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## Illinois officials call Nicor pipe-repair plan overpriced, misleading

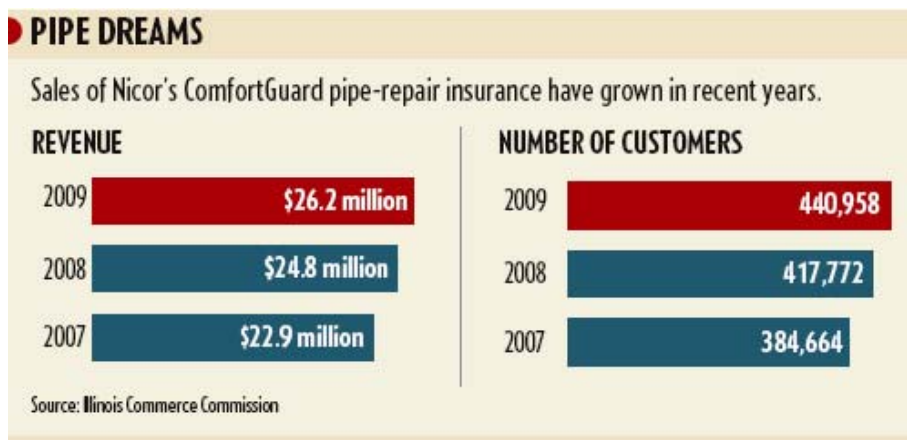
By Steve Daniels  
May 03, 2010

State officials and consumer advocates accuse Nicor Inc. of overcharging and misleading hundreds of thousands of customers who purchase gas-pipe repair insurance from the utility.

"The attorney general is concerned that Nicor Gas and its affiliate are marketing this program in a misleading manner and putting an interest in excessive profit margins over legitimate service to customers," a spokeswoman for Illinois Attorney General Lisa Madigan says.

Ms. Madigan, along with the staff of the Illinois Commerce Commission, says the charge for Nicor's ComfortGuard service, which covers the cost of repairing gas pipes within customers' homes, far exceeds its benefits. Testimony filed with the state utility regulator in March also claims Naperville-based Nicor pitches the service deceptively by implying customers who don't purchase ComfortGuard could have to scramble for an outside contractor to fix pipes inside their homes, when in fact the utility is obligated to make such repairs.

The allegations target one of Nicor's most profitable products and could open the door to costly class-action lawsuits against the utility if proven.



More than 440,000, or 20%, of Nicor's 2.2 million suburban customers pay \$4.95 per month for ComfortGuard, according to the ICC staff filings. Nicor reaped a total of \$26 million from the product last year while paying out only \$600,000 in benefits, the filings allege.

Meanwhile, for the 2% of ComfortGuard customers who had pipe problems that the service covered last year, the average repair bill was \$76, ICC staff say — about 15 months' worth of payments.

"This is a pure profit machine for Nicor, and there's very little value for customers," says David Kolata, executive

director of Chicago-based consumer watchdog group Citizens Utility Board. "You're buying an insurance product at an extremely high premium that you'll probably never need."

Nicor is by far the most aggressive utility in Illinois when it comes to this type of insurance. Peoples Gas, which serves the city, and suburban sister utility North Shore Gas charge \$2.95 — 40% less than Nicor — per month for a similar service dubbed Pipeline Protection, and only about 2% of customers have it, a spokeswoman says. Downstate electric and gas utility Ameren Corp. doesn't offer any such program, nor does Chicago electric utility Commonwealth Edison Co.

ICC staff, CUB and the Illinois attorney general's office want the commission to bar Nicor Gas, the company's utility unit, from pitching ComfortGuard on behalf of Nicor's unregulated arm, Nicor Services. They also complain that virtually all the work — from securing new customers to repairing pipes — is performed by employees of the regulated utility, not Nicor Services.

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Citizens Utility Board

Nicor says it will address criticisms of ComfortGuard in testimony later this year. The ICC is expected to rule in the first half of 2011.

In a statement, Nicor says ComfortGuard "provides real value to its many customers and is not subsidized by the utility. On the contrary, the utility recovers all its direct and indirect costs for the ancillary services that it provides regarding (ComfortGuard), and that actually lowers the rates paid by our utility customers. Second, the claims regarding the profit made on this product are wildly inflated and have no basis in reality."

Nicor won't disclose profits on ComfortGuard.

Neither the consumer advocates nor ICC staff recommends the commission order customer refunds if it finds that Nicor is misleading customers. But such a finding could trigger lawsuits against the company.

Case in point: Ameritech, the phone-utility predecessor to what is now AT&T, agreed in 1997 to pay \$226 million to settle a class-action lawsuit over a warranty program called Line-Backer, which covered repairs to phone jacks and similar equipment inside the home.

Critics accuse Nicor of using scare tactics to sell ComfortGuard.

According to a ComfortGuard marketing script, Nicor call-center reps are instructed to tell customers "the utility is only legally responsible to make the situation safe or make repairs to its own facilities. What that means is that the property owner (such as yourself) may have to find and hire an independent contractor to come in, do an inspection and then make those repairs. That can be expensive, and it could also mean days without any gas to heat the home, cook and so on."

In fact, ICC staff argue, Nicor is legally required to inspect leak complaints inside customers' homes and make repairs, at charges typically ranging from \$50 to \$100.

Nicor says ComfortGuard "marketing materials are not misleading and are presented in a responsible manner."

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