STATE OF MINNESOTA
PUBLIC UTILITIES COMMISSION

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In the Matter of a Commission Investigation into Gas Utility Resource Planning

Docket No. G008, G002, G011/CI-23-117

REPLY COMMENTS OF THE CLEAN ENERGY ORGANIZATIONS

July 19, 2024

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INTRODUCTION

The Clean Energy Organizations (CEOs, which consist of Fresh Energy, Minnesota Center for Environmental Advocacy, and Sierra Club) submit these Reply Comments in response to Initial Comments submitted by interested parties on June 28, 2024. Below, we respond to parties' comments related to greenhouse gas emissions, comparison of resources, expansion alternatives analyses (EAAs), and equity. In conclusion, we reiterate our proposed decision options from Initial Comments, with amendments as applicable.

DISCUSSION

I. The Commission Should Require Utilities to Describe Their Pathway to Net Zero by 2050

In our Phase II Initial Comments, CEOs described the Commission's responsibility to consider utility gas resource plans through the lens of the State's commitment to achieving net zero greenhouse gas emissions by 2050.[1] We urged the Commission to require utilities to provide a narrative description of how their preferred plans would serve those State interests.[2] Without that information, it will be difficult for the Commission to fulfill this statutory responsibility. In its Initial Comments, the Citizens Utility Board (CUB) made a similar recommendation: "CUB recommends the Commission also require utilities provide a narrative description of how their preferred plan is estimated to meet the net zero by 2050 goal, or if it is not, why it is still the preferred plan."[3] We continue to support this as a decision option.

Parties also began to grapple with the question of whether and how to account for upstream emissions as part of utility resource plans. Other commenters agreed with CEOs that upstream emissions are important to include.[4] CEE stated:

> We believe it is important to track, report, and minimize out-of-state greenhouse gas emissions, such as emissions from the extraction, gathering, processing, and inter-state transportation of natural gas, through the natural gas IRP process. Similarly, we think it is important to track, report, and minimize out-of-state emissions associated with alternative fuels such as emissions associated with the production of hydrogen, or the emissions benefits associated with the production of biogenic renewable natural gas.[5]

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[1] Initial Comments of the Clean Energy Organizations at 3 (June 28, 2024).
[2] *Id.* at 1-4.
[3] Initial Comments of the Citizens Utility Board at 4 (June 28, 2024).
[4] *Id.* at 11; Center for Energy and Environment's Comments in the Matter of a Commission Investigation into Gas Utility Resource Planning at 5-6 (June 28, 2024).
[5] Center for Energy and Environment's Comments in the Matter of a Commission Investigation into Gas Utility Resource Planning at 5-6 (June 28, 2024).

CEOs agree. CEOs also look forward to utilities' responses to CUB's request for additional information about upstream emissions data availability in reply comments.[6] This request comports with the Department's belief that Xcel "should be working with gas suppliers to improve transparency in reporting of upstream methane emissions."[7]

Lastly, CEOs agree with CEE's description of the fact that emissions from gas use have been on the rise, with a nearly 14% increase just since 2020 and by over 32% since 2005. CEOs agree that this "illustrates both the scale and urgency of the challenge in decarbonizing our natural gas system and end-uses."[8] We therefore continue to support a decision option ordering utilities to consider upstream emissions.

II. The Commission Should Provide Guidance to Allow for Consistent Comparisons of Resources

The heart of resource planning is comparing different possible resource mixes to meet future needs. This is primarily accomplished by assigning traits to resources—such as capital costs, operation and maintenance costs, regulatory costs, and externalities—and then evaluating which set of resources best aligns with the public interest by testing them in different scenarios. These costs are then typically reflected in the utility's revenue requirement and/or the societal cost value.[9] At this stage in gas resource planning development, it would be helpful for the Commission to clarify which values for externalities and regulatory costs of greenhouse gasses utilities should use, along with direction that utilities should use these values consistent with how they are used in electric resource planning.

The Initial Comments of all parties revealed broad agreement around which externality values to use for greenhouse gasses, with all parties that commented on it agreeing that the most recently adopted Commission values should be used.[10] CUB went further by requesting utilities to share information on how and to what extent they will incorporate these costs in their plan analysis.[11] CEOs agree with these recommendations while recognizing that utilities will not have all of that information at this stage in the process.

Order Point 15 in the Commission's March 27, 2024 Order requires natural gas utilities to address the costs of complying with regulation of greenhouse gas emissions in

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[6] Initial Comments of the Citizens Utility Board at 11 (June 28, 2024).

[7] Comments of the Minnesota Department of Commerce at 10 (June 28, 2024).

[8] Center for Energy and Environment's Comments in the Matter of a Commission Investigation into Gas Utility Resource Planning at 5 (June 28, 2024).

[9] *See*, *e.g.*, *id.* at 12 ("It is our interpretation that the utility's revenue requirement, as included in Order Point 49, would include all costs, including related distribution system and capital costs, associated with the different resource options included in natural gas IRPs.").

[10] *Id.* at 8-9; Initial Comments of the Citizens Utility Board at 4 (June 28, 2024); Comments of the Minnesota Department of Commerce at 5 (June 28, 2024).

[11] Initial Comments of the Citizens Utility Board at 4 (June 28, 2024).

gas resource plans.[12] In Initial Comments, CEOs pointed to the Commission's December 19, 2023 Order in the Regulatory Cost of Carbon docket as a resource for understanding the theoretical underpinnings of how a regulatory cost and an externality value of greenhouse gas emissions can be incorporated into resource planning.[13] CEOs continue to assert that this Order provides a good description of how to best incorporate both externality and regulatory cost values into resource selection processes and that these values should be used in the same manner in gas resource planning as they are in electric resource planning to the extent practicable. CEOs provide a modified decision option from our Initial Comments to include the regulatory cost of greenhouse gas value along with externality values in these analyses.

Lastly, CEOs agree with CEE's request that parties comment in Reply Comments on the appropriateness of applying either the regulatory cost of $5 to $75 per short ton of carbon equivalent or the natural gas environmental compliance factor or 1.4% of the commodity cost of natural gas for 2024-2045 from ECO dockets.[14] In CEOs' view, both regulatory cost estimates are applicable to gas resource planning. As explained in our comments in the Regulatory Cost of Carbon Docket, the recommendation to use an upper limit of $75 for the regulatory cost of carbon was based on the fact that this is the minimum amount of a carbon fee or tax that would be required to keep climate change to a 2-degree Celsius impact.[15] This number is not based on carbon regulations specific to the electricity sector. It is based on the ambitious goals set by the Biden administration, the Walz administration, and the U.S. Nationally Determined Contribution under the Paris Agreement.[16] The gas sector will need to be equally involved in decarbonization as the electric sector if these goals are to be reached. Accordingly, this "regulatory cost of carbon" should apply equally to carbon emissions created by the gas sector as those created by the electric sector.

Of course, the gas sector has the added element of significant methane emissions. In the ECO context, the Department of Commerce approved a 1.4% "adder" to the

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[12] Order Establishing Framework for Natural Gas Utility Integrated Resource Planning at 7, ¶ 15 (Mar. 27, 2024).

[13] Initial Comments of the Clean Energy Organizations at 6 (June 28, 2024) citing *In the Matter of the Further Investigation into Environmental and Socioeconomic Costs Under Minn. Stat. § 216B.2422, Subdivision 3*, Minn. Pub. Util. Comm'n Docket No. E-999/CI-14-643, Order Addressing Environmental and Regulatory Costs at 13 (Dec. 19, 2023).

[14] Center for Energy and Environment's Comments in the Matter of a Commission Investigation into Gas Utility Resource Planning at 8 (June 28, 2024).

[15] *In the Matter of Establishing an Updated Estimate of the Costs of Future Carbon Dioxide Regulation on Electricity Generation Under Minn. Stat. § 216H.06*, Minn. Pub. Util. Comm'n Docket No. E-999/DI-22-236, Clean Energy Organizations' Comments at 5-8 (Aug. 31, 2022).

[16] *Id.* at 2-4.

commodity cost of gas, which is intended to account for future regulation of methane.[17] The decision to add 1.4% to the commodity cost of gas was based on the Regulatory Impact Analysis of the federally-proposed methane regulations developed by the Environmental Protection Agency.[18] The cost to comply with methane regulations will be imposed on utilities in addition to the cost to reduce greenhouse gas emissions to meet ambitious climate goals. It follows, therefore, that each cost should be applied separately in gas resource planning to account for the different emissions that they are intending to represent. We have included a decision option below that reflects this understanding.

III. The Commission Should Require Transparent and Robust Expansion Alternatives Analyses

In Initial Comments, CEOs recommended that utilities employ a cost threshold that casts a wide net of projects for consideration for alternatives analyses for initial resource plans. Other parties offered similar recommendations in Initial Comments that CEOs support:

- CUB: Because the most expensive investments are not necessarily the most promising projects for an alternative analysis, the threshold should be set low enough to allow for consideration of several candidate projects before the final few are selected for complete analysis.[19]
- Building Decarbonization Coalition: Utilities should adopt an investment threshold that allows the pool of eligible capacity expansion projects being assessed for expansion alternatives analysis to significantly exceed the 2-3 project requirement so utility staff can reasonably apply equity criteria in the selection of 2-3 projects.[20]

In utilities' Initial Comments, they provided the number of capacity expansion projects in the past five years (2018-2023) that were above various potential cost thresholds.[21] At the $1 million cost threshold, CenterPoint, Xcel, and MERC reported fifteen, six, and six projects, respectively. Based on these estimates, the CEOs recommend a cost threshold that is no more than $1 million in order to cast a wide enough net of projects for consideration for alternatives analyses for initial resource plans. The CEOs do not agree with Xcel's proposed decision option to use $3 million as its cost threshold

[17]*In the Matter of 2024-2026 CIP Cost-Effectiveness Methodologies for Electric and Gas Investor-Owned Utilities*, Minn. Dept. of Commerce Docket No. E,G-999/CIP-23-46 Decision at 252 (Mar. 31, 2023).
[18] *Id.*
[19] Initial Comment of Citizens Utility Board at 9 (June 28, 2024).
[20] Comments from the Building Decarbonization Coalition at 3 (June 28, 2024).
[21] Initial Comment of CenterPoint Energy Minnesota Gas at 1 (June 28, 2024); Xcel Energy Initial Comments at 1 (June 28, 2024); Comments of Minnesota Energy Resources Corporation at 6 (June 28, 2024).

for expansion alternatives analyses (EAAs) given that Xcel identified only four capacity expansion projects in the past five years that are at or above its proposed threshold of $3 million.[22] The cost threshold should result in a larger pool of projects for consideration than this. We support Xcel's proposed decision option that it may evaluate and select projects for an EAA below the cost threshold where warranted,[23] and we encourage other utilities to do the same.

In Initial Comments, CEOs also recommended that for projects above the investment threshold for the EAA, a utility shall provide a full alternatives evaluation or justify why the project was not selected for a full alternatives evaluation. The CEOs have revised this recommended decision option for clarity to: "For projects above the investment threshold for the EAA, a utility shall explain why the projects selected for a full alternatives evaluation were prioritized over the projects that were not selected for a full alternatives evaluation." Xcel offers a similar recommendation in its Straw Proposal and Initial Comment that the CEOs support: "The resource plan shall include a discussion of the rationale for the projects selected for an Expansion Alternatives Analysis."[24]

In Initial Comments, CEOs also recommended that each utility must include a summary of its discussions with stakeholders regarding the selection of projects for the EAA. Other parties offered similar recommendations in Initial Comments that CEOs support:

- CEE: "For the initial natural gas IRPs, natural gas utilities shall present possible expansion projects to the Gas Utility Innovation Roundtable stakeholders and work collaboratively with stakeholders to select projects for [EAAs]".[25]
- CUB: At least for initial plans, utilities should work with stakeholders to identify which projects will undergo the complete EAA, emphasizing early stakeholder involvement to ensure the process makes the best use of resources.[26]

In Initial Comments, CEOs also recommended that a full alternatives evaluation, as required by Order Point 54 of the Commission's March 27 Order, include non-pipeline alternatives and/or non-natural-gas alternatives; costs and benefits of those alternatives including the costs of direct investment, variable costs, and the social costs of carbon and methane for emissions due to or avoided by the alternative; a thorough and transparent explanation of the criteria used to rank or eliminate such alternatives; and an explanation of how equity was considered. We do not agree with suggestions that EAAs should only include capital costs.

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[22] Xcel Energy Initial Comments at 1 (June 28, 2024).
[23] *Id.* at 2.
[24] *Id.*
[25] Center for Energy and Environment's Comments in the Matter of a Commission Investigation into Gas Utility Resource Planning at 20 (June 28, 2024).
[26] Initial Comment of Citizens Utility Board at 10 (June 28, 2024).

In Initial Comments, CEOs also recommended that, to integrate equity into alternatives analyses, utilities shall evaluate ways to overlay maps of proposed capital projects and resource acquisitions across maps of environmental justice and disadvantaged communities in the utilities' service areas. CUB offered a similar recommendation in Initial Comments that maps overlaying distribution systems investments on disadvantaged communities should be incorporated into the expansion alternatives analysis section of the utility's plans.[27]

In addition, CEOs support the following recommendations offered by other parties in Initial Comments regarding the EAA:

- Citizens Utility Board recommendations:
    - Any projects a utility seeks to recover through a natural gas extension project rider should be considered as an expansion project and therefore eligible for an EAA when above the determined cost threshold.[28]
    - The selection of projects for expansion alternative analysis should consider the disparate impacts of gas system emissions on various communities, and whether low- and moderate-income households will benefit from an alternative.[29]
    - Utilities should engage diverse communities within their service territories in the identification of potential projects for expansion alternatives analysis and the selection of the 2-3 projects on which expansion alternatives analysis will be conducted.[30]
- Building Decarbonization Coalition recommendations:
    - Utilities should select capacity expansion projects for expansion alternative analysis using equity criteria and Environmental Justice Areas as defined in Minn. Stat. § 116.065, subd. 1(e) (2023).[31]

IV. The Commission Should Require Utilities to Incorporate Equity Considerations into All Aspects of Resource Planning

In addition to the equity-related decision options we offered and support above, CEOs support the following decision options offered by CUB in Initial Comments:

- Gas utilities should be required to include narrative discussion of equity impacts for each project in the five-year action plan.[32]

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[27] *Id.*
[28] Initial Comment of Citizens Utility Board at 9 (June 28, 2024).
[29] *Id.* at 14.
[30] *Id.*
[31] Comments from the Building Decarbonization Coalition at 3 (June 28, 2024).
[32] Initial Comment of Citizens Utility Board at 13 (June 28, 2024).

- Maps overlaying distribution systems investments on disadvantaged communities should be incorporated into the five-year action plan, where the utility discusses equity impacts of a proposed project.[33]

The CEOs also agree with CUB that workforce and supplier diversification are important equity considerations and that these would be particularly key considerations when reviewing projects in the five-year plan and potential projects under the EAA.

As CUB notes, Xcel has created an interactive map of its service territory, containing certain reliability and service quality data overlaid with low-income program participation and U.S. Census Bureau data.[34] The CEOs agree with CUB that this type of data would be beneficial when applied to new project proposals in the five-year plan as well as in the expansion alternatives analysis project selection process. The CEOs specifically request that gas energy burden be added to Xcel's existing map as a useful indicator.

The CEOs would like to further discuss the following recommendation from CEE, before supporting:

- Great Plains Institute should incorporate an equity-focused component to the Gas Utility Innovation Roundtable to inform the development of gas utilities' resource plans. The equity component should be designed to engage customers and communities who have been historically underrepresented in utility regulatory processes, and provide engagement opportunities that are culturally appropriate, flexible, and meet people where they are in terms of location and knowledge of the energy system and regulation.[35]

The CEOs believe the equity subgroup should be prescriptive about at least a few people or groups that can meaningfully speak to equity in the gas transition to ensure that it is a productive and effective stakeholder group. The CEOs would therefore like to further discuss the vision for the equity-focused subgroup with other parties.

CONCLUSION

CEOs propose the following decision options based on our and others' Initial Comments:

1. Each integrated resource plan submitted by a gas utility must include a narrative description of how its preferred plan will support and serve Minnesota's greenhouse-gas-emission-reduction goals.

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[33] *Id.*

[34] Initial Comment of Citizens Utility Board at 14 (June 28, 2024).

[35] Center for Energy and Environment's Comments in the Matter of a Commission Investigation into Gas Utility Resource Planning at 18-19 (June 28, 2024).

2. Each integrated resource plan submitted by a gas utility must include the projected emissions that will result from its preferred plan and the other resource mixes considered. Projected emissions should include all emissions from distribution system operations and upstream emissions associated with purchased gas using recognized reporting protocols and available tools.

3. The Commission should require utilities to use a consistent methodology to calculate the "all-in" costs of resources to allow for an apples-to-apples comparison.

4. (**Modified from Initial Comments**) The Commission should clarify that utilities should include externalities and the regulatory cost of greenhouse gasses in scenarios in the same manner that electric utilities do to the greatest extent possible.

5. Each integrated resource plan submitted by a gas utility must indicate how the utility load and customer forecasts incorporate, to the extent practicable, relevant external factors including, but not limited to: (1) the effect of current or enacted state and local building codes and standards; (2) building electrification, efficient fuel-switching, and energy efficiency programs or incentives offered by both the gas utility and the local electric utility or local, state, or federal entities that overlap with the utility's gas service territory; (3) the effects of rate design and/or demand response programs; (4) changes in the utility's line extension policies, and the associated impact on gas customer growth; and (5) the price elasticity of demand (e.g., the impact of reduced throughput and rate increases on sales and peak demand requirements and impacts of commodity prices).

6. **(Modified from Initial Comments**) Utilities shall employ a cost threshold of no more than $1 million in order to cast a wide net of projects for consideration for alternatives analyses for initial resource plans.

7. (**Modified from Initial Comments**) For projects above the investment threshold for the expansion alternatives analysis, a utility shall explain why the projects selected for a full alternatives evaluation were prioritized over the projects that were not selected for a full alternatives evaluation.

8. Each utility must include a summary of its discussions with stakeholders regarding the selection of projects for the expansion alternatives analysis.

9. A full alternatives evaluation, as required by Order Point 54 of the Commission's March 27 Order, shall include non-pipeline alternatives and/or non-natural-gas alternatives; costs and benefits of those alternatives including the costs of direct investment, variable costs, and the social costs of carbon and methane for emissions due to or avoided by the alternative; a thorough and transparent

explanation of the criteria used to rank or eliminate such alternatives; and an explanation of how equity was considered.

10. To integrate equity into alternatives analyses, utilities shall evaluate ways to overlay maps of proposed capital projects and resource acquisitions across maps of environmental justice and disadvantaged communities in the utilities' service areas.

11. **(New Decision Option)** Utilities should use the regulatory cost of carbon emissions established in response to Minnesota Statute Section 216H.06 to account for future regulation of carbon emissions. Utilities should also add 1.4% to the commodity cost of gas to account for methane regulatory costs.

In addition to supporting the above decision options, CEOs agree with parties that suggested Xcel should be the first utility to file a gas integrated resource plan. We believe that Xcel's experience with electric-side resource planning will be valuable as utilities and stakeholders navigate these new dockets. We also support CenterPoint and MERC filing plans at one-year intervals after Xcel. Although we have reservations about delaying the first utility plan to late 2026, we can accept that filing date as long as the later plans (e.g. CenterPoint's and MERC's) are not delayed more than one year and two years, respectively, after Xcel files. We request that the utilities begin the process of developing expansion alternatives analyses as soon as possible, given the urgent need to implement alternatives to continued expansion of the gas system.

Respectfully submitted,

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