

**Final Comments of
Peoples Gas Light and Coke Company and North Shore Gas Company
In The Thermal Energy Network Workshop Process**

In accordance with the schedule set by the Staff of the Illinois Commerce Commission (“Staff”), the Peoples Gas Light and Coke Company (“Peoples Gas” or “PGL”) and North Shore Gas Company (“North Shore” or “NS”) and (together, the “Companies”) hereby respectfully submit to the Illinois Commerce Commission (“Commission” or “ICC”) these Final Comments in the Thermal Energy Network Forum, which was initiated pursuant to Section 4-610 of the Public Utilities Act (the “Act”), 220 ILCS 5/4-610 which was signed into law by Governor Pritzker as Illinois Public Act 103-0580 on December 8, 2023. The Companies appreciate the work that the Staff has undertaken in a relatively short period of time to engage with stakeholders in a discussion regarding thermal energy networks (TENs) in Illinois. The Companies were an active participant in the workshop process and submit these comments to assist the Staff in framing its recommendations to the Commission for inclusion in its Report to the Governor and the General Assembly.

Introduction

The issues before the Commission in this forum have the potential to affect the health and welfare of Illinois citizens, the Companies’ workforce, and skilled labor in the State, the decarbonization of buildings, as well as the environment. As a matter of background, North Shore is a corporation organized and existing under the laws of the State of Illinois, having its principal office at 200 East Randolph Street, Chicago, Illinois 60601. It is engaged in the business of purchasing, distributing, and selling natural gas to approximately 163,000 customers in Cook and Lake Counties, Illinois. North Shore is a public utility within the meaning of the Act. Peoples Gas is a corporation organized and existing under the laws of the State of Illinois, having its principal

office at 200 East Randolph Street, Chicago, Illinois 60601. It is engaged in the business of purchasing, distributing, and selling natural gas to approximately 878,000 customers in the City of Chicago. Peoples Gas is a public utility within the meaning of the Public Utilities Act (“Act”).

I. Ownership, Market, and Rate Structures / Public Interest

A. APPROPRIATE OWNERSHIP STRUCTURE

The Companies believe that public utilities as defined in Section 3-105 of the Act are best suited to own and operate TENs in the State of Illinois. 220 ILCS 5/3-105. Public Utilities have the requisite access to capital, experience with placing infrastructure in public rights of way, safety protocols, and energy infrastructure, and a skilled union workforce to assist the State of Illinois in deploying thermal energy networks. Other parties echoed these sentiments as well.¹ This is clearly the model that is currently being deployed or investigated in the States of Massachusetts, Colorado, and New York which are the States that are the furthest along in the investigation and development of TENs.

Other benefits of having the utilities own and operate TENs in Illinois, is having a single point of contact for ongoing maintenance or repairs to the TEN. Customers would not have to worry about the financial wherewithal or ability of a private developer or company to stay in business if the TEN needed major repairs. Similarly, this would allow for a single point of contact for coordinating public improvements work or relocations of the TEN. Moreover, it would be much simpler than coordinating third-party relocation work with multiple private developers as opposed to a single utility operating TENs.

¹ See Round 1 Comments of the Indiana-Illinois-Iowa Foundation For Fair Contracting, Page 1 December 7, 2023; Nicor Gas Company’s Response to the ICC Staff’s First Request for Comments in the Thermal Energy Networks workshop, Page 1 December 8, 2023; Nicholas Fry Comments.

There are TENS in Illinois that have been historically operated by third-party, non-utility entities. However, that should not be dispositive of the appropriate ownership structure for this new legislative directive that is intended to be part of the State of Illinois' efforts to address climate change and the reduction of greenhouse gas emissions. While the workshop process did not lead to consensus on this topic, the Companies continue to recommend that public utilities are not only best suited to own and operate TENS in the State of Illinois but are the only entities that are allowed to provide public service based upon current law and the current interpretations of what constitutes a public utility under the Act. At the very least, public utilities should not be precluded from the ownership of TENS but if the Commission recommends that entities other than public utilities should be allowed to operate TENS, then there must be some statutory changes, clarifications, and specific exceptions that are enumerated with regards to the provision of public service through a TEN. Further, a gas utility may want to consider use of a TEN as a "non-pipeline alternative" for certain areas of the public utility system that are otherwise costly or difficult to serve. The Companies expect this and related issues such as a TEN paired with a geothermal power plant to be issued in the Commission's coming "Future of Gas" proceeding.

B. APPROPRIATE MARKET STRUCTURE

In establishing the market structures to govern the deployment of TENS in the State of Illinois, the Commission should look to the existing market structures, rules and regulations, and other long-standing regulatory regimes that apply to regulated public utilities in Illinois to help shape the deployment of TENS in Illinois. In other words, there is no need to reinvent and create an entirely new market structure or regulatory regime for TENS. The various provisions of the Act that govern public utilities, gas utilities, and electric utilities would apply with equal force.

As an initial matter, an entity that is engaged in the operation of a TEN is likely to be considered a public utility pursuant to Section 5/3-105 of the Act. 220 ILCS 5/3-105. As such, this is the key determination or clarification that needs to be resolved, especially if a TEN is providing service that is intended for public use. Therefore, if deemed a public utility under existing state law, a public utility that wished to construct new “plant, equipment, property, or facility” to deploy TENS, would be required to file a Certificate of Public Convenience and Necessity (“CPCN”) with the Commission pursuant to the applicable provisions of Section 8-406 of the Act. 220 ILCS 5/8-406. By using the CPCN process in the context of the deployment of TENS, the Commission will retain its broad authority and oversight for any proposed construction and deployment under Article VIII of the Act. The Commission may wish to consider applying the expedited provisions of Section 8-406.1 to the deployment of TENS. The Indiana, Illinois, Iowa Foundation for Fair Contracting (III FFC) support public utilities creating a TEN.²

Depending upon the type of ownership structures that are deployed, there could be different market structures and flexibility for different types of TENS in Illinois. However, regardless of the type of ownership structure, to provide TENS for public use would deem the TEN a public utility under current law. If the Commission is seeking to have entities other than or in addition to public utilities provide TENS, then it would be appropriate to seek a legislative solution or clarification to avoid any potential problems regarding interpretation in the future.

C. APPROPRIATE RATE STRUCTURES

Similarly, if the Commission is interested in the wide deployment of TENS, then the Commission should apply the appropriate rate mechanism that properly incentivize public utilities to make the required investments, deployment of capital, and cost recovery mechanisms afforded

² See Round 1 Comments of the III FFC, Page 1, December 7, 2023.

under the Act. In particular, rates should be set in a transparent manner, consistent with the way in which public utility rates are set in Illinois and consistent with industry practice for regulated public utilities as outlined in the manuals and guidelines authored by the National Association of Regulatory Commissioners. For example, the applicable provisions of Article IX of the Act can govern the Commission's efforts to deploy TENs in Illinois, including the alternative ratemaking provisions in Section 9-244. 220 ILCS 5/9-244.

During the workshops there was also an important discussion regarding the potential for a merged natural gas / geothermal rate base or natural gas / thermal / electric net energy rate base.³ It is clear that there are certain complexities with developing the appropriate rate structures for TENs for which consensus could not be reached in the workshop process. Again, there will need to be a legislative or regulatory process or proceeding to allow for the establishment of the appropriate rate structure or structures for the deployment of TENs in Illinois.

D. PROVISION OF THERMAL ENERGY NETWORKS IN THE PUBLIC INTEREST?

The Companies agree with the market and design criteria that Nicor Gas outlined that may lead to a finding that TENs are in the public interest and that regulated utilities are uniquely positioned to provide clean, safe, reliable, resilient, and affordable energy to consumers.⁴

It appears that the General Assembly may have already reached a policy decision that TENs are in the public interest by virtue of the Governor signing into law the legislation that has led the Commission to initiate this process. However, since the ownership, market, and rate structures for the deployment of TENs in Illinois are still under consideration, the devil is in the details.

³ Nicor Gas Company's Response to the ICC Staff's First Request for Comments in the Thermal Energy Networks workshop, page 1, December 8, 2023.

⁴ Id. at 2.

That being said, the Commission may wish to follow the lead of Massachusetts and take a measured approach to TENs by seeking pilot proposals for deployment of TENs from gas utilities in Illinois. This pilot program approach is supported by the II FFC and Ameren.⁵ Such a measured approach to the deployment can serve to better educate the Commission, public utilities, customers, and other stakeholders regarding the best means by which to deploy TENs in Illinois.

II. Projects and Program Design

As an initial matter, there can be no argument that public utilities possess vast expertise in the area of project and program design. In addition, public utilities have existing infrastructure that can and should be leveraged along with the experience to develop underground distribution networks.⁶

A. PROJECT DESIGNS THAT COULD MAXIMIZE VALUE OF EXISTING STATE ENERGY EFFICIENCY AND WEATHERIZATION PROGRAMS AND MAXIMIZE FEDERAL FUNDING OPPORTUNITIES

There is no dispute that the development of TENs should leverage existing and successful energy efficiency and weatherization program administrated by the electric and natural gas utilities, the State through the Department of Commerce and Economic Opportunity, the Illinois EPA, and other local programs.⁷ Illinois utilities have developed comprehensive energy efficiency programs and plans for over 15 years.⁸

⁵ See Round 1 Comments of the III FFC, Page 2, December 7, 2023; Round 2 Comments of Ameren Illinois Company, Page 1.

⁶ See Comments of Commonwealth Edison Company, Page 1, December 22, 2023; Round 2 Comments of Ameren Illinois Company, Page 1, December 22, 2023.

⁷ See Comments of Commonwealth Edison Company, Page 1-2, December 22, 2023; Round 2 Comments of Ameren Illinois Company, Page 1, December 22, 2023; Nicor Gas Response to the ICC Staff's Second Request for Comments, Page 1, December 22, 2023.

⁸ Round 2 Comments of Ameren Illinois Company, Page 1.

The Company generally supports the various project designs and features that were outlined by Nicor Gas⁹ such as:

- “Ensuring that buildings connected to the thermal energy network are highly energy efficient will lower the costs and improve the operating efficiency of the thermal network. For example, ensuring that houses connected to a residential network are weatherized and using other measures to lower heating and cooling loads (e.g., smart thermostats) will reduce the capacity of the thermal network and reduce its required investment. Weatherization also will ensure that the households and businesses relying on the thermal network for space conditioning are more comfortable and satisfied with thermal network services.”
- “Ensuring that there is a sufficiently trained workforce for the thermal energy network will improve the delivery of this new service. Businesses and workers required to deliver thermal networks include, but are not limited to: 1) specialty drilling services for geothermal loops; 2) specialized HVAC technicians to design and install geothermal heat pump systems; 3) weatherization and other contractors to improve the efficiency of the building stock; 4) engineering and design professionals; and 5) program and project management professionals.”
- “The thermal network offering should be integrated with existing energy efficiency programs providing weatherization and other measures to low-income residential customers. These programs are currently offered through a successful partnership of Illinois utilities and the Department of Commerce and Economic Opportunity (DCEO). DCEO, in turn, deploys a combination of state and federal government funding. Utility programs are also working with the Illinois EPA to coordinate utility program delivery with expanded funding for low- and moderate-income customers now available from the Inflation Reduction Act. These low-income programs primarily deliver weatherization services, but also deliver low-cost measures (e.g., thermostats, low flow showerheads), as well as HVAC and appliance upgrades for customers with faulty equipment.”
- “The thermal network offering also should be integrated with non-low-income programs serving other residential and business customers. These programs are currently offered through Illinois natural gas and electric utilities. These programs deliver weatherization, energy efficient equipment, boiler system upgrades in multifamily housing, low-cost thermostats and showerheads, and many other measures. The utility programs leverage federal tax credits that are already available for residential and commercial customers and utilities are working with the Illinois EPA to coordinate utility program delivery with expanded funding targeting non-low-income customers now available from the Inflation Reduction Act.”

⁹ See Nicor Gas Company’s Response to the ICC Staff’s Second Request for Comments at pages 1-2, December 22, 2023.

- The thermal network offering should be integrated with existing utility and state workforce development programs. Utility programs work to increase both the number of businesses and workers available to meet the increasing demand for energy efficiency services. The utility programs focus their efforts in underserved communities to ensure that all communities served by the utility will have an opportunity to benefit from jobs and businesses created in the energy transition. The utility programs also integrate with existing state and federal workforce programs.
- Funding for thermal networks should be clearly defined, similar to how budgets are defined for utility energy efficiency programs pursuant to the Illinois Public Utilities Act (“PUA”). For example, the PUA limits natural gas utility energy efficiency spending to 2% of total revenues. The Commission should determine if budgets for energy efficiency programs serving thermal network customers should come out of these existing budgets, or if new funding should be allocated to specialty energy efficiency services serving the thermal networks.”

It is also extremely important that all thermal network offerings include a clear disclosure of the actual costs of these programs for the benefit of the public.

**B. FURTHERING CLIMATE JUSTICE, EMISSIONS REDUCTIONS,
BENEFITS TO UTILITY CUSTOMERS AND SOCIETY AT LARGE**

The Companies believe that TENs have the potential to positively impact environmental justice (“EJ”) and other disadvantaged communities and society at large with reduced emissions, access to clean energy, and clean energy jobs provided that such systems can be deployed in an affordable and cost-effective manner for consumers.¹⁰

If the Commission takes the appropriate and measured approach to TENs with the use of pilot projects or programs that many parties have recommended, and develops a comprehensive set of data, then it will allow all stakeholders to examine whether the benefits of TENs benefit utility customers, EJ communities, and society at large.

¹⁰ Nicor Response to ICC Staff’s Second Request for Comments, Page 3, December 22, 2023.

**C. ADVANCING FINANCIAL AND TECHNICAL APPROACHES
TO EQUITABLE AND AFFORDABLE BUILDING ELECTRIFICATION**

The Companies certainly agree with Nicor Gas that incorporating geothermal infrastructure as part of the planning and initiation of new construction will be more cost-effective than retrofitting existing premises.¹¹ As outlined by Ameren Illinois, a TEN pilot should aim to address affordability, with a particular emphasis on low- and moderate-income customers, as the build out of a system can have a huge impact on customers.¹²

ComEd advocates for a “whole-building approach” to building electrification to electrifying homes, which considers the building as an energy system with independent parts, each of which affects the performance of the entire system.¹³

We recommend any demonstration project lay a foundation for success by first identifying and implementing appropriate building shell improvements (i.e., weatherization measures) as well as health & safety upgrades (common upgrades include roof repair, mold remediation, moisture mitigation, etc.). The primary effect such an approach would have on a thermal energy network project would be to reduce overall building heating and cooling loads, potentially allowing the entire thermal system to be size-optimized, and allowing most buildings to reduce upfront costs by optimizing required heat pump equipment. Enhanced building shells may also allow many ground source heat pump systems to provide their buildings with 100% heating capacity even in extreme cold weather, eliminating the need for supplementary backup heating. Eliminating backup heating makes full building electrification possible, significantly reduces costs, protects customers from occasional bill spikes during extreme weather, and provides significant yet-to-be-quantified benefits to the electric grid. Lastly, the whole-building approach has the added benefit of dramatically improving occupant comfort and enhancing thermal resiliency in the case of extreme weather or a power outage.

Again, this level of detail and granularity is worthy of further consideration in a legislative or regulatory process or the upcoming “Future of Gas” proceeding. As the Company outlined above,

¹¹ Id. at 3.

¹² Ameren Illinois Round 2 Comments at 2.

¹³ Comments of ComEd, Workshop 5, Page 1, December 22, 2023.

regardless of the detail, there is an important need for clear cost transparency in order to ensure that these programs benefit the public.

III. Approaches to Promote The Training and Transition of Utility Workers to Work on TENS

The Companies strongly agree with Climate Jobs Illinois, III FFC, and Nicor Gas that the existing workforce of public utilities possess the skill sets necessary to construct TENS and are uniquely positioned to train or transition their personnel to work on TENS.¹⁴ Additionally, the public utilities have extensive experience with workforce development and training employees that should be leveraged with the development of TENS.¹⁵ Finally, the reliance or prioritization of utility workers or transitioning utility employees mitigates any potential skill shortages and can lead to job creation in Illinois.¹⁶

The Comments of the organized and union workforces represented in this process by the Climate Jobs Illinois and III FFC should be instructive and informative to the Commission in the development of its Report to the Governor and General Assembly in this matter.

¹⁴ Climate Jobs Illinois Comments on Thermal Energy Networks Round 3 Comments, Page 1; III FFC Round 3 Comments, page 1, January 3, 2024; Nicor Response to the ICC Staff's Third Request for Comments, January 3, 2024.

¹⁵ Nicor Response to the ICC Staff's Third Request for Comments, January 3, 2024.

¹⁶ Climate Jobs Illinois Round 3 Comments, Page 2; III FFC Round 3 Comments.

IV. Conclusion

The Companies appreciate the opportunity to submit these Final Comments in an effort to assist the Commission Staff in presenting the draft Report for the Commission's consideration. We look forward to working with the Commission Staff and other stakeholders to meet the goals of the General Assembly in a manner that ensures the continued safe, reliable, and cost-effective utility service.

Respectfully submitted,

**NORTH SHORE GAS COMPANY AND
THE PEOPLES GAS LIGHT AND COKE COMPANY**

By: Koby A. Bailey
One of its attorneys

Koby Bailey
Attorney
Regulatory Affairs
WEC BUSINESS SERVICES LLC
200 E. Randolph Drive
Chicago, Illinois 60601
(312) 240-4081
koby.bailey@wecenergygroup.com

Phillip A. Casey
CALFEE, HALTER & GRISWOLD LLP
111 Monument Circle
3900 Salesforce Tower
Indianapolis, Indiana 46204
(317) 308-4270
pcasey@calfee.com

Mary Stephenson
STEPHENSON SCHROEDER LIMITED
121 W. Farnham Lane
Wheaton, Illinois 60189
(773) 368-6292
maryss@stephensonschroederltd.com