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Price disparity inflames natural gas customers

Peoples Gas, North Shore Gas customers have paid 30% more than Nicor clients

By Joshua Boak

Tribune reporter

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John Dell paid \$1,261 for gas to heat his Winnetka house for November, December and January. Had the retired bond analyst lived just seven miles away in Glenview, he would have saved \$320.

Dell is a customer of North Shore Gas, which along with sister utility Peoples Gas spent more to purchase supplies of natural gas than Nicor, the utility that serves much of northern Illinois outside of Chicago and the northern suburbs.

Regulated utilities pass their commodity costs directly on to consumers, meaning they don't mark up natural gas prices but pass on exactly what they pay.

"I was really mad to see that big a difference," Dell said.

The million Chicago-area customers of Peoples Gas and North Shore Gas, both owned by Integrys Energy Group Inc., have spent about 30 percent more for natural gas this heating season than Nicor customers, the widest gap on record between the utility companies.

On Friday, Peoples Gas and North Shore Gas requested that a separate cost—what they charge to deliver gas—go up. They sought state approval to raise delivery rates next year by \$180 million, or less than \$12 a month for "small residential customers."

But the question of why Peoples Gas, which serves the city of Chicago, and North Shore Gas, which serves some northern suburbs, charges more than Nicor is the issue for some.

The disparity "raises a red flag" that will be examined closely in filings this month with the Illinois Commerce Commission about the utilities' natural gas purchases, said David Kolata, executive director of the Citizens Utility Board.

ICC Commissioner Robert Lieberman said hedging practices often determine what utilities bill for natural gas, yet customers know little about the strategies that utilities use.



"There's not enough transparency in the system because these issues aren't discussed," Lieberman said.

Neither utility company provided details to the Tribune about how they handled the sudden lurch last year in natural gas prices, which hit a record in July and then plummeted to their lowest level since 2003.

"We're not going to get into specific hedges," said Rod Sierra, a spokesman for Peoples Gas and North Shore Gas. "It's just not something we get into publicly."

Prices charged by Peoples Gas and North Shore Gas have stayed near the statewide average, said Sierra, adding that comparisons among utilities are inappropriate "because there are so many variables that go into gas prices."

Peoples Gas' defense that it meets a statewide price average is somewhat of a red herring, said Kolata. The utilities in metropolitan Chicago have access to an extensive storage and pipeline network, unlike the more limited infrastructure downstate.

Between 50 percent and 70 percent of Integrys' natural gas supplies are hedged with futures and options contracts in order to smooth out the volatility in prices, Sierra said. The utility started hedging prices 17 months before the heating season began in November.

"We're not necessarily looking for the lowest price, because if you do that, you can get burned," Sierra said.

Nicor hedges the commodity 36 months in advance of delivery season, using storage and forward contracts to account for 70 percent of its total supplies, said spokeswoman Annette Martinez.

The ICC developed policies for utilities hedging natural gas prices after a dramatic spike in 2001, said Richard Zuraski, an economist for the commission.

"The commission gave a green light for utilities to hedge without having to worry about being Monday morning quarterbacked," Zuraski said.

A utility could have to refund money if its annual filings on natural gas purchases showed irregular deals, such as paying excessive brokerage fees or a premium to affiliated trading partners, Zuraski said.

In 2006, Peoples Gas and North Shore Gas customers received a \$100 million refund after the utilities overcharged consumers through a secret arrangement with Enron Corp.

Based on the size of the current price discrepancy between the two utilities and Nicor, Addison Armstrong, director of market research for energy brokerage Tradition Energy, said it would appear as though Peoples Gas and North Shore Gas loaded up on supplies when prices were rising, a strategy might that have worked if the economy had not crashed. Nicor appears to have bought when prices were falling, Armstrong said.

"That's what makes a market; you have two views," Armstrong said. "But that doesn't help the end user, the homeowner or small-business owner."

jboak@tribune.com

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