



CITIZENS UTILITY BOARD

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CONSUMERS PAY HIGHER GAS BILLS WITH NATURAL GAS COMPETITION, CUB STUDY DOCUMENTS CONSUMER LOSSES

The vast majority of northern Illinois consumers who have switched natural gas suppliers are paying more with those alternative companies, an average of \$172 more, according to an analysis conducted by the Citizens Utility Board (CUB).

The study, released Thursday, compared the prices charged by five companies offering alternative gas supply plans over the last two years to customers of Nicor Gas, Peoples Gas and North Shore Gas. It is the first such independent study of gas plans done in Illinois.

The analysis looked at a total of 215 alternative price offers, 85 that have expired and 130 still in effect. Most alternative pricing plans require the customer to sign a contract for at least a year, but many run for as long as three years.

Of the 85 expired plans, consumers on 83 of them lost an average of \$172.16 over the life of the offer. Only two price offers—less than 3 percent of the total—produced any savings for consumers and the savings were minimal, an average of just \$46.70 over the life of the plan.

Consumers on 124 of the remaining 130 plans, would have lost money to date. But, since these plans are still in effect, the data is incomplete and the ultimate savings or losses for consumers cannot be determined.

“Competition in the natural gas market was sold to consumers as a way to save money on their gas bills,” CUB Executive Director Martin Cohen said. “But, as this study shows, that’s not happening. Given how complicated and unpredictable the gas market is, you’d need a crystal ball to make a good choice.”

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Five firms are participating in the “customer choice” programs being offered to Nicor Gas, Peoples Gas, and North Shore Gas customers. According to Illinois Commerce Commission (ICC) data, 151,849 residential customers chose an alternative gas supplier in 2003.

Alternative suppliers generally offer two types of rates, a fixed rate locked in for a period of one to three years, or a variable rate tied to an index that changes monthly. But the initial rate offered under both types of plans is almost always higher than the utility price at the time, meaning the utility price would have to increase substantially to make the offer pay off.

The CUB study compared the rates customers paid on the alternative pricing plans with the actual rates charged by Nicor, Peoples Gas and North Shore, as reported to the ICC. The savings and loss estimates are based on typical usage of 1,325 therms a year, allocated by monthly consumption. Offers still in effect were analyzed through Dec. 31, 2004.

The alternative price data was obtained from the alternative suppliers and includes the per therm gas charge along with monthly fees and other charges. Government-mandated taxes and surcharges are not included.

CUB has been critical of the way in which the ICC opened up the natural gas market to competition in 1998 because the system is ripe for consumer abuse. Marketers affiliated with utilities are allowed to use virtually the same name and logo as the utility company, which leads consumers to believe those companies are regulated by the state. In fact, alternative gas suppliers face little state oversight.

The alternative offers are often confusing and customers are required to sign legally binding contracts with the supplier for up to three years. Early termination fees usually apply. With the price of gas so volatile in recent years, consumers desperate to save money have become easy prey for the often aggressive and misleading marketing from alternative suppliers, whose sales personnel usually are paid according to the number of customers they sign up.

CUB is a nonprofit statewide utility watchdog organization created by the state legislature to represent the interests of residential and small-business utility customers. For more information about CUB and its efforts to protect consumers over the last 20 years, visit www.CitizensUtilityBoard.org or call CUB’s Consumer Hotline at 1-800-669-5556.

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