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Gas rate battle heats up

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Residential customers in Chicago and some northern suburbs could end up paying more for natural gas that they never actually use if the Illinois Commerce Commission on Tuesday approves a rate increase and restructuring being blamed in part on global warming.

The ICC will decide whether Peoples Gas and North Shore Gas can change the way they calculate monthly bills as part of the first rate hike in 13 years. The goal of the utilities is to guarantee a cash flow that has been upset by recent mild winters as well as energy conservation.

Under the proposal, consumers would be charged a new set fee on expected, rather than actual, usage, giving the utilities a more predictable revenue stream to maintain an infrastructure that dates back to the introduction of natural gas lamps on Chicago streets more than 150 years ago.

The proposal raises a question: Who should pay for efforts to reduce energy use? The utilities say the measure enables them to promote energy efficiency without cannibalizing profits, but opponents argue that the proposed rate structure sabotages the financial incentive of individual consumers to conserve.

The Illinois attorney general, the City of Chicago, the Citizens Utility Board and the ICC professional staff oppose the measure. An analysis by the attorney general's office estimates that the order would have tacked on \$61.89 million to the \$249 million in revenue Peoples Gas collected in 2006.

"If the ICC approves this proposal people will be charged more for using less," said David Kolata, executive director of the Citizens Utility Board. "It's sort of a double whammy."

Based on the attorney general's calculation of the impact of the new fee, the average bill in 2006 would have jumped \$74 annually. A Peoples Gas spokesman predicted that under the new fee, and with the total requested rate increase of \$65 million for all customers, a typical residential gas bill would grow by no more than \$84 annually. The spokesman disputed the attorney general's figures but he said it was too complicated to provide an accurate estimate.

New baseline fee



The restructured billing format would work like this: Peoples Gas would charge Chicago residents the new baseline fee during an unseasonably warm month, but would balance it with a credit during colder months. The utilities would judge whether the temperature veered from "normal" based on weather patterns of the past 12 years. The issue is temperatures have become increasingly higher, lessening the possibility of cold weather credits.

Peoples Gas and North Shore Gas, which serves some of the northern suburbs, merged last year with WPS Resources Corp. to become Chicago-based Integrys Energy Group. The two natural gas units had combined revenues of \$290 million in fiscal 2006, about \$20 million less than they did in 2002.

Peoples Gas spokesman Rod Sierra said the restructuring helps the company preserve and invest in a network of pipelines, which require repairs and additions regardless of how much natural gas they carry. He said concerns about the proposal likely stem from its break with tradition.

"One of the reasons why they might oppose it is it's new and innovative," Sierra said. "More and more utilities and more and more commissions are going toward these types of mechanisms."

The order would "decouple" usage from delivery, a policy adopted by 12 other states to encourage less dependence on natural gas for heating and household appliances. Utilities historically depended on selling more natural gas and electricity, a business model that blocked conservation efforts and drew harsh criticism from environmentalists.

"It is economically unstable and dangerous for residents," said Henry Henderson, director of the Natural Resources Defense Council's Midwest program. "And it is devastating for national security and the environment."

The council supports the idea of decoupling, saying firms should receive financial help for dramatically encouraging energy conservation programs that could undercut profits. But the non-profit has not endorsed the Peoples Gas initiative.

Conservation programs

Peoples Gas said it would allot \$7.5 million a year to conservation programs controlled by an outside board. Environmentalists said the expenditure is not enough to justify decoupling for a state-granted monopoly.

"It's a regulatory tool," said Howard Learner, executive director of the Environmental Law & Policy Center in Chicago. "It ought to be used in a careful, surgical way in narrow circumstances, not as a sledgehammer. That is unfair to consumers."

Nicor, which services much of northern Illinois, received approval in 2005 to raise rates for its average residential customer by \$2 a month, according to a statement by the Naperville-based gas utility.

During the 11-month review of the Peoples hike proposal, administrative judges originally rejected the decoupling but last month accepted it.

But Ben Weinberg, chief of the attorney general's public interest division, said the issue will not necessarily disappear. He said Ameren Corp. has a similar proposal for its gas customers downstate.

"Why would a utility propose this system if they didn't they think were going to win from it?" Weinberg said.

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