



CUB *Facts*

January 2010

Helpful information for Illinois utility consumers from the Citizens Utility Board

The Facts About Natural Gas Prices

How high will natural gas prices get?

After hitting record levels in 2008, natural gas prices dipped to five-year lows in 2009, with customers paying an average of 45 to 65 cents per therm. While the winter of 2009-2010 is generally expected to cost less than last winter, there was a jump in prices in January. Though you can't predict exactly where the volatile gas market will go, natural gas futures prices on the New York Mercantile Exchange (NYMEX) have a close relationship to the prices charged by utilities. For more information, go to www.nymex.com.

What causes natural gas prices to rise?

There are many factors that push prices up:

■ **Lagging gas exploration.** Rather than invest in risky exploration, producers will invest in technology to maximize the production of existing wells. This depletes those wells more quickly and causes a need for more wells in the future. Another problem is that it takes about a year to bring the gas from a new well to the market.

■ **High crude oil prices.** Those high prices are caused by a number of factors, including instability in the oil-rich Middle

East and higher demand from growing economic powers China and India. When oil prices are high, large industries switch from oil to natural gas to fire their production processes. This creates greater demand

for natural gas, which jacks up the price.

■ **Increased demand for electricity.** This has been a key force pushing up natural gas prices. Over the years, generators have depended heavily on power plants that use natural gas to produce electricity, because it is a much cleaner and more efficient fuel than coal. This can result in high natural gas prices, even in the summer.

Why are utilities allowed to raise gas prices so high?

There are several charges on gas bills, but the one that has the most impact covers the price of gas itself. It's called the "Natural Gas Cost" or "Gas Supply Charge," to name two examples, and it accounts for up to 70 percent of a residential bill. Utilities are required to pass their wholesale cost of gas on to customers, with no markup. So that price fluctuates from month to month, depending on what your gas company paid. Some customers ask why the per-therm price on their bill doesn't exactly match the market price of gas. That's because the utilities don't buy all their gas on the spot market. They use stored gas and gas through long-term contracts, which affects the monthly price they charge. As a result, there's often a lag time between the market price of gas and when it is reflected in the utility price. A downturn in the market price takes time to trickle down to consumers. Although the federal government deregulated the wholesale price of gas years ago, the Illinois Commerce Commission (ICC) reviews utility prices after the fact and can order customer refunds. (See "Who monitors natural gas prices?") The rest of your bill is largely taken up by "delivery" charges, which cover the utility's profit and costs to getting the gas to a customer's home. Unlike the "gas cost," delivery charges are set by the ICC.

So who makes money off high gas prices?

The natural gas industry refuses to acknowledge yet another possible explanation for the high natural gas prices: market manipulation. Natural gas producers dig the wells, and marketers — which could be related to the producers — sell the gas to local utilities such as Peoples Gas, Nicor Gas and AmerenIP. Under this arrangement, rogue gas traders, marketers, and producers have made huge profits. For example, oil and gas producer Exxon Mobil made \$36 billion in 2005 and its fourth-quarter profit was higher than any other public company in American history. Yet, there is little regulation in the wholesale gas market. In 2006, Illinois

Attorney General Lisa Madigan and her counterparts in Iowa, Missouri and Wisconsin released a study that debunked simple "supply-and-demand" explanations for high prices. It estimated that Mid-

west consumers were getting overcharged by billions and called for more regulation to prevent manipulation of the natural gas industry. A bipartisan effort in Congress closed the “Enron Loophole,” which allowed key energy markets to escape regulation. That’s a step in the right direction.

Who monitors natural gas prices?

Natural gas was deregulated at the wellhead in 1985, after some policy makers argued that price controls led to supply shortages because they didn’t spur producers to drill for more gas. That means the federal government stopped controlling the wholesale price of natural gas that was sold to utilities, and the market took over. Prices actually dropped for a time. However, from 1991 to 2005, when record prices hit, wellhead prices rose by 361 percent.

At the state level, the ICC does review each utility’s gas-buying strategies in the wholesale market over the previous year and can order refunds for consumers if a company made poor decisions that left its customers vulnerable to high prices.

Do local utilities profit off high prices?

Ameren, Peoples Gas, and Nicor Gas are required to pass the cost of the gas onto customers with NO markup, but scandals uncovered by CUB in recent years give consumers reason to be suspicious. Peoples Energy agreed to give its customers a \$100 million refund after CUB found evidence of an illegal, profit-sharing deal between the company and an affiliate Enron. State

What is CUB doing about high gas prices?

CUB supports Illinois Attorney General Lisa Madigan’s call for more federal regulatory oversight of the natural gas wholesale market. We also have a wish list for state officials.

- Require utilities to actively promote their “budget-billing” plans. (See a description of such plans on this page.)

- Offer some type of gas-bill payment plan that would allow households to pay what they can afford to reduce the number of customers that default on bills when prices go beyond their ability to pay.

- Require utilities to offer a regulated fixed-price plan for natural gas.

- Promote energy-conservation programs that can help customers save 10 percent to 15 percent in heating costs.

What can you do about the high prices?

Call your state and federal representatives and ask that they take steps to protect consumers from high heating prices. If you don’t know who your representatives are, go to the Illinois State Board of Elections website, at www.elections.state.il.us, or call the elections board at 217-782-4141.

regulators also are considering evidence dug up by CUB that Nicor Gas defrauded its customers of \$287 million. Both schemes hurt customers in the winter of 2000-2001, when gas prices reached record highs while utilities swore they weren’t profiting off the high prices.

How can my utility’s “budget-billing” plan soften the blow of high gas prices?

“Budget-billing” plans prevent drastic, month-to-month fluctuations in your gas bill by evening out the amount you pay each month. Instead of a fluctuating amount, you pay the same amount — or nearly the same amount — each month, year-round, based on the gas company’s estimate of how much gas you will use and what the prices will be over

the next year. The utility may periodically adjust your budget-billing amount, if it sees that your usage has changed, or if there are great jumps in the market price of gas. At the end of the year, you receive a bill credit or debit, depending on how the gas company’s estimate of your actual costs differ from the total amount you were billed. Budget-billing costs nothing extra for customers. The one exception is Nicor, which charges interest on the debt you accrue. It also pays interest on any credit you build.

The budget-billing plan is offered under various names by all the utilities, but it is NOT the same as the “Fixed Bill” or “Lock 12” plans, which have been offered by unregulated affiliates of Nicor. (See the next question.)

Where does our natural gas come from?

Natural gas is a fossil fuel found with petroleum deposits. Therefore, heating gas typically is a by-product of oil production. Most of the nation's natural gas is drilled domestically, with another 13 percent coming from Canada and 3 percent imported as liquefied natural gas, according to the American Gas Association. The gas industry wants to drill in environmentally protected areas to increase supply and reduce prices, but the relatively small amount of gas that would flow from these areas would not have much effect on the long-term energy picture. While the United States

only has about 3 percent of the world's natural gas reserves, it accounts for about a quarter of the world's consumption. Over the past few decades, as new gas deposits were discovered with the help of better technology, the Society of Petroleum Engineers has estimated that there are enough gas reserves to last nearly 70 years. It's not a good bet to rely solely on reserves. Making homes and businesses more energy efficient is the most promising way to reduce prices and improve the balance between supply and demand.

What about "alternative" offers that promise savings?

Northern Illinois consumers can choose alternative offers over their utility's standard rates. These offers — marketed by companies affiliated with the utilities and/or competing against them — may seem to promise savings, but to date they more often cost you more than what you would pay with the utility.

Consumers can switch to an alternative, unregulated gas supplier through Peoples' "Choices for You" and Nicor's "Customer Select" programs. But the programs are often confusing and open to misleading marketing. CUB's "Gas Market Monitor," an online service that tracks offers in the programs, has found that most of the offers peddled by unregulated natural gas suppliers in northern Illinois to date are bad deals compared with utility rates.

An unregulated Nicor affiliate called "Nicor Advanced Energy" has marketed the "Lock 12" program, which offers customers the same monthly bill for a year. However, the bill that the company determines for individual customers includes such a large mark-up that it's unlikely you will save money under the plan. And unlike a "budget-billing" plan, at the end of the year you're not reimbursed for any inaccurate estimate of your usage. You're simply out that money.

Beware of any sales representatives who come to your door or call you claiming to be from the "gas company." They are probably from one of these unregulated companies and could try to mislead you into signing up for something you don't want. If this happens to

you, call CUB (1-800-669-5556) with the details. We try to monitor marketing abuses and need your help to keep suppliers in line.

What if I'm having trouble paying my bill?

If you have a past-due amount, ask your gas company about a deferred-payment plan. Such plans allow people who are behind on their bills to pay up to 25 percent of the total amount owed, and then pay off the balance in equal installments — plus interest and the current bill — over four to 12 months, as determined by the company.

Some consumers may qualify for financial assistance through the federal Low Income Home Energy Assistance Program (LIHEAP), but the money often runs out early. For details, call 1-800-252-8643 outside of Chicago and 312-795-8800 in Chicago. Also, check with the Salvation Army and other local charities that might offer assistance in paying gas bills.

How can I save energy and money?

There are several things you can do to conserve heat, and save money. Buy Compact Fluorescent Light bulbs (CFLs), which use 75 percent less energy. Buy a programmable thermostat and set it no higher than 68 degrees for the day and 62 degrees at bedtime. (NEVER turn your heat off completely. That's dangerous, and will lead to frozen pipes and high bills to repair them if they burst.) Similarly, set your water heater to 120 degrees and cover it with an insulating blanket. Caulk leaky windows and insulate openings around air conditioner window units. Close doors

to rooms you're not using, and change your furnace or heat-pump filter monthly. Consider heavy drapery and plastic window coverings. Have a heating contractor perform an "audit" to determine how to heat your home efficiently. Finally, visit **www.CUBEnergySaver.com** to create a customized energy-saving plan for your home. With hundreds of money-saving actions to choose from, CUB's latest tool will help you design a personalized plan to protect your pocketbook and the planet.

What is CUB?

CUB is a nonprofit, statewide utility watchdog organization. If you have a question or complaint about your electric, natural gas, or telephone service, please call our toll-free Consumer Hotline, at 1-800-669-5556.