



CUB Facts Natural Gas

The Peoples Gas/North Shore Gas Rate Hike

How big was the rate hike?

The Illinois Commerce Commission (ICC) granted Peoples Gas a \$71 million rate hike, which took effect in mid-February. CUB is appealing the rate hike, arguing that it is excessive. North Shore Gas, Peoples’ sister company, had asked for a \$6 million rate hike. CUB fought that request also, and the company, which is much smaller and has a newer pipe system, only could convince regulators to approve a slight increase that may not even be noticeable in the total amount you pay on your bill.

How will the rate hike affect my bill?

Peoples’ \$71 million rate hike affects the “delivery”

part of your bill. Aside from taxes, your bill has two parts:

1. Delivery (a fixed monthly “customer charge” and per-therm distribution charges). It’s with these charges that Peoples Gas makes a profit. This part of your bill takes up roughly a third of the total amount.
2. Supply (listed as a “gas charge”). Peoples Gas is not allowed to profit off this charge. This takes up roughly two-thirds of your bill.

Again, the increase hits the “delivery” part of your bill. Although you will see that some of the “distribution” charges actually are going down, those decreases are more than made up by increases in the customer charge and some new charges you will see on bills.

Charge	Explanation of Charge	Old Rate	New Rate
Customer Charge*	Pays for fixed costs (billing, meter reading, etc.) that don’t vary with usage	Peoples: \$9.45/month	\$15.95/month
		North Shore: \$8.95/month	\$13.95/month
Distribution Charge	Pays for the costs of delivering gas to your home. Gas usage is converted to therms and multiplied by a certain rate.	Peoples: First 50 therms: 36.375cents/therm Above 50 therms: 11.445 cents/therm	First 50 therms: 33.606 cents/therm Above 50 therms: 10.58 cents/therm
		North Shore: First 50 therms: 23.151 cents/therm Above 50 therms: 12.2 cents/therm	First 50 therms: 23.803 cents/therm Above 50 therms: 6.356 cents/therm
Supply Charges	This per-therm charge covers the costs of buying natural gas that it provides customers.	Varies by month according to market rates.	No change.

*The “Monthly Customer Charge” includes a 40-cent fee that goes into a state fund to subsidize heating costs for low-income households as well as a 5-cent charge that goes into a state fund for the development of renewable energy and “clean coal technology.” This extra 45 cents has been on bills for years and has nothing to do with the Peoples Gas/North Shore Gas rate hike.

Are there any other new charges on bills?

There will be two new charges on bills: an “Enhanced Efficiency Program (EEP)” charge and a “Volume Balancing Adjustment (VBA).” These charges aren’t expected to show up on bills until the spring. The exact amount of each of these monthly charges is not immediately known, but CUB will update this fact sheet as soon as more information is available.

The EEP charge will fund \$7.5 million in energy-efficiency and conservation programs. The programs will be administered by a third-party governing board, including representatives from government, consumer advocacy groups and the utility itself.

The VBA will be either a credit or a charge, depending on whether the company’s actual revenue per customer in a month is higher or lower than a certain revenue per customer (“baseline revenue per customer”) each month. The ICC ruled that the company is allowed to earn that baseline. In months when overall natural gas usage is down, such as in unseasonably warm winters, customers are likely to see a charge. In extremely cold months, customers could see a credit. However, a Peoples Gas spokesman said in a published report that “in many cases” bills will be higher. CUB does not yet know what the amount of this charge or credit will be.

What are the details of the case?

Peoples Gas/North Shore Gas argued that it had been 12 years since its last rate hike and it needed an increase of more than \$100 million to maintain its pipes and to secure a healthy profit. The company also proposed a “decoupling” plan, saying it was not making enough money per customer (or “revenue per customer”) because of overall warmer weather and efforts by its customers to conserve energy. (There’s more on “decoupling” at the end of this fact sheet.)

CUB and consumer advocates argued that the rate hike was excessive and the company had under-

stated its income and exaggerated its expenses. CUB said Peoples’ “decoupling” plan was illegal because it misleadingly focused on a decline in “revenue per customer,” a concept the company invented to justify its rate hike. Although the company’s delivery revenues have declined recently, cost savings in other areas could have offset that drop, and Peoples could still have made a healthy profit. By not giving state regulators a full picture of its financial health and focusing solely on a decline in “revenue per customer,” Peoples was guilty of “single-issue rate-making” and that’s illegal under the Public Utilities Act (PUA), CUB argued.

The ICC reduced the increase by \$31 million, from Peoples’ original proposal of about \$102 million, at the end of the 11-month case.

CUB is appealing the rate hike, arguing that many parts of the ICC’s ruling are harmful to customers. If necessary, CUB will appeal the increase all the way to the Illinois Appeals Court. If CUB wins the appeal, refunds will be granted.

What is “decoupling”?

The term “decoupling” generally refers to programs that try to “decouple,” or separate, the link between what the company earns and gas usage by customers. It allows a gas company to shift more of its revenue to fixed charges that don’t depend on how much gas you use. The original idea behind decoupling was to reduce a gas company’s incentive to sell as much gas as possible, which could be good for the environment. Unfortunately, the decoupling plan designed by Peoples is simply a tool for making more money. There’s absolutely no incentive for the utility or its customers to practice energy conservation. Decoupling will affect gas bills through the VBA credit/charge explained in this fact sheet. So, in months when overall customer usage is down—due to milder weather or conservation efforts—you will likely see a VBA charge. So, decoupling actually punishes customers for conserving gas.