

Natural gas price jump began long before hurricanes

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By David Kolata

It's a sobering thought that the excruciating rise in the price at the pump is dwarfed only by the jump in the price of natural gas used to heat most Illinois homes.

The average cost of gasoline in the Midwest has jumped by 94 percent since October 2001, according to the Energy Information Administration, but the average price per therm charged by major Illinois gas utilities has risen by 322 percent.

Why?

Year after year, the natural gas industry delivers the same tired "supply and demand" excuse — this year with a new twist: the hurricanes. While Katrina and Rita had a devastating impact along the Gulf Coast, where about 20 percent of the nation's natural gas is produced, the price of natural gas reached record levels this year months before those twin tragedies hit.

The laws of supply and demand don't sit well with a working mother and father trying to afford their daughter's braces, or a retiree who has to budget for rent, food, and prescription medicine on her fixed income. While they pay skyrocketing utility bills, oil and gas producer Exxon-Mobil is coming off unprecedented profits — \$25.3 billion in 2004 alone — and continues on a record-breaking pace this year.

A brief period of stable or declining prices occurred after the federal government deregulated natural gas prices at the wellhead in 1985, but the honeymoon is long over. Wholesale prices have risen by 205 percent in the last 15 years, while October's residential prices already have eclipsed winter records. Customers are alarmed, naturally, and want to know what to do.

They could choose a company other than Nicor or Peoples to supply them with gas, but that's likely to be a bad gamble. A recent CUB study found that consumers were more likely to lose money with these alternative suppliers and, as gas prices shoot up, at least one company, Santanna Energy Services, has bailed out of its supposedly airtight contract offering a "fixed rate."

People aren't any happier with the utilities. Both Nicor and Peoples Energy have been caught in schemes that overcharged customers during the high-priced winter of 2000-2001, while telling the public they had done all they could to protect customers. CUB has been fighting to get refunds from both companies and, in the case of Peoples, it looks like some relief might come in time for this winter's gas bills.

But we still have a recipe for disaster: utilities embroiled in scandal mixed with less-than-dependable alternative suppliers — and poured into a market of skyrocketing prices for a heating fuel that consumers need to survive the winter.

So, how do we fix the growing crisis? CUB has a wish list. It includes some short-term measures, such as an aggressive push by the utilities to put customers on the budget plan — which will level their gas bills on an annual basis. A moratorium on shut-offs during the volatile winter is an obvious necessity and so is a requirement that gas companies offer a lower, alternative "fixed-rate" for natural gas.

Add to that, an emergency federal income tax credit for people struggling to pay their bills and a well-funded weatherization program, complete with discounted programmable thermostats or water-heater covers at big hardware chains.

Then there are long-term solutions. The Illinois Commerce Commission should immediately launch an investigation to determine the best hedging practices — or gas-buying strategies designed to protect consumers from rate shock — as well as a probe into the troubling price disparity between utilities each winter. Just why is there a 21-cent difference in the October per-therm price of Nicor (\$1.17) and AmerenCILCO (96 cents)?

Of course, our biggest wish is for a total overhaul of the natural gas industry with federal regulators taking a much more active role in policing the business and preventing market manipulation. The current laissez-faire system only benefits the Exxon-Mobils of the world — whose executives can jet off to a warm-weather paradise if they want to escape the winter cold.

This last wish would take years of brutal policy debates and a federal government willing to stand up to the companies that are profiting from the current system. Improbable, perhaps, but ignoring the problem won't make it go away, because it's awfully difficult for Illinois

consumers to ward off the deep winter freeze when they're trapped between a rock and a hard place.

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