

**BEFORE THE MINNESOTA OFFICE OF ADMINISTRATIVE HEARINGS
600 North Robert Street
Saint Paul, Minnesota 55101**

**FOR THE MINNESOTA PUBLIC UTILITIES COMMISSION
121 Seventh Place East, Suite 350
Saint Paul, Minnesota 55101-2147**

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

OAH Docket No. 71-2500-40492

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

**REPLY BRIEF
OF
GREATER MINNESOTA GAS, INC.**

May 22, 2025

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INTRODUCTION

This is a straightforward case. Greater Minnesota Gas, Inc. (“GMG” or “Company”) filed this rate case, its first in fifteen years, requesting a rate increase of \$1,422,431 or approximately 7.7 percent. In its request, GMG did not include new programs or expenses different in like and kind from its previous rate cases. The request simply seeks recovery of the reasonable and necessary costs of providing natural gas service to GMG’s customers. Since GMG’s initial filing, the record has developed substantially and certain issues have been resolved, such that GMG has now lowered its request by over \$56,000 and requests an increase of \$1,366,240, or approximately 7.5 percent – one-half of one percent per year over the fifteen years since its last rate increase. Further, in an effort to minimize controversy, fairly treat all customers, and provide better continuity of rates, GMG proposed and continues to propose maintaining GMG’s currently-approved revenue apportionment and rate design, with minimal changes as necessary for rounding.

In their Initial Briefs, the Department of Commerce (“Department” or “DOC”) and Office of the Attorney General – Residential Utilities Division (“OAG”) dispute certain revenue requirements issues and object to maintaining GMG’s current revenue apportionment and rate design. These disputes and objections often ignore the substantial record that has been developed and rely on misstatements and mischaracterizations of the record and of GMG’s testimony, as discussed below.¹ However, looking past the

¹ In the interest of brevity and efficiency, GMG does not attempt to address every issue or every misstatement reflected in the DOC and OAG Initial Briefs. Therefore, silence on any issue here should not be misinterpreted as agreement. Rather, GMG continues to rely on its Initial Brief and the record evidence supporting its positions.

Department and OAG rhetoric, and exemplifying the relative simplicity of this case, the significant disputes in this matter distill down to a handful of issues:

1. Return on equity – Should the Administrative Law Judge (“ALJ”) and Minnesota Public Utilities Commission (“MPUC” or “Commission”) continue to rely on a two-growth discounted cash flow (“DCF”) analysis as the primary guide in setting a fair and reasonable return on equity (“ROE”) and therefore find GMG’s requested 10.00 percent ROE a fair and reasonable result for both customers and the Company?
2. Sales forecast, use per customer – Is GMG’s use per customer forecast, based on GMG’s consistent history, reasonable or should GMG be assumed to have Test Year sales that do not exist?
3. Sales forecast, customer count – Is it reasonable for GMG’s sales forecast to reflect its actual beginning-of-test-year customer count or should GMG be held to its prior forecasted customer count?
4. Employee compensation – Is it reasonable for GMG to recover its compensation expenses, including its performance pay and retention agreement payments to its key employees?
5. Rate design – Is it reasonable to maintain the existing revenue apportionment or should certain classes receive disproportionately high rate increases?

On each of these issues, the law and the record strongly support GMG’s position.

Therefore, GMG respectfully requests the ALJ recommend and the Commission approve GMG’s request, as discussed below and in GMG’s Initial Brief.

I. CONTROLLING CASE LAW, COMMISSION PRECEDENT AND THE RECORD SUPPORT A RETURN ON EQUITY *HIGHER* THAN THAT REQUESTED BY GMG

GMG’s recommended ROE of 10.00 percent, prior to consideration of flotation costs, appropriately balances customer and shareholder interests and provides the opportunity for GMG to earn a fair and reasonable return. In arguing for a return on equity (“ROE”) of 9.65 percent – 135 basis points below returns recently approved for similar

utilities serving similar markets within 100 miles of GMG's service area – the Department tortures precedent and ignores or grossly distorts the record. A clear-eyed view of case law, Commission precedent and the record of this proceeding demonstrates the conservative nature of GMG's request for a 10.00 percent ROE.

A. Long Settled Case Law Requires Consideration Of Returns Being Earned By Companies With Similar Risks And Challenges As GMG

United States Supreme Court precedent has guided regulatory agencies' determinations of a reasonable rate of return on common equity for over 100 years, beginning with the landmark case of *Bluefield Water Works & Improvement Company v. Public Service Commission of West Virginia* in 1923.² The *Bluefield* Court stated that a reasonable return should be:

equal to that *generally being made at the same time and in the same general part of the country on investments in other business undertakings which are attended by corresponding risks and uncertainties.*³

The *Bluefield* Court also cautioned that:

Rates which are not sufficient to yield a reasonable return on the value of the property used, at the time it is being used to render the service, are unjust, unreasonable, and confiscatory, and their enforcement deprives the public utility company of its property in violation of the Fourteenth Amendment.⁴

And the Court further noted:

What annual rate will constitute just compensation *depends upon many circumstances* and must be determined by the exercise of a fair and enlightened judgment, *having regard to all relevant facts.*⁵

² *Bluefield Water Works & Improvement Company v. Public Service Commission of West Virginia*, 262 U.S. 679 (1923).

³ *Bluefield*, 262 U.S. at 690 (emphasis added).

⁴ *Bluefield*, 262 U.S. at 690.

⁵ *Bluefield*, 262 U.S. at 692.

Minnesota has long followed these established requirements for determining a fair and reasonable rate of return.⁶ In *Hibbing Taconite Co. v. Minnesota Public Service Commission*, the Minnesota Supreme Court noted that the establishment of a rate of return is a quasi-judicial function, wherein the ALJ and Commission act as a fact-finder and weigh the evidence as would a judge in a court trial.⁷ In weighing that evidence, the ALJ and Commission “must balance the interests of the utility against the interests of the utility’s customers.”⁸ The effort is not to determine the lowest possible return, but a fair and reasonable return that best serves the utility and its customers for the long term.

As discussed in GMG’s Initial Brief,⁹ applying this settled precedent to GMG has inherent challenges. For example, given GMG’s small size and rural customer base there are few utilities “comparable” to GMG to look to for guidance on an appropriate ROE. However, two such utilities operate within 100 miles of GMG’s service area – St. Croix Valley Natural Gas Company (“St. Croix Valley”) and Midwest Natural Gas (“Midwest Natural”).¹⁰ As such, these utilities provide a benchmark for a return on equity “in the same general part of the country on investments in other business undertakings which are attended by corresponding risks and uncertainties,” as discussed in *Bluefield*. In recent rate cases, the Public Service Commission of Wisconsin (“PSCW”) approved a 60 percent

⁶ *Hibbing Taconite Co. v. Minnesota Public Service Commission*, 302 N.W.2d 5, 10 (Minn. 1980), citing *Bluefield*, 262 U.S. at 690.

⁷ *Hibbing Taconite Co.*, 302 N.W.2d at 9.

⁸ *Hibbing Taconite Co.*, 302 N.W.2d at 10.

⁹ Initial Brief of Greater Minnesota Gas, Inc. at Sec. III.A. (May 8, 2025) (*hereinafter* GMG Initial Br.).

¹⁰ Exhibit (“Ex.”) GMG-103 at 9 (Palmer Direct).

equity ratio and an 11.00 percent ROE for both St. Croix Valley and Midwest Natural, finding that an 11.00 percent ROE for each utility was “a reasonable level to balance the needs of customers and investors” and “remains reasonable in comparison to the returns authorized for [its] peers.”¹¹

Consideration of these 11.00 percent ROEs for St. Croix Valley and Midwest Natural, together with a balanced consideration of *all* relevant facts and circumstances, as discussed further below and in GMG’s Initial Brief, demonstrates the conservative nature of GMG’s requested 10.00 percent return on equity.

B. The Department Brazenly Misstates Commission Precedent

The Department attempts to make its ROE recommendation appear reasonable by making the bold – and demonstrably false – claim that the multi-stage discounted cash flow (“DCF”) analysis supported by its witness and relied on by him in recommending a 9.65 percent ROE represents “financial modeling approved by the Commission in recent cases.”¹² Notably, the Department fails to cite any such cases supporting that proposition. Rather, it cited the testimony of its ROE witness, Mr. Addonizio. In the *only* case referenced in that cited testimony, the Commission did not “approve” the multi-stage DCF analysis relied on by Mr. Addonizio in this case. Rather, *the Commission explicitly relied*

¹¹ *Application of St. Croix Valley Natural Gas Company, Inc. for Authority to Increase Rates for Natural Gas Rates*, Public Service Commission of Wisconsin Docket No. 5230-GR-109, Final Decision at 2, 9 (Apr. 24, 2023); *Application of Midwest Natural Gas, Inc. for Authority to Increase Rates for Natural Gas Rates*, Public Service Commission of Wisconsin Docket No. 3670-GR-106, Final Decision at 2, 9 (Apr. 27, 2023).

¹² Initial Brief of the Minnesota Department of Commerce at 6 (May 8, 2025) (*hereinafter* DOC Initial Br.).

on the two-growth DCF financial modeling in that case, to which it added an adjustment for flotation costs.¹³ And as Mr. Addonizio acknowledged, the Commission has *never* relied on a multi-stage analysis, such that he provided in this case, when setting a utility's ROE.¹⁴

Later in its Initial Brief, the Department doubles down on its misstatement of Commission precedent, chiding the Company for accurately quoting a Commission Order and stating:

GMG quoted a passage from the Commission's decision in Xcel Energy's 2021 electric rate case in which it rejected the Department's recommended multistage DCF model in favor of a two-growth DCF model. What GMG neglected to mention is that the Commission went on to approve a 9.25% authorized ROE—the exact ROE recommended by the Department in that case. The Department's recommended ROE, which the Commission adopted, was a result of the Department's consideration of multiple DCF models, with the greatest weight on the results of the multi-stage DCF analysis.¹⁵

GMG *quoted the Order*. In it, the Commission unambiguously declined to rely on Mr. Addonizio's multi-stage DCF analysis and reaffirmed its reliance on the two-growth DCF model for determining the appropriate ROE, stating:

The two-growth DCF model provides a fundamentally sound framework through which to analyze the Company's relative risk in relation to comparable companies, and through which to evaluate the Company's

¹³ *In the Matter of the Petition by Great Plains Natural Gas Co., a Division of Montana-Dakota Utilities, Co., for Authority to Increase Natural Gas Rates in Minnesota*, MPUC Docket No. G-004/GR-19-511, FINDINGS OF FACT, CONCLUSIONS, AND ORDER at 18 (Oct. 26, 2020).

¹⁴ Hearing Transcript ("Tr.") at 64:5-8 (Addonizio).

¹⁵ DOC Initial Br. at 15 (May 8, 2025).

financial integrity and ability to attract investors in light of current as well as expected market conditions.¹⁶

The Department seeks to re-write history and the Xcel Energy Order when it suggests that the Commission somehow accepted, endorsed or approved the Department's analysis in that case. In fact, in that Order the Commission relied, not on the Department, but on Xcel Energy's two-growth DCF analyses in setting the ROE, with the Department's ROE recommendation serving only as a "check on reasonableness."¹⁷ The Commission clearly stated:

The Commission therefore finds that *the two-growth DCF analysis provided by the Company provides a reasonable basis for setting a return in this case*. No party showed that the utility proxy group criteria used by Xcel were unreasonable, that the Company's DCF analyses inaccurately reflect the results of the inputs of the model, or that the data the Company used in its DCF models misrepresented market conditions at the time the Company's studies were conducted.¹⁸

The Commission went on to state:

While the results of other models or analyses are less persuasive, they do provide a check on reasonableness. The Department's recommended return-on-equity of 9.25%, while derived from a different DCF model than the Company's, is consistent with the average results of the Company's DCF models.¹⁹

¹⁶ *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*, MPUC Docket No. E-002/GR-21-630, FINDINGS OF FACT, CONCLUSIONS OF LAW AND ORDER at 89 (July 17, 2023) ("Xcel Energy Order").

¹⁷ Xcel Energy Order at 91. In setting the ROE, the Commission relied on the average of the two-growth DCF analyses provided by Xcel Energy in its Direct and Rebuttal testimonies. *Id.*

¹⁸ Xcel Energy Order at 89 (emphasis added).

¹⁹ Xcel Energy Order at 91.

In the current proceeding, the record contains two two-growth DCF analyses, both of which affirm the conservative nature of GMG's requested ROE. Mr. Addonizio's two-growth DCF analysis submitted in late February indicated a "mean average" ROE for his six company "proxy group" (large, publicly-traded utilities) of 10.50 percent and a "mean high" ROE for that proxy group of 10.90 percent.²⁰ In Surrebuttal Testimony filed in mid-April and using updated market data, the two-growth DCF "mean average" and "mean high" ROEs had increased slightly, to 10.68 and 11.12 percent, respectively.²¹ Taking the approach used by the Commission in the Xcel Energy Order and averaging these two results would indicate a "mean average" ROE of 10.59 percent *before* consideration of GMG's unique risks. The Department's recommendation to set the ROE nearly 100 basis points lower than that indicated by the Commission's long-preferred two-growth DCF model, anchored in a multi-stage DCF analysis never relied on by the Commission, must be rejected.

C. The Record Fully Supports GMG's Requested ROE

A wealth of record information supports the reasonableness of GMG's requested 10.00 percent ROE, prior to consideration of flotation costs. In arguing that this request is "unsupported and unreasonable," the Department ignores much of that record and distorts the record evidence it cites. For example, the Department twice faults GMG for relying on the Commission's prior approval of a 10.00 percent ROE for GMG and not performing

²⁰ Ex. DOC-201 at 37 (Addonizio Direct); Ex. DOC-202 at Schedules CMA-D-13 through CMA-D-16 (Addonizio Direct).

²¹ Ex. DOC-203 at 10 and Schedules CMA-S-8 through CMA-S-13 (Addonizio Surrebuttal).

financial modeling, suggesting the Company provided no supporting evidence for its recommendation.²² However, as support for its claim, the Department relies on a single sentence in the testimony of GMG witness Ms. Burke, who did not testify on cost of capital issues for the Company. The Department ignores much of the testimony of the Company's ROE witness, Mr. Palmer. As Mr. Palmer discussed in his Direct Testimony, GMG's requested 10.00 ROE was informed not only by its current approved ROE, but also after considering returns reported for publicly-traded companies, returns awarded to other nearby utilities serving similar markets, and consideration of GMG's risks in comparison to these other utilities.²³

Most notably though, the Department ignores the fact that in his Rebuttal Testimony Mr. Palmer *agreed with the results of the Department's DCF modeling*, stating:

I do find the calculations reasonable for estimating the cost of capital for large publicly traded gas utilities and these calculations can inform the determination of an appropriate ROE for GMG.²⁴

At issue then is which of these DCF models should receive the most significant weight in setting GMG's ROE – the two-growth DCF model consistently relied on by the Commission or the multi-stage DCF model never relied on by the Commission.

The Department also rebukes GMG for not quantifying the unique risks associated with its business, and how the ROE should be adjusted to account for those risks. However, *GMG has not asked for any specific risk adjustment*. In fact, only the Department ROE

²² DOC Initial Brief at 6, 12.

²³ Ex. GMG-103 at Sec. II (Palmer Direct).

²⁴ Ex. GMG-112 at 10 (Palmer Rebuttal).

recommendation requires a risk adjustment, due to its reliance on modeling not relied on in any past Commission ROE determination – modeling that if left unadjusted would yield ROEs far lower than recently approved returns. As Mr. Palmer explained, the Department based its ROE recommendation:

on an analysis using the Multi-stage Discounted Cash Flow (“MDCF”) Model of analysis, using a ten-year second stage with a proxy set of publicly traded Companies that generates a mean return of 8.52%, which [Mr. Addonizio] states he would subjectively increase to a recommended return of 9.2% to 9.3% for larger Minnesota gas utilities. He then adjusts his recommendation to 9.65% for GMG.²⁵

The ALJ and Commission do not need to develop any such subjective adjustments for GMG’s unique risks, since the two-growth DCF analyses in this record support a ROE well *above* that requested by the Company. Consideration of GMG’s unique risks merely confirms the conservative nature of the Company’s request.

For all of these reasons and as discussed in GMG’s Initial Brief, the record demonstrates the reasonableness of GMG’s requested 10.00 percent ROE in multiple respects, including: (1) the results of two-growth discounted cash flow (“DCF”) analyses; (2) consideration of GMG’s unique risk characteristics; (3) recent returns approved for comparable utilities in Wisconsin; and (4) comparison to Minnesota’s other natural gas utilities.

²⁵ Ex. GMG-112 at 10 (Palmer Rebuttal).

D. GMG Has Not Proposed “Double Recovery” Of Flotation Costs

The Department acknowledges that “utilities are entitled to recover their flotation costs.”²⁶ However, the Department then alleges that a flotation cost adjustment for GMG would amount to “double recovery” of flotation costs and says “GMG is asking for authorization to charge its ratepayers a second time on the same expense.”²⁷ The Department provides no record support for this claim, as none exists.

As GMG has acknowledged, the Company expensed the cost of past equity placements, since a large amount of the work was done by internal staff due to the limited size of the offering.²⁸ However, that does not mean GMG customers have already been “charged” for these expenses. For customers to be “charged” an expense, that expense must occur in a test year and be included in final rates. There is no mention of flotation costs being included as an expense in any of GMG’s three prior rate cases.²⁹ More importantly, in each of those cases, GMG agreed to accept less than its full revenue requirement, meaning GMG did not fully recover all of the expenses that *were* included in those cases.

Due to GMG’s growth and its aging shareholder base, the Company will need to attract additional capital and future equity offerings will not be able to be handled by internal staff alone.³⁰ Failure to recognize these expenses will limit GMG’s ability to attract sufficient capital in the future and the 15 basis point adjustment GMG recommends is

²⁶ DOC Initial Br. at 16.

²⁷ DOC Initial Br. at 16-17.

²⁸ Ex. GMG-112 at 17 (Palmer Rebuttal).

²⁹ See MPUC Docket Nos. G-022/GR-04-667; G-022/GR-06-1148; G-022/GR-09-962.

³⁰ Ex. GMG-112 at 17 (Palmer Rebuttal).

reasonable, as it matches the flotation adjustment for its debt issuances.³¹ Including this adjustment results in a final ROE for GMG of 10.15—*well below the mean average two-growth DCF results*, so still a conservative overall ROE that will result in just and reasonable rates for both GMG and its customers.

II. GMG MET ITS BURDEN TO DEMONSTRATE THE REASONABLENESS OF RECOVERING ITS UPDATED REVENUE REQUIREMENT

In addition to being impacted by the cost of capital, including the determination of a fair and reasonable ROE, a utility's revenue requirement is impacted by its forecasted revenues, expenses and utility plant in service (i.e., rate base). Both Minnesota Statutes and case law guide the ALJ's and Commission's consideration of the revenue requirements issues in this case. As stated in statute:

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.³²

When deciding these “revenue requirements” issues, including establishing the Company's projected revenues, expenses, and rate base, Minnesota courts have stated that the Commission acts in its quasi-judicial capacity.³³ Minnesota courts have further explained that on such issues, “under normal ratemaking policy, a utility is entitled to

³¹ Ex. GMG-112 at 17 (Palmer Rebuttal).

³² Minn. Stat. § 216B.16, subd. 6 (emphasis added).

³³ See, e.g., *St. Paul Area Chamber of Commerce v. Minnesota Public Service Commission*, 251 N.W.2d 350, 358 (Minn. 1977).

recover necessary, ongoing expenses incurred in the business of providing utility service.”³⁴ Thus, while GMG bears the burden of demonstrating that its position is just and reasonable,³⁵ it cannot be denied the opportunity to recover its necessary ongoing expenses, whether by assuming revenues that do not exist, by denying recovery of reasonable and necessary expenses, or by eliminating tens of thousands of dollars of investments in used and useful property from the Company’s rate base.

As discussed below, while the DOC or OAG challenge certain of the revenue requirements matters in this case, on each, GMG has met its burden to demonstrate the reasonableness of its position and the appropriateness of reflecting that position in determining GMG’s final revenue requirement so that it can recover the necessary, ongoing expenses of providing natural gas service to its customers.

A. The Record Demonstrates The Reasonableness Of GMG’s Updated Sales Revenue Forecast

GMG provided record evidence that demonstrates the reasonableness of GMG’s updated sales revenue forecast, and the Department’s and OAG’s arguments are contradicted by the record in this proceeding, are speculative, and should be rejected. First, the Department’s position that GMG’s updated sales forecast risks under-estimating sales, and thus over-collecting revenues is refuted by the information and documents produced by GMG in this rate case. As the Company demonstrated, GMG’s Test Year sales forecast

³⁴ *In the Matter of a Request of Interstate Power Company For Authority To Change Its Rates For Gas Service In Minnesota*, 559 N.W.2d 130, 134 (Minn. App. 1997), *affirmed* 574 N.W.2d 408 (Minn. 1998) (emphasis added).

³⁵ Minn Stat. § 216B.16, subd. 4.

is an accurate representation of its new customer growth and gas usage on an annual basis, and represents historically high sales. Second, the OAG's position that the Company's projected Small Commercial customer growth severely impacts the credibility of GMG's sales forecast is wildly overstated and unsupported by the evidence. To the contrary, even assuming for the sake of argument that GMG's Small Commercial customer counts are understated, the resulting monetary impact is minimal and well within a normal range of variance when considering future projections. Further, such concerns can be eliminated by utilizing the Company's updated sales revenue forecast with 2024 year-end actual customer counts.

What the record evidence shows is that GMG relied on experience and historic trends to establish a Test Year that is representative of **each** normal year.³⁶ The record evidence also shows that GMG's updated sales forecast exceeds the recent six-year average of its sales, and considerably exceeds its downward trending sales over the last two years.³⁷ There is nothing in the record supporting any contention that GMG presented a sales forecast that is lower than the Company's anticipated sales, and, if anything, GMG's sales forecast is over-stated in its customers favor.

1. New Customer Forecast

The Department's argument that new customer usage should be annualized incorrectly applies the Test Year concept. GMG and the Department both agree that a Test

³⁶ Ex. GMG-109 at 3 (Burke Rebuttal).

³⁷ GMG Initial Br. at 38-39 (comparing Ex. GMG-110, Schedule RDB-SR-3 at 3 (Burke Surrebuttal), Ex. OAG-303 at Schedule CS-D-1 (Stevenson Direct), and Ex. OAG-305, Schedule CS-S-1 at 12 (Stevenson Surrebuttal)).

Year is “the 12-month period selected by the utility for the purpose of expressing its need for a change in rates.”³⁸ A Test Year is “a representative slice of the utility’s normal operations . . . intended to base rates on **experience** instead of conjecture.”³⁹ GMG provided nine years of data showing monthly new customer additions that demonstrate that GMG’s addition of new customers near-exclusively occurs from June through December **each year**.⁴⁰ Thus, GMG’s Test Year sales forecast that projects new customer growth according to this pattern is representative of the utility’s normal operations based on the utility’s experience.

The Department nevertheless continues to take the position that because these new customers will stay on the system beyond the initial date of their addition, meaning into 2026 and beyond, these customers’ Test Year gas use should be annualized.⁴¹ GMG does not dispute the assumption that its new customers will continue to take service from GMG in future years. Yet, annualizing these customers’ gas usage in the Test Year to account for their consumption in future years only makes sense under the Test Year concept if the projected pattern of customer additions is irregular, and thus not a representative slice of the utility’s normal operations. GMG provided unrefuted evidence that its customer additions follow a consistent trend year-to-year and are connected to GMG’s system from

³⁸ Minn. R. 7825.3100, subp. 17; Ex. DOC-204 at 5 (Shah Direct); GMG Initial Br. at 13, 40.

³⁹ *In re Application of N. States Power Co. for Auth. to Increase its Rates for Elec. Serv. in the State of Minn.*, Docket No. E-002/GR-89-865, ORDER DENYING PETITIONS FOR RECONSIDERATION AND DENYING TRANSITIONAL RATE INCREASE at 5 (Nov. 26, 1990) (emphasis added).

⁴⁰ Ex. DOC-205, Schedule SS-SR-3 (Shah Surrebuttal).

⁴¹ DOC Initial Br. at 25-26; Ex. DOC-205 at 9-11 (Shah Surrebuttal).

June through December.⁴² Even if there were merit to the Department's argument, which there is not, the Department ignores that if revenues are annualized, so must be new customer costs. The Department did not annualize any new customer costs beyond the cost of gas.⁴³

Additionally, there is no merit to the Department's disingenuous allegation that GMG uses 86 dekatherms ("Dth") internally and only uses 21.6 Dth for the purpose of the rate case. The Department refers to GMG's use of 86 Dth in its calculations used in a response to OAG witness Mr. Stevenson's revenue adjustment due to his concerns with the Small Commercial customer count.⁴⁴ As should be evident from Ms. Burke's Rebuttal Testimony and Schedules to which the Department cites, Ms. Burke made an apples-to-apples comparison using information from Schedule E-1 of the Company's Initial Filing to correct Mr. Stevenson's calculations.⁴⁵ This is not an endorsement of Mr. Stevenson's use of 86 Dth, and GMG resoundingly rejects the accusation that it is using 21.6 Dth for rate case purposes only.

In sum, GMG provided reliable evidence that its new customer forecast reasonably represents the Company's normal operations and the Test Year properly establishes the expected level of sales to new customers for each year.

⁴² Ex. DOC-205, Schedule SS-SR-3 (Shah Surrebuttal).

⁴³ Ex. DOC-204 at 17 (Shah Direct).

⁴⁴ DOC Initial Br. at 26.

⁴⁵ See Ex. OAG-303 at 10-11 and Schedule CS-D-7 at 3 (Stevenson Direct); Ex. GMG-109, Schedule RDB-REB-1.

2. Small Commercial Customer Count

The Small Commercial customer count in the original sales forecast was based on GMG's experience with growing its Small Commercial customers primarily through the conversion of existing businesses and the lack of plans for main extensions.⁴⁶ The sales forecast reasonably considers the likelihood, or lack thereof, of additional Small Commercial customers in the absence of plans to extend service to currently unserved areas and the existing potential customer base that could fill in on the existing mains.⁴⁷ It is entirely appropriate and reasonable for GMG to use this knowledge and experience to project no growth in its Small Commercial customer class in 2025.

Contrary to the OAG's argument, GMG's budgeting practice does not call the Small Commercial customer count, nor any aspect of its sales forecast into question. The Company budgets new customers as Residential when it lacks the knowledge or other justification for budgeting those customers as a different class, for the reasons discussed in GMG's Initial Brief.⁴⁸ This occasionally leads to some customers ultimately being in a different class once they are added to the system, and resulted in an increased Small Commercial customer count and a decreased Residential customer count at the end of 2024.⁴⁹ For this reason, GMG's projected 2024 year-end Small Commercial customer count was lower than its actual 2024 year-end customer count.⁵⁰ In response to the OAG's

⁴⁶ Ex. OAG-303, Schedule CS-D-5 (Stevenson Direct).

⁴⁷ Ex. OAG-305, Schedule CS-S-2 at 2 (Stevenson Surrebuttal).

⁴⁸ GMG Initial Br. at 45.

⁴⁹ Ex. GMG-109 at 5 (Burke Rebuttal).

⁵⁰ Ex. GMG-109 at 6 (Burke Rebuttal).

recommendation to update the Small Commercial customer count to 990 customers to be more in line with 2024 actuals, GMG proposed to update all customer counts to year-end actuals for the greatest accuracy.⁵¹ OAG witness Mr. Stevenson agreed that this was a reasonable approach, assuming related costs were also updated.⁵² Although GMG strongly disagrees that its budgeting practice leads to an inaccurate or unreliable sales forecast, using the 2024 year-end actual customer counts resolves the OAG's concerns regarding GMG's customer count budgeting.

The Department disagrees that updating the sales forecast with 2024 year-end customer counts is reasonable.⁵³ The Department argues that doing so results in a revenue deficiency that is larger than GMG's original request.⁵⁴ GMG recognizes that the exhibit GMG referenced would indicate a greater revenue deficiency than was originally filed, if viewed in isolation.⁵⁵ However, GMG has also agreed to adjustments in other areas that reduce the Company's revenue deficiency such that, even including the impact of GMG's updated sales forecast, the Company's revenue deficiency remains below the Company's original request.

In sum, GMG's updated sales forecast resolves the OAG's issue with the Company's 2024 year-end Small Commercial customer count and should be adopted because the overall rate request, after considering the resolved issues, is below the

⁵¹ Ex. GMG-109 at 6 (Burke Rebuttal).

⁵² Ex. OAG-305 at 4 (Stevenson Surrebuttal).

⁵³ DOC Initial Br. at 26-27.

⁵⁴ DOC Initial Br. at 26-27.

⁵⁵ See Ex. GMG-109, Schedule RDB-REB-3.

Company's original request. As it relates to the 2025 sales forecast for new Small Commercial customers, GMG demonstrated that the forecast is reasonable based on GMG's experience and lack for planned major expansions.

B. The Record Supports The Need For And Reasonableness Of GMG's Test Year Expenses

Minnesota Statutes call for the Commission to give due consideration to "the need of the public utility for revenue sufficient to meet the cost of furnishing the service."⁵⁶ And while Minnesota Statutes place the burden of demonstrating the reasonableness of recovering such costs,⁵⁷ Minnesota courts have explained that on these issues, "under normal ratemaking policy, a utility is entitled to recover necessary, ongoing expenses incurred in the business of providing utility service."⁵⁸ The Department or OAG have challenged only three types of expenses in this proceeding – certain components of GMG's employee compensation, administrative and general expenses and organizational dues. On each, GMG has met its burden to demonstrate the need for and reasonableness of these expenses and no disallowance is warranted.

1. GMG's Compensation Programs Fundamentally Differ From Those Of Other Utilities And Are Reasonable And Necessary To Attract And Retain Its Employees

The Department's continued argument to deny GMG recovery of its employee compensation lacks any substantive merit. In pressing its argument, the Department relies

⁵⁶ Minn. Stat. § 216B.16, subd. 6.

⁵⁷ Minn. Stat. § 216B.16, subd. 4.

⁵⁸ See *Minnegasco v. Minnesota Public Utilities Commission*, 549 N.W.2d 904, 909 (Minn. 1996).

on the testimony of Mr. Johnson. Yet neither Mr. Johnson nor any other witness in this proceeding ever argued GMG paid its employees, including its top paid employees, excessive compensation.⁵⁹ Indeed, as GMG discussed in its Initial Brief, the total compensation included in this rate case for GMG's "top ten" paid employees (who constitute 40 percent of GMG's total workforce) results in an average of under \$100,000 annually per employee, far lower than the salaries of upper-level employees at other Minnesota utilities.⁶⁰

Nonetheless, the Department objects to recovery of a portion of one employee's annual performance pay (the "short-term incentive" compensation offered by GMG) and it objects to recovery of any of the annual costs associated with GMG's employee retention agreements (GMG's longer-term "incentive" compensation), based solely on what the Department and Mr. Johnson describe as "the Commission's long-standing practice" of: (1) capping recovery of "short-term incentive pay" and (2) rejecting "long-term incentive compensation." Yet as GMG discussed in detail in its Initial Brief, the Commission has never opined on compensation packages such as GMG's performance pay (short-term) or retention agreement (long-term) compensation offerings.⁶¹

Regarding GMG's performance pay, only one employee in the Company has performance pay tied in any way to GMG's financial performance.⁶² And for that one

⁵⁹ See Tr. at 82:9-21 (Johnson)

⁶⁰ See GMG Initial Br. at 29-30.

⁶¹ See GMG Initial Br. at 29-37.

⁶² Ex. GMG-112 at 21 (Palmer Rebuttal); Ex. DOC-214 at Schedule MAJ-D-4 (Johnson Direct).

employee, while the Department continues to argue some of the performance pay should be disallowed, Mr. Johnson acknowledged that this employee is one of GMG's officers,⁶³ that he did not challenge that officer's total compensation and that, in fact, he testified that GMG's officers "do not spend a significant amount of time on shareholder focused activities, such as increasing earnings per share."⁶⁴ Given this lack of time on shareholder focused activities and the fact that GMG has paid out its full performance pay the past two years despite lackluster earnings,⁶⁵ there is no record basis to conclude that GMG's performance pay has incentivized this one employee to advance shareholder interests above customer interests – the basis of prior Commission disallowances of short-term incentive packages offered by other utilities. As such, no disallowance of that single employee's performance pay is appropriate. Rather, GMG should be allowed recovery of its full Test Year performance pay costs.⁶⁶

Turning to GMG's retention agreements, there is *no financial component* to these agreements whatsoever and *no financial "trigger"* that must be met before payment.⁶⁷ Rather, the employee simply needs to continue to be employed by GMG, with payment of the additional compensation made on the third anniversary of the agreement.⁶⁸ As a

⁶³ Tr. at 80:15–82:8 (Johnson); Ex. DOC-214 at Schedule MAJ-D-5 (Johnson Direct).

⁶⁴ Tr. at 82:9-21 (Johnson); Ex. DOC-216 at 12 (Johnson Surrebuttal).

⁶⁵ See Ex. GMG-112 at 7 (Table GHP-REB-2) and 21 (Palmer Rebuttal).

⁶⁶ While no disallowance is justified on the basis of this record, GMG notes again that if the 25 percent cap applied in the CenterPoint Energy case cited in GMG's Initial Brief was applied to GMG in this case, there would be no disallowance of any of this employee's pay. If the 20 percent cap used in the cited Minnesota Power case, only \$4,314 would be disallowed. Ex. GMG-112 at 22-23 (Palmer Rebuttal).

⁶⁷ Ex. GMG-112 at 19, 23 (Palmer Rebuttal).

⁶⁸ Ex. GMG-112 at 19, 23 (Palmer Rebuttal).

Company with just 25 total employees, GMG needs to structure its compensation in this manner to support retention of its key personnel to ensure the safe, reliable operation of the business.⁶⁹ The retention agreements provide a key tool in that regard, as GMG does not offer the array of benefits offered by larger utilities, such as a defined benefit plan.⁷⁰ These agreements simply do not resemble long-term incentive programs offered by other utilities, which the Commission has disallowed as “chiefly advancing shareholder interests”⁷¹ or “prioritiz[ing] shareholder interests over customer interests.”⁷² Allowing recovery of GMG’s reasonable and necessary compensation expenses would not depart whatsoever from Commission precedent, since the Commission has never opined on the reasonableness of such agreements. The Department’s recommendation to deny recovery is unsupported in the record and unsupported by precedent.

2. GMG’s Test Year Administrative And General Expenses Are Reasonable And Necessary For The Provision Of Safe, Reliable Natural Gas Service

The Department continues to recommend reduced Test Year expenses for multiple Administrative and General Expenses categories, focusing on the percentage increase from the 2024 Actuals expense to the 2025 Test Year expense as an indicator that the projected

⁶⁹ Ex. GMG-112 at 20 (Palmer Rebuttal).

⁷⁰ Ex. GMG-112 at 20 (Palmer Rebuttal).

⁷¹ *In the Matter of the Application of CenterPoint Energy Resources Corp. d/b/a CenterPoint Energy Minnesota Gas for Authority to Increase Natural Gas Rates in Minnesota*, MPUC Docket No. G-008/GR-15-424, FINDINGS OF FACT, CONCLUSIONS, AND ORDER at 23 (June 3, 2016).

⁷² *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*, MPUC Docket No. E-002/GR-21-630, FINDINGS OF FACT, CONCLUSIONS AND ORDER at 15 (July 17, 2023).

increases are unreasonable.⁷³ Although such a comparison can be instructive, GMG's size renders these comparisons misleading. Lost in the Department's argument is that GMG's legitimate increases in these Administrative and General Expenses results in high percentage increases primarily as a function of scale. In many of these expense categories, GMG has such relatively small spend that a moderate or even small financial increase will appear outsized on a percentage basis, rendering reliance on the percentage increases as evidence of unreasonable projections distorted at best.

Take, for example, GMG's proposed Education and Training expense. The Department argued that this expense is unreasonable because it is 192 percent of the Company's 2024 Actual expense.⁷⁴ However, as GMG noted, it hired a new Measurement Technician that will require specialized training and will need to train new technicians hired due to attrition of the current workforce.⁷⁵ GMG does not employ a trainer, so it sends its employees to trainings conducted by the American Gas Association ("AGA") and the MEA Energy Association, meaning costs are dependent on employee training needs, available training opportunities, and the location of the training.⁷⁶ This ultimately leads to reasonable variation in Education and Training expenses such that the expense for 2022 was \$13,881 and for 2024 was \$3,493.⁷⁷ Ultimately, the education and training costs projected for 2025 Test Year of just \$10,200 are based on GMG's best estimates as to

⁷³ DOC Initial Br. at 18-23.

⁷⁴ DOC Initial Br. at 19.

⁷⁵ Ex. DOC-215, Schedule AAU-D-1 at 16 (Uphus Direct).

⁷⁶ Ex. DOC-215, Schedule AAU-D-1 at 16 (Uphus Direct).

⁷⁷ Ex. DOC-215, Schedule AAU-D-1 at 16-17 (Uphus Direct).

reasonable Test Year costs, and is within the range of recent Education and Training expenses.⁷⁸ Characterizing these costs as unreasonable because the year-over-year percentage increase appears high mischaracterizes the nature of and need to accrue these costs to adequately train GMG employees, which is necessary for the provision of safe and reliable gas service.

Similarly, GMG noted that it will incur expenses related to outfitting a new truck that is necessary for its new Measurement Technician, and that it anticipates ongoing higher costs to maintain this new truck and its aging vehicle fleet.⁷⁹ The resulting projected Auto and Truck Expense for the 2025 Test Year—\$138,000—is based on these identified circumstances and is reasonable given these changes. Nevertheless, the Department argued that the Test Year expense is unreasonable because it is a 62 percent increase over 2024 Actuals.⁸⁰ However, if comparing the 2025 Test Year expense to the 2022 expense of \$118,734, GMG’s request would only be a 16 percent increase.⁸¹ And if compared to the 2023 expense of \$121,761, GMG’s request is only a 13 percent increase.⁸² Again such variation is reasonable and the addition of a new vehicle, the need to outfit such vehicle, and the aging of GMG’s vehicle fleet are identified drivers of the increase to this expense in 2025. GMG has demonstrated that this increase is reasonable given these changes in

⁷⁸ Ex. DOC-215, Schedule AAU-D-1 at 16-17 (Uphus Direct).

⁷⁹ Ex. DOC-109 at 10 (Burke Rebuttal); Ex. DOC-215, Schedule AAU-D-1 at 2 (Uphus Direct).

⁸⁰ DOC Initial Br. at 19.

⁸¹ Ex. DOC-216, Schedule MAJ-S-11 (Johnson Surrebuttal).

⁸² Ex. DOC-216, Schedule MAJ-S-11 (Johnson Surrebuttal).

GMG's vehicle fleet. Whether this results in a relatively high percentage due to the scale of this increase between only two years is irrelevant when considering GMG's size.

Finally, there is no merit to the Department's repeated assertions that GMG did not support its projected expenses simply because it did not break out its projected expenses to the minute level of detail now sought by the Department. GMG provided support for various expenses, including all the disputed expenses, in response to the Department's Information Requests and in Rebuttal Testimony.⁸³

In sum, GMG provided sufficient record evidence that the Administrative and General Expenses are just and reasonable. The Department's assertions to the contrary are unsupported by evidence and there is nothing in the record showing that GMG's projections are erroneous or unreasonable. The Department's reliance on the percentage of increase over 2024 Actuals disregards the scale of necessary expense increases on a company of GMG's size. No adjustments to GMG's Administrative and General Expenses are necessary.

3. GMG's Organizational Dues Support The Provision Of Safe, Reliable And Efficient Service

GMG seeks to recover expenses for organizational dues that the evidence shows are directly related to the provision of utility service.⁸⁴ Nevertheless, the OAG seeks total denial of costs associated with two organizations, the AGA and the Minnesota AgriGrowth

⁸³ See Ex. GMG-109 at 10-15; Ex. DOC-215, Schedule AAU-D-1 (Uphus Direct).

⁸⁴ GMG Initial Br. at 50-54.

Council, and to amortize the costs associated with the Midwest Regional Gas Task Force (Gas Task Force) over three years.⁸⁵

As it relates to the AGA, the OAG questioned whether the Company accurately removed lobbying expenses and the Company's assertions that it already accounted for those expenses.⁸⁶ Upon further review, the Company acknowledges that it erred and did not remove the 4.3 percent that is attributable to lobbying when AGA costs were allocated to GMG at the Company level.⁸⁷ GMG respectfully revises its AGA dues request to \$3542.34 to account for the portion of AGA's work that is attributable to lobbying. However, there is no merit to the OAG's assertion that GMG did not provide sufficient support to show that its membership in the AGA provides ratepayer benefits.⁸⁸ For the myriad reasons discussed in GMG's Initial Brief, it has shown that the AGA provides necessary resources to allow GMG to continue providing safe and reliable natural gas service.⁸⁹

Similarly, GMG recognizes that it did not remove the 25 percent for its dues for the Minnesota AgriGrowth Council that is attributable to lobbying. GMG respectfully revises its Minnesota AgriGrowth Council dues request to \$2062.50 to account for the portion of Council's work that is attributable to lobbying. Yet again, however, there is no merit to the OAG's assertion that GMG did not provide sufficient support to show that its membership

⁸⁵ OAG Initial Br. at 6-13.

⁸⁶ OAG Initial Br. at 9.

⁸⁷ Ex. OAG-301, Schedule SL-D-2 (Lee Direct).

⁸⁸ OAG Initial Br. at 9.

⁸⁹ GMG Initial Br. at 51-52.

in the Minnesota AgriGrowth Council provides ratepayer benefits, and GMG should be allowed to recover its dues expense of \$2062.50

As it relates to the Gas Task Force, the OAG oversimplifies the circumstances in which GMG will incur costs related to the organization. First, there are multiple interstate pipeline companies whose rate cases will impact GMG and GMG's customers.⁹⁰ GMG does not only participate in Gas Task Force interventions related to Northern Natural Gas.⁹¹ Second, these interstate gas pipeline rate cases before the Federal Energy Regulatory Commission often take longer than one year to fully resolve.⁹² As GMG witness Ms. Burke noted, GMG incurs membership dues in years where there are interstate pipeline rate case activities, not just the year it is filed.⁹³ Further, the OAG ignores the evidence in the record that GMG relies on the Gas Task Force for far more than just participation in rate cases. As GMG noted, it relies on the Gas Task Force to monitor issues of importance in advance of or outside of rate case filings, including miscellaneous filings, capital expenditure plans, capacity expansions, and more.⁹⁴ GMG provided evidence sufficient to support its projected Gas Task Force organization dues expense. There is no justification for amortizing this cost over three years.

⁹⁰ Ex. GMG-109 at 18 (Burke Rebuttal).

⁹¹ Ex. GMG-109 at 18 (Burke Rebuttal).

⁹² Ex. OAG-301, Schedule SL-D-5 at 2 (Lee Direct).

⁹³ Ex. OAG-301, Schedule SL-D-5 at 2 (Lee Direct).

⁹⁴ Ex. OAG-301, Schedule SL-D-5 at 2 (Lee Direct).

C. GMG’s Meter Investments Are Used And Useful Property That Must Be Included In Rate Base

GMG’s customer meters are accounted for in two different accounts – FERC Accounts 381 and 382. The OAG continues to argue that there is a “plugged number” for FERC Account 381 in 2025, despite being presented with contradictory information during the evidentiary hearing that fully explained the \$176,834 down to the last dollar. On this issue, the OAG’s rhetoric has no relation to reality, as the \$176,834 is solely a result of a prior misallocation from FERC Account 382 to Account 381 that OAG witness Ms. Shoua Lee agreed had no impact on depreciation,⁹⁵ and the overall meter investment growth in the combined FERC Accounts 381 and 382 in 2025 is directly in line with 2023 and 2024.⁹⁶ In short, the regrettable prior misallocation of certain meters to FERC Account 381 had no impact whatsoever on the rate increase request and has been sufficiently explained.

Nevertheless, for the sake of clarity, a comparison of Figures 1 and 2 below demonstrates that the \$176,834 is a result of correcting the misallocation for the 2024 Actuals but not for the 2025 Test Year. Figure 1, as also excerpted in the OAG’s Initial Brief, is from Statement B of GMG’s Initial Filing and includes the Company’s misallocation of certain meters to FERC Account 381.⁹⁷

⁹⁵ Tr. at 93:7-10 (Lee).

⁹⁶ Tr. at 93:11-94:2 (Lee).

⁹⁷ Ex. GMG-105, Schedule B-1 at 3 (Initial Filing); OAG Initial Br. at 14.

Figure 1. GMG Summary Of Rate Base Component Adjustments⁹⁸

Line No.	Description	FERC Account	Asset		
			Projected 2024	Adjustment	Projected 2025
1	Distribution Plant				
2	Land & Land Rights	374	\$ 77,539	\$ -	\$ 77,539
3	Mains	376	\$ 36,163,633	\$ 787,500	\$ 36,951,133
4	Measuring & Reg. Station Equip. - General	378	\$ 4,741,276	\$ 250,000	\$ 4,991,276
5	Services	380	\$ 12,814,964	\$ 735,000	\$ 13,549,964
6	Meters	381	\$ 520,747	\$ -	\$ 520,747
7	Meter Installations	382	\$ 4,062,076	\$ 237,500	\$ 4,299,576
8	House Regulators	383	\$ 74,345	\$ -	\$ 74,345
9	Other Equipment	387	\$ 339,206	\$ 65,000	\$ 404,206
10	Subtotal Distribution Plant		<u>\$ 58,793,786</u>	<u>\$ 2,075,000</u>	<u>\$ 60,868,786</u>

Figure 2 is excerpted from GMG’s Supplemental Response to Department Information Request 131, which was accompanied by the Company’s explanation that “Statement B has been updated to reflect actual 2024 data As noted in the workbook, **the 2025 Test Year figures were not updated.**”⁹⁹

Figure 2. GMG Summary Of Rate Base Component Adjustments – 2024 Updated To Actual Unaudited¹⁰⁰

Line No.	Description	FERC Account	Asset		
			2024 Unaudited	Adjustment	Projected 2025 *
1	Distribution Plant				
2	Land & Land Rights	374	\$ 77,539	\$ -	\$ 77,539
3	Mains	376	\$ 35,953,651	\$ 997,482	\$ 36,951,133
4	Measuring & Reg. Station Equip. - General	378	\$ 4,491,276	\$ 500,000	\$ 4,991,276
5	Services	380	\$ 12,298,813	\$ 1,251,151	\$ 13,549,964
6	Meters	381	\$ 343,913	\$ 176,834	\$ 520,747
7	Meter Installations	382	\$ 4,273,462	\$ 26,115	\$ 4,299,576
8	House Regulators	383	\$ 74,345	\$ -	\$ 74,345
9	Other Equipment	387	\$ 336,151	\$ 68,054	\$ 404,206
10	Subtotal Distribution Plant		<u>\$ 57,849,151</u>	<u>\$ 3,019,635</u>	<u>\$ 60,868,786</u>

⁹⁸ Ex. GMG-105, Schedule B-1 at 3 (Initial Filing).

⁹⁹ Ex. OAG-301, Schedule SL-D-12 at 1, 4 (Lee Direct) (emphasis added).

¹⁰⁰ Ex. OAG-301, Schedule SL-D-12 at 4 (Lee Direct).

The OAG focuses on line 6 for FERC Account 381, correctly noting that the 2024 Actual amount decreased from \$520,747 to \$343,913, a change of \$176,834.¹⁰¹ However, the OAG ignores that in line 7 for FERC Account 382, the 2024 Actual amount increased from \$4,062,076 to \$4,273,462, for a change of \$211,386.¹⁰² This increase is inclusive of the \$176,834 that was moved from FERC Account 381 to Account 382 to correct GMG's initial misallocation.¹⁰³ This is also evidenced by the corresponding decrease in the 2024 to 2025 adjustment for Account 382 on line 7, from \$237,500 to \$26,115.¹⁰⁴

Aggregating FERC Accounts 381 and 382 confirms that the Projected 2025 Test Year amount for meters is consistent with the increase from 2023 to 2024. In 2023, the combined amount for FERC Accounts 381 and 382 was \$4,361,823.¹⁰⁵ The combined amount in 2024 Actuals was \$4,617,375.¹⁰⁶ Finally, the combined amount in Projected 2025 is \$4,820,323.¹⁰⁷ When combining FERC Accounts 381 and 382, meter investment growth is steady from year-to-year. This further demonstrates that the misallocation of certain meters, and the subsequent correction of that misallocation for 2024 Actuals but not Projected 2025, is the cause of the apparent \$176,834 adjustment to FERC Account

¹⁰¹ OAG Initial Br. at 14.

¹⁰² Compare Ex. GMG-105, Schedule B-1 at 3 (Initial Filing), with Ex. OAG-301, Schedule SL-D-12 at 4 (Lee Direct).

¹⁰³ Ex. GMG-109 at 20 (Burke Rebuttal).

¹⁰⁴ Compare Ex. GMG-105, Schedule B-1 at 3 (Initial Filing), with Ex. OAG-301, Schedule SL-D-12 at 4 (Lee Direct).

¹⁰⁵ Ex. OAG-301, Schedule SL-D-12 at 3 (Lee Direct) ($\$520,747 + \$3,841,076 = \$4,361,823$).

¹⁰⁶ Ex. OAG-301, Schedule SL-D-12 at 4 (Lee Direct) ($\$343,913 + \$4,273,462 = \$4,617,375$).

¹⁰⁷ Ex. OAG-301, Schedule SL-D-12 at 4 (Lee Direct) ($\$520,747 + \$4,299,576 = \$4,820,323$).

381. No improper adjustment was made to FERC Account 381 and no correcting adjustment is required.

In summary, GMG's meters are used and useful in the provision of natural gas service, whether included in FERC Account 381 and 382. The prior misallocation of certain meters had no financial impact on customers, since these two accounts have the same depreciation schedule. Therefore, these meters must be included in GMG's rate base and the OAG's punitive adjustment due to a prior misallocation of meters between these two accounts must be rejected.

D. Summary Of Revenue Requirements

As set forth in GMG's Initial Brief, incorporating the issues no longer disputed between the parties, GMG respectfully requests the ALJ and Commission find the GMG's revenue deficiency is \$1,366,240.¹⁰⁸ This represents a reduction of \$56,191 from its initial request and would result in an approximately 7.5 percent increase in rates. This increase is just, reasonable and fully supported by the record and applicable law.

III. GMG'S PROPOSED INCOME TAX RIDER IS REASONABLE

GMG successfully managed its business for the last fifteen years to serve its customers without the need to seek a rate increase from the Commission, despite the fact that it did not receive its full revenue deficiency in its last rate case.¹⁰⁹ GMG hopes that through this proceeding it receives the revenues required to serve its customers that allows

¹⁰⁸ GMG Initial Br. at 56-57 and Attachment 3.

¹⁰⁹ Tr. at 37:18-21 (Palmer).

it to stay out from another costly rate case for a similar length of time.¹¹⁰ However, one factor that is completely outside of GMG's control that could necessitate another rate case sooner than otherwise required is a change to the tax rate. GMG proposed an income tax rider specifically to avoid this potentiality.¹¹¹ The Department and the OAG's opposition to GMG's proposal is neither accurate nor in the best interest of the ratepayers.

There is no basis for the OAG's position that statute must provide for each and every type of rider. Indeed, the Commission has authority to approve a rider proposed during a rate case if the Commission determines it will result in "just and reasonable" rates.¹¹² For the reasons GMG noted in its Initial Brief, it is just and reasonable to reflect the then-current tax rate on an annual basis in such a way that would benefit both GMG and its ratepayers.¹¹³ Further, there is no merit to the assertion that the outcome of the Presidential election eliminated the only justification for the proposed Income Tax Rider.¹¹⁴ Any change in the corporate tax rate would result in over- or under-recovery, irrespective of who implements it or when it is implemented. GMG's proposed Income Tax Rider provides a simple way to assure neither GMG nor its customers are harmed by any such change, while avoiding a potentially expensive regulatory process.

¹¹⁰ Tr. at 49:25-50:1 (Palmer).

¹¹¹ Ex. GMG-103 at 10 (Chilson Direct).

¹¹² Minn. Stat. §§ 216B.03, 216B.16, subd. 16.

¹¹³ GMG Initial Br. at 57-58.

¹¹⁴ DOC Initial Br. at 39-40.

IV. GMG’S CLASS COST OF SERVICE STUDY IS REASONABLE TO USE AS A GUIDE FOR SETTING RATES AND THE OTHER STUDIES IN THE RECORD DO NOT JUSTIFY SHIFTING REVENUE RESPONSIBILITIES AMONG CLASSES

The overheated rhetoric of the Department and OAG reaches new levels when discussing the Company’s class cost of service study (“CCOSS”). The Department and the OAG both criticize GMG’s CCOSS and accuse GMG of various motivations or failures in the development and execution of its CCOSS. Yet, GMG was transparent in its Initial Filing as to how it prepared its CCOSS and neither the Department nor OAG objected to GMG’s CCOSS at that time.¹¹⁵ In addition, GMG attempted to address concerns raised regarding its initial CCOSS and provided an updated CCOSS in Rebuttal Testimony that incorporated the changes directed by the Commission in the 2009 rate case, established a separate class for Transportation customers, relocated costs to the appropriate rate class using the same methodology approved in GMG’s last rate case, and separated Capacity costs to ensure that pipeline demand costs were only allocated to Firm non-Transportation customers.¹¹⁶ Similarly, GMG noted in Surrebuttal Testimony various issues with the Department’s and the OAG’s CCOSS, including allocation of pipeline demand costs to Transportation customers, system capacity costs to Interruptible customers, and gas purchase costs to Transportation customers that do not purchase gas from GMG.¹¹⁷ All of

¹¹⁵ Ex. GMG-103 at 21-32 (Burke Direct); Ex. GMG-103, Schedule CJC-1 at 6 (Chilson Direct); DOC-200 at 3 (Comments of the Minn. Dept. of Commerce).

¹¹⁶ Ex. GMG-109 at 25 and Schedule RDB-REB-8 (Burke Rebuttal); Ex. GMG-110 at 22 (Burke Surrebuttal).

¹¹⁷ Ex. GMG-110 at 8-13 (Burke Surrebuttal).

these errors attribute costs to customer classes that do not cause GMG to incur any of these costs.

To the extent there were still concerns with GMG's CCOSS methodology, both the Department and the OAG had the opportunity to question GMG witness Ms. Burke at the evidentiary hearing regarding her understanding of the alleged missing or improper adjustments and they chose not to seek clarity. GMG strongly denies any allegations that it intentionally withheld information or misrepresented adjustments made to its CCOSS. GMG relied on the CCOSS approved in the last rate case, including the underlying adjustments and calculations, and made additional adjustments in Rebuttal Testimony based on GMG's agreement with certain positions forwarded by the Department and the OAG, such as separating out Transportation customers.¹¹⁸ The resulting CCOSS, presented in Rebuttal Testimony, provides a reasonable guide for setting rates in this proceeding.¹¹⁹

In any event, the Department's and the OAG's positions with respect to GMG's CCOSS detract from what the parties to this matter agree on with respect to revenue apportionment. The parties all agree that each class should cover a portion of the revenue deficiency.¹²⁰ The parties each testified that a CCOSS is used as a *guide* to allocate costs among customer classes.¹²¹ The parties agree that the Commission can consider a range of

¹¹⁸ Ex. GMG-109 at 25 (Burke Rebuttal).

¹¹⁹ Ex. GMG-109 at 25 (Burke Rebuttal).

¹²⁰ Ex. GMG-109, Schedule RDB-REB-8 (Burke Rebuttal); Ex. DOC-210 at 19 (Hirasuna Direct); Ex. OAG-303 at 80 (Stevenson Direct).

¹²¹ Ex. GMG-103 at 21 (Burke Direct); Ex. DOC-207 at 42 (Zajicek Direct); Ex. OAG-303 at 17 (Stevenson Direct).

CCOSS, in addition to non-cost factors.¹²² None of the CCOSS or range of CCOSS submitted by the Department and the OAG provide a basis to fundamentally change the current revenue apportionment, which is supported by each CCOSS in the record when considering all relevant non-cost factors.¹²³

Finally, while fifteen years have passed since GMG's last rate case, the proportion of its customers accounted for by the various classes has stayed remarkably constant, with the Residential customer class growing comparatively more than GMG's other customer classes. Comparing year-end customer counts among the various classes at year-end 2009 to year-end 2024 shows the following changes, with the corresponding percentage of total customers indicated:

Rate Class	2009 YE Customers ¹²⁴		2024 YE Customers ¹²⁵		Change in %
	#	% of total	#	% of total	
Residential - Firm	3,399	90.54%	9,925	88.59%	-1.95%
Small Commercial - Firm	272	7.25%	996	8.89%	1.64%
Commercial - Firm	35	0.93%	57	0.51%	-0.42%
Industrial - Firm	8	0.21%	29	0.26%	0.05%
Industrial - Firm	6	0.16%	68	0.61%	0.45%
Agricultural - Interruptible	29	0.77%	91	0.81%	0.04%
Industrial - Interruptible	3	0.08%	6	0.05%	-0.03%

¹²² Ex. GMG-109 at (Burke Direct); Ex. DOC-210 at 5 (Hirasuna Direct); Ex. OAG-303 at 65 (Stevenson Direct).

¹²³ See DOC Initial Br. at 31-32; OAG Initial Br. at 33-34; Ex. GMG-109, Schedule RDB-REB-8 (Burke Rebuttal).

¹²⁴ Ex. DOC-205, Schedule SS-SR-1 at 71 (Shah Surrebuttal).

¹²⁵ Ex. GMG -110, Schedule RDB-SR-3 at 3 (Burke Surrebuttal).

Rate Class	2009 YE Customers¹²⁴		2024 YE Customers¹²⁵		Change in %
Transport	2	0.05%	31	0.28%	0.22%
Total	3,754		11,203		

For all of these reasons, GMG’s proposal to maintain the current revenue apportionment—which was determined just and reasonable in GMG’s last rate case—is supported by the record and provides value to GMG’s customers and the communities it serves by offering a measure of continuity.

Finally, as GMG previously addressed, it is unclear to why the Department continues to raise as an issue that GMG did not comply with the Commission’s Order from its last rate case. GMG never concealed that it did not incorporate the changes to its CCOSS and explained its justification for this decision in the Completeness Checklist attached to its Initial Filing,¹²⁶ as well as in response to the Department’s Information Requests.¹²⁷ The Department was aware of GMG’s decision, filed comments acknowledging said decision, and did not object to the completeness of GMG’s application based on this decision.¹²⁸ The Department’s position in its Initial Brief that this was “unacceptable” is in stark contrast to its position in its Comments on Completeness and is more than a little perplexing.¹²⁹

¹²⁶ Ex. GMG-103, Schedule CJC-1 at 6 (Chilson Direct).

¹²⁷ Ex. DOC-207, Schedule MZ-D-6 at 3 (Zajicek Direct).

¹²⁸ Ex. DOC-200 at 3 (Comments of the Minn. Dept. of Commerce).

¹²⁹ Compare Ex. DOC-200 at 3 (Comments of the Minn. Dept. of Commerce), with DOC Initial Br. at 33.

V. THE RECORD DOES NOT SUPPORT THE OAG’S RECOMMENDED RATE DESIGN CHANGES

A. GMG’s Interruptible Service Offering Provides Benefits To GMG And Its Customers And Should Be Maintained

The OAG argues for dramatic changes to GMG’s Interruptible Service offerings, stating that the Company should “change how it *treats* interruptible customers.”¹³⁰ Specifically, the OAG argues that the Commission should “order GMG to end its practice of offering interruptible service to seasonal users . . . move some of its interruptible customers to firm rates, interrupt those customers’ service more often, or change its demand entitlement process to reflect the fact that GMG rarely uses its interruptible customers.”¹³¹ Of course, GMG must “treat” its customers consistent with its Commission-approved tariff and the OAG does not explain how that tariff would need to be modified to accomplish its desired changes. More fundamentally though, the OAG presents an incomplete analysis that, if accepted, would harm both GMG and its customers.

In arguing for change, the OAG focuses exclusively on when and whether an Interruptible customer curtails as the measure of the benefits these customers provide.¹³² Although curtailment is an important function of Interruptible customers, this simplistic view ignores or misunderstands the relationship between GMG and its Interruptible customers. The Interruptible class provides benefits to GMG and, ultimately, to other ratepayers due to the attendant rights and obligations. GMG has the right to not serve these

¹³⁰ OAG Initial Br. at 22 (emphasis added).

¹³¹ OAG Initial Br. at 22.

¹³² See OAG Initial Br. at 22-25.

customers by calling for Interruptible customers to curtail at any time, not just on peak days. GMG also has the right to forego securing capacity on its system for these customers. Interruptible customers have the obligation to curtail when called on by GMG to do so. Conversely, GMG has the obligation to provide year-round service on demand to its firm customers. It does not matter that some of GMG's Interruptible customers use natural gas predominantly during seasons when system usage is not otherwise high. If GMG called on these customers to curtail when they were using gas at any time, whether they were using it during a season when system usage is traditionally higher or not, they are obligated to curtail or face a penalty.

Alternatively, if these customers were firm customers, even if they only used natural gas during seasons when peak days almost certainly would not occur, GMG would be obligated to have firm capacity for them on the system year round.¹³³ For this reason, the OAG's recommendation for GMG to "move some of its interruptible customers to firm rates" is unworkable and demonstrates the OAG's misunderstanding of the obligation this would impose on GMG. The Company's system is not designed to serve Interruptible loads under sub-zero and extreme cold conditions. The OAG's proposal ignores the Company's obligations to its customers by eliminating its contractual right to suspend deliveries if the system is ever threatened. For example, if grain drying occurred on a cold day in early December, the Company would lack the right to curtail to protect firm loads. The Company cannot knowingly ignore its commitment to its customers nor should the Commission.

¹³³ Ex. GMG-109 at 29 (Burke Rebuttal).

In short, GMG retains the right to curtail its Interruptible customers and is not required to ensure there is system capacity for these customers at all times. This benefit accrues not just to GMG, but to other ratepayers who do not have to absorb the cost of a system that is sized to serve additional customers. The OAG's proposal is unsupported by any analysis of the impact of such a dramatic change to GMG's tariff and how such an impact would affect GMG's customers.

B. Reconnection Fees

GMG's reconnection fee of \$75 is reasonable for all the reasons discussed in its Initial Brief. However, GMG did not address OAG witness Mr. Stevenson's recommendation that customers be permitted to pay their reconnection fees over the course of multiple months.¹³⁴ Although GMG recently changed its billing system to a more modern and capable system, its new system nevertheless lacks the capability to split a reconnection fee over multiple months. Implementing this would require manual review and adjustment, which is an unreasonable burden for a company with 25 total employees and introduces the risk of human error. Irrespective of the level at which the reconnection fee is ultimately set, the OAG's request to split the payment over multiple months should be denied as excessively burdensome. The OAG's proposal provides, at best, an unquantified benefit supported only by the speculative argument that GMG's customers *might* be experiencing energy burden.

¹³⁴ Ex. OAG-305 at 24 (Stevenson Surrebuttal).

VI. THE ALJ AND COMMISSION MUST CONSIDER THE COST IMPACT AND THE RELEVANCE OF IMPOSING NEW RATE CASE FILING REQUIREMENTS ON GMG

The Department recommended that the Commission impose additional rate case filing requirements on GMG for future rate cases, on top of the “requirements” already added in prior rate cases and which proved unworkable in this case, as GMG noted in its Initial Filing.¹³⁵ With the exception of certain CCOSS changes that GMG committed to include in future rate cases,¹³⁶ GMG respectfully posits that such requirements would guarantee increased costs to prosecute GMG’s next rate case with unknown benefit. As GMG’s Chief Executive Officer stated, the Company does not anticipate requiring another rate case in the near future, and hopes to stay out of a rate case for another fifteen years.¹³⁷ GMG is concerned that if it successfully manages its business to provide service to its customers for another decade-and-a-half without requesting a rate increase, it will be required to provide data or a CCOSS that is no longer relevant or valuable due to changes in the market.¹³⁸

Furthermore, the Department’s proposed additional requirements, and specifically the requirements to develop a new CCOSS model and retain extensive billing data, are likely to require substantial resources that GMG does not currently have.¹³⁹ For example, the CCOSS-related requirements alone would likely necessitate hiring additional

¹³⁵ See Ex. GMG-103, Chilson Direct at Schedule CJC-1, p. 6 of 7 (noting issues with past sales data and CCOSS requirements).

¹³⁶ GMG Initial Br. at 63.

¹³⁷ Tr. at 49:25-50:1 (Palmer).

¹³⁸ Tr. at 49:15-20; 50:1-8 (Palmer).

¹³⁹ Ex. GMG-109 at 26.

personnel, hiring consultants, acquiring modeling software, or a combination of the efforts.¹⁴⁰ It is possible, if not likely, that these requirements could incur additional rate case expenses of \$150,000 or more. For perspective, an additional \$150,000 in costs that would need to be recovered from GMG's ratepayers is equivalent to the same per customer impact as costs of over \$12 million for a utility the size of CenterPoint Energy.

Finally, the Department's request that GMG be ordered to meet with the Department "at least nine months prior to the Company filing any future rate cases given that the Department is willing to meet with GMG to assist the Company with ensuring that it fully complies with the Commission's GMG 2004 Rate Case Order, GMG 2006 Rate Case Order, GMG 2009 Rate Case Order and the Commission's final Order(s) stemming from this proceeding"¹⁴¹ is unprecedented and would severely limit GMG's ability to file a future rate case in a timely manner, if necessary to ensure its financial integrity.

Instead of continuing to impose outdated requirements or imposing additional requirements that have speculative benefits at a cost to GMG's ratepayers, or additional meeting requirements between GMG and the Department that could delay GMG's ability to timely request a rate increase when necessary, GMG believes the more reasonable approach is to rely on the statutory and regulatory mechanisms the Commission already has in place. For example, any interested party is permitted to comment on the completeness of an application for an increase in rates.¹⁴² This provides the Department

¹⁴⁰ Ex. GMG-109 at 26.

¹⁴¹ DOC Initial Brief at 42.

¹⁴² Minn. R. 7829.2400, subp. 4.

with the ability to evaluate an application and assert that an application does or does not meet the requirements established in statute, rule, and Commission order.

In sum, the Department's recommendations to impose additional requirements on GMG would impose a cost on its ratepayers without a certain benefit. Commission rules already provide for the review of GMG's application and supporting schedules. To the extent that the Department does not believe that a utility's application complies with relevant laws, the Department is already provided with the tools necessary to alert the Commission of its determination. Under this regulatory framework, the ultimate decision on application completeness remains in the hands of the Commission and is not delegated piecemeal to the Department.

CONCLUSION

For all of the reasons discussed above and in its Initial Brief, GMG's requested rate increase is consistent with the law and supported by the extensive record of this proceeding. After fifteen years without an increase, this request is just, reasonable, and necessary to continue providing GMG customers with safe, reliable natural gas service. GMG's proposal to retain its current revenue apportionment and current rate design is similarly reasonable and does not put undue burden on any customer class. Therefore, GMG respectfully requests that the ALJ recommend, and the Commission approve, GMG's request.

Dated: May 22, 2025

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