



September 9, 2025

VIA ELECTRONIC FILING

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Executive Secretary
Minnesota Public Utilities Commission
121 7th Place E, Suite 350
Saint Paul, MN 55101-2147

Re: In the Matter of a Commission Evaluation of Changes to Natural Gas Utility Regulatory Policy Structures to Meet State Greenhouse Gas Reduction Goals, G-999 / CI-21-565

RMI submits these supplemental comments in response to the Minnesota Public Utilities Commission's May 5, 2025 Notice of Comment Period in this docket. The Notice asks for comment on what actions, if any, the Commission should take to modify existing gas line extension allowance policies for regulated gas utilities. These supplemental comments respond to parties' comments in the record thus far and several instances where RMI's analysis was cited.

RMI is an independent, non-partisan, non-profit founded in 1982 that works to transform global energy systems through market-driven solutions to secure a prosperous, resilient, clean energy future for all. We have engaged on extension allowance policy in a number of ways in recent years, including our 2021 report *Overextended: It's Time to Rethink Subsidized Gas Line Extensions*¹ and in several state commission proceedings, including in Massachusetts,² Maryland,³ Colorado,⁴ and in joint 2022 comments in this docket.⁵ We also

¹ Abigail Alter, Sherri Billimoria, Mike Henchen, RMI, *Overextended: It's Time to Rethink Subsidized Gas Line Extensions* (2021).

² *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*, MA DPU Docket No. 20-80, RMI Comments (Oct. 14, 2024; Apr. 3, 2025).

³ *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, RMI Comments (Jul. 23, 2025).

⁴ See *In the Matter of the Proposed Amendments to the Commission's Rules Regulating Gas Utilities* [], Colorado PUC Proceeding No. 21R-0449G, RMI Comments (Oct. 7, 2022).

⁵ *In the Matter of a Commission Evaluation of Changes to Natural Gas Utility Regulatory and Policy Structures to Meet State Greenhouse Gas Reduction Goals*, MN PUC Docket No. G-999/Ci-21-565, Joint Comments of CUB, COPAL, Fresh Energy, MCEA, RMI, and Sierra Club (Sep. 2, 2022) (recommending that line extension policy reform should be a topic for future discussion in this docket).



have a recently-published report on line extension allowances, which was published on August 27, 2025.⁶ In that piece, we summarize recent developments to line extension allowance policy and estimate that ratepayers stand to save roughly \$750 million per year in the eight states that have taken action on the issue, including Minnesota.⁷

We have been monitoring the record in this docket over the past two rounds of comments and note that parties have built a robust record that addresses important topics for the Commission to consider. We submit these supplemental comments to address several instances where RMI analysis has been cited thus far and to contribute to clarifying the record by drawing from examples in other jurisdictions. We will not be presenting new lines of arguments to the Commission in these supplemental comments, given the development of the record thus far.

Line Extension Allowance Policy and National Examples

RMI's 2021 report *Overextended*, which was cited by several parties in this docket, describes the historical economic and policy rationale for line extension allowances.⁸ The report also describes the increasing uncertainty regarding the assumption that new gas customers will remain gas customers with fixed gas usage (and thus revenue) in perpetuity that had led a number of jurisdictions to consider modifying or eliminating their line extension allowances.

Since *Overextended* was published, a number of states have eliminated their line extension allowances and several states are taking action to eliminate line extension allowances at the time of this writing.⁹ These commissions' actions and the underlying rationale have been summarized by other parties in the record, so these comments will not go into detail regarding each decision. Below, we share observations based on an assessment of the record in this docket thus far and make connections to several of the other dockets where commissions faced a similar record or decision point.

⁶ *Cutting These Subsidies Could Save Millions of Dollars*, RMI, available at <https://rmi.org/cutting-gas-system-subsidies-could-save-states-millions-of-dollars/> (Aug. 27, 2025).

⁷ *Id.* The cited Minnesota savings of approximately \$120k is an estimate of annual revenue requirement impact from Xcel Energy's 2021 rate case settlement and represents the revenue impact of a reduction of 20 feet of main free footage. Estimated cost savings from elimination of line extension allowances is approximately \$36 million per year, based on recent rate cases from CenterPoint, Xcel Energy, and MERC (main and service costs less CIAC contributions).

⁸ A.L. Alter, S. Billimoria, M. Henchen, RMI, *Overextended: It's Time to Rethink Subsidized Gas Line Extensions*, (2021) (hereinafter "*Overextended*").

⁹ See *Cutting These Subsidies Could Save Millions of Dollars*, RMI, available at <https://rmi.org/cutting-gas-system-subsidies-could-save-states-millions-of-dollars/> (Aug. 27, 2025) (summarizing past and current state action on line extension allowances).



The first observation is that the record before the Commission is robust. Comments thus far have addressed the threshold question of why the Commission should or should not keep line extension allowances. Comments have also addressed a number of other topics, such as which long-term gas sector decarbonization pathway is optimal, the state of Minnesota’s new housing market and code compliance, utility policy and programs for low-income and rural customers, and more.

Other commissions considering eliminating line extension allowances have faced similarly sprawling records where advocates and utilities presented differing viewpoints of the future of the gas system, and they have taken focused action regarding line extension policy without needing to resolve all uncertainty as to the long-term evolution of the gas system. In Maryland, for example, the Maryland Public Service Commission noted the “widely divergent opinions about the likely future of natural gas”¹⁰ presented in comments in its future of gas docket, but it still found that its statewide energy policy “may no longer be compatible with the status-quo for how gas line extensions are funded.”¹¹ The Maryland PSC ordered its staff to commence a rulemaking to eliminate line extension allowances, noting eliminating the policy would result in “a neutral stance” regarding fuel choice.¹²

Similarly, in Massachusetts, the Department of Public Utilities (“DPU”) noted in an August 8, 2025 Order that comments from dozens of stakeholders in its future of gas docket had created a robust record with a clear demarcation between supporters and opponents of eliminating line extension allowances.¹³ The DPU Order noted that the gas utilities had expressed concerns about the effect of eliminating line extension policy on “economic development, customer choice, fuel selection, and low- and moderate-income (“LMI”) residents.”¹⁴ We note that these are a similar list of issues raised by parties opposing eliminating line extension allowances in this docket. In the Order, the DPU moved consideration of line extension allowances to utilities’ Climate Compliance Plans, but also addressed several issues raised by commenters.

¹⁰ *Petition of the Office of People’s Counsel for Near-Term, Priority Actions and Comprehensive, Long-Term Planning for Maryland’s Gas Companies*, M.D. P.S.C. Case No. 9707, Order on Stakeholder Proposals for Revision of Gas Policy 3 (Jun. 13, 2025).

¹¹ *Id.* at 8.

¹² *Id.* at 9.

¹³ *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-E, Interlocutory Order on Policies and Practices for Line Extension Allowances and Contributions in Aid of Construction for Gas Local Distribution Companies at 6-7(Aug. 8, 2025). We will provide additional detail on this Order since it was issued on the same day as reply comments were filed in this docket.

¹⁴ *Id.*



First, the DPU declined to add analytical components to utilities' line extension allowance calculations, such as a shorter repayment period or consideration of the cost of greenhouse gas emissions. It found that “[s]uch granular analysis is unnecessary to determine that incentivizing the expansion of the gas distribution system through line extension allowances contravenes the Commonwealth’s climate laws and strategies and likely will result in additional stranded investment that ultimately will be borne by gas customers.”¹⁵

Second, the DPU addressed whether eliminating line extension allowances would deprive customers of energy choice, which is another topic raised by commenters in this docket. The DPU found that eliminating line extension allowances would not limit customer energy choice but would instead place “the risk of future stranded costs on the parties causing the risk and prioritizing the affordability of gas service for existing and future customers.”¹⁶

Third, the DPU addressed whether eliminating line extension allowances would create a perverse incentive for customers to select a higher emitting fuel source such as propane or heating oil instead of gas. The DPU summarized a hypothetical example provided by a utility whereby a housing developer would be “forced down a path of utilizing oil or propane” and noted that no evidence was offered by the utility “to suggest that such a situation is anything more than a rare or isolated circumstance” rather than a larger sectoral shift toward delivered fuels.¹⁷ The DPU also cited to analysis in the record regarding all-electric new construction costs at or near parity with fossil fuel new construction.¹⁸

Finally, the DPU addressed whether eliminating line extension allowances would create adverse impact to housing and other development and whether it would create a disproportionate hardship for rural and low-income areas.¹⁹ The DPU disagreed with the utilities’ arguments on these topics and found that removing line extension allowances would help LMI ratepayers.²⁰ The DPU noted that its decision to move forward on the issue and also address barriers to electrification in other proceedings was “guided by our priorities to safeguard affordability for ratepayers, achieve the Commonwealth’s clean energy and decarbonization goals and ensure an equitable energy transition.”²¹

¹⁵ *Id.* at 13.

¹⁶ *Id.*

¹⁷ *Id.* at 14.

¹⁸ *Id.* at 14-15.

¹⁹ *Id.* at 16.

²⁰ *Id.*

²¹ *Id.*



We detail the recent Massachusetts and Maryland line extension orders here not to suggest that the Minnesota Public Utilities Commission blindly follow the examples from these other states, but rather to provide an example framework for how other commissions have weighed the important issues raised by commenters considering their states' goals of affordability and emissions reductions. To summarize, commenters in this docket have raised similar issues as commenters in Maryland and Massachusetts regarding: the future of the gas system, assumptions in line extension policies, customer energy choice, delivered fuels, housing affordability, and low-income affordability. The Maryland and Massachusetts commissions both considered the record on those issues and decided to move forward with eliminating line extension allowances.

Below, we detail several issues where commenters cited RMI analysis on heat pump deployment, the economics of delivered fuels, and affordable all-electric new construction.

Delivered Fuel Alternatives

CUB, Fresh Energy, and MCEA cited RMI research that finds heat pumps are a cost-effective alternative to heating for delivered fuel customers in Minnesota.²² LiUNA also acknowledged the high costs of delivered fuel heating from our research in its comments. In Minnesota, over 320,000 single-family and manufactured homes rely on delivered fuels such as propane and fuel oil.²³ RMI analysis shows that rural single-family households converting to space and water heat pumps from delivered fuels in Minnesota could save an average of \$550 annually, amounting to over \$8,000 across the lifetime of the equipment.²⁴ Beyond reducing energy costs, heat pumps provide cooling, offering critical relief during extreme heat events which are increasingly common in Minnesota.²⁵

²² <https://rmi.org/lower-bills-cleaner-air-heat-pump-benefits-for-homes-relying-on-delivered-fuels/>

²³ EIA <https://www.eia.gov/consumption/residential/data/2020/hc/pdf/HC%201.1.pdf>

²⁴ RMI modeled the cost impacts of installing heat pumps for space and water heating across approximately 100 representative single-family home archetypes in Minnesota using the Green Upgrade Calculator. Analysis assumptions: <https://rmi.org/wp-content/uploads/2025/04/Heat-Pump-vs-Delivered-Fuel-Analysis-Assumptions.pdf> Model Description: <https://rmi.org/at-last-a-residential-modeling-tool-for-energy-professionals/>

²⁵ <https://www.health.state.mn.us/communities/environment/climate/extremeheat.html>



Affordable New Construction

CUB, MCEA, and Fresh Energy cited our research on the economics of new construction.²⁶ RMI's analysis shows that all-electric new homes can face similar costs to build and operate as homes relying on gas. For the scenario we modeled in Minneapolis, the incremental cost of building a mixed-fuel home—including a gas furnace, gas water heater, gas range, gas dryer, air conditioner, and gas line connection—is higher than that of an all-electric home equipped with a cold-climate heat pump, heat pump water heater, induction stove, and electric dryer. On average, all-electric homes can save approximately \$650 in upfront construction costs and \$570 annually in operating costs—totaling nearly \$7,000 in savings over 15 years.²⁷ These savings stem from avoided gas infrastructure and the efficiency of integrated electric systems—such as heat pumps that provide both heating and cooling.

In this analysis, RMI modeled one year of energy use for a newly constructed, detached single-family home in Minneapolis to determine the 15-year (2022–2037) net present cost of all-electric versus mixed-fuel construction.²⁸ Homes were modeled to align with the 2018 International Energy Conservation Code (IECC). While Minnesota's building code is currently under development, initial recommendations from the Technical Advisory Group would have the state adopt the 2024 IECC.

²⁶ https://rmi.org/wp-content/uploads/dlm_uploads/2022/12/rmi_economics_electrifying_buildings_residential_new_construction.pdf

²⁷ Generally, code organizations assess cost impacts based on the “total cost of housing,” which accounts for both mortgage payments and utility costs. If mortgage costs are not included cost considerations, the upfront benefits of avoided gas infrastructure in all-electric homes are overlooked, as are the impacts of LEAs. The most robust perspective considers costs over the life of a mortgage, not just first-year energy costs or other narrow metrics.

²⁸ Our analysis methods and efficiency assumptions can be found in the report appendix. Our efficiency values align similarly with the most common appliance efficiencies sold in Minnesota as published in Minnesota's 2020–2029 Energy Efficiency Potential Study.

https://rmi.org/wp-content/uploads/dlm_uploads/2022/12/rmi_economics_electrifying_buildings_residential_new_construction.pdf

https://www.mncee.org/sites/default/files/2021-06/Appendix-M_Minnesota-HVAC-Sales-Data_2019-03-27_FINAL.pdf



Taken together, RMI's analysis demonstrates that in Minnesota, all-electric new construction is cost-comparative to mixed fuel new construction both in upfront and lifetime costs. We note that other commissions, such as the Massachusetts DPU, cited this cost parity as a compelling reason to eliminate line extension allowances in its recent August order.

Heat Pump Sales

Other parties in the proceeding cited RMI research which finds that 2024 marked the third straight year in which heat pumps outsold gas furnaces, with sales surpassing furnaces by 27%²⁹ This national data aligns with Efficient Technology Accelerator's heat pump market report that found about half of surveyed Minnesota contractors indicated they had seen an increase in ducted heat pump sales.³⁰ This trajectory suggests that electrification is gaining durable momentum, as households adopt high-efficiency, non-emitting heat pumps—even absent federal incentives. Local and utility programs, such as Minnesota's ECO incentives.³¹ Heat pumps have been and will remain a viable and effective solution for households.

Conclusion

The Commission has before it a robust record but with clear demarcations between parties supporting eliminating line extension allowances and those who oppose any significant action---and no clear consensus appears to be emerging between those positions. Above, we note that other states considering eliminating line extension allowances have faced similar records (including similar arguments) and taken decisive policy action despite the differences in opinion amongst parties. The recent examples from Massachusetts and Maryland are detailed in order to provide the Minnesota Commission with a framework for working through similar arguments and issues in the record here. In

²⁹ Data publicly available national HVAC and water heating shipment data from the Air Conditioning, Heating, & Refrigeration Institute (AHRI): <https://rmi.org/insight/tracking-the-heat-pump-water-heater-market-in-the-united-states/>

³⁰ <https://www.etamn.org/sites/default/files/research-papers/ASHP%20State%20of%20the%20Market%20FINAL.pdf>

ETA conducted a survey of 91 residential mechanical contractors to gain insights into their experience, challenges, benefits, and preferences with heat pumps.

³¹ <https://www.canarymedia.com/articles/enn/in-northern-minnesota-early-adopters-make-the-case-for-cold-climate-heat-pumps#:~:text=The%20number%20of%20applications%20for%20utility%20company%20rebates%20for%20heat%20pumps%20in%20Minnesota%20more%20than%20doubled%20over%20four%20years%2c>



In addition to the recent regulatory environments, these comments also highlight several instances where RMI analysis was cited in the record. In particular, we note that this research demonstrates that there are viable, cost-effective alternatives to natural gas for many delivered fuels customers and for new construction and that national trends in heat pump sales are also beginning to appear in Minnesota-specific data.

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