Laborers' International Union of North America

LiUNA! MINNESOTA & NORTH DAKOTA
Feel the Power

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

PUC Docket No. G999/CI-21-565

LIUNA Minnesota and North Dakota ("LIUNA") thanks the Minnesota Public Utilities Commission ("Commission") for the opportunity to offer reply comments regarding potential changes to policies governing cost allocation for gas utility line extensions. Our reply comments focus on the comments submitted by the Citizens Utility Board of Minnesota and the Department of Commerce.

Citizens Utility Board

The comments filed by the Citizens Utility Board of Minnesota ("CUB") rehash many of the arguments made by CUB, and largely rejected by the Commission, in recent gas resource planning proceedings. CUB continues to advocate for the Commission to treat Minnesota's economy-wide net zero goal as a shadow mandate, and argues once again that continued investment in the system is incompatible with a net-zero goal. As we have pointed out in these past cases, climate progress is important, but so are affordability, reliability and economic progress – each of which is a foundational value that the legislature has *not* instructed the Commission to abandon or deprioritize in pursuit of climate goals.

Based on CUB's comments, it is clear that the organization's problems are less with line extension allowances than with the very existence of the gas utility system. For example, CUB's core argument is that gas utilities are investing too much in distribution infrastructure – an argument based in significant part on a 2023 analysis by DHInfrastructure that has been thoroughly debunked for its heavy reliance on a fatally-flawed methodology and numerous unsupported assumptions.[1]

Yet the vast majority of these gas utility investments are being made to meet safety and reliability requirements, or to accommodate public works projects, while line extensions account for a small fraction of total spending. For example, the capital investment data presented in CUB's comments indicates that CenterPoint invested approximately $250 million in the company's system, of which line extensions accounted for just $20 million. These data point to why the Public Utility Commission has historically allowed gas utilities to offer line extension subsidies: the cost of adding new customers is low

[1] For a full discussion of the DHInfrastructure report, see North Star Policy Action's February 2024 analysis, *Building a Reliable System: The Role of Natural Gas in Minnesota's Clean Energy Transition*. https://northstarpolicy.org/reliable-system/

compared to the cost of maintaining the system, and lower than the amount of revenue that new customers contribute over time.

We agree with CUB that the G21 report should help inform the Commission's approach to the decarbonization of the gas system as a whole, but we disagree on which lessons should be drawn. As CUB correctly notes, the G21 report found that, "High Electrification with Gas Back Up scenario was both the lowest overall resource cost and most resilient to variance in future commodity costs compared with either the High Electrification or High Decarbonized Gas scenario."

CUB then goes on to suggest that line extension allowances are inconsistent with the High Electrification/Gas Backup scenario, but this is a fundamental misunderstanding of what the model did and did not show. The modeling G21 report simply *assumed* no additional line extensions for purposes of modeling, it did not actually test whether additional line extensions were likely to be helpful or unhelpful for purposes of either affordability or decarbonization.

Even under a *more* generous line extension policy, the vast majority of gas customers in 2050 would be current customers. If we need a system that is sufficiently robust to reliably serve those customers, it is difficult to understand why it could not or should not accommodate additional customers who would receive the same reliability benefits, and deliver similar benefits to the system as a whole by switching to gas at times of high cost and grid stress.

There is no evidence that reducing or ending line extensions improves outcomes in a dual-fuel future, and there are good reasons to believe that it could do just the opposite by forcing us to undertake costly investments in the electric system to manage winter peaks, as discussed in LIUNA's initial comments. While CUB cites Winter Storm Uri as evidence that we should minimize exposure to gas, retaining multiple energy options is the best way to avoid absorbing surprise costs in extraordinary circumstances. As our electric grid becomes better integrated, and as all sectors of our economy become more dependent on electricity Minnesotans will become increasingly exposed to electricity supply and price risks. The greater the share of energy load that can be shifted between electricity and gas, the easier it will be to avoid or mitigate price shocks and failures on either system.

CUB expresses concern over stranded asset risk, but does not shed any light on exactly when a given set of gas distribution assets will become stranded, if ever. While their comments cite projections from the U.S. Energy Information Agency that consumption will fall, CUB fails to distinguish between demand for natural gas as a commodity and demand for the transmission and distribution infrastructure required for gas to fill its role as a backup fuel, per the G21 report. Even if the volume of gas transported through the system fell sharply, bringing the state into alignment with policy goals to reduce CO2 emissions and throughput of geologic gas, gas utility infrastructure would continue to be essential to deliver gas when it is needed most to avoid purchases of electricity at exorbitant cost and ultimately to avoid grid failures.

While the potential for stranded assets should always be considered as part of utility policy and planning, the cost to ratepayers of a piece of pipe that lasts two or 10 years longer than was absolutely necessary is tiny when compared to the cost of piece of pipe that reaches the end of its useful life two or 10 years too early, threatening the reliability of service and potentially public safety. Further, CUB does not provide any analysis showing that long-term and largely theoretical stranded asset risks are better managed with fewer customers rather than more customers who can help bear the theoretical future burden.

We agree with CUB that replacement of delivered fuels should be a priority, not only due to the high cost and outsized environmental impact cited in CUB's comments,[2] but also because customers of delivered fuels lack basic programs and protections that accompany regulated utility service, including access to efficiency rebates under ECO, cold-weather shutoff rules and rate regulation, among a host of other protections. We disagree, however, that customers of delivered fuels should be denied access to gas utility service or forced to pay thousands of dollars up front for the privilege of having affordable energy, cleaner air or basic consumer protections. The likely result of barring line extensions or ending line extension subsidies is not mass adoption of air source heat pumps by rural households that currently rely on delivered fuels or wood, but instead continued reliance on the most expensive and/or dirty forms of energy.

Department of Commerce

The Department of Commerce comments are focused exclusively on climate policy rationale for prohibiting gas utilities from continuing to offer line extension allowances, including surprisingly little discussion of the potential impact on residential customers, and no discussion at all of the resulting burden on the electric system. Like CUB, the Department relies on statutory goals to reduce greenhouse gas emissions to bolster the argument against allowances, while ignoring the Commission's mandate to balance environmental concerns with affordability, reliability and socioeconomic impacts.

Like CUB, the Department refers to the G21 report and makes the same error, misrepresenting a decision to model only scenarios with no new gas connections as a policy finding that elimination of gas connections represented the best or most affordable path to decarbonization. As the Department states in its comments, "In every one of these scenarios new construction was *assumed* to be electrified and in every scenario throughput of natural gas declined." (Emphasis added.) Here the Department neglects to mention that the models were designed specifically to demonstrate decarbonization pathways so it was inevitable and unremarkable that throughput would decline, and tells us nothing about the impact of new gas connections which was held at a constant at zero.

The Department also seems to confuse reductions in throughput of geologic gas, which are necessary for decarbonization (in the absence of effective carbon capture technology that can operate at the pilot light), and constraints on the extent of gas

[2] See . -
https://rmi.org/lower-bills-cleaner-air-heat-pump-benefits-for-homes-relying-on-delivered-fuels/

infrastructure, which is not the same thing. While it's true that, all things being equal, a greater number of customers would be associated with increased throughput, the whole point of the High Electrification/Gas Backup scenario is that all things do not remain equal due to widespread adoption of heat pumps and other electric appliances by households and businesses that retain gas service as a backup fuel – a fuel whose marginal emissions could be further reduced using cleaner alternatives such as Renewable Natural Gas. Minnesota can pursue goals to reduce carbon emissions and throughput of geologic gas while continuing to extend gas service to new customers, in fact we believe the record will show that expanding the system is the best and safest way to do so.

The Department's comments are transparent in their desire to make natural gas service more expensive for potential new customers in the hope that they will be more likely to pursue full electrification. They are also clear that they seek the change in order to "provide signals to electric utilities and policy makers to consider electric space heating rates that address the economics of electric heating as well as increased incentives for electric heating equipment." In our view, however, it would be inappropriate for the Commission to direct utilities to make unjustified changes to rates in order to incentivize space heating, not to mention inconsistent with cost causation arguments from the Maryland Commission that the Department cites approvingly in its comments. It would be even more inappropriate for the Commission to change line extension policy in order to "signal" to policymakers (presumably legislators) that they should make policy changes in the same direction.

The idea that these customers could afford to spend thousands or tens of thousands of dollars fully electrifying their homes lacks any credibility, and it is concerning that the Department believes these customers' access to affordable energy and consumer protections is a reasonable price to pay for what seems to be symbolic rather than substantive progress toward climate goals. The Department excuses the obviously negative impact of the proposed policy on residents of existing homes by suggesting that the majority 69% are new construction, but provides no analysis to explain how pushing builders toward all-electric homes might affect affordability or the feasibility of development.

While the Department is clear on its priorities, it is less clear that they have carefully thought through the likely implications. As an example, based on information provided in CenterPoint's recent rate case, the maximum amount of free footage allowance appears to be roughly $2,800 for a connection that reaches the ceiling for both main and service subsidies. The Department assumes that the imposition of an extra $1,000-3,000 costs will nudge builders and homeowners toward full electrification. Unfortunately, it is our understanding that the incremental cost of going all-electric is often greatly in excess of $1,000-3,000. It seems most likely that builders and homeowners will bite the bullet, pay the bill for a gas connection, and try to make it up by spending less on energy efficiency measures or avoiding the front-end cost of electric appliances.

The Department does reference findings of the line extension study produced by MERC, but it is disappointing that the Department doesn't seem to have taken those findings to heart or connected them to their consumer protection mission. The

Department does not dispute MERC's finding that nearly a third (31%) of new connections were to existing premises that would likely otherwise remain on propane, or that one in 12 extensions were to homes that are current or recent recipients of low-income assistance through LIHEAP.

LIUNA is particularly concerned about the impact of the Department's proposed policies on households that currently rely on delivered fuels or wood to heat their homes. These are among the most energy-burdened households in the state, and we do not believe it is appropriate to hold them hostage to advance any decarbonization strategy, let alone one that seems more likely to backfire than to succeed.

According to a report prepared by the research office of the Minnesota House of Representatives in 2018, among the 34% of households that were not customers of gas utilities (34%), almost half (15%) relied on delivered fuels or wood burning for heat.[3] Of course, households that rely on delivered fuels and wood are not spread evenly across the state, but are instead concentrated in rural and often low-income communities.

While just 2.4% of all Minnesota households rely primarily on burning wood to heat their homes, the prevalence is much higher in rural Northern counties where wood is the main heating fuel for 13-18% of households. Similarly, while fuel oil was the primary heating fuel for just 2% of households, in the counties where fuel oil is most prevalent, it is present in 11% to 19% of homes. Finally, 10.5% of homes statewide are heated using propane, but the incidence is much higher in many rural communities where anywhere from a third to nearly half of households depend on propane deliveries for heat.

The House Research report found that delivered fuels were roughly three times more expensive than natural gas, while emissions comparisons by Rocky Mountain Institute (cited by CUB) and others show that wood, fuel oil and even propane are associated with significantly more air pollution and greenhouse gas emissions than either natural gas or electric alternatives. In short, keeping Minnesotans dependent on delivered fuels or wood not only contributes to energy insecurity and strips them of critical protections, but also undercuts the state's climate and environmental goals by denying them access to energy efficiency programs and increasing emissions of greenhouse gases and other pollutants.

Not all of the homes that currently rely on delivered fuels are wood are candidates for gas utility service. In some cases it is simply uneconomic to extend gas service to homes located in very sparsely populated areas or many miles away from the nearest gas line. Where we can feasibly extend service, however, we should because connection to the gas utility system brings with it a host of energy, environmental and socioeconomic benefits.

Unlike gas utility customers, households that rely on delivered fuels can be cut off in the winter if they get behind on their bills. If their delivered fuels company overcharges them, they must rely on the very limited and difficult-to-access consumer protections that apply to all businesses (complaints to the Office of the Attorney General, etc.).

[3] https://www.house.mn.gov/hrd/pubs/heatfuel.pdf

Households that rely on delivered fuels also lack access to energy efficiency programs that are available to gas utility customers, which not only impacts their pocketbooks but also the state's ability to improve energy efficiency and reduce associated emissions.

Finally, natural gas service is better for our climate and environment than delivered fuels and wood. This is especially true for households that currently rely on wood stoves, which arguably have the worst environmental impact of any home heating source in terms of CO2 emissions and air pollution. Unlike biomass plants that are used to generate electricity or steam, wood stoves have no pollution controls to keep fine particles and other pollutants out of the air, and they are also not required to source wood sustainably in order to minimize net emissions.[4]

Combustion of fuel oil is also dirtier and less efficient than natural gas. And while propane is the cleanest form of delivered fuels, combustion of propane releases more CO2 per unit of heat energy than methane.[5] Further, the propane supply chain has energy and materials used in the propane supply chain make propane a less efficient fuel which requires more delivery of propane which requires packaging in cylinders and delivery via trucks is less efficient and associated with greater greenhouse gas and other pollutant emissions than propane.

It is more than a bit ironic that the Department cites the ECO statute to bolster their argument that state policy "demonstrates a clear incentive structure to reduce carbon emissions" when their proposed solution would make it harder for Minnesotans who currently rely on delivered fuels or wood heat to fully access ECO. But access to energy efficiency programs is just one of several reasons the Department's proposed climate "solution" is likely to make the climate problem worse. The Department's comments provide no analysis or discussion of the impact of full electrification on the cost of electricity and the reliability of the electric grid. Yet we know from recent discussions about potential data center load that the Department is deeply concerned about the ability and willingness of electric utilities to meet Minnesota's carbon-free standards in the face of growing demand.

Unlike data centers, which tend to provide (and be willing to pay for) fairly stable load, electrification of building heat will generate relatively low load when temperatures are within a moderate range and heat pumps operate at maximum efficiency, with extreme spikes on very cold winter nights where heat pumps are highly inefficient if not totally ineffectual. Of course these are times when solar generation is nonexistent and wind is not entirely dependable, raising questions about what massive influx of carbon-free resources will keep the heat on, and how much those resources might cost consumers.

The potentially high cost of heating homes with no backup on cold winter nights is not just a challenge to the decarbonization of building heat. Electrification of transportation will require significant additional capacity to charge vehicles when their owners are

[4] https://earth.org/wood-stoves-and-air-pollution-whats-the-link/

[5] https://uwaterloo.ca/chem13-news-magazine/december-2014-january-2015/chemistry/natural-gas-methane-and-propane-fuel-gases

home from work,[6] and electric vehicle batteries will likely operate at their lowest level of efficiency in the dead of winter.

Finally, the Department cites policy changes that have occurred or been proposed at the legislative or Commission level in a handful of states, including Maryland, New York and Oregon. We do not tend to find the mere fact that a policy has been undertaken or is being considered in another state persuasive, under the general principle that if your best friend jumped off a bridge, it does not mean you should too. However, we consider these examples particularly unpersuasive.

First, it is important to note that neither Maryland nor Oregon can be described as a cold climate by any stretch of the imagination, and even New York State has moderate temperatures compared to Minnesota. Second, the Department provides absolutely no evidence that the very recent changes in Maryland and Oregon have produced any actual savings or other positive results for customers. Finally, it should be noted that the not-yet-adopted change in New York is a change to the law that Minnesota's legislature could make if it wished. If Minnesota's legislature intends for the Commission to reduce or eliminate line extension allowances, it should say so, and until then we see no policy rationale for doing so based on the legislature's current guidance.

Dated: August 8, 2025

Respectfully Submitted,
LIUNA Minnesota & North Dakota

By: Kevin Pranis
Marketing Manager
81 Little Canada Road
St. Paul, MN 55117

[6] We have heard some suggest that electric utilities will be able to use incentives to shift charging to the daytime, but to us this suggests a lack of understanding of the work lives of ordinary Minnesotans. Most Minnesota workers do not have flexible schedules that allow them to work from home, nor will they have reliable access to charging at work even under the most optimistic scenario.