



**STATE OF MINNESOTA
PUBLIC UTILITIES COMMISSION**

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July 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

INITIAL COMMENTS OF FRESH ENERGY AND MCEA

Fresh Energy and Minnesota Center for Environmental Advocacy (MCEA) appreciate the opportunity to provide these Initial Comments. Fresh Energy and MCEA write in response to 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 Initial Comments we: provide context on line extension subsidies in Minnesota and Fresh Energy and MCEA's previous engagement on this topic in rate cases, describe the need to reevaluate and phase out line extension allowances in Minnesota, and summarize gas line extension policy reforms in other states (Section I); analyze the assumptions behind gas utilities' line extension allowance calculations, dig into the errors in their assumptions, and calculate the associated emissions externalities, as well as describe how best to address affordability concerns (Section II); respond directly to the questions from the Notice of Comment Period (Section III); and conclude that ratepayer subsidization of gas line extensions should be ended in Minnesota (Section IV).

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>.

I. Background

A. The Future of Gas docket

As Minnesota works to decarbonize our economy by midcentury, reducing emissions from the natural gas distribution system is critical to reaching Minnesota’s statutory emissions reduction targets. The Commission plays a key role in addressing these emissions as the arena where many of Minnesota’s key energy decisions are made.

In the Future of Gas docket, the Commission is tasked by the Minnesota Legislature with evaluating “changes to natural gas utility regulatory and policy structures needed to meet or exceed Minnesota’s greenhouse gas emissions reductions goals.”² In 2021, Minnesota stakeholders modeled scenarios to achieve full decarbonization of Minnesota’s current natural gas end uses by 2050.³ This, and other subsequent reports⁴ have made clear that we are at an inflection point, and decisions made in the Future of Gas docket will be critical to determining whether we will succeed in our gas decarbonization goals.

Fresh Energy and MCEA are excited to address line extension policy in this docket — a key regulatory and policy change that is needed to help Minnesota achieve its greenhouse gas reduction goals. We also look forward to the forthcoming policy topics slated for discussion in this docket.

B. Line extension policy

The natural gas distribution system (and its corresponding emissions) grows via line extension.⁵ Line extension policy establishes the rules and procedures around expanding the gas system to add new customers, including, importantly, who pays the cost for extending the physical gas line and how much they pay.

Line extensions encompass the extension of gas distribution mains, the service line that connects the main to the meter, and the meter itself. Minnesota gas utilities traditionally have subsidized the costs of extending service to new customers using funding from existing customers, through what is called “line extension allowances.” Line extension allowances allow potential new customers (such as builders of a new housing development) to connect to the gas system for free, with all other customers covering the costs to add the new customer up to a

² 2021 Minn. Laws 1st Sp. Sess. ch. 4, art. 8, sec. 27, *available at* <https://www.revisor.mn.gov/laws/2021/1/Session+Law/Chapter/4/>.

³ Ctr. For Energy & Env’t & Great Plains Inst., [Decarbonizing Minnesota’s Natural Gas End Uses](https://e21initiative.org/wp-content/uploads/2021/07/Decarbonizing-NG-End-Uses-Stakeholder-Process-Summary.pdf) (Jul. 2021) 21 (“G21 Report”), *available at* <https://e21initiative.org/wp-content/uploads/2021/07/Decarbonizing-NG-End-Uses-Stakeholder-Process-Summary.pdf>.

⁴ Clean Heat Minnesota & Synapse Energy Economics Inc., [Minnesota Building Decarbonization Analysis: Equitable and cost effective pathways toward net-zero emissions for homes and businesses](https://drive.google.com/file/d/17GljHIUFVcb2RRxDDIBRWeqeXgnvre6f/view) (June 2024), *available at* <https://drive.google.com/file/d/17GljHIUFVcb2RRxDDIBRWeqeXgnvre6f/view>.

⁵ Fresh Energy, [Hidden beneath our feet: Minnesota’s growing decarbonization challenge](https://fresh-energy.org/wp-content/uploads/2024/04/White-Paper-Minnesotas-Decarbonization-Challenge-040824.pdf) (March 19, 2024) *available at* <https://fresh-energy.org/wp-content/uploads/2024/04/White-Paper-Minnesotas-Decarbonization-Challenge-040824.pdf>.

certain length of pipe via the “free footage allowance.” For example, Xcel’s free footage allowance is 80 feet for new gas main extensions and 75 feet for new service line extensions.

However, this policy needs to be revisited so that new or expanding customers are paying their fair share to receive service, and the cost doesn’t fall to existing customers to subsidize. Not only is this the right thing to do from a fairness perspective, but now that reducing emissions from the gas system is a key part of our state’s climate action plan, incentivizing customers to use the gas system by artificially lowering the cost to connect to the system no longer makes sense.

C. The need to reevaluate and phase out line extension allowances

Historically, the rationale for this line extension policy assumes that the benefits of adding a new customer (i.e., that the customer will be buying gas for decades into the future) to the system outweigh the costs to add that customer. But that historical assumption — that it is beneficial to increase the size of the natural gas system — is now being challenged for climate and financial reasons.

The natural gas sector is a significant and growing source of climate-causing emissions in Minnesota. According to the latest data⁶ from the Minnesota Pollution Control Agency, residential and commercial natural gas emissions have increased by 21% and 48%, respectively, since 2005. To help curb these emissions, Minnesota law has established goals to reduce these emissions and to reduce the usage of natural gas.

In addition to Minnesota’s economy-wide greenhouse gas (GHG) reduction targets of 50% by 2030 and net-zero emissions by 2050, the Minnesota Climate Action Framework has a goal to reduce GHG emissions from existing buildings by 50% by 2035, compared to 2005 levels.⁷ Additionally, state laws like the Natural Gas Innovation Act (NGIA)⁸ and the Energy Conservation and Optimization (ECO) Act⁹ have codified electrification and fuel-switching from gas to electricity as state goals, and both laws are poised to increase adoption of electric appliances. NGIA also established a throughput goal for gas utilities, which requires utilities to “reduce the overall amount of natural gas produced from conventional geologic sources delivered to customers.”¹⁰ Current line extension policies that are explicitly designed to expand the gas system make it difficult to achieve these goals.

⁶ Minnesota Pollution Control Agency, [Minnesota Greenhouse Gas Inventory](https://data.pca.state.mn.us/views/Greenhousegasemissionsdata/Sectordetails?%3Aembed=y&%3AisGuestRedirectFromVizportal=) (accessed July 3, 2025), available at <https://data.pca.state.mn.us/views/Greenhousegasemissionsdata/Sectordetails?%3Aembed=y&%3AisGuestRedirectFromVizportal=>.

⁷ [Minnesota Climate Action Framework](https://climate.state.mn.us/sites/climate-action/files/Climate%20Action%20Framework.pdf), available at <https://climate.state.mn.us/sites/climate-action/files/Climate%20Action%20Framework.pdf>.

⁸ Fresh Energy, [New law paves the way for deeper understanding of the future of gas in Minnesota](https://fresh-energy.org/new-law-paves-the-way-for-deeper-understanding-the-future-of-gas-in-minnesota) (June 30, 2021) available at <https://fresh-energy.org/new-law-paves-the-way-for-deeper-understanding-the-future-of-gas-in-minnesota>.

⁹ Fresh Energy, [ECO Act becomes law, modernizing Minnesota’s energy efficiency policy](https://fresh-energy.org/eco-act-becomes-law-modernizing-minnesotas-energy-efficiency-policy) (May 25, 2021) available at <https://fresh-energy.org/eco-act-becomes-law-modernizing-minnesotas-energy-efficiency-policy>.

¹⁰ Minn. Stat. § 216B.2427, subd. 10 (2021).

Furthermore, the rapidly advancing market for electric heat pump technologies provides clean, cost-effective alternatives to gas appliances. Electric heat pumps are versatile and energy-efficient technologies that can provide space heating and cooling as well as water heating. The coefficient of performance of cold-climate electric heat pumps can be over 3.0 on a seasonal basis,¹¹ meaning that electric heat pumps are more than three times more efficient than the most efficient gas furnaces, which are typically 95% efficient (.95 coefficient of performance).

Line extension policies also pose a growing financial risk for customers unless the policy is updated. As we move toward more electrified end uses to heat our homes and water and cook our food, we will rely less and less on the natural gas system to meet those needs. But since utilities recover costs for assets like pipes over many decades through the sale of gas, declining sales could necessitate significant rate increases, which could risk further decreasing gas usage. Eliminating line extension allowances will reduce this stranded asset risk, because infrastructure that is paid for via Contribution In Aid of Construction (CIAC) does not enter rate base, thus leaving fewer capital costs to be recovered through rates.

In summary, gas utilities' current line extension policies are out of step with current state law and policy. Line extension policy places an undue burden on both current and future customers and distorts the true cost of connecting to the gas system by having existing customers subsidize connection for new customers. We are not advocating in these comments that utilities should be restricted from extending new service or expanding existing service, but simply that new customers pay their own connection costs, rather than being subsidized by existing customers. Updating the policy in this way is both fairer and more aligned with Minnesota's GHG goals.

D. Gas line extension policy reforms in other states

Extension policies are being re-examined by state public utility commissions across the country. Several commissions have ordered the phase out and elimination of gas utility line extension policies that subsidize gas expansion. The table below summarizes some of these reforms.

Gas line extension allowance eliminations and reforms in other states:

¹¹ Steven Nadel & Lyla Fadali, Analysis of Electric and Gas Decarbonization Options for Homes and Apartments 68 (Am. Council for an Energy-Efficient Economy, 2022), <https://www.aceee.org/research-report/b2205>.

California	The California Public Utilities Commission eliminated gas line extension allowances in 2022 via an Order ¹² in its building decarbonization proceeding. It then took the additional step to eliminate electric line extension allowances for new construction buildings using natural gas. ¹³
Colorado	The Colorado Public Utilities Commission issued a decision ¹⁴ modifying the state’s approach to gas line extension allowances in late 2022 which was then superseded by the legislature ¹⁵ in May 2023 (SB23-291), effectively eliminating these allowances.
Connecticut	The Connecticut Public Utilities Regulatory Authority’s April 2022 decision ¹⁶ in its gas expansion proceeding ended the state’s System Expansion Program, a program that provided incentives to expand the gas system.
Oregon	The Oregon Public Utilities Commission ordered for the phase out of gas line extension allowances in two recent rate cases. In an October 2024 Order, ¹⁷ the Oregon Commission directed Northwest Natural, the state’s largest gas utility, to phase out its residential line extension allowances for new customer connections, starting November 1, 2024 with elimination by November 1, 2027. The Oregon Commission had issued a similar order in 2023 in Avista’s rate case. ¹⁸

¹² *Order Instituting Rulemaking Regarding Building Decarbonization*, Cal. PUC Rulemaking 19-01-011, Phase III Decision Eliminating Gas Line Extension Allowance, Ten-Year Refundable Payment Option, and Fifty Percent Discount Payment Option Under Gas Line Extension Rules (Sept. 20, 2022), available at <https://docs.cpuc.ca.gov/PublishedDocs/Published/G000/M496/K987/496987290.PDF>.

¹³ California Public Utilities Commission, CPUC Eliminates Last Remaining Utility Subsidies for New Construction of Buildings Using Natural Gas (Dec. 14, 2023), available at <https://www.cpuc.ca.gov/news-and-updates/all-news/cpuc-eliminates-last-remaining-utility-subsidies-for-new-construction-of-buildings-using-gas-2023>.

¹⁴ *Amendments to Gas Rules Implementing SB 21-264 & HB 21-1238*, Colo. PUC Docket 21R-0449G, Decision No. C22-0760 Commission Decision Adopting Rules (Dec. 1, 2022), available at https://www.dora.state.co.us/pls/efi/EFI_Search_UI.Show_Decision?p_session_id=&p_dec=29605.

¹⁵ S.B. 23-291, 74th Gen Assemb., 1st Reg. Sess. (Co. 2023), available at <https://leg.colorado.gov/bills/sb23-291>.

¹⁶ *Petition of William Tong, Attorney General for the State of Connecticut, and the Office of Consumer Counsel for an Investigation Into Eversource Energy Regarding Gas Expansion Marketing*, Conn. PURA Docket No. 21-08-24, Decision (April 27, 2022), available at [https://www.dpuc.state.ct.us/dockcurr.nsf/4b3c728dd1c0d642852586db0069aa70/b09c5c63c09c2a25852588310054086c/\\$FILE/210824-04272.pdf](https://www.dpuc.state.ct.us/dockcurr.nsf/4b3c728dd1c0d642852586db0069aa70/b09c5c63c09c2a25852588310054086c/$FILE/210824-04272.pdf).

¹⁷ *In the Matter of Northwest Natural Gas Company, dba NW Natural, Request for a General Rate Revision*, Or. PUC Docket No. UG 490, Order No. 24-359 (Oct. 25, 2024), available at <https://apps.puc.state.or.us/orders/2024ords/24-359.pdf>.

¹⁸ *In the Matter of Avista Corporation, dba Avista Utilities, Request for a General Rate Revision*, Or. PUC Docket No. 23-384, Order UG 461 (Oct. 26, 2023), available at <https://apps.puc.state.or.us/orders/2023ords/23-384.pdf>.

Maryland	<p>The Maryland Public Service Commission issued an order¹⁹ in June 2025 in its Future of Gas proceeding eliminating gas line extension subsidies.</p> <p>In its order, the Commission noted that “to the extent that subsidies encourage more natural gas production and use, they are inconsistent with the goals set by CSNA [the Climate Solutions Now Act of 2022]. While natural gas must play a role during that transition, the Commission is persuaded that new natural gas customers should pay the full cost of extending service to them, thus minimizing any future potential for stranded costs with respect to new extensions, and reducing any subsidization of gas extensions. A customer that prefers to use natural gas should, therefore, be expected to pay the actual cost of obtaining that service without artificial incentives to do so.”</p>
Massachusetts	<p>The Massachusetts Department of Public Utilities’ (DPU) December 2023 Order 20-80²⁰ set forth a new strategy to guide the evolution of the natural gas distribution industry to clean energy. In the order, the DPU directed the state’s Local Distribution Companies to begin reviewing their tariffs, policies, and practices related to new gas service connections.</p> <p>In February 2025, the Massachusetts DPU proposed²¹ requiring customers who request new gas service to cover the full cost of any needed line extensions, which effectively would end the gas utilities’ practice of spreading these costs across their rate base.</p>

¹⁹ *Petition of the Office of People’s Counsel for Near-Term, Priority Actions and Comprehensive, Long-Term Planning for Maryland’s Gas Companies*, Md. PSC Case No. 9707, Order No. 91683 Order on Stakeholder Proposals for Revision of Gas Policy (Jun. 13, 2025), available at https://opc.maryland.gov/Portals/0/Files/Publications/Others/2025061314347_Order_StakeholderProposals_970..pdf; see also Maryland Public Service Commission, Maryland PSC Orders Revisions to Gas System Connection Policies (June 13, 2025) available at https://www.psc.state.md.us/wp-content/uploads/MD-PSC-Orders-Changes-to-Gas-Connection-Policies_06132025.pdf.

²⁰ *Investigation by the Department of Public Utilities on its own Motion into the role of gas local distribution companies as the Commonwealth achieves its target 2050 climate goals*, Mass. Dept. of Public Utilities, Order 20-80 Order on Regulatory Principles and Framework (Dec. 6, 2023) available at <https://fileservice.eea.comacloud.net/V3.1.0/FileService.Api/file//iadhhaj?Kc28B1RUJcyf7TDOLTzteGFJ0ioKRMXdZYr4j7j/42qk9v9pxUxyG6LkaCeWBSjqbmMINqhcSkxPf0qUr1gASPKrYE1qejvebf677PtCVStUdHoHpEGELGLGjR+ZpYgt>; see also Massachusetts Department of Public Utilities, Department of Public Utilities Issues Order 20-80 (Dec. 6, 2023), available at <https://www.mass.gov/news/department-of-public-utilities-issues-order-20-80>.

²¹ *Investigation by the Department of Public Utilities on its Own Motion into the Role of Gas Local Distribution Companies as the Commonwealth Achieves its Target 2050 Climate Goals*, Docket No. D.P.U. 20-80-B, Hearing Officer Cargill’s Memorandum (Feb. 5, 2025) available at <https://fileservice.eea.comacloud.net/V3.1.0/FileService.Api/file//iidaifej?YPYB72s+hwsZPSdyLasbl2FJ0ioKRMXdZYr4j7j/42qk9v9pxUxyG6LkaCeWBSjqbmMINqhcSkxPf0qUr1gASPKrYE1qejvebf677PtCVStUdHoHpEGELGLGjR+ZpYgt>.

New York	New York has a unique gas line extension policy called the “100-foot rule.” Under New York statute, utilities are required to cover the cost associated with connecting a new gas customer if they are within 100 feet of the existing distribution system. In June 2025, the New York State legislature passed a bill that repeals this provision from statute. ²² This is one of the provisions of the NY HEAT (S4158) ²³ bill which aims to offer a more affordable path by allowing utilities to redirect funding from gas infrastructure toward lower-cost, community-scale electrification projects that enhance buildings. ²⁴
Washington	The Washington Utilities and Transportation Commission’s rulings on Avista ²⁵ and Puget Sound Energy’s ²⁶ 2022 rate cases required the phase out of gas line extension allowances with complete elimination by January 1, 2025. In a recently-adopted rate case settlement, Cascade Natural Gas agreed to follow a similar two-year phase out with elimination by March 2027. ²⁷

Additionally, broader “Future of Gas” proceedings in states like Illinois have identified line extension allowances as a potential topic to investigate.

The aforementioned states that have taken action to eliminate gas line extension allowances have cited reasoning including (but not limited to):

- The conflict between subsidizing new fossil fuel infrastructure and meeting climate, emissions reductions, and electrification goals and mandates;
- The risk of long-term stranded assets borne by ratepayers;

²² Alison F. Takemura, New Yorkers to stop paying for other people’s gas hookups under new bill, Canary Media (June 25, 2025) available at <https://www.canarymedia.com/articles/fossil-fuels/new-york-repeal-gas-hookup-incentive>.

²³ S. B. 4158, 238th Sess., (Ny 2025) available at <https://www.nysenate.gov/legislation/bills/2025/S4158>.

²⁴ Christopher Casey, How NY HEAT Can Save New Yorkers from Spending Billions on Increasingly Obsolete Infrastructure, Natural Resources Defense Council (Apr. 30, 2025) available at <https://www.nrdc.org/bio/christopher-casey/how-ny-heat-can-save-new-yorkers-spending-billions-increasingly-obsolete>.

²⁵ *In the Matter of the Electric Service Reliability Reporting Plan of Avista Corporation d/b/a Avista Utilities*, Wash. Utilities and Transportation Commission Docket Nos. UE-220053, UG-220054, UE-210854, Final Order (Dec. 12, 2022) available at <https://apiproxy.utc.wa.gov/cases/GetDocument?docID=1433&year=2022&docketNumber=220053>.

²⁶ *In the Matter of the Petition of Puget Sound Energy for an Order Authorizing Deferred Accounting Treatment for Puget Sound Energy’s Share of Costs Associated with the Tacoma LNG Facility*, Wash. Utilities and Transportation Commission Docket Nos. UE-220066, UG-220067, UG-210918, Final Order (Dec. 22, 2022) available at <https://apiproxy.utc.wa.gov/cases/GetDocument?docID=3215&year=2022&docketNumber=220066>.

²⁷ *Washington Utilities and Transportation Commission v. Cascade Natural Gas Corporation*, Wash. Utilities and Transportation Commission Docket No. UG-240008, Order 05 at 33-39 (Feb. 24, 2025) available at <https://apiproxy.utc.wa.gov/cases/GetDocument?docID=1043&year=2024&docketNumber=240008>.

- The economic inefficiency of continued subsidies that are outdated and inequitable;
- The increased availability of cleaner, cost-effective alternatives (e.g., cold climate heat pumps);
- The high cost of retrofitting or decommissioning gas systems in the future; and
- The need for fair and accurate cost allocation and price signaling.

E. Fresh Energy and MCEA's previous engagement on line extension policy at the Commission

Fresh Energy and MCEA have engaged on line extension policy across dockets at the Commission for several years. Previously, we actively engaged in several gas utilities' rate cases, advocating that line extension policy should be modified as a result of decarbonization goals and a corresponding need to reduce gas system usage. These included CenterPoint's 2021 rate case, Xcel's 2021 rate case, and Minnesota Energy Resource Corporation's (MERC's) 2022 rate case.

During our work in those rate cases, utilities repeatedly argued that rate cases were not the right forum in which to change line extension policy. The utilities were concerned that modifying their line extension policy in the rate case would make them less competitive with customers on the edge of their service territory who could choose to take service from another gas utility with different free footage allowances. They noted the only way to prevent this was to address line extension policy systematically for all gas utilities at once.²⁸ The Future of Gas Docket, created to evaluate needed gas utility policy changes, seemed the most logical place to have a utility-wide discussion of this issue. Thus, the settlements reached in these rate cases requested the Commission defer the discussion of line extension policies for each of Minnesota's three largest rate-regulated natural gas utilities to the Future of Gas docket.

Below we provide further details on how each of the utilities' line extension policies were addressed in the 2021 and 2022 rate cases.

1. CenterPoint Energy

In February 2022, Fresh Energy and MCEA provided written testimony in CenterPoint's 2021 rate case (#21-435) urging the Commission to require CenterPoint to reduce its artificial

²⁸ See, *In the Matter of the Application of Minnesota Energy Resources Corporation for Authority to Increase Natural Gas Rates in Minnesota*, Minn. PUC Docket No. G011/GR-22-504, Minnesota Energy Resources Corporation Line Extension Policy Study at 9 (emphasis added) (Nov. 14, 2024), available at <https://www.edockets.state.mn.us/documents/%7B10922C93-0000-CA3F-9721-C0F5763A2D3A%7D/download?contentSequence=0&rowIndex=3> ("MERC continues to reiterate that the Commission must use caution when considering changes to one utility's LEP and that the most suitable approach would be for the Commission to review LEPs in context for all natural gas utilities.").

incentive for new gas line extensions.²⁹ In the rate case's settlement, CenterPoint agreed to reduce the "free footage" of main line extensions from the current 150 feet to 100 feet.³⁰

In our testimony, we pointed out that CenterPoint's current annual investment in new gas line extension was roughly \$20 million and that reducing this investment would take some financial burden off of existing utility customers who pay for these extensions and would lessen the financial risk for customers in the future.

The settlement directed the reexamination of line extension policies to the Future of Gas docket, especially considering that since the 1990s, the last time extension policies were directly addressed by the Commission, state policy has evolved to now incorporate GHG reduction goals, electrification and fuel switching, and throughput reduction goals for geologic natural gas.

2. Xcel Energy

Similarly, in August 2022, Fresh Energy and MCEA provided testimony in Xcel's 2021 rate case (#21-678) recommending that Xcel be required to reduce its artificial incentive for new gas lines.³¹ In the settlement in that rate case, Xcel agreed to reduce its free footage allowance for main line extensions from 100 feet to 80 feet, while maintaining the 75-foot allowance for new service line extensions. The stakeholders further agreed to recommend the Commission explore main and service line extension policies in the Future of Gas docket.

3. Minnesota Energy Resources Corporation (MERC)

In March 2023, Fresh Energy and MCEA provided testimony in MERC's 2022 rate case (#22-504) recommending that MERC be required to reduce its artificial incentive for new gas line extensions.³² For residential installations, MERC used a model to determine whether the new customer would be required to cover the costs of extending the gas mains. However, similar to CenterPoint and Xcel, MERC's service line extension policy provided 75 feet for free.

²⁹ *In the Matter of the Application of CenterPoint Energy Resources Corp. d/b/a CenterPoint Energy Minnesota Gas for Authority to Increase Rates for Natural Gas Utility Service in Minnesota*, Minn. PUC Docket No. G-008/GR-21-435, Direct Testimony of Joe Dammel on Behalf of Clean Energy Organizations (Feb. 7, 2022), available at <https://www.edockets.state.mn.us/documents/%7BF0B7D97E-0000-CA3A-A78A-EC0E70D4B539%7D/download?contentSequence=0&rowIndex=102>.

³⁰ Jo Olson, [CenterPoint Energy's rate case settlement moves toward addressing some key policy concerns](https://fresh-energy.org/centerpoint-energys-rate-case-settlement-moves-toward-addressing-some-key-policy-concerns), Fresh Energy (Mar. 14, 2022), available at <https://fresh-energy.org/centerpoint-energys-rate-case-settlement-moves-toward-addressing-some-key-policy-concerns>.

³¹ *In the Matter of the Application of Northern States Power Company for Authority to Increase Rates for Natural Gas Service in Minnesota*, Minn. PUC Docket No. G-002/GR-21-678, Direct Testimony of Joe Dammel of Fresh Energy on Behalf of Clean Energy Organizations (Aug. 30, 2022), available at <https://www.edockets.state.mn.us/documents/%7B3022F082-0000-C010-9C68-33FB5E7087B1%7D/download?contentSequence=0&rowIndex=4>.

³² *In the Matter of Minnesota Energy Resources Corporation's Application to Increase Natural Gas Rates*, Minn. PUC Docket No. G-011/GR-22-504, Direct Testimony of Joe Dammel of Fresh Energy on Behalf of Clean Energy Organizations (Mar. 16, 2023), available at <https://www.edockets.state.mn.us/documents/%7B0049EC86-0000-CD3E-9197-C0860E6D1589%7D/download?contentSequence=0&rowIndex=96>.

The settlement agreement in MERC's 2022 rate case did not modify MERC's existing line extension policy, but did require a study to be performed within 12 months, examining MERC's line extension policies. In November 2024, MERC completed the study.³³

Fresh Energy and MCEA have several concerns with the study and believe that MERC's model has significant flaws that result in excessive free footage allowances. MERC's residential Customer Extension Model both underestimates the cost of adding a new customer and overestimates new customer revenues. Our concerns with MERC's study are discussed further below in Section III.C.

II. Analysis

A. Evaluating Minnesota gas utilities' line extension assumptions and calculations

Javelina Energy consultant Andrew Twite was retained by Fresh Energy to examine the economic analyses used by Minnesota's investor-owned gas utilities to justify their line extension subsidies. The calculations performed by the gas utilities share the same basic approach of comparing the estimated costs of adding a new customer to the estimated revenues received from the new customer over a given period of time. When it comes to specifics, however, the utilities' methodologies differ considerably. Given the variations in the utilities' calculations and the crucial role these studies play in determining line extension subsidy levels and CIAC requirements, the utilities' methodologies warrant careful consideration.

Unfortunately, each Minnesota utility's line extension subsidy calculation both underestimates the costs of adding customers to the system and overestimates new customers' future gas usage. These flaws result in excessive line extension subsidies, and, as a result, considerable cost increases for existing utility customers.

Specifically, one or more Minnesota utility methodologies includes the following errors:

- Underestimating construction costs
- Omitting metering costs
- Omitting ongoing customer costs
- Overestimating gas usage
- Omitting statutory compliance costs
- Using unreasonably long time periods
- Omitting fixed labor costs
- Omitting service line costs

³³ *In the Matter of the Application of Minnesota Energy Resources Corporation for Authority to Increase Natural Gas Rates in Minnesota*, Minn. PUC Docket No. G011/GR-22-504, Minnesota Energy Resources Corporation Line Extension Policy Study (Nov. 14, 2024), available at <https://www.edockets.state.mn.us/documents/%7B10922C93-0000-CA3F-9721-C0F5763A2D3A%7D/download?contentSequence=0&rowIndex=3>.

These flaws are described in detail in the report in Attachment A from Javelina Energy.

The report also provides an updated line extension subsidy calculation for Xcel Energy to illustrate the cumulative impacts of the utilities' methodological errors. This analysis—which corrects the flaws in the utilities' analyses—finds that Xcel's current line extension subsidies are far too long, resulting in significant cost increases for existing customers.

For example, Xcel's current distribution main allowance is 80 feet, but when the aforementioned flaws are remedied in the line extension calculation using conservative estimates, the allowance should only be 10.2 feet. Similarly, Xcel's service line footage allowance is currently 75 feet, but the corrected analysis reveals it should actually be a mere 9.6 feet. This means that at Xcel's current footage allowances, each new customer increases costs to existing customers by more than \$11,000. In order to ensure existing customers are not subsidizing these new customers, Xcel's line extension subsidies would need to be reduced to 10.2 feet of mains and 9.6 feet of service lines. And the need for these reductions only becomes more acute once the societal costs of greenhouse gas emissions and public health costs, as well as the costs of future decarbonization of new gas customers, are accounted for.

While this calculation was only done for Xcel as an illustrative example, similar results are expected for the other gas utilities given their significant underestimation of the costs associated with gas line extensions as described in the report.

The Commission has sufficient policy rationale to eliminate gas utility line extension allowances based on the climate and energy policy misalignment, economic risk, and customer fairness and equity reasons that other states have led with. This report was conducted to go one step further to thoroughly evaluate the assumptions and estimates that utilities use in their line extension calculations. The report found that, putting aside the strong policy rationale, utilities' gas line extension calculations are outdated, inaccurate, and place undue financial burden on existing customers. The report therefore reaches the same conclusion that gas utilities' line extension allowances should be eliminated.

B. Affordability concerns should be addressed by prioritizing funding for weatherization and beneficial electrification for low-income households and communities

Current gas line extension policy requires existing low-income customers, along with other ratepayers, to subsidize new homes and new customers. Thus, maintaining gas line extensions out of affordability concerns for low-income customers will only worsen affordability. To more effectively address affordability concerns for low-income customers, utilities should prioritize programs that directly support low-income customers and communities in weatherizing (e.g., insulation and air sealing) and electrifying their homes with efficient heat pumps and appliances. Examples of such programs include:

- Energy Conservation and Optimization (ECO) energy efficiency and efficient fuel-switching programs in the low-income segment (e.g., Xcel's Home Energy Savings

and Low-Income Multi-Family Building Efficiency programs in its Income-Qualified Segment³⁴)

- Natural Gas Innovation Act (NGIA) pilots (e.g., Xcel’s new Income Qualified Strategic Electrification pilot proposal³⁵)
- Conservation Applied Research and Development (CARD) program research on energy-saving technologies and strategies with a focus on low-income households (e.g., the 2022 CARD study regarding strategies for equitable energy efficiency program design³⁶)
- Franchise fees collected from utilities by cities/local governments to fund low-income weatherization and electrification projects³⁷

Additional support for these and similar programs is especially needed in light of recent threats to federal funding for low-income weatherization, energy efficiency, and beneficial electrification. Improved targeted outreach to low-income households with a guide to these and other alternative funding sources to meet their affordable home heating needs is needed.

Additionally, earlier this year the Minnesota Commission required that expansion alternatives analyses in utilities' upcoming gas integrated resource plans (IRPs) target low-income communities for deploying non-pipeline alternatives (including beneficial electrification, energy efficiency, and thermal energy networks):

“CenterPoint, MERC, and Xcel must prioritize capacity expansion projects for Expansion Alternatives Analysis with the potential for learning and those located in low-income and/or Environmental Justice Areas as defined in Minn. Stat. § 116.065, subd. 1(e) (2023) or indigenous communities.”³⁸

³⁴ *In the Matter of Xcel Energy’s 2024-2026 Energy Conservation and Optimization Triennial Plan*, Minn. PUC Docket No. 23-92, Xcel Energy 2024-2026 ECO Triennial Plan (Jan. 29, 2024) at 163 and 172, available at <https://www.edockets.state.mn.us/documents/%7B60D55A8D-0000-C414-AEC0-14C6DA3C7193%7D/download?contentSequence=0&rowIndex=46>.

³⁵ *In the Matter of Xcel Energy’s Natural Gas Innovation Plan*, Minn. PUC Docket No. 23-518, Order Approving Natural Gas Innovation Plan With Modifications (May 16, 2025), available at <https://www.edockets.state.mn.us/documents/%7BD077DA96-0000-CC19-B369-CE3929E3AABE%7D/download?contentSequence=0&rowIndex=9>.

³⁶ The Citizens Utility Board of Minnesota for the Minn. Dept. of Commerce, [Strategies for Equitable Energy Efficiency Program Design: A toolkit for two high-priority populations in the Twin Cities: Black homeowners and property owners renting to Latinx households](https://mn.gov/commerce-stat/pdfs/187298_CUB_Equitable-EE-Pgms_Report_Final-SECURE.pdf) (Apr. 28, 2022), available at https://mn.gov/commerce-stat/pdfs/187298_CUB_Equitable-EE-Pgms_Report_Final-SECURE.pdf.

³⁷ Frank Jossi, [Minnesota cities tap utility fees to help fund local clean energy and climate action](https://www.canarymedia.com/articles/enn/minnesota-cities-tap-utility-fees-to-help-fund-local-clean-energy-and-climate-action), Canary Media (Oct. 17, 2024), available at <https://www.canarymedia.com/articles/enn/minnesota-cities-tap-utility-fees-to-help-fund-local-clean-energy-and-climate-action>.

³⁸ *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, Order Clarifying and Expanding Framework for Natural Gas Integrated Resource Planning at 18 (Oct. 28, 2024), available at <https://www.edockets.state.mn.us/documents/%7B10C8D392-0000-CD32-9AA3-0C989AB58883%7D/download?contentSequence=0&rowIndex=4>.

These expansion alternatives analyses in IRPs should be another mechanism used to assess alternatives for existing low-income households considering connection to utilities' gas distribution systems.

It is also important to promote the use of affordable heating options for customers on delivered fuels. These customers already have affordable heating alternatives without gas line extensions. The electrification of heating via heat pumps is a compelling and cost-effective non-gas alternative to delivered fuels. In Minnesota, more than 300,000 single-family and manufactured homes currently rely on delivered fuels such as propane and oil for heating.³⁹ 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.⁴⁰ In addition to lowering energy costs, air source heat pumps provide the added benefit of air conditioning, offering critical relief during extreme heat events. Eliminating gas line extension allowances is warranted because of cost-effective, non-gas alternatives to delivered fuels that exist today.

III. Responses to Topics Open for Comment from Notice of Comment Period

- A. Should the Commission consider any modifications to how gas utilities calculate free footage allowance and other costs related to gas main and service line extensions? If so, what factors or conditions would justify changes? And how would any proposed changes affect new connecting customers and other ratepayers?*

Fresh Energy and MCEA 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. This change is warranted for many reasons. First, this policy creates an artificial incentive for new customers to connect to the gas system because it is low-cost or entirely free to them. Given our state GHG reduction plan to have net-zero emissions by 2050, the state's Climate Action Framework seeking to reduce GHG emissions from existing buildings 50% by 2035, and state laws codifying electrification and fuel-switching as state goals along with reduced gas throughput, this is a clear example of a policy that needs to change in order "to meet or exceed Minnesota's greenhouse gas emissions reductions goals."⁴¹

³⁹ Fresh Energy, Hidden beneath our feet: Minnesota's growing decarbonization challenge (March 19, 2024) available at <https://fresh-energy.org/wp-content/uploads/2024/04/White-Paper-Minnesotas-Decarbonization-Challenge-040824.pdf>

⁴⁰ Lauren Reeg, Ryan Shea, and Jingyi Tang, Lower Bills, Cleaner Air: Heat Pump Benefits for Homes Relying on Delivered Fuels, RMI (May 7, 2025), available at <https://rmi.org/lower-bills-cleaner-air-heat-pump-benefits-for-homes-relying-on-delivered-fuels>.

⁴¹ 2021 Minn. Laws 1st Sp. Sess. ch. 4, art. 8, sec. 27, available at <https://www.revisor.mn.gov/laws/2021/1/Session+Law/Chapter/4/>.

Second, our expert analysis shows that current line extension policies are not economic for existing customers and are actually placing a long-term financial burden on these customers simply to create an artificial incentive for new customers.

Third, at least 8 states that are leading in building decarbonization work have already eliminated or taken steps to eliminate gas line extension policies. Minnesota is a leader in climate policy and this is the right time for our state to make this change.

Finally, it is worth noting that this change does not prevent customers that wish to connect to the gas system from doing so. Instead, it simply puts the cost of connecting where it should be—on the customer that seeks to connect. This is the best thing for existing customers, especially low-income customers, who are currently paying to subsidize all new customers' connections to the gas system.

B. *If the Commission should make modifications to regulated gas utilities' gas line extension policies, how would rules, statutes, and Commission orders justify those modifications?*

The Commission has multiple sources of authority that enable it to modify gas line extension policy. First, the Commission has broad authority over the rates that a utility can recover. Generally, Minn. Stat. § 216B.03 instructs the Commission to ensure that rates charged to customers are “just and reasonable.” The Commission could determine in this docket that it is no longer just and reasonable for existing customers to subsidize the cost for new customers who want to join the gas system.

Second, the PUC is explicitly required to set rates in a way that encourages the reduction of fossil fuel use. Specifically, Minnesota Statute § 216B.03 requires 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.

Third, the Minnesota legislature granted the PUC broad authority to regulate the operations and practices of utilities. Minnesota Statute § 216B.09, subd. 1 states, “[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).

Finally, the legislature endorsed the idea that the PUC would be making these sorts of policy adjustments in the present docket when it required, “the Public Utilities Commission must initiate a proceeding to evaluate *changes to natural gas utility regulatory and policy structures* needed to meet or exceed Minnesota’s greenhouse gas emissions reductions goals, including [the economy-wide

net-zero by 2050 goal.]”⁴² Not only did the Legislature understand that the PUC had the authority to regulate the policies of utilities, but it wanted to ensure that the PUC would use that authority, in the present case, to make the necessary changes to advance gas utility greenhouse gas reductions.

C. How should the Commission consider the results of Minnesota Energy Resource Corporation’s Line Extension Policy Study in this matter?

Fresh Energy and MCEA advocated for MERC’s Line Extension Policy Study during MERC’s 2022 rate case. We envisioned this study would provide robust data showing the impact on line extension policy of changing gas system conditions. We thought this data could in turn inform the discussion on line extension policy that is now taking place in this docket. Specifically, we thought the study would provide useful information on whether the economics of line extension policy would change if the new customer infrastructure was not used for the full useful life assumed within MERC’s calculations. Similarly, we anticipated the study would show whether the economics of line extension policy are affected if customers use less gas as a result of electrifying more of their appliances, and that the study would calculate the social cost of carbon resulting from line extension policy.

Fresh Energy, MCEA, and our expert Andrew Twite of Javelina Consulting, participated in multiple stakeholder meetings where we provided feedback on ways to improve the analysis so that the study provided this useful data. However, our review of the final study reveals ongoing problems with the analysis and other significant flaws that compromise the study’s usefulness. Some concerns we wish to highlight are:

Line Extension Assets Installed Today Are Not Guaranteed to Be Used Through Their Full Useful Life of 2073. MERC asserts, “[t]he assets being installed in a line extension will continue to serve customers for at least the assumed approximately 48 years, *no matter if customer usage changes.*”⁴³ This is simply untrue. Some customers are already disconnecting their gas service in favor of all-electric homes. Heat pump technology has also advanced remarkably in recent years, and will likely continue to improve, allowing more customers to heat their homes without any gas backup. Moreover, other evolving technologies such as thermal energy networks will further allow current natural gas customers to fully disconnect from the gas system. These are solutions that are

⁴² 2021 Minn. Laws 1st Sp. Sess. ch. 4, art. 8, sec. 27, available at <https://www.revisor.mn.gov/laws/2021/1/Session+Law/Chapter/4/>.

⁴³ *In the Matter of the Application of Minnesota Energy Resources Corporation for Authority to Increase Natural Gas Rates in Minnesota*, Minn. PUC Docket No. G011/GR-22-504, Minnesota Energy Resources Corporation Line Extension Policy Study at 9 (emphasis added) (Nov. 14, 2024), available at <https://www.edockets.state.mn.us/documents/%7B10922C93-0000-CA3F-9721-C0F5763A2D3A%7D/download?contentSequence=0&rowIndex=3>.

evolving in real time now, in 2025. Certainly, by 2073, there will be a significantly greater penetration of gas customers who have transitioned to these energy sources and have disconnected from the natural gas system completely.

Gas Usage Per Customer Is Likely to Change, Thereby Affecting the Line Extension Calculation. In this study, Fresh Energy, MCEA, and the Office of the Attorney General (OAG) all asked MERC to investigate the impact of declining natural gas usage over time due to Minnesota’s GHG emission reduction goals and the increasing utilization of fuel-switching, energy efficiency programs, and energy-efficient products.⁴⁴ Because customer gas usage is used to determine revenues, if declining usage is not accounted for in MERC’s model, the model would overestimate revenues attributable to adding the new customer over the life of the assets, thereby skewing the line extension calculation.⁴⁵

However, in MERC’s study, MERC did not investigate the impacts of declining natural gas usage over time. First, MERC considered whether usage per customer could be lowered to account for residential new construction being more energy efficient than existing structures, thereby reducing customer usage from the very start. However, MERC concluded it could not make this change in its calculation because it could not determine if its usage per customer for new construction was actually lower than for existing structures.⁴⁶

Next, MERC considered whether it should lower customer usage over time, rather than keeping customer usage as a static number over each year of the model. However, MERC determined that the model should not reflect reduced customer usage over time because most of MERC’s line extensions are to new construction, which is more energy efficient, so minimal additional efficiency and reduced usage could be gained during the life of the customer.⁴⁷

Thus, in its study, MERC completely declined to investigate lower gas usage per customer as a result of fuel-switching and energy efficiency. MERC justified this on the one hand by saying it could not know if new construction was more energy efficient and therefore had less usage per customer, but then on the other hand saying that because new construction *is known* to be more energy efficient, it did not make sense to reduce customer usage over time because increased efficiency gains would be minimal (even though MERC had not reduced the baseline customer usage to reflect the starting increased efficiency of new construction).

⁴⁴ *Id.* at 10-11.

⁴⁵ *Id.* at 11.

⁴⁶ *Id.* at 14-15 (“[I]t is very difficult for the Company to determine UPC data for the new residential customer to see if the usage is lower for new structures versus existing structures . . . absent MERC being able to determine UPC data on its own customers for new structures versus existing structures, such a change should not be incorporated into the Company’s LEP and CEM.”).

⁴⁷ *Id.* at 16.

Fresh Energy and MCEA find this reasoning to be circular and contradictory. Either the baseline gas usage per customer should be lowered to reflect that the majority of MERC's line extensions are to residential new construction that is more energy efficient, or usage per customer should decrease over time to reflect adoption of fuel-switching and/or efficiency gains, or both. Lowering neither fails to reflect known policy changes and legal mandates aimed at decarbonization and efficiency that will undoubtedly impact gas usage per customer because that is exactly what those policies were designed to do.

The Social Cost of Carbon of Current Line Extension Policy Is Determinable.

Fresh Energy and MCEA felt that calculations showing the social cost of carbon as a result of extending natural gas service would be a helpful data point to see as part of the Commission's consideration in this docket of whether line extension policy needs to change in order for us to "meet or exceed Minnesota's greenhouse gas reduction goals."⁴⁸ MERC declined to do any such calculations despite this being a parameter of the study that was specifically mentioned in the rate case Settlement Agreement⁴⁹ and the scope of the study.⁵⁰ Fresh Energy and MCEA are disappointed that MERC explicitly declined to provide this information in part because it would show a notable shift in the economics of current line extension policy.⁵¹ Understanding this impact was the exact point of looking at the issue in the study.

Fresh Energy and MCEA Disagree with the Scenario Assumptions and Inputs. Finally, in the scenarios that MERC did run, Fresh Energy and MCEA have many concerns with the assumptions, inputs, numbers, and calculations used. Our expert reviewed MERC's computations and determined MERC made many incorrect assumptions and calculations in their model, including: outdated capital cost assumptions for service lines, omission of meter installation costs, unreasonably high gas usage, and failure to use a useful life shorter than 35 years.⁵² These are differences that make a difference. They affect the outcomes of MERC's scenario calculations, resulting in a serious minimization of the significance and impact of changing conditions.

⁴⁸ 2021 Minn. Laws 1st Sp. Sess. ch. 4, art. 8, sec. 27, available at <https://www.revisor.mn.gov/laws/2021/1/Session+Law/Chapter/4/>.

⁴⁹ *In the Matter of the Application of Minnesota Energy Resources Corporation for Authority to Increase Natural Gas Rates in Minnesota*, Minn. PUC Docket No. G011/GR-22-504, Settlement Agreement at 8-9 (May 11, 2023), available at <https://www.edockets.state.mn.us/documents/%7BC0ED0B88-0000-C917-ACC6-4F0F071D981F%7D/download?contentSequence=0&rowIndex=48>.

⁵⁰ *In the Matter of the Application of Minnesota Energy Resources Corporation for Authority to Increase Natural Gas Rates in Minnesota*, Minn. PUC Docket No. G011/GR-22-504, Minnesota Energy Resources Corporation Line Extension Policy Study at 1 (Nov. 14, 2024), available at <https://www.edockets.state.mn.us/documents/%7B10922C93-0000-CA3F-9721-C0F5763A2D3A%7D/download?contentSequence=0&rowIndex=3>.

⁵¹ *Id.* at 31, 31 n.48.

⁵² Attachment A at 4-12.

These are some, but not our only concerns about the analysis in the study. Given the study's analytical flaws, we do not recommend the Commission utilize the results of the study in this or other dockets. In sum, we do not believe MERC's line extension study provides useable or useful information to the Commission on the issues before it in this docket.

D. What lessons should the Commission consider from proceedings in other states related to this matter?

As shown in the table in Section I.D. above, at least eight states have eliminated or taken action to phase out gas line extension allowances for reasons including:

- The conflict between subsidizing new fossil fuel infrastructure and meeting climate, emissions reductions, and electrification goals and mandates;
- The risk of long-term stranded assets borne by ratepayers, especially low-income ratepayers;
- The economic inefficiency of continued subsidies that are outdated and inequitable;
- The increased availability of cleaner, cost-effective alternatives;
- The high cost of retrofitting or decommissioning gas systems in the future; and
- The need for fair and accurate cost allocation and price signaling.

For these reasons, the Commission should follow the lead of other states by initiating the phase out and elimination of gas utilities' outdated line extension allowance policies.

E. Should any distinctions be made between different customer classes when considering modifications?

While our comments primarily focus on residential customers, we believe the policy rationale for eliminating free footage allowances also applies equally to other customer classes. As stated throughout, elimination of line extension allowances would ensure that all current and future ratepayers benefit from new customers covering the full cost of line extensions. Other states that have taken action to eliminate line extension allowances have largely applied the decision across customer classes.⁵³

⁵³ *Petition of the Office of People's Counsel for Near-Term, Priority Actions and Comprehensive, Long-Term Planning for Maryland's Gas Companies*, Md. PSC Case No. 9707, Order No. 91683 Order on Stakeholder Proposals for Revision of Gas Policy at 11 (Jun. 13, 2025), available at https://opc.maryland.gov/Portals/0/Files/Publications/Others/2025061314347_Order_StakeholderProposals_970..pdf; S.B. 23-291, 74th Gen Assemb., 1st Reg. Sess. (Co. 2023) at 12, available at <https://leg.colorado.gov/bills/Sb23-291>;

The California Public Utilities Commission stated in its 2022 Order:

“Gas line subsidies are eliminated for the non-residential sector for the same reasons as for the residential sector. These benefits include significant ratepayer savings, reductions in GHG emissions, combating climate change, improved overall quality of life, greater certainty for the builder community, and benefits to low-income customers. The Commission reiterates that the elimination of these subsidies is one of many necessary and important steps in furthering California’s decarbonization goals, while easing the burden on gas ratepayers, ensuring grid safety and reliability, and continuing to promote alternative clean fuels... The Commission agrees with SBUA and other parties that large non-residential customers are the most significant contributors to GHG gas emissions, making it especially important to adopt this policy change for this customer segment. Absent this change, non-residential customers create the great potential to drive problematic expansion of gas line infrastructure beyond existing use areas, and create additional stranded investment. Therefore, we eliminate gas line subsidies to promote the many benefits of this policy.”⁵⁴

F. How should the Commission consider the needs of low-income customers and other areas of equity in this matter?

It is important that the Commission prioritize the needs of low-income customers in this and related matters. For this reason, as described in section II.B. above, affordability concerns should be addressed by prioritizing utility programs that support low-income households and communities with weatherization and beneficial electrification, such as those listed in section II.B.

The Commission should also consider the impact to existing customers of current policies, which includes increased rates for low-income customers, as described in these comments.

In section II.B we also describe the importance of promoting the use of affordable heating options for customers on delivered fuels, who already have

Investigation by the Department of Public Utilities on its Own Motion into the Role of Gas Local Distribution Companies as the Commonwealth Achieves its Target 2050 Climate Goals, Docket No. D.P.U. 20-80-B, Hearing Officer Cargill’s Memorandum at 4 (Feb. 5, 2025) available at <https://fileservice.eea.comacloud.net/V3.1.0/FileService.Api/file//iidaifej?YPYB72s+hwsZPSdyLasbl2FJ0ioKRMXdZYr4j7j/42qk9v9pxUxyG6LkaCeWBSjqbmMINqhcSkxPf0qUr1gASPKrYE1qejvebf677PtCVStUdHoHpEGELGLGjR+ZpYgt>.

⁵⁴ *Order Instituting Rulemaking Regarding Building Decarbonization*, Cal. PUC Rulemaking 19-01-011, Phase III Decision Eliminating Gas Line Extension Allowance, Ten-Year Refundable Payment Option, and Fifty Percent Discount Payment Option Under Gas Line Extension Rules at 47-48 (Sept. 20, 2022), available at <https://docs.cpuc.ca.gov/PublishedDocs/Published/G000/M496/K987/496987290.PDF>.

affordable heating alternatives without gas line extensions, namely cost-effective electric heat pumps.

G. Are there other issues or concerns related to this matter?

- Diverse stakeholder engagement: Because natural gas system policy issues are so cross-cutting, Fresh Energy and MCEA believe it is important that a wide variety of stakeholders participate in the Future of Gas docket. This will ensure the discussion benefits from a diverse range of perspectives that can speak to: workforce development and labor needs, public health and indoor air quality concerns, emerging technologies, community needs, equity and energy justice, and safety and reliability. Fresh Energy and MCEA hope to continue to work with other participants in this docket, and the Commission, to ensure this range of perspectives are present in the docket.
- Revisiting other gas expansion policies: Gas line extension allowances are not the only policies that promote the expansion of utilities' gas distribution systems. Commission policy supports the extension of gas service to rural communities via the New Area Surcharge policy, which functions to extend gas service to communities that would be otherwise uneconomic for a gas utility to serve.⁵⁵

The New Area Surcharge is a surcharge assessed to customers living in an area that is newly served by the gas utility. The purpose of a New Area Surcharge, which assesses a fee on customers living in rural areas for up to 30 years, is to “permit a natural gas company to extend service into a new area it would be uneconomic to serve at tariffed rates”⁵⁶ This policy expands the reach of gas service to rural communities, but it comes at a cost and up to a 30-year commitment to gas service.⁵⁷

We recommend that the Commission revisit its New Area Surcharge policy in future discussions in this docket, for the reasons we are revisiting gas line extension policy in this comment period.

⁵⁵ Gas utilities in Minnesota do not have defined service territories and instead serve each community that is economic for the gas utility to serve, in consideration of the cost to connect the community to the gas system and the expected revenue generated by the community.

⁵⁶ See, e.g., *In the Matter of Minnesota Energy Resources Corporation's Petition for Approval of a New Area Surcharge Rider*, Order Approving New Area Surcharge with Modifications and Requiring Revised Tariff Sheet 1 (Jul. 26, 2012).

⁵⁷ See, e.g. *New Area Surcharge Rider*, CenterPoint Energy Minnesota Gas, Tariff Section V Fourth Revised Page 10.a (defining the expiration of the surcharge as the sooner of: an end date in the project tariff, the date the approved revenue deficiency is retired; or the end of 30 years).

IV. Conclusion

We appreciate the opportunity to engage in this comment period about line extension allowances in the Future of Gas docket at the Minnesota Public Utilities Commission. Much has changed since these policies were put in place, and it's time for these policies to be updated.

As stated in section III.A. and for the reasons described in these comments, Fresh Energy and MCEA 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.

Thanks to the efforts of the utilities and stakeholders including Fresh Energy and MCEA, a thorough record has been built on these policies in previous rate cases. We anticipate this record will contribute to the quality and depth of discussion that will take place during this comment period in the Future of Gas docket.

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ATTACHMENT A

Evaluation of Minnesota Investor-Owned Utilities' Gas Line Extension Policies by Javelina Energy (July, 8, 2025)

[Filed separately]