



**STATE OF MINNESOTA
PUBLIC UTILITIES COMMISSION**

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September 9, 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

SUPPLEMENTAL COMMENTS OF FRESH ENERGY AND MCEA

Fresh Energy and Minnesota Center for Environmental Advocacy (MCEA) appreciate the opportunity to provide these supplemental comments. Fresh Energy and MCEA write in response to parties' reply comments regarding the Notice of Comment Period issued in the Future of Gas docket by the Minnesota Public Utilities Commission (Commission) on May 5, 2025, regarding what action(s), if any, the Commission should take to modify existing gas line extension policies for rate regulated gas utilities.¹

In our initial comments in this comment period,² Fresh Energy and MCEA provided context on line extension subsidies in Minnesota and Fresh Energy and MCEA's previous engagement on

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>.

² Fresh Energy and MCEA Initial Comments (July 2025) available at <https://www.edockets.state.mn.us/documents/%7BC0E0EB97-0000-C211-B70F-4B0FD3A483D5%7D/download?contentSequence=0&rowIndex=26>; Fresh Energy and MCEA Initial Comments expert report from Andrew Twite, Javelina Energy in Attachment A (July 2025) available at <https://www.edockets.state.mn.us/documents/%7BD0E0EB97-0000-C715-92E4-1C172CCA EFE8%7D/download?contentSequence=0&rowIndex=27>.

this topic in rate cases, described the need to reevaluate and phase out line extension allowances in Minnesota, and summarized gas line extension policy reforms in other states (Section I); analyzed the assumptions behind gas utilities' line extension allowance calculations, dug into the errors in their assumptions, provided corrected calculations showing line extension allowances of only approximately 10 feet are supported by economic analysis, calculated the associated emissions externalities, and described how best to address affordability concerns (Section II); responded directly to the questions from the Notice of Comment Period (Section III); and concluded that ratepayer subsidization of gas line extensions should be ended in Minnesota (Section IV).

In our reply comments in this comment period,³ we responded to several points from other parties' initial comments and provided thorough explanations describing why:

- A. Now is the time to reevaluate and eliminate line extension allowances;
- B. The decision on line extension policy should not be put back into rate cases or other utility-specific proceedings;
- C. Scenarios modeled in the G21 report are consistent with ending line extension allowances;
- D. Line extension policy is not housing policy;
- E. Line extension subsidies distort the true cost of gas installations, which may result in uneconomic fossil fuel investments;
- F. Subsidies are meant for technologies we wish to incentivize;
- G. It is significantly more cost-effective to electrify new construction than to decarbonize at a later date;
- H. Gas utilities should be shifting spending on current ECO incentives away from using gas in new construction, not doubling down on incentives for dual-fuel in new construction;
- I. Electrification is a cost-effective alternative for delivered fuels customers that reduces energy burden and maintains regulatory protections;
- J. Expanding the gas system can significantly increase costs for existing customers; and
- K. Line extension policy has not been the purview of the legislature before.

We appreciate the opportunity to review and respond to other parties' reply comments. Reflecting on parties' reply comments, we describe why:

- A. Xcel's reply comment critiques do not meaningfully change the results of the Javelina Energy report;
- B. The comments of the Office of the Attorney General largely concur with the Javelina Energy report;

³ Fresh Energy and MCEA Reply Comments (August 2025) *available at* <https://www.edockets.state.mn.us/documents/%7B90868B98-0000-CB1C-BA4E-E6E5AB7E438D%7D/download?contentSequence=0&rowIndex=23>.

- C. Under a dual fuel approach, line extension subsidies should be eliminated immediately;
- D. Ending line extension allowances doesn't take away customer choice, it creates greater choice for the future;
- E. There are better solutions for supporting low-income customers during the transition away from fossil fuels than maintaining incentives for fossil fuels;
- F. There are also better solutions for customers in greater Minnesota;
- G. Arguments that fairness is a reason to maintain line extension subsidies are flawed;
- H. Early evidence from other states suggests that line extension policy changes are influencing market decisions to build without gas;
- I. Public comments on the record support an end to gas line extension allowances, including support from members of the building industry and a comparison to how the extension of the wastewater system is paid for; and
- J. A full record should be built on the topic of rate design before the Commission prioritizes or advances a specific model.

Finally, we provide the decision options we support, for the Commission's consideration.

I. Reflections on parties' reply comments

A. Xcel's reply comment critiques do not meaningfully change the results of the Javelina Energy report

Xcel Energy's reply comments included a number of critiques of the economic analysis provided in the Javelina Energy report, which was included as Attachment A to our initial comments. However, several of Xcel's critiques were misleading or inconsequential, and the ones that do have merit do not meaningfully change the results of the Javelina Energy report.

1. Several of Xcel's critiques are misleading or inconsequential

Several of the critiques provided in Xcel's reply comments are either misleading or misplaced. For example, Xcel stated that it "does not use an assumption of an average residential customer to determine the initial amount of gas a customer will use," but rather uses customer-specific usage forecasts.⁴ This statement is misleading at best, as Xcel only uses customer-specific usage forecasts in its rarely used Residential Extension Model (REM), while its standard free footage justification does, in fact, use residential class average usage.⁵ Notably, in 2024, just 42 of Xcel's 3,574 new residential service connections in Minnesota included an REM calculation, or just 1.2% of all new customer additions.⁶ Thus, in virtually all cases, Xcel does in fact assume residential class average usage in its line extension subsidy calculation.

⁴ Xcel Energy Reply Comments at 12.

⁵ Xcel Energy response to Fresh Energy and MCEA Information Request 13, which is included in Attachment D to these comments.

⁶ *Id.*

Similarly, Xcel claimed that the Javelina Energy report did not use the Company's most recently approved weighted costs of capital (7.16%).⁷ Contrary to Xcel's claims, the calculations included in the Javelina Energy report *did* include a weighted cost of capital of 7.16%.⁸ A gross revenue conversion factor was then applied to the weighted cost to determine the pre-tax rate of return. This is consistent with Xcel's rate practices.⁹ It is also the same approach used in CenterPoint Energy's line extension allowance calculation, which was the basis for the Javelina Energy report's calculations.

Xcel also argued that line extension allowance calculations should not include statutory compliance costs.¹⁰ First, to be clear: the calculations included in the Javelina Energy report do *not* include statutory compliance costs.¹¹ However, omitting these costs is a weakness of the calculation, not a strength. Xcel itself notes that Minnesota aims to reduce greenhouse gas emissions across all sectors 30% by 2030 and to net zero emissions by 2050.¹² Xcel correctly states that "[r]emaining emissions in some economic sectors beyond 2050, including from natural gas use, would need to be offset by greater emission reductions in other sectors, and/or by sequestration in forests and agricultural lands, to achieve net zero economy-wide emissions."¹³ Thus, in order to be in compliance with Minnesota's statutory goal, gas utilities would either need to transition entirely to renewable natural gas (or some other emissions-neutral gas source) or purchase emissions offsets from other companies. Either of these options will have significant costs for Xcel's customers; however, neither Xcel nor any other Minnesota utilities include any of these costs in their line extension subsidy calculations.

2. *Xcel's remaining critiques do not meaningfully change the results of the Javelina Energy report*

Some of the critiques included in Xcel's reply comments do have merit. However, some of these critiques would actually *decrease* line extension allowances, and, when combined, these critiques have a negligible impact on the Javelina Energy report's results.

On page 13 of its reply comments, Xcel notes that the Javelina Energy report used the 15-year property modified accelerated cost recovery system (MACRS) method for tax depreciation, while Xcel prefers to use the 20-year MARCS rates. While we have no objection to using the 20-year MARCS rate instead, we note that this change would *decrease* line extension allowances.

⁷ Xcel Energy Reply Comments at 13.

⁸ Fresh Energy and MCEA Initial Comments Attachment B, cell N:50.

⁹ See, e.g., Xcel Energy's March 24, 2025 Final Rates Compliance filing in docket 23-413, Schedule 1A, Line 9 (eDocket No. [20253-216752-01](#)).

¹⁰ Xcel Energy Reply Comments at 12.

¹¹ See: Fresh Energy and MCEA Initial Comments Attachment A at 13 ("This calculation includes neither statutory compliance costs nor the externality costs resulting from the new gas usage. While these costs are real and significant, incorporating them into a subsidy calculation would require subjective assumptions regarding the costs and emissions rates of gas alternatives over time. [...] To avoid subjectivity and potential controversy, this study considers only documented utility costs already included by Minnesota utilities as well as Xcel-specific customer usage data. Thus, the results listed here would still result in excessive line extension subsidies.")

¹² Minn. Stat. [216H.02 Subd. 1](#).

¹³ Xcel Energy Reply Comments at 7.

Similarly, Xcel's reply comments note that the service line cost included in the Javelina Energy report was the average cost for all customer classes, not just the residential class.¹⁴ We agree that it is appropriate to use costs specific to the residential class costs, which was our original intent.¹⁵ However, it is important to note that Xcel's average 2024 residential service line installation cost of \$2,074 is still dramatically higher than the service line cost used by Xcel.¹⁶ The service line cost used in Xcel's line extension subsidy calculation is just \$683, or \$1,391 less than its actual installation cost in 2024.

Finally, Xcel notes that the distribution main cost data it provided in response to Fresh Energy and MCEA Information Request 4 included costs for both new and replacement main projects. Xcel states that per-foot installation costs for distribution main installations for new construction tend to be lower than for replacement projects. First, we note that not all new customer additions are in new construction; some of Xcel's new customers live in existing structures, which will presumably have per-foot construction costs that are similar to Xcel's average cost. However, since most new customers will be in new construction, we agree that it is reasonable to use a lower per-foot cost for distribution mains.

On balance, incorporating Xcel's critiques has a marginal impact on the Javelina Energy report's line extension subsidy calculation. Attachment A to these comments provides an updated line extension subsidy calculation that incorporates the 20-year MARCS tax depreciation schedule, Xcel's updated 2024 residential meter and service line costs, Xcel's projected net salvage values,¹⁷ and a significantly lower per-foot distribution main installation cost (i.e. half of Xcel's 2022-2024 average cost).¹⁸

As the attachment shows, the updated line extension subsidies would be just 11 feet for mains and 10 feet for services. For comparison, the subsidies calculated in the Javelina Energy report were 10 feet for mains and 10 feet for services. Moreover, these line extension subsidy levels would still be excessive, as the updated calculation still does not account for the externality costs resulting from new gas usage, the costs of meeting state policy requirements, or declining gas usage over time.

Thus, Xcel's critiques of the Javelina Energy report calculation are, ultimately, inconsequential. This updated calculation demonstrates that, in addition to the many policy rationales detailed in

¹⁴ Xcel Energy Reply Comments at 10.

¹⁵ Fresh Energy and MCEA Information Request 3 requested service line costs specific to Residential customers; Xcel instead chose to provide the total costs for all classes. *See*: Fresh Energy and MCEA's Initial Comments at Attachment C, page 4 of 19.

¹⁶ Xcel Energy response to Fresh Energy and MCEA Information Request 11, which is included in Attachment D to these comments.

¹⁷ Net salvage costs were inadvertently omitted from the Javelina Energy report.

¹⁸ Fresh Energy and MCEA requested cost data specific to distribution main installations in new construction in Information Request 10, which is included in Attachment D to these comments. However, Xcel Energy's response was incomplete, missing data for 2022 and 2024. Notably, Xcel's response to Information Request 4 showed that 2022 and 2024 had the two highest average installation costs of the last five years. Accordingly, the updated calculation did not incorporate this incomplete data.

our initial and reply comments, there is also an economic justification for eliminating line extension subsidies.

B. The comments of the Office of the Attorney General largely concur with the Javelina Energy report

In addition to Xcel, the OAG provided a detailed response to the economic analysis included in the Javelina Energy report. The OAG noted that several of the Javelina Energy report's critiques of utilities' line extension subsidy calculations are consistent with those identified by the OAG.¹⁹ This includes utilities' customer usage projections, which the OAG argued both overstate initial gas usage and fail to account for declining usage over time.²⁰ The OAG did, however, take issue with the Javelina Energy report calculation's use of a 25-year time period, arguing that the time period should more closely reflect the depreciation schedules approved by the Commission.²¹

We believe it is inappropriate to consider time periods that assume gas usage beyond 2050, especially if externality and statutory compliance costs are not included. Indeed, potential statutory compliance costs were one of the primary considerations cited by the Oregon Public Utilities Commission in its order eliminating Northwest Natural Gas' line extension subsidies.²² That said, changing time periods has a relatively small impact on the results of a line extension subsidy calculation.

To address both Xcel's and the OAG's critiques, Attachment B to these comments provides an updated line extension subsidy calculation with the following modifications:

- A 40-year time period
- Usage per customer that is flat for the first 14 years and then declines by 1% per year beginning in year 15²³
- 20-year MARCS tax depreciation schedule
- Xcel's updated 2024 residential meter and service line costs
- Xcel's projected net salvage values²⁴
- Significantly lower per-foot distribution main installation costs (i.e. half of Xcel's 2022-2024 average cost).

¹⁹ Office of the Attorney General Reply Comments at 5.

²⁰ Office of the Attorney General Initial Comments at 25-29.

²¹ Office of the Attorney General Reply Comments at 7. The OAG also argued that neither externality costs nor statutory compliance costs should be included in a line extension subsidy calculation; however, as the OAG also noted, the calculations included in the Javelina Energy report do *not* include these costs.

²² Oregon Public Utilities Commission, [Order No. 24-359](#), October 25, 2024 at 10-12 (“[U]pon evaluating parties' perspectives on the model's inputs and assumptions, we find that the benefits to existing customers erode quickly when alternative inputs and assumptions are tested. We credit Staff and intervenors for raising numerous questions about the inputs used in NW Natural's [discounted cash flow] model for demonstrating the customer benefit of LEAs. In particular, Staff, CUB, and the Coalition argue that the 25-year payback timeline is still too high, the assumed price for RNG is too low, and non-RNG alternative fuel costs are not appropriately accounted for.”)

²³ Usage reductions begin in year 15, as this is the general time period when many gas household appliances would be replaced.

²⁴ Net salvage costs were inadvertently omitted from the Javelina Energy report.

As the attachment shows, the line extension subsidies under these assumptions would be just 14 feet for mains and 13 feet for services. Moreover, even these small line extension subsidies would still be excessive, as the updated calculation still does not account for the externality costs resulting from new gas usage or the costs of meeting state policy requirements, despite the fact that gas usage would continue through 2064, or 15 years beyond the state’s goal of net zero greenhouse gas emissions by 2050. This calculation also assumes the Company would not meet its Energy Conservation and Optimization (ECO) program requirements for the first 14 years of the time period.

In short, the critiques provided in reply comments do not meaningfully change the results of the Javelina Energy report. Thus, in addition to the many policy rationales detailed in our initial and reply comments, there is also an economic justification for eliminating line extension subsidies.

C. Under a dual fuel approach, line extension subsidies should be eliminated immediately

Several parties claim it is appropriate to continue line extension allowances because the gas distribution system will need to operate indefinitely in order to serve as a “backup” fuel source for electric space heating. For example, MERC states, “[g]as line extensions allowances will help customers achieve this potential future state of electrification with gas backup.”²⁵ However, heat pump technological improvements and warming winter temperatures may obviate the need for a backup fuel source. Moreover, if Minnesota were to pursue a dual fuel approach, it would be even more imperative to eliminate line extension subsidies.

1. Minnesotans will not continue to need gas backup indefinitely

In Minnesota, the need for gas backup is rapidly diminishing as cold-climate heat pumps have become dramatically more efficient and reliable in recent years. Modern models are specifically designed to operate in subzero conditions, maintaining high performance even during the coldest stretches of winter.²⁶ At the same time, average winter temperatures are rising due to climate change, meaning there are fewer extreme cold days when heat pump performance may decrease. According to the Minnesota Department of Natural Resources, instances of extreme cold in Minnesota have already fallen by up to 90%, and “the long-term decline in cold extremes is all but guaranteed to continue.”²⁷ This combination of better technology and a warming

²⁵ MERC Reply Comments at 16. *See also*, LiUNA Reply Comments at 3-4; Xcel Energy Reply Comments at 3-4; Housing First Reply Comments at 2.

²⁶ Mitsubishi Electric, *Heat Pumps for Extreme Cold Climates* (September 2024), available at <https://www.mitsubishicomfort.com/articles/mythbusters-heat-pumps-for-extreme-cold-climates>; Carrier, *Cold Climate Heat Pumps: Advanced Heating for Extreme Weather*, available at <https://www.carrier.com/residential/en/us/products/heat-pumps/cold-climate-heat-pump/>; Washington Post, *Heat pumps used to struggle in the cold. Not anymore.* (November 2024), available at <https://www.washingtonpost.com/climate-solutions/2024/11/14/cold-climate-heat-pump-winter/>; Wired, *Don’t Believe the Biggest Myth About Heat Pumps* (May 2024), available at <https://www.wired.com/story/myth-heat-pumps-cold-weather-freezing-subzero/>.

²⁷ Minnesota Department of Natural Resources available at https://www.dnr.state.mn.us/climate/climate_change_info/climate-trends.html.

baseline reduces the practical need for dual-fuel systems or gas backup, making all-electric heating both viable and resilient for Minnesota households.

Looking ahead, the opportunities for innovation in electric heating far outpace those for gas. Companies like Dandelion Energy are pioneering ground-source heat pump systems that deliver extremely high efficiency, while Flow Environmental Systems is developing advanced thermal storage and building electrification solutions that make all-electric heating more flexible and cost-effective. These innovations give homeowners, utilities, and policymakers more options to integrate heating with renewable energy and demand management. By contrast, traditional gas systems have seen relatively little technological evolution, with limited prospects for efficiency gains or innovation in delivery. This means sticking with gas locks customers into a fuel with rising costs and diminishing relevance, while going electric opens the door to continuous improvement and long-term affordability.

2. *Even under a dual fuel approach, line extension subsidies should be eliminated immediately*

Moreover, even if Minnesota were to pursue a “dual fuel” approach—with the gas distribution system used as a backup fuel to supplement electric heat pumps—it would be even more imperative to eliminate line extension subsidies. The core premise of line extension subsidies is that new customer revenues will exceed the costs of adding new customers to the system, thus providing a net benefit to existing customers. Yet, utility revenues are primarily a function of volumetric sales; the more gas a customer uses, the more revenues the utility receives. The dual fuel approach would lead to a dramatic reduction in per-customer usage: according to Xcel Energy, “a dual fuel approach towards new home decarbonization can reduce natural gas consumption by roughly 75 percent.”²⁸

This level of usage reduction would completely undermine the foundation for line extension subsidies. At these low usage levels, new customer revenues would be far too low to overcome the cost of adding the customer to the system, which would in turn necessitate cost increases for all other customers.

This phenomenon is illustrated in Attachment C to these comments. This calculation builds upon the updated line extension subsidy calculation included in Attachment B—which incorporates the critiques raised in Xcel Energy’s and the OAG’s reply comments—while lowering new customer usage to 25% of Xcel’s class average. As the attachment shows, a new dual fuel customer would increase costs for existing customers, *even if the free footage allowances were zero*. In other words, just the cost of a meter and getting utility crews on site and set up would exceed the new revenues remitted by the new customer.

Thus, if the Commission were interested in pursuing the dual fuel approach, the first action it should take is to eliminate line extension subsidies. The massive per-customer usage reductions resulting from the dual fuel approach would dramatically reduce new customer revenues,

²⁸ Xcel Energy Reply Comments at 4.

resulting in a major cost burden being placed on existing customers with little hope of those costs ever being paid back.

D. Ending line extension allowances doesn't take away customer choice, it creates greater choice for the future

Another common theme repeated in reply comments and throughout this docket is that eliminating line extension allowances eliminates consumer choice.²⁹ However, these arguments confuse eliminating line extensions with a ban on new gas connections. For example, Housing First asserts that ending line extension allowances is “mandated electrification.”³⁰ But eliminating line extension allowances does not prohibit any consumer from choosing gas, nor does it “mandate” consumers choose electrification. It simply eliminates the current thumb-on-the-scale for gas that makes gas appear more affordable when compared to other alternatives that do not receive the same subsidy.

Similarly, the Minnesota Blue Flame Gas Association asserts that it supports “energy policies that are fuel-neutral and that preserve customer choice” and that “[a] balanced energy framework that allows multiple technologies to compete fairly will provide better long-term outcomes for consumers and the state.”³¹ We agree. However, current policy is not fuel-neutral and does not allow multiple technologies to fairly compete, as line extension allowances promote gas by artificially reducing its upfront cost. Ending pro-gas subsidies would actually level the playing field and allow “multiple technologies to compete fairly” and further promote consumer choice.

Next, the Reply Comments of Housing First argue the Commission should not eliminate line extension allowances because it has a *mandate* to ensure consumer choice. While we agree that consumer choice is often a laudable policy goal, we are aware of no such law and wish to clarify that this is *not* a legal obligation of the Commission, as Housing First asserts. Moreover, eliminating line extension allowances would not eliminate customer choice, but would rather put all home heating options on the same playing field. This allows for real customer choice based on the merits of different fuels and their actual costs without artificial subsidies.

Finally, there are parties that assert we must maintain line extension allowances to give a meaningful fuel choice to customers who cannot afford to connect to the gas system without that connection being subsidized. However, there are much better solutions for those customers, who represent only a small percentage of the total customers receiving line extension subsidies, as discussed below.

²⁹ See Housing First Reply Comments at 1-4; MERC Reply Comments at 8.

³⁰ Housing First Reply Comments at 3-4.

³¹ Minnesota Blue Flame Gas Association Public Comments at 1.

E. There are better solutions for supporting low-income customers during the transition away from fossil fuels than maintaining incentives for fossil fuels

Several parties argue that eliminating line extension subsidies would harm low income-customers on delivered fuels, who may be unable to afford to connect to the gas system without a subsidy. However, this argument ignores the fact that very few line extension subsidies actually go to low-income customers. For example, MERC's 2024 Line Extension Policy Study found that just 8% of extensions were to premises either previously or currently occupied by Low Income Home Energy Assistance Program (LIHEAP) customers.³² This figure likely overstates the share of current LIHEAP households that may be looking to connect to gas, since it includes past LIHEAP participants as well. Moreover, there are better ways to aid those few low-income customers who may benefit from line extension subsidies than by maintaining line extension subsidies for all customers. For example, in lieu of subsidizing all gas connections, the OAG suggested the possibility of CAIC waivers for low-income customers only.³³ Fresh Energy and MCEA would be open to discussing these limited waivers for income-qualified customers, if the Commission is interested in this approach. That being said, we have concerns about the complexity of implementing a waiver and the potential financial burden that could result over time.

State regulators could also require that electric utilities bolster their low-income efficient fuel-switching ECO programs, as well as develop all-electric affordable housing construction programs. As Fresh Energy suggested in our November 2023 comments on utilities' 2024-2026 ECO Triennial plans, all-electric new construction programs specifically for affordable housing could be included in ECO to support the benefits of the energy transition for low-income customers.³⁴ In Colorado, the Commission supported a suggestion that PSCo put forth a program for an all-electric new construction program specifically for affordable housing.³⁵ This is a better solution to parties' concerns about low-income customers than maintaining gas line extensions for *all* customers.

³² MERC Reply Comments at 32.

³³ Office of the Attorney General Initial Comments at 43 ("Further, although OAG believes that as a general principle any service and main extensions above free footage should be assessed at actual cost, the Commission could also require utilities' line extension policies to allow for additional CIAC waivers for customers that show they lack the ability pay. There are likely other ways that the Commission can protect low-income customers as it revisits utility line- and main-extension policies, and the OAG looks forward to reviewing other commenters' thoughts on this point.

³⁴ Fresh Energy, Response to Department of Commerce Proposed Decision at 8-9 (November 2023) *available at*

<https://efiling.web.commerce.state.mn.us/documents/%7B6020AA8B-0000-C332-9CF4-DAC1453424DC%7D/download?contentSequence=0&rowIndex=15>.

³⁵ Commission Decision, In the Matter of the Application of Public Service Company of Colorado for Approval of a Number of Strategic Issues Relating to Its Electric and Gas Demand Side Management and Beneficial Electrification Plan, Colorado Public Utilities Commission, Proceeding No. 22A-0309EG, Decision No. C23- 0413, June 22, 2023 at ¶¶ 233 *available at*

https://www.dora.state.co.us/pls/efi/efi_p2_v2_demo.show_document?p_dms_document_id=999894&p_session_id=

F. There are also better solutions for customers in greater Minnesota

Additionally, some parties assert that line extension allowances should be maintained for everyone out of concern for customers in greater Minnesota, particularly those already on delivered fuels who would have a greater expense connecting to the gas system than a customer closer to the gas system infrastructure.³⁶ However, similar to low-income customers, there are better solutions to accommodate these customers than maintaining line extension allowances for all customers.

First, as discussed in both our initial and reply comments, delivered fuels customers can see the most savings from installing heat pumps. According to studies, in Minnesota, 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.³⁷ In addition to lowering energy costs, air source heat pumps provide the added benefit of air conditioning, thereby offering critical relief for these households during extreme heat events without the cost of additional equipment. This is particularly relevant as extreme heat events are getting more prevalent. Moreover, the switch from delivered fuels to a heat pump offers a significant climate benefit, cutting a home's carbon pollution from water and home heating by ~60% in the *first year*.³⁸ Studies estimate that in Minnesota, this switch creates a reduction of 5.3 metric tons of CO₂ per household.³⁹ For context, it would require planting 87.6 trees per household to achieve a similar CO₂ reduction.⁴⁰ Additionally, delivered fuel customers already have an existing heating system that they can choose to utilize as a backup fuel source. Therefore, there is no need for a new gas connection for these customers.

Second, if providing fuel-switching affordability is the concern, then these customers should be targeted for ECO programs. A better solution than maintaining a pro-gas policy to address these customers would be to establish a new ECO program for electric utilities to provide rebates for efficient fuel-switching for customers who heat their homes on delivered fuels. If the Commission is interested in this approach, it could require such a program be explored in the next ECO Triennial.

The Coalition of Greater Minnesota Cities argues that businesses may choose to build in neighboring states or metro areas if line extension costs are higher, reducing greater Minnesota's competitiveness.⁴¹ To the contrary, businesses increasingly seek locations that align with sustainability and decarbonization goals. Supporting clean energy infrastructure and

³⁶ See LiUNA Reply Comments at 5-6; MERC Reply Comments at 6; Xcel Reply Comments at 14-15; Coalition of Greater Minnesota Cities Reply Comments at 3.

³⁷ RMI, *Lower Bills, Cleaner Air: Heat Pump Benefits for Homes Relying on Delivered Fuels* (May 2025), available at <https://rmi.org/lower-bills-cleaner-air-heat-pump-benefits-for-homes-relying-on-delivered-fuels>.

³⁸ *Id.*

³⁹ *Id.*

⁴⁰ Calculated using EPA Greenhouse Gas Equivalencies Calculator, available at <https://www.epa.gov/energy/greenhouse-gas-equivalencies-calculator> (input of 5.3 metric tons of CO₂ equivalent).

⁴¹ Coalition of Greater Minnesota Cities Reply Comments at 3.

avoiding long-term fossil fuel lock-in can make greater Minnesota more attractive in the future economy. Additionally, gas subsidies don't actually eliminate costs, they defer them. As fossil fuel infrastructure becomes more expensive and stranded, ratepayers will face even higher costs, which could be a greater barrier to competitiveness.

G. Arguments that fairness is a reason to maintain line extension subsidies are flawed

Xcel claims in reply comments that it would be unfair to not provide line extension allowances to future customers when they have been provided to existing customers.⁴² NW Natural made a similar claim in Oregon during their gas line extension proceeding. In the Oregon Commission's decision to phase out gas line extensions for NW Natural, the Commission described why it didn't find the claim to be a compelling argument in favor of the proposal to continue LEAs:

In short, we find significant risk that the purported benefits to current customers of paying the LEA will not materialize, and we weight risks to current customers more heavily than we do providing an advantage to new customers who are arriving to the gas system at a time of significant future policy, market, and cost uncertainty. Though NW Natural asserts unfairness to these new customers from eliminating the LEA, we are comfortable with the possibility that new customers will support existing customers by paying their entire connection cost and adding revenue in the near term; it is our uncertainty about longer-term benefits that causes us to weight more heavily the risks to existing customers. We also observe that NW Natural has asserted that customers continue to prefer gas and that there is strong demand for natural gas service. If we accept that this is true, there seems to be no justification for offering incentives that run a risk of not being paid back over time. From a policy perspective, we do not find unfairness to new customers a compelling argument in favor of the proposal to continue LEAs.⁴³

Similarly, in Minnesota, concerns about "fairness" to future customers do not outweigh the risks to existing customers or justify continuing subsidies that expose ratepayers to long-term costs and uncertainties.

H. Early evidence from other states suggests that line extension policy changes are influencing market decisions to build without gas

Xcel notes that "the impacts and outcomes of line extension policy changes in other states are not yet clear, as implementation is relatively recent."⁴⁴ A recent publication from RMI highlights some early impacts in other states:

Early evidence suggests that these policy changes are influencing market decisions to build without gas, rather than simply shifting the cost of gas connections to new

⁴² Xcel Energy Reply Comments at 21.

⁴³ Oregon Public Utilities Commission, Order No. 24-359, October 25, 2024 at 11 *available at* <https://apps.puc.state.or.us/orders/2024ords/24-359.pdf>.

⁴⁴ Xcel Energy Reply Comments at 21.

customers. California’s largest combined gas and electric utility, PG&E, reported that in 2023, a large majority — 72 percent for residential buildings and 91 percent for non-residential — of new line extension requests were for electric service only with no gas connection. This is much larger than the historical trend, as only 8-9 percent of PG&E residential customers are all-electric today. Similarly, the policy change in Colorado helped enable a plan from Lennar, a major homebuilder, to build 1,500 new homes with geothermal heating and no natural gas service, in partnership with Dandelion. In this case, the phaseout of the subsidy for gas service helped tip the business case for this investment toward an electric alternative.⁴⁵

These early examples indicate that ending gas line subsidies can meaningfully shift development toward all-electric construction, demonstrating the potential of policy to drive market transformation. Developers make long-term decisions based on regulatory signals, and maintaining subsidies for fossil fuels sends the wrong signal, undermining Minnesota’s climate commitments.

I. Public comments on the record support an end to gas line extension allowances

1. *There is support from members of the building industry for ending gas line extension allowances*

The main driver of housing affordability is the overall cost of construction, which is influenced far more by land, labor, and materials than by utility connection costs. Gas line extension allowances function as subsidies paid by all existing utility customers, including low-income households, for the benefit of a relatively small number of new customers. Eliminating these subsidies doesn’t block development; it simply ensures that the true cost of new gas infrastructure is transparently borne by those who choose it.

Housing developers already have the option to build all-electric homes, which are often lower-cost. With today’s highly efficient cold-climate heat pumps, all-electric construction is cost-competitive, reduces indoor air pollution, avoids the need for gas extensions, and shields residents from future gas rate hikes. As architect Rachel Wagner states in public comments in this docket: “I haven’t connected a new home to a natural gas line in more than 7 years, and I refuse to design new homes with natural gas because we can build well-insulated new housing powered by super-efficient electric appliances.”⁴⁶

Removing line extension allowances may actually encourage developers to choose this more affordable, forward-looking option to build all-electric. As home designer Tim Eian notes in a public comment in this docket, “[p]roviding benefits to those who invest in the building envelope and energy avoidance levels the playing field, which is still heavily tilted towards

⁴⁵ Hennen, M & Dammel, J, *Cutting These Subsidies Could Save States Millions of Dollars* (August 2025), available at <https://rmi.org/cutting-gas-system-subsidies-could-save-states-millions-of-dollars/>.

⁴⁶ Rachel Wagner Public Comments (September 2025) available at <https://efiling.web.commerce.state.mn.us/documents/%7BD0521599-0000-CC10-AD6E-A9371FE0EBF7%7D/download?contentSequence=0&rowIndex=5>.

business as usual, and enables truly carbon and climate-neutral new and retrofit homes in Minnesota.”⁴⁷ Additionally, architect Peter Schmelzer noted in his public comment, “directing subsidies towards the next generation of mechanical systems, heat pumps, [and] better windows will make them all more affordable and available in our marketplace.”⁴⁸

Other builders echoed this shift. Wagner emphasized that “eliminating the Line Extension Allowance is one small step the state can take to help the residential building sector do its part in meeting the requirements of the Next Generation Energy Act.”⁴⁹ Similarly, architect Anna Koosmann wrote: “Recent advancements in cold-climate heat pumps, combined with air-sealing and high-performance envelope assemblies, have eliminated the need for gas equipment in new construction.”⁵⁰

As we thoroughly explain in our reply comments, gas line extension policy is not a housing affordability policy.⁵¹ In fact, continuing subsidies for new gas line extensions worsens affordability for households over the long term. These subsidies lock in costly fossil fuel dependence, exposing households to volatile energy prices and adding hidden costs that are ultimately borne by all ratepayers, including low-income families.

Gas line extension allowances are costly, outdated subsidies that slow the transition to more efficient, all-electric homes. Ending them is an urgent energy affordability policy—one that builders, architects, and designers are already embracing.

2. *A comparison to how the extension of the wastewater system is paid for suggests that an end to gas line extension allowances is appropriate*

Jason Willett, a retired finance director with the Metropolitan Council’s Environmental Services division and an Xcel Energy customer, argues that natural gas line extensions should not be subsidized by existing ratepayers. Drawing on his experience with wastewater financing, he notes that new wastewater customers must pay both connection charges and sewer availability charges to cover system capacity. He emphasizes that wastewater is clearly a public good, yet new users are required to shoulder their fair share of system costs. Willett concludes that natural gas line extensions—which are not a clear public good—should similarly require new

⁴⁷ Tim Eian Public Comments (August 2025) *available at* <https://efiling.web.commerce.state.mn.us/documents/%7B802AA998-0000-C211-BF02-11CFC9F19E3D%7D/download?contentSequence=0&rowIndex=27>.

⁴⁸ Peter Schmelzer Public Comments (September 2025) *available at* <https://efiling.web.commerce.state.mn.us/documents/%7BD0521599-0000-CC10-AD6E-A9371FE0EBF7%7D/download?contentSequence=0&rowIndex=5>.

⁴⁹ Rachel Wagner Public Comments (September 2025) *available at* <https://efiling.web.commerce.state.mn.us/documents/%7BD0521599-0000-CC10-AD6E-A9371FE0EBF7%7D/download?contentSequence=0&rowIndex=5>.

⁵⁰ Anna Koosmann Public Comments (September 2025) *available at* <https://efiling.web.commerce.state.mn.us/documents/%7BD0521599-0000-CC10-AD6E-A9371FE0EBF7%7D/download?contentSequence=0&rowIndex=5>.

⁵¹ Fresh Energy and MCEA Reply Comments at 11-12.

customers to pay both connection and availability costs, rather than shifting those expenses onto existing ratepayers.⁵²

RMI made a similar comparison in a 2021 report, stating that “[w]ater utilities do not typically provide construction allowances, and many also charge system development charges (SDCs ...) for new hookups. For many water utilities, the economic rationale for new customer fees is a goal of keeping rates constant across new and old customers... this parity across existing and new customers is valued more highly than lowering the up-front costs to new customers.”⁵³ If water utilities expect new customers to cover their fair share of expansion to prioritize fairness for existing customers, there’s no reason gas utilities should continue to socialize those costs, especially when gas carries significant externality costs and cleaner, more efficient alternatives are readily available.

J. A full record should be built on the topic of rate design before the Commission prioritizes or advances a specific model

In its reply comments in this comment period on line extension policies, the Center for Energy and Environment outlines an approach to rate design to support a dual fuel pathway.⁵⁴ Rate design raises complex questions that warrant their own dedicated process. Before prioritizing or advancing a particular model, the Commission should ensure a full record is built and stakeholders have adequate time to review proposals and provide input. Given that rate design is not the issue under consideration in this comment period, we recommend that this discussion continue in future phases of this docket.

II. Conclusion

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

In addition to these supplemental comments, Fresh Energy and MCEA are party to a joint supplemental letter with over thirty other parties. The parties to the letter include a diverse group of organizations and experts that are strongly in agreement that gas utility line extension allowances should be ended. We support the decision option provided in the joint letter:

Require that all regulated gas utilities eliminate line extension allowances.

⁵² Jason Willett Public Comment (August 2025) available at <https://efiling.web.commerce.state.mn.us/documents/%7B1059ED98-0000-C110-977B-E92C728C9399%7D/download?contentSequence=0&rowIndex=12>.

⁵³ Alter, A; Billimoria, S; & Henchen, M (RMI). *Overextended: It’s Time to Rethink Subsidized Line Extensions* (2021) at 9 available at <https://rmi.org/insight/its-time-to-rethink-subsidized-gas-line-extensions/>.

⁵⁴ Center for Energy and Environment Reply Comments at 11-23.

As also noted in the joint letter, as well as described in our reply comments, we are concerned with the Center for Energy and Environment's suggestion to require a more comprehensive new home Energy Conservation and Optimization (ECO) program while continuing to allow for line extension allowances as this would effectively double down on ratepayer-funded incentives for gas expansion.

For the reasons described in our initial comments, we also recommend that:

The Commission should revisit its New Area Surcharge policy in future discussions in the Future of Gas docket.

We are also supportive of the Citizens Utility Board's recommendation that the Commission direct a working group to develop benchmarks for gas utility decarbonization through 2050.

In these supplemental comments, we outline several options the Commission could consider to better support low-income customers and customers in greater Minnesota during the transition away from fossil fuels, rather than continuing incentives for fossil fuel use. We offer these as ideas for further exploration, but we are not putting them forward as formal decision options at this time.

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