



CITIZENS UTILITY BOARD

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CUB ASKS ICC TO REJECT RATE HIKE SOUGHT BY NICOR GAS, GAS RATES SHOULD GO DOWN INSTEAD, STUDY SHOWS

The Citizens Utility Board (CUB) Tuesday urged state regulators to reject an \$83 million increase in natural gas rates sought by Nicor and to reduce rates for the company's nearly 2 million customers instead.

On Tuesday, CUB, the Cook County States Attorney and the Illinois Attorney General's Office filed expert testimony before the Illinois Commerce Commission (ICC) challenging the rate hike. The groups presented three separate studies, which detail how Nicor has inflated its rate-hike request.

The studies presented to the commission Tuesday show that Nicor has inflated its expenses, understated its income and attempted to charge customers for costs associated with a controversial gas-pricing scheme that is under investigation by state and federal authorities. The cumulative effect of the recommendations would wipe out the entire \$83 million increase sought by Nicor and result in about a \$15 million rate decrease instead.

Any rate reduction would be in addition to the \$190 million refund CUB is seeking in a separate proceeding regarding overcharges under the gas-pricing plan.

"Nicor's rate hike request is completely unjustified," CUB Executive Director Martin Cohen said. "A close look at the numbers shows that Nicor's rates should be going down, not up."

Investigations into Nicor's business activities began in 2002, after CUB received information from a company "whistleblower" alleging fraud and other company wrongdoing under a complicated Performance Based Rate plan. That plan, approved over CUB's objections

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in 2000, was supposed to give Nicor an incentive to purchase less expensive gas for its customers by allowing the company to keep half of the savings if it beat a benchmark price.

Instead, company documents show, Nicor designed and used the plan to profit off of very cheap gas that had been on the company's books since the 1960s. By selling that gas, the company beat the benchmark price and profited from it. But it replaced the cheap gas it had taken from its storage tanks with very expensive gas purchased on the spot market.

As part of its rate hike request, the company wants consumers to pay costs associated with replacing that cheap gas, a move that would cost customers \$25.9 million. CUB's testimony recommends that those costs be disallowed from consumers' rates.

CUB's studies also show the company is seeking an excessive profit rate for stockholders of 11.37 percent. Reducing that rate to a more reasonable 9.94 percent and adjusting the company's capital structure would save consumers an additional \$14 million. In addition to those savings, experts hired by the Attorney General's office have uncovered another \$64 million in unreasonable expenses and understated income.

When all of the consumer group recommendations are added together, and any overlap is accounted for, CUB estimates its final recommendation in the rate case will call for about a \$15 million rate reduction instead of an increase.

The company's rate hike request would raise gas bills for the average consumer by about \$26 a year. Hearings on the rate hike will be conducted in May, with a final ICC decision due in October.

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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