

**BEFORE THE MINNESOTA OFFICE OF ADMINISTRATIVE HEARINGS
600 NORTH ROBERT STREET
ST. PAUL, MINNESOTA 55101**

**FOR THE MINNESOTA PUBLIC UTILITIES COMMISSION
SUITE 350
121 SEVENTH PLACE EAST
ST. PAUL, MINNESOTA 55101-2147**

Katie Sieben	Chair
Joseph Sullivan	Vice Chair
Hwikwon Ham	Commissioner
Audrey Partridge	Commissioner
John Tuma	Commissioner

**In the Matter of the Application of Greater
Minnesota Gas, Inc. for Authority to
Increase Rates for Natural Gas Utility
Service in Minnesota**

OAH File No. 71-2500-40492

MPUC Docket No. G-022/GR-24-350

**INITIAL BRIEF OF THE MINNESOTA
DEPARTMENT OF COMMERCE**

May 8, 2025

TABLE OF CONTENTS

INTRODUCTION	1
ARGUMENT	1
I. COST OF CAPITAL – RETURN ON EQUITY	5
A. The Department’s ROE Was Developed Through Rigorous Financial Analysis and Then Adjusted to Reflect GMG’s Unique Risks.	6
B. GMG’s Request to Retain Its ROE From 2009 Despite Material Changes in Relevant Circumstances Is Unsupported and Unreasonable.	12
C. GMG Seeks to Double Recover Flotation Costs By Increasing Its Authorized ROE By 15 Basis Points For Flotation Costs	16
II. REVENUE, EXPENSES, AND RATE BASE ITEMS—CONTESTED ISSUES	17
A. GMG’s Proposed Test Year Increase to Auto and Truck Expense of 62% Over Actual 2024 Expense is Unreasonable and Unsupported by the Record.	18
B. GMG’s Proposed Test Year Increase to Education and Training Expense of 192% over Actual 2024 Expense is Unreasonable and Unsupported by the Record.	19
C. GMG’s Proposed Test Year Increase to Postage Expense of 49% over Actual 2024 Expense is Unreasonable and Unsupported by the Record.	20
D. GMG’s Proposed Test Year Increase to Repair and Maintenance Expense of 58% over Actual 2024 Expense is Unreasonable and Unsupported by the Record.	21
E. GMG’s Annual Incentive Program Expense Should Be Reduced to Reflect the Commission’s Practice of Capping Recovery of Short-Term Incentive Pay Tied to a Utility’s Financial Performance.	22
F. Consistent with the Commission’s Long-Standing Practice, GMG’s Long-Term Incentive Compensation Should be Removed From the Test Year.	23
G. GMG’s Sales Forecast Should Be Updated to Include A Representative Level of Annualized Sales and Associated Revenue From New Customers.	24

H.	Sales Forecast — GMG’s Request To Update Its Test Year Customer Count Forecast Based on 2024 Year-End Actuals Without Changing Its Other Revenues and Expenses Is Inappropriate and Should Be Denied.....	26
III.	RATE DESIGN.....	27
A.	The Parties’ CCOSS Results in This Case Provide Limited Guidance Due to GMG’s Refusal to Follow Commission Orders, Its Provision of Inaccurate Information, and Its Failure to Provide Timely Notification of Its Errors. 12.....	28
B.	Apportionment of Revenue Responsibility and Rate Design	37
IV.	ADDITIONAL ISSUES.....	39
A.	The Commission Should Deny GMG’s Requested Income Tax Rider.	39
B.	The Department Recommends that the Commission’s Order Include Requirements Intended to Improve the Accuracy of the Company’s Filings and Facilitate Efficient Regulatory Review.....	41
	CONCLUSION.....	42

INTRODUCTION

The Public Utilities Commission should reduce Greater Minnesota Gas, Inc.’s proposed rate increase by approximately \$500,000. The Minnesota Department of Commerce established through its expert testimony that GMG overstated its 2024 expenses, which were used as the starting point for the proposed 2025 test year, and did not provide adequate support for many of its often substantial proposed increases in test year expenses. The Commission should further adjust GMG’s revenue apportionment and rate design consistent with the Department’s recommendations to create more equitable rates for customers. Finally, the Commission should adopt the Department’s proposals to facilitate more effective and efficient review of the Company’s filings in future rate cases.

ARGUMENT

Like every other rate-regulated utility, GMG bears the burden to prove its proposed rates are just and reasonable.¹ GMG must prove the facts required to sustain its burden by a fair preponderance of the evidence.² But the fair preponderance of the evidence standard applied in rate-case proceedings differs from that applied by courts in civil cases.³ It is insufficient for the produced evidence to simply sustain the utility’s position. The utility’s position also must be consistent with the Commission’s statutory responsibility to ensure just and reasonable rates for customers.⁴ The utility always retains the burden of proving the reasonableness of the proposed rate change. No rebuttable presumption of reasonableness is created by a utility’s submission of

¹ Minn. Stat. § 216B.16, subds. 4–6 (2024).

² *In re N. States Power Co.*, 416 N.W.2d 719, 722 (Minn. 1987).

³ *Id.*

⁴ *Id.*

evidence on an issue.⁵ In addition, Minnesota law mandates that any doubt as to whether the utility satisfied its burden of proof should be resolved in favor of the consumer.⁶

This case is GMG’s fourth rate case since GMG first grew large enough to come under the Commission’s jurisdiction in 2003.⁷ In GMG’s 2004, 2006, and 2009 rate cases, GMG requested rates that would not result in recovering its full calculated revenue deficiency.⁸ Although the Company was not requesting recovery of its full revenue deficiency in those cases, the Department still scrutinized its rate case filings and made recommendations for financial adjustments and additional requirements for future case filings.⁹ In each case, GMG agreed to the Department’s recommendations.¹⁰

⁵ *Id.* at 725–26.

⁶ Minn. Stat. § 216B.03 (2024).

⁷ Ex. DOC-201 at 67 (Addonizio Direct).

⁸ *Id.* at 67–68.

⁹ See *In re. Pet. by Greater Minn. Gas, Inc. for Auth. to Establish Natural Gas Rates in Minn.*, MPUC Docket No. G-022/GR-04-667, ADMINISTRATIVE LAW JUDGE FINDINGS OF FACT, CONCLUSIONS, RECOMMENDATION AND MEMORANDUM at 3 (Feb. 18, 2005) (eDocket No. [2015951](#)) (The Department “ha[d] several recommendations for the Company to follow on a going-forward basis. The Department took issue with a number of specific expenses claimed by the Company.”); *In re. Appl. of Greater Minn. Synergy, Inc., for Auth. to Increase Rates for Natural Gas Serv. in the State of Minn.*, MPUC Docket No. G-022/GR-06-1148, FINDINGS OF FACT, CONCLUSIONS, RECOMMENDATION AND MEMORANDUM at 3, 23 (July 30, 2007) (eDocket No. [4737679](#)) (“The Department made a careful analysis of the Company’s filing, and recommended certain adjustments to various types of costs and revenues. ... The Department also made a number of recommendations regarding record keeping and data collection on a going-forward basis.”); *In re. Appl. Of Greater Minn. Gas, Inc. for Auth. to Increase Rates for Natural Gas Serv. in the State of Minn.*, MPUC Docket No. G-022/GR-09-962, FINDINGS OF FACT, CONCLUSIONS OF LAW, AND ORDER at 2, Order Point 1 (Aug. 19, 2010) (eDocket No. [20108-53637-01](#)) (2009 GMG RATE CASE ORDER) (noting that the Department “recommended numerous adjustments to GMG’s calculations” and adopting the recommendations made by the Department in its comments); *In re. Appl. Of Greater Minn. Gas, Inc. for Auth. to Increase Rates for Natural Gas Serv. in the State of Minn.*, MPUC Docket No. G-022/GR-09-962, Comments of the Minnesota Office of Energy Security at 2–3 (Apr. 13, 2010) (2009 GMG Rate Case Department Comments) (eDocket No. [20104-49098-01](#)) (explaining the Department “conducted an item-by-item review of each proposed adjustment,” and made financial and procedural recommendations).

¹⁰ *Id.*

When the Department reviewed GMG’s filings and recommended appropriate adjustments in this case—as it has always done, and as it is required to do—GMG was “stunned.”¹¹ GMG described the Department’s routine review of its proposed test year expenses and revenues for accuracy, reasonableness, and adequate support as “utter disregard” for GMG and its ratepayers.¹² GMG argued that its filing of a “bare bones” case that “requested only that it be allowed to maintain its currently approved return on equity” and did not “propos[e] any changes to rate design” was intended to minimize rate case expense for ratepayers.¹³ Intent, however, is not impact. GMG’s “bare-bones” filing often failed to include even minimum levels of support for many proposed expenses and revenues and omitted others,¹⁴ neglected to fulfill filing requirements ordered by the Commission in previous rate cases,¹⁵ and included errors that reflect misunderstanding of key ratemaking principles.¹⁶

The Department’s role is to develop a record that will assist the Commission in setting just and reasonable rates. Contrary to GMG’s stated belief, the Department has attempted to assist

¹¹ Ex. GMG-112 at 1 (Palmer Rebuttal).

¹² *Id.*

¹³ *Id.* at 4.

¹⁴ *See, e.g.*, Ex. DOC-213 at 19–20 (Johnson Direct) (addressing GMG’s unsupported request for short-term and long-term incentive pay); *id.* at 24 (noting that GMG omitted late fees from its test year revenue); Ex. DOC-215 at 20 (Uphus Direct) (noting that GMG’s initial filing offered no explanation for its proposed test year education and training expense, which was a sharp increase from its 2024 budget).

¹⁵ Ex. DOC-204 at 11 (Shah Direct) (noting GMG’s failure to comply with the Commission’s orders in the Company’s 2004, 2006, and 2009 rate cases); Ex. DOC-206 at 32-33 (Zajicek Direct) (noting that GMG did not make the changes to its CCOSS ordered by the Commission in its 2009 rate case).

¹⁶ *See, e.g.*, GMG-104 at 30 (GMG Initial Filing, Volume 3 at Schedule D-1) and Ex. GMG-103 at 37 (Palmer Direct at 12) (requesting full annual recovery of its flotation costs—a one-time expense—on equity for which it has already recovered those costs); Ex. DOC-207, MZ-D-6 at 3 (Zajicek Direct Attachments) (GMG Response to DOC IR 702) (stating that GMG did not incorporate ordered changes into its CCOSS because it demonstrated customer class cost causation that did not align with GMG’s preferred rate design).

GMG in successfully navigating the rate case process and accurately identifying appropriate test year expenses and revenues.¹⁷ In cases where the Department's efforts resulted in the development of a record that reasonably supported a claimed expense or revenue, the Department has supported GMG's proposals.¹⁸ Where GMG did not meet its burden to show its proposals were reasonable and consistent with just and reasonable rates, the Department recommended adjustments to GMG's proposed test year in conformity to these statutory requirements. Accordingly, for the contested issues, the Department recommends the following:

- Authorizing a return on equity (ROE) of 9.65%;
- Making adjustments relating to GMG's proposed test year distribution expenses, general and administrative expenses, annual incentive program expense, and long-term incentive compensation;
- Annualizing GMG's sales forecast and revenues for new customers;
- Rejecting GMG's request to make an isolated adjustment to its test year sales revenue;
- Adjusting GMG's rate design to reflect an updated allocation of transportation costs;
- Denying GMG's requested income tax rider; and,

¹⁷ See Ex. DOC-216 at 29–30 (Johnson Surrebuttal).

¹⁸ See, e.g., DOC-203 at 2 (Addonizio Surrebuttal) (noting the parties' agreement on the Department's calculation of an appropriate flotation cost adjustment for GMG's long-term debt); Ex. DOC-216 at 8–10 (Johnson Surrebuttal) (noting the parties' agreement not just on gas storage inventory after GMG provided information supporting its calculations and underlying contracts, but on the increased expense GMG proposed in rebuttal testimony).

- Ordering GMG to comply with requirements related to future rate case filings, which are intended to improve the accuracy of the Company’s filings and facilitate a more efficient regulatory process.

Together, the Department’s recommendations result in a test year revenue deficiency of \$925,408.

I. COST OF CAPITAL – RETURN ON EQUITY

To determine just and reasonable rates, the Commission must consider, among other things, the need of the public utility to earn a fair and reasonable return on the investment on “property used and useful in rendering service to the public.”¹⁹ The rate of return includes both the cost of debt and return on equity (ROE). The rate of return also includes a determination of a reasonable ratio of each type of financing the utility uses, because the cost of financing varies with equity being the most expensive. This ratio is called the capital structure.

The U.S. Supreme Court addressed reasonable returns for utilities in two seminal cases, *Hope*²⁰ and *Bluefield*,²¹ which Minnesota has followed.²² Broadly, the Court held that a public utility is entitled to rates that will permit it to earn a return equal to investments with corresponding risks and uncertainties.²³ But a public utility has “no . . . right to profits such as are realized or anticipated in highly profitable enterprises or speculative ventures.”²⁴ “Rates which enable the company to operate successfully, to maintain its financial integrity, to attract capital, and to compensate its investors for the risks assumed” will be considered reasonable.²⁵ The reasonable

¹⁹ Minn. Stat. 216B.16 subd. 6 (2024).

²⁰ *Fed. Power Comm’n vs. Hope Nat. Gas Co.*, 320 U.S. 591 (1944).

²¹ *Bluefield Water Works & Improvement Co. vs. Pub. Serv. Comm’n of W. Virginia*, 262 U.S. 679 (1923).

²² See *Hibbing Taconite Co.*, 302 N.W.2d at 10.

²³ *Bluefield*, 262 U.S. at 693; *Hope*, 320 U.S. at 314.

²⁴ *Bluefield*, 262 U.S. at 692–93.

²⁵ *Hope*, 320 U.S. at 605. See also *Northwestern Bell Telephone Co. v. State*, 216 N.W.2d 841, 846 (Minn. 1974) (“[A] fair rate of return . . . will provide earnings to investors comparable to

rate of return for a public utility is not static and changes with economic conditions. As the Court explained, “A rate of return may be reasonable at one time and become too high or too low by changes affecting opportunities for investment, the money market and business conditions generally.”²⁶ Determining “just and reasonable rates, involves balancing of the investor and the consumer interest.”²⁷

The appropriate capital structure and reasonable costs for short-term and long-term debt is undisputed.²⁸ The only remaining contested issue on GMG’s cost of capital is the appropriate ROE. The Commission should grant GMG an ROE of 9.65%, based on financial modeling approved by the Commission in recent cases and upwards adjustments for risk factors unique to GMG among Minnesota rate-regulated utilities.²⁹ GMG’s initially requested ROE of 10.33%, and subsequently requested ROE of 10.15%, do not rely on any “stand-alone ROE analysis,” but on the Commission’s approval of a 10.00% authorized ROE in the Company’s 2009 rate case.³⁰ The Company then increased that return for flotation costs, an adjustment that is improper both because the Company has already recovered those costs, and because its requested adjustment is mathematically incorrect.³¹

A. The Department’s ROE Was Developed Through Rigorous Financial Analysis and Then Adjusted to Reflect GMG’s Unique Risks.

Multi-stage Discounted Cash Flow (DCF) analysis and other financial models establish that an average investor would require an expected rate of return on equity of approximately 8.35%

those realized in other business which are attended by similar risks, will allow the company to attract new capital as required, and will maintain the company’s financial integrity.”).

²⁶ *Bluefield*, 262 U.S. at 692–93.

²⁷ *Hope*, 320 U.S. at 603; *see also Hibbing Taconite*, 302 N.W.2d at 10 (“[T]he PSC must balance the interests of the utility against the interests of the utility’s customers.”)

²⁸ Ex. Joint-001, Issues 2–5 (Resolved Issues List).

²⁹ Ex. DOC-201 at 50, 63–64 (Addonizio Direct); Ex. DOC-203 at 13–14 (Addonizio Surrebuttal).

³⁰ Ex. GMG-103 at 45 (Burke Direct at 4).

³¹ *See* DOC-201 at 72–73 (Addonizio Direct).

to invest in a gas utility of average risk. Adjusting this cost of equity based on the fact that authorized ROEs typically exceed the cost of equity and for utility-specific risk factors, the Commission should set GMG’s ROE at 9.65%.³²

1. The Department’s Multi-Stage DCF Is Reasonable and Was Checked Against a Litany of Other Models and Sources.

One method that is commonly used to estimate the cost of equity is the DCF model, which is applied to a group of publicly traded proxy companies to reasonably approximate the utility’s cost of equity. The DCF model is based on the financial theory that the current price of a stock equals the present value of all expected future dividends in perpetuity discounted by the appropriate cost of equity (the compensation for the risks associated with owning the stock).³³ The DCF model estimated the cost of equity using the proxy group’s known stock prices and most recent dividends, which are directly observable, and the companies’ expected future growth rate. Because dividend growth can be sustained only by earnings growth, it is appropriate to use earnings growth rates for the DCF analysis. The Department estimated GMG’s cost of equity using the DCF model applied to a group of proxy companies with risks similar to GMG.³⁴

The Department provided a range of results of its DCF analysis. The most recent results are shown below:³⁵

Table 1
Summary of Updated Multi-Stage DCF Results¹⁶

	Mean Low ROE	Mean Avg. ROE	Mean High ROE
Multi-Stage DCF with 10-year 2nd stage	7.78%	8.35%	9.54%
Multi-Stage DCF with 20-year 2nd stage	8.12%	8.69%	9.77%

³² See DOC-201 at 60–63 (Addonizio Direct).

³³ *Id.* at 23.

³⁴ *Id.*

³⁵ Ex. DOC-203 at 9 (Addonizio Surrebuttal).

The Department explained that to estimate growth as realistically as possible for GMG in this proceeding, it modeled dividend growth based on three-stages: The first stage, years 1–5, assumes dividends grow at forecasted 3-5 year earnings growth rates developed by equity analysts for a group of proxy companies. The analysis was conducted using two lengths for the second stage of growth—10 years, and 20 years. In the second stage, the model assumes each proxy company’s dividend growth rate converges linearly from the stage one growth rate to the stage three growth rate. The third stage assumes dividends grow at the rate of the general economy as measured by expected growth in gross domestic product (GDP).³⁶

DCF results with a 10-year second stage are not only reasonable, but conservative in the utility’s favor.³⁷ This is supported by research that suggests that investors treat equity analysts’ forecasts as if they apply over a five-to-ten-year period.³⁸ Furthermore, utility rate cases commonly use multi-stage DCF analyses that apply the final, steady-state growth rate beginning in year 11.³⁹ Although the Department also produced an analysis using a 20-year transition period, that modeling was performed as “an extremely conservative sensitivity test.”⁴⁰

The Department’s multi-stage DCF modeling includes results for a variety of growth estimates. Growth rate assumptions are very important to DCF analysis because the other inputs, such as stock prices and dividends, are directly observable. Differences in DCF analysis results are therefore primarily attributable to differences in the assumptions about growth rates.⁴¹

³⁶ Ex. DOC-201 at 31 (Addonizio Direct).

³⁷ *Id.* at 36.

³⁸ *Id.* at 35.

³⁹ *Id.* at 35–36.

⁴⁰ *Id.* at 36.

⁴¹ *Id.* at 25.

Although there are disagreements about what growth rate to use in a DCF analysis, no company can grow at a rate faster than the economy as a whole in perpetuity because such growth would result in the company eventually becoming larger than the economy as a whole.⁴² As a result, many analysts combine accounting-based measures, such as dividend or earnings growth, with broader economic measures such as GDP growth.⁴³ Another well-respected approach is to use the yield on a 10-year U.S. Treasury bond as the growth rate to derive estimates of the cost of equity.⁴⁴

The Department used the mean of the average GDP growth rate forecast from the Energy Information Administration (EIA), the U.S. Social Security Administration (SSA), and the Congressional Budget Office (CBO) as the growth rate for the third stage of the DCF model.⁴⁵ This method produced an average growth estimate of 3.98%.⁴⁶

The Department explained why it does not rely on other ROE analyses performed, but uses them only as a “sanity check” on the multi-stage DCF results. Although the Department has previously used a two-stage DCF model, it no longer relies on this model because equity analysts’ long-term earnings growth forecasts overestimate future growth and are unrealistic.⁴⁷ The Department no longer relies on a constant growth DCF model for the same reason.⁴⁸ Finally, the Department explained the Capital Asset Pricing Model (CAPM) relies heavily on subjective judgments and has not been shown to reliably explain returns in empirical studies.⁴⁹ Along with

⁴² Ex. DOC-201 at 25 (Addonizio Direct).

⁴³ *Id.*

⁴⁴ *Id.* at 25–26.

⁴⁵ *Id.* at 34.

⁴⁶ *Id.* at 35.

⁴⁷ *Id.* at 31, 37; Ex. DOC-203 at 8 (Addonizio Surrebuttal).

⁴⁸ Ex. DOC-201 at 31, 37 (Addonizio Direct).

⁴⁹ *Id.* at 40.

these models, the Department also compared its results against general estimates of the cost of equity for U.S. equities generally.⁵⁰ All of the Department's sanity checks confirmed the reasonableness of its recommended 9.65% ROE.⁵¹

In surrebuttal testimony, the Department updated its financial modeling.⁵² Some of the results, such as the multi-stage DCF results and CAPM, decreased, while the constant growth and two-stage DCF results increased.⁵³ The Department explained that it gave less weight to the changes in the constant growth and two-growth DCF results because the equity analysts' 3–5 year earnings growth rate forecasts are now even further removed from long-term GDP forecasts, and therefore are even less reliable now.⁵⁴ The Department noted that the lower results produced by the multi-stage DCF and CAPM models could justify a downward adjustment to the its recommended ROE, but it was instead maintaining its 9.65% recommendation.⁵⁵

2. The Department's ROE Recommendation Made Upwards Adjustments to the Multi-Stage DCF Results to Reflect Risks Specific to GMG.

After conducting financial modeling to estimate the cost of equity, the Department then adjusted its results to account for both the historical gap between a utility's cost of equity and its authorized ROE, and for factors specific to GMG.

In theory, a utility's authorized ROE should be set to its cost of equity.⁵⁶ But the evidence shows that utilities' authorized ROEs exceed their costs of equity.⁵⁷ To account for this gap, the Department first determined that it would recommend adjusting the cost of equity suggested by

⁵⁰ *Id.* at 45, 47–48.

⁵¹ *See id.* at 37, 45, 48.

⁵² Ex. DOC-203 (Addonizio Surrebuttal).

⁵³ *Id.* at 9–11.

⁵⁴ *Id.* at 12–13.

⁵⁵ *Id.* at 13.

⁵⁶ Ex. DOC-201 at 52 (Addonizio Direct).

⁵⁷ *See id.* at 52–59.

the 10-year multi-stage DCF results from 8.52% to 9.2 or 9.3% for a larger, publicly traded utility. This recommendation is intended to partially close the gap between currently authorized ROEs and utilities' actual costs of equity, and takes into account recently authorized ROEs.⁵⁸

The Department then moved on to making additional upwards adjustments to its recommended ROE to account for risk factors specific to GMG. The risk factors the Department considered include GMG's "very small size, the illiquidity of its stock, and the personal guarantees of its SBA loan by certain of its equity owners."⁵⁹ Based on these factors, the Department recommended an ROE of 9.65%. This ROE is 40 basis points higher than its recent recommendation for CenterPoint Energy Minnesota Gas due to the Department's upward adjustment for GMG's specific risks.⁶⁰

In GMG's initial filing, it identified additional risk factors that it asserted justified a higher ROE.⁶¹ Specifically, risk factors cited by the Company that were not among the Department's identified risk factors are the lack of current dividends, market risk related to the Company's agricultural customers, and GMG's equity ratio.⁶² The Department explained why those risks factors were not in fact appropriate bases for an upwards ROE adjustment. In particular, GMG's lack of dividends has resulted in faster rate base growth than would otherwise occur, which in turn has enhanced GMG's ability to pay future dividends.⁶³ Meanwhile, the sales volatility risk from GMG's agricultural customers is a risk that shareholders can mitigate through diversifying their

⁵⁸ *Id.* at 62.

⁵⁹ *Id.*

⁶⁰ *Id.* at 63.

⁶¹ Ex. GMG-103 at 33–34 (Palmer Direct at 8-9).

⁶² *Id.* GMG and the Department agree that GMG's small size is a risk factor that justifies an upwards ROE adjustment.

⁶³ Ex. DOC-201 at 70-71 (Addonizio Direct).

holdings.⁶⁴ Equity investors are generally compensated only for non-diversifiable risks. Finally, GMG's equity ratio is comparable to the average of the proxy group used by the Department in its DCF analysis, and is therefore already incorporated into the calculated return.⁶⁵ GMG did not provide a response to the Department's explanation for why it would be inappropriate to make ROE adjustments for those factors.

B. GMG's Request to Retain Its ROE From 2009 Despite Material Changes in Relevant Circumstances Is Unsupported and Unreasonable.

GMG openly admits that its request for a 10.00% ROE (before adjustment for flotation costs) was not based on any financial modeling.⁶⁶ Instead, the Company's request was primarily based on the Commission's approval of an authorized ROE of 10.00% in GMG's 2009 rate case. GMG did not acknowledge, much less discuss, the material changes in relevant financial circumstances since that time.⁶⁷ GMG also relied on a generalized discussion of risk factors, without any attempt to quantify the resulting appropriate adjustments, and comparisons to ROEs awarded in other states to utilities in the spring of 2023, a time when financial conditions were different.⁶⁸ Although the Company attacked the Department's ROE recommendation, its arguments were again based in broad allegations without any specific details that could serve as the basis for reasoned adjustments.

GMG relied heavily on the Commission's approval of a 10.00% ROE in GMG's last rate case.⁶⁹ An examination of that approval, however, demonstrates why that decision does not

⁶⁴ *Id.* at 70.

⁶⁵ *Id.* at 71.

⁶⁶ *See* Ex. GMG-103 at 45 (Burke Direct at 4).

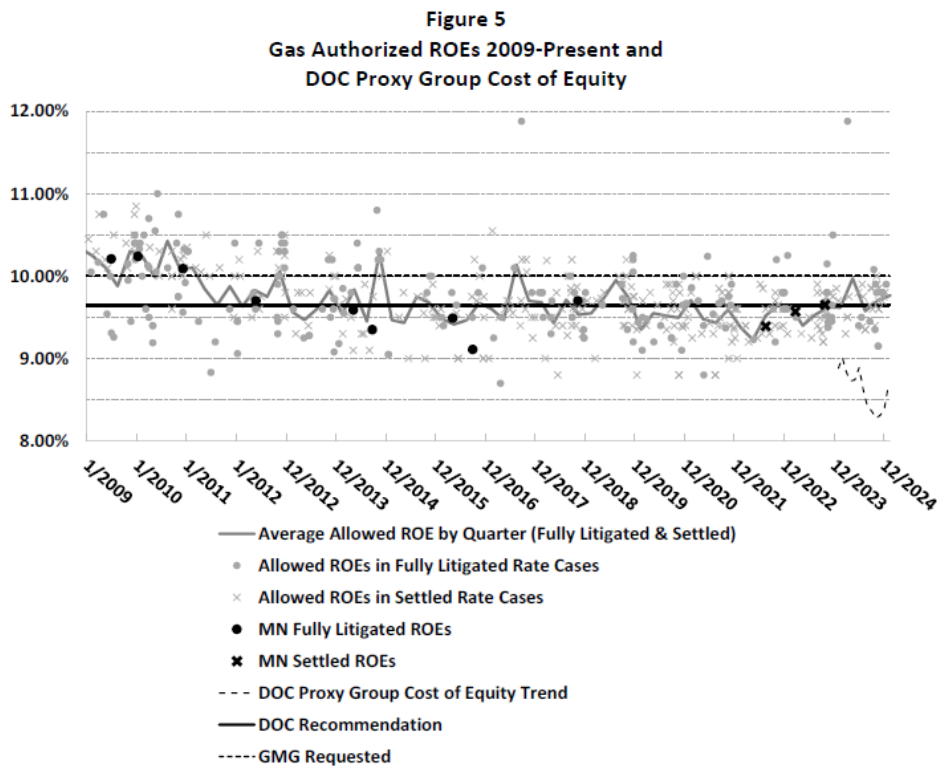
⁶⁷ *See id.*

⁶⁸ Ex. GMG-103 at 33–34 (Palmer Direct at 8–9). The Department noted that the dockets referenced by GMG contained no analysis deriving or supporting the authorized ROEs. Ex. DOC-201 at 71 (Addonizio Direct).

⁶⁹ *See, for example*, Ex. GMG-103 at 11, 28, 45 (Initial Filing – Volume 2); Ex. GMG-112 at 4 (Palmer Rebuttal).

provide a basis for approving a 10.00% ROE in this case. In GMG’s 2009 rate case, although GMG was nominally requesting a 10.00% ROE, it was effectively requesting a 4.24% ROE because it was not requesting recovery of its full revenue deficiency.⁷⁰

More significantly, authorized ROEs were noticeably higher in 2009 and 2010 than they have been in recent years. At the time of GMG’s last rate case, the 10.00% ROE request was below the return authorized for other utilities, while today that same ROE is higher than the returns being authorized by the Commission.⁷¹ GMG’s argument that it does not need to produce a stand-alone financial analysis in support of its requested ROE because it is requesting the same return is unavailing in light of those changes.



⁷⁰ Ex. DOC-205, SS-SR-1 at 8 (Shah Surrebuttal). *See also* Evidentiary Hearing Transcript (Evid. Hrg. Tr.) at 37–38 (Palmer) (acknowledging the requested rates in prior cases were not expected to result in GMG earning its full authorized ROE).

⁷¹ *See* Ex. DOC-201 at 61, Figure 5 (Addonizio Direct).

GMG acknowledged that the Department’s DCF modeling resulted in “reasonable calculations” that “can inform the determination of an appropriate ROE.”⁷² The Company nevertheless argued that the Department’s recommended ROE was inappropriate by making unsupported assertions that the Department’s adjustments to account for GMG’s specific risk factors were insufficient, and by making incomplete and misleading statements about ROEs authorized in other rate cases.

GMG criticized the Department’s use of the mean average ROE from its multi-stage DCF analysis to support its recommended 9.65% ROE.⁷³ The Company argued that “it stands to reason” to GMG, given its small size and lower equity ratio, “should be positioned above the mean-high range” to compensate investors for those risks.⁷⁴ This argument misunderstands the DCF model. The difference between the Mean High ROE results and the Mean Average ROE results are due to differences in assumptions about long-term expected GDP growth rates—not about differences in a particular company’s risk profile. The Department’s approach of using the Mean Average ROE results and then adjusting that figure for GMG’s risk is the theoretically correct approach.

GMG also pointed to outcomes in other Minnesota cases to cast doubt on the Department’s recommendations. GMG noted that in Xcel Energy’s recent gas case, the Commission approved a 9.60% ROE even though that case involved utility with lower risk and more equity in its capital structure.⁷⁵ This argument omits several key points. First, that case was resolved through a settlement agreement, and does not necessarily represent the ROE that any of the parties would have supported outside of that specific settlement agreement.⁷⁶ Second, the Department’s mean

⁷² Ex. GMG-112 at 11–12 (Palmer Rebuttal).

⁷³ *Id.* at 11.

⁷⁴ *Id.* at 11–12.

⁷⁵ *Id.* at 11.

⁷⁶ Ex. DOC-201 at 8 (Addonizio Surrebuttal).

10-year multi-stage DCF estimate in that case was 9.01%, and its recommendation for the authorized ROE was 9.40%.⁷⁷ This means that although the results of the same model were 49 basis points lower when the Department made its initial recommendation in this case than they were when the Department made its recommendation in the Xcel Gas case, the Department's recommended ROE was 25 basis points higher.⁷⁸

As another example, GMG quoted a passage from the Commission's decision in Xcel Energy's 2021 electric rate case in which it rejected the Department's recommended multistage DCF model in favor of a two-growth DCF model.⁷⁹ What GMG neglected to mention is that the Commission went on to approve a 9.25% authorized ROE—the exact ROE recommended by the Department in that case. The Department's recommended ROE, which the Commission adopted, was a result of the Department's consideration of multiple DCF models, with the greatest weight on the results of the multi-stage DCF analysis.⁸⁰

GMG testified that it opposes the Department's recommendation, in part, because the Department "bases [its] recommendation on the methodology that yields the lowest ROE."⁸¹ Although the Department explained why it no longer supported a two-growth DCF, and did not use a constant-growth DCF or CAPM model and provided objective evidence and citations to academic work supporting its positions, GMG did not engage at all with the reasoning for the Department's recommendations.⁸² The Department similarly explained why it puts little weight

⁷⁷ *Id.*

⁷⁸ *Id.*

⁷⁹ Ex. GMG-112 at 12 (Palmer Rebuttal).

⁸⁰ *In re Appl. of N. States Power Co., dba Xcel Energy, for Auth. to Increase Rates for Elec. Serv. in the State of Minn.*, MPUC Docket No. E-002/GR-21-630, FINDINGS OF FACT, CONCLUSIONS, AND ORDER at 84, 92 (July 17, 2023) (eDocket No. [20237-197559-01](#)).

⁸¹ Ex. GMG-112 at 14 (Palmer Rebuttal).

⁸² *Compare* DOC-201 at 31, 35, and 37 (Addonizio Direct) *with* Ex. GMG-112 at 14 (Palmer Rebuttal).

on the multi-stage DCF model with a 20-year second stage, again supported by citations to empirical research and other people's analysis, but this too was ignored by GMG.⁸³ Instead, GMG appears to have objected simply because it dislikes the outcome supported by the Department's analysis.

GMG repeatedly asserted that the Department failed to adequately take into account the risks GMG faces due to its small size, customer base, and capital structure. Yet GMG never explained, for example, why the adjustments the Department made to account for GMG's small size was insufficient, what an appropriate adjustment would be, or how GMG developed such an adjustment.⁸⁴

C. GMG Seeks to Double Recover Flotation Costs By Increasing Its Authorized ROE By 15 Basis Points For Flotation Costs

GMG initially requested that 33 basis points be added to its overall rate of return for flotation costs.⁸⁵ GMG supported this request by explaining that it "used the estimated placement and appraisal cost from GMG's most recent debt placement" to calculate its flotation costs.⁸⁶ GMG did not provide its flotation costs for any other debt or equity issuances.⁸⁷

Utilities are entitled to recover flotation costs. There are two methods available. A utility can reflect these costs directly in their cost of capital estimates, in which case a flotation adjustment needs to be made. Alternatively, the utility can expense the costs as they are incurred. The Company has used the latter method for its past equity issuances.⁸⁸ As a result, by including a

⁸³ Compare DOC-201 at 35–36 (Addonizio Direct) with Ex. GMG-112 at 14 (Palmer Rebuttal).

⁸⁴ See Ex. GMG-112 at 13 (Palmer Rebuttal).

⁸⁵ See GMG-104 at 30 (GMG Initial Filing, Volume 3 at Schedule D-1).

⁸⁶ Ex. GMG-103 at 37 (Palmer Direct at 12).

⁸⁷ See *id.*

⁸⁸ Ex. DOC-201 at 38 (Addonizio Direct).

flotation adjustment on equity in this rate case, GMG is asking for authorization to charge its ratepayers a second time on the same expense.

On top of seeking double recovery, the flotation adjustment GMG initially proposed is also inappropriate because it was calculated incorrectly. GMG's proposal would result in GMG recovering the total flotation costs for all of its existing debt and equity each and every year. The correct approach is to collect flotation costs ratably over the life of the security issuance.⁸⁹ Even if the Company had not yet recovered any of its flotation costs for equity (which it has), the appropriate adjustment to return on equity would be a single basis point.⁹⁰ The Department also calculated the Company's flotation costs for its debts, including the Company's loan amortization costs, to be 15 basis points, and recommended increasing the Company's cost of long-term debt (but not equity) accordingly.⁹¹

In rebuttal testimony, the Company lowered its requested equity flotation cost adjustment from 33 basis points to 15 basis points, which it asserted is appropriate because it matches its debt flotation cost adjustment.⁹² This smaller equity flotation cost adjustment, however, would still result in future recovery from ratepayers of flotation costs that the Company has already recognized as an expense, and is therefore unreasonable.⁹³

II. REVENUE, EXPENSES, AND RATE BASE ITEMS—CONTESTED ISSUES

While many issues have been resolved, the Department recommends the following financial adjustments to GMG's proposals on: (A) auto and truck expense, (B) education and

⁸⁹ *Id.*

⁹⁰ *Id.*

⁹¹ *Id.*

⁹² Ex. GMG-112 at 17 (Palmer Rebuttal).

⁹³ Ex. DOC-203 at 6 (Addonizio Surrebuttal).

training, (C) postage, (D) repairs and maintenance, (E) annual incentive program expense, and (F) long-term incentive compensation.

A. GMG’s Proposed Test Year Increase to Auto and Truck Expense of 62% Over Actual 2024 Expense is Unreasonable and Unsupported by the Record.

GMG proposed test year auto and truck costs that are 62% higher than its 2024 actual expense.⁹⁴ GMG’s initial proposal called for a 14% increase over its estimated 2024 expenses.⁹⁵ To justify the increase, the Company stated that another vehicle was needed for a new measurement technician and the expense needed to cover “assumed higher maintenance costs on older vehicles.”⁹⁶ Because 2024 actuals were not available at that time, the Department estimated 2024 expenses by annualizing GMG’s year-to-date expenses, which resulted in a \$3,264 increase.⁹⁷ The Department then applied an inflation rate of 5% to the annualized 2024 expense, rather than the historical inflation rate of between 2-3%, to account for additional maintenance and gasoline expenses for the new truck.⁹⁸ The resulting recommendation was a test year expense of \$130,427, or approximately 7.8% over GMG’s estimated 2024 expenses.⁹⁹

In response, GMG argued the Department’s proposed adjustment was inappropriate. To support its test year expense, GMG made two claims. First, it reiterated that another vehicle needed

⁹⁴ Ex. DOC-216 at 13-14 (Johnson Surrebuttal).

⁹⁵ Ex. GMG-104, Vol. 3-Sch. C-3, page 2 of 3, line 7.

⁹⁶ Ex. GMG-103 at 61 (Initial Filing, Vol. 2, Burke Direct at 20); Ex. DOC-215, AAU-D-1 at 6-7 (Uphus Direct) (GMG Response to DOC IR 116).

⁹⁷ Ex. DOC-215 at 11 (Uphus Direct). Upon further review, it appears that the Department made a calculation error in annualizing GMG’s 2024 expenses. Specifically, the Department treated GMG’s “2024 YTD” expenses as GMG’s expenses through November 2024, when a footnote provided by GMG indicates that the “2024 YTD expenses” included expenses through November 2024 *plus* GMG’s budgeted expenses for December 2024. Had the Department not annualized 2024 YTD expenses, the Department’s proposed adjustment would have been \$18,443 instead of \$7,573.

⁹⁸ *Id.* at 11–12.

⁹⁹ $130,427/120,951=1.07835$.

to be outfitted and maintained for the new technician.¹⁰⁰ It did not, however, provide any further detail on the amount or nature of those expenses.¹⁰¹ Second, GMG stated that it had already incurred charges for two significant vehicle repairs in 2025.¹⁰² Once again, GMG did not explain these costs.¹⁰³ It is unknown why the repairs were necessary, and thus it is also unknown whether the costs were prudently incurred or are likely to reoccur.

Later, GMG provided actual 2024 expenses to the parties. GMG's actual 2024 auto and truck expenses were \$85,365. GMG has not explained how it developed an estimate for its 2024 expenses that was 33% higher than its actual expenses with 8 calendar days remaining in the year.¹⁰⁴ Based on 2024 actuals, GMG's proposed test year expense would be a 62% increase. Still, the Department did not recommend additional adjustments, and continued to recommend the same \$7,573 adjustment proposed in its Direct Testimony.¹⁰⁵ The resulting recommended test year expense for auto and truck costs is \$130,427.

B. GMG's Proposed Test Year Increase to Education and Training Expense of 192% over Actual 2024 Expense is Unreasonable and Unsupported by the Record.

GMG's proposed test year education and training expense is 192% above its actual 2024 expense.¹⁰⁶ This proposal, however, is neither justified by recent or planned training spending.

To justify a budget that significantly exceeded recent training spending, GMG stated that the 2024 budget included new employee training expenses for training that was not used.¹⁰⁷ GMG also stated that the 2025 budget included specialized training for a new Measurement Technician

¹⁰⁰ Ex. GMG-109 at 10 (Burke Rebuttal).

¹⁰¹ *See id.*

¹⁰² *Id.*

¹⁰³ *See id.*

¹⁰⁴ $113,864/85,365=1.333$.

¹⁰⁵ Ex. DOC-216 at 14 (Johnson Surrebuttal).

¹⁰⁶ *Id.* at 15.

¹⁰⁷ Ex. DOC-215, AAU-D-1 at 16 (Uphus Direct) (GMG Response to DOC IR 116).

as well as training for new technicians hired due to attrition.¹⁰⁸ Rather than providing any other information on the specific trainings needed, different program costs and options, or any other details that would allow the Department to meaningfully assess the reasonableness of GMG's proposed expense, GMG instead provided only conclusory assertions that the proposed education and trainings expense was "legitimate and necessary."¹⁰⁹

Given GMG's recent training spending and conclusory justifications for an increased budget, a downward adjustment is warranted. GMG's actual 2024 training and education expense was \$3,493—less than 60% of its estimate for the year and just over 30% of the amount it had budgeted for the year.¹¹⁰ Based on GMG's need for additional specialized training, the Department continues to recommend its original adjustment to use estimated 2024 expenses. This approach results in an 83% increase in education and training expense from 2024 actual expenses to the 2025 proposed test year, for an expense of \$6,409.¹¹¹

C. GMG's Proposed Test Year Increase to Postage Expense of 49% over Actual 2024 Expense is Unreasonable and Unsupported by the Record.

GMG proposed test year postage expense is 49% above its actual 2024 expense.¹¹² GMG's only explanation for this increase is that the test year postage budget was based on 2022 and 2023 actuals and the assumption that costs would continue to rise. GMG, however, did not explain why those years were an appropriate starting point, or why 2024 was not.¹¹³ Given that it has failed to establish the reasonableness of its proposal, GMG's test year postage expense should be reduced

¹⁰⁸ *Id.*

¹⁰⁹ Ex. GMG-109 at 13 (Burke Rebuttal).

¹¹⁰ $3,493/5,875=0.595$; $3,493/10,299=0.339$.

¹¹¹ Ex. DOC-216 at 16 (Johnson Surrebuttal).

¹¹² *Id.* at 17.

¹¹³ Ex. DOC-215, AAU-D-1 at 19 (Uphus Direct).

based on its average postage costs from 2021 to 2024.¹¹⁴ This would result in a test year expense of \$4,431.

D. GMG’s Proposed Test Year Increase to Repair and Maintenance Expense of 58% over Actual 2024 Expense is Unreasonable and Unsupported by the Record.

GMG’s proposed test year repair and maintenance expense is 58% above its actual 2024 expense.¹¹⁵ GMG stated that the test year was based on actual historical expenses, but was adjusted to reflect “increased costs” in categories “such as vegetation removal, snow removal, building cleaning, etc.”¹¹⁶ GMG also noted that snow removal costs were “lower than normal” in 2024 due to the low snowfall that year, but did not quantify the specific financial impact.¹¹⁷ GMG provided no other information supporting the size of the increased expense in this category.¹¹⁸ The Department recommended that test year expense be set to the Department’s estimate of GMG’s 2024 expenses with an upward adjustment of 4%, which had been the inflation rate for this category for the Company for each of the past two years.¹¹⁹

In response, GMG stated that it had to change its snow removal and lawn care vendor due to circumstances beyond GMG’s control.¹²⁰ The Company explained that the new contracts resulted in a 23% increase in lawn care rates and a 30% increase in snow removal, and noted that those two expenses constituted about one quarter of expenses in the repairs and maintenance category over the past five years.¹²¹ GMG also stated that its cleaning service, which has

¹¹⁴ Ex. DOC-215 at 22 (Uphus Direct).

¹¹⁵ Ex. DOC-216 at 19 (Johnson Surrebuttal).

¹¹⁶ Ex. DOC-215, AAU-D-1 at 22 (Uphus Direct).

¹¹⁷ *Id.*

¹¹⁸ *See id.*

¹¹⁹ Ex. DOC-215 at 23 (Uphus Direct).

¹²⁰ Ex. GMG-109 at 14 (Burke Rebuttal).

¹²¹ *Id.*

constituted an average of 47% of the expense in the category over the past five years, increased 33% in mid-2024.

Based on the additional information provided by GMG, the Department revised its recommended adjustment to this category. Taking 2024 actuals as a starting point, the Department applied a 30% inflation rate to calculate its recommended test year expense of \$19,787.¹²² This would result in a decrease to test year expenses of \$4,213.

E. GMG’s Annual Incentive Program Expense Should Be Reduced to Reflect the Commission’s Practice of Capping Recovery of Short-Term Incentive Pay Tied to a Utility’s Financial Performance.

GMG proposed \$92,442 in annual incentive program (AIP) pay for the 2025 test year.¹²³ AIP is a form of short-term incentive compensation that GMG offers to “select employees for the prior year based on performance.”¹²⁴

Since the Company’s last rate case in 2009, the Commission has capped short-term incentive compensation recovery from ratepayers at 15% of the employee’s base salary.¹²⁵ The Department therefore recommended excluding the \$20,069 of AIP included in the test year that exceeded the 15% cap.¹²⁶

In response, GMG stated—for the first time—that GMG’s AIP has no connection to any shareholder interests for all but one employee.¹²⁷ GMG also elaborated on how it tailored the timing of AIP payouts based on each eligible employee’s position to maximize retention through that employee’s most critical work period, which varies from position to position.¹²⁸

¹²² Ex. DOC-216 at 19-20 (Johnson Surrebuttal).

¹²³ See Ex. DOC-213 at 19 (Johnson Direct).

¹²⁴ Ex. DOC-214 at 26 (Attachments to Johnson Direct) (MAJ-D-4 at 2).

¹²⁵ Ex. DOC-213 at 19 (Johnson Direct).

¹²⁶ *Id.*

¹²⁷ Ex. GMG-112 at 21 (Palmer Rebuttal).

¹²⁸ *Id.*

Based on GMG’s disclosure, the Department revised its recommendation. The Department now recommends that short-term incentive pay in excess of the Commission’s 15% cap be excluded for the one GMG employee whose AIP is tied to the Company’s financial performance.¹²⁹ This results in a test year reduction of \$11,276.¹³⁰

F. Consistent with the Commission’s Long-Standing Practice, GMG’s Long-Term Incentive Compensation Should be Removed From the Test Year.

GMG included \$48,300 in long-term incentive compensation (LTI) expense in the test year.¹³¹ Because the Commission has consistently rejected recovery of LTI from ratepayers, the Department recommended this expense be removed from the test year.¹³²

GMG argued that its LTI program is distinguishable from the long-term incentive compensation disallowed by the Commission in other rate cases.¹³³ Specifically, GMG’s long-term incentive pay appears to be based purely on whether the employee remains employed by GMG.¹³⁴ GMG argued that it was therefore inappropriate to exclude LTI from the test year.

However, the Department noted that the Commission has denied long-term incentive compensation on multiple grounds.¹³⁵ Some grounds, such as the incentive’s tie to the utility’s financial performance, are inapplicable to GMG’s LTI. Others, though, such as the utility’s failure to “make an adequate showing that the program offers unique benefits that justify separate rate recovery” would apply here.¹³⁶ The Department continues to recommend that GMG’s LTI expense be removed from the test year. This would result in a reduction of \$48,300 to test year expenses.

¹²⁹ Ex. DOC-216 at 22 (Johnson Surrebuttal).

¹³⁰ *Id.*

¹³¹ *See* Ex. DOC-213 at 20 (Johnson Direct).

¹³² *Id.*

¹³³ Ex. GMG-112 at 23 (Palmer Rebuttal).

¹³⁴ *See id.*

¹³⁵ Ex. DOC-216 at 24 (Johnson Surrebuttal).

¹³⁶ *Id.*

In the alternative, the Department recommends that the Commission “clearly specify that this is a departure from past precedents due to the fact that . . . GMG’s LTI plan does not include a shareholder-returned-based performance element.”¹³⁷

G. GMG’s Sales Forecast Should Be Updated to Include A Representative Level of Annualized Sales and Associated Revenue From New Customers.

Test-year sales volumes are integral to calculating a utility’s revenue requirement and directly impacts both revenues and expenses. The methods used to determine sales levels, therefore, must be reasonable. “When sales are under-estimated, a utility’s revenue requirement is spread over fewer units (kWh), which means that the utility would collect more revenues per unit sold than is warranted by costs.”¹³⁸ That is, customers pay a higher rate for energy than is justified by costs.¹³⁹ The Commission has recognized that “the rates based on [test year] information remain in place until the Commission approves new rates in a subsequent rate case,” and therefore the sales forecast should reflect “the annualized effects of the new customer’s usage” and “customer charge revenues, since the purpose of this proceeding is to set just and reasonable rates going forward, based on a normal 12-month test-year.”¹⁴⁰ Any doubt as to the reasonableness of forecasted sales should be resolved in favor of ratepayers.¹⁴¹

The Department analyzed GMG’s estimates of its proposed test-year customer counts and energy sales volumes.¹⁴² The Department found GMG’s proposed sales forecast to be acceptable in part.¹⁴³ In addition to recommendations for future rate cases, addressed below in Section IV.B,

¹³⁷ *Id.* at 24–25.

¹³⁸ *In re: Appl. of Otter Tail Power Co. for Auth. To Increase Rates for Elec. Serv. in Minn.*, MPUC Docket No. E-017/GR-15-1033, FINDINGS OF FACT, CONCLUSIONS, AND ORDER at Supplementary Findings—Sales Forecast ¶ 4 (May 1, 2017) (eDocket No. [20175-131511-01](#)).

¹³⁹ *Id.*

¹⁴⁰ Ex. DOC-204 at 17 (Shah Direct); Ex. DOC-205 at 7 (Shah Surrebuttal).

¹⁴¹ Ex. DOC-205 at 5 (Shah Surrebuttal); *see* Minn. Stat. §§ 216B.16, subd. 4, 216B.03 (2024).

¹⁴² Ex. DOC-204 at 1 (Shah Direct).

¹⁴³ *See id.* at 15–16.

the Department found that GMG had not demonstrated that its proposal to assign new customers the use of only 21.6 dekatherms in the test year (compared to the 86.0 dekatherms modeled for existing customers) was reasonable.¹⁴⁴

The Department recommended the sales forecast be updated to include 86.0 dekatherms of use for new customers to reflect a representative amount of sales and revenue are included in the test year.¹⁴⁵ This change would increase GMG's cost of gas by approximately \$143,264, and increase revenues by approximately \$283,810, resulting in an overall adjustment of approximately \$140,545 to the test year.¹⁴⁶ This approach is also consistent with GMG's sales forecast in its 2009 rate case, which the Department agreed with.¹⁴⁷

GMG argued that the sales to new customers should not be annualized because "the purpose of a Test Year is to reflect a business year," and GMG's new customers have historically not used any significant amount of natural gas during GMG's peak sales months of January through March.¹⁴⁸

The Department requested additional data on new customers beginning from the date and month of their addition and continuing onwards.¹⁴⁹ GMG once again claimed that GMG does not have monthly consumption data readily available, and that it would be "unduly burdensome to produce and review."¹⁵⁰ GMG provided a summary of new customer installations by month.¹⁵¹ After reviewing and analyzing the "new customer installations by month" the Department

¹⁴⁴ *Id.* at 16.

¹⁴⁵ *Id.* at 16–17.

¹⁴⁶ Ex. DOC-204 at 17 (Shah Direct).

¹⁴⁷ Ex. DOC-205, SS-SR-1 at 11–15 (Shah Surrebuttal).

¹⁴⁸ Ex. GMG-109 at 3 (Burke Rebuttal).

¹⁴⁹ Ex. DOC-205 at 8 (Shah Surrebuttal).

¹⁵⁰ *Id.*

¹⁵¹ *Id.*; *Id.*, SS-SR-3 (Shah Surrebuttal).

demonstrated, these “new customer installations” stay on the system and continue to use natural gas as existing customers beyond the initial date of their addition.¹⁵² As a result, the Department continues to recommend including 86.0 dekatherms of use for new customers in the test year, as that amount would align with the purpose of a rate case to set just and reasonable rates going forward based on a normal 12-month test year.¹⁵³ Moreover, although GMG asserted that new customers should only be assigned 21.6 dekatherms of use, it used 86.0 dekatherms per residential customer in the calculations GMG used in its response to OAG-RUD witness Mr. Stevens—a question that involved new customers joining GMG’s system.¹⁵⁴ This suggests that GMG treats new customers as using gas at the same rate as existing customers when they are making internal calculations, and only using the lower 21.6 dekatherm number for purposes of creating the rate case sales forecast.

H. Sales Forecast — GMG’s Request To Update Its Test Year Customer Count Forecast Based on 2024 Year-End Actuals Without Changing Its Other Revenues and Expenses Is Inappropriate and Should Be Denied.

GMG requested that its test year operating revenue be reduced by \$185,507 based on actual 2024 year-end customer counts.¹⁵⁵ This would increase GMG’s revenue requirement by \$92,834. The Company asked that this change be made “[g]iven that the overall forecasted revenue deficiency is still below the original request made by GMG.”¹⁵⁶ However, the referenced exhibit

¹⁵² *Id.* at 9-11.

¹⁵³ *Id.* at 11.

¹⁵⁴ Ex. GMG-109, RDB-REB (Burke Rebuttal).

¹⁵⁵ *Id.* at 6.

¹⁵⁶ *Id.*

shows that the updated forecast revenue deficiency was \$92,834 *larger* than GMG’s original request.¹⁵⁷

It is unreasonable for GMG to adjust its test year revenues to make up for shortfalls in one category of revenue while leaving all of its other revenues and expenses untouched. As described above, GMG’s test year expenses were often based on significantly overestimated 2024 expenses. The Department conducted a category by category review, and recommended adjustments to each category based on the specific information available, such as whether an expense has historically fluctuated, and whether there were any “known and measurable changes” anticipated in the test year.¹⁵⁸

It would be inappropriate to reduce GMG’s revenues based on 2024 year-end customer counts based on the record in the case. GMG has offered no evidence as to the explanation for the gap between GMG’s estimated customer count when the case was filed in November and the year-end actual numbers two months later. Nor has GMG offered any information on whether customer counts in 2025 have been at, above, or below the forecasted levels, whether it has updated its new customer forecasts, or the data and analysis underlying any such changes. Instead, GMG simply asks to be relieved of its burden and the consequences of its inaccurate predictions, while also being allowed to reap the benefit of inaccurate forecasts that worked in the Company’s favor. As statute requires all doubt to be resolved in ratepayers’ favor, GMG’s position is untenable.

III. RATE DESIGN

The purpose of rate design is to allocate GMG’s revenue requirement among its customers. Through this process, the Commission balances competing goals to fulfill state law that rates must

¹⁵⁷ *See id.*, RDB-REB 3.

¹⁵⁸ 73B C.J.S. Public Utilities § 109 (2024) (explaining that public utility regulatory commissions may adjust test-year expenses in rate cases for “known and measurable changes,” but not for changes due to temporary economic fluctuations).

be just and reasonable. Considering these goals, the Commission should: (1) use the Class Cost of Service Study (CCOSS) results shown in Table 1 and Table 2 of Department witness Michael Zajicek's surrebuttal testimony to inform its rate design decisions, (2) order GMG to develop a new CCOSS model in future cases that conforms with the Department's recommended requirements, and (3) use the revenue apportionment identified in Table 2 of Department witness Donald Hirasuna's surrebuttal to develop rates based on the final revenue requirement set in the Commission's order.

A. The Parties' CCOSS Results in This Case Provide Limited Guidance Due to GMG's Refusal to Follow Commission Orders, Its Provision of Inaccurate Information, and Its Failure to Provide Timely Notification of Its Errors. 12

The Commission should consider the range of updated CCOSS results provided by the Department. Despite the best efforts of the Department and OAG-RUD, GMG's failure to follow previous Commission orders regarding its CCOSS; provide timely, accurate information on costs and revenues; and notify parties after it discovered serious errors in its CCOSS model have resulted in significant uncertainty about how to accurately model cost causation for GMG's customers. The underlying reason for GMG's lackadaisical approach to CCOSS modeling appears to be GMG's belief that its revenue apportionment should not be changed, and producing a CCOSS was merely a box-ticking formality that did not merit serious attention. This attitude underscores the need for regulation to protect utilities' captive ratepaying customers.

1. Background on assignment of cost causation responsibility.

Basic ratemaking principles hold that customers should be responsible for their respective service costs.¹⁵⁹ Reflecting this principle, cost causation studies are performed during a general rate case. A CCOSS is used to identify the costs and revenues associated with each service class

¹⁵⁹ Ex. DOC-206 at 3–4 (Zajicek Direct).

and allocate the utility’s total revenue requirement among those classes. Importantly, CCOSS is distinct from rate design. A CCOSS should be based on an objective, factual analysis of cost-causation.¹⁶⁰ Rate makers can then make informed judgments on appropriate alterations to the cost-based allocation in support of policy goals.¹⁶¹

The National Association of Utility Commissioners (NARUC) explains that a CCOSS has three steps: (1) cost functionalization, (2) cost classification, and (3) cost allocation. In the first step, costs generally functionalized the Uniform System of Accounts as provided by the Federal Energy Regulatory Commission (FERC).¹⁶² These accounts group costs into their various functions, such as production (*i.e.*, costs to purchase natural gas), transmission (*i.e.*, cost to ship natural gas on interstate pipelines), and distribution (*e.g.*, meters).¹⁶³ In the second step, once costs are separated by function, they are divided, or “classified,” based on the utility service components facilitated by that cost. At this stage, the relevant inquiry is whether the costs are: (a) customer costs, (b) demand costs, or (c) commodity costs.¹⁶⁴ In the third step, these functionalized and classified costs are “allocated” to specific customer classes using specific parameters known as “allocation factors.”¹⁶⁵

2. The Commission should use the range of CCOSS results presented by the Department as a starting point for rate design.

The Commission should rely on the range of CCOSS results produced by the Department in Table 1 and Table 2 of Department witness Michael Zajicek’s surrebuttal testimony as a starting point for rate design.¹⁶⁶ These tables show results for a variety of Basic Customer Method and

¹⁶⁰ *Id.* at 14.

¹⁶¹ *Id.* at 14–15.

¹⁶² *Id.* at 6.

¹⁶³ *Id.* at 6–7.

¹⁶⁴ *Id.* at 7–8.

¹⁶⁵ *Id.* at 10–11.

¹⁶⁶ Ex. DOC-209 at 14 (Zajicek Surrebuttal).

Minimum System Method CCOSSs. In general, the Department believes the Minimum System Method produces results most consistent with cost causation. Here, though, the Minimum System Method over-allocates costs as customer costs because GMG did not perform a demand adjustment.¹⁶⁷ The Department therefore recommends that the Commission base rates at some place between the Department’s Minimum System Method CCOSS and its Basic Customer Method CCOSS.¹⁶⁸

The Department’s range of CCOSS results is unusually large. This stems from GMG’s removal 436,649 MCF¹⁶⁹ of projected consumption from its calculation of Commodity Cost Allocation Factors in its rebuttal CCOSS.¹⁷⁰ That change meant that, before making rate design adjustments, the estimated rate increase for the residential class increased from 16% to approximately 23%.¹⁷¹ Even though GMG’s rebuttal testimony included an itemized list of changes made in its CCOSS, it did not disclose this change.¹⁷² When the Department followed up with GMG to get additional information on why this change was not disclosed, GMG said that it did not address it because GMG “continues to not support any rate design changes.”¹⁷³

The information the Department managed to obtain from GMG was insufficient to determine whether GMG provided inaccurate CCOSS models before its rebuttal testimony, or if

¹⁶⁷ Ex. DOC-206 at 45 (Zajicek Direct).

¹⁶⁸ A Basic Customer Method CCOSS assumes that only facilities that vary directly with the number of customers, such as meters, are considered customer costs, while all other costs are classified as demand costs. This method is simple and easy to implement, but does not recognize important functions of the distribution system. As a result, a Basic Customer Method CCOSS should be viewed as a lower bound on customer related costs, but is less useful as a stand-alone CCOSS method. Ex. DOC-206 at 30–31 (Zajicek Direct).

¹⁶⁹ MCF is a measure of natural gas equal to 1,000 cubic feet.

¹⁷⁰ Ex. DOC-209 at 8 (Zajicek Surrebuttal).

¹⁷¹ *Id.*

¹⁷² *See* Ex. GMG-109 at 24 (Burke Rebuttal).

¹⁷³ Ex. DOC-209 at 9 (Zajicek Surrebuttal).

the CCOSS GMG provided in rebuttal testimony erroneously removes MCF from its commodity cost allocator.¹⁷⁴ Given this lack of certainty and sufficient time to gather additional information, the Department produced tables showing a range of CCOSS results.

1

Table 1: Updated DOC CCOSS Range

Rate Class	Operating Revenues At Current Rates	Updated Basic Customer CCOSS Rates	Basic Customer Percent Increase	Altered Company CCOSS Rates ²⁵	Company CCOSS Percent Increase	Updated DOC Min-Sys CCOSS Rates	DOC Min-Sys CCOSS Percent Increase	GMG Rebuttal CCOSS Rates ²⁶	GMG Rebuttal CCOSS Percent Increase
Residential	\$9,894,610	\$10,156,797	2.65%	\$10,934,389	10.51%	\$11,116,119	12.35%	\$11,850,204	19.95%
Commercial SCS	\$1,272,236	\$1,267,786	-0.35%	\$1,266,672	-0.44%	\$1,266,411	-0.46%	\$1,364,659	7.38%
Commercial CS	\$454,753	\$553,923	21.81%	\$660,630	45.27%	\$685,569	50.76%	\$653,380	44.85%
Industrial MS	\$544,798	\$501,516	-7.94%	\$519,112	-4.71%	\$523,225	-3.96%	\$524,226	7.33%
Industrial LS	\$4,505,143	\$4,260,081	-5.44%	\$3,870,736	-14.08%	\$3,779,742	-16.10%	\$2,896,450	-12.07%
Interruptible Industrial	\$706,361	\$526,047	-25.53%	\$519,451	-26.46%	\$517,909	-26.68%	\$415,651	-29.24%
Interruptible Agriculture	\$991,485	\$911,997	-8.02%	\$1,173,677	18.38%	\$1,234,834	24.54%	\$1,061,028	21.73%
Additional Demand Costs for Transportation Customers	NA	\$1,648,371	NA	\$881,853	NA	\$702,710	NA	\$1,063,369 ²⁷	-30.34% ²⁸
Total Company	\$18,369,387	\$19,826,519	7.9%	\$19,826,519	7.9%	\$19,826,519	7.9%	\$19,826,519	7.9%

2

¹⁷⁴ *Id.* at 11.

Table 2: Updated DOC CCOSS Range Apportionment Percentages

Rate Class	Basic Customer CCOSS Apportionment Percent	Company CCOSS Apportionment Percent	DOC Min-Sys CCOSS Apportionment Percent	GMG Edited Rebuttal CCOSS Apportionment Percent
Residential	51.23%	55.15%	56.07%	59.76%
Commercial SCS	6.39%	6.39%	6.39%	6.88%
Commercial CS	2.79%	3.33%	3.46%	3.30%
Industrial MS	2.53%	2.62%	2.64%	2.64%
Industrial LS	21.49%	19.52%	19.06%	14.61%
Interruptible Industrial	2.65%	2.62%	2.61%	2.10%
Interruptible Agriculture	4.60%	5.92%	6.23%	5.35%
Transportation Class Demand Costs	8.31%	4.45%	3.54%	5.36%
Total Company	100%	100%	100%	100%

As seen in these tables, the range of possible results is so significant as to have limited use as a tool for designing rates.

3. The Commission should place little to no weight on GMG’s CCOSS because it was reverse-engineered to support GMG’s desired rate design.

In previous rate cases, the Commission ordered GMG to take a number of specific steps regarding its classification and allocation of certain costs in its CCOSS in future rate cases.¹⁷⁵ GMG was also ordered to provide an explanatory filing in support of the decisions it made in its CCOSS modeling.¹⁷⁶ GMG did not make the ordered changes to its CCOSS, nor did it provide the required explanatory filing.¹⁷⁷

¹⁷⁵ Ex. DOC-206 at 32 (Zajicek Direct); (2009 GMG RATE CASE ORDER) at 2, Order Point 1; 2009 GMG Rate Case Department Comments at 26.

¹⁷⁶ *Id.*

¹⁷⁷ Ex. GMG-103 at 62 (Burke Direct at 21) (“The CCOSS was prepared using modeling consistent with that used in GMG’s previous rate cases.”).

The Department asked GMG why it had not made the changes ordered by the Commission.¹⁷⁸ GMG said that it chosen to use the same method it had in its 2009 rate case because the ordered changes had an “adverse impact on residential customers.”¹⁷⁹ GMG stated it “intentionally chose to not change its CCOSS or revenue allocation among classes since the fairness of the current revenue allocation was previously settled, and shifting allocations based on new CCOSS methodologies undermines that principle.”¹⁸⁰ When the Department agreed to the revenue allocation in GMG’s 2009 rate case, the Department was agreeing to the fairness of the allocation *at that time*, not for perpetuity. GMG’s suggestion flies in the face of Minn. Stat. § 216B.03’s requirement that “[r]ates shall not be unreasonably preferential ... or discriminatory.” GMG’s interpretation also conflicts with the Commission’s order directing specific changes to GMG’s CCOSS in future cases and for the Company make an explanatory filing justifying its CCOSS modeling decisions.

This knowing and intentional disregard of the Commission’s order is unacceptable. As the Commission has explained, it “considers class cost-of-service studies to identify, as accurately as possible, each customer class’s causal responsibility for each cost the utility incurred in providing service.”¹⁸¹ There can be legitimate reasons to apportion revenues in a way that varies from CCOSS results, but such decisions should be made transparently at the rate design step.

¹⁷⁸ Ex. DOC-207, MZ-D-6 at 1 (Zajicek Direct Attachments).

¹⁷⁹ Ex. DOC-206 at 33 (Zajicek Direct); Ex. DOC-207, MZ-D-6 at 3 (Zajicek Direct Attachments).

¹⁸⁰ Ex. GMG-109 at 25 (Burke Rebuttal).

¹⁸¹ *In re Appl. of Otter Tail Power Co. for Auth. to Increase Rates for Elec. Serv. in the State of Minn.*, MPUC Docket No. E017/GR-20-719, FINDINGS OF FACT, CONCLUSIONS, AND ORDER at 40. (Feb. 1, 2022) (eDocket No. [2022-182349-01](#)) Although less of a central concern in most rate cases, the CCOSS also informs the Commission’s determinations about how rates should be collected from customers classes via the energy, demand, and customer charges. Accuracy is no less important in these considerations.

GMG's CCOSS was based on a Minimum System Method.¹⁸² The Minimum System Method is widely accepted within the industry.¹⁸³ Still, this method requires the use of a demand adjustment to produce accurate results.¹⁸⁴ Because GMG did not produce a demand adjustment, the Minimum System Method over-allocates costs as customer costs.¹⁸⁵ GMG also did not use a cost escalator in preparing its Minimum System Method study.¹⁸⁶ A cost escalator is important because it normalizes historical costs to account for changes in the value of the dollar and changes in prices over time.¹⁸⁷

Although GMG claimed that it had performed a demand adjustment and pointed to specific rows of its CCOSS workbook as reflecting those adjustments, the spreadsheet does not in fact show that a demand adjustment had been applied.¹⁸⁸ Instead, the identified rows appear to only implement the Minimum System Method study the Company performed.¹⁸⁹ The Department examined the entire CCOSS, and did not find any evidence that the Company performed a demand adjustment. GMG did not address this error.¹⁹⁰

GMG's rebuttal testimony also addressed the concerns about the exclusion of transportation customer data from GMG's CCOSS.¹⁹¹ The Company maintained that it was

¹⁸² Ex. GMG-103 at 63 (Burke Direct at 22). A Minimum System Method determines the minimum size for each piece of equipment currently installed by the utility to serve the minimum demand requirements of customers. The costs required for that system are identified as customer costs, and all other costs are deemed to be demand costs. Ex. DOC-206 at 26 (Zajicek Direct).

¹⁸³ Ex. DOC-206 at 27, 45 (Zajicek Direct).

¹⁸⁴ *Id.* at 26–27. A demand adjustment refers to adjustments made because even the smallest size equipment, such as a 2" diameter pipe, serves some level of customer demand. The demand adjustment theoretically brings the diameter of the mains to zero inches. *Id.*

¹⁸⁵ *Id.* at 28.

¹⁸⁶ *Id.* at 36.

¹⁸⁷ *Id.* at 35.

¹⁸⁸ Ex. DOC-206 at 28 (Zajicek Direct).

¹⁸⁹ *Id.*

¹⁹⁰ *See* GMG-110 (Burke Surrebuttal); Ex. DOC-209 at 3–4 (Zajicek Surrebuttal).

¹⁹¹ Ex. GMG-109 at 23 (Burke Rebuttal).

appropriate to not include transportation customers, stating that it included its TR-2 rate class customers into the underlying rate classes they were otherwise aligned with.¹⁹² Although GMG stood by its original CCOSS, it stated it was providing an updated CCOSS with three changes: adding TR1 transport customers and moving TR2 customers from their underlying class to the transportation class; adding demand costs to the transportation class; and, removing interstate pipeline related demand charges from interruptible customers.¹⁹³ As noted above, GMG's testimony omits the fact that the CCOSS also removed approximately 20% of the projected consumption from its calculation of Commodity Cost Allocation Factors.

In surrebuttal testimony, GMG asserted for the first time that the Department's CCOSS models contain numerous significant errors. With one exception, those critiques are unfounded.¹⁹⁴ For example, GMG stated that the Department had improperly accounted for the costs and revenues for transportation customers in its CCOSS.¹⁹⁵ This is a misunderstanding of what the Department was doing, and how particular spreadsheets were used. For example, GMG argues that the Department erred by removing costs from its CCOSS for transportation customers but not removing those costs from the lines in the spreadsheet for present rates or proposed rates.¹⁹⁶ The lines for the present and proposed revenues are completely irrelevant to CCOSS, which examines each class's *costs*. Comparison between each class's costs and revenues is addressed in rate design.

¹⁹² *Id.*

¹⁹³ *Id.* at 24.

¹⁹⁴ After reviewing GMG's rebuttal testimony, the Department agreed that a correction was necessary to the allocation for pipeline demand charges in the Department's CCOSS. This change is reflected in the Department's updated CCOSSs provided in surrebuttal. Ex. DOC-209 at 12-13 (Zajicek Surrebuttal). The Department notes that OAG-RUD also agreed with this correction. *See* Ex. OAG-305 at 8 (Stevenson Surrebuttal).

¹⁹⁵ *See* Ex. GMG-110 at 2-7 (Burke Surrebuttal).

¹⁹⁶ *Id.* at 3-4.

In another example, GMG criticized the Department's CCOSS model for having a Peak Responsibility that totaled 77.67% rather than 100%.¹⁹⁷ Yet those calculations were correct because the gap is due to the capacity costs being allocated to transportation customers, with the remaining amounts were included in the Department's final CCOSS recommendations, assigned to transportation customers instead of other classes.¹⁹⁸ GMG also argued that the Department had incorrectly identified GMG's January 2024 sales as 305,175 MCF.¹⁹⁹ That figure, however, is the January 2024 sales figure GMG provided to the Department in response to multiple IRs.²⁰⁰

4. The Commission should order GMG in future rate cases to develop a new CCOSS model that conforms to recommendations offered by the Department.

To streamline the regulatory process, produce more reliable and useful results, and reduce the unnecessary expenditure of resources, the Department recommends that the Commission order GMG to develop a new CCOSS model in future cases that includes:

- a more detailed breakdown of costs by FERC account;
- the transportation classes as their own classes, rather than included in similar classes;
- calculation and inclusion of a demand adjust to its Minimum System Method study;
- aggregation of customers that share the same distribution line for the purposes of allocating distribution costs;
- breaking out values for meters, regulators, and fittings by each customer class, not grouped into larger buckets; and

¹⁹⁷ *Id.* at 19.

¹⁹⁸ *See* Ex. DOC-209 at 12-13 (Zajicek Surrebuttal).

¹⁹⁹ Ex. GMG-110 at 19 (Burke Surrebuttal).

²⁰⁰ *See id.*, RDB-SR-1 at 7, 16 (showing spreadsheets produced in response to DOC IRs 702 and 708).

- inclusion of ordered changes from the 2009 Rate Case Order.²⁰¹

GMG is regulated by the Commission and is obligated to comply with Commission orders. GMG's refusal to follow Commission orders and develop on appropriate CCOSS has not saved its ratepayers money, but has resulted in the expenditure of significant unnecessary resources as the Department and OAG-RUD have needed to dig through flawed models, submit information requests, and re-do work after serious errors were uncovered.²⁰² These recommendations are aimed at preventing similar issues from reoccurring.

B. Apportionment of Revenue Responsibility and Rate Design

In apportioning revenue responsibility and designing rates, the Commission must balance competing principles and policies.²⁰³ Rates should offer utilities a reasonable opportunity to earn their revenue requirements.²⁰⁴ They should promote efficient resource use.²⁰⁵ And, they should avoid "rate shock" and unreasonable discrimination against any customer class.²⁰⁶ In balancing these priorities, the Commission must resolve any doubts in favor of consumers.²⁰⁷

GMG asserts that changes to its revenue apportionment between classes is unnecessary despite the passage of 15 years and significant changes to GMG's size, customer base, and relevant economic conditions.²⁰⁸ While it is possible such an outcome is reasonable, assuming that this is the case without conducting an appropriate analysis is not reasonable.

²⁰¹ Ex. DOC-209 at 17 (Zajicek Surrebuttal).

²⁰² *Id.* at 16.

²⁰³ Ex. DOC-210 at 7 (Hirasuna Direct).

²⁰⁴ *Id.* at 8; Minn. Stat. § 216B.16, subd. 6.

²⁰⁵ Ex. DOC-210 at 8 (Hirasuna Direct); Minn. Stat. §§ 216B.03.

²⁰⁶ Ex. DOC-210 at 7-8 (Hirasuna Direct); Minn. Stat. §§ 216B.03, .07.

²⁰⁷ Minn. Stat. § 216B.03.

²⁰⁸ Ex. DOC-212 at 2–3 (Hirasuna Surrebuttal). *See* Ex. GMG-103 at 73 (Burke Direct at 32); Ex. GMG-109 at 26–27 (Burke Rebuttal).

In this case, the Commission should adopt the Department’s recommendation to modify GMG’s proposed revenue apportionment to lower the revenue assigned to the residential customer class, and shift most of that revenue to the large industrial class, to account for previously unallocated transport costs. The Department’s recommendations are intended to mimic an efficient marked allocation of those transportation costs that were previously unaccounted for, while also reducing rate shock. The Department’s recommendations, and a comparison to GMG’s initial and revised revenue apportionments, are seen in Table 2 of the Department’s rate design surrebuttal testimony, reproduced below.²⁰⁹

Table 2. Updated Revenue Apportionment (percent).¹⁶

Class/Tariff Page	Department's Updated Revenue Apportionment (Surrebuttal)	GMG's Proposed Revenue Apportionment with Transportation Class	GMG's Initially Proposed Revenue Apportionment	Percentage Point Change in GMG's Apportionment
	(A)	(B)	(C)	(D=B-C)
Residential Service / V-1	51.0	53.8	53.8	0.0
Small Commercial Service / V-2	6.3	6.9	6.9	0.0
Commercial Service / V-3	2.8	2.4	2.5	-0.1
Medium Industrial Service / V-4	2.9	2.6	3.0	-0.4
Large Industrial Service / V-5	27.3	17.6	24.4	-6.8
Industrial Interruptible Service / V-13	4.0	3.1	3.8	-0.7
Agricultural Interruptible Service / V-15	5.7	4.8	5.2	-0.4
Transportation				
Total	100.0	91.3	99.6	-8.7

²⁰⁹ Ex. DOC-212 at 8 (Hirasuna Surrebuttal).

In surrebuttal testimony, GMG opposed the Department's proposed revenue apportionment, and continued to advocate for maintaining its existing rate design.²¹⁰ The differences in rate design are largely from unaccounted for transportation costs. These costs identified by the Department shifts the revenue apportionment from the residential class to the large industrial class. Resultantly, the Department lowers the percentage increase in revenue from residential customers from 7.1 to 2.1 percent.²¹¹ The shift in apportionment arises from assignment of transportation costs. Based upon GMG's cost estimates, residential customers make-up a small share of transportation costs, while large industrial customers make up a significantly larger share.²¹²

IV. ADDITIONAL ISSUES

Finally, the Commission should address two other issues. First, the Commission should deny GMG's request for an income tax rider. Second, the Commission's order should include recommendations made by the Department with the aim of to improving the accuracy of the Company's filings and facilitating efficient regulatory review.

A. The Commission Should Deny GMG's Requested Income Tax Rider.

In GMG's initial filing, it requested an income tax rider.²¹³ In support of this request, GMG noted that both of the major party candidates in the presidential election were campaigning on changing corporate tax rates.²¹⁴ The Company argued that if the corporate tax rates increased from 21% to 28%, as proposed by one of the candidates, GMG would almost certainly need to come in

²¹⁰ Ex. GMG-110 at 24 (Burke Surrebuttal).

²¹¹ Ex. DOC-212 at 6 (Hirasuna Surrebuttal).

²¹² The Department apportioned revenue using data from GMG on transportation costs. For more on transportation costs Ex. DOC-208 at 6–7 (Zajicek Rebuttal).

²¹³ Ex. GMG-103 at 13 (Chilson Direct at 10).

²¹⁴ *Id.*

for another rate case due to the increase in expenses.²¹⁵ GMG argued that the impact of prosecuting rate cases is disproportionately large for GMG's ratepayers because the utility has fewer customers among whom those costs can be spread. As the GMG witness who testified in support of the income tax rider acknowledged at the evidentiary hearing, the candidate that was proposing the increase in corporate tax rates did not win the election.²¹⁶

GMG also argued that an income tax rider could be beneficial to ratepayers. GMG noted that if corporate tax rates went down, a rider would give ratepayers an opportunity to automatically benefit from the tax savings without needing to wait for GMG to file a rate case.²¹⁷ But as the Department pointed out, the last time corporate tax rates decreased, the Commission opened an investigation and ordered utilities to refund over recovery of taxes to their ratepayers.²¹⁸ GMG's witness also at the evidentiary hearing acknowledged that he was aware of those facts.²¹⁹

Despite the nullification of its only argument as to why an income tax rider should be approved, GMG continues to request approval of the rider. As the Department explained, allowing an income tax rider without a foreseeable impact or known and measurable change would be inappropriate and undermine the rate case construct.²²⁰ GMG did not acknowledge or respond to the Department's analysis on the requested rate-case rider.²²¹

²¹⁵ *Id.*

²¹⁶ Evid. Hrg. Tr. at 18 (Chilson).

²¹⁷ Ex. GMG-103 at 13 (Chilson Direct at 10).

²¹⁸ Ex. DOC-215 at 8–9 (Uphus Direct).

²¹⁹ Evid. Hrg. Tr. at 19 (Chilson).

²²⁰ Ex. DOC-215 at 9 (Uphus Direct).

²²¹ Ex. DOC-216 at 2–3 (Johnson Surrebuttal).

B. The Department Recommends that the Commission's Order Include Requirements Intended to Improve the Accuracy of the Company's Filings and Facilitate Efficient Regulatory Review.

GMG's rate case filing is out of compliance with many requirements the Commission has ordered in GMG's 2004, 2006, and 2009 rate case orders. Many of those requirements were included in the Commission's orders at the Department's request. Contrary to the view GMG has expressed in testimony and at the evidentiary hearing, these requirements were developed with the aim of reducing, rather than increasing, the regulatory burden on GMG's ratepayers. As has been amply evident in this proceeding, the Company's attempt to cut corners in its filing results in added regulatory expense as the Department must track down required information that has been omitted from the initial filing.

The Department respectfully requests that the Commission's order require GMG to comply with the requirements recommended by the Department. Specifically, the Commission should order GMG to:

- Provide a bridging schedule that fully links together the old and new billing systems if GMG updates, modifies, or changes its billing system.
- Retain and provide in future rate cases:
 - all information on the billing cycle sales, cancellations/rebills, customer bills, weather data, adjusted for billing errors in the period(s) in which they occur as opposed to the time period(s) when errors are discovered; and,
 - all of the above information should be in a format to facilitate and allow independent verification of any and all data used by GMG, and to also be used to independently analyze the reasonableness of the test-year sales.

- Meet with the Department at least nine months prior to the Company filing any future rate cases given that the Department is willing to meet with GMG to assist the Company with ensuring that it fully complies with the Commission’s GMG 2004 Rate Case Order, GMG 2006 Rate Case Order, GMG 2009 Rate Case Order and the Commission’s final Order(s) stemming from this proceeding.
- Split General Plant equally between demand, customer, and capacity costs in future CCOSSs or develop a new classification method for General Plant.
- Develop a new CCOSS model that includes:
 - a more detailed breakdown of costs by FERC account;
 - the transportation classes as their own classes, rather than included in similar classes;
 - calculation and inclusion of a demand adjust to its Minimum System Method study;
 - aggregation of customers that share the same distribution line for the purposes of allocating distribution costs;
 - breaking out values for meters, regulators, and fittings by each customer class, not grouped into larger buckets; and
 - inclusion of ordered changes from the 2009 Rate Case Order.

CONCLUSION

For the reasons stated above, GMG has not met its burden to show that its proposed revenue deficiency or rate design are reasonable and would result in just and reasonable rates. The Department recognizes that GMG is a small utility, and is not expecting the same sophistication in its filings that is seen with larger utilities. That does not excuse failure to provide adequate

support for its proposed expenses and revenues. The Department has thoroughly reviewed GMG's filings, and has recommended adjustments and modifications to GMG's proposals which would result in a revenue deficiency of \$925,408. The Department also recommends the Commission order GMG comply with certain requirements that are aimed at facilitating more effective and efficient review of the company's filings in future rate cases. The Department respectfully requests that the ALJ recommend that the Commission adopt the Department's recommendations.

Dated: May 8, 2025

Respectfully submitted,

Keith Ellison
State of Minnesota
Attorney General

/s/ Katherine Arnold
KATHERINE ARNOLD (#0395767)

AMRIT HUNDAL (#0505855)
Assistant Attorneys General

445 Minnesota Street, Suite 1400
St. Paul, MN 55101-2131
(651) 757-1399 (Voice)
(651) 297-1235 (Fax)
katherine.arnold@ag.state.mn.us

ATTORNEYS FOR MINNESOTA
DEPARTMENT OF COMMERCE