

NICOR GAS COMPANY'S RESPONSE TO THE ICC STAFF'S FIRST REQUEST FOR COMMENTS IN THE THERMAL ENERGY NETWORKS WORKSHOPS

Pursuant to a request from the Illinois Commerce Commission (“Commission”) Staff in the workshops addressing Thermal Energy Networks, Northern Illinois Gas Company d/b/a Nicor Gas Company (“Nicor Gas” or the “Company”), through its undersigned attorneys, respectfully submits these Comments addressing Staff questions raised in the workshops.

Thermal Energy Network Workshop – Request for Comment #1

1) Appropriate ownership, market, and rate structures for thermal energy networks.

The physical assets necessary to operate a thermal energy network should be owned in much the same manner that natural gas networks and associated equipment are owned today. Natural gas utilities typically own and operate the local distribution aspects of the natural gas value chain, not the upstream production and gathering which typically occurs in different geographic regions. However, for thermal energy networks, production and gathering are more closely integrated with the local distribution system and are geographically collocated with the distribution network. Therefore, the thermal energy production and distribution assets should be owned and operated by public and private utilities. Meanwhile, the end-use equipment and appliances should be owned by the end-user. Generally, the majority of infrastructure costs are associated with the installation of the external thermal energy networks to bring the working fluids to end-use applications. The risks associated with the installation of the external networks can be mitigated if they are installed and managed by public and private utilities, which have the experience and expertise to manage the safety, operational, workforce development, community engagement and financial aspects of large utility networks. The costs associated with the external thermal energy network investment and ongoing operations can be recovered through a rate mechanism similar to that used for regulated natural gas pipelines. This will benefit the end-users by balancing the risks associated with the capital intensive external thermal energy network assets across a larger user base while allowing the customer to own the end-use equipment.

The appropriate rate structure and cost recovery mechanism ultimately will need to be determined through a combined legislative and regulatory process. One logical option, as discussed in the ICC Thermal Energy Network Workshops, is for a merged natural gas/geothermal rate base. In this scenario, the cost of installing networked geothermal is spread over the entire customer base. If customers choose to make the transition to networked geothermal, this will minimize the impact to all customers, as the costs are spread over a larger customer base. As with natural gas rates, geothermal rates could include different rate classes for various customer types.

2) Whether the provision of thermal energy services by thermal network energy providers is in the public interest.

To the extent a thermal energy network is open access and provides energy to the general public based on convenience and need, operation of this network should be considered in the public interest. Thermal energy networks can increase the efficiency of end-use applications by exchanging heat with the earth and provide energy benefits to the customers with reduced/no carbon footprint. Moreover, thermal energy networks would be local to the customers, which provides a level of energy security. All these factors can motivate customers to utilize a networked thermal energy system if the costs and risks associated with the systems can be managed effectively. Regulated utilities are uniquely positioned to effectively manage the costs and risks associated with these systems and provide clean, safe, reliable, resilient, and affordable energy to customers.

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Respectfully submitted,

NORTHERN ILLINOIS GAS COMPANY
D/B/A NICOR GAS COMPANY

By: /s/ John E. Rooney
One of its attorneys

John E. Rooney
Jenner & Block LLP
353 North Clark Street
Chicago, Illinois 60654
(312) 222-9350
jrooney@jenner.com