STATE OF MINNESOTA
PUBLIC UTILITIES COMMISSION

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August 8, 2025

In the Matter of a Commission Evaluation of Changes to Natural Gas Utility Regulatory and Policy Structures to Meet State Greenhouse Gas Reduction Goals

Docket No. G999/CI-21-565

REPLY COMMENTS OF FRESH ENERGY AND MCEA

Fresh Energy and Minnesota Center for Environmental Advocacy (MCEA) appreciate the opportunity to provide these reply comments. Fresh Energy and MCEA write in response to parties' initial comments regarding the Notice of Comment Period issued in the Future of Gas docket by the Minnesota Public Utilities Commission (Commission) on May 5, 2025, regarding what action(s), if any, the Commission should take to modify existing gas line extension policies for rate regulated gas utilities.[1] In these reply comments we respond to several points from other parties' initial comments and provide thorough explanations describing why:

A. Now is the time to reevaluate and eliminate line extension allowances;
B. The decision on line extension policy should not be put back into rate cases or other utility-specific proceedings;
C. Scenarios modeled in the G21 report are consistent with ending line extension allowances;
D. Line extension policy is not housing policy;

[1] *In the Matter of a Commission Evaluation of Changes to Natural Gas Utility Regulatory and Policy Structures to Meet State Greenhouse Gas Reduction Goals*, Minn. PUC Docket No. 21-565, Notice of Comment Period (May 5, 2025), *available at* https://www.edockets.state.mn.us/documents/%7B2019C596-0000-C012-AFF3-A2DDC1866234%7D/download?contentSequence=0&rowIndex=6.

E. Line extension subsidies distort the true cost of gas installations, which may result in uneconomic fossil fuel investments;
F. Subsidies are meant for technologies we wish to incentivize;
G. It is significantly more cost-effective to electrify new construction than to decarbonize at a later date;
H. Gas utilities should be shifting spending on current ECO incentives away from using gas in new construction, not doubling down on incentives for dual-fuel in new construction;
I. Electrification is a cost-effective alternative for delivered fuels customers that reduces energy burden and maintains regulatory protections;
J. Expanding the gas system can significantly increase costs for existing customers; and
K. Line extension policy has not been the purview of the legislature before.

In our initial comments in this comment period,[2] Fresh Energy and MCEA provided context on line extension subsidies in Minnesota and Fresh Energy and MCEA's previous engagement on this topic in rate cases, described the need to reevaluate and phase out line extension allowances in Minnesota, and summarized gas line extension policy reforms in other states (Section I); analyzed the assumptions behind gas utilities' line extension allowance calculations, dug into the errors in their assumptions, and calculated the associated emissions externalities, as well as described how best to address affordability concerns (Section II); responded directly to the questions from the Notice of Comment Period (Section III); and concluded that ratepayer subsidization of gas line extensions should be ended in Minnesota (Section IV).

We appreciate the opportunity to review and respond to other parties' initial comments. Reflecting on parties' initial comments, we highlight the following important points for consideration.

[2] Fresh Energy and MCEA Initial Comments (July 2025) *available at* https://www.edockets.state.mn.us/documents/%7BC0E0EB97-0000-C211-B70F-4B0FD3A483D5%7D/download?contentSequence=0&rowIndex=26;
Fresh Energy and MCEA Initial Comments expert report in Attachment A (July 2025) *available at* https://www.edockets.state.mn.us/documents/%7BD0E0EB97-0000-C715-92E4-1C172CCAEFE8%7D/download?contentSequence=0&rowIndex=27

I. Reflections on parties' initial comments

A. Now *is* the time to reevaluate and eliminate line extension allowances

A theme in the initial comments from some parties opposed to changing line extension policy is that it is too soon to change the policy. These parties largely do not specify when they believe it would be the right time to evaluate line extension allowances or what triggering events would warrant the Commission taking action.

1. Electric heat pumps are increasingly in demand in Minnesota

Instead, parties generally argued that heat pumps are not well enough developed or adopted to stop subsidizing new connections to the gas system.[3] However, heat pumps are well past a niche technology deployed through utility NGIA pilots. Today, variable speed cold climate heat pumps are the most efficient heating and cooling technology available.[4] Recent advancements in heat pumps and their readiness to scale is well-documented.[5]

Additionally, there is significant record evidence that heat pump adoption is already well underway and rapidly increasing. As the Citizens Utility Board (CUB) noted in their initial comments, a 2021 report prepared by the Brattle Group on the future of gas utilities noted that "[t]he [energy] transition is already underway: at the current rate, the number of homes with electric space heating could exceed the number of homes with gas space heating by 2032."[6] This is only seven years from now.

Minnesota-specific information in the record shows the same trend. In its ECO Triennial Report filed in April of this year, Xcel Energy (Xcel) stated it "saw significant customer interest in EFS [efficient fuel-switching] incentives" and customer interest "greatly exceeded expectations for

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[3] *See* Housing First Initial Comments at 3; LIUNA Initial Comments at 2; CenterPoint Energy Initial Comments at 8-9.
[4] ACEEE Initial Comments at 1.
[5] Regulatory Assistance Project, *The History of Heat Pumps: Technology Advances to Meet the Cold-Climate Challenge* (April 2024), *available at* https://www.raponline.org/blog/the-history-of-heat-pumps-technology-advances-to-meet-the-cold-climate-challenge/;
International Energy Agency, *Global heat pump sales continue double-digit growth* (March 2023), *available at* https://www.iea.org/commentaries/global-heat-pump-sales-continue-double-digit-growth;
RMI, *Now Is the Time to Go All In on Heat Pumps* (July 2023), *available at* http://rmi.org/now-is-the-time-to-go-all-in-on-heat-pumps/;
Northeast Energy Efficiency Partnerships, *Air Source Heat Pumps*, available at https://neep.org/smart-efficient-low-carbon-building-energy-solutions/air-source-heat-pumps;
American Council for an Energy-Efficient Economy, *Study: New Heat Pump Type Is Lowest-Cost Decarbonization Option for Big Apartment Buildings* (July 2025), *available at* https://www.aceee.org/press-release/2025/07/study-new-heat-pump-type-lowest-cost-decarbonization-option-big-apartment.
[6] CUB Initial Comments at 9 (citing Brattle, *The Future of Gas Utilities Series: Transitioning Gas Utilities to a Decarbonized Future, Part 1 of 3,* 9 (August 2021) *available at* https://www.brattle.com/wp-content/uploads/2022/01/The-Future-of-Gas-Utilities-Series__Part-1.pdf).

efficient fuel switching measures."[7] Xcel also observed that they have a strong network of trade partners who are comfortable with fuel-switching technologies and they are seeing growing interest in fuel-switching technologies as customers learn about these options and more trade partners get comfortable with the technologies.[8]

Minnesota is also seeing new homes and affordable housing go all-electric. Xcel already has an ECO program that is constructing market-rate and affordable housing that is all-electric. In 2024, there were eight homes constructed under the program that were all-electric and Xcel anticipated "increased participation going forward."[9] We have also seen the use of heat pumps by well-known affordable housing groups such as Habitat for Humanity, which is constructing a 147-unit affordable housing project in St. Paul with no hookups for natural gas connection.[10]

A recent post published by Housing First Minnesota states that "industry-leading homebuilders are building all-electric homes to improve comfort and energy efficiency, and Minnesota builders are leading the way" and that "[o]ne of the trends in residential construction is the shift toward building 100% electric homes."[11] The post also states that all-electric homes have "lower energy costs," and notes that, "[m]odern electric appliances and heat pumps are very efficient, reducing energy consumption and keeping utility bills lower for homeowners. For example, heat pump water heaters can be up to 300% efficient, providing hot water with less energy used."

Other cold-weather states have also seen a move to heat pumps. Maine, for example, has achieved robust adoption of heat pumps.[12] Maine and Minnesota are in very similar climate zones.[13] In 2019, Maine embraced heat pumps as part of its climate strategy, setting a goal to install 100,000 by 2025. In Maine contractors installed close to 30,000 heat pumps and 10,000

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[7] Xcel Energy, *2024 Status Report and Associated Compliance Filings: Minnesota Electric & Natural Gas Energy Conservation & Optimization Program,* Docket No. E,G002/CIP-23-92 at 106, 125 (April 2025) available at https://www.edockets.state.mn.us/documents/%7B8012F395-0000-C110-B71B-85EFDF2F27AB%7D/download?contentSequence=0&rowIndex=25.

[8] *Id*. at 106.

[9] *Id*. at 116-117.

[10] CUB Initial Comments at 10 (citing Frank Jossi, *A St. Paul, Minnesota Habitat for Humanity Project Will Offer Affordable Housing Without Fossil Fuels,* Canary Media (August 2024), *available at* https://www.canarymedia.com/articles/enn/a-st-paul-minnesota-project-will-offer-affordable-housing-without-fossil-fuels).

[11] Housing First Minnesota, *Unlocking Comfort (and Savings) through Efficiency and Electrification* (July 10, 2025), *available at* https://blog.housingfirstmn.org/unlocking-comfort-and-savings-through-efficiency-and-electrification/.

[12] Canary Media, *Heat pumps sold so fast in Maine, the state just upped its target* (July 2023), *available at* https://www.canarymedia.com/articles/heat-pumps/heat-pumps-sold-so-fast-in-maine-the-state-just-upped-its-target;
Anna Phillips, *Heat pumps are defying Maine's winters and oil industry pushback* (February 2023), available at https://www.washingtonpost.com/climate-environment/2023/02/07/maine-gas-industry-heat-pumps/.

[13] Pacific Northwest National Laboratory (PNNL), IECC Climate Zone Map, *available at* https://basc.pnnl.gov/images/iecc-climate-zone-map.

heat pump water heaters per year in 2021 and 2022.[14] By 2023 the state had surpassed that target two years ahead of schedule, deploying at least 104,000 heat pumps in homes and businesses. The state then set a new goal: installing another 175,000 heat pumps by 2027.[15] Maine's strategy is to leverage investments in efficiency and electrification to lower rates for everyone.[16]

2. There is national momentum towards eliminating line extension subsidies

Eliminating line extension subsidies is also not a new concept, nor unstudied. As discussed in our initial comments, many states have already eliminated line extension allowances. While those states have recognized that decarbonization of gas utilities is an ongoing process that will require more discussion and debate over time, they have found eliminating line extension subsidies a very logical first step. For example, in Maryland, the Public Service Commission of Maryland noted that stakeholders in the docket, "presented widely divergent opinions about the likely future of natural gas."[17] The Maryland Commission noted that because there was no stakeholder consensus about the future of gas utilities, a larger overall discussion about the future of natural gas service was appropriate. Yet, the Commission still found it prudent to take immediate action on line extension allowances, despite utility arguments that line extension allowances should continue for reasons of reliability, affordability, and customer preference.[18]

In making its decision, the Maryland Commission cited state policies to reduce dependence on fossil fuels and focus on renewable energy (policies which Minnesota also has[19]), and a law requiring economy-wide GHG reductions of 60% by 2031 and net-zero by 2045 (only slightly more aggressive than Minnesota's requirements). The Commission found that these energy policies, which call for continuing reductions in GHG emissions and greater electrification, are no longer compatible with gas line extension subsidies.[20] The Commission noted that while natural gas would continue to play a role in the state's utility landscape, eliminating line extension allowances was an appropriate step because it was "not removing customer choice by eliminating gas line extension subsidies" and its approach was a "neutral stance, neither subsidizing nor discouraging new gas extensions."[21] With regard to timing, the Maryland

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[14] Western Resource Advocates, Southwest Energy Efficiency Project, and Natural Resources Defense Council (NRDC), *A Path to Pollution-Free Buildings: Meeting Xcel's 2030 Gas Decarbonization Goals* (July 2023), *available at* https://westernresourceadvocates.org/wp-content/uploads/2023/07/Path-to-Pollution-Free-Buildings-July-2023.pdf.

[15] Canary Media, *Heat pumps sold so fast in Maine, the state just upped its target* (July 2023), *available at* https://www.canarymedia.com/articles/heat-pumps/heat-pumps-sold-so-fast-in-maine-the-state-just-upped-its-target.

[16] Canary Media, *Has Maine learned how to make heat pumps lower electricity costs for all?* (May 2025), *available at* https://www.canarymedia.com/articles/energy-efficiency/maine-heat-pump-electric-costs.

[17] *Petition of the Office of People's Counsel for Near-Term, Priority Actions and Comprehensive, Long-Term Planning for Maryland's Gas Companies,* Order on Stakeholder Proposals for Revision of Gas Policy, Maryland PSC Case No. 9707, Order No. 91683 (June 13, 2025) (hereinafter Maryland Order).

[18] *Id*. at 6.

[19] *See* Minn. Stat. §§ 216B.241, subd. 12(a); 216B.2427, subd. 10; 216C.05; 216H.02.

[20] Maryland Order at 8.

[21] *Id*. at 8-9.

Commission explicitly found that delaying a decision on line extension policy was not appropriate, stating,

> [t]he Commission is not persuaded that this decision should be delayed pending a more detailed review of the future of natural gas and electric services in Maryland. Regardless of whether natural gas use declines or increases in the near-or long-term future, the Commission's action here is warranted.[22]

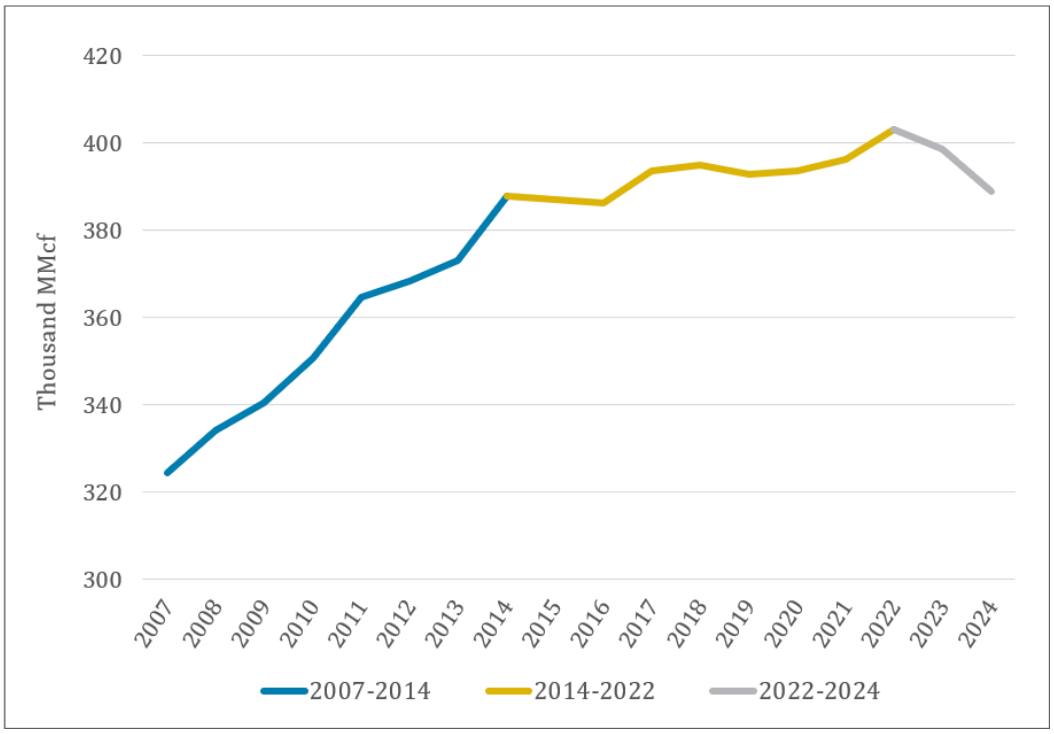
Minnesota has long been a climate policy leader. Given that at least eight states have begun eliminating or have fully eliminated line extension allowances, it is not too early for Minnesota to follow suit.

3. Trends in gas usage are changing

In addition, gas usage conditions are changing, which makes this the right time to modify line extension allowances. As CUB noted in their initial comments, the U.S. Energy Information Administration ("EIA") projects that residential gas demand is about to peak, and then will decline steadily through 2050.[23] Recent gas usage data from Minnesota shows that this peak may have already occurred. Figure 1 shows total residential, commercial, and industrial gas usage in Minnesota over the past two decades. In order to smooth out annual fluctuations, the chart shows the rolling five year average over time.[24]

[22] *Id*. at 9-10.
[23] CUB Initial Comments at 9 (citing EIA, *Annual Energy Outlook 2025, Table: Table 2. Energy Consumption by Sector and Source,* Reference Case, United States (last visited August 5, 2025), *available at* https://www.eia.gov/outlooks/aeo/data/browser/#/?id=2-AEO2025&region=1-0&cases=ref2025&start=2023&end=2050&f=A&linechart=%7E%7E%7E%7E%7E%7E%7E%7E%7E%7Eref2025-d032025a.6-2-AEO2025.1-0&map=ref2025-d032025a.3-2-AEO2025.1-0&ctype=linechart&sourcekey=0).
[24] In other words, the value for 2007 is the average annual usage from 2003 through 2007, and the value for 2008 is the average annual usage from 2004 through 2008, etc.

Figure 1. Residential, commercial, and industrial gas usage by year in Minnesota, rolling five-year average



As the blue line in the chart shows, gas usage increased rapidly through 2014. However, the rate of growth slowed considerably from 2014 through 2022, as shown in the gold line. This decrease is likely due to a combination of technological advancements and the effectiveness of Minnesota's strong energy efficiency and conservation policies. Moreover, in the last two years, it appears that gas usage has not only stopped growing, but has begun to decline.

Further, in 2024, Minnesota passed legislation requiring the residential energy code to achieve a 70% reduction in energy use by 2038 compared to the 2006 baseline (vs IECC 2006). Declining gas usage resulting from policy changes like more efficient building codes, and as predicted through sources like EIA and the Minnesota-specific data above, make this a critical moment to change line extension policy. If line extension subsidies were allowed to continue, declining gas usage would exacerbate the potential rate increases for existing customers as detailed in our initial comments.[25]

4. The harms to human health of gas combustion in homes are significant

Finally, there is a thorough and growing body of evidence as well as first-hand testimonies from frontline communities in Minnesota who have recently been monitoring indoor air quality, that

[25] Fresh Energy and MCEA Initial Comments expert report in Attachment A at 7-9.

gas combustion in homes does significant harm to health.[26] These harms to human health are further reason that now is the right time to stop subsidizing the expansion of the gas system. As stated by COPAL, Ayada Leads, Health Professionals for a Healthy Climate (HPHC), and Dr. Curt Nordgaard in their initial comments "decades of peer-reviewed research . . . demonstrate that indoor gas combustion significantly elevates levels of indoor and outdoor air pollutants at concentrations that pose significant risk to the entire body, and the pulmonary, cardiovascular, and ocular systems in particular."[27]

Natural gas combustion in appliances releases a range of harmful air pollutants, including nitrogen dioxide (NO_2), carbon monoxide (CO), fine particulate matter ($PM_{2.5}$), and formaldehyde.[28] These pollutants exacerbate asthma, increase the risk of respiratory infections, and worsen chronic obstructive pulmonary disease (COPD).[29] Children are especially vulnerable to these impacts.[30] Moreover, lower-income households and communities of color are more likely to experience these impacts as these communities are more likely to live in older housing with inadequate ventilation or maintenance, and often lack the resources to mitigate exposures.[31] These same communities already bear a disproportionate burden of outdoor air pollution, making indoor exposures from natural gas a compounding and cumulative threat to respiratory health and overall well-being. This summer, we all experienced elevated levels of $PM_{2.5}$ in the outdoor air, triggering air quality alerts that forced us to stay indoors. However, for families living in homes with gas appliances, staying indoors does not provide the reprieve from these pollutants that it does for others.

In their initial comments, COPAL and Ayada Leads shared community testimonies from their experiences participating in the indoor air quality monitoring community project. These first-hand accounts further emphasize the need to stop subsidizing the expansion of the gas system. Several residents had asthma and reported exacerbated respiratory symptoms associated with indoor air pollution spikes caused by gas appliance use. Most participants lacked awareness of the health risks posed by gas appliances in homes. Residents also emphasized their concern that gas line extension subsidies benefit developers while low-income families pay the cost. Quotes directed at decision-makers from community members include: "We don't deserve to keep paying for more harm. We're already paying enough—not just with money, but with our health. The big companies should be the ones covering those costs, not the families barely getting by,"[32] as well as "[i]t's not just about numbers or profits—it's about the well-being of communities. Because if we keep ignoring the

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[26] COPAL, Ayada Leads, Health Professionals for a Healthy Climate (HPHC), Dr. Curt Nordgaard Initial Comments, *available at* https://efiling.web.commerce.state.mn.us/documents/%7BC060EF97-0000-C218-88F6-7C726CDD2172%7D/download?contentSequence=0&rowIndex=4.
[27] *Id.* at 6.
[28] The American Lung Association Initial Comments at 1.
[29] *Id*.
[30] *Id*.
[31] *Id*. at 2.
[32] COPAL, Ayada Leads, Health Professionals for a Healthy Climate (HPHC), Dr. Curt Nordgaard Initial Comments at 16.

health impacts of gas, we'll continue raising generations of kids with respiratory illnesses. And that carries a huge human and economic cost."[33]

In sum, MCEA and Fresh Energy see this as the exact right time to modify line extension allowances. Heat pump technology has evolved and is available, consumer interest is surpassing expectations, there is familiarity with the technology in the trades, and all-electric homes are being built even in affordable housing spaces. Line extension allowances have already been eliminated in other states, including those in our same climate zone, who have seen this as a logical step to take immediately, while the future of gas and decarbonization pathways for the state continue to be determined. Forecasts and data show that gas usage is on the cusp of declining and may be already, making this a critical moment to end the practice of subsidizing line extensions. And health impacts in homes using gas appliances are well-documented and are adding to the health burden for communities already most burdened by pollution. All of these factors make this the right time to stop incentivizing the use of gas. Customers may still choose to use it, but it is no longer appropriate to provide a subsidy for new gas connections.

B. The decision on line extension policy should not be put back into rate cases or other utility-specific proceedings

MCEA and Fresh Energy also wish to respond to CEE's recommendation that the Commission establish new criteria for considering line extensions and then "review and approve utility-specific tariffs in utility-specific proceedings based on the new criteria."[34] We strongly urge the Commission not to push the line extension issue back into rate cases or other dockets considered on a utility-by-utility basis.

This is because when our organizations raised concerns with current line extension policy in utility-specific dockets (rate cases), we heard clearly that this was not an ideal forum. Utilities repeatedly expressed concern that modifying their line extension policy without simultaneously modifying the policies of the other gas utilities would put them at a competitive disadvantage. This is why the majority of parties in those rate cases, including the gas utilities and other stakeholders, requested that this issue be taken up in the present docket. Additionally, rate cases are already highly complex and contested dockets. Adding another contested issue will only serve to bog down those proceedings further and reduce the opportunity for consensus outcomes. This docket is also a much more accessible place for community groups and the public to weigh in on this issue. If line extension policy is returned to rate cases, it will be more difficult for people and communities directly affected to navigate engagement when the issue is one of dozens at play.

MCEA and Fresh Energy note that CEE also suggested line extension policy could be revisited across all utilities in the future if certain conditions materialized, including (1) changes in policy goals, (2) changes in Minnesota building codes, (3) advancements in appliance technologies and costs, and (4) housing and construction markets.[35] However, these system changes are present

[33] *Id*. at 19.
[34] CEE Initial Comments at 5.
[35] CEE Initial Comments at 18.

now. As we discussed previously, Minnesota policy *has* changed. We now have laws enabling fuel-switching, requiring natural gas throughput reductions, moving our GHG reduction targets up to net-zero by 2050, and now a statutory requirement for this docket to consider how our gas system needs to change to meet the net-zero by 2050 benchmark. Minnesota has also recently changed its building codes, including a residential code change in 2024 requiring a 70% reduction in energy use by 2038 compared to the 2006 baseline (vs IECC 2006). Heat pump technology has also advanced. As mentioned previously, Xcel saw significantly greater interest than expected in cold climate heat pumps, and variable speed cold climate heat pumps are the most efficient heating and cooling technology available today. Finally, housing and construction markets are also different. As Xcel noted in its ECO Triennial, Xcel has a strong network of trade partners participating in its fuel-switching programs. Additionally, all-electric homes are being built by affordable housing leaders such as Habitat for Humanity, as well as numerous building professionals across the state and many large development builders across the U.S. and Canada.[36] Thus, we believe this docket is the clear best place to address line extension allowances, and the time is right. Even using CEE's criteria, conditions are changing such that this is the right time and place to address gas line extension allowances.

C. Scenarios modeled in the G21 report are consistent with ending line extension allowances

Several parties' initial comments highlighted the findings of the G21 report as evidence that gas would continue to be used under these decarbonization pathways, and ending line extension allowances was therefore inappropriate. However, these parties failed to mention that both the High Electrification and Electrification with Gas Backup scenarios were modeled assuming that new buildings are constructed to be all-electric.[37] In other words, both pathways assumed that, beginning in 2018, new homes would not be connecting to the gas system. Both the Minnesota Department of Commerce (Department) and CUB highlight this point in their initial comments. The Department states:

> In addition to the policies and statutes described in this section, Minnesota policy makers can also rely on a report published in July 2021 that provides modeling and recommendations for state policy makers to consider when working to decarbonize natural gas end uses. The report is a result of an 18-month convening of a broad group of stakeholders led by Center for Energy and Environment (CEE) and the Great Plains Institute (GPI). In addition to the stakeholder discussions, the group contracted with

[36] Energy & Environmental Building Alliance (EEBA), *The 2022 EEBA Inventory of Zero Energy Homes Report Released* (December 2022), *available at* https://www.prnewswire.com/news-releases/the-2022-eeba-inventory-of-zero-energy-homes-report-released-301708608.html;
Canary Media, *Lennar will build 1,500 new Colorado homes with geothermal heat pumps* (April 2025), *available at* https://www.canarymedia.com/articles/geothermal/heat-pumps-dandelion-lennar.

[37] e21 Initiative, Great Plains Institute, and Center for Energy and Environment, *Decarbonizing Minnesota's Natural Gas End Uses: Stakeholder Process Summary* (July 2021) at 27 and 46, available at https://e21initiative.org/wp-content/uploads/2021/07/Decarbonizing-NG-End-Uses-Stakeholder-Process-Summary.pdf.

> Energy and Environmental Economics, Inc. (E3) to model a handful [of] high-level scenarios for decarbonizing natural gas end uses by 2050 in Minnesota. In every one of these scenarios new construction was assumed to be electrified and in every scenario throughput of natural gas declined. These modeling assumptions were supported by a broad group of stakeholders. The consensus report and modeling provided by this collaborative further support the Department's conclusion that incentives for expansion of the gas system are incongruent with current state policy.[38]

Xcel Energy was one of the parties to point to the Electrification with Gas Backup scenario identified in the G21 without mention of the all-electric new construction assumption. Notably, Xcel has also emphasized that all-electric new construction should be prioritized in its net zero vision: "By 2030, the company expects to still achieve net-zero methane emissions on its gas distribution system, while also promoting electrification-first for new construction for customers and investing in its system to allow for greater electric adoption."[39]

Thus, the G21 report is not evidence that we should keep line extension policy as it is today. On the contrary, it shows that nearly all of the decarbonization pathways that Minnesota has studied require homes being constructed today to be fully electrified, offering *support* for ending gas connection subsidies.

D. Line extension policy is not housing policy

Some commenters assert that any changes to line extension policy will slow or stall new housing development that is much needed in Minnesota.[40] However, gas line extension policy is a utility cost-recovery mechanism, not a tool designed to improve the housing market. Treating gas line extension policy as a housing policy risks undermining climate goals, subsidizing outdated technologies, and locking in high future energy burdens for low-income residents. Housing access and affordability is, of course, of critical concern – but the decision to maintain or eliminate gas line extension allowances is *not* a lever to improve the housing market or access to affordable housing.

This dynamic was well-explained in a 2022 decision of the Colorado Public Utilities Commission in which the Commission emphasized that "line extension policy is not, at its core, housing policy, especially with no direct linkage between savings from line extension allowances provided to developers and the end costs paid by homebuyers."[41] The Colorado Commission

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[38] Minnesota Department of Commerce Initial Comments at 7.
[39] Xcel Energy, *Xcel Energy celebrates key achievements toward net-zero vision* (January 17, 2025), *available at* https://newsroom.xcelenergy.com/news/xcel-energy-celebrates-key-achievements-toward-net-zero-vision-MC4E3OZPWHEZAL7GZHCJYIBQIO5Q
[40] *See* Housing First Initial Comments at 2.
[41] *In the Matter of the Proposed Amendments to the Commission's Rules Regulating Gas Utilities*, Colorado PUC Proceeding No. 21R-0449G, Decision No. C22-0760 at 51 (Dec. 1, 2022). Available at https://www.dora.state.co.us/pls/efi/efi_p2_v2_demo.show_document?p_dms_document_id=985237&p_session_id=

stated that they generally agreed with the comments of one of the stakeholders–the Conservation Advocates–who stated:

> [G]as LEAs are provided to building developers – not to gas utility customers. These developers have no obligation to pass the allowance on to customers. In fact, **while the allowance may marginally decrease the cost to construct a new building, it will not impact the market price of the new development**. This is due to a basic economic fact: housing prices will be set based on supply and demand in the housing market, not based on the cost to construct the new house. Moreover, as the CEO [Colorado Energy Office] pointed out in the September 19 Hearing, an allowance likely only accounts for a small percent of building construction costs.
>
> Perhaps most importantly, the group most impacted by housing affordability issues – low-income customers – are unlikely to benefit from any construction cost savings provided by gas LEAs, even if those saving[s] were passed down from developers to customers. This is because 1) low-income customers are unlikely to purchase a newly built home, and 2) due to lower rates of home ownership, low-income customers that do reside in a new build are likely to be renters, who would be very unlikely to benefit from any allowance pass-through from developer to builder owner.
>
> **In sum, gas line extension policy is not a housing affordability policy. But it is an urgent energy affordability policy.** The Commission should protect low-income gas customers, who are least able to depart the gas system early without state intervention, from costly and easily avoidable gas infrastructure costs.[42]

Fresh Energy and MCEA echo these comments from the Conservation Advocates in Colorado. Changing line extension policy is not a significant enough driver to affect the housing market or housing prices, which are instead set by local supply and demand. However, eliminating line extension policy can have a real beneficial impact for low-income gas customers by reducing their energy burden now, and particularly in the future.

E. Line extension subsidies distort the true cost of gas installations, which may result in uneconomic fossil fuel investments

Some commenters asserted that it is more cost-effective to build gas-connected homes than all-electric. For example, in its initial comments, CEE claims that "installing all-electric systems remains more expensive than natural gas heating systems combined with a central air

[42] *In the Matter of the Proposed Amendments to the Commission's Rules Regulating Gas Utilities*, Colorado PUC Proceeding No. 21R-0449G. Post-Hearing Comments of Western Resource Advocates, Natural Resources Defense Council, and Southwest Energy Efficiency Project (Oct. 7, 2022) at 12-13. Available at https://www.dora.state.co.us/pls/efi/efi_p2_v2_demo.show_document?p_dms_document_id=981843&p_session_id= (emphasis added).

conditioning unit."[43] However, when Fresh Energy and MCEA requested actual installation cost data, CEE did not provide any data to support its claim. Similarly, Housing First claimed that, "[s]tudies show that all-electric homes in cold-climate regions like Minnesota cost significantly more to build and operate", yet Housing First also did not cite any studies or cost data to support this claim. In the absence of supporting cost data, it is difficult to evaluate these claims or determine their value to this docket.

Contrary to these parties' unsupported claims, studies have found that all-electric, single-family new construction is more economic to build and operate than a home with gas appliances and has lower lifetime emissions.[44] A recent post published by Housing First Minnesota actually highlights the many advantages of building homes that are entirely powered by electricity, **including lower energy costs and avoiding the cost to hook up to natural gas**:

> Industry-leading homebuilders are building all-electric homes to improve comfort and energy efficiency, and Minnesota builders are leading the way. By embracing modern high-performance building practices, builders can create homes that are not only environmentally friendly but can also provide superior comfort for homeowners.
>
> One of the trends in residential construction is the shift toward building 100% electric homes. These homes rely solely on electricity for all their energy needs, eliminating the use of fossil fuels (and the cost to hook up to natural gas). This approach offers numerous benefits, including reduced carbon emissions, lower energy costs and enhanced comfort for residents.[45]

Their post also notes that "[t]here are significant rebates to help offset the incremental costs incurred when building energy efficient, all-electric housing."

Similarly, a recent RMI analysis found that, for new construction in Minnesota, all-electric homes actually have *lower* installation costs than mixed-fuel homes.[46] The report examined the installed costs of electric and gas equipment—such as space heating and cooling, water heating, cooking, and clothes drying—but also the costs of connecting to the gas distribution system. The

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[43] CEE Initial Comments at 14.

[44] RMI, *The Economics of Electrifying Buildings: Residential New Construction* (December 2022), *available at* https://rmi.org/insight/the-economics-of-electrifying-buildings-residential-new-construction/; New Buildings Institute, *Cost Study of the Building Decarbonization Code* (April 2022), *available at* https://newbuildings.org/resource/cost-study-of-the-building-decarbonization-code/.
RMI's analysis found that the net present cost over 15 years favored all-electric by nearly $7,000 in Minneapolis. Similarly, a national-cost analysis from the New Buildings Institute showed that all-electric single-family homes were $7,500–$8,200 cheaper to construct than baseline or mixed-fuel homes in a comparable cold-climate scenario.

[45] Housing First Minnesota, *Unlocking Comfort (and Savings) through Efficiency and Electrification* (July 10, 2025), *available at* https://blog.housingfirstmn.org/unlocking-comfort-and-savings-through-efficiency-and-electrification/.

[46] RMI, *The Economics of Electrifying Buildings: Residential New Construction* (December 2022) at 10, *available at* https://rmi.org/insight/the-economics-of-electrifying-buildings-residential-new-construction/.

report found that some electric components have slightly higher installation costs, but the cost of connecting to the gas system outweighed these higher equipment costs. In other words, looking only at equipment costs—as CEE and Housing First appear to be—can be deceptive; when the cost of connecting to the gas system is included, mixed fuel homes can be more expensive than all-electric homes, even if some individual electric components are more expensive.

This last point is crucial. If the costs of connecting to the gas system—which are currently being subsidized by existing gas customers—are greater than the cost savings from gas equipment, this may cause builders to install gas equipment even when it is not cost-effective. In other words, because Minnesota utilities' line extension subsidies distort installation costs, the costs of mixed-fuel homes may appear to be lower-cost for builders, even when they are actually more expensive. Thus, line extension subsidies may encourage fossil fuel expansion, even when it is actually more expensive to build than lower-emission alternatives. Eliminating line extension subsidies will send more accurate price signals to builders rather than tilting the scales in favor of gas equipment.

F. Subsidies are meant for technologies we wish to incentivize

Moreover, even if gas installation and/or operations costs were lower than electric alternatives, *this would still not be a justification for line extension subsidies*. From a public policy perspective, subsidies are primarily used in two cases. First, to support new, socially beneficial technologies that are currently more expensive, in the hopes that increased production scale will reduce costs. Second, to promote a socially beneficial decision, especially if it were more expensive than the socially harmful alternative—e.g. to account the externality costs that otherwise may not be considered by a consumer.

Gas utilities' line extension subsidies, on the other hand, do the exact opposite: they subsidize an *established* technology, that some parties claim to be *lower* cost even before subsidy, and has *greater* societal costs, both in terms of public health and greenhouse gas emissions.

Thus, not only are the claims that mixed fuel homes have lower installation and/or operations costs dubious, even if they were true, they would justify the *elimination* of line extension subsidies, as there would be no need to subsidize something that was already lower cost.

G. It is significantly more cost-effective to electrify new construction than to decarbonize at a later date

Here we emphasize a point that several parties made in initial comments, which is that it is significantly more cost-effective to electrify new construction rather than retrofit the property in the future. CEE makes note of this in their initial comments: "energy efficient measures that improve home heating performance, like insulation, windows, and the overall thermal envelope of the building, are nearly always cheaper and easier to implement when a home is being built

than when retrofitting an existing home."[47] Xcel also states in initial comments that, "new build electrification efforts may be more cost effective than retrofitting an existing household."[48]

H. Gas utilities should be shifting spending on current ECO incentives away from using gas in new construction, not doubling down on incentives for dual-fuel in new construction

In initial comments, CEE proposed a new ECO program as a path forward in this docket if the Commission decided not to modify line extension policy. Specifically, CEE proposed that utilities offering line extension allowances should have an ECO program for single-family new construction that requires installation of an air-source heat pump in lieu of air conditioning but permits installation of other gas appliances.[49] The program would also require achieving certain energy savings above code requirements. Indeed, CEE noted that it assumed there would be one or more gas appliances installed in the home because a gas utility would want this in order for the home to participate in a gas utility ECO program. While Fresh Energy and MCEA appreciate CEE's efforts to find creative paths forward and identify improvements to gas utilities' current new home construction programs, we do not believe that the suggestion to require a more comprehensive new home ECO program while continuing to allow for line extension allowances provides a good outcome for this docket. Similar to gas line extension allowances, subsidies for ECO programs are going towards gas in new homes using funding from existing customers. Continuing to offer subsidies for gas line extensions and for gas appliances in new homes would be *doubling down* on ratepayer-funded incentives for gas expansion.

Rather, gas utilities should be moving away from spending in ECO on new construction with gas appliances. Instead, gas utility ECO dollars are better spent on deep weatherization and efficient fuel-switching for existing homes, focusing on low and very low-income households. New homes are already being built to new, improved codes and with increasingly efficient appliances. Therefore, ratepayer funding in ECO should be prioritized for improvements to the existing housing stock.

Recent all-electric new build projects in Colorado are evidence of what progress can be made when line extension subsidies are eliminated and utility incentives are shifted from gas to electric.[50] We have an opportunity here to level the playing field for these advanced electric heating technologies and encourage further innovation in Minnesota.

[47] CEE Initial Comments at 8.
[48] Xcel Energy Initial Comments at 5.
[49] CEE Initial Comments at 18.
[50] Canary Media, *Lennar will build 1,500 new Colorado homes with geothermal heat pumps* (April 2025), *available at* https://www.canarymedia.com/articles/geothermal/heat-pumps-dandelion-lennar.

I. Electrification is a cost-effective alternative for delivered fuels customers that reduces energy burden and maintains regulatory protections

CenterPoint Energy states in initial comments that, "[c]onnecting to the natural gas system also provides residents access to other CenterPoint Energy managed utility initiatives, including the Company's Energy Conservation and Optimization ("ECO") program, Gas Affordability Program ("GAP"), and Natural Gas Innovation Act ("NGIA") program."[51] This is not a reason to encourage new customers to connect to the gas system. Electricity is regulated (either by the Commission or by a cooperative or municipal board), therefore these customers would receive regulatory protections via electricity regulation. These customers would already receive the benefits of ECO through their electric utility, as well as Cold Weather Rule shutoff protections.[52] It is also not beneficial to a customer to connect to the gas system to then pay for NGIA to decarbonize their new gas-connected home.

Instead, as noted in our initial comments, the electrification of heating via heat pumps is a compelling and cost-effective non-gas alternative for existing households heating with delivered fuels. These customers already have a heating system, so they can get the cost-savings benefit of a cold climate air-source heat pump while keeping their existing heating source as a backup.[53] In Minnesota, more than 300,000 single-family and manufactured homes currently rely on delivered fuels such as propane and oil for heating.[54] According to studies, rural households using delivered fuels could save an average of $550 annually—and over $8,000 over the lifetime of the equipment—by switching to heat pumps.[55] In addition to lowering energy costs, air source heat pumps provide the added benefit of air conditioning, offering critical relief during extreme heat events.

Moreover, parties' concerns regarding affordability for delivered fuels customers are currently being addressed by other ongoing efforts, such as those described in our initial comments,[56] and would be better addressed by more impactful future work in this docket and other proceedings. As the Department states in their initial comments, "making the important and necessary change to cease incentives for gas line extensions will provide signals to electric utilities and policy makers to consider electric space heating rates that address the economics of electric heating as well as increased incentives for electric heating equipment. Further, maintaining the

[51] CenterPoint Energy Initial Comments at 4.
[52] Minn. Stat. § 216B.096.
[53] Rewiring America, *How Much Can You Save With a Heat Pump?*, *available at* https://homes.rewiringamerica.org/articles/heating-and-cooling/heat-pump-savings; ACEEE Initial Comments at 2.
[54] Fresh Energy, *Hidden beneath our feet: Minnesota's growing decarbonization challenge* (March 2024) *available at* https://fresh-energy.org/wp-content/uploads/2024/04/White-Paper-Minnesotas-Decarbonization-Challenge-040824.pdf.
[55] RMI, *Lower Bills, Cleaner Air: Heat Pump Benefits for Homes Relying on Delivered Fuels* (May 2025), *available at* https://rmi.org/lower-bills-cleaner-air-heat-pump-benefits-for-homes-relying-on-delivered-fuels.
[56] Fresh Energy and MCEA initial comments at 11-12.

service extension incentive would serve as a barrier against any other action the Commission or the Legislature might wish to do to incentivize other heating methods in the future."[57]

J. Expanding the gas system can significantly increase costs for *existing* customers

In its initial comments, LIUNA claimed that expanding the gas distribution system lowers customer costs, arguing that "[i]n general, it is in the interest of all ratepayers to expand coverage to spread out the cost of building and maintaining common infrastructure."[58] However, as detailed in our initial comments, this is not necessarily true. If line extensions are subsidized, then the addition of a new customer will increase rates for existing customers in the short run, as the capital costs of the installation are rolled into rate base and recovered through rates. Over time, the additional new customer gas usage *can* benefit existing customers by spreading the utility's fixed costs over a larger volume of sales; however, if the new revenues are lower than the revenue requirements of adding a customer to the system, existing customers will be harmed by the addition.

The economic analysis in Attachment A of our initial comments demonstrates the potential cost increases that can result from line extension subsidies. At Xcel's current subsidy levels, the addition of a new residential customer can increase costs for existing customers by over $11,000. The size of these subsidies illustrates the potential harm to existing customers if these subsidies are allowed to continue.

K. Line extension policy has not been the purview of the legislature before

Finally, some commenters suggest that the Commission need not take action on line extension allowances because there has been no legislative directive to do so.[59] However, the existing line extension policy was not set by the legislature, but by the Commission. In the order resolving the Commission's investigation of line extension policy in the 1990s, the Commission stated:

> On the basis of *its* work in this docket, the Commission finds that *its* approach to designing LDC service extension rates and policies is reasonable. The *Commission's* method provides a balance between the two main approaches to serve extension rate design.[60]

It is clear, then, that the last time the Commission holistically considered line extension policy issues, it considered line extension policy something that was fully in its purview to decide and set.

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[57] Minnesota Department of Commerce Initial Comments at 9.
[58] LIUNA Initial Comments at 2.
[59] *See* Initial Comments of LIUNA at 4; Initial Comments of CenterPoint Energy at 2.
[60] *In the Matter of an Inquiry Into Competition Between Gas Utilities in Minnesota, Order Terminating Investigation and Closing Docket*, March 31, 1995, Docket No. G-999/CI-90-563 at 6 (emphasis added).

The same is true today. As we stated in our initial comments, the Commission has multiple sources of authority that enable it to modify gas line extension allowances:

- Minn. Stat. § 216B.03–requiring the Commission to ensure that rates charged to customers are "just and reasonable."
- Minn. Stat. § 216B.03–requiring that, "[t]o the maximum reasonable extent, the commission *shall* set rates to encourage energy conservation and renewable energy use and to further the goals of sections. . . 216C.05" (emphasis added). Section 216C.05 in turn establishes reducing dependence on fossil fuels as a focus of the State's energy planning.
- Minn. Stat. § 216B.09–stating, "[t]he commission . . . may ascertain and fix just and reasonable standards, classifications, rules, or *practices* to be observed and followed by any or all public utilities with respect to the service to be furnished." (emphasis added).

Thus, the Commission has broad authority to regulate the operations, practices, and rates of a utility, and is required to do so in a way that prioritizes reducing use of fossil fuels. Modifying line extension allowances falls easily under this broad grant of authority to regulate operations, practices, and rates in a way that reduces our dependence on fossil fuels and eliminates unnecessary cross-subsidization.

This authority on its own would be enough, but the legislature *has* further acted by requiring the Commission to open this docket "to evaluate *changes* to natural gas utility regulatory and policy structures needed to meet or exceed Minnesota's greenhouse gas reduction goals, including [the economy-wide net zero by 2050 goal]." Clearly, the legislature believes the Commission does have the authority to consider changes such as this one needed to meet decarbonization goals, and passed this law to ensure the Commission would use that authority. Given the legislature's directive for this docket, if ending subsidies of gas system expansion does not fall within that directive, it is hard to understand what would.

II. Conclusion

We appreciate the opportunity to engage and respond to other parties' initial comments in this comment period about gas line extension policies in the Future of Gas docket at the Minnesota Public Utilities Commission.

Fresh Energy and MCEA continue to recommend that the Commission end current gas line extension policies and no longer require current customers to subsidize new customers' connection to the gas system. We note that if line extension allowances subsidizing gas connections were proposed as a new policy today, we believe they would not be adopted given current laws and policies around decarbonization, including in buildings. If we would not adopt a new policy today to provide this subsidy, then we also should not perpetuate an existing one.

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