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CONSUMER WATCH

Consumer Watch: Gas deregulation's high price

State legislators rethink alternatives that have burned some consumers

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Tribune Reporter

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When Illinois officially deregulated natural gas markets in 2002, state legislators predicted that competition would reduce home heating bills.

The exact opposite has occurred, critics say, which is one reason legislation to reform the marketplace for home heat is pending in Springfield.

If you receive a phone call or letter offering the chance to lock in gas prices and suggesting savings, here is what you need to know:

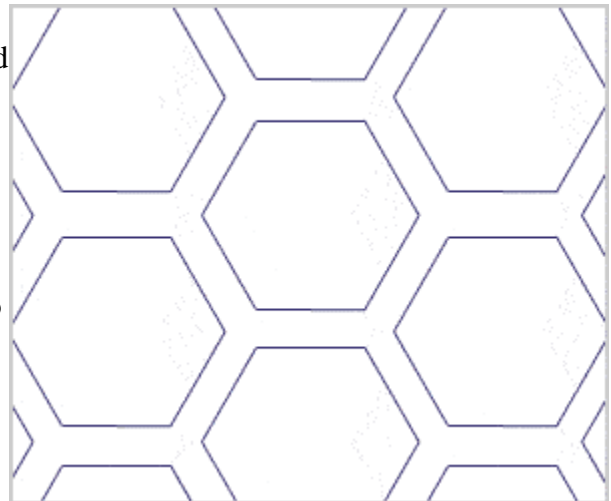
- Homeowners are almost always better off with their local utility than contracting with another supplier, including affiliates of the local utility, according to the Citizens Utility Board. CUB said 91 percent of the supplier plans it has analyzed are bad for consumers.

- Make sure you know who you're dealing with because company names and logos can be confusing. Even mainstream gas companies have affiliate suppliers that may charge higher rates.

Marketing abuses in the industry have been so widespread that a bill reforming some gas industry practices awaits Gov. Pat Quinn's signature. The bill would make it far less costly for customers to exit fixed-rate gas contracts, limiting the charge to \$50 from up to \$1,000 or more. But it fails to address the confusion that customers such as new homeowner Christopher Sandoval experienced when registering for gas service over the phone.

Sandoval, a 31-year-old pastor, said he thought he had signed up with Nicor Gas, not an affiliate called Nicor Advanced Energy that charged him \$3,300 last year, or \$2,000 more than he would have paid Nicor Gas, according to publicly available utility rates.

"I did not realize there was any difference at all," Sandoval said. "I told them I thought they were being deceptive in how they promote themselves with the same name and same logo."



A Nicor Inc. spokeswoman said the Naperville company follows state guidelines for distinguishing between its utility and affiliates. The company said it released Sandoval from his contract two months early and refunded him \$1,400, explaining that Nicor Advanced Energy miscalculated Sandoval's charges based on past usage by his house's former residents.

Nicor said its affiliate customers who paid several hundred dollars more might have locked in their payments at the wrong time, right before market prices fell to their lowest level in seven years and monthly utility rates began to decrease. The company said some customers receive savings.

"This is not sold as a money-saving program," said Nicor spokeswoman Annette Martinez. "It provides you with peace of mind knowing what you're going to pay."

Similar statements were made by spokesmen for other suppliers. "If there's an added benefit of saving money, that's nice," said U.S. Energy Savings spokesman Gord Potter, noting that customers who signed a five-year contract in April 2004 saved \$32, about \$6.40 a year.

Dominion Retail spokesman Dan Donovan criticized the CUB analysis of supplier plans, saying its customers can switch among its contracts at any time to find the best deal so their losses are not as substantial as CUB claims. Dominion said its customers on average pay 2.7 percent above the utility rate, though it declined to release data showing how it reached that figure.

The sales pitches are often nuanced, implying rather than stating that locking in rates would save money. "Natural gas prices historically rise during cold winter months, so it is important that you lock in your fixed price with Dominion Retail right now," reads a letter the company sent Illinois residents last fall.

About 280,000 Illinois households received gas service last year from alternative suppliers, up from 108,118 in 2002. The companies often tempt customers to lock-in rates after gas prices peak, according to consumer advocates. The companies said they pitch new customers when people are thinking about the home heating season.

For example, Al Glodowski of Naperville received a pitch for a year-long contract for gas from IGS Energy Services, one of 15 state-certified gas suppliers, at \$1.40 per therm after gas prices spiked in July. Because market prices dropped steeply, IGS said it lowered the fixed rate to \$0.89 per therm for March and February. That price is still about 40 percent above the utility rate. "Luckily I didn't bite off on that one," Glodowski said.

Still, most consumers don't know enough about expected gas price swings to make good decisions.

"Unless you're pretty sophisticated, it's a crapshoot," said John Howat, a senior policy analyst for the National Consumer Law Center.

Gladys Ware is a case in point. The 79-year-old Riverdale woman switched to Nicor Advanced Energy from Nicor Gas in June, believing that a \$192-a-month fixed-rate plan would protect her from sky-high winter heating bills. The rate, however, seemed excessive to her daughter, Otylia Jenkins, who complained to the supplier.

Nicor Advanced Energy agreed to lower Ware's monthly rate by \$30. Even with the discount, Ware would have paid \$624 less had she remained with Nicor Gas based on her gas usage, according to publicly available utility rates.

Before deregulation, consumers had no choice but to rely on their local utility, which sold gas at cost

and made its money on delivery fees.

This model changed in 2002, after surging gas prices the previous year induced a panic about home heating costs. State legislators responded by passing a law giving consumers alternatives to local utilities, figuring customer choice would lead to lower prices. The bill's sponsor, then-Rep. Vince Persico, also said the bill was "designed to protect consumers from fraud."

But disreputable sales practices quickly appeared.

The Illinois attorney general sued three gas suppliers—Illinois Natural Gas, U.S. Energy Savings and Santanna Energy Services—for consumer fraud. Illinois Natural Gas settled with the attorney general in 2005, agreeing not to switch customers over from the utilities Nicor Gas, Peoples Gas and North Shore Gas. As part of a 2006 settlement in the Santanna Energy case, the company refunded \$3.3 million to customers. The U.S. Energy Savings lawsuit is pending.

As consumer complaints piled up, the Illinois attorney general's office in April drafted a bill that would have banned alternative suppliers from selling gas to residential customers. That would have been the most drastic action taken by any of the 13 states that deregulated natural gas.

"We started working on legislation because of concerns that consumers were losing money, not benefiting, from contracts with alternative natural gas suppliers," said Atty. Gen. Lisa Madigan.

But the ban was stricken from the bill during negotiations last summer among utilities, suppliers, legislators, state officials and CUB, said its co-sponsor, Rep. Marlow Colvin (D-Chicago).

The resulting legislation calls for suppliers to improve their sales records so the companies can be held accountable for what they promise customers. Also, suppliers would no longer be able to keep people locked in contracts by charging high cancellation fees.

"What we were trying to do was protect the consumer," Colvin said. "Putting a lot of folks out of business wasn't anyone's intention."

But the bill ignores concerns about potential confusion and conflicts of interest when a mainline utility promotes what ends up as more expensive gas contracts sold by affiliates.

Nicor's corporate Web site features a photo of a woman hoisting a box. "Moving soon?" reads the caption. A form on the next page registers consumers with supplier affiliate Nicor Advanced Energy.

Nicor discloses that Nicor Advanced Energy is separate from the utility at the bottom of the screen, beneath 10 sentences in small print about the registration process. The disclosure fulfills the letter of the law, said Martinez.

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