



CITIZENS UTILITY BOARD

Fighting for Illinois Consumers

For Immediate Release

April 4, 2019

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CUB TESTIMONY: SLASH NICOR RATE HIKE BY \$82.5 MILLION

Nicor Gas' record rate-hike request should be cut by at least \$82.5 million, mainly because the company is seeking an excessive profit rate for its shareholders, according to testimony filed by the Citizens Utility Board (CUB).

"Nicor's rate-hike request is bloated and unfair, and our expert testimony proves it," CUB Executive Director David Kolata said Thursday. "Everybody wants Nicor to have the resources it needs to maintain quality service, but that doesn't mean the utility deserves an unnecessary rate hike."

CUB asked Nicor customers to visit its website, at CitizensUtilityBoard.org, to sign a petition to the Illinois Commerce Commission (ICC) against the proposed increase.

In November 2018, just months after the ICC granted the company a \$93.5 million increase, Nicor filed for an additional \$230 million rate hike. The request, which the ICC will rule on in the fall, is the largest by a gas utility CUB has ever seen in 35 years of consumer advocacy. Nicor is the gas utility for most of northern Illinois, outside Chicago. In 2018, its parent, Southern Company, made \$2.2 billion in profits.

CUB and the group Illinois Industrial Energy Consumers commissioned an expert analysis of Nicor's proposal. The testimony was written by Michael Gorman, of Brubaker & Associates, Inc., a Missouri-based consulting firm that specializes in utility regulation. Gorman uncovered several areas of concern, including:

Return on Equity. Nicor is asking for an excessive "Return on Equity" (ROE)—or profit rate for shareholders—of 10.6 percent. Gorman instead recommended a more reasonable 9.2 percent ROE, which would reduce the rate hike by \$38.1 million. Nicor's proposed profit rate for shareholders is "simply excessive and results in unjust and unreasonable prices to Nicor's retail customers," Gorman wrote.

In the rate-setting process, ROE is the most important component of a utility's "rate of return," which is the rate at which the utility recovers the cost of financing physical assets, such as gas meters, pipes, and gas-storage fields.

Capital Structure. A utility's "capital structure"—basically how it finances infrastructure projects—is another important component of rate of return, and Gorman had concerns there also. He found that Nicor overstated its costs in this area, and he recommended reducing the rate hike by another \$12.3 million.

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Incentive Compensation. Gorman recommended reducing the amount that Nicor wanted to recover for employee bonuses, cutting the proposed increase by about \$12.4 million. "Shareholders are the primary beneficiary of incentive compensation for financial performance, and therefore it is reasonable to ask them to recover these costs," he wrote.

Other accounting recommendations, related to employment, pension and tax issues, amounted to nearly \$20 million, leading consumer advocates to recommend reducing the rate hike by a total of at least \$82.5 million.

ICC staff and the Illinois Attorney General's office also are reviewing the case, and CUB hopes to support any additional reductions those parties uncover.

According to CUB's initial review of the filing, Nicor's request would increase the residential monthly customer charge by about 29 percent, to more than \$20 per month, and increase the per therm delivery charge by about 60 percent. If the rate hike is approved, Nicor has said the average residential customer will pay about \$5.36 more per month.

The hike would increase delivery rates, which take up about a third to a half of gas bills. That's what Nicor charges to cover the costs of delivering gas to customer homes, plus a profit.

CUB warned that all customers—even those with an alternative gas supplier—would pay these higher Nicor delivery charges. So customers should beware of any sales representative who says they can avoid the rate hike by going with an unregulated supplier. All customers would pay these higher rates.

CUB, Illinois' leading nonprofit utility watchdog, is celebrating its 35th anniversary in 2019. Created by the Illinois Legislature, CUB opened its doors in 1984 to represent the interests of residential and small-business utility customers. Since then, it has saved consumers more than \$20 billion by helping to block rate hikes and secure refunds. For more information, call CUB's Consumer Hotline, 1-800-669-5556, or visit its award-winning website, www.CitizensUtilityBoard.org.

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