



Minnesota Multi Housing Association Comments on MN PUC Docket G999/CI-21-565

Introduction and Executive Summary

The Minnesota Multi Housing Association (MHA) appreciates the opportunity to submit comments on the Commission’s Notice of Comment Period in Docket No. G999/CI-21-565. MHA represents rental housing owners, developers, and property managers across Minnesota, a state currently facing a severe housing shortage of more than 100,000 units. MHA urges the Commission not to eliminate or significantly reduce the existing natural gas line extension allowances. Removing these allowances would have serious financial impacts on rental housing development, exacerbate Minnesota’s housing crisis, and create inequitable burdens on certain communities. It would also raise issues of fairness, given that past customers have long benefited from these policies.

While we support Minnesota’s climate objectives, climate policy must not make the housing crisis worse. In summary:

- **Housing Affordability at Risk:** Policies that significantly raise construction costs – such as removing gas line allowances – will make it even harder to build and operate affordable housing. Minnesota is already short more than 100,000 housing units statewide; now is not the time to add further cost barriers to new housing.
- **Financial Impact on Rental Development:** Eliminating the allowance would shift substantial costs onto new rental projects. Developers would have to bear 100% of gas infrastructure extension costs, which are currently shared, potentially adding thousands of dollars per unit that would ultimately be passed on in higher rents or even derail projects. This undermines efforts to address our housing shortage and could hinder the development of much-needed rental properties.
- **Inequities for Exurban and Rural Communities:** Customers in exurban and rural areas often require longer extensions to reach gas lines. Without allowances, these outlying projects would face disproportionately high upfront costs for gas service, effectively penalizing rural residents. Eliminating the allowance now would leave many rural Minnesotans behind, forcing them to rely on more expensive or less efficient fuels.
- **Fairness and Consistency:** Current ratepayers and existing developments have long enjoyed the benefits of gas line extension allowances. Pulling up the ladder now would unfairly burden new customers and developments. As an American Gas Association report noted, getting rid of line extension allowances simply shifts costs from existing customers to new ones. New housing would have to pay for infrastructure that earlier developments did not – a fundamentally inequitable outcome.

MHA urges the Commission to maintain the current gas line extension allowance policy (or at most, consider only modest adjustments), rather than eliminating it. Doing so will protect housing affordability and fairness while Minnesota works toward its climate goals through a gradual, innovation-driven transition. We respectfully request that the Commission weigh the practical implications for Minnesota's rental housing market and not adopt changes that worsen our housing crisis in an effort to address climate concerns.

Gas Line Extension Allowances are Critical for Housing Development

Gas line extension allowances have long been a tool to ensure new developments can access utility service at a reasonable cost, thereby supporting growth in housing and commerce. These allowances significantly defray the upfront cost of extending gas infrastructure to new homes or apartments. The remainder of the extension cost (if any) is contributed by the developer/new customer, and the utility recovers its investment over time from all ratepayers.

Part of the rationale for these allowances is that adding new customers benefits the overall system: new customers buy gas for decades, helping spread fixed costs and lowering rates per customer. It is a win-win – the utility gains a paying customer, the new development gains affordable energy, and costs are socialized gradually across the customer base.

Eliminating or sharply reducing these allowances would upend that longstanding balance. It would place 100% of extension costs onto the new development, removing the cost-sharing that makes utility access feasible in many cases. The practical impact on housing development would be immediate and harmful:

- **Increased Construction Costs:** Housing developers would face significantly higher construction budgets to account for gas infrastructure. These are not trivial amounts – extending a gas main and service can cost tens of thousands of dollars for a multi-unit development, especially in areas where the nearest main is not adjacent. Today, a large portion of those costs are covered by the allowance. If that disappears, the full bill must be paid by the developer. Increased development costs inevitably translate to higher rents needed to make a project financially viable. These added costs will worsen affordability for renters.
- **Stalling of Projects:** For some projects, especially affordable housing developments with tight financing, additional unbudgeted infrastructure costs can be a make-or-break factor. If, for example, a developer suddenly must pay \$50,000 or \$100,000 more to bring in a gas line, the project's economics may no longer be financially viable. This is particularly true for projects in smaller cities or rural towns, where profit margins are slim and financing is sensitive to cost increases. Minnesota lawmakers and communities are actively seeking ways to spur more housing construction – from zoning reforms to infrastructure grants – because we simply need more housing. A policy change that *deters* new housing construction by adding costs runs directly counter to these efforts.
- **Higher Rents for New Units:** If new housing projects face extra development costs by paying in full for gas line extensions, those expenses could ultimately be passed on to renters in the form of higher rents. Essentially, renters in new buildings would end up paying for gas infrastructure that utility allowances previously covered for older

buildings, creating an unfair burden on the new generation of renters. This added cost burden also makes new apartments less competitive. If new properties must charge higher rents to recover these costs, many renters might opt to stay in older, less-efficient buildings, which often have higher utility bills. Ultimately, eliminating these allowances could have a perverse effect: more Minnesotans remaining in aging, energy-inefficient homes because new, efficient units cost too much — an outcome that undermines both our climate and housing goals.

In summary, gas line extension allowances function as an important housing affordability policy. They are a form of cost-sharing that has helped produce more housing across Minnesota by lowering upfront barriers. As Housing First Minnesota urged in its filing, the Commission should “avoid regulatory changes that increase housing costs” and “preserve long-standing policies that support affordability (like gas line extension cost-sharing).” This is especially critical now, when the state’s housing shortage is acute and broad consensus exists that we need to build more housing at all price points. By maintaining the allowance, the Commission would support continued housing development and send a message that energy policy will be balanced with housing affordability needs.

Inequitable Impacts on Exurban and Rural Communities

MHA is particularly concerned about the disparate impact that eliminating line extension allowances would have on exurban and rural areas. Not all parts of Minnesota are equal when it comes to existing gas infrastructure density. In core urban neighborhoods, a new building often sits near multiple gas mains, and the distance to extend service may be short. In contrast, in a small town or developing exurban community, a new apartment complex might require a much longer main extension to reach the nearest pipeline. If the allowance is removed, longer extensions in rural areas become prohibitively expensive.

This raises serious inequality issues for Greater Minnesota. Many rural residents lack access to natural gas service today and rely on delivered fuels like propane or fuel oil, which are often more costly and subject to volatile prices. These residents would generally *prefer* to have access to natural gas – which is typically cheaper per BTU and more convenient – and the state’s energy policy has historically encouraged extending gas service where economically feasible. Indeed, creating insurmountable economic barriers to natural gas access runs contrary to the intended purpose of public utility companies, who are meant to serve the public’s needs.

Eliminating extension allowances tells rural communities that they must shoulder the entire cost of utility expansion. The practical consequences of such a policy change includes:

- **New Rural Housing Discouraged:** A developer considering building new rental housing in a rural town will face much higher costs if they must finance a long gas main extension. Some developers may opt to cancel or downsize projects in such areas, concluding that the extra cost cannot be recovered in the rents in a smaller market. This deprives rural communities of new housing investments and growth opportunities.
- **Higher Utility Bills or Fuel Costs for Rural Residents:** If connecting to natural gas becomes too expensive, rural housing might resort to all-electric heating or stick with

propane/fuel oil. All-electric new construction can work for some building types, but often electric resistance heating or even heat pumps in very cold areas lead to higher monthly energy bills for consumers compared to high-efficiency natural gas heating. Propane, on the other hand, is historically more expensive and price-volatile than natural gas, and propane supply is not regulated or subsidized. Ironically, a policy meant to reduce reliance on gas could force rural residents onto propane – a fossil fuel that generally emits more CO₂ per unit of heat than natural gas and is delivered by truck. That outcome would undermine both affordability and environmental goals.

- **Rural Economic Development Strangled:** Beyond housing, many rural and exurban areas seek to attract businesses and industries that often require natural gas service. The current line extension allowances signal that Minnesota is open for business and growth – utilities and communities work together to extend infrastructure for development. If new businesses or new subdivisions must cover all their own gas extension costs, some investments will not happen in Greater Minnesota. This exacerbates the urban-rural economic divide.

In summary, eliminating line extension allowances would have a regressive impact on less densely populated communities. The current policy at least partially equalizes the ability of all Minnesotans to get utility service. It recognizes that some cross-subsidy from existing customers to new customers is acceptable in order to achieve universal service and broad-based system benefits. To abruptly remove that support now would be inequitable. We urge the Commission to consider the geographic equity of its policies and maintain the allowances so that all parts of the state can continue to develop and receive reasonably priced energy.

Issues of Fairness

The Commission must consider intergenerational and cross-customer fairness. For decades, existing gas customers have implicitly funded line extensions for new customers via the allowance system – and they have also benefited from the larger customer base and system-wide efficiencies that growth brought. Now, after years of this practice, eliminating allowances would suddenly force future customers to pay more than their predecessors for the same service. This is fundamentally unfair.

To illustrate: if a 50-unit apartment building was built in 2015, it likely received a gas main extension at least partly paid for by the utility under the allowance policy at that time. Ten years later, another 50-unit building in the same community would, under a no-allowance regime, have to pay the full amount for a similar extension. Both buildings' residents use gas for heat and hot water, but the newer building's residents (or the developer upfront) bear a heavy cost not borne at the older building. Meanwhile, the older building's extension costs have been in the utility rate base, shared across all customers, for years. Eliminating allowances creates a "newcomers' penalty" – an uneven playing field between existing and future utility customers.

Historically, some costs were shifted *from new customers to existing* – which was by design, to promote expansion and mutual benefit. Suddenly reversing that formula means asking a relatively small group (future development) to shoulder burdens that earlier cohorts did not. Such a shift could also have unintended side effects on the utilities' finances and rates:

- If fewer new customers connect due to high upfront costs, the utility’s growth slows and the remaining customer base does not expand as forecast, potentially leading to higher rates for everyone (since fixed costs spread over fewer customers).
- If some new customers choose alternatives (propane, electric) to avoid line charges, the gas utility loses revenue that would have helped pay for existing system maintenance, again putting upward pressure on rates for current customers. In short, overzealous avoidance of any “cross-subsidy” now might paradoxically result in higher costs to current ratepayers in the future.

Fairness also applies to the principle of regulatory consistency and trust. Developers and housing providers have made investment decisions based on the reasonable expectation that utility extension policies would remain relatively stable or change gradually. A sudden policy change would upend project plans and budgets that were prepared under the existing rules. For instance, a mixed-income housing project in planning for 2026 occupancy might have assumed normal utility extension arrangements. If those are withdrawn, the project could face a budget shortfall. In some cases, public funding might be involved, and revising those financing structures is not trivial.

In summary, basic fairness dictates that new developments should not be abruptly saddled with costs that previous developments were spared. The current allowance policy has been a known, expected component of development in Minnesota. Eliminating it now would be akin to changing the rules midstream, to the detriment of those currently trying to help solve our housing shortage by building new homes. MHA believes fairness and sound public policy align in this case: maintaining a line extension allowance is the fair and right approach, as it shares infrastructure costs broadly and encourages growth that benefits everyone.

Conclusion

MHA respectfully recommends that the Commission retain the current natural gas line extension allowances for Minnesota’s gas utilities. This stance is grounded in the practical needs of our state’s rental housing market and the broader public interest:

- **Housing Crisis Mitigation:** We are in the midst of a housing shortage and affordability crisis. Every regulatory decision should be scrutinized for its impact on housing costs and supply. Eliminating gas line allowances would unequivocally raise the cost of developing new housing – a result directly at odds with Minnesota’s urgent housing needs. The Commission should not adopt policies that worsen housing attainability at this critical time.
- **Fairness and Equity:** The current allowance policy is fair in spreading infrastructure costs over the many who benefit over time. It ensures that rural and new customers have a pathway to energy access without prohibitive upfront charges. Scrapping the allowance now would create inequitable burdens on new customers and outlying communities, essentially punishing them for developing and expanding later than others. It would also conflict with the principle that affordability and equity remain key objectives alongside environmental goals.

In closing, MHA echoes the sentiment that Minnesota can and must tackle climate change *and* the housing crisis in tandem – and doing so requires careful, inclusive policymaking. We urge the Commission to consider the real-world impacts on renters, developers, and communities that depend on sensible utility policies. The gas line extension allowance has served Minnesota well by enabling growth and spreading costs fairly. It should be preserved as we navigate the path to a cleaner energy future.

Natural gas is currently the backbone of affordable and effective heating in Minnesota. Abruptly disincentivizing new gas use by eliminating line extension allowances is not a silver bullet for climate change – it is a one-dimensional solution that risks collateral damage in housing affordability and community development.

Thank you for the opportunity to provide these comments. We trust that the Commission will carefully weigh the evidence in the docket and the perspectives of all stakeholders – including the rental housing sector – in making its decision.

Sincerely,

A handwritten signature in black ink that reads "Todd Liljenquist". The signature is written in a cursive, flowing style.

Todd Liljenquist
Vice President of Government Affairs/COO
Minnesota Multi Housing Association