



City of Chicago



SR2018-837

Office of the City Clerk

Document Tracking Sheet

Meeting Date: 7/25/2018

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Type: Resolution

Title: Call for hearing(s) on differences in monthly natural gas costs for Chicago versus suburban households

Committee(s) Assignment: Committee on Committees, Rules and Ethics
Committee on Health and Environmental Protection

SUBSTITUTE
RESOLUTION

WHEREAS, The Peoples Gas Light and Coke Company (Peoples Gas) is an Illinois corporation engaged in the transportation, purchase, storage, distribution, and sale of gas to the public in Illinois; and

WHEREAS, Peoples Gas is a subsidiary of Milwaukee, Wisconsin based WEC Energy Group, Inc.; and

WHEREAS, Peoples Gas serves more than 873,000 Chicagoans, and has delivered gas to residential and business customers for over 165 years; and

WHEREAS, in 1981 an engineering study commissioned by Peoples Gas recommended replacing a subset of at risk gas mains of certain materials by 2030; and

WHEREAS, a follow-up 1993 engineering study recommended expanding the target for replacement to include all cast and ductile iron mains, and moving the target end date for replacement to 2050; and

WHEREAS, beginning in 2007, Peoples Gas sought regulatory approval to accelerate pipe replacement through a special cost recovery mechanism, or "rider"; and

WHEREAS, in 2013, the Illinois General Assembly authorized Peoples Gas and other gas distribution utilities to use this mechanism, a rider for Qualified Infrastructure Plant, or "Rider QIP"; and

WHEREAS, Peoples Gas' accelerated pipe replacement has taken various forms and names, including Accelerated Main Replacement Program (AMRP) and System Modernization Program (SMP); and

WHEREAS; under the direction of the ICC, Liberty Consulting Group performed an outside audit of the AMRP, presenting its Phase One final report to the ICC in May 2015; and

WHEREAS, the Phase One final report states "Liberty's year-long investigation disclosed a lack of management expression or understanding of: (a) likely overall program costs, (b) likely program duration relative to targeted completion of leak-prone pipe replacement by 2030, and (c) the reasons why leak rates have not fallen significantly after four years of accelerated replacement of cast iron and ductile iron mains."; and

WHEREAS, Liberty wrote that fixing the AMRP would require a "massive effort" and made 95 recommendations; and

WHEREAS, in its Phase Two monitoring of recommendation implementation Liberty found that Peoples Gas failed to implement multiple critical recommendations to Liberty's satisfaction; and

WHEREAS, Peoples Gas estimated in 2007 that accelerated pipe replacement would cost \$1.4 billion; and

WHEREAS, current estimates for the cost of accelerated pipe replacement are as high as \$10.96 billion; and

WHEREAS, after the ICC approved WEC Energy Group's acquisition of Peoples Gas in June 2015, WEC executives revealed that former Peoples Gas executives had failed to share updated cost estimates with the ICC during the ICC proceeding to approve the acquisition; and

WHEREAS, Peoples Gas senior executives were informed in January 2015 of new draft cost estimates of more than \$8 billion, almost double the \$4.45 billion estimate Peoples Gas executives told the ICC was its latest estimate as late as May 2015, before the merger was approved in June 2015; and

WHEREAS, similar misinformation was presented to the Illinois General Assembly when approving legislation authorizing Rider QIP; and

WHEREAS, the House sponsor also represented during floor debate that the average monthly bill impact would be \$1.14; and

WHEREAS, the average residential customer paid \$7.36 for the rider in December 2018; and

WHEREAS, on its current trajectory, the average monthly bill impact is projected to peak in 2040 at over \$65; and

WHEREAS, on July 20th, 2016, the ICC initiated an investigation "to investigate the cost, scope, schedule and other issues related to the Peoples Gas Light and Coke Company's natural gas system modernization program and the establishment of Program policies and practices;" and

WHEREAS, the investigation, Docket No. 16-0376, ended with an ICC Order on January 10th, 2018; and

WHEREAS, an expert witness hired by the Office of the Illinois Attorney General during the ICC investigation concluded that over the course of the SMP affordability problems "are not limited to hundreds, or thousands, or even tens of thousands of natural gas customers. The affordability problems that would result from the Company's proposal instead extend to hundreds of thousands of customers;" and

WHEREAS, recent analysis by Crain's Chicago Business found that "Chicagoans last year paid 80 percent more to heat their homes than suburbanites who get their natural gas from Nicor Gas"; and

WHEREAS, in 2018, Peoples Gas sent disconnection notices to 92,000, or 15 percent of, Chicago residential heating customers; and

WHEREAS, then-ICC Chairman Brien Sheahan commented at the conclusion of the ICC investigation that "the long-term annual costs that [Peoples Gas has] proposed will cause too great a burden for too many households in Chicago.;" and

WHEREAS; Peoples Gas' rate of pipe replacement does not correspond to their dramatic increase in capital spending; and

WHEREAS; analysis by Crain' Business Chicago found that Peoples Gas will spend the same amount of money between 2017 and 2019 as it did across the entire 1990's in inflation adjusted dollars, while replacing only 45% as much pipe as they did during that decade; and

WHEREAS, in 2018, Peoples Gas spent \$5.7 million per mile of pipe retired, significantly more than the \$1 million per mile it spent itself in 2006, prior to acceleration; and

WHEREAS, comparable utilities in Baltimore, Philadelphia, and New York City have reported spending between \$1.5 and \$3.4 million per mile; and

WHEREAS, Peoples Gas has primarily accelerated medium pressure work, a much larger amount of work, on a timeline recommended in a 2007 engineering study for a smaller subset of at-risk pipe; and

WHEREAS, Peoples Gas' "Neighborhood" approach to pipe replacement is designed for medium pressure upgrade work, not targeted at-risk pipe replacement work; and

WHEREAS, according to Crains Chicago Business, "WEC Energy has made capital spending increases a central part of its strategy to boost earnings and dividends for shareholders;" and

WHEREAS, Peoples Gas plans to increase capital spending even further in coming years, from \$1,262 million between 2016 and 2019 to \$1,913 million between 2019 and 2021; and

WHEREAS, Peoples Gas refuses to plan its SMP based on a quantified optimization of risk reduction and refuses to provide estimates of the added impact in cost and time of conducting medium pressure-related work with at-risk pipeline replacement; and

WHEREAS, the lack of meaningful data and analysis of the program allows Peoples Gas to spend amounts that increase customer's bills higher and faster than if more was known about the program; and

WHEREAS, the ICC's mission is to ensure adequate, efficient, reliable, safe and least-cost public utility services; and

WHEREAS, Rider QIP allows gas distribution utilities to recover costs associated with a set of specific investments outside of the normal rate making process; and

WHEREAS, Rider QIP does not direct or dictate the cost, scope, schedule or other operational issues related to any infrastructure program; and

WHEREAS, the ICC has the authority and responsibility under the Public Utilities Act, Sec. 8-501 and 8-503, to regulate the cost, scope, schedule of additions, extensions, repairs, or improvements, or changes in utility infrastructure irrespective of how the costs associated with that infrastructure are recovered from ratepayers; and

WHEREAS, despite having this responsibility, the ICC ended its two year investigation without ordering any significant reforms to the SMP, citing ICC legal staff's opinion that Rider QIP limits ICC authority, "with reluctance;" and

WHEREAS, the ICC's investigation into "the cost, scope, schedule and other issues related to the Peoples Gas Light and Coke Company's natural gas system modernization program" did not quantify or otherwise properly analyze the cost, scope, or schedule; and

WHEREAS, the Office of the Attorney General has filed an appeal of the ICC order in the Illinois Appellate Court, 1st District; and

WHEREAS, on February 15th, 2019, State Representative Sonya Harper filed House Bill 3044 that would eliminate Rider QIP for Peoples Gas upon enactment; and

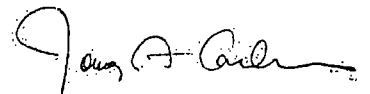
WHEREAS, there is abundant evidence that significant problems remain concerning the management, scope, design, pace and customer affordability implications of the Peoples Gas System Modernization Program; and

WHEREAS, the members of the City Council of the City of Chicago have a responsibility to act in the best interests of their constituents, the vast majority of which are Peoples Gas customers; now therefore,

BE IT RESOLVED, that we, the members of the City Council of the City of Chicago do hereby call upon Governor JB Pritzker and the Illinois General Assembly to restore necessary oversight of this troubled program, and take adequate action to protect Peoples Gas customers and the public interest; and

BE IT FURTHER RESOLVED, that the City Council Committee on Health and Environmental Protection shall convene a hearing to discuss the Peoples Gas System Modernization Program, and call on Peoples Gas Executives, the Illinois Commerce Commission, and representatives from Chicago consumer advocacy and community organizations to appear before the aforementioned Committee and have a judicious discussion on the System Modernization Program and its impact on customers; and

BE IT FURTHER RESOLVED, that suitable copies of this resolution be delivered to the Governor of the State of Illinois, the President of the Illinois Senate, the Minority Leader of the Illinois Senate, the Speaker of the Illinois House of Representatives, and the Minority Leader of the Illinois House of Representatives.



George A. Cardenas