BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

Katie J. Sieben	Chair
Hwikwon Ham	Commissioner
Audrey C. Partridge	Commissioner
Joseph K. Sullivan	Commissioner
John A. 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	ISSUE DATE: November 26, 2025 DOCKET NO. G-022/GR-24-350
In the Matter of Greater Minnesota Gas, Inc.'s Petition for Approval of a New Base Cost of Gas	DOCKET NO. G-022/MR-24-351 FINDINGS OF FACT, CONCLUSIONS, AND ORDER

Contents

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

Katie J. Sieben	Chair
Hwikwon Ham	Commissioner
Audrey C. Partridge	Commissioner
Joseph K. Sullivan	Commissioner
John A. 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	ISSUE DATE: November 26, 2025 DOCKET NO. G-022/GR-24-350
In the Matter of Greater Minnesota Gas, Inc.'s Petition for Approval of a New Base Cost of Gas	DOCKET NO. G-022/MR-24-351 FINDINGS OF FACT, CONCLUSIONS, AND ORDER

PROCEDURAL HISTORY

I. Initial Filings

On November 1, 2024, Greater Minnesota Gas, Inc. (GMG or the Company) filed a general rate case seeking an increase in its base rate revenues of approximately $1.4 million, which amounts to an increase of 7.7% annually.

On December 11, 2024, the Commission issued three separate orders in this case: one finding the rate case filing substantially complete and suspending the proposed final rates; one referring the case to the Court of Administrative Hearings for contested case proceedings; and one setting interim rates for the period during which the rate case was proceeding.[1]

II. The Parties and Their Representatives

The following parties appeared in this case:

- GMG, represented by Eric F. Swanson and Christopher J. Cerny, Winthrop & Weinstine, P.A., and Kristine Anderson, Corporate Attorney.

- The Minnesota Department of Commerce, Division of Energy Resources (Department or DER), represented by Katherine N. Arnold and Amrit K. Hundal, Assistant Attorney General.

[1] On this same date, the Commission issued an order in Docket No. G-022/MR-24-351, approving the Company's new base cost of gas.

- The Office of the Attorney General – Residential Utilities Division (OAG), represented by Joey D. Cherney and Katherine M. Hinderlie, Assistant Attorneys General.

III. Proceedings Before the Administrative Law Judge

The Court of Administrative Hearings assigned Administrative Law Judge (ALJ) Jessica A. Palmer-Denig to hear the case.

The parties filed direct, rebuttal, and surrebuttal testimony prior to the opening of the evidentiary hearing and initial and reply briefs after the close of the evidentiary hearing.

The ALJ held an evidentiary hearing on April 16, 2025, at the Court of Administrative Hearings. One written public comment was received; two oral comments were received, all of which generally opposed the Company's proposed rate increase.

The ALJ held three public hearings virtually using WebEx technology on March 18, 19, and 20, 2025.

IV. Proceedings Before the Commission

On July 11, 2025, the Administrative Law Judge filed her Findings of Fact, Conclusions of Law, and Recommendations (the ALJ's Report).

By July 31, 2025, all three parties filed exceptions to the report under Minn. Stat. § 14.61 and Minn. R. 7829.2700, although the Company clarified that its filing was to express full support for the ALJ's Report.

On October 9, 2025, the Commission heard oral argument from and asked questions of the parties, and deliberated on the matter. Also on this date, the record closed under Minn. Stat. § 14.61, subd. 2.

FINDINGS AND CONCLUSIONS

I. The Ratemaking Process

A. The Substantive Legal Standard

The legal standard for utility rate changes is that the new rates must be just and reasonable.[2] The Minnesota Supreme Court has described the Commission's statutory mandate for determining whether proposed rates are just and reasonable as "broadly defined in terms of balancing the interests of the utility companies, their shareholders, and their customers . . .", citing Minn. Stat. § 216B.16, subd. 6.[3] That statute is set forth in pertinent part below:

[2] Minn. Stat. § 216B.16, subds. 4, 5, and 6.

[3] *In the Matter of the Request of Interstate Power Company for Authority to Change its Rates for Gas Service in Minnesota*, 574 N.W.2d 408, 410 (Minn. 1998).

> The commission, in the exercise of its powers under this chapter to determine just and reasonable rates for public utilities, shall give due consideration to the public need for adequate, efficient, and reasonable service and to the need of the public utility for revenue sufficient to enable it to meet the cost of furnishing the service, including adequate provision for depreciation of its utility property used and useful in rendering service to the public, and to earn a fair and reasonable return upon the investment in such property. . . .

B. The Commission's Role

While the Public Utilities Act provides baseline guidance on the ratemaking treatment of different kinds of utility costs, it generally makes only threshold determinations on rate recoverability, leaving to the Commission the tasks of determining (a) the accuracy and validity of claimed costs; (b) the prudence and reasonableness of claimed costs; and (c) the compatibility of claimed costs with the public interest.

In ratemaking, therefore, the Commission must decide a wide range of issues, from the accuracy of the financial information provided by the utility to the prudence and reasonableness of the underlying transactions and business judgments, to the proper distribution of the final revenue requirement among different customer classes.

These diverse issues require different analytical approaches, involve different burdens of proof, and require the Commission to exercise different functions and powers. In ratemaking, the Commission acts in both its quasi-judicial and quasi-legislative capacities: As a quasi-judicial body it engages in traditional fact-finding, and as a quasi-legislative body it applies its institutional expertise and judgment to resolve issues that turn on both factual findings and policy judgments. As the Supreme Court has explained:

> [I]n the exercise of the statutorily imposed duty to determine whether the inclusion of the item generating the claimed cost is appropriate, or whether the ratepayers or the shareholders should sustain the burden generated by the claimed cost, the MPUC acts in both a quasi-judicial and a partially legislative capacity. To state it differently, in evaluating the case, the accent is more on the inferences and conclusions to be drawn from the basic facts (i.e., the amount of the claimed costs) rather than on the reliability of the facts themselves. Thus, by merely showing that it has incurred, or may hypothetically incur, expenses, the utility does not necessarily meet its burden of demonstrating it is just and reasonable that the ratepayers bear the costs of those expenses.[4]

[4] *In the Matter of the Petition of Northern States Power Company for Authority to Change its Schedule of Rates for Electric Service in Minnesota*, 416 N.W.2d 719, 722-723 (Minn. 1987).

C. The Burden of Proof

Under the Public Utilities Act, utilities seeking a rate increase have the burden of proof to show that the proposed rate change is just and reasonable.[5] Any doubt as to reasonableness is to be resolved in favor of the consumer.[6]

On purely factual issues, the Commission acts in its quasi-judicial capacity and weighs evidence in the same manner as a district court in a civil case, requiring that facts be proved by a preponderance of the evidence. On issues involving policy judgments, the Commission acts in its quasi-legislative capacity, balancing competing interests and policy goals to arrive at the resolution most consistent with the broad public interest.

Utilities seeking rate changes must therefore prove not only that the facts they present are accurate, but that the costs they seek to recover are rate-recoverable, that the rate recovery mechanisms they propose are permissible, and that the rate design they advocate is equitable, under the "just and reasonable" standard set by statute. As the Supreme Court has explained:

> A utility seeking to change its rates has the burden of proving by a preponderance of the evidence that its proposed rate change is just and reasonable. "Preponderance of the evidence" is defined for ratemaking proceedings as "whether the evidence submitted, even if true, justifies the conclusion sought by the petitioning utility when considered together with the Commission's statutory responsibility to enforce the state's public policy that retail consumers of utility services shall be furnished such services at reasonable rates."[7] (Citation omitted.)

II. Summary of the Issues

Many initially contested issues were resolved among the parties in the course of the evidentiary proceeding. The Administrative Law Judge found that the resolutions reached by the parties were reasonable and supported by record evidence; she recommended accepting them.

Other issues remained contested, and the following issues either were contested or otherwise require discussion.

Financial Issues

- ***Auto and Truck Expense***–Should GMG's auto and truck expense recovery amount be based on GMG's Test Year projections or the Department's calculations?

---

5 Minn. Stat. § 216B.16, subd. 4.

6 Minn. Stat. § 216B.03.

7 *In the Matter of the Petition of Minnesota Power & Light Company, d.b.a. Minnesota Power, for Authority to Change its Schedule of Rates for Electric Utility Service Within the State of Minnesota*, 435 N.W.2d 550, 554 (Minn.App. 1989).

- ***Education and Training Expense***–Should GMG's education and training expense recovery amount be based on GMG's Test Year projections or the Department's calculations?

- ***Postage Expense***–Should GMG's postage expense recovery amount be based on GMG's Test Year projections; or 2021–2024 historical average of actual expenses?

- ***Repair and Maintenance Expense***–Should GMG's repair and maintenance expense be based on GMG's Test Year projections or increasing 2024 actual expenses by 30%?

- ***Annual Incentive Pay (AIP)***–Should GMG cap the recoverable portion of one employee's AIP because the employee has a job-performance component tied to GMG's financial performance?

- ***Long-Term Incentive (LTI)***–Should GMG recover its LTI costs and, if so, should recovery be based solely on the fact that the compensation is not tied to shareholder-return-based performance?

- ***Organizational Dues***–Should GMG recover the organizational dues costs associated with the Midwest Region Gas Task Force (MRGTF), American Gas Association (AGA), and Minnesota AgriGrowth Council (MAC)?

- ***Automatic Meter Reading (AMR units) - FERC Accounts 381 and 382***–Should GMG's Test Year rate base be reduced by $176,834 associated with a discrepancy between FERC Accounts 381 and 382?

Sales Forecast Issues

- ***First-Year Sales to New Residential Customers***–How should GMG calculate its future estimated sales to new customers?

- ***Small Commercial Customer Count***–How many small commercial customers should GMG include in its Test Year?

Cost of Capital Issues

- ***Return on Equity***–What is a fair and reasonable return on equity for the Company, on this record, at this time?

Class Cost of Service Study (CCOSS) Issues

- ***CCOSS***–What action should the Commission take, if any, with respect to the class cost-of-service studies proposed in this case? What requirements, if any, should be established for future rate cases?

Revenue Apportionment and Rate Design Issues

- ***Class Revenue Apportionment***–What percentage of the revenue requirement should be allocated to each customer class?

- ***Disconnection Fees***–Should the Company's $75 disconnection fee be lowered?

- ***Interruptible Customer Rates***–Should the Company be allowed to continue offering discounts to interruptible customers?

- ***Facility Fees and Distribution Charges***–Should any changes be made to either of these items?

III. The Administrative Law Judge's Report

The Administrative Law Judge's Report is well reasoned, comprehensive, and thorough. She held one day of formal evidentiary hearings and three public hearings. She reviewed the testimony of expert witnesses, parties, and related hearing exhibits, as well as three public comments.

The ALJ received and reviewed initial and reply post-hearing briefs from the parties, as well as their proposed findings of fact and conclusions of law. Based on this record, she made some 372 findings of fact, conclusions of law, and recommendations.

The Commission has itself examined the record, considered the report of the Administrative Law Judge, considered the exceptions to that report, and heard oral argument from the parties. Based on the entire record, the Commission concurs in many of the Administrative Law Judge's findings and conclusions. On some issues, however, the Commission reaches different conclusions, as delineated and explained below.

On all other issues, the Commission accepts, adopts, and incorporates the ALJ's findings, conclusions, and recommendations to the extent they are consistent with the decisions made herein.

FINANCIAL ISSUES

IV. Auto and Truck Expense

A. Introduction

GMG projected $138,000 for auto and truck expense in the 2025 Test Tear. This expense includes costs associated with regular maintenance and gasoline expenses. GMG's unaudited, actual auto and truck expense for 2024 was $85,365. In 2022, GMG's actual expenses totaled $118,734. In 2023, GMG's actual expenses totaled $121,761. Between January 1 and March 24, 2025, GMG represented that it had incurred over $9,000 in vehicle repair expenses.

B. Positions of the Parties

1. GMG

GMG explained that it projected an increase to the auto and truck expense because GMG needed to acquire an additional vehicle for a new measurement technician. GMG asserted that the vehicle needed specialized equipment and would incur regular maintenance and gasoline expenses. GMG also argued that it anticipates higher maintenance costs as GMG's existing vehicles age. GMG opposed the Department's methodology for projecting future expenses, arguing that the methodology was unreasonable for a small utility like GMG. Instead, GMG argued that the Commission should use GMG's analysis of its own needs as it is based on "more refined and precise calculations." Although GMG's projected expense would be a 62% increase over 2024 actual spending, GMG emphasized that the increase was only 13% over 2023 actuals and 16% over 2022 actuals.

2. Department

The Department argued that GMG's proposed expense was not adequately supported and was unreasonable as it would be a 62% increase over GMG's actual spending in 2024. Instead, the Department recommended reducing GMG's auto and truck expense to $130,427, a reduction of $7,573 to GMG's proposal. The Department calculated this expense by annualizing GMG's 2024 year-to-date spending in this category and applying an additional 5% inflation factor.[8] The Department reasoned that a 5% inflation factor adequately addressed the additional costs incurred by a new vehicle because the historical inflation rate was 2–3%.

The Department also expressed confusion as to how GMG estimated, in late December 2024, that its 2024 spending for the auto and truck category would be $113,864 because GMG later reported that its actual spending in 2024 was only $85,365.

C. Recommendation of the Administrative Law Judge

The ALJ found that GMG's auto and truck expense was reasonable and recommended that the expense should be approved. The ALJ reasoned that GMG had demonstrated that it would incur expenses related to the new truck and that GMG reasonably anticipated ongoing higher costs to maintain its aging vehicle fleet. The ALJ also addressed the percentage increase of GMG's proposed auto and truck expense. Ultimately, the ALJ appears to have found that the percentage increase was reasonable because 1) GMG is adding a new vehicle; 2) the auto and truck expense is relatively small; and 3) GMG anticipates higher maintenance costs.

---

[8] The Department acknowledged that it misunderstood the financial information provided by GMG, which led to a mathematical error in the Department's recommendation. Specifically, GMG provided the Department with GMG's actual expense through November 30, 2024, plus budgeted expense for December. The Department did not appreciate that this financial information included budgeted expense for December. Accordingly, the Department's decision to annualize this figure rendered a larger Test Year expense than the Department may otherwise have recommended.

D. Commission Action

The Commission respectfully disagrees with the ALJ's recommendation and findings on this issue. Instead, the Commission agrees with the Department's recommendation and will allow GMG to include $130,427 in auto and truck expense. In so doing, the Commission will replace ALJ Findings 245, 246, 248, and 251 with Department's proposed language, and will reject ALJ Findings 249 and 250.

The Commission acknowledges that the Department's $130,427 recommended expense is based on a flawed calculation as it mistakenly annualized a value that included budgeted expenses for the remainder of the year. Nonetheless, the Commission is persuaded that the figure is fundamentally reasonable. As argued by the Department, $130,427 reasonably projects costs GMG expects to incur for auto and truck expenses. Indeed, the Commission recognizes that the Department's $130,427 proposal is 9.8% and 7.1% above GMG's actual spending in 2022 and 2023, respectively. Accordingly, the Department's proposed expense is relatively consistent with GMG's historical spending while recognizing that costs will increase in the future.

V. Education and Training Expense

A. Introduction

GMG projected $10,200 for education and training expense in the 2025 Test Year. GMG's unaudited education and training expenses for 2024 totaled $3,493. In 2022, GMG's actual expense in this category was $13,881.

B. Positions of the Parties

1. GMG

GMG argued that the primary driver for its requested education and training expense was the addition of one new metering and measurement technician in 2025. GMG asserted that the new technician would require specialized training from outside organizations, such as the American Gas Association (AGA) and the MEA Energy Association. Noting the roughly $10,000 difference in expenses between 2022 and 2024, GMG argued that the fluctuating amount of education and training expenses over the years was dependent on employee training needs, available training opportunities, and the location of the training because GMG did not employ its own trainer. GMG argued that the percentage increase in expenses from 2024 to 2025 is not a reason to deny cost recovery here because 1) GMG employees require training to provide safe and reliable gas service; and 2) the costs vary depending on the circumstances of each training and employee's needs.

2. Department

The Department recommended reducing GMG's education and training expense to $6,409, a reduction of $3,791. The Department purported to calculate this expense by annualizing GMG's education and training spending through November 2024.[9] The Department contended that $6,409—an 83% increase from 2024 to 2025—adequately accounted for the additional specialized training for GMG's new technician. The Department asserted that GMG's request for $10,200 would be a 192% increase from 2024 to 2025 and this increase was not justified by recent or planned training spending. The Department asserted that GMG failed to provide sufficient information—such as specific trainings and program options or costs—that would allow the Department to meaningfully assess the reasonableness of GMG's education and training expense.

The Department specifically opposed any reliance on GMG's education and training expenses in 2022 to justify GMG's proposed $10,200 expense. The Department contended that 2022 was a "catch-up year" during which employees received delayed training that did not occur during the COVID-19 pandemic.

C. Recommendation of the Administrative Law Judge

The ALJ found that GMG's education and training expense was reasonable and recommended that the expense should be approved because GMG needed to train a single new metering and measurement technician. The ALJ acknowledged the increase over GMG's 2024 expenses and explained that percentage increases may be relevant to determining the reasonableness of an expense. However, the ALJ found the large percentage increase here misleading because the underlying education and training expense was a fairly small number. The ALJ also reasoned that $10,200 was a reasonable education and training expense because GMG had a $13,881 expense in 2022.

D. Commission Action

The Commission will approve GMG's $10,200 education and training expense and will adopt the ALJ's thorough and well-supported findings and recommendations on this issue. The Commission is persuaded that $10,200 is a reasonable education and training expense for GMG because it is within the range of GMG's recent spending on this category. The Commission acknowledges that GMG's $13,881 expense in 2022 may have been an anomalous year for training. However, the Commission is also persuaded that GMG's new metering and measurement technician will require intensive training that places GMG's future education and training expenses more in line with GMG's 2022 spending over GMG's 2024 spending. Accordingly, the Commission is persuaded that $10,200 is a reasonable expense here as it remains below GMG's 2022 high-water mark while incorporating the extra training necessary for a new employee.

---

[9] The Commission notes that the Department's calculation here incorporates the same mathematical error found in the Department's Auto and Truck Expense equation. That is, the Department mistakenly annualized a number that included year-to-date spending and a budget for the rest of the year.

VI. Postage Expense

A. Introduction

GMG projected a 2025 Test Year postage expense of $5,400. This expense covered GMG's postage and shipping costs and did not cover customer bills and required mailings. In 2024, GMG had an actual, unaudited postage expense of $3,623. In 2023, GMG had an actual postage expense of $4,468. In 2022, GMG had an actual postage expense of $5,623. In 2021, GMG had an actual postage expense of $4,009.

B. Positions of the Parties

1. GMG

GMG asserted that it calculated its $5,400 proposed postage expense by using actual expenses in 2022 and 2023 and making assumptions about increased shipping costs. In this manner, GMG contended that its proposal considered historical trends for postage expenses while acknowledging the fact that postage costs continue to rise.

2. Department

The Department recommended reducing GMG's postage expense by $969 to $4,431. The Department explained that $4,431 was GMG's average postage expense from 2021 to 2024. The Department contended that this average was a more reasonable postage expense than GMG's $5,400 proposal. Additionally, the Department asserted that its recommendation was consistent with the Commission's practice of using historical averages for costs that fluctuate from year to year because the practice allows utilities a reasonable opportunity to recover their costs while also ensuring doubts are resolved in ratepayers' favor. The Department questioned GMG's decision to base its proposal on 2022 and 2023 actual expenses, which had the highest postage expense in recent years, while simultaneously excluding the relatively low 2024 actual expenses.

C. Recommendation of the Administrative Law Judge

The ALJ found that GMG's postage expense was reasonable and recommended that the expense be approved. The ALJ reasoned that GMG's annual postage expense had fluctuated from around $3,700 to just over $5,600 and GMG's proposed expense was within this range of actual costs. The ALJ further found that GMG's proposed postage expense accounted for fluctuations in postage costs and reflected the fact that postage costs continue to rise.

D. Commission Action

The Commission respectfully disagrees with the ALJ's recommendation and findings on this issue. Instead, the Commission agrees with the Department's recommendation and will allow GMG to include $4,431 in postage expenses. In so doing, the Commission will replace ALJ Findings 235-237 with Department's proposed language.

Specifically, the Commission agrees that GMG failed to carry its burden of establishing the reasonableness of its proposed postage expense—GMG did not persuasively explain why it calculated the postage expense using only two of GMG's highest cost years. GMG's vague assertion that its proposal accounts for historical trends and rising costs is, ostensibly, contradicted by GMG's failure to incorporate historical expenses from additional years, including relatively low costs in 2024. Instead, the Commission finds that the Department's proposal to average four recent years of postage expense is the more reasonable approach. The Department's approach incorporates a larger data set for reasonably projecting GMG's likely future expenses in this category.

VII. Repair and Maintenance Expense

A. Introduction

GMG proposed $24,000 for repair and maintenance expense. GMG's actual, unaudited repair and maintenance expense for 2024 was $15,220. This expense incorporates several costs, such as snow removal, lawncare, and office cleaning contracts. Over the past five years, GMG's lawn care and snow removal costs have constituted about 24% of expenses in the repairs and maintenance category. GMG's cleaning service has constituted about 47% of expenses in the repairs and maintenance category over the past five years.

At the end of 2024, GMG had to change its snow removal and lawn care vendor. This change increased GMG's lawn care rates by 23%, and GMG's snow removal and salt application rates by 30%. Additionally, GMG's cleaning service costs increased by 33% in mid-2024.

B. Positions of the Parties

1. GMG

GMG argued that the primary driver increasing its repair and maintenance expense is a significant rise in the cost of GMG's snow removal, lawncare, and office cleaning contracts. GMG explained that these cost increases were outside of GMG's control. GMG noted that its actual costs in 2024 related to snow removal were lower than normal due to abnormally warm winter weather conditions.

2. Department

The Department recommended reducing GMG's repair and maintenance expense by $4,213 to $19,787. The Department calculated this amount by applying a 30% inflation rate to GMG's actual, unaudited repair and maintenance expenses for 2024. The Department argued that a 30% inflation increase reasonably reflected GMG's actual cost increases in this area—*i.e.*, 33% increase for cleaning services, 30% increase for snow removal and salt application, and 23% increase for lawn care. Conversely, the Department argued that GMG's proposed 58% increase over 2024's actual costs was notably higher than the known and quantifiable increase in GMG's contracted rates. Although GMG contended that its 2024 snow removal costs were lower than normal, the Department argued that GMG failed to quantify the financial impacts of that change.

C. Recommendation of the Administrative Law Judge

The ALJ found that GMG's repair and maintenance expense was reasonable and recommended that the expense should be approved. The ALJ explained that GMG had demonstrated known and quantifiable increases to its contract rates. The ALJ found that these costs were reasonable and reflected GMG's actual operating conditions.

D. Commission Action

The Commission respectfully disagrees with the ALJ's recommendation and findings on this issue. Instead, the Commission agrees with the Department's recommendation and will allow GMG to include $19,787 in repair and maintenance expense. In so doing, the Commission will replace ALJ Findings 238, 243, and 244 with Department's proposed language.

Specifically, the Commission agrees that GMG failed to carry its burden of establishing the reasonableness of its proposed repair and maintenance expense. GMG has not persuaded the Commission that it is reasonable to increase its repair and maintenance expense by 58% over GMG's actual incurred costs in 2024. This 58% increase is not supported by GMG's rising contract costs, the largest of which was—according to GMG—33%. Instead, the Commission finds that the Department's proposed 30% increase over 2024 actual costs more reasonably and appropriately accounts for GMG's increased costs. To the extent GMG would argue that it is unreasonable to base its future expenses in this category on GMG's 2024 actual costs, due to abnormal weather patterns, GMG has failed to carry its burden on this argument. GMG has not persuasively shown the degree to which weather impacted its repair and maintenance costs.

VIII. Annual Incentive Program (AIP)[10]

A. Introduction

GMG proposed a total AIP expense of $92,442 and provided a list of employees eligible for AIP. To determine whether an eligible employee would receive any AIP compensation, GMG reviewed each employee's performance in the prior year.[11] GMG has paid the full AIP amount to eligible employees despite two recent years where GMG experienced poor economic performance, showing that GMG's AIP is generally independent of GMG's financial performance. For at least some employees, GMG has structured the actual AIP payment so that the employee is paid after performing their most critical and difficult-to-replace job duties.

GMG and the Department dispute the recoverability of AIP expenses for one single employee whose AIP compensation had some connection to shareholder interests and GMG's financial performance.[12] The Test Year incentive for this employee totaled $32,162. This employee was one of GMG's officers and the Department agreed that GMG's two officers did not spend a significant amount of time on shareholder-focused activities.

---

[10] AIP has also been referred to as a short-term incentive compensation and an annual performance pay. The Commission acknowledges GMG's preference for the latter term. Ultimately, the Commission's decision herein is based on the fundamental characteristics of the compensation package and not the program's title.

[11] For example, the employee who was primarily responsible for dealing with GMG's energy conservation programs received short-term performance pay when certain energy conservation goals were met.

[12] Although the Department initially proposed limiting recovery of AIP expenses for all GMG employees, the Department revised its recommendation and solely supported an AIP cap for just one GMG employee.

B. Positions of the Parties

1. GMG

GMG advocated for recovering its full AIP expense. GMG generally emphasized that its overall compensation package is reasonable and necessary to retain employees. GMG asserted that it has had difficulties recruiting and retaining well-qualified employees and cautioned that the loss of even one or two key personnel can put an extreme burden on GMG. GMG argued that it should recover the entire amount of the one employee's AIP expenses even though the employee's AIP is influenced by GMG's financial performance. GMG explained that this employee's AIP benefited ratepayers because GMG's financial performance is directly influenced by employee-controlled factors such as safety, reliability, and regulatory compliance.

GMG addressed the 15% cap applied to Xcel Energy's AIP.[13] GMG argued that its AIP bears no resemblance to Xcel Energy's AIP because GMG has no earnings-per-share threshold that must be met before it provides performance pay to its employees. GMG emphasized that Xcel Energy's AIP—unlike GMG's—was structured in a way that primarily benefited shareholders whereas GMG's AIP benefitted ratepayers. GMG also opposed capping this employee's recoverable AIP expenses because 1) there was no evidence that this employee advanced shareholder interests above customer interests; 2) the employee does not spend a significant amount of time on shareholder-focused activities; 3) GMG has paid out AIP despite poor financial performance; and 4) GMG has never paid shareholder dividends.

Lastly, GMG calculated that there would be a partial disallowance of AIP expenses if the Commission applied a 20% cap similar to the one imposed on Minnesota Power. However, GMG would recover all its AIP expenses if the Commission applied a 25% cap similar to the one imposed on CenterPoint.

2. Department

The Department recommended limiting the recoverable portion of AIP expenses for one of GMG's employees. Specifically, the Department recommended imposing a 15% cap on the recoverable portion of one employee's AIP compensation. The Department reasoned that this employee's AIP should be limited because the employee's performance metrics were tied to GMG's financial performance. The Department further explained that a 15% cap was appropriate because the Commission imposed that same cap on Xcel Energy's AIP in 2023.[14] The Department's recommendation would reduce this employee's recoverable AIP expense by $11,276.

The Department argued that annual performance pay primarily incentivizes employees to act in the interest of shareholders and that customers paying for annual performance pay end up enduring some of that risk while largely accruing benefits enjoyed by shareholders. The

[13] Effectively, a 15% AIP cap would make shareholders—and not ratepayers—responsible for any AIP compensation paid to this employee in excess of 15% of that employee's salary.

[14] *In the Matter of the Application of Northern States Power Company, dba Xcel Energy, for Authority to Increase Rates for Electric Service in the State of Minnesota*, Docket No. E-002/GR-21-630, Findings of Fact, Conclusions, and Order (July 17, 2023).

Department further argued that a 15% cap on this employee's AIP would not prohibit GMG's ability to retain key personnel.

C. Recommendation of the Administrative Law Judge

The ALJ recommended allowing GMG full recovery of its AIP expense, rejecting the Department's proposed 15% cap. In so doing, the ALJ found that the performance pay program was reasonable, finding that 1) the overall compensation level of GMG's officers is reasonable; 2) GMG's officers do not spend significant hours on shareholder-focused activities; 3) GMG has paid out its full performance pay during the past two years despite weak earnings; and 4) GMG has never paid its shareholders a dividend.

D. Commission Action

The Commission respectfully disagrees with the ALJ that there should be no cap on GMG's recoverable AIP expenses. Instead, the Commission is persuaded that it is reasonable to impose a 25% cap on recoverable AIP expenses for the one GMG employee at issue. The Commission acknowledges that this cap does not change the total amount of recoverable AIP expenses and, therefore, the Commission agrees with and adopts the ALJ's findings and recommendations—as modified consistent herewith—because they are consistent with the 25% cap.

The Commission will cap the recoverable portions of this one employee's AIP because the employee's AIP compensation includes metrics related to GMG's financial performance. The Commission is concerned that this compensation structure has the potential to incentivize this employee to act in a manner that prioritizes GMG's interests—including GMG's shareholders—over the interests of GMG's customers. GMG has not met its burden to show that it would be just and reasonable to impose no cap on this employee's AIP. Accordingly, the Commission will cap the recoverability of this employee's AIP expenses.

The Commission finds that a 25% cap appropriately balances the competing interests and incentives in this case. The Commission disagrees with the Department that a 15% cap is appropriate simply because the Commission applied this cap to Xcel Energy's AIP. As an initial matter, the decision whether to limit a utility's recovery of AIP is a tailored and evidence-based decision unique to each case. Additionally, the record in each case can justify a range of reasonable AIP limits.[15]

Here, the record shows that GMG's AIP is significantly different from Xcel Energy's AIP in ways that reduce the risk that this employee will promote corporate and shareholder interests over ratepayers. For example, Xcel Energy's AIP was not paid to employees unless Xcel Energy achieved a targeted earnings-per-share rate. GMG's AIP does not include such a financial trigger. Further, the record demonstrates that this employee has not spent significant amounts of

---

[15] *See, e.g., In the Matter of the Application of Minnesota Power for Authority to Increase Rates for Electric Service in Minnesota*, Docket No. E-015/GR-16-664, Findings of Fact, Conclusions, and Order (March 12, 2018) (setting a 20% cap); *In the Matter of the Application of CenterPoint Energy Resource Corp. d/b/a CenterPoint Energy Minnesota Gas for Authority to Increase Natural Gas Rates in Minnesota*, Docket No. G-008/GR-15-424, Findings of Fact, Conclusions, and Order (June 3, 2016) (setting a 25% cap).

time on shareholder related activities, and AIP has been paid even in years GMG has had poor financial performance. And, GMG's unique difficulties recruiting and retaining well-qualified employees warrants careful consideration given that losing even one such employee could increase GMG's costs or risk to service quality. Accordingly, the Commission is persuaded that a 25% AIP appropriately balances the lower risk that this employee will prioritize GMG's interests over the interests of GMG's customers.

IX. Long-Term Incentive (LTI)[16] Compensation

A. Introduction

GMG proposed a total LTI expense of $48,300. An employee can receive LTI payments for simply remaining employed with GMG—the payments are not contingent on GMG's financial performance. Indeed, GMG has paid LTI despite two recent years of poor economic performance. Employees receive the payment on the third anniversary of the agreement. For at least some employees, GMG has structured the actual LTI payment so that the employee is paid after performing their most critical and difficult-to-replace job duties. For example, GMG's supervisory gas technicians receive their LTI payments in January to encourage them to stay through year-end, when their construction projects are complete. GMG explained that, for the supervisory gas technicians, their departure from GMG during the construction season could significantly impact GMG's ability to complete the necessary projects to safely and reliably serve GMG's customers.

B. Positions of the Parties

1. GMG

GMG argued that its LTI plan helps retain key personnel to ensure safe, reliable business operations. GMG asserted that, with only 25 employees, the loss of even one or two key personnel can present extreme challenges. GMG argued that its LTI is tailored to meet GMG's and customers' needs. GMG argued that it needs to structure its compensation in this manner to support retention of its key personnel to ensure the safe, reliable operation of the business.

GMG distinguished its LTI compensation program from other large utilities' LTI compensation programs. GMG argued that its LTI compensation program is wholly unlike other utility's programs that require the utility to achieve certain financial goals before any LTI payments are made. GMG observed that both CenterPoint and Xcel Energy were denied recovery for their respective LTI programs because the compensation programs were tied to shareholder interests and could divert employees' attention from customer-focused issues. In contrast, GMG emphasized that GMG's LTI program does not have any financial component or financial trigger that must be met before payment. Instead, GMG asserted employees receive LTI for simply remaining employed with GMG.

[16] GMG prefers to refer to this form of compensation as employee "retention agreements."

2. Department

The Department recommended removing all LTI expenses from the Test Year—$48,300—because the Commission has consistently rejected recovery of LTI from ratepayers, including recently rejecting Xcel Energy's and CenterPoint's LTI plans.[17] The Department agreed that GMG's LTI was not tied to GMG's financial performance and, therefore, agreed that that was not an appropriate reason to exclude the expense. However, the Department reasoned that GMG had not adequately shown that GMG's LTI provides a unique benefit that justifies separate rate recovery. If the Commission allows GMG to recover its LTI expense, the Department argued that the Commission should specify that this departure from past precedent is justified because GMG's LTI does not include a shareholder-return-based performance element.

C. Recommendation of the Administrative Law Judge

The ALJ recommended allowing GMG to recover all the costs of its LTI compensation program, *i.e.*, GMG's retention pay program. In so doing, the ALJ found that GMG's retention agreements are fundamentally different from CenterPoint's and Xcel Energy's disallowed long-term incentive compensation programs. The ALJ found that GMG's LTI program encouraged staff to complete that year's critical tasks. As such, the pay program focused employees' attention on providing safe, reliable, and affordable service, and did not distract employees from this mission. The ALJ further found that the retention agreements were critical to attracting and retaining personnel, which allows GMG to provide safe and reliable natural gas service. The ALJ also found that the retention pay program is uniquely tailored to serve these functions.

The ALJ emphasized the importance for GMG to retain personnel, finding that 1) GMG had only 25 employees and experienced challenges in recruitment and retention of well-qualified employees; and 2) with only 25 total employees, abrupt loss of even one or two key personnel, before the completion of significant work projects, can present significant challenges for GMG. The ALJ also noted that no party has asserted that GMG's employee compensation is excessive.

D. Commission Action

The Commission will approve GMG's LTI expense of $48,300. The Commission will adopt the ALJ's thorough and well-supported findings and recommendations on this issue. The Commission agrees that GMG's employee compensation package, including LTI, is reasonable and appropriate for rate recovery. As with AIP expenses, the decision whether to limit or exclude a utility's recovery of LTI is a tailored and evidence-based decision unique to each case, and in this case, GMG's unique vulnerability to losing key employees weighs in favor of allowing GMG to recover its reasonable LTI expense. Although the record in other cases has supported disallowing recovery of LTI expenses, the record here justifies a different outcome. For all these reasons, the Commission will authorize GMG to recover its LTI expense.

---

[17] *See In the Matter of the Application of Northern States Power Company, dba Xcel Energy, for Authority to Increase Rates for Electric Service in the State of Minnesota*, Docket No. E-002/GR-21-630, Findings of Fact, Conclusions, and Order (July 17, 2023); *In the Matter of the Application of CenterPoint Energy Resource Corp. d/b/a CenterPoint Energy Minnesota Gas for Authority to Increase Natural Gas Rates in Minnesota*, Docket No. G-008/GR-15-424, Findings of Fact, Conclusions, and Order (June 3, 2016).

X. Organizational Dues

A. Introduction

GMG projected a total organizational dues expense of $10,016, related to dues for 12 organizations. Dues for only three of those organizations are in dispute here. Specifically, the OAG disputes GMG's requested dues for the American Gas Association (AGA), the Minnesota AgriGrowth Council (MAC), and the Midwest Region Gas Task Force (MRGTF). According to the AGA, it is an organization that represents more than 200 local energy companies that deliver clean natural gas throughout the United States. MAC asserts to be a nonprofit, nonpartisan member organization representing the agriculture and food industry. The MRGTF is a group of small natural gas companies and municipalities that ship gas on a pipeline network operated by Northern Pipeline, Inc. The MRGTF allows GMG to share expenses with other small regional gas utilities to intervene in federal rate cases brought by the interstate pipeline companies such as Northern Natural Gas and Viking Gas Transmission.

B. Positions of the Parties

1. GMG

GMG conceded that its initial projection for AGA organizational dues ($3,702) included dues related to lobbying activities. Based on a 2024 AGA invoice, GMG argued that 4.3% of AGA dues are allocable to lobbying and proposed a $159 downward adjustment to remove these lobbying expenses. GMG generally emphasized that the AGA is GMG's primary resource for training and information, and that GMG relies on the AGA for technical training because GMG does not have its own training department. For these reasons, GMG argued that the AGA's non-lobbying activities are necessary for the provision of natural gas and are directly connected to providing or improving utility service.

GMG argued that its requested organizational dues related to MAC ($2,750) provide several benefits to ratepayers, including networking opportunities and industry insights for one of GMG's primary markets for current and potential customers, *i.e.*, agricultural customers. GMG asserted that one such opportunity involved the potential to develop renewable natural gas. GMG argued that this membership benefits all ratepayers because adding more agricultural customers benefits other rate classes. GMG contended that 25% of MAC dues are attributable to lobbying and GMG failed to remove this amount from its initial projection. Accordingly, GMG asked to reduce its MAC dues request to $2,062.50 from $2,750.

GMG argued that its requested organizational dues related to the MRGTF ($1,100) strengthen GMG's interests in interstate pipeline rate cases and lower GMG's legal expenses by joining related voices and sharing legal costs. In this manner, GMG argued these dues directly benefit its ratepayers. GMG argued that it should recover the full $1,100 dues annually because it has incurred, or expects to incur, these costs in four out of the five years between 2021 and 2025. GMG noted that it incurs these expenses when there are rate case activities, emphasizing that this work can and does occur in years outside the single calendar year a case is filed. Further, GMG asserted that a single rate case can often take longer than one year to resolve and the MRGTF participates in rate cases for multiple interstate pipeline companies. Thus, GMG argued that it would be inappropriate to assume that GMG would only incur the dues once every three years.

2. OAG

The OAG argued that GMG failed to justify $7,185 of its total requested organizational dues of $10,016. The OAG raised concerns with dues for three organizations: the AGA, MAC, and the MRGTF.

The OAG argued that all AGA dues should be excluded because GMG failed to 1) separate lobbying-related costs; and 2) demonstrate that AGA dues benefit ratepayers or directly support utility service. The OAG acknowledged that GMG identified a percentage of AGA dues that are allocable to lobbying. However, the OAG questioned the authenticity of this percentage, arguing that it is too low to cover the AGA's primary mission of developing and advocating for policies. Indeed, the OAG emphasized that the AGA influences both legislation and policymaking at state and federal agencies. The OAG asserted that the AGA has published vast quantities of material for lobbying and the AGA regularly celebrates its legislative and policy achievements. Accordingly, the OAG contended that it was reasonable to conclude that a far greater portion of AGA dues pay for lobbying-related activities than what is represented.

The OAG also argued that AGA dues should be excluded because GMG failed to show how it utilizes the membership. The OAG was unconvinced by GMG's arguments about the potential educational benefits of AGA membership; the OAG contended that GMG needed to provide evidence showing that the AGA dues actually benefit ratepayers. For example, the OAG noted that GMG failed to identify any specific trainings or conferences GMG staff attended through the AGA. The OAG asserted that GMG's failure to provide evidence on this issue was particularly noteworthy since GMG was separately requesting rate recovery of training expenses.

The OAG argued that all MAC dues should be excluded because the organization does not directly relate to natural gas service and GMG failed to explain how membership benefits ratepayers. The OAG emphasized that MAC is an organization generally related to Minnesota's food and agricultural industries—not natural gas. The OAG noted that GMG did not support the requested dues with any evidence as to whether GMG ever received sales leads or new customers through MAC. The OAG also questioned how insights into the agricultural industry could impact GMG's natural gas operations in any way. Instead, the OAG contended that any MAC benefits are too speculative. Lastly, the OAG also argued that MAC dues should be excluded because GMG failed to remove lobbying-related expenses.

The OAG did not dispute that ratepayers benefit from the MRGTF dues. Instead, the OAG argued that GMG should not recover the full $1,100 MRGTF dues annually because GMG has not incurred this cost annually. Instead, the OAG recommended amortizing this amount over a three-year period because 1) GMG only incurs this expense when there are interstate pipeline rate case activities; and 2) GMG generally assumes that such a rate case is filed on a roughly three-year schedule. Amortizing the MRGTF dues would result in a cost of $367 in the Test Year. The OAG emphasized that GMG only paid these dues in 2021, 2023, and 2024 and, further, GMG has not always paid the full $1,100 even when GMG has paid the dues. The OAG supported the normalized $367 expense because of GMG's inconsistent and irregular payments.

C. Recommendation of the Administrative Law Judge

The ALJ recommended allowing GMG to recover GMG's projected organizational dues for the three organizations discussed above subject to the reductions offered by GMG to account for lobbying expenses, *i.e.*, \$159 reduction for AGA dues and \$687.50 reduction for MAC dues. In so doing, the ALJ determined that GMG reasonably relied on the AGA for training, safety information, and other best practices and, in this manner, the AGA dues are directly connected to providing or improving utility service. The ALJ was also persuaded that only 4.3% of GMG's requested AGA dues—\$159—were allocable to lobbying. Ultimately, the ALJ recommended that the dues should be recovered with the lobbying portion removed.

As for GMG's MAC dues, the ALJ found that this membership allowed GMG to access one of its primary markets for current and potential customers—agricultural customers—and identify trends and market needs for the communities GMG serves, such as opportunities for renewable natural gas. The ALJ further found that adding new business customers would benefit all other GMG customers. Presumably for these reasons, the ALJ found that GMG's MAC membership directly benefits all ratepayers and relates to the provision of natural gas. As with the AGA dues, the ALJ noted that it would be inappropriate for GMG to recover lobbying expenses. The ALJ was persuaded that 25% of MAC dues supported lobbying activities and, accordingly, the ALJ recommended that the dues should be recovered with the lobbying portion removed.

Lastly, the ALJ found that membership in the MRGTF could sharply lower GMG's expenses for participating in federal pipeline proceedings. The ALJ found that it was reasonable for GMG to recover the full \$1,100 every year because GMG incurred or would incur costs for this organization in four out of five recent years, *i.e.*, 2021 through 2025.

D. Commission Action

The Commission respectfully disagrees with the ALJ's recommendation and findings related to the three organizations' disputed dues. Instead, the Commission largely agrees with the OAG's recommendations. Specifically, the Commission will deny recovery for AGA and MAC dues and will order GMG to collect only \$880 of the projected \$1,100 MRGTF costs annually. In so doing, the Commission will reject and/or modify ALJ Findings 256–57, 259, 262, 267–69, 271, and 277 consistent with the analysis below.

The Commission finds that GMG has failed to meet its burden of showing that the AGA dues reasonably benefit ratepayers. Despite GMG's general assertions regarding the importance of AGA training and informational resources, GMG failed to identify any specific trainings, conferences, or other educational opportunities that GMG staff has actually utilized. This omission is particularly notable considering the OAG's questioning on this issue and the Commission's decision to allow GMG recovery of its full education and training expense. The Commission is not persuaded that this membership provides any additional educational benefits that are not separately realized via GMG's approved education and training expense. Further, the Commission will not require GMG's ratepayers to pay for an organization membership absent a stronger showing that the membership is used and useful by GMG in a manner that benefits ratepayers. Accordingly, GMG's AGA dues will be denied.

Similarly for GMG's MAC dues, the Commission is not persuaded that GMG's ratepayers realize any actual benefits from this membership. While the Commission could be convinced that an organization such as MAC benefits GMG's ratepayers despite, at best, a tangential overlap with the natural gas industry, GMG has not carried this burden here. MAC is an organization for the food and agriculture industries and GMG has only advanced unsupported and vague assertions of benefits for GMG's natural gas customers. Despite questioning from the OAG, GMG failed to show that GMG gained any additional customers or sales volumes through MAC membership. Absent any persuasive examples of ratepayer benefits, the Commission will not require GMG's ratepayers to pay for this organization's dues.

Regarding the MRGTF dues, the Commission agrees that GMG has failed to carry its burden to show that the dues should be collected annually. Instead, the proper course of action is to amortize these dues. Consistent with the ALJ's findings, the Commission is persuaded that GMG has paid these dues in four out of five recent years. This is the most supported and reasonable framework for GMG to recover the MRGTF dues. Rather than speculate as to how often the MRGTF may be active and charge GMG dues, the Commission will amortize the MRGTF dues consistent with the record established herein. This recovery framework appropriately recognizes that, even if interstate pipeline rate cases are filed every three years, GMG may pay MRGTF dues for rate case activities in the calendar years prior to or following the single calendar year in which a rate case is filed. Accordingly, the Commission will authorize GMG to recover 80% of the MRGTF dues each year, or $880.

XI. Automatic Meter Reading (AMR units) - FERC Accounts 381 and 382

A. Introduction

Meters and Automatic Meter Reading units ("AMRs") are classed into groups and subject to group depreciation for purposes of determining plant balance. These meter groups are assigned to FERC accounts for bookkeeping purposes. Two of these accounts are referred to as FERC Account 381 and FERC Account 382. In the summary of information GMG provided for this case, the OAG identified a purportedly unexplained $176,834 increase in the 2025 Test Year plant balance for FERC Account 381.

B. Positions of the Parties

1. GMG

GMG explained that it erred when it combined groups for the meters and incorrectly classified certain amounts with FERC Account 381 that should have been included in FERC Account 382. GMG further explained that it corrected this misclassification for the 2024 unaudited actual plant balance and properly classified the meters and AMRs to FERC Account 382. However, GMG noted that it did not correct this misclassification in the columns related to 2023 and 2025. This, GMG explained, created the $176,834 increase identified by the OAG. GMG argued that the $176,834 increase was not a plugged amount or unsupported place holder amount because the ultimate amount for FERC Account 381 in 2025 was the same amount GMG included in 2023, *i.e.*, $520,747. Further, GMG noted that combining FERC Accounts 381 and 382 showed modest investment growth, which showed that the $176,834 increase was not plugged. GMG asserted that neither the misclassification nor the correction affected the overall plant balance or requested rate increase. Finally, GMG contended that its meters are used and useful and should be included in rate base.

2. OAG

The OAG recommended updating GMG's 2025 Test Year beginning plant balance to reflect the actual 2024 ending plant balance by removing the $176,834 from FERC Account 381. The OAG effectively argued that GMG did not make a simple accounting error or misclassify certain meter amounts in a way that needed correction. Instead, the OAG contended that, at the end of 2024, the actual balance for FERC Account 381 was $343,913, or $176,834 less than the 2023 balance and 2025 projection ($520,747). As such, the OAG asserted that GMG plugged the $176,834 amount back to keep its spreadsheet balances unchanged—the OAG maintained that this adjustment was unsupported and does not reflect actual, real plant investments. Indeed, the OAG contended that GMG needed evidence that it was adding $176,834 worth of meters.

C. Recommendation of the Administrative Law Judge

The ALJ recommended allowing GMG to recover GMG's full amount of its projected customer meter plant balances. In so doing, the ALJ found that GMG inadvertently classed certain meter-related and AMR-related amounts into FERC Account 381 that should have been classed in FERC Account 382. The ALJ found that the disputed $176,834 increase was a correction made by GMG. The ALJ determined that the misclassification and the corrective increase did not impact GMG's overall revenue requirement because both FERC accounts have the same depreciation schedule. The ALJ was unpersuaded that the $176,834 was an unsupported placeholder because GMG had the same amount in 2023 that it used in the projected amount for the 2025 Test Year for FERC Account 381, meaning that FERC Account 381 did not increase between 2024 and 2025. The ALJ found that GMG's combined meter plant balance was reasonable because there was a modest increase from 2023 to 2025.

D. Commission Action

The Commission will approve GMG's projected customer meter plant balances in full and adopt the ALJ's thorough and well-supported findings and recommendations on this issue. The Commission is persuaded that the disputed $176,834 increase was simply a correction to an unfortunate accounting error. The Commission is satisfied that this accounting issue—GMG's initial misclassification, error, and adjustment—is an issue on paper only; the Commission is further satisfied that the disputed meters have not disappeared or otherwise been removed from service, but instead continue to be used and useful for utility service. Accordingly, the Commission will allow GMG to recover its projected customer meter plant balances in full.

SALES FORECAST

XII. First-Year Sales to New Residential Customers

A. Issue

Estimating a utility's sales is an important part of setting reasonable rates. Overestimating sales can result in a utility not earning enough to meet its revenue requirement, while underestimating sales can lead to the utility over recovering. To estimate sales in a rate case, a utility prepares a sales forecast for a Test Year, which is the 12-month period selected by the utility for the purpose of expressing its need for a change in rates.[18] GMG's Test Year for this rate case is the projected year ending December 31, 2025.

In its sales forecast, GMG estimated that it would sell 86.0 million cubic feet (MCF)[19] of natural gas to each of its existing residential customers and 21.6 MCF for each new customer. GMG explained that it estimated lower sales to new customers because, based on historical data, GMG adds most new customers each year following the summer construction season, which results in significantly reduced sales to those customers in their first year. The Department opposed GMG's approach and recommended forecasting 86.0 MCF of sales for both existing and new residential customers.

B. Positions of the Parties

1. The Department

The Department argued that GMG's inclusion in the Test Year of reduced sales for new residential customers was unreasonable. In the Department's view, annualizing sales for GMG's new residential customers would more accurately reflect sales in the future because it would account for those customers remaining on GMG's system after their first year.

2. GMG

In response, GMG stated that forecasting reduced sales for new residential customers is appropriate and consistent with the test-year concept because there is a historical trend of adding most of those customers in the latter part of any given year. GMG acknowledged that annualizing new residential customers' usage is appropriate when the pattern is irregular, but since new residential additions to GMG's system follow an observable pattern, the Test Year should reflect that trend because it is a normal part of GMG's operations.

If the Commission nevertheless required annualization of new residential customers' usage, GMG stated that the costs to serve those customers should also be annualized.

C. Recommendations of the Administrative Law Judge

The ALJ found that "GMG met its burden to demonstrate the reasonableness of its Test Year sales forecast for new customers."[20] The ALJ reasoned that GMG's addition of new residential customers follows a consistent trend year-to-year, and annualizing "such customers' revenues,

---

[18] Minn. R. 7825.3100, subp. 17.

[19] In Volume 3 of its initial filing, GMG estimated the amount of gas it would sell in terms of MCF, which is a measurement of volume. As the record developed, however, commenters began referring to GMG's sales forecast in terms of dekatherms, which is a unit of energy equal to ten therms, or roughly one million British Thermal Units (BTUs). Consistent with GMG's initial filing, the Commission will use MCF when discussing GMG's sales forecast.

[20] ALJ Report, Finding 183.

without also annualizing all of the associated costs, would not allow GMG a reasonable opportunity to recover its cost of service."[21]

D. Commission Action

The Commission agrees with the ALJ that GMG's inclusion of 21.6 MCF of sales in the Test Year for new residential customers is reasonable. GMG showed that there is a consistent historical trend of adding new residential customers in the latter part of each year, and it makes sense to account for this trend in the Test Year because it mirrors GMG's normal operations. Moreover, including reduced sales for new residential customers reflects the reality that each year new customers are likely to use significantly less natural gas in their first year—and therefore generate significantly less revenue for GMG—than existing customers due to when they are added to the system.

But even though the Commission is persuaded that GMG's treatment of new residential customers in the Test Year is reasonable, it is worth noting that annualizing customer revenues, as the Department recommended, can also be a reasonable approach under certain circumstances. In this docket, however, the Commission shares the ALJ's concerns about GMG's ability to recover its cost of service if the Company annualizes its sales to new residential customers but not the associated costs. The Commission therefore considers it more appropriate under these circumstances to approve GMG's treatment of new residential customers in the Test Year.

For these reasons, the Commission will maintain GMG's partial first-year recommendation to use the approximately 21.6 MCF annual 12-month usage and the approximately 3-month "customer charge revenues" for estimating first-year sales of new residential customers, as incorporated in GMG's sales forecast.

XIII. Small Commercial Customers

A. Issue

In its initial sales forecast, GMG included 946 small commercial customers in its Test Year, which reflected GMG's expectation that there would be no increase in that customer class. In support of its projection, GMG explained that its growth from 2009 through 2023 resulted from its extension of natural gas service to rural markets that were previously unserved by a natural gas utility. Since GMG is not planning any major extensions into unserved communities during the Test Year, and all the development identified for future growth is residential, GMG projected no additional small commercial customers.

The OAG disagreed with GMG's projection and recommended increasing the small commercial customer count to 990 based on growth in the class in recent years. The OAG observed that GMG already had 970 small commercial customers in October 2024 and 996 by the end of 2024.

[21] *Id.*, Finding 182.

B. Positions of the Parties

1. GMG

GMG did not oppose updating all customer counts, including the small commercial customer count, and asserted that updating the counts to 2024 year-end actuals would provide for the greatest accuracy. GMG submitted an updated sales forecast accordingly.

2. The OAG

The OAG recommended against approving the updated sales forecast because GMG did not update all its costs along with the customer counts, which, according to the OAG, resulted in an unreasonable increase in the revenue requirement. The OAG asserted that without updated costs there is no reliable basis in the record to recalculate the sales forecast using 2024 actuals. Even though the OAG was opposed to the updated sales forecast, the OAG continued to recommend increasing GMG's small commercial customer count to 990 based on historical trends. The OAG also recommended modifying the ALJ Report as follows:[22]

> 184. GMG's Test Year included the addition of 400 residential customers and no customer additions of any other class. GMG argued that it included additions of other types of customers in this forecasted growth, but that it categorizes them in its Test Year as residential customers as a default choice.
>
> 185. The OAG argued that this methodology means the Test Year is based on incorrect data, and because different customer classes use gas differently, the Test Year revenues and cost allocation are both distorted by GMG's choice.
>
> 186. Historically, GMG's growth from 2009 through 2023 resulted from the Company's extension of natural gas service to rural markets that were previously unserved by a natural gas utility. GMG grew by an average of 389 residential customers per year from January of 2019 until December of 2023, and an average of approximately 429 residential customers each year from 2008 until 2023, making its forecasted addition of 400 residential customers reasonable.
>
> 187. New commercial customers, including new Small Commercial customers, resulted primarily from the conversion of existing businesses in these unserved areas to natural gas service.
>
> 188. All the developments that GMG has currently identified for future growth are residential developments, not commercial facilities. GMG stated it has not identified any new commercial loads to be added along its existing mains.
>
> 189. Additionally, GMG stated it is not planning any large projects or major main extensions to unserved communities in 2025. GMG projects growth during the 2025 Test Year that follows from infill along its existing mains.

[22] Footnotes in the original were omitted.

190. GMG projected that its 2024 year-end roster of 946 Small Commercial customers would not grow during the 2025 Test Year. However, by the time it filed its rate case, it already had grown to 970 small commercial customers, despite its claim that its growth after 2023 would be different from its growth between 2009-2023 and it would experience no small commercial customers growth in 2024 or 2025. By the end of 2024, it had grown to 996 small commercial customers.

191. The OAG also demonstrated ~~argues~~ that GMG~~'s historical~~ added ~~of~~ roughly 30 Small Commercial customers annually from 2019 through 2023. ~~compels a different Small Commercial customer count for the 2025 Test Year.~~

~~190. The OAG acknowledges, however, that "it is possible GMG's theory that it has exhausted all opportunities to add small commercial customers is true," and that the "past is not always indicative of the future."~~

192. GMG argued that if it was going to update its small commercial customer count using 2024 actuals, it should update its whole sales forecast using 2024 actuals. The OAG agreed with GMG that it is reasonable to update the 2025 sales forecast with actual 2024 year-end customer count numbers, as long as GMG updates its operating costs and cost of service for the Test Year and still forecasted growth in its small commercial class.

193. GMG adjusted the sales forecast to utilize the 2024 year-end actual customer counts, resulting in a downward adjustment of $185,507 for operating revenues in the Test Year. ~~and an increase in the Revenue Requirement of $92,834.~~ GMG argued that this resulted in an increase in its revenue requirement of $92,834. However, GMG failed to update any of its costs using 2024 actuals, meaning its proposed adjustment to its revenue requirement was calculated incorrectly using data sets that did not match. GMG's adjustment also did not include any Test Year growth in the small commercial class as recommended by the OAG.

194. GMG has not met its burden to demonstrate the reasonableness of its updated sales forecast. Using the updated sales forecast but the original costs of service and operating expenses as advocated by GMG would mean an artificially-increased overall revenue requirement and incorrect Class Cost of Service analysis.

195. GMG has also not met its burden to demonstrate the reasonableness of its forecasted addition of no new small commercial customer accounts during the Test Tear. It alleged in its initial filing that it would not add small commercial customers in 2024 or 2025, but it had already added 24 when it made this argument in late 2024 and it never explained the discrepancy or offered any evidence that the same would not happen again in 2025.

196. The Commission will therefore adopt GMG's original Test Year sales forecast, but increase the small commercial customer count from 946 to 990. This will reduce GMG's 2025 revenue requirement by $13,840.

C. Recommendations of the Administrative Law Judge

The ALJ found, among other things, that GMG met its burden to demonstrate the reasonableness of its updated sales forecast and the forecasted addition of no new commercial customer accounts during the Test Year.[23]

D. Commission Action

The Commission agrees with the OAG that GMG should increase its small commercial count to 990 because that number more accurately reflects the actual number of GMG's small commercial customers than the Company's request of 946. The record reflects that GMG had 970 small commercial customers in October 2024 and 996 by the end of 2024. Given these numbers, a small commercial customer count of 990 is more reasonable than using a count of 946 even with GMG's projection that it will not add any new small commercial customers during the Test Year.

The Commission also agrees with the OAG that there is not a reasonable basis in the record to approve GMG's updated sales forecast. Updating revenues without updating costs brings into question the accuracy of the updated revenue requirement. The Commission is therefore not persuaded that GMG has met its burden of establishing that the updated sales forecast is reasonable.

To align the ALJ report with these conclusions, the Commission will adopt the OAG's proposed modifications to the ALJ Report, specifically paragraphs 184–196, as they appear in the OAG's July 31, 2025 exceptions.[24]

RATE OF RETURN

XIV. Capital Structure

To determine an overall rate of return for Greater Minnesota Gas, it is necessary to determine the amount of long-term debt, short-term debt, and common equity needed by the Company to finance its operations (the capital structure) and the cost of each of these components.

XV. Cost of Debt

The Company requested, and the Department concurred on a short-term cost of debt of 8% and a long-term cost of debt of 5.76%. Debt costs reflect the weighted average cost of each individual debt issuance anticipated. Typically, short-term debt is any financial obligation that is due in less than one year whereas long-term debt is any financial obligation due later than one year.

---

[23] ALJ Report, Findings 193–194.

[24] The OAG's proposed modifications renumber some of the ALJ's findings. By adopting the OAG's modifications, the Commission intends to modify the Small Commercial Customer Count portion of the ALJ Report (Findings 184–194). The Commission's adoption of the OAG's modified 195 and 196 is not intended to replace or modify Findings 195 and 196 in the ALJ Report, which concern a different issue (Operating Expenses).

The ALJ recommended approval of the parties' agreed upon cost of debt recommendations, and the Commission concurs. The Commission will therefore approve the cost of debt as agreed to by the parties.

XVI. Rate of Return on Equity

A. Introduction

In determining just and reasonable rates, the Commission is required to

> give due consideration to the public need for adequate, efficient, and reasonable service and to the need of the public utility for revenue sufficient to enable it to meet the cost of furnishing service, including adequate provision for depreciation of its utility property used and useful in rendering service to the public, *and to earn a fair and reasonable return upon the investment in such property*.[25]

One of the critical components of that fair and reasonable return upon investment is the return on common equity, which—together with debt—finances utility infrastructure. The Commission must set rates at a level that permits stockholders an opportunity to earn a fair and reasonable return on their investment and permits the utility to continue to attract investment.

B. The Analytical Tools

Cost-of-equity studies inform the parties' analyses, which are based on comparison groups of utilities they considered similar enough to GMG to serve as proxies in determining the Company's cost of equity.

The Discounted Cash Flow (DCF) analytical model, on which this Commission has historically placed its heaviest reliance, uses the current dividend yield and the expected growth rate of dividends to determine what rate of return is high enough to induce investment. The model is derived from a formula used by investors to assess the attractiveness of investment opportunities using three inputs—dividends, market equity prices, and growth rates.

The three DCF models in this record, conducted by the Department, include: constant growth, two-growth (or two-stage), and multi-stage. Constant growth DCF is used where dividends are expected to grow at a constant rate over time. Two-growth DCF uses growth forecasts to model dividend growth in years one through five and then applies a different growth rate for years six and beyond. Multi-stage adds a transition period between short- and long-term growth. The basic approach is, for both the two-stage and multi-stage DCF, to recognize that unusually low or high growth rates are unlikely to continue in the long term, and to adjust them in later years of the model.

The Department also used the Capital Asset Pricing Model (CAPM) as a secondary, corroborating resource, consistent with the Commission's historical treatment of this model. This model estimates the required return on an investment by determining the rate of return on a risk-

[25] Minn. Stat. § 216B.16, subd. 6 (emphasis added).

free, interest-bearing investment; adding a historical risk premium determined by subtracting that risk-free rate of return from the total return on all market equities; and multiplying the remainder by beta, a measure of the investment's volatility compared with the volatility of the market as a whole.

The updated results of the DCF models are shown below.

Table 1			
DCF Modeling Results as of March 2025			
DCF Models	**Mean Low**	**Mean Average**	**Mean High**
Constant Growth	9.84%	10.44%	11.04%
Two-Growth	10.09%%	10.68	11.12%
Multi-Stage with 10-year 2nd stage	7.78%	8.35%	9.54%
Multi-Stage with 20-year 2nd stage	8.12%	8.69%	9.77%

C. Proxy Groups

As noted above, the standard method for estimating the cost of equity would normally begin by examining the price of the utility's stock, but GMG has no publicly traded common stock. Its cost of common equity—essential to determining overall rate of return and the final revenue requirement—must therefore be inferred from market data for companies that present similar investment risks.

A standard method for estimating the cost of equity of a private company is to develop a proxy group of publicly traded companies that pose similar risks to equity investors as the non-public company and then apply cost models to the members of the proxy group to infer the non-public company's cost of equity.

The Department identified six companies for inclusion in its proxy group: Atmos Energy Corporation; NiSource Inc.; Northwest Natural Holding Company; ONE Gas, Inc.; Spire Inc.; and Southwest Gas Holdings, Inc. The Department acknowledged that GMG is much smaller than any one of these companies and has debt that is personally guaranteed by certain stockholders.

In response, GMG stated that while these companies bear some resemblance of risk to GMG, they are not as comparable as other small, nearby Wisconsin utilities that also serve rural communities and whose recently approved returns are 11%.

D. Positions of the Parties

1. GMG

GMG requested a return-on-equity of 10%, the same as the Company's existing authorized return, for the following reasons.

First, GMG emphasized its unique nature. GMG described itself as tiny compared to Minnesota's other regulated gas utilities, with a total of 25 employees serving 11,000 customers in small communities that had tried to obtain natural gas service for decades without success. Its 25 employees serve in multiple roles, including answering phones live 24 hours a day. The

Company stated that it is community-based, with many of its employees living in or near the communities it serves, with excellent customer service; only one of its customers has registered a complaint with the State in the previous four years, and only three expressed opposition to the Company's proposed rate increase request.

According to the Company, most of its growth stems from bringing the benefits of natural gas to previously unserved areas, making its business model, and the type and location of customers it serves, different from other public utilities. Since GMG brings service to new rural areas, it builds new, longer pipelines that extend service to rural communities where next-door neighbors are often a fraction of a mile or farther. Since most of GMG's facilities have been installed in the last fifteen to twenty years, its new facilities are higher cost and without decades of depreciation. Not only does that result in higher plant cost, but it also results in higher property taxes.

Since its last rate case in 2009, the Company has more than tripled its number of customers, doubled the number of employees, and increased its net utility plant by approximately $35 million. But, this exceptionally fast growth has since slowed because many service requests cannot be filled; extending gas to certain locations would not meet the extension requirements of GMG's tariff and/or is not physically viable given the location. While its costs have increased, the Company stated that it carefully considered whether to file a rate increase request.

Aware of the financial impact of filing a rate case on its customers and on the resources of the Company, GMG stated that it worked hard to file what it described as a "bare bones" case. It did not include any previously denied items nor any prospective "shiny object" plans. And, to avoid increasing rate case expenses, it did not hire outside expert witnesses. Despite the Company's position that a higher return on equity would be reasonable, considering GMG's significantly higher risk due to its small size and regional location, the Company stated that it instead focused on presenting a basic rate case, predicated only on its actual expenses, and with a request to maintain its existing return on equity of 10%.

Second, GMG stated that while the Department's proxy group includes utilities that are somewhat comparable to GMG, they are lower risk. GMG stated that its size is between 0.3% and 1.34% of the size of the proxy group companies. More comparable companies would include two nearby Wisconsin public utilities, St. Croix Valley Natural Gas Company, which serves 8,700 customers, and Midwest Natural Gas, Inc., which serves 14,500 customers. The Wisconsin Public Service Commission recently approved an 11% return on equity with a 60% equity ratio for both of these utilities. GMG maintained that these returns more reasonably reflect the risk factors associated with small natural gas utility companies serving rural midwestern areas.

Third, the Company advocated for application of the results of the two-growth DCF analyses. The updated results of the model show that the low, mean, and high-growth averages are each above 10%. The mean low is 10.09%; the mean average is 10.68%; and the mean high is 11.12%. These are an increase from the initial analyses which showed the low, mean, and high-growth rates at 9.93%, 10.50%, and 10.90%, respectively. The Company stated that its request for a return of 10% is cautious, reasonable, and well-supported by the record.

In addition to a return of 10%, the Company requested an upward adjustment for flotation costs, with an overall return of 10.15%, the same adjustment amount that the parties agreed would be reasonable to apply when the Company issues new debt. Flotation costs are the costs associated with the issuance of new securities, such as stocks or bonds. These costs include out-of-pocket expenditures for preparation, filing, underwriting, and other issuance costs. The Company stated that because it has not raised external equity since 2012, there is no proxy for flotation costs specifically associated with GMG equity offerings. Thus, GMG assumed a 15-basis point adjustment to the cost of equity was appropriate since it matched what was determined to be appropriate for the cost of debt.

2. The Department

The Department recommended that the Commission set the Company's return at 9.65%.

In support of its recommendation, the Department advocated use of the multi-stage DCF model, which relies on projected growth of gross domestic product (GDP, i.e., the value of the total output of goods and services in the national economy) to estimate a utility's growth on the assumption that utility earnings exceed the cost of equity over time. The updated results of this model's analyses show average returns in the range of 7.78% to 9.77. To account for GMG's higher risk due to its size, the Department supported a return of 9.65%, maintaining that such a return would be reasonable in ensuring that the Company could attract sufficient capital.

The Department opposed the Company's proposed 15-basis point adjustment for flotation costs, stating that an adjustment is only necessary to compensate investors for flotation costs incurred and deducted from the proceeds of past equity issuances. But the Department stated that the Company's past issuance costs were expensed, rather than deducted from the proceeds of equity issuances. The Department also stated that although GMG explained that it will need to raise equity in the future, will incur costs in doing so, and does not plan to expense those costs, the Company's only evidence in support of flotation costs is basic facts about one of its past debt issuances. According to the Department, that information does not allow the Commission to consider the nature, amount, or financial impact of costs associated with GMG's future equity issuances. Without this information, and without information about when GMG expects to incur those costs, the Department asserted that there is not a sufficient basis on which to determine an amount that would be just and reasonable for GMG's ratepayers to begin paying now.

The Department further asserted that its recalculation of GMG's cost of long-term debt to include the issuance costs for that debt by incorporating GMG's annual debt-related amortization expense of $36,000 is not a basis for making an adjustment for flotation costs, which the Company has not demonstrated with certainty.

E. Recommendation of the Administrative Law Judge

The ALJ recommended setting the return at 10% and recommended an upward adjustment for flotation costs, resulting in an overall return of 10.15%.

The ALJ found persuasive the results of the two-growth DCF model, stating that the hearing record shows that GMG is significantly riskier than the proxy group companies used in the DCF analyses, demonstrating the conservative nature of looking to "mean average" results from the proxy group to determine GMG's return. Even without quantifying the impact of these higher risks with precision, she found that the record supports GMG's requested return because it is well below the average returns of the two-stage DCF analyses. She found that the hearing record demonstrates that 10% is a conservative return-on-equity that balances Company and customer interests.

The ALJ also recommended approving the Company’s 15-point basis adjustment for flotation costs, finding that failure to recognize these expenses will limit GMG’s ability to attract sufficient capital in the future. The Company’s request matches the flotation adjustment that the Department and GMG agree is appropriate when the Company issues new debt. Because the Company has not raised external equity since 2012, there is no proxy for flotation costs specifically associated with GMG equity offerings. Under these circumstances, and given GMG’s unique financing needs, the ALJ found that the cost of acquisition for long-term debt represents the best proxy for GMG’s acquisition of equity.

F. Commission Action

The Commission concurs with the recommendation of the ALJ and will set the Company’s return on equity at 10% for the reasons explained below but will decline to make an upward adjustment for flotation costs as requested by the Company and recommended by the ALJ.

This is a straightforward rate case, and the Commission appreciates the Company’s efforts to minimize its complexities and therefore its costs to ratepayers. It is clear that the Company sought, in good faith, to settle this case in its entirety, and the Commission lauds those efforts. And, as the Company has shown, it is uniquely situated, even among smaller utility companies.

Based on the analytical models used and studies conducted, a 10% return is well within the range of reasonableness, particularly considering the average returns of the two-growth DCF analyses. None of the averages resulting from the updated two-growth DCF analyses was below 10%, and the lowest average in the initial analyses was 9.93%. But even finding no single model for estimating the cost of equity, the results of the other models serve as a check on reasonableness and corroborate that a 10% return is a well-balanced result. Based on the entirety of the record, the Commission simply has no reservations with authorizing a return of 10% as requested by the Company and will so order.

The Commission is not, however, persuaded that an upward adjustment to the return for flotation costs is warranted at this juncture. While the Company and Department agreed on a 15-basis point adjustment for issuances of new debt, the Commission is not persuaded that the Company’s data is sufficiently certain for determining a fair and reasonable percentage that could be added to its return-on-equity, particularly in light of the fact that the Company has previously expensed its costs, and will therefore resolve this doubt in favor of the ratepayer.

Finally, to facilitate resolution and settlement of future rate cases, the Commission will accept GMG’s commitment to meet with the Department at least six months prior to the Company filing any future rate cases to discuss compliance with applicable requirements.

XVII. Financial Capital Structure and Overall Rate of Return

The final capital structure and overall rate of return resulting from the decisions made herein are set forth below.

Table 2 Capital Structure and Overall Rate of Return			
Type of Capital	**Capital Ratio (%)**	**Cost (%)**	**Weighted Cost (%)**
Long-Term Debt	50.44%	5.76%	2.91%
Short-Term Debt	0.68%	8.00%	0.05%
Common Equity	48.87%	10.00%	4.89%
Total			7.85%

CLASS COST-OF-SERVICE STUDY

XVIII. Cost of Service and Rate Design

A. Introduction

The preceding sections have sought to quantify the costs that a prudently managed utility serving GMG's service area would bear throughout the Test Year —in other words, GMG's *revenue requirement*. The following sections will address how GMG may recover those costs, and especially how it may recover costs from its ratepayers in Minnesota—in other words, GMG's *rate design*. As discussed further below, one consideration when designing rates is how the cost of providing service differs from one ratepayer to another.

Estimating the cost to serve any given customer is challenging because a utility will incur different costs to serve different types of customers and will incur many costs that benefit multiple types of customers. Because similar types of customers tend to impose similar types of costs on the system, utilities simplify their analyses by first dividing customers into classes—for example, distinguishing residential customers from commercial or industrial customers. Utilities then attempt to determine the amount of revenues they should recover from each customer class.

To aid this analysis, utilities conduct a class cost-of-service study (CCOSS). Minn. R. 7825.4300(C) directs a utility to file a cost-of-service study by customer class of service, geographic area, or other categorization as deemed appropriate for the change in rates requested, showing revenues, costs, and profitability for each class, area, or category, identifying the procedures and underlying rationale for cost and revenue allocations.

For purposes of its CCOSS, GMG identified seven retail customer classes: Residential, Small Commercial, [large] Commercial, Industrial-MS1, Industrial-LS1, Interruptible-IND1, and Interruptible-AG1. (Members of interruptible classes agree, in exchange for receiving gas service at a discount, to temporarily curtail consuming gas upon request by GMG or face a penalty. This agreement permits GMG to manage the total amount of demand on its system during periods of peak demand—typically, on the coldest days of the year).

B. Steps for Conducting a Class Cost-of-Service Study

A class cost-of-service study seeks to identify, as accurately as possible, each customer class's causal responsibility for each cost the utility incurred in providing service. The National Association of Regulatory Utility Commissioners (NARUC) publishes a *Gas Distribution Rate Design Manual* (June 1989) (NARUC Gas Manual), and its *Electric Utility Cost Allocation*

Manual (January 1992) (NARUC Electric Manual). According to these manuals, a CCOSS entails three steps: grouping costs according to their function, classifying costs based on how they are incurred, and allocating costs to the various customer classes.[26]

Functionalization: For purposes of a gas utility CCOSS, the typical functions are production, storage, transmission, and distribution.

Production refers to the cost of producing, buying, or manufacturing gas.

Storage refers to costs associated with acquiring and retaining a gas supply to prepare for peak demand, typically in the winter.

Transmission refers to the cost of moving gas from an interstate pipeline to a utility's distribution system.

Distribution refers to the cost of delivering gas to customers throughout the utility's system.

Classification: The cost of a function may be classified as related to customers, energy, demand (or capacity), or a combination of the three.

Customer-related costs increase as the number of customers increases. Energy-related costs increase as a customer's consumption of energy increases. Demand-related costs increase as the rate at which the customer consumes energy increases, especially during periods of peak demand. Demand-related costs become relevant because a utility must design its system to, at a minimum, meet the forecasted simultaneous demand of all its customers plus maintain a specified amount of additional capacity to address unanticipated levels of demand or equipment failures.

Allocation: The various costs are then allocated to each customer class; the numbers identifying the share of each cost allocated to each class are called allocators.

Choices about classification and allocation strongly influence the results of a CCOSS. The choice of allocator can have important rate consequences. For example, residential customers tend to have a lower load-factor than industrial customers—that is, energy consumption by residential customers tends to fluctuate more than energy consumption by industrial customers. As a result, classifying a given cost based on energy will tend to shift more responsibility toward industrial customers, whereas classifying that cost based on demand will tend to shift cost responsibility toward residential customers.

---

[26] *NARUC Gas Manual* at 20-26; *NARUC Electric Manual* at 18-23.

XIX. CCOSS-Model Selection

A. Introduction

Parties have proposed various methods for conducting a CCOSS.

B. Position of the Parties

1. GMG

GMG proposed to distinguish the portion of its distribution costs that is best explained by the number of customers from the portion that is best explained by the increase in total system demand. To this end, GMG developed a CCOSS using the Minimum System method—and specifically, the Minimum Size method—just as it had in its 2009 rate case.[27] Specifically, GMG estimated the cost to build a distribution system connecting to all of its customers using the smallest pipes actually used in its system, and classified these costs as customer-related. All remaining distribution costs—that is, costs related to increasing the system's capacities above the minimum level—GMG classified as demand-related.[28]

GMG argued that its small size makes it impractical to conduct more sophisticated studies. Moreover, GMG stated that it conducted its study merely to verify that its current cost allocations are reasonable—and specifically that the Residential class was not subsidizing other classes. GMG did not cite its study as a basis for reallocating revenue responsibility among its customer classes in this rate case, and argued against making various proposed changes on the basis that changes might result in shifting more costs to the Residential class.

After receiving criticism from the Department and the OAG, GMG revised its CCOSS to incorporate changes that the Commission ordered in its last rate case[29] and to fix other errors—such as failing to establish distinct classes for Transportation customers and instead combining this data with the data of other classes. While most of GMG's customers pay the utility to buy and deliver gas to their premises, Transportation customers pay a utility only to transport gas (for example, from the point where the utility's system connects to an interstate pipeline to a point where the utility's system connects with the customer's premise). The customer must then acquire its own supply of gas from the interstate pipeline. Because GMG incurs different costs to serve, say, an industrial Transportation customer than an industrial full-service customer, all parties agree that GMG should analyze these types of customers differently.

---

[27] *See* Docket No. G-022/GR-09-962, *In the Matter of the Application of Greater Minnesota Gas, Inc., for Authority to Increase Rates for Natural Gas Service in the State of Minnesota* (2009 rate case).

[28] GMG declined to perform a Minimum System study using the Zero Intercept method. While the Minimum Size method estimates the cost of a distribution system built out of minimum-sized pipes, the Zero Intercept method takes this idea further by using statistical analysis to estimate the cost of a distribution system built out of hypothetical pipes with a diameter of zero. GMG argued that this method produces biased results.

[29] 2009 rate case, *supra*, Findings of Fact, Conclusions of Law, and Order at 4 (August 19, 2010), adopting the Department's recommendations.

But while GMG made many of the adjustments recommended by the Department and OAG, GMG declined to make others. For example, the Department and OAG argued that GMG's Minimum System Method study failed to incorporate an appropriate "demand adjustment"—thereby classifying too much of the costs of GMG's mains as customer-related, and too little of the costs as demand-related. The Department also recommended that GMG incorporate a cost escalator—such as those published in "The Handy-Whitman Index of Public Utility Construction Costs" periodical, a commonly cited resource—to adjust historical costs to account for inflation and changes in relative prices over time. GMG argued that the cost of making these and other changes would exceed the benefits.

2. Department and OAG

The Department recommended that the Commission consider a range of CCOSSs when allocating costs among customer classes. Specifically, the Department recommended that the Commission consider GMG's Minimum System study adjusted to incorporate the Department's recommended changes, as well as the Department's Basic Customer study. The Basic Customer method classifies distribution plant that serves a single customer or meter as customer-related—for example, the cost of customer meters and service lines—because those costs obviously vary based on the number of customers. All other distribution costs are classified as demand-related.

OAG concurred with the Department that the Commission should consider a range of CCOSSs when allocating costs among customer classes. Specifically, OAG recommended that the Commission consider OAG's own Basic Customer study as well as OAG's Peak and Average study. Like the Basic Customer method, the Peak and Average method begins by identifying a narrow range of costs as customer-related, but then identifies as energy-related the cost of building a distribution plant to meet average energy consumption. All other distribution costs—that is, costs needed to serve customer loads that exceed the average level—are deemed demand-related. OAG ultimately advocated identifying the customer-related costs using the Basic Customer method, identifying the energy-related costs using the Peak and Average method, and classifying all remaining costs as demand-related.

GMG argued that requiring a utility to generate and evaluate alternate CCOSSs would impose certain and substantial costs while generating uncertain and speculative benefits. Accordingly, GMG opposed the parties' recommendations to impose additional CCOSS requirements for future rate cases. For greater clarity, GMG asked the Commission to restate the CCOSS requirements that GMG must comply with prospectively—and thereby waive the application of any other CCOSS filing requirements arising from prior orders.

C. Recommendation of the Administrative Law Judge

Noting that the Commission has not adopted a single type of CCOSS for all cases, the ALJ concluded that the Minimum System study provided a reasonable basis for classifying costs in this case. The ALJ further found that GMG had demonstrated the reasonableness of relying on its Minimum System study, as revised by GMG, for this case. Finally, the ALJ recommended that the Commission carefully weigh costs and benefits when establishing any additional CCOSS requirements on GMG.

D. Commission Action

The Commission notes that the purpose of performing CCOSSs is to try to establish some causal basis for apportioning among the various customer classes the responsibility for recovering a utility' revenue requirement. A utility must conduct its cost studies with rigor, whether or not the utility intends to propose a change to its cost allocations. It is ultimately the Commission's discretion to allocate costs among customer classes; cost studies are merely one factor the Commission considers—but a crucial one. The Commission relies on each utility to fulfill its duty so that the Commission may fulfill its own.

Regarding the current rate case, the Commission appreciates the critical analyses contributed by the parties. The Commission has previously found that "[n]o single cost-study method can be judged superior to all others in all contexts, and the choice among methods involves disputes over assumptions, applications, and data."[30] Evaluating multiple cost studies aids the Commission in weighing cost and non-cost factors when setting rates, as each analysis provides a perspective from which to evaluate the other analyses. The Commission retains the view that each CCOSS model provides useful information and will therefore decline to adopt any one model for all purposes. Accordingly, the Commission has considered each of the studies filed in this case and declines to adopt any one study method for GMG. Because the record provides a sufficient basis to proceed with designing rates, the Commission will not require any additional CCOSS filings in this docket.

Regarding future rate cases, the Commission is mindful of the concerns raised by GMG, and affirmed by the ALJ, about the need to consider the costs as well as the benefits of additional CCOSS requirements. Nevertheless, the Commission concurs with the Department and OAG that rigorous CCOSSs provide a useful perspective to aid cost allocations and rate design. And reduced filing requirements may not reduce rate-case expense; they may instead result in a utility having to exert additional effort to bolster a case supported by an inadequate initial filing.

Accordingly, the Commission will direct GMG, in future rate cases, to take the following actions.

First, and consistent with the order from GMG's 2009 rate case, GMG must design its CCOSSs to do the following:

- Classify and allocate General Plant on the same basis as Plant in Service.
- Classify and allocate Real Estate Taxes on the same basis as Plant in Service.
- Classify and allocate each Distribution-Operation and Maintenance Expenses on the same basis as the relevant basic cost-causing element.
- Classify and allocate Income Taxes on the same basis as Net Taxable Income that fully reflects the CCOSS.
- Include an explanation identifying and describing each classification and allocation method used in the CCOSS and detailing the reasons for concluding that each method is appropriate and superior to other methods considered by GMG. While these explanations

[30] *In the Matter of the Application of Otter Tail Power Company for Authority to Increase Rates for Electric Service in the State of Minnesota*, Docket No. E-017/GR-20-719, Findings of Fact, Conclusions, and Order (February 1, 2022) at 44.

could rely, in part, on NARUC's Gas Distribution Rate Design Manual, they should also be based on GMG's specific system requirements (engineering and operating characteristics) and experience.

Second, GMG must continue to analyze the cost of serving the transportation classes distinct from the cost of serving other classes. GMG will incur different types of costs for customers that rely on the utility to acquire gas on their behalf than for customers that do not, so it makes sense to analyze these customers as separate classes.

Third, when GMG uses the Minimum System method to prepare its CCOSS, the utility must calculate and include a demand adjustment and a cost escalator, such as the Handy Whitman cost escalator.

RATE DESIGN AND REVENUE APPORTIONMENT

XX. Revenue Apportionment

A. Introduction

As the next step in designing rates, the Commission often establishes a revenue apportionment—that is, the Commission determines how much each customer class should contribute to bearing the cost of a utility's revenue requirement. In making this judgment, the Commission considers the utility's cost of serving each customer class based on the results of the CCOSS methods discussed above. The Commission also considers a number of non-cost concerns such as equity, justice, and reasonableness; the avoidance of discrimination, unreasonable preference, and unreasonable prejudice; continuity with prior rates to avoid rate shock; revenue stability; economic efficiency; encouragement of energy conservation; customers' ability to pay; and ease of understanding and administration.[31]

B. Position of the Parties

1. GMG

GMG proposed to maintain the same apportionment that the parties agreed to, and that the Commission approved, in GMG's last rate case, adopting approximately equal percentage increases for all customer classes. GMG argued that this apportionment would minimize the opportunity for members of any customer class to experience rate shock. This apportionment would likely have the effect of increasing the Residential class's share of GMG's revenue requirement 7.7%. (This represents the largest percentage increase to GMG's largest class.) And this apportionment would likely have the effect of increasing the share for the Interruptible Agricultural-AG1 class by 9.5%. (This represents the largest increase to any class.)

The Department and OAG argued that GMG's proposal lacked any basis in a cost study and simply perpetuated an allocation that was now 15 years out of date. These parties also argued that GMG's proposal failed to grant appropriate rate relief to residential customers.

[31] Minn. Stat. §§ 216B.01, .03, .2401; 216C.05; 216B.16, subd. 15.

2. Department and OAG

The Department and OAG each recommended reapportioning GMG's revenue responsibility among GMG's revenue classes to better align with the results of their CCOSSs, and to offer more relief to residential and small commercial customers. Noting that GMG offers service in counties in which the average income is lower than the state average, OAG argued that the Commission would be justified in granting relief to GMG's residential customers in particular.

Based on their CCOSSs and policy considerations, the Department and OAG each proposed apportionments that would likely lead to smaller increases for residential and small commercial customers, and larger increases for members of other customer classes. The Department's proposal would reduce the increase in the Residential class's share of GMG's revenue requirement from 7.7% to 2.1%. Likewise, OAG recommended an apportionment that would reduce the growth of the Residential class's increase from 7.7% to 6.4%, while increasing the increase for the Interruptible Agricultural class, for example, from 9.5% to 11.3%.

GMG raised various objections to the Department's and OAG's proposals. GMG cited OAG's own witness conceding that an 11% increase could provoke rate shock in any customer class. Moreover, GMG noted that while it serves counties with lower incomes than in other parts of the state, conclusions based on county-wide data may not apply to the small share of that population who subscribe to GMG's service. Finally, GMG argued that an excessive rate increases for GMG's larger customers—especially members of the Interruptible Agricultural class—may prompt them to stop buying gas from GMG entirely and switch to buying from other sources, or to buying propane. Losing these customers would mean that GMG's remaining customers, including residential and small commercial customers, would have to bear increasing costs.

C. Recommendation of the Administrative Law Judge

The ALJ agreed with GMG that the existing revenue apportionment is reasonable and that a uniform rate increase across all customer classes would be appropriate. The ALJ was not persuaded that GMG's proposed apportionment for residential customers would cause undue burdens to that customer class. And the ALJ accepted GMG's argument that the benefit of reducing the rate increase for residential customers would not be worth the risk that a bigger rate increase for large customers would cause them to stop buying gas from GMG.

The Department and OAG filed exceptions to this conclusion, restating their positions.

D. Commission Action

The Commission generally favors revenue apportionments that tend to shift class revenue responsibility toward the levels demonstrated in CCOSS models, but mitigates these shifts in the interest of other policy considerations. In this case, the dominant policy consideration has been mitigating the risk that an especially large increase for any one class might prompt members of that class to stop buying gas from GMG.

In particular, after proposing to increase the revenue apportionment for its Interruptible Agricultural-AG1 class by 9.5%—the largest increase for any customer class—GMG opposed any further increase out of concern for losing these customers.

Given GMG's size and history, its managers can achieve the kind of direct understanding of their subscribers that the managers of larger utilities could never obtain. Based on this understanding, the Commission finds credible the utility's concerns that large increases in any given class's apportionment might lead to customer loss, to the detriment of all involved. Nevertheless, the Commission must determine how to design rates to generate the necessary revenues.

These considerations lead the Commission to conclude as follows: First, guided by GMG's desire to mitigate the risk of losing large customers, the Commission is persuaded to accept GMG's recommendation to reject proposals to increase revenue apportionments for these customers. But second, and as discussed further below, the Commission is likewise persuaded that GMG's proposed rate design is appropriately tailored to avoid losing large customers—so the Commission will decline to reduce any of these proposed rates for large customers, even if this rate case ultimately justifies reducing rates for other customers. Third, the Commission will adopt GMG's recommendation to limit the revenue apportionment for the Interruptible Agricultural-AG1 class to 9.5%. But fourth, to provide appropriate flexibility for this unconventional rate design, the Commission will decline to establish revenue apportionments for the other customer classes.

XXI. Rate Design—Overview

Rate design is the process of establishing rates for utility service that will be just and reasonable for ratepayers, while providing a fair opportunity for the utility to recover its revenue requirement. Making these choices requires the exercise of judgment.

While issues establishing a utility's revenue requirement can often be addressed independently, issues in rate design are necessarily connected: At the margin, the choice to reduce any one variable must lead to an offsetting increase in a different variable to ensure that the utility retains the ability to earn its revenue requirement. When designing rates, the Commission may adjust variables such as the following.

Rate components: GMG calculates each ratepayer's bill based on the following components.

- A fixed monthly "Facility Fee."
- A "Distribution Charge" based on the amount of gas a customer consumes.
- The cost of gas consumed, which increases as the amount of gas consumed increases, and as the wholesale cost of gas increases. (Because this cost is established in the wholesale market, the Commission addresses these costs outside the context of a general rate case.)
- Miscellaneous other charges, such as a charge on customers that pay their bills late and a charge to reconnect service that had been disconnected.

In general, a utility charges uniform rates to customers within each customer class but may charge different rates to customers in different classes.

Rate discounts for interruptible service: Certain large customers can obtain a discount on their utility service if they agree to curtail their energy usage upon GMG's request. GMG must design its system to meet the needs of its customers even during periods when customers are demanding their maximum amount of gas (typically on the coldest days). But it is expensive to build a system sufficient to meet these rare events, only to have this capacity remain underused for the rest of the year—and these costs must be passed on to ratepayers. As an alternative, a utility can offer discounts to customers that will agree to reduce their consumption upon the utility's request. All ratepayers can benefit from these arrangements by avoiding the cost of building excess facilities; in addition, the interruptible customers get a discount. However, the amount of that discount must then be recovered from all other customers.

Interim rates and rate refunds: In this proceeding, GMG seeks to establish higher rates that will remain in effect indefinitely. But in addition, GMG exercised its statutory right to raise rates temporarily during the pendency of this rate case, on the condition that it would refund to ratepayers the amount of any increase that it could not justify to the Commission during the case. Specifically, GMG raised its Facility Fees and Distribution Charges by approximately 15%.[32] (The increases are merely approximate because GMG established Facility Fees that round to the nearest $100 or, in the case of residential customers, to the nearest $0.25.) The allocation of this refund amount among customer classes can also be treated as a component of rate design.

XXII. Rate Design—Late Fee Revenues

No party proposed to change the fee GMG charges customers who paid utility bills late. But GMG neglected to include any revenues from late payment charges as part of its case. This omission, if uncorrected, would have the effect of enhancing the rationale for increasing other charges—monthly charges, per therm charges, etc.—and could ultimately lead to GMG over-collecting revenues from its customers.

To correct this oversight, the Department and GMG agreed to forecast that the utility would earn $13,435 from late payment fees, GMG's average annual revenues from 2021 to 2024. The ALJ recommended that the Commission approve this forecast.

The Commission concurs with the parties and the ALJ and will therefore approve this adjustment.

XXIII. Rate Design—Reconnection Fee

A. Introduction

GMG charges a fee to reconnect service that it had previously disconnected due to the customer's conduct—typically, a failure to pay for service. This fee is intended to recover the costs and administrative work involved in reactivating the service, such as reprogramming equipment or processing the request. GMG currently charges a $75 reconnection fee to restore service—less than the cost GMG incurs to provide this service.

---

[32] *See* this docket, Order Setting Interim Rates (December 11, 2024), adopted in accordance with Minn. Stat. § 216B.16, subd. 3.

B. Position of the Parties

1. OAG

Noting that other gas utilities have much lower reconnection fees, OAG proposed reducing the fee to $50 and providing customers with the opportunity to spread this payment over two months. If the Commission concluded that the $75 was justified, OAG would recommend permitting the customer to spread this payment over three months.

OAG argued that a $75 lump-sum fee is an excessive barrier to place between a customer who is likely facing financial challenges and an essential utility service. OAG argued that the cost to perform a reconnection is not the only relevant economic variable for setting this fee. GMG loses sales for every day that a customer is disconnected, and these lost sales may cost GMG more than the lost opportunity to charge an extra $25.

2. GMG

GMG emphasized that its fee is justified by its cost. Other utilities may have lower reconnection fees because they have a different service area, with a denser population that would make disconnections cheaper on average; GMG structures its fee to reflect its own costs, not the costs of other utilities.

In addition, GMG argued that disconnections for non-payment are rare, that GMG works with customers to avoid disconnections, and that GMG resorts to disconnections only in well-justified circumstances.

C. Recommendation of the Administrative Law Judge

The ALJ found that GMG's reconnection fee was reasonable and cost-based, while OAG's proposal lacked record support and might result in customer confusion and perhaps billing errors.

OAG filed exceptions to this finding. OAG argued that the record does not demonstrate that spreading out payments for a reconnection fee would cause billing errors, and that billing notices can help mitigate customer confusion

D. Commission Action

Because the record on this issue is thin, OAG, GMG, and the ALJ are left to speculate about the costs and benefits of some different disconnection arrangements. The best evidence in the record is the cost evidence presented by GMG—evidence demonstrating that its proposed fee is justified by cost.

It is always true that some people will be unable to muster the resources to pay a one-time lump-sum reconnection fee, even to restore something as important as gas service. It is also true that some people will be unable to afford gas service. OAG's proposals are designed to aid people who are in the first category but not the second, but the record does not demonstrate how many of these people there are. Given the size and history of GMG, the Commission concludes that this utility is in the better position to understand its customers and to propose reconnection policies that will not needlessly deter reconnections.

On this basis, the Commission concurs with the ALJ and will find the proposed fee to be reasonable.

XXIV. Rate Design—Interruptible Customer Rates

A. Introduction

As previously noted, a utility values having customers that will agree to curtail their usage during periods of peak demand or other emergency, and the utility typically offers a discount to customers to motivate them to accept this arrangement. Because the Commission designs rates with the goal of providing the utility with a fair opportunity to recover its costs, every dollar not recovered from a customer due to a discount will have to be recovered from some other customer. In effect, non-interruptible customers finance the interruptible discounts.

For the past five years, an average of 90 seasonal customers—that is, customers not taking service in the winter—have subscribed to receive interruptible service from GMG. Yet GMG never asked more than nine of them to interrupt their utility usage at one time, and no more than four have done so. These facts prompted OAG to question whether ratepayers are getting their money's worth for financing these discounts.

B. Positions of the Parties

1. OAG

OAG argued that if GMG has no foreseeable scenario under which it would seek to interrupt service to these interruptible customers, then GMG is providing the same level of service to both interruptible and non-interruptible customers while charging different rates. And that would imply that GMG was charging discriminatory rates.

In remedy, OAG proposed that GMG stop offering interruptible discounts for seasonal customers. Alternatively, GMG could find opportunities to make these discounts cost-effective by interrupting service more frequently—for example, whenever the cost of service exceeded GMG's rates for these customers.

2. GMG

GMG opposed OAG's recommendations.

According to GMG, these seasonal customers are largely agricultural customers that need gas at harvest time to dry their grain. GMG did not deny that it rarely asks these customers to curtail their service, given that peak system demands rarely occur in the fall. But GMG argued that these interruptible customers help finance GMG system by buying gas during a period when the utility has abundant unconstrained capacity. Without these discounts, GMG argued, these customers might stop buying gas from GMG and the resulting loss of revenues would hurt the interests of all GMG ratepayers.

C. Recommendation of the Administrative Law Judge

The ALJ concurred with GMG. As a formal matter, the ALJ found that these seasonal customers agreed to be subject to interruption and thus qualified to receive service under the terms of the interruptible tariff, and that the record of the case did not provide other rationale for excluding these customers from the tariff.

D. Commission Action

Utilities face the challenge of managing demand: Customer demand fluctuates, but many of the resources a utility has to meet that demand—especially physical plant—are fixed. To keep rates low, utilities strive to maintain a high "load factor," making maximum use of their capacities in order to spread their fixed costs over the maximum volume of energy delivered. Common strategies for increasing load factor include reducing demand when it threatens to exceed the utility's capacity, and stimulating demand when the utility has excess capacity.

To reduce load during peak periods, utilities may offer discounts to encourage customers to subscribe for interruptible service, and may increase prices through the use of time-of-use rates and seasonal pricing. Likewise, a utility may offer discounts through time-of-use rates and seasonal pricing to offer discounts during periods of excess capacity, thereby stimulating demand.

In this case, GMG offers discounted service to certain seasonal customers. GMG labels this service as "interruptible service," and the subscribers do agree to curtail usage upon request or face a penalty. But in practice, it is unclear whether GMG's tariff is intended to help GMG curtail its system load during periods of peak demand, or to stimulate that load during periods of low demand and excess capacity. Either way, it would appear that the tariff serves a useful function. Accordingly, the Commission will decline to adopt OAG's recommendations.

XXV. Rate Design—Facility Fees, Distribution Charges, and Interim Rate Refund

A. Introduction

GMG charges each customer a monthly Facility Fee. Conceptually, a utility may argue to establish fixed fees to pay for the utility's costs that do not vary with the amount of energy consumed or the rate at which energy is consumed—for example, the cost of building and maintaining facilities.

GMG also assesses each ratepayer a Distribution Charge in proportion to the amount of gas that location consumed. Arguably, these charges reflect costs that increase as consumption increases, other than the cost of the gas itself.

Finally, since January 1, 2024, GMG has been charging customers a higher Facility Fee and Distribution Charge on an interim basis, with the understanding that if the rates approved by the Commission end up being less than the rates charged during the pendency of this rate case, GMG would refund this difference to ratepayers.

B. Position of the Parties

GMG argued for permanently increasing its Facility Fees and Distribution Charges for each customer class by roughly 15% to offset overall cost increases since the utility's last rate case 15 years ago. The Department and OAG found this proposal to be reasonable; in particular, OAG found that the resulting facility fees ($9.75 per month) would not exceed the OAG's estimate of GMG's fixed costs per residential customer. Moreover, these rates are consistent with the rates currently in effect on an interim basis.

But OAG argued that if the Commission ultimately found that GMG should lower these rates, the Commission should reduce the Facility Fees rather than the Distribution Charges on the grounds that a higher charge per unit of gas consumed would help encourage conservation.

C. Recommendation of the Administrative Law Judge

The ALJ concurred on the merits of GMG's proposed increase in Facility Fees and Distribution Charges. But because the best evidence in the record suggests that a $9.75 per month fee still fails to recover the full amount of fixed costs per residential customer, the ALJ declined to adopt OAG's recommendation to favor reducing Facility Fees over reducing Distribution Charges.

D. Commission Action

All parties now agree that the record supports increasing GMG's Facility Fees and Distribution Charges by roughly 15%. Because this is also the amount customers have been paying since GMG's interim rates took effect, approving these changes to GMG's rates would be unlikely to provoke any rate shock or cause any customer to leave GMG's system. The Commission appreciates the recommendations of all parties and the ALJ and will adopt them with modifications.

As an initial matter, the only dispute remaining among the parties pertains to whether, if the Commission were to direct GMG to recover less revenues from Facility Fees and Distribution Charges, the Commission should reduce the former or the latter. The ALJ correctly observed that there are offsetting rationales about whether it would make sense to reduce Facility Fees before reducing Distribution Charges. Under these circumstances, the Commission will decline the OAG's proposal to favor adopting reductions to one charge over the other.

While the parties appear to have reached agreement, they did so under an assumption that the Commission would adopt a conventional class revenue apportionment. As previously discussed, the Department and OAG each proposed apportioning greater revenue to GMG's customer classes with larger customers. If the Commission had adopted the recommendations of either party, the Commission would probably need to adopt higher Facility Fees and Distribution Charges for those customer classes to raise the necessary revenues. Concern about the threat of losing these customers prompted the Commission to reject the other parties' higher revenue apportionment. That rejection is what permits the relatively low increase of 15%—a level that presumably is consistent with the goal of keeping customers on GMG's system.

Finding that the proposed Facility Fee levels are just and reasonable, the Commission will adopt them for each customer classes. Likewise, the Commission will adopt the proposed Distribution

Charges for GMG's larger customers—specifically, customers in the Commercial, Industrial-MS1, Industrial-LS1, and Interruptible-IND1 classes. The magnitude of the Distribution Charge for the Interruptible-AG1 class will be derived after comparing the size of that class's apportionment, offset by the revenues generated by that class's Facility Fees and other revenues, divided by the amount of gas that class consumes.

The Commission will direct GMG to increase the Distribution Charges for the Residential and Small Commercial classes by an equal percentage sufficient to provide the balance of GMG's revenue requirement. And if the rates resulting from this case prove to be less than the rates approved for GMG's interim rates, GMG must refund those surplus earnings to the Residential and Small Commercial classes as well.

With this formula, the Commission will ensure just and reasonable rates for all classes without increasing the risk of losing customers—at least, without increasing that risk beyond the level reflected in GMG's rate proposals.

OTHER REQUIREMENTS

XXVI. Order Compliance and Future Filing Requirements

A. Issue

Commenters made numerous recommendations related to order compliance and future filing requirements.

B. Positions of the Parties

1. The Department and the OAG

The Department and the OAG asserted that GMG did not fully comply with requirements from previous Commission orders, which made review of GMG's rate case unnecessarily difficult and increased regulatory expense. They also stated that certain aspects of the sales forecast could be improved, such as by providing more information related to historical weather data and the impact on GMG's sales. To make reviewing GMG's future rate cases easier and to improve sales forecasts, the Department and the OAG made various recommendations including, among others:

- Require 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.

- Require GMG to 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, in a format to facilitate and allow independent verification of all data used by GMG, and to also be used to independently analyze the reasonableness of the test-year sales.

- Direct GMG to meet with the Department in advance of any future rate cases to discuss compliance with applicable requirements.

2. GMG

GMG did not oppose these recommendations, and it also agreed to the following additional requirements:

- In future rate case filings, GMG shall provide the following information for each customer class, adjusted for billing errors:
  - The billing-cycle sales (energy use).
  - The billing-cycle number of customers.
  - Start and end date of each billing cycle.
  - Data to be adjusted for any and all errors in a format to allow independent verification of any data used by GMG in order to independently analyze the reasonableness of the test-year sales.

- Require GMG to develop forecasts for future rate case filings, in consultation with the Department and the OAG, that weather normalize sales and use demographic and economic variables to project customer counts and sales for the residential and small commercial classes in its test year(s). These forecasts must include billing-cycle weather data and heating degree days that correspond to billing cycle start and end dates.

  GMG must file its proposal as a compliance filing in this docket. If there is no objection to GMG's filing within 30 days, the executive secretary is authorized to approve the proposed future rate case data obligation.

Also, to avoid confusion in future rate cases, GMG recommended that any compliance requirements in GMG rate case orders issued prior to this order not apply to future GMG rate cases. The Department and the OAG did not oppose this recommendation.

C. Commission Action

The Commission agrees with GMG, the Department, and the OAG that the recommendations listed above would provide useful information for GMG's future rate cases and allow for more efficient review.[33] Accordingly, the Commission will approve these recommendations as detailed in the ordering paragraphs below.

XXVII. Base Cost of Gas

A. Issue

A utility must submit a new base gas cost as a miscellaneous rate change to coincide with the implementation of interim rates during a general rate proceeding.[34] GMG made such a filing in

[33] The ALJ did not address these issues.

[34] Minn. R. 7825.2700, subp. 2.

Docket No. G-022/MR-24-351 on the same date that it made its initial filing in this docket. The Commission ultimately approved GMG's base gas cost.[35]

B. Positions of the Parties

The parties did not address this issue in this docket.

C. Commission Action

As noted above, the Commission addressed base cost of gas in a separate docket. The parties have not made recommendations in this docket related to base cost of gas, and the Commission does not consider it necessary to make any adjustments for purposes of this proceeding.[36] Accordingly, the Commission will order GMG to make no further adjustment to the base cost of gas for base rate purposes.

ORDER

1. The Commission adopts the Administrative Law Judge's Findings of Fact, Conclusions of Law, and Recommendation (ALJ's Report) with modifications as shown above and to the extent the ALJ's Report is consistent with the decisions made herein.

2. Greater Minnesota Gas is authorized to include $130,427 in auto and truck expense under Distribution Expense for the 2025 Test Year. The Commission makes modifications to the ALJ's Report as follows:

    a. Replace ALJ Findings 245, 246, 248, and 251 with Department's proposed language.
    b. Reject ALJ Findings 249 and 250.

3. GMG is authorized to include $10,200 in education and training expense under Administrative & General Expense for the 2025 Test Year.

4. GMG is authorized to include $4,431 in postage expense under Administrative & General Expense for the 2025 Test Year. The Commission replaces ALJ Findings 235-237 with Department's proposed language.

5. GMG is authorized to include $19,787 in repair and maintenance expense under Administrative & General Expense for the 2025 Test Year, and the Commission replaces ALJ Findings 238, 243, and 244 with the Department's proposed language.

6. GMG must apply a 25% cap to the performance pay to employee whose performance pay has any tie to the financial performance of the Company.

---

[35] *In the Matter of Greater Minnesota Gas, Inc.'s Petition for Approval of a New Base Cost of Gas*, Docket No. G-022/MR-24-351, Order Approving Base Gas Cost (December 11, 2024).

[36] The ALJ also did not address this issue.

7. GMG's Long-Term Incentive (LTI) expense of $48,300 in the 2025 Test Year is approved.

8. The Commission hereby denies GMG's requested recovery for American Gas Association and Minnesota Agrigrowth Council dues.

9. GMG must collect $880 of the Midwest Region Gas Task Force costs to be included in the Test Year.

10. GMG must not make further adjustment to the base cost of gas for base rate purposes.

11. GMG's projected customer meter plant balances are approved in full.

12. The Commission maintains GMG's partial first-year recommendation to use the approximately 21.6 MCF annual 12-month usage and the approximately 3-month "customer charge revenues" for estimating first-year sales of new Residential customers, as incorporated in GMG's sales forecast.

13. The Commission adopts the OAG's recommendation to increase the Small Commercial count to 990 and makes modifications to the ALJ's Report, as follows:

    a. Replace ALJ Findings with the OAG's proposed language, as shown above.
    b. Adopt the OAG's proposed Findings 184, 185, and 196.
    c. Reject ALJ Finding 190.

14. GMG must provide a bridging schedule that fully links together the old and new billing systems if GMG updates, modifies, or changes its billing system.

15. GMG must 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, in a format to facilitate and allow independent verification of all data used by GMG, and to also be used to independently analyze the reasonableness of the test-year sales.

16. The Commission accepts GMG's commitment to meet with the Department at least six months prior to the Company filing any future rate cases to discuss compliance with applicable requirements.

17. The Commission adopts GMG's request to determine that any compliance requirements adopted in GMG rate case orders issued prior to this order shall not apply to future GMG rate cases.

18. In future rate case filings, GMG must provide the following information for each customer class, adjusted for billing errors:

a. The billing-cycle sales (energy use).
b. The billing-cycle number of customers.
c. Start & end date of each billing cycle.
d. Data to be adjusted for any & all errors in a format to allow independent verification of any data used by GMG in order to independently analyze the reasonableness of the test-year sales.

19. GMG must develop forecasts for future rate case filings, in consultation with the Department and the OAG, that weather normalize sales and use demographic and economic variables to project customer counts and sales for the residential and small commercial classes in its test year(s). These forecasts must include billing-cycle weather data and heating degree days that correspond to billing cycle start and end dates.

GMG must file its proposal as a compliance filing in this docket. If there is no objection to GMG's filing within 30 days, the Commission delegates authority to its Executive Secretary to approve the proposed future rate case data obligation.

20. The Commission adopts the Company's proposed capital structure of 50.44% long-term debt, 0.68% short-term debt, and 48.87% common equity.

21. The Commission adopts the Company's proposed cost of long-term debt of 5.76%.

22. The Commission adopts the proposed cost of short-term debt of 8.00%.

23. The Commission adopts GMG's proposed 10.00% return on equity for setting rates in this proceeding.

24. The Commission denies GMG's request for a flotation cost adjustment.

25. GMG must file Class Cost-of-Service Studies in future rate cases, including studies with the following features:

a. Use of a cost escalator, such as the commonly used Handy Whitman cost escalator, in preparing a Minimum System Method study.
b. The transportation classes grouped as their own classes, rather than included in a similar class.

26. GMG's future CCOSSs must include the following required CCOSS changes as set forth in GMG's 2009 Rate Case Order:

a. Classify and allocate General Plant on the same basis as Plant in Service.
b. Classify and allocate Real Estate Taxes on the same basis as Plant in Service.
c. Classify and allocate each Distribution-Operation and Maintenance Expenses on the same basis as the relevant basic cost-causing element.
d. Classify and allocate Income Taxes on the same basis as Net Taxable Income that fully reflects the CCOSS.

e. Provide an explanatory filing identifying, and describing, each classification and allocation method used in the CCOSS and detailing the reasons for concluding that each method is appropriate and superior to other methods considered by the Company. While these explanations could rely, in part, on NARUC's Gas Distribution Rate Design Manual, these explanations should also be based on the Company's specific system requirements (engineering and operating characteristics) and experience.
f. Calculate and include of a demand adjustment to its Minimum System Method study.

27. Except as specified in this order, the Commission waives the requirements of prior orders as they pertain to GMG's next rate case.

28. For purposes of designing GMG's rates,

a. The Commission adopts GMG's proposal to increase the Facility Fees for all classes by approximately 15%.
b. The Commission adopts the inclusion of late fees revenues of $13,435 to the Test Year.
c. For the Interruptible-AG1 class, the Commission adopts 9.5% for the overall increase of the rates for the Interruptible-AG1 class inclusive of the facility fee and distribution charge per therm compared to the rates prior to the rate case as recommended by GMG.
d. For the Commercial, Industrial-MS1, Industrial-LS1 and Interruptible-IND1 classes, the Commission adopts an increase in the facility charges as recommended by the ALJ and sets the final rate case distribution charge per therm at the rate set for interim rates.
e. For the Residential and Small Commercial classes, the Commission adopts an increase in the facility charges as recommended by the ALJ.
f. The remaining final revenue requirement not supported by the other five classes shall be recovered proportionally from the residential and small commercial classes such that the combination of the increase in the facility charges and the distribution charge per therm results in an even percentage increase for these two classes compared to the rates prior to the rate case. The Company must provide the calculations to arrive at these final rates in its compliance filing, due 30 days after the date of the final order in this case.

29. GMG must file an interim rate refund proposal limiting any refund to the residential and small commercial classes, based on the final revenue requirement and rates ordered in this case.

30. Within 60 days of the date of the final order in this case, GMG must make the following compliance filings:

a. Revised schedules of rates and charges reflecting the revenue requirement and the rate design decisions herein, along with the proposed effective date, and including the following information:

- Breakdown of Total Operating Revenues by type;
- Schedules showing all billing determinants for the retail sales (and sale for resale) of electricity. These schedules shall include but not be limited to: total revenue by customer class; total number of customers, the customer charge and total customer charge revenue by customer class; and for each customer class, the total number of energy and demand related billing units, the per unit energy and demand cost of energy, and the total energy and demand related sales revenues.
- Revised tariff sheets incorporating authorized rate design decisions;
- Proposed customer notices explaining the final rates, the monthly basic service charges, and any and all changes to rate design and customer billing.

b. A summary listing of all other rate riders and charges in effect, and continuing, after the date final rates are implemented.

c. A computation of the cost recovery conservation charge (CCRC) based upon the decisions made herein for inclusion in the final order. GMG must file a schedule detailing the CIP tracker balance at the beginning of interim rates, the revenues (CCRC and CIP Adjustment Factor) and costs recorded during the period of interim rates, and the CIP tracker balance at the time final rates become effective.

d. If final authorized rates are lower than interim rates, a proposal to make refunds of interim rates consistent with the Commission's decisions in this proceeding, including interest to affected customers.

31. Comments on all compliance filings are authorized within 30 days of the date they are filed. However, comments are not necessary on GMG's proposed customer notice.

This order shall become effective immediately.

BY ORDER OF THE COMMISSION

Sasha Bergman
Executive Secretary

This document can be made available in alternative formats (e.g., large print or audio) by calling 651.296.0406 (voice). Persons with hearing or speech impairment may call using their preferred Telecommunications Relay Service or email consumer.puc@state.mn.us for assistance.

CERTIFICATE OF SERVICE

I, Anne Redmond, hereby certify that I have this day, served a true and correct copy of the following document to all persons at the addresses indicated below or on the attached list by electronic filing, electronic mail, courier, interoffice mail or by depositing the same enveloped with postage paid in the United States mail at St. Paul, Minnesota.

Minnesota Public Utilities Commission
FINDINGS OF FACT, CONCLUSIONS, AND ORDER

Docket Number **G-022/GR-24-350; G-022/MR-24-351**

Dated this 26th day of November, 2025

/s/ Anne Redmond

#	First Name	Last Name	Email	Organization	Agency	Address	Delivery Method	Alternate Delivery Method	View Trade Secret	Service List Name
1	Kristine	Anderson	kanderson@greatermngas.com	Greater Minnesota Gas, Inc.		1900 Cardinal Lane PO Box 798 Faribault MN, 55021 United States	Electronic Service		No	Official 24-350
2	Sasha	Bergman	sasha.bergman@state.mn.us		Public Utilities Commission		Electronic Service		No	Official 24-350
3	Mike	Bull	mike.bull@state.mn.us		Public Utilities Commission	121 7th Place East, Suite 350 St. Paul MN, 55101 United States	Electronic Service		Yes	Official 24-350
4	Robin	Burke	rburke@greatermngas.com	Greater Minnesota Gas, Inc.		1900 Cardinal Ln PO Box 798 Faribault MN, 55021 United States	Electronic Service		No	Official 24-350
5	Christopher J.	Cerny	ccerny@winthrop.com	Winthrop & Weinstine, P.A.		225 South Sixth Street Suite 3500 Minneapolis MN, 55402 United States	Electronic Service		No	Official 24-350
6	Cody	Chilson	cchilson@greatermngas.com	Greater Minnesota Gas, Inc. & Greater MN Transmission, LLC		1900 Cardinal Ln PO Box 798 Faribault MN, 55021 United States	Electronic Service		No	Official 24-350
7	Generic	Commerce Attorneys	commerce.attorneys@ag.state.mn.us		Office of the Attorney General - Department of Commerce	445 Minnesota Street Suite 1400 St. Paul MN, 55101 United States	Electronic Service		Yes	Official 24-350
8	Sharon	Ferguson	sharon.ferguson@state.mn.us		Department of Commerce	85 7th Place E Ste 280 Saint Paul MN, 55101-2198 United States	Electronic Service		No	Official 24-350
9	Nicolle	Kupser	nkupser@greatermngas.com	Greater Minnesota Gas, Inc.		1900 Cardinal Ln PO Box 798 Faribault MN, 55021 United States	Electronic Service		No	Official 24-350
10	Greg	Palmer	gpalmer@greatermngas.com	Greater Minnesota Gas, Inc.		1900 Cardinal Ln PO Box 798 Faribault MN, 55021 United States	Electronic Service		No	Official 24-350
11	Jessica	Palmer Denig	jessica.palmer-denig@state.mn.us		Office of Administrative Hearings	600 Robert St N PO Box 64620 St. Paul MN, 55164 United States	Electronic Service		Yes	Official 24-350
12	Generic Notice	Residential Utilities Division	residential.utilities@ag.state.mn.us		Office of the Attorney General - Residential Utilities Division	1400 BRM Tower 445 Minnesota St St. Paul MN, 55101-2131 United States	Electronic Service		Yes	Official 24-350
13	Janet	Shaddix Elling	jshaddix@janetshaddix.com	Shaddix And Associates		7400 Lyndale Ave S Ste 190 Richfield MN,	Electronic Service		No	Official 24-350

#	First Name	Last Name	Email	Organization	Agency	Address	Delivery Method	Alternate Delivery Method	View Trade Secret	Service List Name
						55423 United States				
14	Joseph	Windler	jwindler@winthrop.com	Winthrop & Weinstine		225 South Sixth Street, Suite 3500 Minneapolis MN, 55402 United States	Electronic Service		No	Official 24-350

#	First Name	Last Name	Email	Organization	Agency	Address	Delivery Method	Alternate Delivery Method	View Trade Secret	Service List Name
1	Kristine	Anderson	kanderson@greatermngas.com	Greater Minnesota Gas, Inc.		1900 Cardinal Lane PO Box 798 Faribault MN, 55021 United States	Electronic Service		No	Official 24-351
2	Sasha	Bergman	sasha.bergman@state.mn.us		Public Utilities Commission		Electronic Service		No	Official 24-351
3	Mike	Bull	mike.bull@state.mn.us		Public Utilities Commission	121 7th Place East, Suite 350 St. Paul MN, 55101 United States	Electronic Service		Yes	Official 24-351
4	Robin	Burke	rburke@greatermngas.com	Greater Minnesota Gas, Inc.		1900 Cardinal Ln PO Box 798 Faribault MN, 55021 United States	Electronic Service		No	Official 24-351
5	Christopher J.	Cerny	ccerny@winthrop.com	Winthrop & Weinstine, P.A.		225 South Sixth Street Suite 3500 Minneapolis MN, 55402 United States	Electronic Service		No	Official 24-351
6	Cody	Chilson	cchilson@greatermngas.com	Greater Minnesota Gas, Inc. & Greater MN Transmission, LLC		1900 Cardinal Ln PO Box 798 Faribault MN, 55021 United States	Electronic Service		No	Official 24-351
7	Generic	Commerce Attorneys	commerce.attorneys@ag.state.mn.us		Office of the Attorney General - Department of Commerce	445 Minnesota Street Suite 1400 St. Paul MN, 55101 United States	Electronic Service		Yes	Official 24-351
8	Sharon	Ferguson	sharon.ferguson@state.mn.us		Department of Commerce	85 7th Place E Ste 280 Saint Paul MN, 55101-2198 United States	Electronic Service		No	Official 24-351
9	Nicolle	Kupser	nkupser@greatermngas.com	Greater Minnesota Gas, Inc.		1900 Cardinal Ln PO Box 798 Faribault MN, 55021 United States	Electronic Service		No	Official 24-351
10	Greg	Palmer	gpalmer@greatermngas.com	Greater Minnesota Gas, Inc.		1900 Cardinal Ln PO Box 798 Faribault MN, 55021 United States	Electronic Service		No	Official 24-351
11	Jessica	Palmer Denig	jessica.palmer-denig@state.mn.us		Office of Administrative Hearings	600 Robert St N PO Box 64620 St. Paul MN, 55164 United States	Electronic Service		Yes	Official 24-351
12	Generic Notice	Residential Utilities Division	residential.utilities@ag.state.mn.us		Office of the Attorney General - Residential Utilities Division	1400 BRM Tower 445 Minnesota St St. Paul MN, 55101-2131 United States	Electronic Service		Yes	Official 24-351