Thank you, Madam President. What this amendment
does is strike everything from the enacting clause.
Excuse me, and implements some technical
recommendations given by the Department of Revenue
Services and also allows Connecticut gas companies to
compete out of state without a tax disadvantage and I
would urge its passage.

THE CHAIR:

The question is on passage of the amendment. Will
you remark further? Will you remark further? If not,
I will try your minds. All those in favor indicate by
saying "aye".

pat

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ASSEMBLY:

Aye.

THE CHAIR:

Opposed, "nay"? Ayes have it. Senate "A" is
adopted. Will you remark further on the bill as
amended? Senator Peters.

SEN. PETERS:

Thank you, Madam President. Since the amendment
does become the bill, I would, if no objections, move
to the Consent Calendar.

THE CHAIR:

Motion is to refer this item to the Consent
Calendar. Without objection, so ordered.

THE CLERK:

Calendar Page 7, Calendar 349, File 168, HB5566 An
Act Recognizing Pharmacists as Health Care Providers.
Favorable Report of the Committee on General Law and
Public Health.

THE CHAIR:

Senator Colapietro.

SEN. COLAPIETRO:

Thank you, Madam President. I move the Joint
Committee's Favorable Report and passage of the bill.

THE CHAIR:

The question is on passage. Will you remark?

pat

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On motion of Senator Jepsen of the 27th, the Senate at 4:30 p.m. recessed.

The Senate reconvened at 4:55 p.m., The President of the Senate in the Chair.

THE CHAIR:

Will the Senate please come to order. Senator Jepsen.

SEN. JEPSEN:

Madam President, I ask we vote the Consent Calendar at this time.

THE CHAIR:

Mr. Clerk, would you announce a roll call vote on the Consent Calendar. Once that is completed, would you call those items on the Consent Calendar and I will open the machine.

THE CLERK:

An immediate roll call has been ordered in the Senate on the Consent Calendar. Will all Senators please return to the Chamber.

An immediate roll call has been ordered in the Senate on the Consent Calendar. Will all Senators please return to the Chamber.

Madam President, the first item on the Consent

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Senate

April 30, 1998

Calendar is on Calendar Page 5, Calendar 327,

Substitute for SB495.

Calendar Page 7, Calendar 349, HB5566.

Calendar Page 9, Calendar 381, Substitute for

HB5305.

Calendar 386, Substitute for HB5670.

Madam President, that completes the first Consent Calendar.

THE CHAIR:

Mr. Clerk, would you once again announce a roll call vote. The machine will be opened.

THE CLERK:

An immediate roll call has been ordered in the Senate on the Consent Calendar. Will all Senators please return to the Chamber.

An immediate roll call has been ordered in the Senate on the Consent Calendar. Will all Senators please return to the Chamber.

THE CHAIR:

Have all members voted? If all members have voted, the machine will be locked. The Clerk please take a tally.

THE CLERK:

Motion is on adoption of Consent Calendar No. 1.

Total number voting, 35; necessary for passage,

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001946
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Senate

April 30, 1998

18; those voting "yea", 35; those voting "nay", 0.

Those absent and not voting, 1.

THE CHAIR:

The Consent Calendar is adopted. Senator Jepsen.

SEN. JEPSEN:

If the Clerk will please continue with the Call of the Calendar.

THE CLERK:

Turning to Calendar Page 10, Calendar 390, File 231 and 592, Substitute for HB5590 An Act Concerning Alternative Design Standards for Roads and Bridges, as amended by House Amendment Schedule "A". Favorable Report of the Committee on Planning and Development and Transportation.

THE CHAIR:

Senator Coleman.

SEN. COLEMAN:

Thank you, Madam President. I move acceptance of the Joint Committee's Favorable Report and passage of the bill in concurrence with the House.

THE CHAIR:

The question is on passage in concurrence with the House. Will you remark?

SEN. COLEMAN:

Madam President, this bill would require the

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STANDING
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REP. EBERLE: Okay, Representative Veltri.

REP. VELTRI: Thank you, Madam Chairman. You say your rate collections improve, or they don't improve. Your stockholders are still making the same amount all the time. What it comes down to is the rest of the ratepayers either are paying more or not paying for these people who haven't paid their bill. Is that correct?

SHIRLEY DION: Correct.

REP. VELTRI: So, when you say you want to collect money, it isn't really to feather your own company nest, it's more to help the ratepayers keep their rates down.

SHIRLEY DION: Absolutely, and...

REP. VELTRI: I think people lose track of that.

SHIRLEY DION: Yes, to keep the rates down for all customers, absolutely.

REP. VELTRI: Customers are paying for those people, at \$18 million. Thank you.

SHIRLEY DION: You're welcome.

REP. EBERLE: Any further questions? Thank you.

SHIRLEY DION: You're welcome.

REP. EBERLE: David Silverstone.

DAVID SILVERSTONE: Good afternoon. My name is David Silverstone and I represent The Southern Connecticut Gas Company. Southern is a local distribution company and transports and sells gas in 22 municipalities in Fairfield, New Haven, and Middlesex counties. It serves municipalities stretching from Westport to Old Saybrook and includes both Bridgeport and New Haven. Southern's system is heavily residential.

I'd like to speak today to two bills. The first is RB5606 - An Act Establishing A Task Force To Study

competition coming in 1999, throughout this process.

As opposed to studying all of it during the interim between now and 1999, enacting legislation in 1999, putting off, I fear, residential competition for another year past that. That is a concern, if during the study you should somehow decide that residential competition doesn't make sense, you could obviously always stop it before it became effective sometime in '99, but getting at least the PUC writing regulations, holding hearings regarding licensing and consumer protection measures, I think would be a great service in terms of opening up that residential marketplace to competition.

I want to add, that unlike in the...some other areas, particularly electric restructuring, where there are some...some people have raised some questions as to whether this is going to work or not...I point out, in gas, we've had commercial industrial competition for two years. It seems to be working. People...customers seem to be happy. Customers seem to be saving money. I haven't heard any customer say get rid of this competition. I mean, customers come and go with marketers, but I haven't heard any customers say no, I don't want competition - bring back the old days.

So, I think that that's a benefit that ought to get passed on to residential customers as soon as possible. And that's why I'm suggesting perhaps some legislation this year. I've submitted some legislation to both points (a)(3) and (a)(4) of the study, as well as other sections last week, and I'd be happy to discuss that with the committee.

SB 495

Lastly, let me just talk briefly to RB4945 AN ACT CONCERNING TAXES RELATED TO GAS COMPANIES. The first part of this bill would restore the equality between sales taxes on electric and gas purchases. Under current law, the first \$150 dollars of monthly electric bills for commercial customers are exempt from the sales tax. This bill, if passed would merely extend that same exemption to the first \$150 dollars of gas bills for these same commercial customers.

I think it's important that the equality be between electric and gas be maintained, to insure that customers' energy choices are not artificially skewed by tax policy. Further, I might point out that if that sales tax were eliminated, obviously, that would be an immediate savings to those commercial customers, and while certainly there are some uses for which there is no real substitute between electricity and gas, such as lights, there are other uses where electricity and gas are substitutes, such as gas air conditioning, heating, and certain other industrial processes.

So, I would ask that the committee act favorably on 495 regarding equality of sales tax between electric and gas companies. Thank you very much.

REP. EBERLE: Thank you, Mr. Silverstone. You are right, we do understand that competition already exists in some segment of the markets and what we're looking at is opening it up to residential, but it's also the committee's feeling that with the focus first on telecomm., and now on electric, we don't really know that much about what's happening in the gas markets now, and we will want to look at the whole picture and make sure we come to understand as much about the gas market as we've come to understand about the other two big utilities, and not that we're going to go back and change something that's working, but I think it's incumbent upon us to understand the entire marketplace in order to deal effectively with the residential piece.

DAVID SILVERSTONE: Sure.

REP. EBERLE: I'm a little intrigued by your comment that we should provide for licensing before we've decided to provide for sales, and I'm not quite sure how we'd go about doing that. I do understand that there may be...I'm sure with the suppliers, there's the same chomping at the bit to get started as there is with the electric competitors, but we also understand in talking with the business people, around the state who have come up to us to say go ahead with electric because gas is working just fine for us, most of them have said it took

two or three years before they really understood the gas options they had, and were able to take advantage and recognize savings.

I mean, I just...I guess I don't think the marketplace is going to move so fast that a few months is going to make a difference in terms of making sure we do it carefully. And I know I for one think I've mastered an enormous learning curve that is going to shorten the learning curve I'm going to have on gas when we get into it. I hope it can't possibly be this complicated.

DAVID SILVERSTONE: Why?

REP. EBERLE: But, I...you know, I'd welcome your suggestions, I'm sure we'll be talking with you about your thoughts about how we go ahead with authorizing licensing when we don't really know the parameters we're going to set around the market, that people are going to be licensed for that...I just see a little difficulty there.

DAVID SILVERSTONE: Well, I can certainly understand how you could feel that way, and while you might think it's putting the cart before the horse, but my concern is that it's not just a matter of a few months. I think it's more like a year's delay, and as you're going to learn as we go through this task force, the next year is sort of a critical year for gas companies. At least for Southern.

Southern currently provides both sale and transportation service. It has said to the PUC on numerous occasions, that it ultimately wants to just be the transportation business. Doesn't want to continue sales service, and is looking for some direction as to whether that's going to be permitted. But is faced in 1999 with the renewal of certain pipeline contracts, and we're going to get into this I'm sure, in great detail when the task force gets going, but is faced with making some fairly significant financial decisions in 1999.

So, that if it doesn't get some direction as to where things are going, it's going to be forced to

renew those contracts leading to some potentially...costs that could have been avoided. My only concern is, and I think maybe the way to avoid the problem is to ask the PUC, at least in the legislation, to...much as you did in the electric. Is to say, okay, what would you be looking for if we were to allow marketers into residential area?

Would you be looking for strictly registration or would you be looking for some sort of sharing where someone actually gets a license, where there's a test to be passed, much like in telephone. And they could certainly start drafting regulations with regard to that, and I'll agree that if the committee should ultimately determine no, we don't want additional competition, we want...we really don't like what's going on, but we're not going to stop what's going on, but we're not going to expand it, then perhaps the PUC might have done some work which wasn't necessary.

But, on the other hand, it certainly goes I think it's really weighing the risks and the benefits, and I would just ask the committee, at least in certain narrow areas, to consider the benefits of going forward, at least in part.

REP. EBERLE: Can you tell me, does the DPUC have a docket on this open currently? I thought that I had heard they started one in the fall or the winter.

DAVID SILVERSTONE: Yeah. The DPUC has at least one docket open on this now, and it's divided that docket into two phases. Phase One and Phase Two. Phase One has been designed to essentially...these are my terms, not its terms...fix whatever might be wrong, or optimize the current commercial industrial transportation. And, I don't want to describe it as a bandaid, because there are some important issues there, but it's not to sort of change the basic framework.

That case, reply briefs are due next week, and a decision is expected in March or April. The commission has also announced that it intends to do

a phase two of that which will get into the issues around residential...allowing competition in residential areas, and that's scheduled for, I believe, is scheduled for sometime this spring, to be kicked off. So that will be going on at about the same time the task force is going on, and that's not all bad, I mean, that's sort of not such a bad idea. It keeps people like me busy, but it's not such a bad idea.

REP. EBERLE: Well, I guess my point in asking that question is to elicit that the DPUC already is moving ahead on its own to gather information and to prepare to make recommendations to us on where they think we should be going on this, so I don't think that...I don't think that the forces that are in play are going to be standing still waiting for us to finish the task force.

DAVID SILVERSTONE: I understand that. Maybe this is what I could ask you to do then. I just...I would hope that the PUC would continue that process on its schedule and it would not take a position of gee, let's wait and see what the legislature does before we spend any time on this. And I haven't discussed that with the PUC, but certainly some direction from the committee to insure that doesn't occur would be helpful.

One other comment I'd just make, I might point out that the effective date of this bill currently is October 1st, if that...if...if the task force could be effective upon passage, that might also move things forward. Especially since you gave it a reporting date of next January, and October 1st isn't a lot of time, that might be helpful.

REP. EBERLE: Well, I think that date is in there because that's our standard effective date unless otherwise...and task forces get sent to legislative management rather than go directly to the floor, so, but we can make that request.

DAVID SILVERSTONE: Thank you.

REP. EBERLE: Other questions? Representative Miller?

REP. MILLER: Thank you Madam Chair. The fact that you want to emphasize the residential aspects in the gas study, would this have any effect on what's happening with the gas company with regards to the companies in Bridgeport? Duke Energy, the new power facility where gas is going to be supplying the product to produce electricity?

DAVID SILVERSTONE: No.

REP. MILLER: It would not, in any event, put new problems there? Or any other affiliates to gas?

DAVID SILVERSTONE: Excuse me?

REP. MILLER: How about any other affiliates a gas company might have?

DAVID SILVERSTONE: Would it affect them? Not in its current form as a study bill, it would not. Whether it was the focus on residential or everything, it would not affect those affiliates.

REP. MILLER: Because your biggest growth area right now has got to be the commercial/industrial side.

DAVID SILVERSTONE: Well, not for Southern. For Southern, given the residential real estate market, frankly, in Fairfield county, our growth, with the exception of that Duke project, which is pretty unusual and doesn't come along every two years, our growth is heavily in the residential sector. And...but let me emphasize. We welcome the opening up of...to competition of the commercial/industrial sector. We want the residential sector to be opened up as soon as possible. We're in favor of competition in all sectors.

REP. MILLER: Thank you.

REP. EBERLE: Other questions? Representative Scipio?

REP. SCIPIO: (mike not on).

DAVID SILVERSTONE: The first part of the bill is yes. Yes, sir. It's not to the company, I should point out, it's to the company's commercial customers.

REP. SCIPIO: (mike not on).

DAVID SILVERSTONE: I don't know, Representative. I wasn't around at the time, and I've asked people about that and no one seems to know the answer.

REP. SCIPIO: (mike not on).

DAVID SILVERSTONE: That's correct. I honestly don't know why it wasn't done then. I've done some work on trying to find out, but I have not been successful.

REP. EBERLE: Okay.

DAVID SILVERSTONE: It was before my time.

REP. EBERLE: Other questions? Thank you very much, Mr. Silverstone.

DAVID SILVERSTONE: Thank you.

REP. EBERLE: Edna Karanian?

EDNA KARANIAN: Hello, my name is Edna Karanian. It s a pleasure to have this opportunity to address you today, Senator Peters, representative Eberle, and the other members of the committee. We're here to provide our support to HB5606, as well as SB495. Particularly HB5606, we believe will set the stage for residential deregulation in Connecticut.

As Mr. Silverstone appropriately pointed out, change and competition are not new to us in the gas industry, and it's a very exciting time in the industry because we've been evolving from the wellhead all the way to the burner tip since the '70s, really, at the wellhead level. We have competed with alternate fuels such as propane and oil to attract new customers, as well as maintain existing customers, and we've been doing that for 150 years. I personally have not been doing that for 150 years, but it feels like it and I look like I've been doing it sometimes for 150 years on certain days. I'm sure we all can relate to that.

Lately, I think many people, because of the unbundling initiatives, both at the federal level as well as the state level across the country with electric and gas deregulation, many people have drawn comparisons between gas and electric, and although there clearly are some similarities, we believe there are some important distinctions to keep in...to be mindful of. For example, local distribution companies...if you break the industry down into three sections, the production, the transmission, and the distribution piece, the gas industry isn't as vertically integrated. The distribution component that we...the local distribution company does not control the transmission portion, which is the pipelines, and it does not control the production, which of course are the major producers, the Shells and Amocos of the world.

Additionally, the production and transmission have been deregulated for some time in the natural gas business, with many of those opportunities already passed benefits. Already passed on to consumers. deregulated with the starting of the passage of NGPA, which goes back all the way to the '70s, so we have lots of experience dealing with the competitive marketplace.

The study bill, proposed HB5606, properly reflects your commitment, and we support that and fully agree to consumer protection and education issues. We believe that these are critical issues to resolve. To make sure that we have an orderly and competitive marketplace. We want our customers first experience with competition to be positioned as positively as possible. We believe that dealing with these issues up front is the best way to do that in thinking them through. We have been watching other states and other industries deal with the problems, some of which we heard about this morning, such as slamming.

For example, in Ontario, which has been fully Consumers Gas, which has been fully deregulated for...since 1992, they've been dealing with a lot of issues, and recently their Minister of Consumer Relations, I read last week, has issued consumer

customers it's priced above cost, and others, below cost.

For example, a heat treater pays the same gas cost in their rates as does a user who just uses gas on one day in a year. We know the true cost is really different than that. The problem, when you enter competition, and as the utility becomes the benchmark to determine marketer's use to determine savings to customers off that, is that you aren't squeezing the efficiencies of competition out of the marketplace because the benchmark isn't the proper pricing format. Another example is the treatment of the used and useful pipeline contracts that we have that were entered into to meet peak day needs. As a customer leaves and migrates to go to supply from another customer, they leave those costs behind for the remaining sales customers.

Finally, we all know that there are marketers not paying the Connecticut gross receipts tax, even though they are for their Connecticut sales. In that regard, we fully support SB495, which exempts LDCs that are making sales outside of Connecticut, to not pay the Connecticut gross receipts tax on those sales as marketers are not required to do that now. Competition, again, should be extended to all customers as soon as possible. We all agree, I believe, on that, but if we don't deal with these and other of those issues, Connecticut consumers will be the losers, and I think that one thing that we all in this room agree on, is that when they lose, we lose.

We are fully committed to working with you, and to pro-actively position ourselves to ensure that consumers in Connecticut reap the benefits of competition and minimize the disruption to them.

Again, we're pleased to have this opportunity to talk to you, and we are committed to working with you and the DPUC and our customers and our marketers that are active on our system. On the task force, outside the task force, in any way we can to be a resource for all of you, and look forward to working on that. Thank you very much.

- REP. EBERLE: Thank you. Are there questions from the committee? Representative Miller. Is that your hand?
- REP. MILLER: Good afternoon.
- EDNA KARANIAN: Good afternoon.
- REP. MILLER: There's a number of companies, commercial accounts, in Connecticut, under MAC, that are saving money on their gas purchases. Is that because they're buying out of state and there's no gross receipts tax (inaudible)?
- EDNA KARANIAN: There are numerous reasons. I guess the point...and that certainly is one of them, as well as the average gas cost allocation versus what the utility benchmark is, versus how a true market price is, so those are two forces, and the problem is when those things exist, it's very difficult to figure out what is the true efficiency gain from competition. To sort that out. There's no question they're saving money, but when we peel back the onion and say why are they saving that money, that's where it becomes clouded with those kinds of discrepancies.
- REP. MILLER: Thank you.
- REP. EBERLE: Thank you. Other questions?
- SEN. PETERS: I'd just like to say that I'm looking forward to your participation in the task force. I trust you understand full well the reason why we felt it was necessary to study this, as opposed to trying to do some legislation, implementing legislation this year. We don't know a whole lot about the issue, and we need to educate ourselves.
- EDNA KARANIAN: And we, as I said, are committed and are thrilled with the opportunity to participate in that process.
- REP. EBERLE: Thank you. Lucy Davis?
- EDNA KARANIAN: Actually, I have one more thing to add which I omitted, which is that Ms. Davis will not

be presenting testimony today.

REP. EBERLE: Thank you very much <laughter>. Moving right along. Mary Healey.

MARY HEALEY: Good afternoon, Senator Peters, Representative Eberle, and all the members of the committee. My name is Mary Healey, and I'm Vice-president and general counsel of Yankee Energy, and its utility...gas utility, Yankee Gas Services Company, located in Meriden, Connecticut. And I'm also a member of the Connecticut Energy Advisory Board. My statement will be very brief.

We support the preceding comments of the other Connecticut local distribution companies, and Yankee Energy is pleased to support the legislation proposed in HB5606, AN ACT ESTABLISHING A TASK FORCE TO STUDY GAS COMPANIES. Yankee Energy has led Connecticut in making customer choice a reality for our commercial and industrial customers.

We look forward to doing the same for residential customers who want access to alternative commodity suppliers. We are particularly pleased at the thoughtful, ordered approach to customer choice. This bill contemplates most of the questions that need to be answered to assure transition from the present restricted choice environment, to one in which residential customers will be taking responsibility for the choices they make.

To that end, we see the outputs of this task force to be not only in policy formulation, but in customer industry and public education. In conclusion, Yankee Energy totally supports customer choice and we believe the task force, as defined in this bill, is the appropriate means for going forward. We look forward to participating actively and quickly in these efforts. Thank you.

REP. EBERLE: Thank you. Are there questions from the committee? Representative Scipio.

REP. SCIPIO: (mike not on).

MARY HEALEY: I would deem that pretty difficult, not to

TESTIMONY OF THE SOUTHERN CONNECTICUT GAS COMPANY
BEFORE THE ENERGY AND TECHNOLOGY COMMITTEE

March 3, 1998

RE: Raised Bill 5606
An Act Establishing A Task Force To Study Gas Companies

Raised Bill 495
An Act Concerning Taxes Relating To Gas Companies

Good Morning. My name is David Silverstone and I represent The Southern Connecticut Gas Company. Southern is a local distribution company and transports and sells gas in twenty two municipalities in Fairfield, New Haven, and Middlesex counties. It serves municipalities stretching from Westport to Old Saybrook and includes both Bridgeport and New Haven. Unlike other gas companies in the State, Southern's system is heavily residential.

I am speaking to two bills today.

Raised Bill 5606 - An Act Establishing A Task Force To Study Gas Companies

This Bill would establish a task force to study issues relating to the introduction of competition in the retail natural gas marketplace. As the Committee may be aware, there is already competition in the retail gas marketplace for commercial and industrial customers and it has existed since 1996.

Commercial and industrial customers can purchase transportation service from LDCs like Southern (much like distribution service for electric utilities), and buy their gas from a plethora of suppliers and marketers. These markets are thriving with customers reporting significant savings on their gas bills. While there needs to be additional refinement in the rules governing these transactions, many of these issues are being addressed by the DPUC. In fact, there is a docket currently open at the DPUC (Docket 97-07-11) in which a Decision is expected shortly. While further study is always helpful and certainly the General Assembly has every right to shape state policies in this area, it would be indeed unfortunate if this study resulted in a backward step in bringing the benefits of the competitive marketplace to commercial and industrial consumers.

To avoid this I would suggest that the task force be directed to concentrate on residential competition. This would also have the benefit of a more focused study. The focus can be accomplished by inserting the word "residential" before the word competition in lines 16 and 18.

More broadly and recognizing the workload of the Committee this year, Southern has presented its vision for the natural gas marketplace in numerous forums. That vision includes Southern exiting the merchant function. That is, Southern believes all customers are best served if it stops selling gas altogether on a regulated basis and continues its distribution function only on a regulated basis. It believes therefore that bringing the benefits of customer choice to all customers, including residential, should be accomplished as soon as possible. It would prefer that in addition to studying the issues the Committee would consider legislation actually addressing several of the points to be studied. I call your attention specifically to Sections (a)(3) and (a)(4) regarding licensing of marketers and consumer protection measures respectively. Southern drafted such legislation and forwarded it to the Committee last week.

Unlike electric restructuring, the experience of providing customer choice to commercial and industrial customers for the last two years has demonstrated the advantages to customers of allowing competition to thrive in the gas supply business. Residential customers should be able to achieve these same advantages as soon as possible.

Raised Bill 495 - An Act Concerning Taxes Relating To Gas Companies

This bill restores equality between sales tax on electric and gas purchases. Under current law the first \$150 of monthly electric bills for commercial customers is exempt from the sales tax. The bill, at lines 37 and 40, merely extends the exemption to cover similar gas bills in an equal amount. This equality is essential to insure that customer energy choices are not artificially skewed by tax policy. Further, because sales taxes are an add on to utility bills, this bill will immediately lower the tax burden on commercial gas users.

Southern supports this provision of the bill.

CONNECTICUT NATURAL GAS CORPORATION

ENERGY & TECHNOLOGY COMMITTEE

MARCH 3, 1998 PUBLIC HEARING

TESTIMONY OF EDNA M. KARANIAN

Vice President - Energy Services

IN RE : HOUSE BILL NO. 5606

An Act Establishing a

Task Force to Study

Gas Companies

SENATE BILL NO. 495

An Act Concerning Taxes

to Gas Companies

Good Morning. We appreciate this opportunity to address the Committee in support of House Bill 5606 and Senate Bill 495. House Bill 5606 will set the stage for natural gas deregulation for all Connecticut consumers.

It is both an important and exciting time for the industry - Change and competition are not new to us - we have had the opportunity to be immersed in both for 150 years. Natural gas has always had to compete with oil and other heating sources. The natural gas industry is very different than the electric industry. For example - Local Distribution Companies (LDCs) such as CNG only own/operate the distribution system - the electric companies are much more vertically integrated, typically owning/operating the production, transmission and distribution systems. Unlike the electric industry, natural gas has been deregulated at the production and transmission level since the 80's.

The proposed natural gas study bill we have in front of us today reflects your proper commitment to consumer education and protection issues. These are likely the most critical components to deal with to ensure that the competitive marketplace is best positioned to succeed and that customers receive service from reliable, ethical, and competitive suppliers. Certainly we have learned by watching other states as they deal with the problems that can occur when issues such as these are not fully dealt with up front. The study is an important step, and an opportunity for the Legislature to work with all parties to address the far reaching issues raised by expanding competition to the retail level.

Connecticut Natural Gas Corporation fully supports all customers having a choice as soon as practical. We have a long record of taking advantage of deregulation options in the fully deregulated supply/capacity wholesale markets to the benefit of our customers. Connecticut Natural has offered choice to all commercial, industrial, and qualifying multi-family residences since 1996. That choice includes the regulated LDC - to do anything different when choice is expanded to residential customers is to limit our customers choice which we believe is contrary to full choice and competition. Let the Connecticut consumers decide who are the suppliers of their choice. Their decision will be based upon how well each supplier meets their needs including price, reliability, and flexibility issues - rather than a hypothetical decision about what may or may not be in customers best interests. Connecticut is well ahead of the national average in terms of customers offered competitive alternatives. Through the study CNG will urge you to allow the LDCs to continue to serve customers energy needs, and to discuss and resolve all the issues before full implementation.

The centerpiece of any deregulation effort is customer savings. A major issue today is that customer savings in the Commercial and Industrial markets are not being driven by true efficiency gains resulting from choice but are being driven by traditional rate/regulatory policy which was sound practice but inappropriate in transitioning to competition. Three public policy drivers are: 1) The way LDCs are required to allocate gas costs, 2) How Pipeline Capacity Charges are treated, and 3) The treatment of social cost burdens such as Gross Revenue Tax (GRT). With respect to LDC gas cost pricing, regulated sales service is currently priced on a one-size fits all basis - thereby pricing above actual cost for some and below actual cost for other customers. Since CNG's price sets the benchmark for marketers, consumer savings are based upon prices that do not reflect the true cost for a particular customer. The result of improper pricing is that customers will not reap the potential efficiency gains we all hope and expect deregulation will bring about. Another example of skewed costs is the treatment of used and useful pipeline capacity contracts entered into to meet the peak day needs pre-deregulation. Currently, when a customer decides to buy gas from a marketer, they leave these pipeline capacity costs behind. Remaining sales customers (mostly the residential homeowners) are left to absorb these costs. These costs must be recovered from all customers. Finally, we know that not all marketers are paying Connecticut Gross Receipts Tax on their Connecticut sales, which creates inefficiency as well as a state revenue loss. In that regard, we also support Senate Bill 495 which clarifies that an LDC selling gas for delivery out of state is exempt from paying Connecticut GRT as marketers currently are. Competition should be extended to all Connecticut consumers. To the extent that issues such as these are not properly addressed - Connecticut consumers will be the losers. We can all agree that when Connecticut consumers lose we all lose. CNG is fully committed to working pro-actively to ensure Connecticut is positioned to win as a result of full competition.