

**STATE OF MINNESOTA
BEFORE THE PUBLIC UTILITIES COMMISSION**

Katie Sieben	Chair
Joseph K. Sullivan	Vice Chair
Hwikwon Ham	Commissioner
Audrey Partridge	Commissioner
John Tuma	Commissioner

In re 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

**SUPPLEMENTAL COMMENTS OF THE
OFFICE OF THE ATTORNEY GENERAL—
RESIDENTIAL UTILITIES DIVISION**

The Office of the Attorney General—Residential Utilities Division (OAG) respectfully submits these supplemental comments. After reviewing the reply comments of several parties, the OAG believes that some clarification of its position would be helpful. The OAG emphasizes its view that gas utilities' current extension allowances do not appropriately balance the interests of new and existing customers. Specifically, current extension allowances are supported by models that contain several and various unreasonable assumptions, and the Commission should order the gas utilities to reset extension policies supported by more reasonable assumptions. The OAG also responds to CenterPoint regarding what the OAG believes is a minor point of clarification. In response to MERC, the OAG clarifies that its proposed ongoing review of extension allowances is not duplicative of the review ordered by the Commission in 1995 but is meant to substitute that review. Finally, while the OAG's position in initial and reply comments remains unchanged, clear statements of final recommendations are provided at the conclusions of these comments.

I. THE STATUS QUO MUST BE CHANGED TO APPROPRIATELY BALANCE THE INTERESTS OF NEW AND EXISTING CUSTOMERS AND PROVIDE GREATER UNIFORMITY ACROSS UTILITIES.

As the OAG described in initial comments, significant changes in regulations and policies impacting gas utilities, improved energy efficiency, increased adoption of electric heating and water-heating, and increasing costs have thrown off the balance in the utilities' existing line- and main-extension allowances. Below the OAG responds to several utilities regarding specific aspects of their extension allowance justification models, and offers several recommendations to correct unreasonable assumptions and bring the interests of existing and new customers back into balance. The Commission should provide guidance on acceptable assumptions to provide more uniformity in the methodologies employed in calculating extension allowances, to ensure the models account for not only the cost to extend service to new customers but also annual costs to provide service, to update customer usage estimates to more accurately account for current and future energy efficiency improvements, and to provide a uniform payback period based on relevant policy considerations and ratemaking principles. The OAG believes that making these changes will rebalance the interests of existing customers in ensuring that new customers economically benefit the system with the interests of new customers in receiving the consumer protections and economic benefits of regulated natural gas service.

A. The Commission Should Provide Guidance on the Assumptions Used in Extension Allowance Calculations to Create More Methodological Uniformity.

Due to a wide variation in extension allowance policies, the OAG wishes to clarify that many of its critiques of extension allowance policies in initial comments applied to at least one utility, but not to all utilities. Some utilities, therefore, took issue with the OAG's critiques that were simply not directed to that specific utility. This lack of uniformity and clarity shows a broader problem with the status quo—that there is little uniform methodology in the utilities' extension-

allowance models or justifications. While more uniformity in the length of service line allowances was achieved through rate-case settlements,¹ there continues to be a lack of uniformity regarding which costs are included in the cost of the extension, how estimates of customer usage are derived, and several other aspects of extension policies. For example, some utilities include the cost of a meter in calculating the cost of the allowance,² while some do not.³ Some utilities cap the cost per foot of excess footage that may be charged to a customer; others do not.⁴

Variations in utilities' methodologies and assumptions, and the lack of clarity on what those assumptions are,⁵ necessitates a reset by the Commission. Simply moving the issue back to rate cases, as several commenters suggest, without addressing these issues will merely perpetuate the wide-variation and opacity of methodological underpinnings of current extension allowances.

At the same time, the OAG does not wish to suggest that it is impermissible for there to be any variation in extension policies. The OAG is not advocating for a "one-size-fits-all" approach.⁶ For example, differences in the costs of extensions or types of buildings, new or existing, that utilities serve should be accounted for. But differences should be based in fact and not due to utilities failing to account for certain costs to serve customers or inflating likely revenues. Permitting utilities to use differing assumptions for no fact-based reason to support their extension allowances can lead to results that are unfair to both the utilities' existing customers and other utilities.

¹ The exception being Greater Minnesota Gas, which offers 125 feet of service-line free footage compared to other utilities' 75-feet. *See* OAG Initial Comments at 2-10.

² *See* Xcel Reply Comments at 10.

³ *See* Great Plains Reply Comments at 3-4.

⁴ *See* OAG Initial Comments at 9, Table 1.

⁵ *Compare* OAG Initial Comments, Attach. 8 *with* Xcel Reply Comments at 9-10 (whether cost of meter is included in extension allowance calculation).

⁶ *See* MERC Initial Comments at 3.

The OAG's primary recommendation, therefore, is to reset the utilities' extension allowances with Commission direction regarding reasonable assumptions on the costs of connecting new customers, cost of continuing to serve those customers, gas usage/assumed revenues, and acceptable payback periods. The Commission should also make any other general declarations it believes necessary regarding aspects of extension allowance policies that are not directly tied to the utilities' allowance-justification models, including that utilities should not be permitted to waive additional CIAC for residential customers above any set extension allowances.⁷

B. New Customers Must Pay Off the Cost of the Extension Within a Reasonable Amount of Time and Certainly Sooner than the Estimated Life of the Asset.

CenterPoint Energy states in reply comments that "the history of line extensions is predicated on adding additional customers which help offset the fixed costs of the natural gas system."⁸ The OAG agrees that extension allowances should balance the interests of new and existing customers and that the benefit to existing customers is generally considered new customers' contribution to system costs. For balance to be achieved, therefore, existing customers must benefit economically from the addition of new customers, just as new customers will benefit from accessing the public utility gas system that provides them with cheaper heating fuel and consumer protections versus current alternatives.

Balance between new and existing customers is not being achieved through gas utilities' current extension allowances. Existing customers are not sufficiently benefiting, or in some cases benefiting at all, from the addition of new customers to the system due to unreasonable assumptions in the utilities line and main extension allowance models.

⁷ See OAG Initial Comments at 33-36 (discussing the potential harm to existing customers and risk of discriminatory rates of providing utilities undue discretion to waive CIAC above free-footage amounts by failing to provide a check on utilities' incentive to increase rate base).

⁸ CenterPoint Reply Comments at 5.

One major reason for this imbalance is some extension models putting all new customer revenues towards the cost of the extension and not putting any revenues towards shared system costs, such as customer accounts expenses or other operations and maintenance costs.⁹ Great Plains, for example, acknowledges in reply comments its practice of not including “ongoing costs a utility incurs necessary for the provision of safe and reliable service” in its extension allowance model. Great Plains claims this is reasonable because the marginal cost of adding a new customer is not clear: “Customer-related costs such as meter reading and customer account expenses are incurred, but the addition of one customer does not equate to one additional employee and/or additional infrastructure to read a meter, bill a customer, respond to a customer call or perform collection-related activities.”¹⁰ This is like saying that because a friend who arrives late to a pizza outing may not cause the need to order a whole new pizza, that friend does not need to pay for a portion of the pie when the check is split. In that situation, the remainder of the group (the existing customers) would be subsidizing the pizza consumption of the late-arriving friend (the new customer). This hypothetical situation is clearly unfair to the existing customers. So too is providing a subsidy in the form of an extension allowance to a new gas customer that is set on the basis that the new customer need not contribute to shared system costs such as customer accounts expenses or meter reading.

Assuming new customers bear no responsibility for shared system costs can have large impacts on payback periods and the reasonableness of extension allowances. In the case of at least one utility, CenterPoint, including a conservative amount of shared cost responsibility for new

⁹ The OAG notes that Xcel’s extension justification model does appear to include revenues from operating expenses, and increases that amount throughout the 40 year life of the asset—though at a rate significantly below reasonable assumptions of inflation. *See* Attach. A (Xcel Response to CEO IR 009, Attach. A column 15).

¹⁰ Great Plains Reply Comments at 6.

customers causes the extension allowance to never be repaid. CenterPoint’s extension allowance model assumes that *all* revenues from the new customer go towards paying off the cost of the extension allowance.¹¹ As described above, however, CenterPoint’s model should account for the fact that this new customer should share in system costs that are not simply the service line, main, and meter needed to connect them to the system. As with our late-arriving pizza party guest above, it is not fair to existing customers for new customers to receive an allowance that assumes a free ride for shared costs.

Adding a single component of ongoing shared costs to CenterPoint’s model—Customer Accounts Expense¹²—changes the balance between new and existing customers significantly. This single change causes the new customer not to pay off CenterPoint’s current extension allowances within the 40-year assumed life of the assets.¹³ That is, accounting for just one type of ongoing cost of serving the new customers, existing customers are never repaid even after 40 years.

At the same time, shorter line and main extension allowances may benefit existing customer—as changes to the initial capital cost amount in the model have substantial impacts on

¹¹ See CenterPoint Initial Comments, Attach. A. The OAG appreciates that CenterPoint’s extension allowance model does include some costs of adding a new customer that other utilities do not, such as the cost of the meter. Great Plains acknowledges in reply comments that it does not include the cost of a meter in its extension analysis, despite acknowledging that “meter and regulator costs are essential to providing gas service.” Great Plains Reply Comments at 4. Great Plains appears to argue that this is reasonable because meters have some salvage value, however, the cost extension model assumes customers take service for 30 years, at which point the OAG questions whether existing meters would include current enough technology to operate in 2055. *Id.* at 4. The cost of the meter should be included in any extension allowance models or justifications.

¹² FERC Accounts 901-910.

¹³ See Attach. B. To determine a single customer’s annual contribution to Customer Accounts Expense, the OAG took the total annual costs for FERC Accounts 901-910 allocated to the residential class divided by the number of residential customers for 2022 to 2024 provided in response to CEO IR no. 006. See Attach. C. To use a conservative estimate, the OAG then used the lowest cost year, 2023, and rounded down to \$54 per year. The OAG is attaching the live Excel spreadsheet to the pdf of its filing for the Commission’s reference.

the net present value of the allowance.¹⁴ The length of extension allowances that reasonably balance the interests of existing and new customers is simply highly dependent on the specific inputs and assumptions in the utilities' models. For this reason, the OAG continues to recommend that the Commission provide direction on the assumptions that must be included in extension allowance justification models.

C. The Commission Should Direct Utilities to Reset the Assumed Level of Gas Consumption to More Reasonably Estimate Likely Gas Usage and Account for Declining Future Usage.

In initial comments, the OAG critiqued several utilities' extension allowance justifications for two assumptions 1) assuming new residential gas customers will consume the same amount as an average residential customer; and 2) assuming new residential gas customers' usage will remain constant over time. The first assumption is unreasonable because new buildings tend to be more energy efficient.¹⁵ The second assumption is unreasonable because it assumes the customer will consumer the same amount of gas 30 or 40 years into the future.¹⁶ To estimate a decline in consumption over the 40-years of the asset, the OAG suggested that the utilities could use ECO targets or other predictions of declining gas consumption.¹⁷

Xcel Energy disagreed with the OAG's position, reasoning that because its extension allowances are paid back in four years, a claim the OAG disputes, that no reduction in energy

¹⁴ This may also be true for lower dollar amount allowances should utilities choose to move away from "free footage" to a flat dollar CIAC waiver system. For example, instead of estimating the "free footage," which requires estimates of the cost of pipes and labor to install that footage, utilities could simply offer a CIAC waiver of a certain number of dollars (i.e. \$1,500) before customers were required to pay the remaining costs of the extension.

¹⁵ OAG Initial Comments at 26. The OAG's initial comments recognized that "[w]hile not all new gas customers will reside in newly constructed homes, many will." *Id.* at 27.

¹⁶ *Id.* at 28.

¹⁷ *Id.* at 29.

usage is reasonable.¹⁸ CenterPoint appears to disagree that new construction usage should be used because “there is an equally significant number of new customers that are in existing homes.”¹⁹ CenterPoint does not provide an estimate, however, of how many of its customer additions are to new construction versus existing homes.²⁰ And CenterPoint agreed that overall use per customer is declining and acknowledged that new customer usage remaining constant could be reevaluated.²¹

To set a clear direction regarding whether average or new customer usage should be used in Year 1 of the extension allowance model, the Commission could order utilities to initially use assumptions of customer usage that match the majority of that utilities’ customer extensions. That is, if a utility predominantly extends service to new construction, the assumed customer usage should be less than average existing-customer usage to account for the increased efficiency of newer homes with newer appliances. If the utility predominantly extends service to existing homes, it may be reasonable to use average usage. In no case, however, should a utility be using estimates above average usage to justify a standard free footage allowance.

Whether a utility uses estimates for new construction or average usage, the OAG continues to believe that extension allowance models should incorporate reduced customer usage at some point during the assumed useful life of the extension. The year in which these reductions to gas

¹⁸ Xcel’s four-year payback period claim is inaccurate for the reasons described above and in the OAG’s reply comments addressing CenterPoint’s similar claim. *See* OAG Reply Comments at 1-4.

¹⁹ CenterPoint Energy Reply Comments at 7.

²⁰ In support of this position, CenterPoint generally references its position in initial comments. *See* CenterPoint Reply Comments at 6-7. The only relevant discussion the OAG could locate in CenterPoint’s initial comments simply looks at the percentage of “new households” statewide since 1990 according to the Department of Administration. CenterPoint Initial Comments at 3. But “new households” for demographic purposes does not equate to new structures or houses, and these statewide figures say little about CenterPoint’s natural gas extensions.

²¹ CenterPoint Energy at 6-7.

usage are assumed in the model, however, may depend on whether the extension allowance's year 1 customer usage is based on new construction or average usage.

As Xcel notes, customers in new construction are likely to have new appliances and will not immediately upgrade.²² The OAG agrees that if a model uses usage estimates for new construction, an assumption of declining customer usage in the first years of the extension model would not be reasonable. But it would also not be reasonable to assume that new customers will never purchase new more efficient gas appliances or replace gas appliances with electric appliances for the full 40-year life of the main and line extension that Xcel assumes. Rather, the timeframe in which energy savings could be incorporated into the model could begin at year 10, 15 or 20, to correspond to the estimated life of various appliances.

On the other hand, should a utility use average customer usage as the basis for estimated revenues in an extension allowance justification or model, gas consumption should be assumed to decline much sooner, potentially in year one, for several reasons. First, average customer usage is likely higher than likely customer usage for new construction due to the likelihood that new construction will have newer appliances and be constructed to meet more energy efficient building codes. Broadly using average customer usage would likely overestimate gas usage for extensions to newly constructed homes. Second, using average customer usage as a constant for the 40-year life of the capital expenditures would be unreasonable even where a line is being extended to an existing home because it assumes that customer will never purchase more efficient appliances, move to electric appliances or heating, or make energy efficiency improvements that reduce gas usage (i.e. updated insulation, weather stripping, new windows etc.). Indeed, utilities point to participation in ECO programs, which assist customers in purchasing more efficient appliances, as

²² Xcel Reply Comments at 24.

a benefit of extending service to new customers.²³ It would be unreasonable to assume that new customers will never avail themselves of this benefit.

If utilities wish to be more exact, they could use different line and main extension allowances for new construction and existing homes to account for these differences. The OAG maintains, however, that assuming usage declines at some point during the estimated useful life of the extension is necessary to be reasonable.

D. Updating Assumed Customer Usage and Including Assumptions of Declining Usage Remains Important Even in a Dual Fuel System.

Reply comments from several parties addressed the desirability of a dual-fuel system—with electric heat-pumps and natural gas back-up both being used. The OAG wishes to note that even if a dual fuel system is adopted this would still reduce gas usage. Utilities extension allowances are based on estimates of *annual* gas consumption, not customers' demand on the coldest days of the year. Therefore, a customer purchasing an air-source heat pump will likely reduce their gas usage even if they still use gas during portions of the heating season. Significantly lowering gas usage at any time of year means that the customer will pay lower annual revenues and, as a result, take longer to pay back the extension allowance.

Further while some changes to rate design for gas utilities may occur in the future, it is doubtful that utilities will wholly move away from distribution charges, as distribution charges send helpful cost-causation and energy-efficiency signals. Continuing to have some portion of customers' bill based on distribution charges means gas usage will remain an important component in determining customer revenues for years to come. Therefore, updating estimates of customer gas usage and incorporating assumptions of declining usage remains an important component to

²³ See, e.g., CenterPoint Initial Comments at 4-5.

ensure that extension allowance models or justifications are reasonable and do not overestimate the benefits that new customers provide to existing customers.

E. The Commission Should Exercise Its Judgment and Consider Various Policy Factors when Determining a Reasonable Payback Period.

The last component of an extension allowance justification or model that the Commission should provide direction on is the payback period. Utilities continue to claim in reply comments that this period is shorter than it truly is.²⁴ Further, many commenters request that the Commission consider various policy factors, such as environmental impacts, housing costs, consumer protections, etc. Ensuring that utilities use an accurate payback period of the extension allowances is important but establishing a payback period of reasonable length is also important.

As the OAG explained in initial comments, however, there continues to be debate about what amount of time should be considered the payback period—or the amount of time it will take a new customer to provide benefits to existing customers through their payment of shared system costs.²⁵ As the OAG further explained in reply comments, the payback period is not simply the year that a new customer pays more than their cost of service in that particular year.²⁶ Instead, the payback period must also account for the new customer paying back existing customers for the years the customers revenues did not meet the cost of service. Using a cumulative net present value is one way to reasonably accomplish this.

But beyond ensuring that the payback period is assessed in a reasonable matter, the appropriate *length* of the payback period is an informed judgment that the Commission will need to make. Several parties point to various policy considerations that they believe should or should

²⁴ See Xcel Reply Comments at 9 (claiming that existing customers begin to see benefits from new customers in four years)

²⁵ OAG Initial Comments at 12-14, 31-33.

²⁶ OAG Reply Comments at 1-4

not be considered in determining line extension policies.²⁷ The OAG submits that the Commission has discretion to consider a wide variety of public interest policy considerations, and a straightforward way it can do so is in exercising its judgment to determine a reasonable payback period. As the OAG noted in reply comments, in setting a reasonable payback period, “the Commission can consider ratemaking principles, current and future concerns about the gas industry, environmental externalities or health impacts of gas service, consumer protection benefits of regulated gas service, and any number of other relevant considerations in making this policy judgement.”²⁸ As with all decisions, however, the Commission must ensure that it has sound evidence supporting the factors it considers and that the factors promote public, rather than private, interests.

The OAG does not have a position on the specific length of payback period. As a ratepayer advocate, however, the OAG would be concerned with a payback period that approaches the estimated useful life of the extension itself. It is not fair to existing customers not to see benefits from the addition of a new customer until only a few years prior to the estimated time of replacement. Similarly, the OAG believes that in determining the payback period, the Commission should consider the risk that some extensions may not be used and useful for their full life. To be clear, this need not be due to customers’ leaving the gas system to fully electrify heating and other appliances. An extension may also cease to be used and useful for various other reasons, including the houses or commercial buildings the extension serves becoming abandoned, line strikes causing the need for replacement, or manufacturing defects resulting in lines or mains becoming obsolete

²⁷ Fresh Energy Reply Comments at 11-12 (“Line extension policy is not housing policy”); Coalition of Greater Minnesota Cities at 3 (“Altering Line Extension Policies Could Decrease Greater Minnesota’s Economic Competitiveness”).

²⁸ OAG Reply Comments at 4.

and in need of replacement. Longer payback periods, therefore, would need to be supported by compelling non-cost, public-interest considerations to overcome the potential risk to existing customers of subsidizing extensions for which they will ultimately receive no benefit.

II. RESPONSE TO CENTERPOINT ON DECLINING CUSTOMER COUNTS

In reply comments, CenterPoint asked the OAG to clarify an assumption in calculations supporting the OAG's initial comments, but in doing so it also misunderstands the OAG's position and purpose of the calculations.²⁹

CenterPoint states that “[t]here is no data to support the claim that there will be stranded natural gas distribution system assets” and goes on to critique the OAG's assumption of potential costs of continued extensions if no changes are made. To be clear, the OAG does not claim that “there *will* be stranded natural gas distribution system assets.”³⁰ Instead, the OAG believes that the Commission must responsibly address the *risk* of stranded natural gas distribution system assets. As the first sentences of OAG's comments on this topic state, “Gas ratepayers bear a risk from underutilized or stranded distribution system assets” and “[t]hese risks grow if line and main extension policies are set so that the payback period for new customers to benefit the system is lengthy.”³¹ To help the Commission assess these risks, the OAG provided calculations of the risk that CenterPoint's residential customers face from service line extensions.³²

More specifically, CenterPoint critiques an assumption in the OAG's estimate of potential costs if residential service line extensions continue and then become unused or under-utilized. CenterPoint takes issue with the assumption in the OAG's calculations of a 5% decrease of the number of customers that CenterPoint adds in each year, stating that the OAG's calculations

²⁹ CenterPoint Reply Comments at 7.

³⁰ *Id.* at 7 (emphasis added).

³¹ OAG Initial Comments at 16.

³² *Id.* at 16-17.

“arbitrarily selected a 5% decrease in the number of new customers year over year, but do not provide any support of how the 5% figure is derived.”³³ This implies that the OAG’s assumption of a 5 percent decrease in the rate of new customer additions was used to CenterPoint’s detriment. But this assumed decrease in the rate of new customer additions *decreases* the amount of exposure, or estimated risk, existing ratepayers could see if extensions continue. That is, the OAG assumed this decrease in the rate of new customer additions in an effort to be conservative.

Further, the OAG explained its reasoning in its initial comments. The OAG provided two estimates of the potential cost to ratepayers, first using CenterPoint’s current rate of extensions,³⁴ and second using an assumption that CenterPoint adds 5 percent fewer customers than its current rate of extensions.³⁵ Notably, assuming a 5 percent decrease results in a significant decrease in present value of the cost of new service lines versus using CenterPoint’s current rate.³⁶ If CenterPoint, instead, plans to decrease its rate of extensions beyond 5 percent, then it should disclose that so that the Commission can more accurately consider the risks.³⁷

The OAG also provided several other caveats for its analysis, including that the estimates only include the cost of residential service line extension and exclude mains and non-residential extensions (thus it is an underestimate of outside ratepayer risk).³⁸ The OAG hopes this response adequately clarifies the issue for CenterPoint and the Commission.

³³ CenterPoint Reply Comments at 7.

³⁴ OAG Initial Comments at 16.

³⁵ *Id.* at 17.

³⁶ See OAG Initial Comments at 17 (\$800,000,000 at current rate to \$252,000,000 assuming a 5 percent annual reduction in new customers).

³⁷ The OAG has provided the live spreadsheet of these calculations to CenterPoint, and it can easily adjust the rate of declining customer additions by modifying cell AE2. For example, should CenterPoint drastically reduce its customer additions by 25 percent in each year, the net present value of the cost of new residential service lines would remain significant at \$99,971,197.

³⁸ OAG Initial Comments at 17.

III. RESPONSE TO MERC ON PERIODIC REVIEW OF EXTENSION POLICIES.

MERC opposes the OAG's recommendation to update the questions that utilities are periodically required to respond to regarding their extension allowance policies. MERC states that the OAG's analysis is duplicative of the current analysis undertaken in rate cases pursuant to the Commission's 1995 order.³⁹ The OAG is aware of the current requirement in rate cases. Indeed, the current proceeding resulted from the OAG and other parties raising the very issues in this docket in response to the utilities current obligation to justify their extension policies in rate cases.

As explained in initial comments, it is the OAG's recommendation that the Commission *update* the requirements in the 1995 order to remove some questions that are no longer pertinent, keep some questions, modify some questions, and add additional questions.⁴⁰ The updated questions would be in place of, not in addition to, the current questions required by the 1995 order. The OAG encourages MERC to review the OAG's initial comments and reply comments and consider which of the OAG's updated questions MERC agrees or disagrees would be helpful for the Commission to consider.

The OAG believes that its updated list of issues that utilities should be required to address periodically is a reasonable way to reassess both the specifics of extension allowances as costs and usage continue to change, and to periodically reassess whether utilities should be permitted to offer extension allowances at all.⁴¹

As the OAG mentioned in initial comments, however, the venue where these issues are addressed may warrant reconsideration. There are advantages to analyzing these issues in rate

³⁹ MERC Reply Comments at 11.

⁴⁰ OAG Initial Comments at 18-20, 36-39.

⁴¹ As noted in reply comments, the OAG also believes that CEE's criteria are helpful considerations. *See* OAG Reply Comments at 9-12. Many of these criteria could be used in consideration of an appropriate payback period for the reasons discussed in Section I.E above.

cases, but also to analyzing them in a miscellaneous docket.⁴² The OAG defers to the Commission on whether ongoing review, should the Commission order it, occurs in rate cases or periodically through notice and comment proceedings.⁴³

RECOMMENDATIONS

Based on the OAG's analysis in its initial, reply, and supplemental comments, the OAG recommends the Commission take the following actions regarding residential⁴⁴ extension allowances:

1. Continue to allow utilities to offer residential line and main extension allowances provided that utilities comply with points 2-4 below:
2. No later than six months from the date of the Commission's order in docket no. 21-565, require utilities to file new line- and main-extension allowance justifications that set allowance amounts for residential customers that include the following assumptions:
 - A. All costs to extend and provide service to new customers, including but not limited to:
 - i. Line- and main-extension costs per foot using the most recent available costs;
 - ii. The cost of a meter using the most recent available cost;
 - iii. Ongoing costs to provide service to new customers, including but not limited to
 - a. Per customer estimates of customer accounts expenses (FERC Account Nos. 901-910).
 - b. Per customer estimates of other system wide operations and maintenance costs;

⁴² See OAG Initial Comments at 36-37.

⁴³ The 1995 Order includes three separate issues regarding whether utilities have consistently applied their tariffs or included wasteful additions in rate base that the OAG believes are more appropriate for analysis in rate cases because they are relevant to whether a utility has carried its burden to support the inclusion of these capital expenses in its rate base. See OAG Initial Comments at 38-39.

⁴⁴ As the OAG described in initial comments, using more complex or different criteria for determining CIAC for commercial and industrial customers is likely reasonable. See OAG Initial Comments at 41-42. While some principles described by the OAG likely apply to residential, commercial, or industrial extensions, the OAG has focused its analysis on residential extension allowances and limits its recommendations accordingly.

- B. Estimates of non-gas revenues based on a use per customer that accounts for either:
 - i. New building usage with declining usage beginning the year when a customer is likely to begin replacing any gas appliance with more efficient gas appliances or electric appliances;
 - ii. Average customer usage with declining usage beginning in year 1 or year 2.
 - C. A depreciation period that matches the utility's authorized depreciation period for service lines and mains in its most recently approved depreciation certification;
 - D. A payback period that ensures new customers payback the full cost of the extension and that balances the interests of new and existing customers considering various public-interest factors, including but not limited to:
 - i. the risk that an extension is not used and useful for its assumed depreciable life;
 - ii. the risk of receiving less revenues than assumed in the extension allowance justification;
 - iii. the interests of new consumers in accessing consumer protections and economic benefits offered by regulated natural gas service;
 - iv. the interests of existing and new low-income customers;
 - v. Minnesota's greenhouse gas emissions-reduction goals;⁴⁵ and
 - vi. intergenerational inequities arising from current natural gas customers paying for benefits received by future natural gas customers.
3. Prohibit utilities from applying additional CIAC waivers beyond the standard free footage or main- and line-extension allowance for residential extensions.⁴⁶
 4. Following an initial reset of extension allowances in line with the above principles through compliance filings in this docket, utilities should be required to review their extension allowance policies and provide the Commission with information about the following items⁴⁷ either in each general rate case or for a set period of time in a notice and comment docket:
 - A. Whether the utility's free footage or service extension allowance included the majority of all new extensions with only the extremely long extensions requiring a CIAC.

⁴⁵ See Minn. Stat. § 216H.02.

⁴⁶ See OAG Initial Comments at 33-36.

⁴⁷ If the Commission adopts the OAG's recommendations on this point, it should relieve the gas utilities of the obligation to respond to the bulleted questions on pages 6-7 of the Commission's March 31, 1995 order in docket no. G-999/CI-90-563.

- B. Whether the utility’s free footage or extension allowance ensures that existing customers will benefit from new customers additions to the system within a reasonable time period. Utilities should include a determination that:
- i. The assumed revenues from the new customer include a reasonable estimate of use per customer that accounts for potential declining customer usage from energy efficiency and electrification of heating and appliances.
 - ii. All costs of serving the new customer are included in the calculation.
 - iii. The length of the payback period and the methodology used to calculate it are reasonable.
- C. If offered, whether the utility’s extension charge refund policy is appropriate.
- D. Whether the utility’s extension allowance should be measured in number of feet (i.e. free footage) or be based on an estimate of the customer’s estimated usage (taking into account square footage, number of gas appliances, non-gas heating equipment, etc.).
- E. Whether offering free footage or an extension allowance continues to be reasonable in light of current and forecasted gas-system utilization, advances in technology, state and federal policy, and risks to ratepayers of stranded assets or an overbuilt system.

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Respectfully submitted,

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