Direct Testimony and Schedules
Jeff R. Lyng

Before the Minnesota Public Utilities Commission
State of Minnesota

In the Matter of the Application of Northern States Power Company
for Authority to Increase Rates for Natural Gas Service in Minnesota

Docket No. G002/GR-23-413
Exhibit___(JRL-1)

Net-Zero Vision for Natural Gas

November 1, 2023

Table of Contents

Schedules

I. INTRODUCTION

Q. PLEASE STATE YOUR NAME, OCCUPATION, AND JOB RESPONSIBILITIES.

A. My name is Jeff R. Lyng. I am Area Vice President, Energy & Sustainability Policy at Xcel Energy Services Inc., the service company subsidiary of Xcel Energy Inc. (Xcel Energy).

Q. ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS PROCEEDING?

A. I am testifying on behalf of Northern States Power Company-Minnesota (NSPM or the Company), d/b/a Xcel Energy.

Q. PLEASE SUMMARIZE YOUR QUALIFICATIONS AND EXPERIENCE.

A. I am responsible for advising Xcel Energy's operating companies on state and federal energy and environmental policy, including climate-related topics. I have 15 years of work experience in energy policy including in the Colorado Governor's Energy Office and with Colorado State University's Center for the New Energy Economy. My graduate degree is in Civil Engineering from the University of Colorado at Boulder. A more detailed description of my qualifications, duties, and responsibilities is set forth in my Statement of Qualifications included as Exhibit___(JRL-1), Schedule 1.

Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY IN THIS PROCEEDING?

A. The purpose of my Direct Testimony is to describe the Company's role as an industry leader in the clean energy transition and, in terms of our natural gas distribution business, our comprehensive strategy to reduce emissions from the production, delivery, and customer use of natural gas. As part of describing our

strategy to reduce emissions associated with our natural gas distribution business, I provide important background on the nature of GHG emissions in the natural gas supply chain. I explain the relationship between methane, which is an emission from the natural gas transmission and distribution system, and carbon dioxide, which is emitted when our customers combust natural gas through the use of gas appliances, and the respective role of each with respect to climate strategies. I also discuss both the challenges and opportunities associated with achieving aggressive emissions reductions in this sector. I also describe Xcel Energy's Net-Zero Vision for Natural Gas. I explain the scope of our vision and its components, as well as our strategies for achieving a net-zero future. I explain our actions to implement this vision, and that this forward-looking vision builds on our existing efforts and is not driving costs in this rate case but is wholly consistent with our Company's and the State of Minnesota's overall policy objectives.

I also discuss the relationship between the Company's natural gas planning dockets before the Commission and this rate case. Specifically, I address two important pieces of policy that will enable emission reductions from natural gas end use: The Natural Gas Innovation Act (NGIA) and The Energy Conservation and Optimization (ECO) Act. I will discuss how these policies are supporting our commitment and program development to reduce emissions associated with our natural gas distribution business and are aligned with the Net-Zero Vision for Natural Gas. While we are working to ensure the structural integrity of our own system, even larger successes will need to come from encouraging emissions reduction efforts among our suppliers and customers throughout the natural gas supply chain.

II. XCEL ENERGY'S CLEAN ENERGY LEADERSHIP

Q. WHAT IS THE PURPOSE OF THIS SECTION OF YOUR TESTIMONY?

A. In this section of my testimony I outline Xcel Energy's industry-leading clean energy transition in both the electric and gas businesses. I also discuss State legislation to further advance environmental policy for natural gas in Minnesota, including the Company's active, supportive participation in these processes.

A. Leading the Clean Energy Transition

Q. PLEASE DESCRIBE XCEL ENERGY'S COMMITMENT TO A CLEAN ENERGY FUTURE.

A. As described by Company witness Amy A. Liberkowski, one of the pillars of Xcel Energy's strategic vision is to lead the clean energy transition. To that end, we have been an industry leader in deploying renewable energy, reducing GHG emissions, and helping to achieve overall environmental goals for the State of Minnesota and the other states we serve.

Q. PLEASE DESCRIBE XCEL ENERGY'S 80 PERCENT CARBON REDUCTION GOAL AND CARBON-FREE ASPIRATION FOR THE ELECTRIC BUSINESS.

A. In December 2018, Xcel Energy made an industry-leading commitment to reduce carbon dioxide emissions from the electricity serving customers by 80 percent from 2005 levels by 2030 and an aspiration to deliver 100 percent carbon-free electricity by 2050. To achieve our carbon-free aspiration, we know today that we will need some form of new carbon-free generation, and we are actively working on initiatives, such as the Carbon-Free Technology Initiative[1]

[1] https://www.carbonfreetech.org

and the Low-Carbon Resources Initiative[2] that will develop support to bring these new technologies to the market.

Q. IS THIS CARBON-FREE ASPIRATION FOR THE ELECTRIC BUSINESS CONSISTENT WITH THE STATE'S ZERO BY 2040 REQUIREMENT?

A. Yes. Our carbon-free aspiration and filed resource plans are consistent with the State's zero-by-2040 requirement for the Minnesota power sector. In addition, we are working with the states we serve and our technology partners to achieve our own carbon-free aspiration for our entire electric business by 2050.

Q. WHAT PROGRESS HAS THE COMPANY MADE TOWARD ACHIEVING THESE GOALS?

A. As a result of our most recently approved Integrated Resource Plan,[3] NSPM expects to exceed our corporate goal by achieving an 85 percent reduction in carbon emissions by 2030 from a 2005 baseline. We are achieving this significant reduction by retiring all remaining coal generation by 2030, extending the license of our Monticello nuclear plant to 2040, and adding more than 4,600 MW of renewables by 2032, with another 1,100 MW beyond 2032. Overall, we are constantly working to enhance and extend our leadership as we move toward a carbon-free electricity future.

Q. PLEASE DESCRIBE THE COMPANY'S CLEAN ENERGY LEADERSHIP WITH RESPECT TO NATURAL GAS.

A. Xcel Energy has been working to ensure a safe, reliable, and environmentally responsible natural gas system for many years, focused in particular on the integrity of our gas distribution, transmission, and plant infrastructure. In

[2] https://www.gti.energy/hydrogen-technology-center/low-carbon-resources-initiative
[3] Docket No. E002/RP-19-368.

November 2021, we published a report outlining our comprehensive strategy to reduce emissions from the production, delivery, and use of natural gas entitled "Transitioning Natural Gas for a Low-Carbon Future," provided as Exhibit___(JRL-1), Schedule 2. Building on that strategy, we have initiated several efforts to reduce emissions on our own gas distribution system, work with our suppliers on disclosure and transparency, and enable our customers to reduce their own carbon dioxide emissions. I describe these efforts in further detail later in this testimony, including Xcel Energy's Net-Zero Vision for Natural Gas[4], provided as Exhibit____ (JRL-1), Schedule 3.

Achieving this vision will present new challenges that are different from those we have faced in implementing our carbon-free electricity commitment. The gas system includes thousands of individual fuel delivery points – including upstream vendors and downstream customers as I describe in more detail below – and at this time there is not a direct replacement option for natural gas. Similar to the electric sector, we know that achieving our vision will require significant development of new technologies, but the current state of many of these technology levers are more nascent than carbon-free technologies that are available to the electric sector. Therefore, we will need to work closely with customers and suppliers to achieve our Net-Zero Vision.

Q. WHAT ARE THE POTENTIAL SOURCES OF GHG EMISSIONS IN RELATION TO THE NATURAL GAS BUSINESS?

A. There are three sources of GHG emissions related to the provision of natural gas service, each one corresponding to different points in the supply chain: (1)

[4] https://www.xcelenergy.com/staticfiles/xe-responsive/Net-Zero-Vision-for-Natural-Gas.pdf

upstream methane emissions associated with the production and transport of natural gas before it reaches the distribution utility; (2) direct methane emissions associated with the distribution utility's delivery of natural gas to customers; and (3) carbon dioxide emissions resulting from customer-premises use of the natural gas.

The first two categories relate to methane emissions, both upstream and from our distribution system, that escape into the atmosphere both when natural gas is extracted and when it is transported and distributed through pipelines. Methane emissions from the production of natural gas via oil and gas operations occur upstream of the utility gas system, in extraction, processing, and transport. These are direct emissions from the upstream producer. For the gas distribution company, our direct emissions are methane emitted from the pipelines under our ownership, from the time that gas is delivered onto our system to when it reaches the customer meter.

The last category is carbon dioxide produced when customers utilize their own equipment or appliances that combust natural gas. These emissions are the customers' direct emissions.

Q. CAN YOU GIVE AN OVERVIEW OF THE RELATIVE QUANTITIES OF GHG EMISSIONS ASSOCIATED WITH NATURAL GAS PRODUCTION, DELIVERY, AND CUSTOMER USE ON AN ANNUAL BASIS?

A. Yes. While methane is a much more potent GHG than carbon dioxide on an equivalent basis, the quantity of methane emissions from the gas distribution system is comparatively small. We estimate that methane emissions associated with gas that we deliver to customers through the distribution system in

Minnesota are slightly less than 60,000[5] short tons of carbon-dioxide equivalent (CO_2e). These emissions are under our direct management, and we have a comprehensive strategy to address them.

In contrast, the upstream methane emissions associated with the production, delivery, and use of natural gas we purchase is approximately 387,000 short tons of CO_2e.

Additionally, when customers combust natural gas at their premises using their own equipment and appliances, they cause carbon dioxide emissions. Customer emissions account for, by far, the largest portion of GHG emissions from direct use natural gas, or approximately 4.07 million short tons of CO_2 in 2020.[6] By way of comparison, NSPM's electric system emissions were 28 million short tons CO_2 in 2005 and about 13 million short tons CO_2 in 2020. Our resource plans have reduced emissions by approximately 15.5 million short tons of CO_2 in that time.

The emissions from the natural gas distribution system itself are relatively low because we operate a tight system and have invested in pipeline upgrades in recent years. Thus, while we are dedicated to operating the most efficient natural gas system possible and will continue to invest in reducing or eliminating methane emissions from our system, we understand that, as with emissions

[5] Based on emissions reported annually to the U.S. EPA Mandatory Reporting Program, https://ghgdata.epa.gov/ghgp/service/facilityDetail/2020?id=1003203&ds=L&et=undefined&popup=true, CO_2 equivalency is calculated using a 100-year global warming potential for methane of 25 consistent with EPA Mandatory Reporting Program Rule Title 40 Chapter I Subchapter C Part 98 Subpart A Table A-1.
[6] Estimated based on weather normalized throughput data in 2020. Excludes transport and large customers.

reductions in electric generation, reducing CO_2 emissions from our customers' natural gas usage is critical to driving reductions at scale.

Q. HOW DOES THE INDUSTRY DETERMINE AND MEASURE THE SOURCE AND AMOUNT OF VARIOUS GHG EMISSIONS?

A. Across many different GHG reporting protocols and inventories, *direct* emissions are defined as emissions from combustion of a fossil fuel at a source owned or managed by the entity that is reporting the emissions.[7] If the emission source is from a pipeline owned by a gas distribution company, for example, those direct emissions are part of the company's reporting obligation for management. In the same way, if the emission source is a stove, furnace, or water heater owned by a gas distribution customer, the direct emissions likewise belong to the customer. Nevertheless, Xcel Energy measures and reports customer emissions for small and medium customers consistent with the U.S. Environmental Protection Agency's (EPA) Mandatory Reporting Rule.[8] For purposes of our Net-Zero Vision, which I discuss in greater detail later in this Direct Testimony, we exclude emissions from transport customers and large customers that self-report their emissions to the Environmental Protection Agency's (EPA) Mandatory Reporting Rule. We are also weather normalizing throughput to account for annual fluctuations in usage due to variation in temperatures and fuel use.

---

[7] *See for example* World Resources Institute's *Greenhouse Gas Protocol*, https://ghgprotocol.org/sites/default/files/standards/ghg-protocol-revised.pdf, at page 25; The Climate Registry's *General Reporting Protocol for the Voluntary Reporting Program*, at page 32; and EPA's guidance at https://www.epa.gov/greeningepa/greenhouse-gases-epa (in this case, Scope 1 referring to direct emissions from sources owned or controlled by EPA itself).

[8] U.S. EPA Title 40, Chapter I, Subchapter C, Part 98, Subpart A, section 98.2(a)(2). We also report large customers that are not local distribution companies, defined as a customer that emits over 25,000 metric tons annually, to EPA; however, these customers are excluded from our goal since they submit their own reporting to EPA.

Upstream emissions are directly attributable to, and reported to the EPA by, the natural gas producer; and although the producers are responsible for these emissions, we are including them in our GHG reduction goal.

Q. IF CUSTOMER AND UPSTREAM EMISSIONS ARE DIRECTLY TIED TO THE CUSTOMER AND PRODUCER RESPECTIVELY, WHAT IS THE ROLE OF THE GAS DISTRIBUTION COMPANY?

A. Xcel Energy believes we have an important role in enabling our customers to reduce their direct GHG emissions while also working with our suppliers to reduce their GHG emissions from the production of the gas we purchase. Although these emissions are not under our direct management, they are included as Scope 3, or indirect emissions, within the GHG accounting principles, and we are committed to doing our part to work with producers to reduce them as much as possible within the guardrails of affordability and reliability. A comprehensive goal across all sectors is required to take a full leadership role in this sector.

B. Our Net-Zero Vision for Natural Gas

Q. PLEASE EXPLAIN XCEL ENERGY'S NET-ZERO COMMITMENT, ANNOUNCED ON NOVEMBER 1, 2021.

A. Expanding on our industry-leading electric system emissions reduction goal, our Net-Zero Vision for Natural Gas includes commitments to also deliver reliable, affordable natural gas service with 25 percent fewer GHG emissions by 2030 (from 2020 levels) and net-zero GHG emissions by 2050. This starts by accelerating our plans to reduce methane emissions. We are setting a goal to purchase natural gas only from suppliers with certified low-methane emissions and improving our gas delivery system to achieve net-zero methane emissions

by 2030. We are also focused on offering customers cost-effective options for reducing carbon emissions from natural gas use. That means expanding our energy conservation programs and piloting new programs that encourage the use of electric appliances and zero-carbon gas alternatives.

Q. WHAT DO YOU MEAN BY "NET-ZERO"?

A. As defined by the Intergovernmental Panel on Climate Change, "net-zero emissions are achieved when anthropogenic emissions of greenhouse gases to the atmosphere are balanced by anthropogenic removals over a specified period."[9] In the case of our natural gas GHG goal, we will implement direct reduction measures for the production, delivery, and use of natural gas to the maximum extent possible. If those technologies do not allow us to achieve zero emissions affordably within the necessary timeframe, however, we will look to achieve any remaining emissions through negative emissions approaches such as environmental offsets or other technologies that become available.

We believe this strategy reflects the findings from the climate science, which indicates that the building sector, or emissions from the direct use of natural gas, is one of the hardest sectors to reduce, and it may be more cost-effective to reduce some portion of emissions with negative emissions technologies.

Q. HOW DOES THE COMPANY'S NET-ZERO VISION FOR NATURAL GAS RELATE TO THIS RATE CASE UNDER CONSIDERATION?

A. As Company witness Liberkowski describes, this rate case is ultimately about the current costs needed to ensure the reliability, safety, and efficacy of the gas

[9] IPCC, 2018: Annex I: Glossary [Matthews, J.B.R. (ed.)], available online at: https://www.ipcc.ch/sr15/chapter/glossary/.

system, with a large majority of the costs in the case tied to system investments made in 2023 and 2024. While these costs may include some of the activities we have already undertaken to initiate emissions reductions, this case is not driven by costs specific to our Net-Zero Vision for Natural Gas.

At the same time, we believe it is important for the Commission to understand our long-term vision for the natural gas business, which includes emissions reduction strategies that will be deployed over time in a way that manages the overall costs and benefits for our customers. We believe our vision and our efforts align with State policy, illustrate our strong partnership with the State to better our environment, and underscore how the gas distribution system will play a critical role in economy-wide efforts to reduce emissions.

Q. HOW DOES THE NET-ZERO VISION ALIGN WITH CONTINUED INVESTMENT IN THE GAS SYSTEM?

A. Given the lack of low-cost technology substitutes for natural gas and the need for continued reliability of heating services in a cold climate like our NSPM territory, we know that natural gas is an important part of the transition to a low-carbon future. Likewise, given the current limitations of air source heat pump technology operation in cold climates, natural gas heating is necessary for many people to provide heat on the coldest days of the year in Minnesota. At this time, we know that continued investment in the natural gas system is necessary to maintain affordability and reliability.

That said, technologies in this space continue to emerge and evolve. The gas distribution system may continue to be used as a delivery mechanism for low-carbon resources or natural gas as a back-up fuel, working in tandem with

electric heating, during periods of cold outdoor air temperatures. Importantly, many of the potential emissions reductions technologies – the same eligible technologies under the NGIA, which I discuss in more detail later in this Direct Testimony – will require the continued use of the gas system for implementation, such as hydrogen blending (the upper limit of which could increase with technology development), power to gas (which allows one-for-one substitution with traditional natural gas), renewable natural gas, direct air capture, and likely other options that will come to fruition in the next 30 years. These measures can also be viable in tandem with some level of electrification, depending on customer adoption. Until technologies evolve further, however, natural gas systems will also be needed to deliver gas to power plants that support increasingly electrified customer demand, particularly to maintain reliability into winter months.

Q. DID THE COMPANY TEST THIS PROPOSED APPROACH TO FUTURE EMISSIONS REDUCTION VIA THE NET-ZERO VISION?

A. Yes. To test our approach, we engaged the same climate modeling expert who completed a study of our electric system and a lead author for the Intergovernmental Panel on Climate Change, Dr. Brian O'Neill, and a team from Pacific Northwest National Laboratory. The team evaluated the future use of natural gas in buildings in scenarios that are likely to achieve the current goal of the Paris climate agreement to limit global temperature increases to well below 2 degrees Celsius and the U.S. aspiration of 1.5 degrees Celsius.

The study[10] reached three conclusions around the continued use of natural gas in buildings, each of which is consistent with our Net-Zero Vision:

- There are continued but declining emissions from natural gas use in commercial and residential buildings in the United States through 2050, even in scenarios that achieve the global temperature requirements of the Paris Agreement and the aspiration of 1.5 degrees, because deep retrofits of the building sector are more expensive than other mitigation strategies across the economy.
- Continued natural gas use spans a broad range of possible emissions reduction ranges, or pathways, depending on the use of negative emissions technologies and reductions elsewhere in the economy.
- Natural gas use in buildings is one of the last sectors of the economy to eliminate carbon emissions, especially in colder states that are more dependent on natural gas for heating.

C. Natural Gas Innovation and ECO Acts

Q. HAS NSPM PARTICIPATED IN STATEWIDE STAKEHOLDER DISCUSSIONS REGARDING STRATEGIES TO REDUCE EMISSIONS FROM NATURAL GAS?

A. Yes. Xcel Energy participated in a stakeholder process convened by the Great Plains Institute (GPI) and the Center for Energy and Environment (CEE) with the goal of assessing strategies to reduce emissions from natural gas end use. The stakeholder convening included representatives from natural gas and electric utilities, utility regulators, natural gas consumers, clean energy advocates, clean energy implementers, environmental advocates, consumer advocates,

[10] Natural gas use in U.S. buildings sector in global low-carbon pathways. Natural%20Gas%20Use%20in%20Buildings%20in%20Low%20Carbon%20Pathways%20-%20FINAL%202021.pd (xcelenergy.com).

workforce advocates, and state and local governments. Xcel Energy participated on the advisory committee for this stakeholder process along with representatives from CEE, GPI, CenterPoint Energy, Fresh Energy, and the City of Minneapolis.

Q. WHAT WERE THE MAJOR OUTCOMES OF THE STAKEHOLDER DISCUSSIONS, MODELING, AND REPORT?

A. The stakeholder process produced detailed modeling of three scenarios to eliminate emissions from natural gas end use and 25 consensus recommendations for reducing emissions from natural gas use related to large commercial and industrial sectors, workforce, residential and small business sectors, and utility and regulatory design.

The modeling was conducted by Energy + Environmental Economics, or E3, an energy consulting firm which specializes in technical and strategic consulting for clean energy transitions. E3 has undertaken numerous energy and environment projects, including Minnesota's G21 Initiative (Decarbonization of Natural Gas End Uses in Minnesota) and the Colorado GHG Roadmap. Here, E3 looked at three scenarios to reduce emissions from natural gas end use: (1) full electrification, (2) electrification with zero-carbon fuel back up during the coldest hours of the year, and (3) zero-carbon fuels back-up by 2050. The modeling concluded that electrification and zero-carbon fuels minimized customer costs and adverse impacts to the electric grid.

Q. HOW HAS THIS STAKEHOLDER PROCESS INFLUENCED STATE POLICY AROUND NATURAL GAS?

A. The stakeholder process developed two recommendations that were subsequently implemented in new legislation enacted in 2021. The first was the recommendation to lift the fuel switching prohibition in CIP, which was accomplished through passage of the ECO Act. The second was a recommendation for the Minnesota Public Utilities Commission to initiate a process to evaluate possible changes to gas utility regulatory and policy structures needed to support cost-effective and equitable achievement of the state's economy-wide GHG reduction goals. This process is required by the NGIA.

Q. PLEASE DESCRIBE THE ECO ACT AND NGIA IN MORE DETAIL.

A. In 2021, the State of Minnesota enacted two important pieces of legislation that shape the policy framework for addressing GHG emissions from the use of natural gas. The ECO Act represents the most comprehensive overhaul to Minnesota's energy efficiency framework since 2007. In addition to retaining the focus on energy efficiency as a core goal for customer-funded programs, the bill also creates a technology-neutral, efficiency-focused framework for allowing fuel-switching, creating opportunities to achieve emission reductions at the customer point-of-use.

The NGIA allows natural gas distribution companies to file plans that will reduce emissions from natural gas service with strategies such as additional efficiency, electrification, district energy, renewable natural gas, and low-GHG hydrogen. It requires the Commission to consider regulatory and legislative options to reduce emissions from natural gas service. While the NGIA does not specify an emissions target, it creates a pathway for companies to evaluate, submit, and gain approval for emissions reductions pathways for gas customers.

Q. HAS THE PASSAGE OF THE NGIA AND ECO ACT PROMPTED NEW DOCKETS AT THE COMMISSION?

A. Yes. Following enactment of the NGIA, the Commission established Docket No. G999/CI-21-566 to consider required frameworks and considerations for future NGIA plans. After several rounds of comments and input from stakeholders, the Commission issued an Order Establishing Frameworks for Implementing Minnesota's Natural Gas Innovation Act, which provides direction and guidance on the filing of NGIA plans.[11]

Additionally, in July of 2022 the Commission established Docket No. G999/CI-21-565 to "evaluate changes to natural gas utility regulatory and policy structures needed to meet or exceed Minnesota's greenhouse gas emissions reductions policy."[12] This proceeding is sometimes referred to as the "Future of Gas" docket and was initiated through a series of technical presentations and technical conferences. In April of 2023, the Commission established a timeline and docket process, which further dovetails with Commission planning for the development of gas integrated resource plans (IRPs) in Docket No. G008,G002,G011/CI-23-117.[13]

Q. HOW DOES THE COMPANY ANTICIPATE THAT UTILITY NGIA PLANS WILL INTERACT WITH THE COMPANY'S NET-ZERO VISION?

---

[11] *In the Matter of Establishing Frameworks to Compare Lifecycle Greenhouse Gas Emission Intensities of Various Resources, and to Measure Cost Effectiveness of Individual Resources and of Overall Innovation Plans*, ORDER ESTABLISHING FRAMEWORKS FOR IMPLEMENTING MINNESOTA'S NATURAL GAS INNOVATION ACT, DOCKET NO. G-999/CI-21-566 (June 1, 2022).

[12] *In the Matter of the Commission Evaluation of Changes to Natural Gas Utility Regulatory and Policy Structures to Meet State Greenhouse Gas Reduction Goals,* NOTICE OF NEW DOCKET, Docket No. G-999/CI-21-565 (July 23, 2021) (*Future of Gas*).

[13] *Future of Gas,* NOTICE OF STAKEHOLDER ENGAGEMENT TIMELINE AND DOCKET PROCESS (April 11, 2023).

A. It will ultimately be important for gas utilities to explore innovative solutions, potentially available through the NGIA, to achieve goals like our Net-Zero Vision. Later in 2023, the Company plans to submit a broad portfolio of projects deploying the types of resources supported by NGIA. We anticipate that these projects will enable us to learn more about how proposed technologies can be implemented, scaled, and adopted by customers to support our long-term Net-Zero Vision.

Q. HAS THE COMPANY SUBMITTED PLANS TO EXPAND ENERGY EFFICIENCY AND ELECTRIFICATION PROGRAMS UNDER THE ECO ACT?

A. Yes. On June 29, 2023, the Company filed its 2024-2026 ECO Triennial Plan in Docket No. E,G002/CIP-23-92. In that filing, the Company proposed an aggressive natural gas savings target of over 1.2 million Dth in 2024, growing to over 1.4 million Dth in 2026. For context, the proposed savings goals are between 32 and 52 percent higher than the Company's 2022 achievements. While most of the savings will be achieved through energy efficiency measures, electrification – or more specifically, efficient fuel-switching (EFS) – plays an important and increasing role in the portfolio. 2024 will be the first year in which the Company offers such programming and the Company has proposed a target of over 11,500 Dth in gas savings in that year and roughly doubling savings in each successive year of the Triennial.

Q. HOW DOES THE COMPANY ANTICIPATE THAT PROJECTS APPROVED UNDER THE NGIA AND ECO ACT WILL ENABLE THE COMPANY TO ACHIEVE ITS NET-ZERO VISION?

A. The vast majority of GHG emissions associated with natural gas consumption are the result of combustion at the customer's premise. By providing customers

with opportunities and incentives to reduce their natural gas consumption and to adopt end-use technologies that use other forms of energy, the Company can achieve both a reduction in combustion emissions and – by reducing the total amount of gas required to serve customers – make it easier to meet the remaining demand for gas with low-carbon alternatives to geologic natural gas. The ECO Act will provide a pathway for the Company to support customers' adoption of efficiency measures and electric heating alternatives that will reduce their carbon emissions from building heating. Similarly, the NGIA will enable the Company to provide customers with options to reduce their emissions using a portfolio of innovative technologies. The NGIA further provides support to emerging technologies that are still in early development stages and are yet to scale, including ground-source networked geothermal loops and hydrogen blending. We know that these are important technologies in our long-term Net-Zero Vision and we are supportive of the NGIA including them as innovative resources to support their development and consumer adoption.

Q. WHAT IS THE CURRENT STATUS OF THE FUTURE OF GAS DOCKET?

A. As I noted above, earlier this year the Commission established a comprehensive timeline for Future of Gas proceedings through Q3 of 2024, including in correlation to the Gas IRP development and filing process. In the interim, multiple utilities and stakeholders have jointly identified certain issues that are appropriately deferred for discussion in the Future of Gas docket to ensure broad stakeholder engagement and consistency across utilities, including main and service line extension policies.[14]

[14] *In the Matter of the Application of Minnesota Energy Resources Corporation for Authority to Increase Rates for Natural Gas Utility Service in Minnesota*, SETTLEMENT AGREEMENT, DOCKET NO. G011/GR-22-504 (May 11, 2023), at 9; *In the Matter of the Application of Northern States Power Company d/b/a Xcel Energy's Petition for*

Q. DOES THE COMPANY ANTICIPATE THAT THE INFLATION REDUCTION ACT OF 2022 (IRA) WILL HAVE ANY IMPACT ON UTILITY NGIA PROJECTS AND PLANS?

A. Yes, the Company expects the IRA to influence its future NGIA plans and resource planning going forward. The Company will therefore consider IRA impacts within NGIA and gas IRP planning and filings. At this stage, we are still in the process of developing our first NGIA plan and the federal government and state energy offices are still in the process of implementing IRA programs. We are working with our consultant to make realistic assumptions in cost-benefit modeling about how the IRA, particularly clean energy tax credits and home energy rebates, may impact pilot projects we are considering for our NGIA plan. We are participating in IRA implementation processes and tracking developments to refine our understanding and assumptions. Company witness Benjamin C. Halama also addresses the potential IRA tax benefits and incentives that the Company may utilize in its future plans.

Q. OVERALL, HOW DO THESE OTHER DOCKETS AND RELATED STATUTES, AND THE COMPANY'S ECO AND NGIA FILINGS, RELATE TO THIS RATE PROCEEDING?

A. Costs associated with implementing the ECO Act and NGIA, or with specific Net-Zero Vision initiatives, are not included in this rate case proceeding. Likewise, the Company is continuing to explore IRA opportunities. As we continue to drive emission reductions and implement our Net-Zero Vision, we anticipate that additional future policies that support emission reductions will be appropriately developed and discussed in the existing Future of Gas and Gas

---

Authority to Increase Natural Gas Rates in Minnesota, SETTLEMENT AGREEMENT, DOCKET NO. G002/GR-21-678 (October 4, 2022), at 7; *In the Matter of the Application by CenterPoint Energy Resources Corp., d/b/a CenterPoint Energy Minnesota Gas for Authority to Increase Natural Gas Rates in Minnesota*, SETTLEMENT, DOCKET NO. G008/GR-21-435 (March 14, 2022), at Attachment 2.

Integrated Planning dockets, where more stakeholders (beyond those interested in ratemaking) will have a voice.

D. Strategies for Achieving Net-Zero Goal

Q. CAN YOU PROVIDE ADDITIONAL INFORMATION REGARDING THE STRATEGIES THE COMPANY HAS EMPLOYED OR IS EMPLOYING TO ACHIEVE ITS AMBITIOUS NET-ZERO TARGETS?

A. Yes. Today, our customers rely on natural gas to heat their homes, businesses, and communities. Achieving our vision will require significant technology development, customer adoption, and supportive policy. Our strategy will initially focus on reductions in both upstream and distribution system methane emissions where technology exists to reduce emissions at low or no cost. We will also continue our customer support strategies and pilot technologies to reduce emissions from natural gas end use. In short, our longer-term vision – like our current efforts – is focused on all aspects of the natural gas supply chain. We are working to implement the strategies to reduce emissions from natural gas end use through the recently implemented policy instruments in our state, like the NGIA and ECO Act, as discussed above.

Q. PLEASE DESCRIBE HOW THE COMPANY WILL ADVANCE EFFORTS TO ADDRESS EMISSIONS FROM THE GAS DISTRIBUTION SYSTEM AS PART OF ITS NET-ZERO VISION.

A. Achieving a net-zero gas distribution system by 2030 will require implementation of advanced technology to support emission mitigation and measurement, implementation of best management practices, and investment in negative emissions technologies.

NSPM, and Xcel Energy as a whole, has long been committed to reducing methane emissions from our natural gas delivery business, including our distribution network and transmission, storage, and processing operations. We have implemented several improvements to reduce and manage methane emissions on our system, including replacing miles of older cast-iron and unprotected steel pipe with new materials with lower emissions rates. We are also participating in a variety of voluntary industry leadership programs to continue to advance best management practices and enhance our reporting, including EPA's Natural Gas STAR program, EPA Methane Challenge, and Our Nation's Energy (ONE) Future.

As Company witness Alicia E. Berger discusses in her testimony, efforts like leak avoidance and detection, managing venting during routine maintenance, and reduced third-party damages to our infrastructure all support reductions in methane emissions. These same efforts support the robust nature of the system, making it increasingly viable infrastructure for transporting new forms of gas with reduced GHG footprints. Continuing technology development and innovation in these areas will further help achieve our vision.

Further, we are working to implement a more robust inventory of our emissions, relative to the current inventory based on mandatory EPA reporting. We will be publishing expanded data through the Natural Gas Supply Chain Initiative and will be publicly tracking our emission reduction progress through 2030.

Q. CAN YOU PROVIDE MORE INFORMATION ABOUT THESE PROGRAMS?

A. Yes. Xcel Energy joined EPA's voluntary Natural Gas STAR[15] program in 2008 to reduce methane emissions. Through this program we have adopted management practices and made equipment upgrades to reduce emissions on our system. These equipment upgrades include removing all cast iron and nearly all bare and unprotected steel pipe from our distribution system and replacement of high-bleed controllers with low-bleed or no-bleed controllers where possible. We have also updated our management practices to increase leak survey frequency and reduce gas releases during system maintenance.

We are also a founding member of the EPA's Methane Challenge,[16] pledging to reduce by at least 50 percent the venting of pipelines during scheduled natural gas construction projects – a goal we far exceeded by reducing venting of methane up to 95 percent since 2018.

We joined ONE Future[17] in early 2020 to partner with others in the industry to collectively limit methane emissions across the entire natural gas supply chain to less than one percent. To achieve its overall one percent target, ONE Future sets individual targets for each segment of the supply chain. The distribution segment target is to limit methane intensity below 0.22 percent. As a member of this consortium, we will annually report a comprehensive methane emissions rate to ONE Future, which provides public methane reporting that is more inclusive and goes beyond what most regulations currently require. This started in 2021 and expanded in 2022, when we reported 2021 methane emissions from

[15] https://www.epa.gov/natural-gas-star-program/natural-gas-star-program.
[16] https://www.epa.gov/natural-gas-star-program/methane-challenge-program.
[17] https://onefuture.us/.

all three segments of our natural gas business, including processing, transmission and storage, and distribution.

Q. PLEASE DESCRIBE HOW THE COMPANY WILL FURTHER ADDRESS UPSTREAM METHANE EMISSIONS.

A. While we do not have direct control over our suppliers' activities, we can use our relationships and purchasing power to move suppliers to improve transparency and adopt best practices for reducing methane emissions. Over the last several years, NSPM has initiated efforts to work with our suppliers to increase transparency and disclosures as it relates to methane emissions. We are a co-founder of and participated for several years in the Natural Gas Supply Collaborative.[18] We continue to be actively engaged in the Edison Electric Institute and American Gas Association partnership on the Natural Gas Sustainability Initiative.[19] Both of these initiatives are focused on creating consistent, sustainable disclosures among natural gas suppliers of methane leakage rates and implementation of best management practices. Disclosure and standardization are important steps toward addressing emissions in the production and transportation of natural gas.

Building on these efforts, in the spring of 2020, NSPM formally asked its natural gas supply bidders to provide information on their methane emissions intensities and best practices for reducing remaining emissions. This information has been and will continue to be used to inform our future procurement practices, described below.

[18] https://www.mjbradley.com/content/natural-gas-supply-collaborative.
[19] https://www.aga.org/research-policy/natural-gas-esg-sustainability/natural-gas-sustainability-initiative-ngsi/ .

In the summer of 2021, we furthered our effort to collect information on the methane intensity of our gas supply by soliciting a Request for Information (RFI) on Certified Low-Methane Gas supply in our eight-state service territory. Through the RFI, we identified producers in our regions that have been third-party certified with methane emissions intensity well below the national average. We collected information on volume availability and pricing for this certified, lower methane emissions, natural gas product. The information collected in the RFI would then be used to support a future regulatory filing regarding procurement of Certified Low-Methane Gas.

Most recently, we conducted a pilot in Minnesota to procure natural gas bundled with certified low methane gas attributes. For this pilot, NSP purchased a Certified Natural Gas and environmental attribute package of roughly 500,000 Dths last winter to begin establishing internal procedures and to explore the Upper Midwest certified gas market. No premium was paid for the environmental attributes given the exploratory nature of the transaction.

With our new goal, we are committing that, by 2030, all the natural gas we purchase will be produced, processed, and delivered with the lowest methane emission rate possible – or below approximately 0.25 percent.

Q. PLEASE EXPLAIN WHAT YOU MEAN BY CERTIFIED NATURAL GAS.

A. Certified Natural Gas is a differentiated natural gas product that has undergone independent third-party verification of their emissions intensity and assessment of other environmental factors including land and water impacts. The independent third party is expected to review emissions monitoring measurements and procedures and facility management practices to validate the

claimed emissions intensity. Certification is typically reviewed at an interval prescribed by the certification body, often annually. Currently there are three certification bodies working with gas suppliers in North America: Project Canary, MiQ, and Equitable Origin.

Q. TO WHAT EXTENT IS CERTIFIED NATURAL GAS CURRENTLY AVAILABLE FOR DELIVERY INTO NSPM'S DISTRIBUTION SYSTEM?

A. The market for Certified Natural Gas is currently growing, and the necessary instruments to purchase and track this gas through the supply chain are evolving. We are beginning to have preliminary discussions with our suppliers, both producers and marketers, to understand the availability and price premium that we can expect for this gas product. As I discussed above, we recently solicited an RFI to collect information on supply availability, methane intensity, and the price of Certified Natural Gas.

Given our geographic constraints in the upper Midwest, we purchase most of our gas supply through third-party marketers that bundle gas as a commodity from many different producers. This purchase strategy creates barriers to transparent reporting of emissions from producers. Gas marketers and data tracking companies are working to develop digital tags to track the methane emissions associated with upstream supply. Development of these data tracking mechanisms will enable transparency in reporting of emissions intensity of our supply and purchase of certified gas from marketers. To the extent the market develops and we plan to purchase Certified Natural Gas, we will submit a miscellaneous filing with details, including the planned quantities, benefits, and information on the anticipated price premium that would be included in future gas cost filings.

Q. PLEASE DESCRIBE HOW YOUR NET-ZERO GOAL ADVANCES YOUR EFFORTS TO ADDRESS EMISSIONS FROM CUSTOMER USE.

A. As leaders in clean energy, we are committed to helping customers reduce their emissions from natural gas use. Our strategy starts by leveraging existing opportunities using affordable and reliable technology that is available today. In addition, we encourage participation in voluntary customer choice programs to accelerate customers' progress toward reducing their carbon emissions.

Energy efficiency must be and is the foundation of this effort. We are aggressively growing our energy efficiency programming under the ECO Act. We will achieve high levels of cost-effective savings through attractive incentives to customers, improved program designs, and collaboration with our trade allies, community partners, contracted implementers, and other stakeholders. In addition, we will work to coordinate with implementation of the incentives available from both the federal and state governments to ensure customers understand and receive the full range of incentives available.

In the 2024-2026 Triennial, we will start building on our comprehensive and successful energy efficiency programs with the introduction of Efficient Fuel-Switching (EFS) incentives, again in collaboration with a variety of partners. While we are limited by statute in the amount of spending for EFS that can occur in 2024-2026, these will be important years to establish a foundation for further growth in later Triennial periods. We also plan to support the development of new policy pathways for electrification planning. Among the technologies and programs that we believe have the potential to play important roles are:

- All-electric communities;
- All-electric new construction design and rebate programs;
- Dual fuel air source heat pumps and combination heating and cooling solutions (as partial replacement for combustion-based systems); and
- District geothermal solutions.

Lastly, we will be expanding our efforts to explore and implement lower-carbon supply of natural gas, which allows our customers to reduce emissions without expensive upgrades to their homes and appliances. In order to expand our efforts, as described above, we conducted an RFI to understand the market for renewable natural gas within our service territory and surrounding regions. Generally, this RFI found that there is available renewable natural gas from a variety of sources within our Upper Midwest territory including dairy, landfills, and wastewater treatment plants. With this information, we are exploring potential partnerships and the best way to access these resources at reasonable costs to our customers.

Q. WHAT IS THE ROLE OF ELECTRIFICATION IN YOUR PLANS?

A. While electrification will play a role in the transition of natural gas to a low-carbon future, at least some customers will still rely on the natural gas system to deliver critical energy for customers and to enable further emissions reductions in the electric sector. We will need solutions that make electrification more cost effective, as well as solutions to operate the remaining natural gas system efficiently and deploy clean wind and solar resources. As I discuss above, we are exploring a variety of options that hold promise. Policy must support the development of a broad range of solutions and innovation across both systems.

Q. HAS NSPM OR XCEL ENERGY INITIATED ANY PILOTS TO FURTHER CLEAN ENERGY DEVELOPMENTS WITH RESPECT TO NATURAL GAS?

A. Yes. As I noted earlier, given the real technology challenges to achieving emissions reductions in this sector, we know we need to pilot technologies quickly and effectively so that we may quickly scale the ones that work. We provide a snapshot of three pilots below. Additional work and pilots can be found in our Transitioning Natural Gas to a Low-Carbon Future report provided as Schedule 2. We are continuing to pilot and develop technologies to reduce emissions from natural gas use through the NGIA.

1. Participation in the HyBlend Multi-Utility Research Project

Xcel Energy is participating in HyBlend, a research project led by National Renewable Energy Lab (NREL) and Gas Technology Institute (GTI) to address the technical barriers associated with blending hydrogen in natural gas infrastructure. This two-year project started in fall of 2021 with $15 million in funding contributed by the Department of Energy (DOE) Office of Energy Efficiency and Renewable Energy and 20 participating utilities. The project utilizes expertise from utilities, research consortia, academia, and national labs to determine how hydrogen can be safely blended in existing natural gas systems to reduce the carbon intensity of fuel delivered to customers.

2. Project Canary Certified Natural Gas (CNG) Pilot Program

In May of 2021, Xcel Energy announced its first purchase of CNG for the distribution system in Colorado. The gas methane intensity is certified and monitored by Project Canary and produced by Crestone Resources. Public Service Company of Colorado began this pilot in June of 2021 and has been purchasing a small volume of gas from Crestone that has been certified by

Project Canary to have low-methane intensity (<0.25 percent). The pilot currently provides enough gas to heat about 20,000 homes per day and will continue through winter of 2022. The Colorado School of Mines will conduct a third-party assessment of the avoided methane emissions associated with this gas procurement. Since this pilot transaction we have completed similar transactions in Minnesota and New Mexico.

3. Department of Energy Hydrogen Pilot

The Company partnered with two additional utilities and Idaho National Laboratory (INL) to explore the potential economics of producing hydrogen from an existing nuclear power plant. Our first hydrogen related effort included INL receiving funding from the DOE to perform certain studies and the Company contributed in-kind labor. The goal of this project was to study the potential marketplace for hydrogen, and the technical and economic feasibility of doing so at our nuclear facilities. We explored two types of hydrogen production—low temperature electrolysis, which uses electricity to change water into hydrogen and oxygen; and high temperature electrolysis, which adds steam from the nuclear plant to help improve the efficiency of the process compared to low temperature electrolysis.

On October 8, 2020, it was announced that Xcel Energy was selected for an additional grant from DOE. The total grant award from the DOE for the hydrogen project was $13.8 million. Our consortium partners Arizona Public Service and INL also received funds from the grant to do related nuclear-to-hydrogen integration projects. The grant is an 80/20 cost share agreement where DOE will reimburse Xcel Energy 80 percent of our expenses up to an incurred amount of $11 million for the project.

The project funded by the additional grant will demonstrate that Xcel Energy can install an electrolysis system that will use both steam and electricity generated from nuclear energy to generate hydrogen. This is called high temperature steam electrolysis (HTSE). HTSE improves the efficiency (compared to low temperature electrolysis) by about 33 percent, thus reducing future hydrogen production costs.

The electrolysis system that will be installed at Prairie Island Nuclear Generating Plant (PINGP) is a pilot-scale system that will advance the Company's understanding of both technical and economic aspects of integrating hydrogen technology at its nuclear power plants. The project started implementation in 2nd quarter 2022 and is expected to be completed in approximately two years, ending in the 3rd quarter 2024.

Q. ARE THE COSTS OF ANY OF THE PILOTS NOTED ABOVE INCLUDED IN THIS NATURAL GAS RATE CASE?

A. The costs of our pipeline integrity work, which helps keep gas in the pipes where it belongs, is largely recovered through the Gas Utility Infrastructure Cost (GUIC) Rider and will be rolled into base rates as described by Company witness Halama. Further, we are not proposing any specific costs or investments associated with these pilot projects or our long-term emissions reduction vision, as contemplated in our Net-Zero Vision for Natural Gas, in this rate case.

Q. CAN YOU SUMMARIZE THE COMPANY'S PLANNED EFFORTS TO ACHIEVE THE EMISSIONS REDUCTION GOAL OF 25 PERCENT REDUCTIONS BY 2030?

A. Yes. Table 1 below itemizes the technology options and suite of customer programs we are working on to reduce GHG emissions across the natural gas supply chain.

Table 1
Emission Reduction Measures

Approach	Strategic Reduction Opportunities
Eliminating Methane Emissions from Production and Delivery	Purchasing natural gas with a certified low-methane emissions rate (less than 0.25%)
	Operational and materials changes to reduce emission on our system
	Leak Detection and Repair
Reducing Use	Expanding energy efficiency
Beneficial Electrification	Grid-integrated, managed electric water heaters
	Heat pump systems with natural gas backup for cooling and heating
	All electric new builds
	Ground Source Geothermal Electrification
Lower Carbon Supply	Hydrogen
	Power to Gas
Negative Emissions	Renewable Natural Gas
	Environmental Offsets
	Direct Air Capture
	Industrial Carbon Capture

III. CONCLUSION

Q. PLEASE SUMMARIZE THE KEY POINTS OF YOUR DIRECT TESTIMONY.

A. In conclusion, Xcel Energy and NSPM are building from a history of clean energy leadership. Starting with our industry-leading emissions reduction goal for our electric sector and now with our Net-Zero Vision for the natural gas sector, we are committed to operating the cleanest energy system possible and driving reductions in other sectors. Further, with our comprehensive electric

resource plan, we are proving that we can and will execute on our electric goal to achieve over 80 percent reductions by 2030. While emissions reductions from the natural gas supply chain are even more complex and we are earlier in the journey, we are also committed to driving emissions reductions from the production, delivery, and use of natural gas and driving the industry to our vision.

Our new Net-Zero Vision for Natural Gas, while not directly a part of this rate case, provides the long-term outlook for the gas side of the business and its role in the low-carbon economy. We have set a goal to achieve 25 percent emissions reductions on all GHGs by 2030 and a net-zero system by 2050. To achieve this goal, we will deliver reductions across the three major elements of the supply chain:

- Leverage our buying power to address methane by purchasing certified low-methane gas for our operations;
- Tighten our own system to reduce methane emissions and achieve net-zero methane emissions by 2030; and
- Deliver new program and product choices to customers to help them manage their own carbon dioxide emissions from natural gas use.

As we implement this goal and these measures, we will need to move at the pace of technology to ensure that we continue to maintain a safe, reliable, and affordable system for all our customers. We look forward to working with the Commission and a variety of stakeholders in implementing this vision in the months and years ahead.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes, it does.

Statement of Qualifications

Jeff R. Lyng
Director of Energy and Environmental Policy

As the Director of Energy and Environmental Policy, I am responsible for advising Xcel Energy's operating companies on energy and environmental policies at the state and federal levels that will continue the Company's leadership in the clean energy transition while keeping customer bills low. My primary responsibilities are threefold. First, to advise on the policies and programs that will achieve Xcel Energy's goal of 80 percent carbon dioxide reduction by 2030 and aspiration to deliver carbon-free electricity by 2050. Second, to design a low-methane, low-carbon strategy that will enable our customers to reduce the greenhouse gas impact of the natural gas they use in their homes and business. Finally, to support the Company's Environmental, Social and Governance reporting, including greenhouse gas emissions accounting.

I joined the Company in February 2018. In previous roles prior to joining Xcel Energy, I served as a Senior Policy Advisor at the Center for the New Energy Economy at Colorado State University, Director of Market Development and Regulatory Affairs for Opower (an energy efficiency company) and as Renewable Energy Policy Manager in the Colorado Governor's Energy Office in Governor Bill Ritter's Administration.

I hold a Master of Science degree in Civil Engineering from the Building Systems Program at the University of Colorado at Boulder and a Bachelor of Science Degree in Ecology from the State University of New York College of Environmental Science and Forestry.


Xcel Energy®
TRANSITIONING
NATURAL GAS FOR
A LOW-CARBON FUTURE

TO OUR STAKEHOLDERS,

Xcel Energy has made a commitment to lead the clean energy transformation across our entire business. That means that we will continue to provide affordable, reliable energy services while we reduce emissions of greenhouse gases. We have already announced our aspiration to provide 100% carbon-free electricity by 2050. In this report, we present a plan focused on emissions from our natural gas system.

Technology is driving progress in clean electricity — more efficient fossil generation, lower cost wind generation, improved solar panels and even batteries are already providing customers with clean, reliable and affordable electricity. By generating more electricity with renewables balanced with natural gas-fired generation, we have reduced carbon emissions 44% since 2005, and in 2019, had our largest one-year decline. Through the limited but judicious use of natural gas for electric generation, we can more rapidly reduce our use of coal and promote cost-effective emission reductions. This approach allows us the much-needed time to develop the carbon-free generating technologies that we will need to realize our vision of an affordable, zero-carbon electricity system.

We need those same types of technology breakthroughs to reduce carbon emissions from our natural gas distribution system, which includes about 40,000 miles of underground infrastructure that enables 80% of our customers to heat their homes and buildings. Altogether, we serve 2.1 million customers in our colder states — Colorado, Michigan, Minnesota, North Dakota and Wisconsin.

When it comes to heating homes and buildings, there is no substitute today for natural gas, especially in colder climates. It is a highly flexible and efficient fuel that offers our customers comfort and security. It does so at the lowest possible cost, something that during these challenging economic times is more important than ever, especially for our customers in need. While there are currently very few cost-effective technologies available to reduce carbon emissions from buildings, we plan to make the most of today's resources while creating policies and programs that will build the technology and market for the future, just as we have done with electricity.

Our plan is simple, straightforward and will result in a reliable, affordable and lower-emissions natural gas system.

1) **Reduce the methane emissions of our natural gas suppliers as well as from our own operations.** Methane is a potent greenhouse gas, and more than a decade ago, we recognized the need to address it. We joined the EPA's Natural Gas STAR program, and later signed on to its Methane Challenge, to voluntarily reduce emissions. We've proactively improved our system, replacing all the old cast iron and nearly all the bare steel pipe. Additionally, we participate in Our Nation's Energy (ONE) Future, a group of natural gas companies committed to limiting methane emissions to 1% or less across the supply chain by 2025.

2) **Require transparency and disclosure of methane emissions and encourage sharing of best practices to reduce emissions.** We will leverage our buying power with our suppliers and encourage others as well. As a substantial purchaser of natural gas for both our electricity and natural gas businesses, we are encouraging our suppliers to disclose their methane emissions and adopt best practices for reducing emissions from their operations, with the goal of purchasing natural gas with lower methane emissions.

3) **Create programs that help customers reduce their carbon emissions from their natural gas appliances**. In partnership with our regulators, we can provide incentives for helping customers conserve natural gas and manage demand. And through other customer choice programs, we can help customers switch from natural gas to new electric technologies, such as air source heat pumps, if they choose to do so. As always, we will support our customers' energy vision, whether they participate in our voluntary programs or continue using the existing natural gas system as they do now.

4) **Create new sources of energy supply for our natural gas system customers.** We will continue to pursue renewable natural gas supply options or potentially the blending of hydrogen into the system as these projects become available and affordable.

Through this plan, we will begin the process of reducing emissions associated with natural gas and will enable and encourage the creation of new technologies that will lead to a low-carbon future.

As a country, we have faced many challenges in 2020, but at Xcel Energy, we remain committed to leading the clean energy transition. Programs like the natural gas strategy discussed in this report will help us meet these challenges and build a brighter, cleaner future. We look forward to the ongoing collaboration and partnership that is essential to our success.

Sincerely,

Ben Fowke
Chairman and CEO

CONTENTS

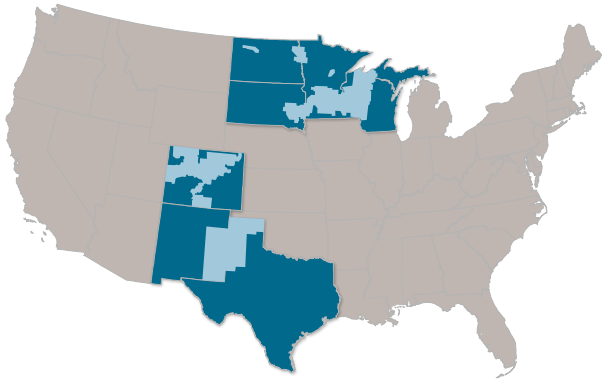
ABOUT US

Xcel Energy is a major U.S. electricity and natural gas company with annual revenues of $11.5 billion. Headquartered in Minneapolis, we operate across parts of eight Western and Midwestern states and provide a comprehensive portfolio of energy-related products and services to 3.7 million electricity customers and 2.1 million natural gas customers.

Addressing climate change is a priority for many of our customers, communities, investors and other stakeholders, and is a priority for us as well. In delivering on our strategic focus to lead the clean energy transition, we are the country's first major power company to announce its vision to provide customers 100% carbon-free electricity by 2050 and are successfully reducing carbon emissions reliably and affordably.

We constantly work to offer a cleaner energy mix, smarter solutions and seamless experiences for our customers. We are delivering modern energy leadership and services — everything from electric vehicle charging stations to an extensive portfolio of energy-saving programs and renewable choices.

More information on our clean energy strategy, corporate governance and risk management is available at xcelenergy.com in our corporate reports, including Xcel Energy's Annual Report, Proxy Statement, Corporate Responsibility Report and EEI-AGA Environmental, Social, Governance and Sustainability Report.



FORWARD LOOKING STATEMENTS

The material in this report contains forward-looking statements that are subject to certain risks, uncertainties and assumptions. Such forward-looking statements include projections related to emission reductions, changes in our generation portfolio, planned retirements, and planned capital investments and are identified in this document by the words "aim", "aspire", "assuming", "believe", "could", "expect", "may", and similar expressions. Actual results may vary materially. Factors that could cause actual results to differ materially include, but are not limited to: general economic conditions, including the availability of credit, actions of rating agencies and their impact on capital expenditures; business conditions in the energy industry: competitive factors; unusual weather; effects of geopolitical events; including war and acts of terrorism; changes in federal or state legislation; regulation; actions of regulatory bodies; and other risk factors listed from time to time by Xcel Energy in its Annual Report on Form 10-K for the fiscal year ended Dec. 31, 2019 (including the items described under Factors Affecting Results of Operations) and the other risk factors listed from time to time by Xcel Energy Inc. in reports filed with the SEC.

EXECUTIVE SUMMARY

We are proving that with current advances in technology and careful planning, we can significantly reduce greenhouse gas emissions from the electric side of our business while keeping customer bills low. Thanks to the availability of low-cost wind, solar and other clean energy technologies, Xcel Energy has reduced carbon emissions 44% since 2005 — putting us more than halfway to our goal to reduce carbon emissions 80% by 2030 and significant progress toward our aspiration to deliver 100% carbon-free electricity.

To address the risk of climate change, we understand that we must go beyond electricity to reduce methane emissions from our natural gas operations and support our customers in reducing their carbon emissions from natural gas use. While the building sector — homes and businesses — is currently a much lower source of carbon emissions economy-wide compared to other sectors, building sector emissions are increasingly important to our customers and other stakeholders. It is a sector of the economy that must be addressed to achieve aggressive global greenhouse gas reduction goals. That is why we are developing solutions to reduce emissions associated with natural gas use while delivering the affordable and reliable energy our customers require.

Natural gas is an energy workhorse for our customers, safely delivering incredible amounts of energy at an affordable cost. Nationwide, natural gas provides half of all non-transportation energy in the United States. Our natural gas system delivered an average of almost 16,000 megawatts of energy equivalent in January 2020, nearly the capacity of our electric system that operates across eight states. In the states where we serve customers with natural gas — Colorado, Michigan, Minnesota, North Dakota and Wisconsin — temperatures can drop to extremely low levels for extended periods. For example, Minnesota's Twin Cities experienced 17 consecutive days of temperatures below zero degrees Fahrenheit in 2014. Today, electric air source heat pumps are unable to effectively provide space heating at these extremely low temperatures.

In contrast to electricity, there are no reliable, low-cost substitutes or technology solutions available today to replace natural gas. It remains the most efficient fuel for heating homes and businesses — especially in colder climates and during difficult economic times. Absent affordable substitutes, a large-scale move away from natural gas also creates equity concerns. Extreme electrification mandates could increase heating bills by more than 40% for customers remaining on the natural gas system. As more customers invest in electrifying their homes, customers in need, who are especially vulnerable, are left with increased heating costs as fewer customers remain to cover the cost of the natural gas system.

Xcel Energy contracted with the Analysis Group to study the impact of different approaches to reducing carbon emissions associated with customer natural gas use. The study evaluated four scenarios that ranged from mandatory electrification of all residential buildings to a combination of voluntary electrification and low-carbon gas supply options, such as renewable natural gas. Overall, the study shows that there is a role for electrification to help drive down emissions reductions from homes, but full electrification leads to significant costs and system impacts that will be borne by customers. Large-scale electrification could even result in the electric system experiencing the most use during winter months when renewable energy resources are at lower capacity. Voluntary approaches that incorporate a variety of solutions permit flexible adoption of available mechanisms for carbon reduction as technology improves and costs decline.

Acknowledging these realities and challenges, our strategy seeks to build the technology and market to drive future emission reductions while reducing greenhouse gas emissions across the entire natural gas supply chain, from the producer to the customer.

Delivering the Cleanest Natural Gas Possible to Customers
We are committed to reducing methane emissions from our natural gas system. We have a long history of implementing operational improvements that support this, including our system upgrades and participation in EPA's Natural Gas STAR and Methane Challenge programs.

Leveraging our Buying Power to Influence Suppliers
Through the natural gas we purchase for both our natural gas distribution and electric generation businesses, we can exert buying power to influence the practices of our suppliers. In addition to our industry partnerships to develop more consistent and transparent disclosure, we are advancing efforts to better understand and influence our own supply chain.

We have started gathering information directly from our suppliers on their methane emissions intensities and best practices for reducing emissions. This information will help us better understand the emissions footprint of the

natural gas we purchase and allow us to take future action. We have also joined Our Nation's Energy (ONE) Future to partner with others in the industry to expand our emissions reporting and collectively limit methane emissions intensity across the entire natural gas supply chain to 1% or less of throughput by 2025.

This strategy, to continue using natural gas infrastructure while deploying carbon reduction solutions including low-carbon fuels, electrification and energy efficiency, is aligned with aggressive climate action — a view that the science affirms. In climate studies, natural gas continues to play a role in providing energy, even as the world achieves the goal of maintaining temperature increases below 2 C.

As one part of a much larger supply chain, we cannot be successful on our own. Achieving the cleanest and most efficient natural gas system will require joint action with our suppliers and customers to implement new measures and solutions. We need innovation across all segments of the supply chain. Such innovation will take partnerships and a renewed focus on the technology that is required for the natural gas system to serve its role in a low-carbon future.

With the shared goal of reducing emissions, we are focused on a comprehensive approach. While electrification will play a role in the transition of natural gas to a low-carbon future, we will still rely on the natural gas system to deliver critical energy for customers and to enable further emissions reductions in the electric sector. We will need solutions that make electrification more cost effective as well as solutions to operate the remaining natural gas system efficiently and to deploy clean wind and solar resources. Policy must support the development of a broad range of solutions and innovation across both systems.

Helping Customers Reduce their Carbon Emissions through Voluntary Programs
We will provide voluntary, customer choice programs to help customers reduce emissions in their homes and businesses at a price and pace that works best for them. We will start with small pilot programs that send a market signal to encourage the development of low-carbon technologies and customer solutions and will then ramp up our programs as technology improves and costs decline.

These customer choice programs focus in three areas, including:

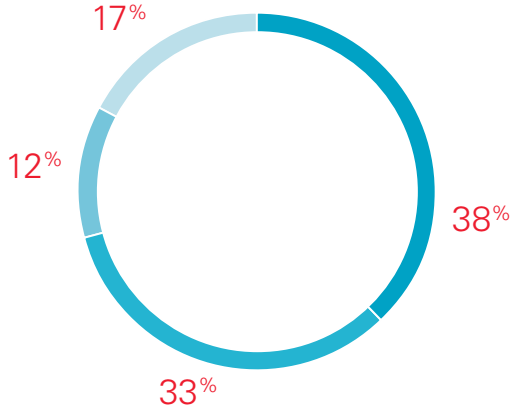
- Reducing natural gas use through efficiency
- Deploying beneficial electrification
- Supplying low-carbon and even carbon negative gas

NATURAL GAS IS AN ENERGY WORKHORSE

Throughout the United States, 75 million customers rely on natural gas to meet essential needs, such as space and water heating, cooking, clothes drying, vehicle fueling and industrial processes.[1] According to the Energy Information Administration, about half of the nation's homes use natural gas for heating. This includes more than 80% of Xcel Energy customers in parts of Colorado, Michigan, Minnesota, North Dakota and Wisconsin.[2]

Natural gas delivers incredible amounts of energy that would be very difficult to replace with other fuels. On the average day during winter of 2018 to 2019, we delivered approximately one billion cubic feet (Bcf) of natural gas to customers, equivalent to more than 12,000 megawatts of electric capacity.[3] In January 2020, Xcel Energy's natural gas system delivered an average of almost 16,000 megawatts of energy equivalent.[4]

Natural Gas Use in the United States



38% Electricity Generation

33% Industrial Processes (heating and feedstock for chemicals, fertilizers and other products)

12% Commercial Use (space and water heating, refrigeration equipment, cooking, clothes drying, and combined heat and power equipment)

17% Residential Use (space and water heating, cooking and clothes drying)

Source: Energy information Administration 2015 Residential Energy Consumption Survey

The true value of the natural gas system comes in the ability to meet the days with the highest energy demand in the middle of winter, when natural gas is a lifeline. In the climates we serve, temperatures can drop to extremely cold levels for extended periods of time. As recently as 2014, the Twin Cities in Minnesota experienced 17 consecutive days with low temperatures below zero degrees Fahrenheit. The United States experienced a Polar Vortex in early 2019, a period of cold that resulted in temperatures in Minneapolis dipping to -28 F. Across our system, Xcel Energy provided 2½ times its typical daily natural gas delivery in winter during this period, which is equivalent to nearly 57,000 wind turbines, or nearly all the turbines currently installed in the United States, running at 35% capacity factor.[5] However, on very cold days, many electric resources including wind and solar are often unavailable, making it more difficult to reliably meet this demand with clean electricity.

When it comes to delivering the amount of energy required to keep customers warm and safe during these cold events, there is no clear substitute for natural gas. Current electric air source heat pump technologies for space heating — even versions designed for cold climates — require backup heat at low temperatures.[6] The declining efficiency of air source heat pumps, combined with relatively inefficient electric resistance heating (the only electric backup option), means that providing the necessary heat for the coldest day of the year requires a significant increase in the peak demand capacity of the electric system. Analysis that Energy + Environmental Economics (E3) performed for our most recent Upper Midwest electric resource plan suggests that the required build-out in an all-electric scenario could shift our Upper Midwest electric system to a winter-peaking system almost 2½ times its current size.[7]

Natural gas service is also extremely reliable and resilient during storms. With the infrastructure buried underground, the natural gas system is far less susceptible to damage and long-term outages in cases of extreme weather events. Moreover, the vast infrastructure of storage and pipelines allows for reliable, on-demand delivery of natural gas to customers all year.

Reliability and affordability are further enhanced by the increase in geographic diversity of natural gas production. Natural gas prices began declining in 2008 and have remained affordable since, benefitting customers. On average, a residential customer saves more than $870 per year if their appliances use natural gas instead of electricity.[8] These low prices are expected for several decades as reliable supply of domestically produced natural gas continues.[9]

Compared to other sectors of the economy, the building sector — heating in homes and businesses — is the fourth largest source of carbon emissions — lower than transportation, electricity and industry.[10] This is primarily because natural gas production and delivery is very efficient with minimal loss in the process and because appliances that use natural gas average more than 90% efficiency.[11] Energy efficiency programs continue to help customers use less natural gas. While the number of customers requesting natural gas service is steadily increasing, Xcel Energy's use per customer has decreased more than 20% since 2000.

Regulation and Planning

As a regulated utility, Xcel Energy is legally obligated to serve all customers within its service territory with safe, reliable, affordable energy. This means we cannot choose our customers and are obligated to serve every customer equally, from residential to business, industrial and income-qualified customers. As long as customers continue to use natural gas, we have a responsibility to invest in the reliability and safety of the system. State public utilities commissions fully regulate our business, with oversight over our investments and cost recovery, customer rates, and our rate of return.

Accordingly, we perform extensive resource planning to accommodate current and future expected load growth. On a state-by-state basis, we look at ten-year capacity forecasts and assess system requirements to meet peak days and hours, to ensure there is always enough natural gas to reliably serve our customers. We use a variety of tools to perform this analysis such as Geospatial Information Systems (GIS), flow and pressure data from supervisory control and data acquisition (SCADA) remote monitoring points, along with customer growth forecasts. Based on our analysis, we develop potential operational solutions, address system challenges and customer growth, and develop projects to mitigate any issues. This work informs our rate reviews and other filings with regulators.

THE NATURAL GAS SUPPLY CHAIN

Our distribution system is just one piece of a much larger natural gas supply chain that meets customer demand for natural gas.

1) Production

Producers identify resources and extract natural gas from underground deposits.

2) Processing

Natural gas is processed to remove impurities and stripped down to a composition that customers can safely use. While some limited processing is done in the field at the wellhead, natural gas is transported from the field through gathering pipelines to plants where larger scale processing takes place.

3) Transmission and Storage

Natural gas is transported from processing plants to consumer markets through an elaborate transmission pipeline system. Compressor stations located along the system compress natural gas to higher pressures, allowing more volume to travel through the pipelines and facilitating flow between locations.

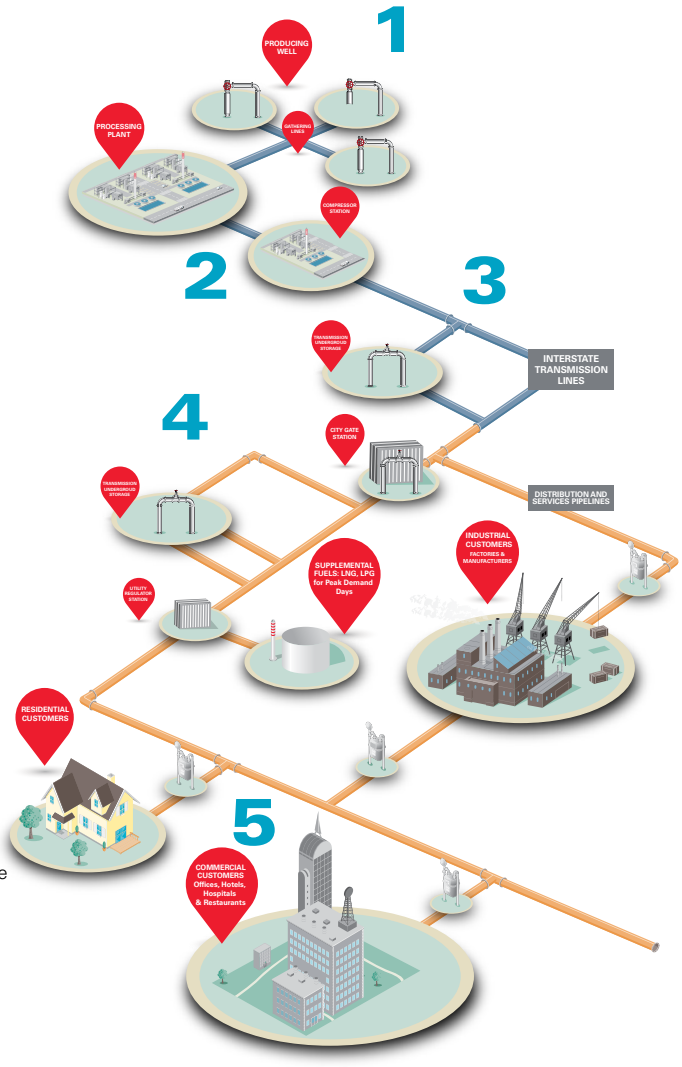
To balance production supply, which generally flows at a consistent rate throughout the year, and customer demand, which can vary dramatically hour to hour and season to season, natural gas is stored in underground fields throughout the country. These storage fields use depleted gas reservoirs, aquifers and salt caverns. On a smaller scale, natural gas can be stored as liquefied natural gas (LNG) and compressed natural gas (CNG).

4) Distribution

Xcel Energy operates a distribution system that delivers natural gas to customers. The interconnection point between the interstate transmission system and distribution system is commonly referred to as the "city-gate". Distribution systems are generally comprised of smaller diameter pipelines operating at lower pressures compared to transmission systems. They also include compressor stations and storage.

5) Customers

Millions of customers use natural gas to fuel their essential heating, cooking, transportation and other needs.



Xcel Energy Resources for Serving Customers

- Xcel Energy is the nation's 10th largest natural gas provider, based on customers, serving 2.1 million homes, businesses and industrial users.
- Xcel Energy does not produce natural gas but purchases about 580 Bcf of natural gas per year from 58 producers or marketers.
- With more than 35,600 miles of distribution pipelines, our primary business is delivering natural gas to customers.
- We own nearly 2,200 miles of transmission pipelines and 16 compressor stations.

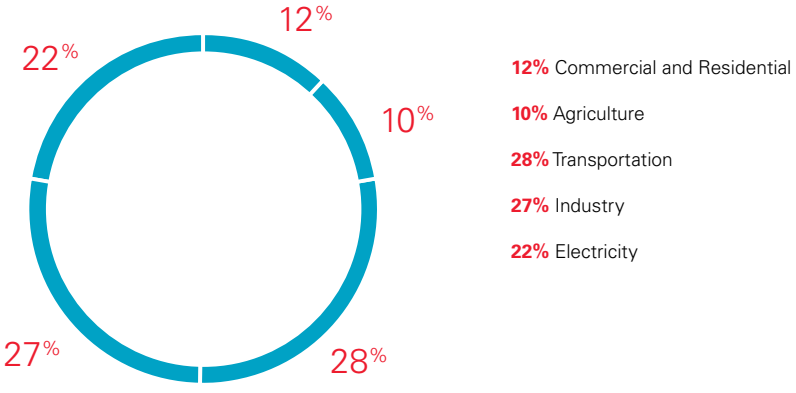
GREENHOUSE GAS EMISSIONS FROM NATURAL GAS

There are two greenhouse gas emissions associated with the natural gas supply chain. Methane — a potent greenhouse gas — can be released during the production, transmission and distribution of natural gas, and carbon dioxide is emitted when natural is burned in equipment or appliances, such as furnaces and water heaters.

In the United States, agriculture, oil and gas operations, and waste management are the largest sources of methane.[12] Methane emissions from the production of natural gas account for 3% of annual greenhouse gas emissions nationally, and most of these releases occur upstream of the distribution system, during the production, processing and transmission of natural gas.[13] The most significant sources of methane emissions in the natural gas supply chain are equipment leaks, vented emissions and pneumatic controllers.

Of the nation's total greenhouse gas emissions, carbon emissions from the building sector make up 12% of the total while industrial emissions are 27%. Both are significantly lower than the transportation and electric sectors, which combined are more than 50% of the total.[14]

Greenhouse Gas Emissions by Sector



Source: U.S. Environmental Protection Agency

While the building sector is a relatively small portion of total U.S. emissions, reducing energy use in buildings is increasingly of interest to our customers and other stakeholders. This is driven in part because, as electric sector emissions decrease, natural gas use will become a proportionally higher source of emissions for our cities and large customers. For some of our cities, notably Minneapolis, emissions from natural gas use have already surpassed electricity and are now the largest single source.[15]

Reporting and Disclosure
Xcel Energy supports transparent public reporting of greenhouse gas emissions from our electricity and natural gas businesses. We compile our greenhouse gas measurements based on federal, state and voluntary reporting protocols. This includes the EPA's Greenhouse Gas Reporting Protocol. Under this program, we report methane emissions from our natural gas operations as well as carbon emissions on behalf of customers who are not subject to this federal reporting and who use natural gas in their homes or businesses. In the coming year, we plan to do additional reporting using the Natural Gas Sustainability Initiative Methane Intensity Protocol and ONE Future.

We are also a founding member of The Climate Registry (TCR), a nonprofit organization established to develop a consistent standard for measuring and reporting greenhouse gas emissions. Under TCR's general reporting protocol, we have reported and obtained third-party verification of our greenhouse gas emissions from both our electricity and natural gas operations going back to 2005.

A LEADING STRATEGY TO REDUCE EMISSIONS ACROSS THE SUPPLY CHAIN

Natural gas is a low cost, abundant and versatile energy source. While it produces fewer emissions than other fossil fuels, its continued use depends on minimizing its emissions footprint.

Building on a history of environmental leadership, our strategy addresses both methane and carbon dioxide emissions across the natural gas supply chain. Xcel Energy's plan is to operate the cleanest natural gas delivery system possible, while helping customers reduce their emissions associated with natural gas use and influencing our suppliers to do their part.

METHANE EMISSIONS		CARBON EMISSIONS
Producers and Suppliers	**Xcel Energy System**	**Customers**
		
Leverage our buying power	**Reduce system emissions**	**Enable new technology**
Require reporting transparency and disclosure	Invest $1.4 billion in ongoing upgrades, keeping our methane emissions rate below 0.2%	Increase conservation
Purchase natural gas from suppliers with low methane emissions	Continue reductions through EPA Natural Gas STAR and Methane Challenge	Launch voluntary programs for all-electric zero-carbon new communities, smart water heaters, combination cooling-heating
Support ONE Future goal to limit the industry's methane emissions to 1% or less by 2025	Pursue renewable natural gas and hydrogen blending	Offer customers a low-carbon gas choice

Delivering the Cleanest Natural Gas Possible to Customers
Similar to our electricity business, we have a track record of environmental leadership in minimizing and reducing methane emissions on our system and are stepping up to do more.

We achieved significant emissions reductions to date by implementing best management practices under the EPA's Natural Gas STAR program, which we joined in 2008. This includes:

- Identifying and replacing aging distribution pipe. We have removed all cast iron and nearly all bare steel and unprotected steel pipe. A recent study shows that replacing cast iron and bare steel with protected steel pipe can reduce distribution system emission rates well below the national average.[16]
- Working actively to avoid natural gas releases during system construction work. When we enter a pipe for scheduled construction or other work, we try to move the natural gas into low-pressure mains or defuel the system to avoid releasing methane directly to the atmosphere.
- Increasing surveys to detect methane releases during inspections and maintenance. We conduct multiple leak surveys within a year to decrease repair time.
- Replacing existing high-bleed controllers with low-bleed or no-bleed controllers where possible.

We became a founding partner in the EPA's Methane Challenge program in 2016 to expand our efforts to reduce methane emissions. Under this program, we pledged to reduce by 50% or more the venting of pipelines during scheduled natural gas construction projects. We reduced venting of methane by 95% in 2018 and 87% in 2019, avoiding approximately 51,000 million cubic feet of natural gas from venting to the atmosphere.

Leveraging our Buying Power to Influence Suppliers

As a natural gas distribution company, we depend on suppliers for the natural gas we deliver to customers. While we do not have direct control over our suppliers' activities, we can use our relationships and purchasing power to move suppliers to improve transparency and adopt best practices for reducing methane emissions. Our goal is for the natural gas we purchase to be produced, processed and delivered with the lowest methane emission rate possible.

The first step is to better understand the practices and methane intensity of natural gas producers, which is challenging in a dynamic market. We participate in two industry groups that engage producers and the natural gas supply chain in transparency and best practices:

- The MJ Bradley Natural Gas Supply Collaborative (Supply Collaborative) is a group of natural gas purchasers calling for producers to disclose a set of quantitative and qualitative performance indicators, for methane and other environmental and social issues. The goal is to promote reporting and implementation of leading practices in the natural gas industry.

- The Natural Gas Sustainability Initiative (Sustainability Initiative), sponsored by the Edison Electric Institute and American Gas Association, is developing a uniform protocol for calculating methane intensity that can be used across the entire natural gas supply chain. This protocol is essential to assess and understand performance of different suppliers.

To expand on these industry efforts, we plan to gain more insight into the methane intensity of the natural gas we purchase. One challenge is fully understanding where the natural gas originates. While we buy some natural gas directly from producers who may have information on their own methane intensity, or reduction practices, we also buy a significant amount of natural gas from marketers. Marketers buy and sell natural gas as a financial product and are often unable to provide transparency in the origin.

Given the lack of transparency in the origin of natural gas, we are asking our suppliers directly for information. Starting with our 2021 natural gas procurement, we will request suppliers to disclose information on their methane performance. This will include the methane intensity calculated with the Sustainability Initiative protocol and information on management best practices that minimize or prevent high emission events following the Supply Collaborative best practices. The combination of reported methane intensity and implemented best practices will allow us to identify which suppliers are producing natural gas with low methane emissions.

Based on responses to this year's information request, we will identify specific marketers who are willing and able to collect and disclose more information from suppliers. The process will also help us identify barriers and potential solutions to working with natural gas marketers and producers to increase transparency in the origin of their supply.

In addition, we joined ONE Future in early 2020. ONE Future is a consortium of more than 20 natural gas companies formed in 2014 that seeks to collectively limit methane emissions across the entire natural gas supply chain to 1% or less of throughput by 2025. Participation in ONE Future allows us to share technology solutions with other companies and influence the entire natural gas supply chain to reduce emissions. The emission rates for participants in ONE Future are at least 25% lower than the national average, according to independent modeling by the National Energy Technology Laboratory.[17]

The 1% emissions target represents a rate that is technically achievable and can significantly reduce the emissions impact of natural gas as an energy source. ONE Future member companies have successfully reduced their emissions below the proposed target, primarily by replacing leak prone equipment, implementing voluntary leak surveys and installing systems to collect vented natural gas.

Within the overall 1% target, ONE future set individual emission targets for each segment of the natural gas supply chain. The targets for each segment are shown in the table below. By joining, we are committing to go beyond these targets and keep our methane emissions rate at less than 0.2% from all areas of our natural gas operations, including the distribution system and some minor transmission and processing facilities.

ONE Future Segment Targets	
Segment	**Target**
Production	0.28%
Gathering and Boosting	0.08%
Processing	0.11%
Transmission and Storage	0.30%
Xcel Energy's Target Distribution	**0.22%**

We will annually report a comprehensive methane emissions rate to ONE future using its reporting protocol that goes beyond current state and federal reporting. ONE Future requires reporting from all emission sources, including sources that fall below the reporting threshold of the EPA Greenhouse Gas Reporting Protocol, which is 25,000 metric tons carbon dioxide equivalent (MT CO_2e). This additional data will provide a more accurate count of our methane emissions.

Helping Customers Reduce Their Carbon Emissions Through Voluntary Programs
As leaders in clean energy and reducing carbon emissions, we are committed to helping customers reduce their emissions from natural gas use. Our strategy starts with what we can do affordably and reliably through technology that is available today and voluntary, customer choice programs. By focusing in the areas described below, we can help to build the market and advance technologies needed for tomorrow.

Approach	Strategic Reduction Opportunities
Reducing Use	Expand energy efficiency
Beneficial Electrification	New all-electric community developments
	Grid-integrated, managed electric water heaters
	Heat pump systems with natural gas backup for cooling and heating
Lower Carbon Supply	Renewable natural gas
	Hydrogen and methanation (power to gas) demonstration

Reducing Natural Gas Use
Since we know many customers will continue to choose natural gas for heating and other needs, our strategy is to ensure they have access to the most efficient options and to drive the market toward more advanced solutions. Energy efficiency improvements will be achieved through a combination of sophisticated equipment controls, more efficient equipment, and improvements in building envelopes.

Xcel Energy has a long history of promoting cost-effective energy efficiency. Our customers have reduced their natural gas consumption more than 20% since 2000 through conservation programs and more efficient appliances and buildings. Working with many stakeholders and our regulators, we plan to expand our annual natural gas efficiency targets and spending in both Minnesota and Colorado.

There are also opportunities for advancements in natural gas technology. For example, natural gas heat pumps have potential to compete with electric heat pumps on efficiency and emissions reductions while using existing infrastructure. As discussed in the policy section, further innovation in natural gas efficiency products is needed.

Beneficial Electrification
Nationwide, the electric sector can enable the transition to a low-carbon economy. With aggressive carbon reduction goals for our electric business, we plan to help our customers reduce their carbon emissions through electrification across our service territory. However, we need to make sure the electrification we pursue is beneficial, achieving the goals consistent with emerging state policy, of reducing emissions, keeping customer bills low, and optimizing use of the power grid.

What is Beneficial Electrification?

The definition of beneficial electrification is constantly evolving with developing technology and regulatory statutes. In Colorado, beneficial electrification is defined in statute (SB 19-236 Section 40-3.2-106(5). More generally, beneficial electrification refers to electrifying fossil fuel equipment and appliances when the switch to electricity reduces overall costs, reduces net greenhouse gas emissions, or optimizes use of the power grid.

Today, the clear choice for electrification is the transportation sector — the largest source of carbon dioxide emissions in the country. Charging an electric vehicle on our system today emits 50%-60% less carbon dioxide than a conventional internal combustion engine car and will emit 80%-90% less carbon dioxide in 2030 and zero emissions in 2050. In addition, electric vehicles can charge at night during off-peak times which is an efficient use of the power grid and helps lower electricity prices for all customers. Furthermore, electric vehicles that charge overnight during off-peak hours cost less than the equivalent of $1 per gallon of gasoline. Given that it meets all the criteria of beneficial electrification, Xcel Energy is actively pursuing electrification of the transportation sector.[18]

In the building sector, achieving emissions reductions through electrification depends on appliance efficiency and the emissions intensity of the power grid. Some technologies, such as heat pump water heaters, already achieve emissions reductions, while other technologies, such as air source heat pumps, may require a cleaner power grid than is currently available. Electrification today also comes at a cost premium for customers willing to switch and could increase costs for those who do not switch, if not done carefully. While options are limited today, we know that the power grid will become cleaner, technologies will improve, and costs will likely decline, opening new opportunities.

While we seek beneficial electrification, we see significant challenges with full or mandatory approaches to electrification. Full electrification of this sector is technically challenging and could result in unintended consequences, such as:

- Electric system build-out. Replacing all the energy that natural gas provides on the coldest days in winter will require significant investment in electric capacity, increasing peak demand up to two or more times our current system.[19]
- Costs of the remaining natural gas system. The system was built to serve customer demand for natural gas; to the extent those preferences change, customers who remain on the system will still pay to maintain the safety and reliability of the existing assets.
- Wealthier customers are more likely to electrify first, leaving natural gas customers, especially vulnerable customers in need, with higher natural gas bills to cover the costs of the remaining natural gas system. For instance, there are thousands of people that require assistance today from the Low Income Home Energy Assistance Program (LIHEAP) in our states: 79,000 in Colorado, 133,000 in Minnesota and nearly 200,000 in Wisconsin, and this is with only 20%-30% of eligible households receiving assistance from the program. Due to economic conditions alone, the Colorado LIHEAP budget increased almost 15% to $61.6 million from 2019 to 2020. Rising natural gas bills will require increased LIHEAP budgets with more families in need of energy assistance. We estimate that in Colorado if winter heating bills increased more than 40% because of electrification,[20] the state's LIHEAP budget would increase by 66%, costing almost $100 million annually.[21]
- Loss of customer choice. All-electric mandates take away the ability for customers to choose the type of energy they want to meet their needs.
- Higher carbon emissions. Depending on the electric system emissions intensity, full electrification of buildings today may not lead to net carbon reductions in the near term. Moreover, heating demand occurs in the winter when renewable electricity may be less available.
- More expensive carbon emission reductions. Mandatory electrification is a relatively expensive way to reduce carbon emissions on a dollar-per-ton basis.

Nevertheless, there are opportunities today to engage in voluntary beneficial electrification in a strategic way that avoids the potential, unintended consequences of the full or mandated electrification pathway.

We are seeking select opportunities with proven ability to lower costs, reduce carbon emissions, or optimize use of the power grid. Based on current technology, the opportunities ready for testing are water heaters, all-electric new builds, and combination cooling and heating systems.

New All-Electric Communities
With new builds, every aspect of the design and construction can focus on making electric space and water heating and cooking work for residents. Unlike retrofits, which can be expensive, the initial investment can start with the right building envelope and efficiency practices specific to electricity use. Plus, developers can avoid the expense of pipeline extensions and buildout of the natural gas system. By flattening load growth on the natural gas system, we also avoid the expense and environmental disruption of system expansions.

Building on our current ENERGY STAR® New Homes program that offers developers incentives for using energy efficient materials and appliances regardless of fuel type, we will work with developers and other stakeholders to identify the best projects and provide the choice to go all electric. These are new building developments where it is more difficult and costly to tap into the existing natural gas system, but there is easy access to a strong electric distribution network.

Grid Management Key to Successful Electrification

For electrification to reduce emissions cost-effectively, new electric devices must run on clean, low-cost energy. This requires that the devices interact with the power grid to operate during times when the lowest cost renewable energy is on the margin or in excess. For all our electrification programs, we have actively developed and deployed tools and management systems to operate fleets of appliances to optimize use of the power grid while meeting customer demand.

Electrification must be deployed carefully for the building sector to achieve desired emission reductions. We are seeking select opportunities with proven ability to reduce carbon emissions, maximize grid use and reduce costs. Based on current technology, those opportunities ready for testing are water heaters, all-electric new builds, and combination cooling and heating systems.

Water Heaters
Electric heat pump water heaters can increase the interaction between houses and the power grid to maximize the use of clean energy. If installed to operate with the power grid, they also offer immediate carbon benefits compared to natural gas water heaters.

Since water holds heat for extended periods of time, water heaters are essentially a distributed energy storage device. If connected to the power grid, these water heaters can be programmed to run when renewable energy is available or when electricity costs are lower. Under today's operations, electric water heaters would likely heat at night using available wind energy to provide hot water for the morning, allowing customers to help reduce emissions without sacrificing affordability, comfort or convenience.

By offering incentives, we plan to give customers the option to purchase new grid-enabled heat pump water heaters when it is time to replace their natural gas hot water heaters. For commercial and industrial customers with more space available, they can choose to do a full replacement or install an electric pre-heater on an existing natural gas water heater that will operate with available renewable energy.

Combination Cooling and Heating Solution
The primary alternative to natural gas heating is currently the electric air source heat pump (ASHP). ASHPs provide cooling similar to air conditioners and work in reverse for heating. They work well in warmer climates where the ASHP provides cooling and mild heating. However, in colder climates, deployment potential is limited because ASHP performance decreases significantly as outdoor air temperature drops. The only way to use ASHPs in cold

climates is with a backup heating source. An all-electric option would use electric resistance heat as backup, which is inefficient and more costly for customers and requires more electric infrastructure.

A targeted, more efficient solution for colder climates is a combination cooling and heating option that uses ASHPs with existing natural gas infrastructure as backup. We see an opportunity for customers upgrading air conditioning units to replace them with grid-enabled ASHPs to provide summer cooling as well as some level of winter heating. As the ASHPs lose efficiency and capacity on colder days, existing natural gas furnaces would kick in for backup heating. Customers would only replace one appliance and maintain their comfort levels while using our existing natural gas system as needed.

This combination cooling and heating option can be advantageous when paired with a smart thermostat. Smart thermostats enable energy providers to reduce operating cost and maximize the environmental benefits of using both electric and natural gas appliances while meeting the heating demands of the customer.

Lower Carbon Supply

Some energy uses are likely to remain dependent on natural gas because they are extremely difficult to electrify and some customers may prefer natural gas for specific purposes, such as cooking. In these instances, we need solutions that reduce the environmental footprint of natural gas and improve efficiency, including renewable natural gas and more advanced hydrogen or power to gas solutions.

Renewable Natural Gas

We plan to deliver renewable natural gas (RNG), along with the associated environmental attributes, to natural gas customers, subject to pricing, availability and demand. This supply option helps customers to reduce their carbon footprints without replacing heating systems or other appliances. To achieve the desired emissions benefits, the environmental attributes must be verified, tracked and attributed to customers.

The cost for RNG may be five to ten times higher than the price of natural gas — our research shows it varies significantly depending on the type of project, location and volume of gas produced. For RNG projects, additional analysis is needed to compare the cost with other reduction strategies.

Initially, we support an optional approach that allows interested customers to choose to use RNG without imposing the additional cost on the system and other customers. Early surveys suggest there is customer demand for RNG, and as the market grows, there may be opportunities to incorporate RNG resources system-wide to benefit all customers.

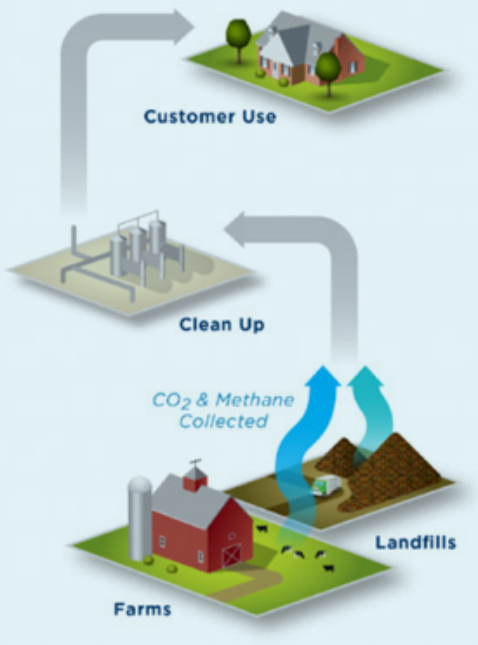
What is Renewable Natural Gas?

Renewable natural gas (RNG) is any pipeline-compatible, gaseous fuel derived from biogenic or other renewable sources that has lower lifecycle CO_2e emissions than geological natural gas. Today, most RNG is produced by capturing emissions from existing waste streams found in landfills, wastewater treatment plants and animal manure. This gas must be treated and cleaned, raising it to a standard where it can be injected into the existing system and used instead of geological or conventional natural gas.

RNG can also be produced using wind or solar power. The clean electricity powers an electrolyzer that splits water into hydrogen and oxygen. Hydrogen can be captured, stored and used or combined with a source of carbon to produce renewable methane. Power to gas also offers a long-term energy storage solution for renewable electricity.

It combines low to negative life cycle carbon emissions with the high-energy density, storage capability and transportability of natural gas. Because of this, it is highly valued for fueling cars and trucks, as well as meeting building heating needs.[22]

Based on life cycle impact assessments, greenhouse gas emission reductions vary depending on the source of RNG. RNG produced from landfills can be 44% less carbon intensive than conventional natural gas while RNG produced from wastewater sludge can be 77% less intensive and RNG produced from anaerobic digestion of food and waste and from dairy manure can be more than 100% less intensive.[23]



Source: American Gas Association, diagram does not include all sources of renewable natural gas, such as gas collected from wastewater treatment plants or hydrogen production.

Hydrogen Demonstration

Longer term, we expect to deploy new, advanced technologies such as hydrogen produced by carbon-free electricity. The innovation supports our electric system carbon goals while making use of the existing natural gas system. For example, hydrogen can be produced using renewable or nuclear electricity on the electric system and then injected into the natural gas system, reducing the carbon intensity of natural gas supplied to our customers while turning the natural gas system into a large-scale battery.

As a first step, we partnered with other energy providers and several Department of Energy national labs to study producing hydrogen with nuclear power. Through a $10 million grant from the U.S. Department of Energy, we are now implementing a pilot project to produce hydrogen with high-temperature steam electrolysis at one of our nuclear plants.

We plan to continue researching and testing the viability of directly injecting hydrogen into the natural gas system or conducting the full process to convert the hydrogen back to methane. To launch future pilot projects, we are working with policy makers and regulators.

Analysis Group Study on Potential Impacts of Mandated Electrification of Natural Gas Use in Colorado Homes

The way we transition to low-carbon natural gas solutions or electrification will have ramifications for customer costs and the use of electric and natural gas systems. To better understand these impacts, Xcel Energy contracted with Analysis Group (AG) to explore the implications of different approaches to reducing greenhouse gas emissions that result from residential customers' direct use of natural gas. AG was tasked with analyzing the impacts of alternative strategies, including switching to electricity for heating and other appliances, specifically for Xcel Energy's Colorado residential customers.

In Colorado, Xcel Energy's natural gas residential customers account for about 5% of statewide greenhouse emissions, or 5.7 million short tons of CO_2e. These emissions result from use of natural gas for space heating, heating water, cooking, drying clothes and other household energy needs. Reducing emissions from these activities can come from possible actions like switching from natural gas to electricity, making homes more energy efficient, and using lower carbon gas resources like RNG.

AG performed a 'what if' analysis to explore the impacts on customer costs, greenhouse gas reductions, cost per ton of emissions reductions, and system costs needed to provide reliable service under four scenarios that varied in terms of policy approach and emission reduction strategy:

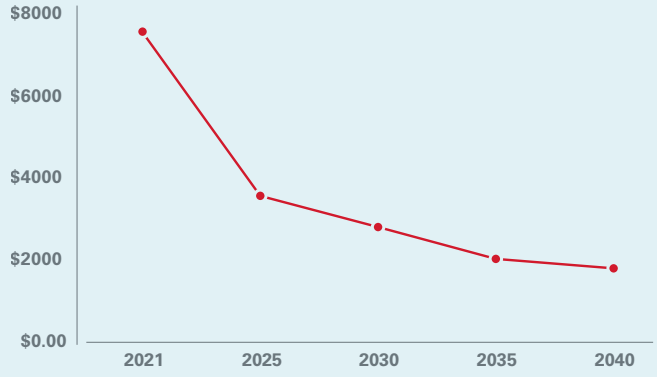
1. Mandatory policy that all new residential buildings may only be all-electric and that heating systems and appliances in existing residential buildings switch to electricity at end of appliance life
2. Mandatory policy that all new residential buildings may only be all-electric
3. Voluntary electrification of new and existing buildings, plus energy efficiency (EE)
4. Voluntary electrification of all new and existing buildings, plus RNG/low-carbon gas (H2)

The scenarios are not predictions of the future and were not assigned any probabilities of occurrence. Rather, they were designed to provide the boundary conditions about potential pathways to reducing emission reductions in homes.[24]

Overall, the study shows that the timing and design of policies to reduce greenhouse gas emissions in homes matter. Faster adoption of fuel switching introduces trade-offs in the outcomes for customers that electrify their homes and those that remain on natural gas, for emissions levels and cost of emissions reductions, and system costs.

A voluntary approach that allows customers to capitalize on upcoming improvements in appliance technologies and in electric system emissions can help reduce costs and achieve emissions reductions. In fact, the value proposition of electrifying homes improves starting in the mid-2020s as commercially available electric technologies for space and water heating and other appliances become more efficient and as Xcel Energy's electric system becomes less carbon intensive. The table below shows the estimated cost premium for a new customer to adopt and operate an all-electric home which is more than $7,000 today but would decrease quickly over the next few years.[25]

Cost Premium ($NPV) Per Residential Customer by Adoption Year (New-Builds Mandate)



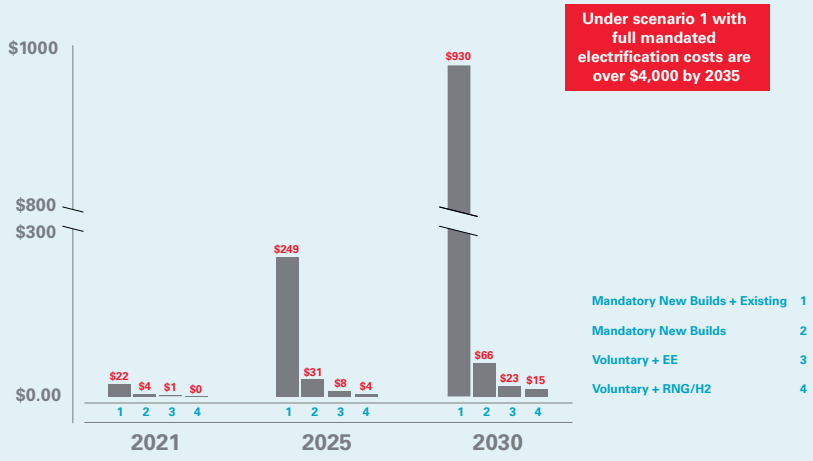
The study also analyzed the implications of the four scenarios' different levels of electrification for the need to add new electric system resources while also continuing to assure reliable natural gas service for those customers who remain on the natural gas system. The results highlight that large-scale electrification requires attention to several important operational, planning, investment and customer-impact considerations.

First, the full mandatory scenario would require millions of customers to make decisions about and take actions on switching out every natural gas appliance and energy system in their homes. Even if cost were not an issue, moving every customer from existing natural gas appliances to new electric ones would be a monumental undertaking for every homeowner or landlord of buildings that use natural gas. In the near term, other options like increasing reliance on renewable natural gas would allow the company to leverage current infrastructure and make changes at scale that will reduce emissions for the natural gas system.

Second, immediate electrification would lower revenues on Xcel Energy's natural gas system without commensurate reductions in the costs of maintaining the system. Meanwhile, the utility's electric business would experience increasing electric demand, revenues and capital costs over time. Presuming that lost revenues on the natural gas side would be recovered from remaining natural gas customers, those customers would see increased bills for gas delivery service over time. In the case of the full mandated scenario, the natural gas business would shrink quickly, delivering only one-third the natural gas now delivered by the mid-2030s but with continuing costs to maintain a safely operating natural gas system. Notably, the voluntary scenarios only add $15-$23 per year to non-participating customers' bills (as of 2030) in comparison to the $930 increase in the full mandated scenario.

Incremental Impact on Annual Bills of Residential Natural Gas Customers

(assuming lost revenues are recovered from customers who remain on the natural gas system)



Third, aggressive electrification would significantly change Xcel Energy's Colorado electric system, moving its peak energy needs to the winter as homes shift from natural gas to electric heating. In Colorado, Xcel Energy currently sees the most demand from customers in the summer and the utility is increasing its reliance on wind and solar power. A winter-peaking electric system that relies increasingly on renewable resources faces two realities: The system will need to add considerably more resources to meet the new winter peak demand because wind and solar projects do not produce as much power in the winter. In the absence of long-duration electric storage technologies, the system will need even more redundant capacity in the winter to make sure that electric supply can provide heat and light even during a sustained cold winter period. These two factors drive up electric system costs. With aggressive electrification, the electric system could shift to a winter peak in the 2030s, possibly earlier, and even before then, the electric system could require more than 4,000 megawatts of new capacity to cover the increased demand — more than a 50% increase in the system's capacity.[26]

The study shows mandatory electrification scenarios, which impose a higher cost, do not produce greater emissions reductions compared to voluntary approaches. Program and policy designs are important to helping drive down emissions reductions from homes while also maintaining affordable natural gas and electric utility bills. Further study is needed to better understand the sensitivity of the assumptions and system impacts of the electrification scenarios.

THE ROLE OF NATURAL GAS IN CLIMATE SCENARIO ANALYSIS

While we continue to pursue further study of the climate science, a review of representative climate scenarios suggests that the continued use of natural gas is consistent with the economy-wide greenhouse gas reductions needed to meet the Paris climate agreement goals. Similar to Xcel Energy's strategy, the scenarios discussed below suggest the natural gas system will continue to play a role in delivering critical energy, but will need to evolve to deliver new lower carbon supply and incorporate electrification and energy efficiency measures.

Moreover, the scenarios suggest that emissions reductions will vary across sectors of the economy, with sectors such as electricity reducing more than others, including buildings, where emissions reductions may be more challenging. Xcel Energy's combination electricity and natural gas strategy aligns with this outcome.[27]

The analysis below reflects a summary of high-level, global findings in publicly available scenarios from the International Energy Agency and the Intergovernmental Panel on Climate Change. These scenarios demonstrate the consistency of our natural gas strategy with achieving broader societal climate ambitions. We note that the scenarios often reflect data at the national or even global level and do not provide actionable guidance that can be applied to an individual company, so we believe there is a need for further expert analysis to better understand opportunities and pathways for the natural gas system that are consistent with climate science.

International Energy Agency's 2019 World Energy Outlook (IEA)
In the most ambitious climate scenario laid out by the International Energy Agency's 2019 World Energy Outlook, the Sustainable Development Scenario (SDS), natural gas distribution continues to play a role in delivering necessary energy even as the world achieves the Paris climate agreement's goal of limiting global temperature increase to 2 C above preindustrial levels, with an aspiration to limit this to 1.5 C.[28] Natural gas use under this scenario grows globally to the late 2020s and still plays a role in 2050.

Further, the SDS suggests that eliminating today's extensive natural gas networks could narrow the options for achieving future emissions reductions. Instead, electricity and natural gas systems can work in tandem to reduce emissions while continuing to deliver the energy customers rely on to heat their homes. The scenario finds that there are limits to how quickly and extensively electrification can occur, and that established natural gas networks can deliver as much as two times more energy than existing electric grids while also providing vital flexibility to maintain the reliability of energy delivery. The scenario does suggest that at some point, natural gas use may start to peak with new builds moving to electric systems.

In this scenario, over time natural gas networks are repurposed to blend different types of fuels, such as hydrogen or renewable natural gas. Using the network in new ways increases the diversity of energy types our customers can use while keeping the resiliency of the underground network.

The IEA also published a detailed study in 2019 about the role of buildings in the clean energy transition. This study highlighted the importance of timing the reduced use of natural gas in buildings with the increase in renewable electricity. If increased electricity use in buildings outpaces the decline in carbon intensity of electricity, emissions will not decrease.[29] Our plan aligns the timing of our emissions reductions on the power grid with the improved technology for all-electric new builds.

Intergovernmental Panel on Climate Change (IPCC)
The IPCC's 2018 Special Report on Global Warming of 1.5 C reinforces the findings above from IEA. The report notes that "in pathways limiting global warming to 1.5 C with no or limited overshoot, the electricity share of energy demand in buildings would be about 55%–75% in 2050 compared to 50%–70% in 2050 for 2 C global warming."[30] This illustrates that even in 1.5 C and 2 C scenarios, electricity will not provide 100% of building energy demand, so some level of natural gas will be needed, along with significant energy efficiency improvements. All three — electrification where beneficial, energy efficiency, and maintaining a natural gas system with lower carbon fuels — are key components of our strategy.

POLICIES FOR REDUCING EMISSIONS ACROSS THE SUPPLY CHAIN

To reduce greenhouse gas emissions associated with natural gas, we need new technologies or alternative fuels to meet customer demand for affordable, reliable energy for heating and cooking, especially during winter months. While there is no clear replacement for natural gas today, policy can work at the pace of technology to promote those solutions that are available now. It can also drive the incentives, pathways and innovation to develop new solutions to this challenging issue. Success depends on policy advancement in three areas:

- Regulatory pathways for electric and natural gas solutions
  - Dedicated beneficial electrification pathway
  - Building sector market for RNG
- Equitable cost sharing
- Innovation and investment in the most efficient natural gas system

Regulatory Pathways for Electric and Natural Gas Solutions
We are in the early days of solving the issue of carbon emissions associated with natural gas use and all solutions need to be considered. Rather than natural gas bans or mandates that may pick one specific solution, policy can create pathways for both beneficial electrification and low-carbon gas supply solutions.

Dedicated Beneficial Electrification Pathway
To promote beneficial electrification, we must move beyond traditional demand side management (DSM) programs to a dedicated policy construct for beneficial electrification. This includes three specific policy changes:

- Separating beneficial electrification from DSM policy
- Reforming DSM to remove fuel switching prohibitions and focus on carbon
- Equitable attribution of carbon emissions to motivate beneficial electrification

While traditional DSM programs focus on energy savings, beneficial electrification must meet three criteria: reduce greenhouse gas emissions, reduce customer costs or optimize use of the power grid. As an emerging technology, beneficial electrification may not meet the cost-effectiveness requirements of DSM programs, severely limiting the ability of utilities to pursue ambitious programs. Further, many states prohibit utilities from offering rebates for fuel switching, hamstringing a utility from offering any programs.

Given these challenges, a dedicated beneficial electrification pathway would support utility involvement and cost recovery, allow testing and deployment of emerging options, and address unique challenges of fuel switching. Under this policy, the utility would propose electrification programs through a dedicated budget and receive cost recovery under a rider or performance-based incentives. The programs would be evaluated on their own merits, based on the ability to achieve the three criteria rather than confined cost-effectiveness tests. This type of solution would also address challenges to electrification, such as the incremental cost to customers, managing system costs, stranded assets, and mitigating equity impacts for customers who remain on the natural gas system.

A dedicated approach would also allow policy makers the opportunity to consider more system-level beneficial electrification approaches. The DSM model largely relies on premise-level approaches to electrification, targeted to specific customers and solutions. As we move forward, there may also be opportunities at the system or community level to deploy electrification to the benefit of both the gas and electric system. For instance, avoiding significant build out of the gas system to reduce costs.

In the long-term, there could be the opportunity to merge DSM and beneficial electrification. Such a merger would require significant reform of DSM programs including using carbon reductions as the primary metric over energy savings and lifting the fuel switching prohibitions. With successful reform, programs could compete based on the ability to reduce carbon emissions cost effectively, putting beneficial electrification on an even playing field with traditional energy efficiency programs.

In promoting beneficial electrification, policy must also address the treatment of emissions across sectors and ensure the electric sector is appropriately motivated. While beneficial electrification reduces customer emissions from natural gas use, it could increase carbon emissions from the electric sector. Any increase in emissions as a direct result of electrification (from the building sector or otherwise) that creates a net greenhouse gas benefit should be equitably attributed to electric sector emissions budgets for purposes of achieving corporate or state-level goals. This attribution accounts for the pivotal role the electric sector plays in creating the desired net economy-wide reductions and will encourage utilities to pursue the most aggressive electrification programs possible.

Building Sector Market for Renewable Natural Gas

While there are clear opportunities for beneficial electrification, some end uses will be difficult to electrify due to customer preference or physical constraints, such as larger commercial and industrial uses, large heating loads in cold climates, or restaurants reluctant to forego natural gas cooking. For these uses, replacing natural gas with a lower-carbon gas supply will play a key role in reducing emissions. Policy is needed to promote the use of RNG in the building sector, in addition to transportation.

Currently, RNG and the associated environmental attributes are primarily going to the transportation sector because of the market created by the federal Renewable Fuel Standard and the Low Carbon Fuel Standard (LCFS) in California and the Pacific Northwest. Developers can make up the cost of their projects by selling environmental attributes for prices significantly higher than the production cost, making it difficult for other sectors to compete. In the case of the LCFS, the effect is that RNG projects are developed in many states, but all the environmental benefit flows back to California, limiting the ability of other states to meet aggressive carbon reduction goals.

Similar policies are needed to support use of RNG in the building sector. One solution is for states to adopt a standard carbon accounting and tracking mechanism to determine RNG carbon intensity. A uniform standard for RNG carbon intensity will allow utilities to determine carbon reductions from providing RNG to customers in place of conventional natural gas. Further, states can incentivize investment by allowing utilities to recover costs associated with RNG investments and approving RNG green tariff pilots. These types of policies signal that RNG is an important pathway to achieving state emissions reduction goals.

Equitable Cost Sharing

The basic premise of the utility compact is the obligation to serve any customer, meeting energy demands affordably and reliably. As a dual fuel utility, this means we must maintain and invest in the shared infrastructure that delivers electricity and natural gas. As of today, the demand for natural gas continues to grow, with very few customers switching to electricity, given the cost and infrastructure barriers associated with electrification. Regardless of potential future shifts in customer preferences, the utility requires regulatory certainty that investments can be recovered over the life of the assets.

Going forward, policy plays a key role in managing the costs and implications of a transition to electric heating options. Increased system costs will impact both electricity and natural gas customers if there is a large-scale shift to electric heating. On the electric side, significant capacity, transmission and distribution build-outs will be required to deliver significant amounts of energy to meet winter heating demand. On the natural gas side, there will be fewer customers left to pay the costs of maintaining a safe and reliable natural gas system. Those left on the natural gas system are more likely to be customers in need without the means to pay for new electric appliances or the cost increases to natural gas service.

Given that any transition to electrification of the building sector is likely to happen slowly over time, policy makers should create pathways today to manage these potential costs and to ensure they are equitably shared. Natural gas customers switching to electricity should pay all or some portion of any stranded costs given the infrastructure was built to serve their original energy needs. For dual fuel utilities, it may be appropriate for the electricity side of the utility to pay for some of the costs if the additional electricity sales are sufficiently beneficial to justify that payment. For instances where a customer may switch from one natural gas utility to a new electric utility, state regulators will need to establish a fair structure to compensate the customers of both utilities.

Innovation and Investment in the Most Efficient Natural Gas System
The primary obstacle today to reducing emissions from natural gas use is the lack of low-cost, effective technology substitutes for heating buildings, powering industrial processes, and generating firm dispatchable electricity. In part, this is due to limited investment in this type of innovation.

For the natural gas supply chain, innovation needs to focus on three areas:

- Continuous emissions monitoring to measure and reduce emissions from the production, processing and distribution of natural gas
- Low-carbon supply, such as RNG, hydrogen and ammonia, to reduce the carbon intensity of current end uses served by natural gas, and ultimately, transform the natural gas system into long-duration energy storage, like a battery
- Customer appliance efficiency and effectiveness, including natural gas and electric options

By focusing further investment in research, development and deployment opportunities in these three areas, we can continue to make the natural gas system as clean as possible and reduce emissions associated with natural gas use affordably. Moreover, this innovation would seek to optimize existing natural gas assets in which customers have already invested.

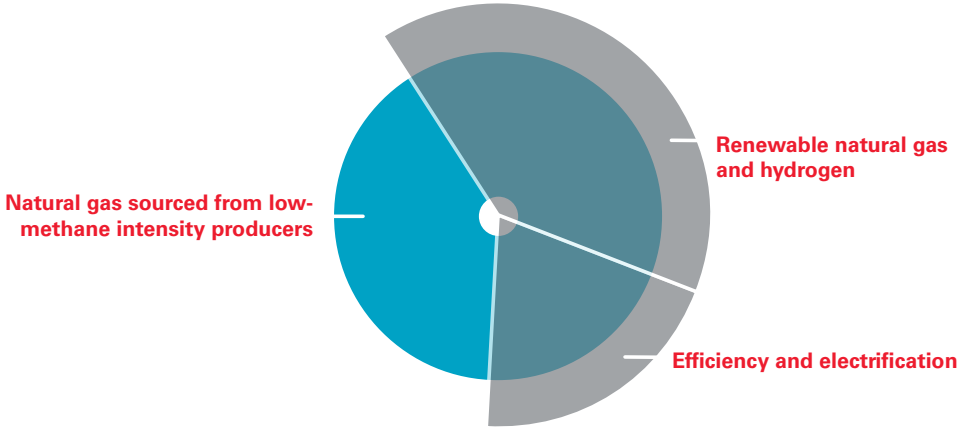
Like our advocacy for technology innovation for electricity, success in transforming natural gas will require considerable investment and further research and demonstration to develop viable technology solutions at the cost and scale that are needed. Federal and state policies must support this development. Through our natural gas strategy, we are signaling the need for innovation for both electricity and natural gas. In this way, utilities provide the market signal — the technology pull — from which the private sector and national laboratories and federal agencies can align their investments, research and assets.

CONCLUSION

Just as we have ambitious carbon reduction goals for our electricity business, we are equally committed to finding cost-effective solutions to reduce greenhouse gas emissions across the entire natural gas supply chain. This includes working with suppliers, helping customers and continuing to reduce emissions from our natural gas system. While there are no reliable, cost-effective substitutes for natural gas available today, investing in the policy and technology to drive innovation for both electricity and natural gas can deliver the solutions we need.

Under Xcel Energy's strategy, the natural gas system will evolve and change over time, delivering new fuels and serving new roles. Increased energy efficiency and electrification will offset the need for natural gas, and the system will deliver a mix of fuels, including renewable natural gas, hydrogen, synthetic gas and potentially new forms of energy. Remaining traditional natural gas will be sourced from suppliers with low methane emissions. Longer term, this pipeline and storage network can potentially serve as a long-duration battery — solving a major barrier for the electric sector to using more wind and solar energy. While we do not know the exact mix of these different solutions, we know that some combination will be needed to achieve our goals, as shown in the illustrative graph below.

Natural Gas in a Low-Carbon Future
(Illustrative Only)



We share the common goal of significantly reducing greenhouse gas emissions and building a clean energy future. Natural gas can play a continued role in this future: delivering new and cleaner forms of energy, enabling the increased use of renewable electricity, and supporting the continued heating needs of the economy. While some natural gas end uses will be converted to electricity, technological and policy innovation is required to ensure the remaining natural gas system is as efficient and clean as possible.

We are committed to the shared goal of reducing greenhouse gas emissions to achieve a low-carbon future. We believe there is a path forward for the natural gas system to play a role in this future: delivering new and cleaner forms of energy, enabling the continued growth of renewable electricity, and supporting the continued heating needs of the economy. While some natural gas end uses will be converted to electricity, technological and policy innovation is required to ensure the remaining natural gas system is as efficient and clean as possible.

REFERENCES AND NOTES

1 Natural Gas, The Facts. American Gas Association. 2019. https://www.aga.org/contentassets/03db82d44079403c9bfe7328a004d5ca/2019-natural-gas-facts.pdf

2 2015 Residential Energy Consumption Survey. Energy information Administration. 2017. https://www.eia.gov/todayinenergy/detail.php?id=30672; Xcel Energy values are based on internal survey of customers

3 Average gas sales from Nov 2018-March 2019 of 1,035,337 MMBtu/day, converted to MW. (1,035,337 MMBtu * 1,000,000 Btu/MMBtu ÷ 3413 Btu/kWh) ÷ 1000 kWh/MWH) ÷ 24 hours/day) = 12,640 MW

4 Average gas sales for January 2020 of 1,305,275 MMBtu/day, converted to MW. 1,305,275 MMBtu * 1,000,000 Btu/MMBtu ÷ 3413 Btu/kWh) ÷ 1000 kWh/MWH) ÷ 24 hours/day) =15,935 MW

5 Hoen, B.D., Diffendorfer, J.E., Rand, J.T., Kramer, L.A., Garrity, C.P., and Hunt, H.E., 2018, United States Wind Turbine Database (ver. 3.0.1, May 2020): U.S. Geological Survey, American Wind Energy Association, and Lawrence Berkeley National Laboratory data release, https://doi.org/10.5066/F7TX3DN0. Analysis assumes 1.8MW wind turbines, at winter capacity of 35%

6 Jadune, Paige, Colin McMilan, Daniel Steinberg, matteo Muraotri, Laura Vimmerstedt, and Trieu Mail. 2017. Electrification Future Study: End-use Electric Technology Cost and Performance Projections through 2050. National Renewable Energy Laboratory. https://www.nrel.gov/docs/fy18osti/70485.pdf

7 Xcel Energy. 2020-2034 Upper Midwest Integrated Resource Plan. July 1, 2019. Minnesota Public Utilities Commission Docket No. E002/RP-19-368. See Appendix F4, High Electrification Scenario Description

8 Natural Gas, The Facts. American Gas Association. 2019. https://www.aga.org/contentassets/03db82d44079403c9bfe7328a004d5ca/2019-natural-gas-facts.pdf

9 Annual Energy Outlook 2020. U.S. Energy Information Administration. 2020.. https://www.eia.gov/outlooks/aeo/

10 As of 2018; Combining commercial and residential. See U.S. Environmental Protection Agency, Inventory of U.S. Greenhouse Gas Emissions and Sinks, at https://www.epa.gov/ghgemissions/inventory-us-greenhouse-gas-emissions-and-sinks

11 Natural Gas, The Facts. American Gas Association. 2019. https://www.aga.org/contentassets/03db82d44079403c9bfe7328a004d5ca/2019-natural-gas-facts.pdf

12 Inventory of U.S. Greenhouse Gas Emissions and Sinks: 1990–2018. U.S. Environmental Protection Agency. 2020. https://www.epa.gov/sites/production/files/2020-02/documents/us-ghg-inventory-2020-chapter-executive-summary.pdf

13 Inventory of U.S. Greenhouse Gas Emissions and Sinks: 1990–2018. U.S. Environmental Protection Agency. 2020. https://www.epa.gov/sites/production/files/2020-02/documents/us-ghg-inventory-2020-chapter-executive-summary.pdf

14 Sources of Greenhouse Gas Emissions. U.S. Environmental Protection Agency. Accessed 2020. https://www.epa.gov/ghgemissions/sources-greenhouse-gas-emissions#:~:text=The%20largest%20source%20of%20greenhouse,Greenhouse%20Gas%20Emissions%20and%20Sinks

15 Natural gas largest source of greenhouse gas emissions in Minneapolis for the first time. City of Minneapolis. 2019. http://news.minneapolismn.gov/2019/08/27/natural-gas-largest-source-greenhouse-gas-emissions-minneapolis-first-time/

16 Direct Measurements Show Decreasing Methane Emissions from Natural Gas Local Distribution Systems in the United States; Brian K. Lamb, Steven L. Edburg, Thomas W. Ferrara, Touché Howard, Matthew R. Harrison, Charles E. Kolb, Amy Townsend-Small, Wesley Dyck, Antonio Possolo, and James R. Whetstone; Environmental Science & Technology 2015 49 (8), 5161-5169; DOI: 10.1021/es505116p

17 S. Rai, J. Littlefield, S. Roman-White, G. G. Zaimes, G. Cooney, T. J. Skone, "Industry Partnerships & Their Role in Reducing Natural Gas Supply Chain Greenhouse Gas Emissions – Phase 2," National Energy Technology Laboratory, Pittsburgh, June 30, 2020

18 Xcel Energy. 2020. Electric Vehicles. https://www.xcelenergy.com/programs_and_rebates/residential_programs_and_rebates/electric_vehicles

19 January 2020 natural gas sales equivalent electricity capacity was 16,000MW versus Xcel Energy's owned, net dependable electric capacity of 18,730 MW

20 Implications of Policy-Driven Electrification. American Gas Association. 2019. https://www.aga.org/research/reports/implications-of-policy-driven-residential-electrification/

21 In Colorado the 2019 LIHEAP budget was almost $54million; Estimate of 25% more families enrolling because of higher energy costs

22 Renewable Natural Gas. American Gas Association. https://www.aga.org/natural-gas/renewable/

23 Gasper, Rebecca and Tim Searchinger. The Production and Use of Renewable Natural Gas as a Climate Strategy in the United States. World Resources Institute. April 2018. http://www.wri.org/publication/renewable-natural-gas

24 The study was based on assumptions about future conditions such as changes in the number of Xcel Energy's Colorado customers over time, their demand for gas versus electricity, the emissions profile of the electric system, efficiency of gas and electric appliances and equipment, future natural gas and electric bills, the availability of renewable gas resources, and other variables

25 This cost premium reflects the following comparison: the cost of fitting out an average new dwelling unit with all electric appliances and heating systems, compared to the cost of gas-using appliances and heating systems; and the cost to purchase electricity to operate those devices and systems over their lifetimes, versus the cost to purchase natural gas to run the gas equipment; the cost premium reflects the present value of these cost differences (electric v. gas), and takes into consideration the relative energy-using efficiencies of electric appliances and heating systems versus those that use gas

26 Note: this calculation only considers residential conversions to heat pumps without back-up in 2030; actual conversion of the entire system would require additional capacity

27 World Energy Outlook 2019, International Energy Agency. 2019, Annex A, Electricity and CO2 Emissions: World, United States. https://www.iea.org/reports/world-energy-outlook-2019

28 World Energy Outlook 2019. International Energy Agency. 2019, pages 579-580. https://www.iea.org/reports/world-energy-outlook-2019

29 The Critical role of Buildings. International Energy Agency. April 2019. https://www.iea.org/reports/the-critical-role-of-buildings

30 IPCC, 2018: Global Warming of 1.5°C. An IPCC Special Report on the impacts of global warming of 1.5°C above pre-industrial levels and related global greenhouse gas emission pathways, in the context of strengthening the global response to the threat of climate change, sustainable development, and efforts to eradicate poverty [Masson-Delmotte, V., P. Zhai, H.-O. Pörtner, D. Roberts, J. Skea, P.R. Shukla, A. Pirani, W. Moufouma-Okia, C. Péan, R. Pidcock, S. Connors, J.B.R. Matthews, Y. Chen, X. Zhou, M.I. Gomis, E. Lonnoy, T. Maycock, M. Tignor, and T. Waterfield (eds.)]. See Summary for Policymakers, section C.2.4, available at https://www.ipcc.ch/sr15/

NET-ZERO VISION FOR NATURAL GAS

Xcel Energy®

TO OUR STAKEHOLDERS,

Xcel Energy has been a national leader in clean energy for more than 15 years—and today we are taking another giant step forward. We commit to net-zero emissions for our natural gas service by 2050—including a 25% reduction in greenhouse gas emissions by 2030.

Combined with our goals for delivering 100% carbon-free electricity by 2050 and enabling cleaner transportation through powering 1.5 million light-duty electric vehicles by 2030, Xcel Energy will continue its leadership position in the clean energy transition, for the company and our customers.

Most Xcel Energy customers rely on natural gas for heating their homes and businesses. It's a highly flexible and efficient fuel for millions of furnaces, boilers, water heaters, stoves and other appliances across the colder climates we serve in the Upper Midwest and Colorado. Natural gas remains the most affordable and flexible home and building heating option.

Delivering reliable, affordable, sustainable energy remains essential to our mission.

In this report, we present our vision for providing net-zero natural gas service to customers by 2050 and the strategy for achieving that commitment. This includes a set of strong interim emission reduction targets for our gas business to make sure we deliver progress along the way.

Operating the cleanest natural gas delivery system possible
We are accelerating our plans to reduce methane because the solutions for addressing this potent greenhouse gas exist today and offer the most cost-effective path to making a meaningful, near-term impact. By improving operations and using new technologies and processes for monitoring emissions and replacing equipment, we aim to operate a gas delivery system with net-zero methane emissions by 2030.

Similarly, we will require the same best practices from our natural gas suppliers. We are moving to purchase natural gas by the end of the decade only from suppliers with certified low methane emissions.

Offering customers solutions to drive carbon reductions
As part of our strategy, we will (1) expand conservation programs, (2) encourage gas to electric appliance switching, and (3) offer low-carbon gas alternatives such as hydrogen and renewable natural gas.

1) For our residential, business, industrial and income-qualified customers, we currently offer 60 programs for using natural gas more efficiently. Expanding our conservation programs is an important first step to help customers manage their energy costs.

2) We will provide affordable and effective options for customers interested in advanced electric appliances, including grid-enabled smart electric water heaters, air source heat pumps, and working with developers on new all-electric communities.

3) In addition, we will offer low-carbon gas alternatives, such as hydrogen and renewable natural gas, for customers to reduce emissions while keeping their gas service.

Jump starting innovation
By pursuing our goals, we can incentivize the development of new clean technologies and over time lower the cost of using them on a wider scale. Just as we were an early adopter of wind and solar power, helping to advance these technologies and lowering the cost, we can advance new building technologies and appliances and low-emission gas technologies.

We are launching pilot programs to test renewable natural gas, smart electric water heaters and air source heat pumps with customers, as well as testing both hydrogen production and blending of hydrogen in our natural gas system. Our focus on innovation also includes advancing technologies that enable carbon offsets and carbon capture because we will need these solutions to fully achieve net-zero emissions.

Delivering net-zero gas service by 2050 is an extremely challenging endeavor and will require a greater level of technology innovation compared to what is required from electricity, as well as customer adoption. Customer participation in this journey will be critical to its success. And maintaining reliability and affordability will be required to achieve our sustainability vision.

Our natural gas system is a valuable, shared asset in which we've all invested over many decades, and we plan to continue using it for decades to come. In fact, continuing the use of the existing gas infrastructure system will enable the clean energy future we all want as we plan to use it in new and different ways, by delivering low-carbon fuels and potentially providing large-scale energy storage. We recognize the continued use of natural gas includes some carbon emissions, which is why carbon offsets and capture technology are also part of the plan.

It will take all of us working together to make this vision a reality. We look forward to the ongoing collaboration and partnership that is essential to our success. I hope you will join us in this journey.

Sincerely,

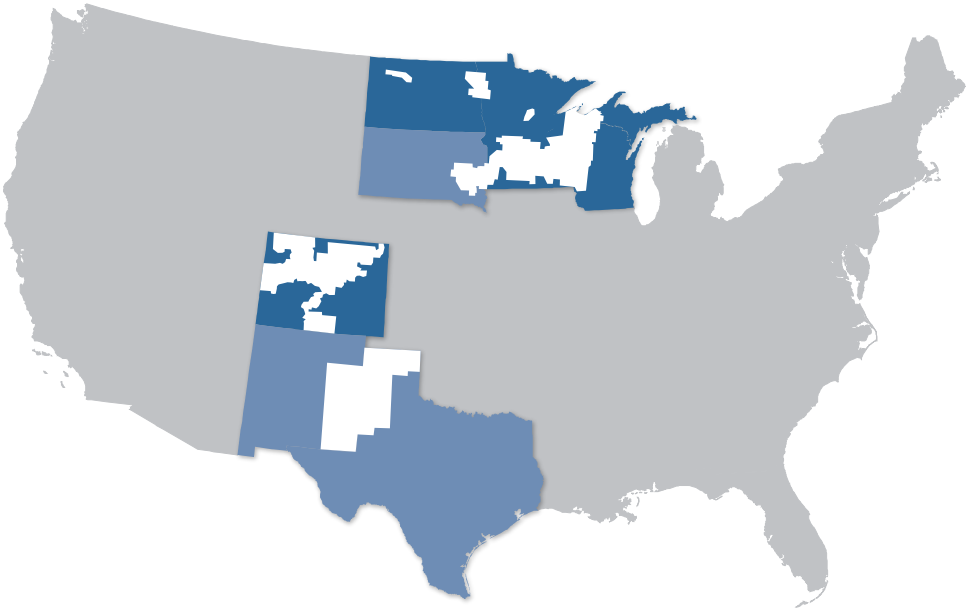
Bob Frenzel
Chairman, President and CEO

CONTENTS

ABOUT US

Xcel Energy is a major U.S. electricity and natural gas company headquartered in Minneapolis. We provide a comprehensive portfolio of energy-related products and services to 3.7 million electricity customers across eight Western and Midwestern states, as well as natural gas service to 2.1 million customers in five of our states.

Addressing climate change is a priority for many of our customers, communities, investors and other stakeholders, and is a priority for us as well. More information on our clean energy strategy, corporate governance and risk management is available at xcelenergy.com in our corporate reports, including Xcel Energy's Annual Report, Proxy Statement, Sustainability Report and Sustainability Summary (our EEI-AGA Environmental, Social, Governance and Sustainability Report).



FORWARD LOOKING STATEMENTS

The material in this report contains forward-looking statements that are subject to certain risks, uncertainties and assumptions. Such forward-looking statements include projections related to emission reductions, changes in our generation portfolio, planned retirements, and planned capital investments and are identified in this document by the words "aim", "aspire", "assuming", "believe", "could", "expect", "may", and similar expressions. Actual results may vary materially. Factors that could cause actual results to differ materially include, but are not limited to: general economic conditions, including the availability of credit, actions of rating agencies and their impact on capital expenditures; business conditions in the energy industry: competitive factors; unusual weather; effects of geopolitical events; including war and acts of terrorism; changes in federal or state legislation; regulation; actions of regulatory bodies; and other risk factors listed from time to time by Xcel Energy in its Annual Report on Form 10-K for the fiscal year ended Dec. 31, 2020 (including the items described under Factors Affecting Results of Operations) and the other risk factors listed from time to time by Xcel Energy Inc. in reports filed with the SEC.

Vision for Net-Zero Natural Gas Service

Xcel Energy is executing an ambitious environmental leadership strategy. Under our corporate priority to lead the clean energy transition, we were the first major U.S. power company in 2018 to announce a vision for delivering 100% carbon-free electricity by 2050, with an aggressive interim goal to reduce carbon emissions 80% by 2030 (from 2005 levels). We are making progress, having reduced carbon emissions 51% since 2005 from the electricity provided to customers as of 2020. Through ambitious energy resource plans, we have proposed pathways within our states for achieving our interim carbon reduction goal. Longer term, we have initiated and joined efforts to advance the policy and technology that are needed to deliver on our carbon-free vision for electricity by 2050.

In 2020, we expanded our clean energy vision to create a multiplier effect in the transportation sector, announcing a goal to power 1.5 million electric vehicles by 2030 in the places we serve. It is one example of how a clean power grid is the enabler of a low-carbon economy. By achieving this commitment by 2030, we expect to reduce 5 million tons of carbon each year from the transportation sector, the nation's largest source of greenhouse gas emissions.

Now, in 2021, we are committing to an even greater challenge, with a vision of providing net-zero gas service by 2050. This includes emissions from our natural gas operations, as well as the emissions from suppliers and customer gas use, which are outside our management. Our interim goals are to accelerate reductions in methane, achieving net-zero methane on the gas delivery system by 2030, and to reduce all greenhouse gas emissions associated with the supply, delivery and use of natural gas 25% by 2030 (from 2020 levels), as we aim for net-zero greenhouse gas emissions by 2050.

Our industry leading goals will drive emissions reductions across sectors of the economy that are the largest greenhouse gas emitters in the United States: electricity, transportation and natural gas use in buildings. Combined, they also put Xcel Energy on track to become a net-zero energy provider by 2050.

Where we aim to be
Our strategy for natural gas will reduce methane and carbon dioxide emissions associated with the production, delivery and final use of natural gas in buildings.

- By 2030, our goal is to reduce greenhouse gas emissions 25% below 2020 levels, achieve net-zero methane emissions and exclusively purchase certified natural gas for gas distribution and power generation.
- By 2050, our vision is to deliver gas service to customers with net-zero emissions.

What's included in the goal
There are two greenhouse gases that make up most emissions across the natural gas supply chain. Methane — a potent greenhouse gas—can be released during the production, transmission and distribution of natural gas. Carbon dioxide is emitted when natural gas is burned in equipment or appliances, such as furnaces and water heaters. Our goal covers emissions associated with the entire natural gas supply chain for procuring and delivering natural gas to customers and the combustion associated with customer use.

These emissions are split into three categories for purposes of driving emissions reductions:

1. Methane on our system (Scope 1): The only portion of emissions in our direct management are direct emissions associated with methane released from the Xcel Energy distribution and transmission system until it reaches the customer's meter at a home or business.

2. Upstream Methane (Scope 3): Methane emissions that are outside of our management and associated with the production of natural gas. This category includes methane associated with natural gas that we purchase for generating electricity as well as serving natural gas customers.

3. Customer Carbon (Scope 3): Carbon dioxide emissions occur on the customer premise, and therefore, are owned by the customer and outside the management of the gas distribution company. This category includes residential and small commercial customers who need our help to successfully reduce emissions but excludes large customers that are required to report their own emissions to the Environmental Protection Agency as well as transport customers who purchase and use natural gas from another provider.

With this comprehensive supply chain approach, our natural gas strategy directly reduces emissions across multiple sectors, including oil and gas, electricity and buildings. Through the potential use of renewable natural gas, we can also indirectly help reduce emissions in waste and agriculture.

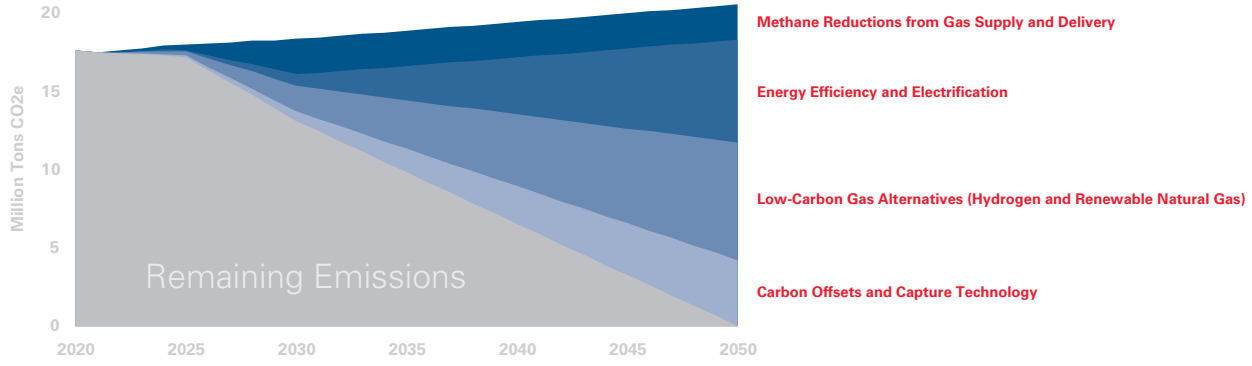
Our plan to get there
Our plan is not a single action or initiative. We will work with regulators to develop the most cost-effective and efficient plans in each of our states. Based on recent legislation passed in Colorado and Minnesota, we have a policy pathway to develop and propose detailed plans in those states. While the ultimate mix of measures will depend on 2030 market conditions, we do know our plans will include a variety of measures listed below.

Approach	Strategic Reduction Opportunities
Reducing Methane Emissions from Production and Delivery	Purchasing natural gas with a certified low methane emissions rate
	Operational and pipe material changes to reduce emissions on our system
	Leak detection and repair
Reducing Use	Expanding energy efficiency
Beneficial Electrification	All-electric new builds
	Grid-integrated, managed electric water heaters
	Heat pump systems with natural gas backup for cooling and heating
	District geothermal and other emerging technologies
Lower Carbon Supply	Renewable natural gas
	Hydrogen
	Power to gas
Negative Emissions	Carbon offsets
	Direct air capture

As we determine the best mix of these strategies for emissions reductions purposes, our primary guideposts are affordability and reliability. While the magnitude and scale of each individual measure is unknown, we do plan to include a mix of both electrification and low-carbon gas alternatives. We anticipate some level of fossil gas will remain on the system given the need for that energy-dense critical resource, and we will need to use carbon offsets, carbon capture or other negative emissions to ensure emissions are offset elsewhere in the economy. Given the results of the climate science and the high costs of reductions from this sector, we believe net zero is a more affordable, reliable path for our customers rather than trying to eliminate a resource so critical to cold climates.

The illustrative vision below demonstrates one potential pathway our diverse mix of reduction measures can work together to achieve net-zero emissions. Working with energy consulting firm, E3, we will continue to explore the optimal size and magnitude of each measure as technology availability, cost and performance evolves.

Illustrative Pathway to 2050



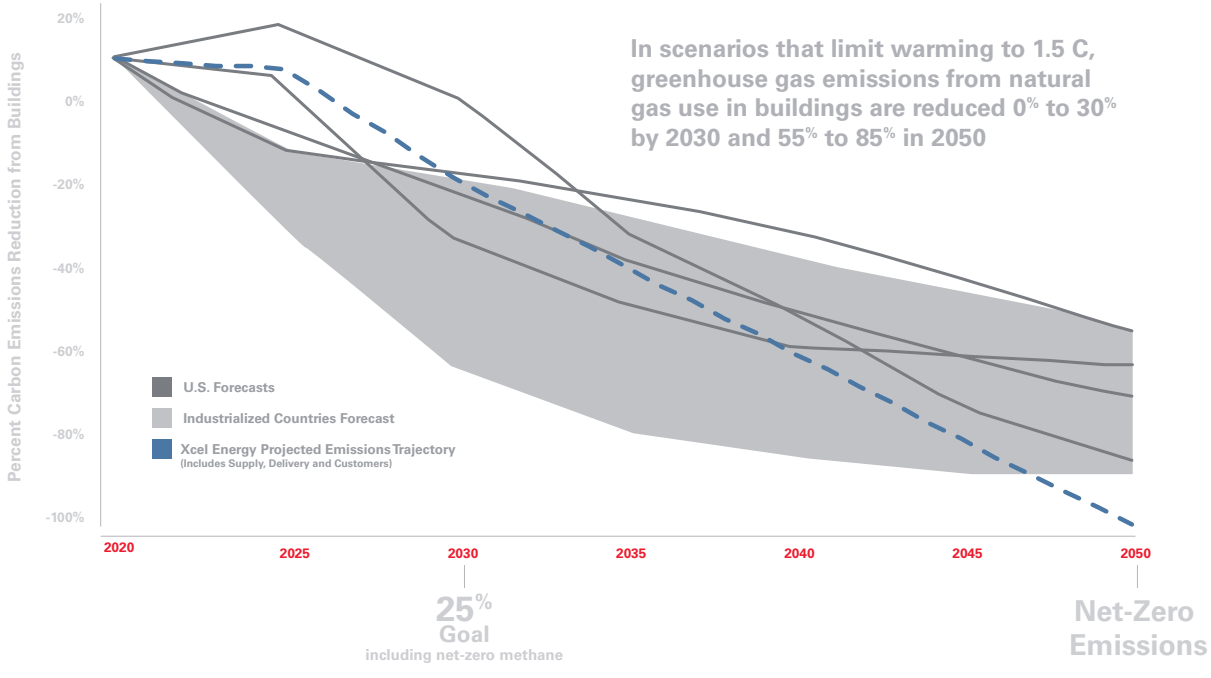
This illustration is an example of the potential paths Xcel Energy will take to achieve net-zero gas service by 2050; we will develop specific plans working with our states

Grounded in the Climate Science

To test our strategy against the science, we engaged the same climate modeling expert who completed a study of our electric system and is a lead author for the Intergovernmental Panel on Climate Change (IPCC). Dr. Brian O'Neill and a team from Pacific Northwest National Laboratory evaluated the future use of natural gas in buildings in scenarios that are likely to achieve the current goal of the Paris climate agreement to limit global temperature increases to well below 2 degrees Celsius and the aaspiration of 1.5 degrees Celsius.

The study demonstrates that the climate science indicates natural gas usage in buildings continues, even in scenarios that achieve the global temperature requirements of the Paris agreement and the aspiration of 1.5 C. Further, this scenario analysis concluded:

- There is continued but declining emissions from natural gas use in commercial and residential buildings in the United States through 2050 because deep retrofits of the building sector are more expensive than other mitigation strategies across the economy;
- Continued natural gas use spans a broad range of possible pathways depending largely upon deployment of negative emissions technologies; and
- Natural gas use in buildings is the last sector of the economy to eliminate carbon emissions, especially in colder states that are more dependent on natural gas for heating.



We have also conducted internal analysis of other key climate studies that further confirm these results. Both the International Energy Agency's 2019 World Energy Outlook Sustainable Development Scenario (SDS)[1] and the 2018 IPCC Special Report[2] make clear that natural gas use continues as the world achieves the Paris agreement's goal of limiting global temperature increase to 2 C above preindustrial levels and aspiration to limit this to 1.5 C. The IPCC report specifically states that "in pathways limiting global warming to 1.5 C with no or limited overshoot, the electricity share of energy demand in buildings would be about 55% to 75% in 2050 compared to 50% to 70% in 2050 for 2 C global warming."

The SDS scenario finds that:

- Natural gas use grows globally into the late 2020s and still plays a role in 2050;
- Eliminating today's extensive natural gas networks could narrow the options for achieving future emissions reductions, and instead, electricity and natural gas systems can work in tandem to reduce emissions while continuing to deliver the energy that customers rely on to heat their homes; and
- Established natural gas networks can deliver as much as two times more energy than existing electric grids while also providing vital flexibility to maintain the reliability of energy delivery.

What is Net Zero?

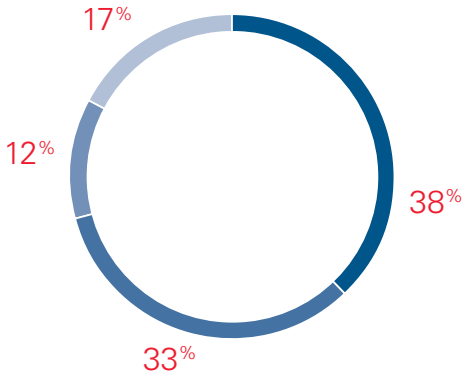
As defined by the Intergovernmental Panel on Climate Change, "net zero emissions are achieved when anthropogenic emissions of greenhouse gases to the atmosphere are balanced by anthropogenic removals over a specified period."[3]

To achieve net-zero gas service by 2050, we will implement direct reduction measures for the production, delivery and use of natural gas to the maximum extent possible. If those technologies are unable to deliver zero emissions within our timeframe, we will reduce the equivalent of any remaining emissions elsewhere, through negative emissions technologies such as carbon offsets, direct air capture or other technologies that become available to reach net zero, consistent with the science.

Natural Gas is a Critical Energy Service

Natural gas continues to be demanded by customers across the country for a variety of uses and also by Xcel Energy customers. Throughout the United States, 75 million customers rely on natural gas to meet essential needs, such as space and water heating, cooking, clothes drying, vehicle fueling and industrial processes.[4] According to the Energy Information Administration, about half of the nation's homes use natural gas for heating. This includes 85% of Xcel Energy customers in parts of Colorado, Michigan, Minnesota, North Dakota and Wisconsin.[5] The chart below demonstrates the multitude of uses for natural gas across the United States.[6]

Natural Gas Use in the United States



38% Electricity Generation

33% Industrial Processes (heating and feedstock for chemicals, fertilizers and other products)

12% Commercial Use (space and water heating, refrigeration equipment, cooking, clothes drying, and combined heat and power equipment)

17% Residential Use (space and water heating, cooking and clothes drying)

Natural gas is an energy workhorse. If we were to fully transition to an all electric system, we would have to grow our electricity generation and distribution peak capacity by at least 2 1/2 times and make significant changes to design an electric system that could meet the demands of our coldest days—temperatures at or below what we experienced (-28 F) during the 2019 polar vortex. On these days, wind and solar resources are less available than during summer months, thereby decreasing the ability to serve the load with renewable energy and likely driving the need to build out more generation that is available on-demand.

THE NATURAL GAS SUPPLY CHAIN

Our distribution system is just one piece of a much larger natural gas supply chain that meets customer demand for natural gas.

1) Production
Producers identify resources and extract natural gas from underground deposits.

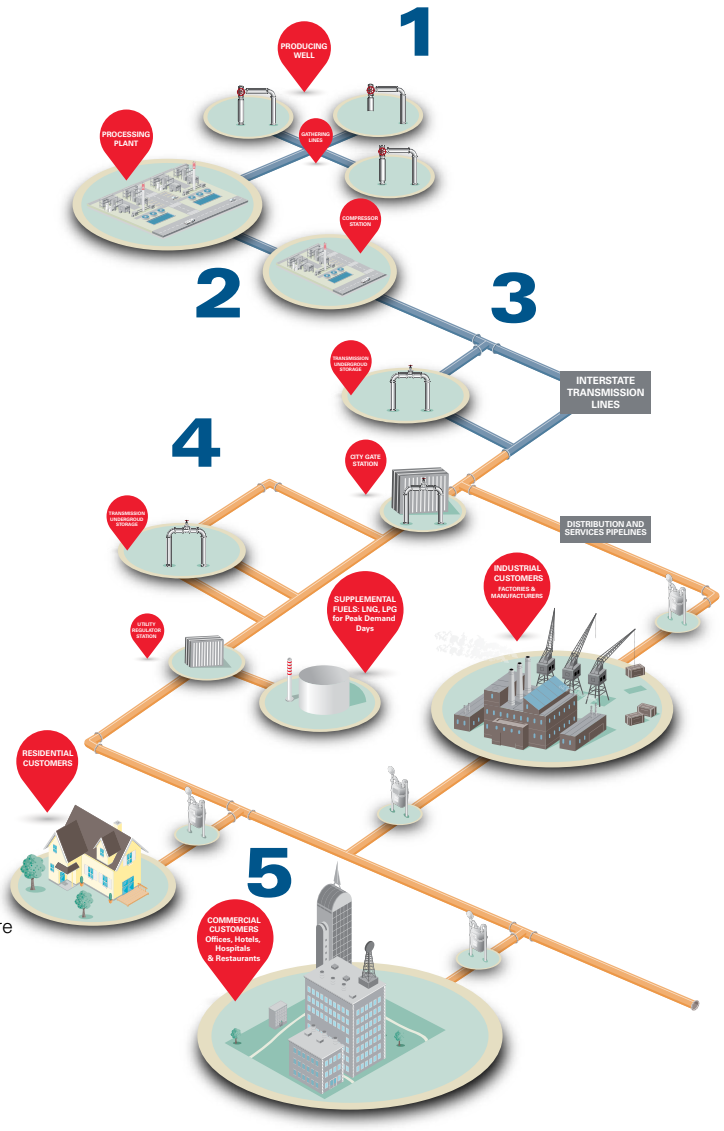
2) Processing
Natural gas is processed to remove impurities and stripped down to a composition that customers can safely use. While some limited processing is done in the field at the wellhead, natural gas is transported from the field through gathering pipelines to plants where larger scale processing takes place.

3) Transmission and Storage
Natural gas is transported from processing plants to consumer markets through an elaborate transmission pipeline system. Compressor stations located along the system compress natural gas to higher pressures, allowing more volume to travel through the pipelines and facilitating flow between locations.

To balance production supply, which generally flows at a consistent rate throughout the year, and customer demand, which can vary dramatically hour to hour and season to season, natural gas is stored in underground fields throughout the country. These storage fields use depleted gas reservoirs, aquifers and salt caverns. On a smaller scale, natural gas can be stored as liquefied natural gas (LNG) and compressed natural gas (CNG).

4) Distribution
Xcel Energy operates a distribution system that delivers natural gas to customers. The interconnection point between the interstate transmission system and distribution system is commonly referred to as the "city-gate." Distribution systems are generally comprised of smaller diameter pipelines operating at lower pressures compared to transmission systems. They also include compressor stations and storage.

5) Customers
Millions of customers use natural gas to fuel their essential heating, cooking, transportation and other needs.



Xcel Energy Resources for Serving Customers

- Xcel Energy is the nation's 10th largest natural gas provider, based on customers, serving 2.1 million homes, businesses and industrial users.
- Xcel Energy does not produce natural gas but purchases about 580 Bcf of natural gas per year from 58 producers or marketers.
- With more than 35,600 miles of distribution pipelines, our primary business is delivering natural gas to customers.
- We own nearly 2,200 miles of transmission pipelines and 16 compressor stations.

Strategies to Reduce Emissions Across the Supply Chain

While our 2050 net-zero vision for gas and interim goals are new, we are building on an established, comprehensive strategy to reduce emissions across the supply chain. We strive to operate the cleanest natural gas delivery system possible, while influencing our suppliers to do their part and helping customers reduce their emissions associated with natural gas use.

Our Sustainability Report and the chart below demonstrates some of our long-standing engagements and efforts across the supply chain.

Long-standing Engagements to Address Emissions Across the Natural Gas Supply Chain

METHANE EMISSIONS		CARBON EMISSIONS
Producers and Suppliers	**Xcel Energy System**	**Customers**
		
Purchase gas with low emissions	**Reduce system emissions**	**Enable new technology**
Require reporting transparency and disclosure	Invest $1.4 billion in ongoing upgrades, keeping our methane emissions rate below 0.2%	Increase conservation
Pilot purchases of natural gas from suppliers with low methane emissions	Continue reductions through EPA Natural Gas STAR and Methane Challenge	Launch voluntary programs for all-electric zero-carbon new communities, smart water heaters, combination cooling-heating
Support ONE Future goal to limit the industry's methane emissions to 1% or less by 2025	Pursue renewable natural gas and hydrogen blending	Offer customers a low-carbon gas choice

Purchasing natural gas with certified low methane emissions
As a natural gas distribution company, we depend on suppliers for the natural gas we deliver to customers. While we do not manage our suppliers' activities, we can use our relationships and purchasing to influence suppliers to improve transparency and adopt best practices for reducing methane emissions. We have discussed with our suppliers ways to enhance disclosure and transparency or emissions within the complicated framework of markets that deliver gas to our systems. Our work to date can be found in the Sustainability Report, under Leading the Clean Energy Transition.

With our new goal, we are committing that by 2030 all the natural gas we purchase will be produced with the lowest methane emission rate possible. As a conservative estimate, our current supply is purchased at approximately a 1% emissions rate per throughput,[7] equating to about 3 million short tons (MST) for both our natural gas and electric businesses. By 2030, we aspire for the emissions intensity of our natural gas purchases to be well below the national average, at approximately 0.25%. We expect that the methane intensity of our supply in 2030 will be third-party certified and that emission sources will be directly measured or continuously monitored.

Operating the cleanest natural gas delivery system possible

Methane from our gas delivery system is a very small portion of the emissions from the whole natural gas system on a CO2e basis, but our system is the one part of the supply chain that is directly and fully under our management, and we must do our part. We have consistently executed on operational updates, including pipeline replacements, to reduce the methane on our system and have engaged in leading stakeholder groups to push ourselves to improve disclosure and reduction practices, including participating in EPA's voluntary Natural Gas Star and Methane Challenge programs, and ONE Future. Under our ONE future commitment, we are keeping our methane emissions intensity below 0.22%. More information about our previous work can be found in our Sustainability Report.

A net-zero distribution system by 2030 will require new technology to detect, measure and mitigate emissions along with improved management practices. We will base success on a thorough inventory of our emissions, giving our stakeholders assurance that all emissions are in fact being addressed. We will implement as many direct reduction measures as affordable and possible, but there may be a limit to how much methane we can eliminate. As such, we are focused on a net-zero goal, meaning we may need to purchase carbon offsets to hit our 2030 target.

Project Canary Certified Natural Gas (CNG) Pilot Program

In May of 2021, Xcel Energy announced its first purchase of certified natural gas for the distribution system in Colorado.

- The gas methane intensity is certified and monitored by Project Canary and produced by Crestone Resources.
- Xcel Energy began this pilot in June of 2021 and has been purchasing a small volume of gas from Crestone that has been certified by Project Canary to have low methane intensity (<0.25%).
- The pilot currently provides enough natural gas to heat about 20,000 homes per day and will continue through winter of 2022.
- The Colorado School of Mines will conduct a third-party assessment of the avoided methane emissions associated with this natural gas procurement.

Empowering customers to reduce their carbon emissions through voluntary programs
Our customer strategy starts by leveraging existing opportunities using affordable and reliable technologies available today and then driving new technology progress over time. We encourage participation in voluntary customer options to allow customers to manage their emissions and energy use at the timeline that makes sense for them.

Reducing Natural Gas Use

We will work continuously with customers to ensure they have access to the most efficient options and to drive the market toward more advanced solutions. Energy efficiency improvements are achieved through a combination of sophisticated equipment controls, more efficient equipment and building envelope upgrades.

Whether through traditional approaches such as building weatherization or emerging solutions, energy efficiency will play a critically important role in both achieving our emissions goals and managing the cost of the energy transition. We are long-recognized leaders in energy efficiency, and already offer 60 programs across our service areas that help customers reduce emissions in their homes and businesses. We will continue to work with our customers, regulators and others to expand these programs and drive simultaneous emission reductions and cost savings. We will also develop both enhanced and entirely new offerings that help customers meet their energy needs in the cleanest, least-cost manner possible without compromising the safe and reliable service they expect and deserve.

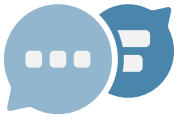
Beneficial Electrification

While electrification reduces natural gas customers' emissions, we want to maintain customers' ability to select the fuel that best meets their needs. Maintaining a voluntary approach allows us to work collaboratively with our customers to avoid the negative impacts of an overly aggressive approach to electrification, such as high costs, significant power grid build-out, equity concerns, and in some cases higher emissions. We can also ensure all electrification measures meet the emerging definitions of beneficial electrification: reduce emissions, keep customer bills low and optimize use of the power grid.

We continue to build on our comprehensive energy efficiency programs, which now include electrification, and support the development of new policy pathways for electrification planning. Among the technologies and programs that we believe have the potential to play important roles are:

- All-electric new community design
- Grid-enabled electric heat pump water heaters
- Air source heat pumps and combination heating and cooling solutions (as partial replacement for combustion-based systems)
- District geothermal heating

We plan to develop and scale these programs as we learn more about customer adoption, as technology improves and as the market develops. Success will require active participation from many diverse stakeholders, including our customers, policymakers, advocates and others.



Accelerating Heat Pump Adoption through Workforce Development
With the advent of newly approved fuel switching and the 2021-2022 Colorado Demand Side Management Plan with beneficial electrification rebate offerings, engagement with HVAC (heating and cooling) contractors began. Selling a heat pump instead of an air conditioner, so it can be used to heat a home most of the time as well as cool a home, is a paradigm shift from decades of traditional HVAC contractors' business practices. Xcel Energy has hosted heat pump webinars to residential HVAC contractors and their distributors or manufacturers on a variety of topics, as well as to residential trade allies to help them learn heat pump-specific sales and marketing best practices.

In addition, Xcel Energy, the Colorado Energy Office, the cities of Denver and Boulder, three other Colorado utilities, and two industry groups, all members of the Beneficial Electrification League of Colorado (BEL-CO), hosted a heat pump webinar for HVAC distributors and manufacturers. This powerful 20-minute video version built the case for the inevitability of heat pump adoption.

Colorado: Customer Electrification Pilot Programs

Air Source Heat Pump Demonstration
To confirm equipment capability and customer satisfaction, Xcel Energy is conducting a two-phase, three-year Air Source Heat Pump Demonstration pilot, funded through an estimated $1.5 million from the company's demand side management budget.

- During Phase 1, Xcel Energy will test cold climate air source heat pumps in a climate-controlled National Renewable Energy Labaoratory (NREL) facility in Boulder, Colorado.
- In Phase 2, cold climate air source heat pumps will be installed in approximately 40 existing residential buildings throughout the greater Denver Metro and Summit County areas.

All-electric New Community Developments
To confirm equipment capability and customer satisfaction, Xcel Energy is conducting a two-phase, three-year Air Source Heat Pump Demonstration pilot, funded through an estimated $1.5 million from the company's demand side management budget.

Building on long-standing programs to provide efficiency rebates for new homes, such as Energy STAR New Homes in Colorado, we are exploring whether it is possible to promote the development of all-electric communities as part of our demand side management programs.

- Through comprehensive planning, we may be able to identify opportunities to avoid expensive investments in gas extensions, especially in rural or mountain communities.
- By starting early in the design process, we can also work to ensure the new homes are built with the proper insulation, weatherization practices, and electric service in mind to allow electric heating options to work more efficiently and allow customers to buy the right electric appliances from the start.

Smart Water Heater Demand Management Program
The Smart Water Heater demand management program, launched in Colorado in early 2021, allows Xcel Energy to control enrolled heat pump water heaters to maximize the use of low-cost renewable energy and reduce peak system demand.

- Xcel Energy will be able to raise the temperature of the water in the tank above the normal setpoint when high levels of renewable (and low cost) energy are available on the power grid.
- Warmer water in the tank allows the water heater to deliver more hot water later in the day when less renewable energy is available on the power grid. Using mixing valves, customers will still always receive the same temperature water when they turn on the faucet.
- The Smart Water Heaters will also reduce peak load on the power grid when electric demand is highest, for example on hot summer afternoons.

Once approved, a similar program will be launched in Minnesota. Xcel Energy is adapting to current conditions as the industry continues to experience production delays for water heater control modules.

Minnesota: Residential HVAC Optimization Pilot

Xcel Energy has proposed a Residential HVAC Optimization Pilot in Minnesota as part of our recent Load Flexibility Petition filing. It includes the following fuel switching and optimization measures:

- Standard electric resistance water heater to smart(er) heat pump water heater (HPWH)
- Gas water heater to smart HPWH
- Gas furnace to standard air source heat pump (ASHP) with gas backup
- Gas furnace to cold climate ASHP with gas backup
- Gas furnace to ground source heat pump (GSHP) with no gas backup necessary

The pilot will encourage customers to install HPWH and ASHP equipment by offering a monthly electric bill credit (rather than the traditional rebate) to reduce the impact of increased electric consumption. The pilot combines both fuel switching and water heater demand response. For HPWH, the incentives are higher if customers also enroll in a load shifting program to control their loads during times of peak demand and shift their loads to times of lower demand and lower generation cost, which often coincide with times of higher wind resource availability. The proposed pilot is awaiting action from the Minnesota Public Utilities Commission.

Delivering Lower Carbon Gas

Allowing alternative fuel supply options helps customers reduce their carbon footprints without replacing heating systems or other appliances. To achieve the desired emissions benefits of alternative fuel use, the associated environmental attributes must be verified, tracked and attributed to customers.

We anticipate these gas alternatives will include a mix of renewable natural gas from sources such as landfills, animal farms and wastewater treatment facilities, along with hydrogen produced from carbon-free electricity. In addition to displacing fossil natural gas from our system, renewable natural gas has an added benefit of avoided methane emissions from these sources. For example, dairies that are not currently capturing methane for an end use can produce renewable natural gas, avoiding harmful methane emissions and providing a low-carbon gas for Xcel Energy's customer use. Hydrogen can be produced using renewable or nuclear electricity on the electric system and then injected into the natural gas system, reducing the carbon intensity of natural gas supplied to our customers and potentially turning the natural gas system into a large energy storage system for wind and solar power.

Minnesota: Carbon-Free Hydrogen Production Demonstration

Xcel Energy is partnering with Idaho National Laboratory to install a pilot-scale electrolyzer that will produce hydrogen at our Prairie Island Nuclear Power Plant in Minnesota.

- Funding is supported by a $10.5 million grant from the Department of Energy (DOE).
- The pilot is anticipated to be in service in 2023.
- It will demonstrate the ability to use on-site electricity generated at nuclear plants to create hydrogen without emitting greenhouse gas emissions and will help moderate nuclear plant electricity output to accommodate increasing, variable amounts of renewable generation output to the power grid.

Participation in the HyBlend Multi-Utility Research

Xcel Energy is participating in a research pilot led by the National Renewable Energy Lab (NREL) and Gas Technology Institute to address the technical barriers associated with blending hydrogen in natural gas infrastructure, called HyBlend.

- This two-year pilot will start in fall of 2021 with $15 million in funding contributed by the Department of Energy Office of Energy Efficiency and Renewable Energy and 20 participating utilities.
- The pilot will use expertise from utilities, research consortia, academia and national labs to determine if hydrogen can be safely blended in existing natural gas systems to reduce the carbon intensity of fuel delivered to customers.
- It is anticipated that some of the demonstration pilots could occur in Colorado due to proximity to NREL.

Colorado: Renewable Natural Gas Customer Pilot

As part of the Colorado Renewable Energy Standard plan, Xcel Energy will propose a voluntary customer program where, for a monthly price premium, a customer could reduce the carbon intensity of their natural gas use with a combination of renewable natural gas and carbon offsets. If approval is received, the program is expected to be offered to residential and small commercial customers beginning in 2022.

Hydrogen Blending Pilots for Electric Generation and Gas System

Across our service area, we are looking for investment opportunities in green hydrogen, subject to technical, economic and regulatory considerations.

- We are evaluating more than a dozen early-stage pipeline hydrogen projects.
- These projects consider green hydrogen blending for use in natural gas electric generation facilities, injection into the gas distribution system for delivery to customers, or both.
- We are also considering opportunities to pair hydrogen production with on-site solar and/or wind where possible.

Carbon Offsets and Direct Air Capture

Given the real technology barriers to achieving affordable reductions in this sector, offsets might be required in the short-term and carbon capture in the long-term as an important tool to achieving our vision.

A carbon offset is a reduction in emissions of carbon dioxide or other greenhouse gases made to compensate for emissions elsewhere. One carbon offset represents one metric ton of carbon dioxide equivalent (CO_2e) avoided or sequestered.[8] In any use of offsets, we will ensure the offsets meet specific minimum requirements such as being additional to business-as-usual practices, permanent, conservatively quantified, not claimed by more than one entity to compensate for emissions, and calculated based on sound, peer-reviewed methodologies and equations. In addition, we will prioritize offsets that are derived from projects that deliver local or regional jobs and other benefits such as improved resiliency, air quality and health outcomes, and projects that represent sustainable development activities in line with climate solidarity principles that consider potential risks to local and indigenous populations. The carbon offsets furthermore need to be issued and retired by an established and reputable carbon offset registry.[9]

The pathway to 2050 is even more uncertain and we see the need to develop all potential pathways to get there including the potential use of carbon capture technologies, such as direct air capture. As discussed, the climate science suggests that natural gas will continue to be used to meet critical customer needs long into the future and carbon capture or negative emissions technologies will be required if the sector is to go beyond those required emissions reductions. While direct air capture is expensive today, we believe these technologies will be necessary to fully achieve a net-zero goal in the building sector.

Tracking and Reporting our Progress

Xcel Energy maintains transparent, public reporting of greenhouse gas emissions from our electricity and natural gas businesses. We compile our greenhouse gas measurements based on federal, state and voluntary reporting protocols. We are also a founding member of The Climate Registry (TCR), a nonprofit organization established to develop a consistent standard for measuring and reporting greenhouse gas emissions. Under TCR's general reporting protocol, we have reported and obtained third-party verification of our greenhouse gas emissions from both our electricity and natural gas operations going back to 2005.

For the natural gas system, our emissions are largely covered by EPA's Greenhouse Gas Reporting Protocol. Under this program, we report methane emissions from our natural gas operations. Starting in 2022, we plan to perform additional voluntary reporting using the Natural Gas Sustainability Initiative Methane Intensity Protocol and ONE Future. These voluntary reporting programs go beyond the requirements of the EPA Greenhouse Gas Reporting Protocol by including additional emissions sources and sources below the EPA reporting threshold.

We make adjustments to EPA customer emissions to account for weather and which customers are included in state policy. We will be working with regulators to refine this approach.

In addition to the EPA and voluntary reporting programs, we are working to develop a comprehensive inventory for the methane on our distribution system based on direct measurement of emissions and system specific emission factors. The inventory will provide increased transparency relative to existing EPA reporting and capture emission reductions from management practices and technologies we are implementing on our system. We estimate customer emissions using weather normalized throughput data at an average combustion emissions rate.

We exclude large customers and transport customers, pursuant to state policy, and ensure our values are aligned with EPA reported values. As this is an emerging area of greenhouse gas accounting, we will be working with regulators to refine this approach.

Driving Change: Recent Policies Enacted in our States

In Colorado, the Clean Heat Standard (SB2021-264) was recently adopted along with a suite of supportive policies addressing emissions from buildings. The Clean Heat Standard requires that natural gas service providers submit plans to the public utilities commission to achieve greenhouse gas reduction targets of 4% by 2025 and 22% by 2030 from a 2015 baseline. Plans may include a comprehensive range of measures including beneficial electrification, gas DSM, renewable natural gas, hydrogen and recovered methane from coalbeds, wastewater, solid waste and pyrolysis. The bill provides for a 2.5% annual bill impact protection for customers. In addition, the natural gas provider may bring forward renewable natural gas and hydrogen projects eligible for cost recovery. Importantly, the bill also requires the public utilities commission lift the prohibition on providing rebates for customers to switch from natural gas to electricity, allowing more programs for beneficial electrification. The plans are due in August of 2023 and the public utilities commission has already initiated work to establish the rules for evaluation.

Similarly, Minnesota developed a flexible and forward-looking approach in the passage of the Energy Conservation and Optimization (ECO) Act and the Natural Gas Innovation Act (NGIA). ECO represents the most comprehensive overhaul to Minnesota's energy efficiency framework since 2007. In addition to retaining the historic focus on energy efficiency as a core goal for customer-funded programs, the bill also creates a technology-neutral, efficiency-focused framework for allowing fuel switching, creating opportunities to achieve significant emission reductions at the customer point of use. The NGIA allows natural gas providers to file innovation plans to begin reducing emissions from their natural gas service through additional efficiency, electrification, district energy, renewable natural gas, and green hydrogen. This bill includes cost cap provisions of 2% increases to protect customers. While NGIA does not specify an emissions target, it creates the pathway for natural gas service providers to evaluate, submit and gain approval for emissions reductions pathways for customers.

In Wisconsin, the Governor's Task Force on Climate Change and the Public Service Commission of Wisconsin's Zero Carbon Investigation explored options to begin reducing carbon emissions from natural gas use through efficiency and electrification. Recommendations included increasing energy use reduction goals and funding for the statewide energy efficiency program, Focus on Energy, and aligning energy efficiency programs and offerings to align with carbon reduction goals.

Our vision is consistent with these new policies as we seek the common outcome of delivering emissions reductions while maintaining affordability and reliability. These policies set an important foundation for a regulatory pathway to cost recovery on new and emerging emissions reduction activities, thereby, creating an avenue for us to implement a low-carbon vision for natural gas delivery and use. We are excited to work with our regulators to develop plans and finalize the complex policies and regulations needed for success.

Policy enabling the transition
While state policies established a much-needed process to consider long-term natural gas emissions reductions, additional policy is needed to drive continued technology development and incorporate all possible solutions to this large-scale transition. We see the need for policy to drive emissions reductions across three areas:

- Affordable and reliable heat service
- Technology Innovation
- Customer choice and engagement

Affordable and Reliable Heat Service
We can only move at a pace that enables us to continue providing reliable energy to customers.
Except for energy efficiency, the technologies currently available to reduce emissions from direct use of natural gas come at a premium. In addition to driving innovation to bring these costs down, we will need to closely manage the costs and pursue voluntary options to avoid a transition that is too rapid or costly for customers. We will only pilot and scale those programs that make the most economic sense for our customers. Our initial focus is on our methane emissions and certified natural gas purchases, which are the lowest cost emissions reductions available today.

Energy reliability is a fundamental requirement. We know the amount of energy that natural gas provides is not easily replaced by renewable electricity or other sources, and because of this, natural gas will remain a fundamental service for customers well into the future.

Technology Innovation
The electric power industry has made significant advancements in technology, from the remarkable story of wind and solar over the last 20 years to the current focus on carbon-free, 24/7 technology with the Carbon-Free Technology Initiative[10] and EPRI Low-Carbon Resources Initiative.[11] To the extent heating load is converted to the electric system, carbon-free dispatchable generation will be critical to ensuring we can accommodate new load without increasing electric emissions.

We need the same innovation, even more expeditiously, for the natural gas system. A focus on research, development and deployment is needed to advance a wide variety of technologies to reduce emissions from the use of natural gas, including:

- Continuous emissions monitoring to measure and reduce emissions from the production, processing and distribution of natural gas
- Low-carbon supply, such as renewable natural gas, hydrogen and ammonia, to reduce the carbon intensity of current end uses and, ultimately, transform the natural gas system into a provider of long-duration energy storage
- Appliance innovation including both natural gas and electric options that can communicate with the power grid
- New forms of carbon offsets and carbon capture, such as direct air capture technologies

Enabling Customer Choice and Engagement
As stewards of both the gas and electric grids, two of the economy's greatest physical assets, we are best positioned to transition our energy systems into a low carbon future given our visibility into our system and our obligations to identify the lowest cost resources and serve all customers equitably.

As this transition gets underway, we see the need for policy to enable regulatory structures that support beneficial electrification, certified natural gas, and the judicious use of carbon offsets among other strategies. This will require the right incentives for innovation and piloting of a portfolio of clean energy strategies.

Policy will need to reflect the need for programs and incentives for customers to manage their own emissions. This includes ensuring energy efficiency policies are aligned with carbon reductions as outcomes, fast-tracking regulatory approval of new customer program offerings and rewarding gas distribution company innovation in advanced building codes and practices. Finally, emissions reductions achieved through these voluntary customer programs must be applied toward the achievement goals tied to state policies such as Colorado's Clean Heat Standard and Minnesota's NGIA.

Conclusion

Our vision for the future is that the natural gas distribution system will continue to be one of our nation's most valuable assets, for both delivering heat and enabling a low-carbon economy. By integrating new forms of energy such as hydrogen and renewable natural gas, the natural gas distribution system enables emissions reductions in the building sector and other sectors, such as agriculture and electricity.

Continued investments will be required to maintain the safety and integrity of this valuable energy asset and to meet customer demand. Meanwhile, the entire supply chain must find emissions reductions opportunities across the board. We are well on our way to implementing a comprehensive strategy that will:

- Leverage buying power upstream
- Operate the most efficient distribution system possible
- Empower our customers to manage their emissions

Our vision will not happen overnight, and it will not happen alone. As described by Bob Frenzel, Xcel Energy's president and CEO, it will take all of us working together. We hope you will join us in our net-zero vision for Natural Gas.

References and Notes

1 World Energy Outlook 2019, International Energy Agency. 2019, Annex A, Electricity and CO2 Emissions: World, United States. https://www.iea.org/reports/world-energy-outlook-2019; World Energy Outlook 2019. International Energy Agency. 2019, pages 579-580. https://www.iea.org/reports/ world-energy-outlook-2019

2 IPCC, 2018: Global Warming of 1.5°C. An IPCC Special Report on the impacts of global warming of 1.5°C above pre-industrial levels and related global greenhouse gas emission pathways, in the context of strengthening the global response to the threat of climate change, sustainable development, and efforts to eradicate poverty [Masson-Delmotte, V., P. Zhai, H.-O. Pörtner, D. Roberts, J. Skea, P.R. Shukla, A. Pirani, W. Moufouma-Okia, C. Péan, R. Pidcock, S. Connors, J.B.R. Matthews, Y. Chen, X. Zhou, M.I. Gomis, E. Lonnoy, T. Maycock, M. Tignor, and T. Waterfield (eds.)]. See Summary for Policymakers, section C.2.4, available at https://www.ipcc.ch/sr15/

3 https://www.ipcc.ch/sr15/chapter/glossary/.

4 Natural Gas, The Facts. American Gas Association. 2019. https://www.aga.org/ contentassets/03db82d44079403c9b fe7328a004d5ca/2019-natural-gas-facts.pdf

5 2015 Residential Energy Consumption Survey. Energy information Administration. 2017. https://www.eia.gov/ todayinenergy/detail.php?id=30672; Xcel Energy values are based on internal survey of customers

6 U.S. Environmental Protection Agency 2015 Residential Energy Consumption Survey

7 The estimate of 1% emissions rate per throughput is supported by the U.S. EPA estimates. https://www.epa.gov/sites/default/files/2021-04/documents/us-ghg-inventory-2021-main-text.pdf?.

8 See for example Factsheet_Carbon-Offset-Project-Types-and-Categories.pdf (forest-trends.org).

9 Eligible carbon offset registries include: American Carbon Registry, Climate Action Reserve, Gold Standard, and Verified Carbon Standard.

10 https://www.carbonfreetech.org/Pages/default.aspx.

11 https://www.gti.energy/hydrogen-technology-center/focus-areas/low-carbon-resources-initiative/.

Xcel Energy®