

**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**

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

**May 8, 2025**

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## TABLE OF CONTENTS

	Page
INTRODUCTION .....	1
I. OVERVIEW OF GREATER MINNESOTA GAS, ITS CUSTOMERS, AND THIS RATE CASE FILING .....	2
A. The Company, Its Employees And Its Shareholders Are Unique .....	3
B. GMG’s Rate Case History And This Rate Case Filing Are Also Substantially Different Than Those Of Other Minnesota Utilities .....	5
C. GMG Serves A Unique Customer Base .....	7
D. Despite The Challenges It Faces, GMG Delivers Substantial Energy Cost Savings For Its Customers.....	10
II. APPLICABLE LAW .....	12
A. The Test Year .....	13
B. Cost Of Capital .....	13
C. Rate Base, Revenues And Expenses .....	15
D. Revenue Apportionment And Rate Design .....	16
E. Burden Of Proof .....	17
III. COST OF CAPITAL .....	18
A. Return On Equity .....	18
B. Flotation Costs.....	26
IV. REVENUE REQUIREMENT ISSUES .....	29
A. Employee Compensation.....	29
1. Performance Pay .....	30
2. Retention Agreements .....	34

B.	Revenues – 2025 Sales Forecast .....	37
1.	New Customer Test Year Sales .....	40
2.	Small Commercial Customer Count .....	43
C.	Operating Expenses .....	46
1.	Administrative And General Expenses .....	47
a.	Education And Training Expense .....	47
b.	Postage Expense .....	48
c.	Repairs And Maintenance Expense .....	48
d.	Auto & Truck Expense .....	50
D.	Organizational Dues .....	50
1.	American Gas Association .....	51
2.	Minnesota AgriGrowth Council .....	52
3.	Midwest Region Gas Task Force .....	53
E.	FERC Accounts 381 And 382 .....	55
V.	SUMMARY OF REVENUE REQUIREMENTS .....	56
VI.	INCOME TAX RIDER .....	57
VII.	CLASS COST OF SERVICE STUDY (CCOSS) .....	58
A.	CCOSS Methodology .....	58
B.	Future CCOSS Recommendations .....	62
VIII.	REVENUE APPORTIONMENT AND RATE DESIGN .....	63
A.	Revenue Apportionment .....	64
B.	Rate Design .....	66
	CONCLUSION .....	69

## FIGURES

	<b>Page</b>
Figure 1. GMG Total Sales (in therms) .....	39

## TABLES

	<b>Page</b>
Table 1. Average New Customer Additions 2019 – 2023 .....	42

## **INTRODUCTION**

Fifteen years after its last rate case, Greater Minnesota Gas, Inc. (“GMG” or “Company”) filed this case seeking an approximately 7.7 percent increase in rates. In developing its filing, GMG considered several factors, including: (1) its small size, with just 25 total employees, (2) its customer base, with just 11,000 customers and with significant revenues dependent on the agricultural sector, and (3) its regulatory history of simple, streamlined rate case filings that led to informal resolutions, saving GMG and its customers the expense of litigating those cases. Those considerations and others informed GMG’s filing of another simple, “bare bones” rate case, reflecting GMG and its customers. For example:

- GMG did not include any previously disallowed costs or any new planned projects or offerings, as demonstrated by the fact that GMG’s approved interim rates required no adjustments, but match GMG’s final rate increase request;<sup>1</sup>
- GMG did not hire outside experts for issues such as rate of return or class cost of service, as other utilities often do, to avoid having to pass those costs on to its small customer base;
- GMG proposed no change to its currently approved return on equity – the same approved return on equity since GMG first became rate regulated by the Minnesota Public Utilities Commission (“Commission”) in 2004;
- GMG proposed no change in the currently approved revenue apportionment among its customer classes; and
- GMG proposed maintaining its currently approved rate design, by recommending roughly equal increases in its fixed and volumetric charges and by not seeking any changes to other miscellaneous charges.

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<sup>1</sup> ORDER SETTING INTERIM RATES at 2 (Dec. 11, 2024). (eDocket No. 202412-212925-01).

Despite this approach, the current case has not been resolved informally and a handful of significant issues remain in dispute. It is critically important to both GMG and its customers that these issues resolve reasonably and in a manner that reflects the record and Minnesota law. Neither GMG nor its customers will benefit from a return on equity that does not comport with Commission precedent and that does not provide GMG a fair return that reflects GMG's unique and significant risks, nor will they benefit from imputing sales revenues to GMG that do not exist or by denying GMG recovery of the compensation expenses necessary to attract and retain qualified employees. Finally, they will not benefit from the imposition of significant new class cost of service study or other requirements or from shifting cost recovery responsibilities among the various customer classes. As discussed below, both the record and the law support GMG's positions on the remaining contested issues and GMG respectfully requests that the Administrative Law Judge ("ALJ") and Commission find accordingly.

## **I. OVERVIEW OF GREATER MINNESOTA GAS, ITS CUSTOMERS, AND THIS RATE CASE FILING**

GMG, its regulatory history, and its customer base are unique in Minnesota and certain basic distinguishing facts and characteristics of this Company and those it serves must be understood and considered when determining just and reasonable rates for GMG and its customers.

### **A. The Company, Its Employees And Its Shareholders Are Unique**

GMG was founded 30 years ago for the purpose of bringing affordable, reliable natural gas service to previously unserved areas of the State.<sup>2</sup> This makes GMG the newest “public utility” in Minnesota. And while GMG has grown over the past 15 years, it still serves just 11,000 customers, making it, by far, the smallest rate regulated utility in Minnesota and allowing GMG to have a deep knowledge of its customers. As GMG’s CEO Greg Palmer explained:

GMG is community-based and proud of it, with many of its employees living in or near the communities it serves. The Company knows its customers and they know GMG. The Company provides exceptional customer service, as evidenced by the fact that only one of its customers has registered a complaint with the State in the previous four years, and GMG strives for continuous improvement. When customers of the larger utilities with huge customer service departments call their energy providers, their calls are often answered by an automated assistant that puts them into a phone tree from which the customers can press keys at each tree level to be routed to an automated answer or, eventually, a person. When GMG’s customers call, a live person answers the phone, 24 hours a day, seven days a week, 365 days a year.<sup>3</sup>

GMG employs just 25 employees, each of whom wears multiple hats.<sup>4</sup> At GMG, there is no C-Suite or C-Suite mentality.<sup>5</sup> For example, Mr. Palmer explained that as CEO he has “hands-on” involvement in the day-to-day operations of the Company, including

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<sup>2</sup> See, *In the Matter of the Application of Greater Minnesota Gas, Inc., a Wholly Owned Subsidiary of Greater Minnesota Synergy, Inc., for Authority to Increase Rates for Natural Gas Service in the State of Minnesota*, MPUC Docket No. G-022/GR-06-1148, ORDER SETTING RATES, ACCEPTING AND ADOPTING ADMINISTRATIVE LAW JUDGE’S RECOMMENDATION, AND REQUIRING COMPLIANCE FILING at 3 (July 30, 2007) (“2006 Rate Case Order”).

<sup>3</sup> Ex. GMG-112 at 2 (Palmer Rebuttal).

<sup>4</sup> Ex. GMG-112 at 2 (Palmer Rebuttal).

<sup>5</sup> Ex. GMG-112 at 29 (Palmer Rebuttal).

monitoring gas supply daily for all 365 days a year.<sup>6</sup> Similarly, GMG President Cody Chilson reviews the Company's engineering designs, cost estimates, and flow modeling and both Mr. Palmer and Mr. Chilson are involved in capacity planning, attend weekly sales and construction scheduling meetings with front-line employees, meet with accounting personnel regularly to review accounts receivable and the Company's energy conservation program, and even perform such "non-executive" tasks as salting the sidewalk and parking lot of Faribault's service center and shoveling the sidewalk after minor snow events, as needed.<sup>7</sup>

GMG's shareholder group is similarly distinct. GMG is not publicly traded, so it does not face quarterly pressure from Wall Street or the investment community to show profits.<sup>8</sup> Rather, the Company's shareholder group is community-based and has remained constant for many years, with transfers of ownership generally only happening upon shareholder deaths, marriage dissolutions, or similar life events.<sup>9</sup> That shareholder base is now aging<sup>10</sup> and has been astonishingly patient and committed to GMG's mission of providing affordable, reliable gas service to Greater Minnesota, having never been paid a dividend.<sup>11</sup> The Company has not solicited new shareholders and has not raised equity from its shareholder base since 2012.<sup>12</sup> However, five shareholders did personally guarantee a

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<sup>6</sup> Ex. GMG-112 at 29 (Palmer Rebuttal).

<sup>7</sup> Ex. GMG-112 at 29 (Palmer Rebuttal).

<sup>8</sup> Ex. GMG-112 at 29 (Palmer Rebuttal).

<sup>9</sup> Ex. GMG-112 at 29 (Palmer Rebuttal).

<sup>10</sup> Ex. GMG-112 at 17 (Palmer Rebuttal).

<sup>11</sup> Ex. GMG 103 at 8 (Palmer Direct).

<sup>12</sup> Ex. GMG-112 at 17, 29 (Palmer Rebuttal).



low-interest loan from the Small Business Administration (“SBA”), putting their money at risk so that the Company could secure a low-interest loan for the benefit of its customers, saving customers nearly \$100,000 annually compared to conventional financing.<sup>13</sup>

**B. GMG’s Rate Case History And This Rate Case Filing Are Also Substantially Different Than Those Of Other Minnesota Utilities**

GMG stands out as the only utility since the beginning of State regulation in 1974 to “grow” its way into becoming regulated by the Commission. In its early years, GMG was so small as to be exempt from Commission regulation, simply filing its tariffs in the townships in which it provided natural gas service. However, by 2004, GMG had grown sufficiently to fall under the Commission’s jurisdiction and filed its first rate case.<sup>14</sup> GMG did not request any rate increase in that initial case despite a revenue deficiency of over \$500,000, but sought simply to use the case as a vehicle for achieving compliance with the relevant statutes and rules.<sup>15</sup>

Additional rate cases followed in 2006 and 2009. In the 2006 rate case, recognizing the impact on its customers of its first ever rate increase request, GMG voluntarily moderated its rate increase request, seeking an approximately 7.1 percent, or \$336,500, increase in rates despite a revenue deficiency of over \$1,000,000 and GMG ultimately agreed to an increase of approximately 6.7 percent, which the Commission approved.<sup>16</sup>

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<sup>13</sup> Ex. GMG-103 at 10 (Palmer Direct); Ex. GMG-112 at 14-16 (Palmer Rebuttal).

<sup>14</sup> See, *In the Matter of a Petition by Greater Minnesota Gas, Inc. for Authority to Establish Natural Gas Rates in Minnesota*, MPUC Docket No. G-022/GR-04-667, ORDER SETTING RATES, ACCEPTING ADMINISTRATIVE LAW JUDGE’S RECOMMENDATION AND REQUIRING COMPLIANCE FILING (Apr. 13, 2005) (“2004 Rate Case Order”).

<sup>15</sup> 2004 Rate Case Order at 1.

<sup>16</sup> 2006 Rate Case Order at 1, 3.

Similarly, GMG's 2009 rate increase request did not seek recovery of its full revenue deficiency. Rather, GMG requested, and the Commission approved, a rate increase of approximately \$800,000, or 16.3 percent, despite a revenue deficiency of approximately \$1.2 million.<sup>17</sup>

These less-than-full revenue deficiency rate increases lessened the burden on GMG customers but put extreme financial pressure on GMG, nearly pushing GMG into bankruptcy.<sup>18</sup> Now, 15 years after its last rate increase request and after substantially increasing its rate base and bearing substantial increases in the cost of materials, interest rates, taxes and other items, GMG seeks just the third rate increase in its history – an approximately \$1.4 million or 7.7 percent increase – to finally set rates that will recover GMG's cost of service.<sup>19</sup> Even so, as Mr. Palmer explained:

Being aware of the financial impact of filing a rate case on its customers and on the resources of the Company, GMG worked hard to file a “bare bones” case. It did not include any previously denied items nor any prospective “shiny object” plans, as is common among other utilities. GMG did not hire outside expert witnesses on issues such as rate of return or class cost of service study, as other utilities often do, because the cost of those experts would drive up rate case expenses that would ultimately be borne by its customers. Similarly, GMG requested only that it be allowed to maintain its currently approved return on equity (“ROE”), which is lower than that requested by any of the other rate regulated utilities in Minnesota in any recent rate case filing. This, despite GMG's belief that a higher ROE would be appropriate, given GMG's significantly higher risk due to its small size.

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<sup>17</sup> *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*, MPUC Docket No. G-022/GR-09-962, FINDINGS OF FACT, CONCLUSIONS OF LAW, AND ORDER at 1, 4 (Aug. 19, 2010) (“2009 Rate Case Order”)

<sup>18</sup> Evidentiary Hearing Transcript (Apr. 16, 2025) (“Tr.”) at 37 (Palmer).

<sup>19</sup> Ex. GMG-112 at 3 (Palmer Rebuttal); Ex. GMG 103 at 8-9 (Chilson Direct).

GMG did everything in its power to present a basic rate case, predicated only on its actual expenses, without proposing any changes to rate design.<sup>20</sup>

While this request would finally provide rates that allow recovery of GMG's revenue deficiency, the resulting increase will still be far less than the percentage increase approved by the Commission in 2009 and equates to an increase of approximately one-half of one percent per year over the 15 years that have passed, despite cumulative inflation over this period that exceeded 40 percent.<sup>21</sup> As Mr. Palmer further explained, GMG continues to be sensitive to the impact of a rate increase on its customers, so it delayed filing this case as long as possible.<sup>22</sup> However, this filing was necessary to enable GMG to continue providing the level of service its customers deserve and expect.<sup>23</sup> Moreover, a commitment to seek a rate increase was a necessary component of securing recent financing, given GMG's limited earning capacity.<sup>24</sup> Finally, GMG's customers appear to understand the need for this modest increase after 15 years, as evidenced by the lack of interventions and the relative paucity of public comments or participation in the public hearings.<sup>25</sup> In short, this rate request is reasonable – both for GMG and its customers.

### **C. GMG Serves A Unique Customer Base**

Today, GMG continues to serve small communities that tried to obtain natural gas service for decades to no avail – communities shunned by Minnesota's larger natural gas

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<sup>20</sup> Ex. GMG-112 at 4 (Palmer Rebuttal).

<sup>21</sup> Ex. GMG-112 at 4 (Palmer Rebuttal).

<sup>22</sup> Ex. GMG-112 at 7 (Palmer Rebuttal).

<sup>23</sup> Ex. GMG-112 at 7 (Palmer Rebuttal).

<sup>24</sup> Ex. GMG-112 at 7 (Palmer Rebuttal).

<sup>25</sup> Ex. GMG-112 at 7 (Palmer Rebuttal).

utilities because of the limited growth opportunities they provide.<sup>26</sup> The rural nature of GMG's communities impacts the Company and this rate case in multiple ways. First, because GMG provides natural gas service to these previously unserved and mostly rural areas, most of GMG's customers affirmatively *chose* to take service from GMG – they were not forced to take service from a lone, incumbent provider.<sup>27</sup> Instead, they decided to make the investment to become GMG customers and convert their homes or businesses from propane or other heating sources to natural gas.<sup>28</sup>

Second, GMG must invest more per customer than other Minnesota utilities to extend service to its less densely populated service areas. In fact, each of the State's four other rate regulated natural gas utilities has four times or more the number of services per mile of main than GMG.<sup>29</sup> This, coupled with the relative newness of GMG's facilities, leads to GMG's rates being generally higher than other Minnesota natural gas utilities.<sup>30</sup> Nonetheless, GMG has delivered substantial total energy cost savings for its customers, as discussed further below.

Third, GMG does not have a significant number of large industrial or institutional loads that can provide a stable revenue base.<sup>31</sup> Instead, GMG's non-residential load is largely associated with the agricultural sector and that sector experiences unique challenges which GMG and its regulators must take into account when considering rate increases or

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<sup>26</sup> Ex. GMG-112 at 2 (Palmer Rebuttal).

<sup>27</sup> Ex. GMG-112 at 2-3 (Palmer Rebuttal).

<sup>28</sup> Ex. GMG-112 at 3 (Palmer Rebuttal); Ex. GMG-109 at 2-3 (Burke Rebuttal).

<sup>29</sup> Ex. GMG-112 at 5 (Palmer Rebuttal).

<sup>30</sup> Ex. GMG-107 at 4 (Chilson Surrebuttal).

<sup>31</sup> Ex. GMG-112 at 13 (Palmer Rebuttal).

rate design changes. For example, 6.5 percent of GMG’s estimated test year sales are to the agricultural grain drying business which is very volatile based on summer rain conditions, adding risk to GMG’s business.<sup>32</sup> Moreover, in 2024 *over 30 percent* of GMG’s market was sales to the poultry industry, which is struggling with issues related to the avian bird flu.<sup>33</sup> As Mr. Chilson explained, poultry “production facilities cycle through flocks multiple times per year and each time a new flock needs to be placed on a farm, purchasing entities consider the cost of production of that flock and place them where it is most economical to do so. There are currently more production facilities available than demand for poultry.”<sup>34</sup> These grain dryer customers and poultry-related businesses are critical to the viability of GMG’s communities and to GMG and its residential customers.<sup>35</sup>

Finally, despite tripling its customer base since the 2009 rate case, GMG still has just 11,000 customers to cover its cost of operations, including the cost of regulation. Those regulatory costs, including the cost of a rate case, can quickly become burdensome on such a small customer base compared to the impact on a company with half a million customers or more.<sup>36</sup> That is why the Company worked to delay this case as long as possible and to streamline it, as discussed above. The Company’s past efforts in this regard were successful, with each prior rate case resolving informally and without the need for so much

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<sup>32</sup> Ex. GMG-112 at 13 (Palmer Rebuttal).

<sup>33</sup> Ex. GMG-112 at 13 (Palmer Rebuttal).

<sup>34</sup> Ex. GMG-107 at 4 (Chilson Surrebuttal).

<sup>35</sup> Ex. GMG-107 at 4-5 (Chilson Surrebuttal).

<sup>36</sup> For example, as Mr. Palmer noted, *rate case expenses* alone for Minnesota’s larger utilities have exceeded GMG’s entire rate increase request in this proceeding. Ex. GMG-112 at 6 (Palmer Rebuttal).

as rebuttal testimony being filed.<sup>37</sup> GMG hoped that this matter could also “be concluded efficiently pursuant to an informal and expedited process to avoid imposing unnecessary regulatory costs on GMG and its customers.”<sup>38</sup> And, while GMG has not succeeded in resolving this case informally, it will continue to consider the cost impact on its customers of future rate case filings and new regulatory requirements,<sup>39</sup> particularly given the other cost challenges GMG faces, as discussed above.<sup>40</sup>

**D. Despite The Challenges It Faces, GMG Delivers Substantial Energy Cost Savings For Its Customers**

As noted above, most of GMG’s customers *chose* to take service from GMG. As Mr. Chilson explained, GMG has rewarded that choice with substantial energy cost savings for its customers over the years and will continue to provide its customers with energy cost savings after this rate case as well.<sup>41</sup> The United States Energy Information Administration (“EIA”) publishes the weekly prices of propane and residential heating oil during the heating season (October through March).<sup>42</sup> Mr. Chilson provided those prices since January 2019 and compared them with GMG’s rates and sales volumes for the same months.<sup>43</sup> He

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<sup>37</sup> Ex. GMG-112 at 4 (Palmer Rebuttal).

<sup>38</sup> GMG Reply Comments, eDocket No. 202411-212098-01 at 2 (Nov. 18, 2024).

<sup>39</sup> See Ex. GMG-109 at 26 (Burke Rebuttal); Ex. GMG-112 at 6 (Palmer Rebuttal).

<sup>40</sup> GMG, DOC and OAG did resolve certain issues and Joint Exhibit 1 lists those issues no longer disputed by the parties as of the date of the Evidentiary Hearing. For convenience, GMG includes Joint Exhibit 1 as Attachment 1 to this Initial Brief and includes a discussion of the record support for the resolutions documented there as Attachment 2, and as further discussed in Section VIII, below.

<sup>41</sup> Ex. GMG 107 at 2 (Chilson Surrebuttal).

<sup>42</sup> Ex. GMG 107 at 2 (Chilson Surrebuttal).

<sup>43</sup> Ex. GMG 107 at 2, Exhibit CJC-SR-1 (Chilson Surrebuttal).

also provided a hypothetical scenario based on GMG's current interim rates.<sup>44</sup> This comparison demonstrates that GMG's residential customers have been billed a total of approximately \$33.5 million for natural gas during the heating seasons since January 2019.<sup>45</sup> An equivalent amount of residential heating oil would have cost the same customers approximately \$85.3 million, and an equivalent amount propane would have cost them about \$72.9 million.<sup>46</sup> So comparing GMG's natural gas rates to fuel oil and propane prices available during that time, GMG provided 60.7 percent and 54.0 percent, savings respectively.<sup>47</sup> In addition, while prices of energy fluctuate over time, meaning the savings level also fluctuates, *GMG's natural gas rate was lower than the equivalent price of delivered fuel for every heating season month analyzed.*<sup>48</sup>

As demonstrated by this analysis and throughout the record, GMG has provided efficient, affordable and reliable natural gas service to its communities and customers by running a lean operation, focused on customer service not shareholder interests. Its current rate increase request – just its third ever and first in 15 years – is just, reasonable and necessary for the Company to continue providing the service its customers expect and deserve.

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<sup>44</sup> Ex. GMG 107 at 2, Exhibit CJC-SR-1 (Chilson Surrebuttal).

<sup>45</sup> Ex. GMG 107 at 2, Exhibit CJC-SR-1 (Chilson Surrebuttal).

<sup>46</sup> Ex. GMG 107 at 2, Exhibit CJC-SR-1 (Chilson Surrebuttal).

<sup>47</sup> Ex. GMG 107 at 2, Exhibit CJC-SR-1 (Chilson Surrebuttal).

<sup>48</sup> Ex. GMG 107 at 2, Exhibit CJC-SR-1 (Chilson Surrebuttal).

## II. APPLICABLE LAW

Minnesota Statutes Chapter 216B governs the ALJ's and Commission's consideration of this matter and sets forth the goals of State regulation, as well as the process to be followed and the factors to be considered in setting rates. For example, Chapter 216B generally provides:

Every rate made, demanded, or received by any public utility . . . shall be just and reasonable. Rates shall not be unreasonably preferential, unreasonably prejudicial, or discriminatory, but shall be *sufficient, equitable, and consistent in application to a class of consumers*.<sup>49</sup>

Specifically addressing rate setting and general rate cases such as this proceeding, the Minnesota Supreme Court has explained that, in reviewing and deciding upon rate change requests, “the [Commission’s] charter is broadly defined in terms of *balancing the interests* of the utility companies, their shareholders, and their customers to ensure that rates are ‘just and reasonable’.”<sup>50</sup> In so holding, the Court specifically referenced the requirements of Minn. Stat. § 216B.16, that:

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*.<sup>51</sup>

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<sup>49</sup> Minn. Stat. § 216B.03 (2012) (emphasis added).

<sup>50</sup> *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, 411 (Minn. 1998) (citing Minn. Stat. § 216B.16, subd. 6).

<sup>51</sup> Minn. Stat. § 216B.16, subd. 6 (emphasis added).



GMG here discusses some of the basic statutes, rules and case law that guide the ALJ and Commission in setting just and reasonable rates for GMG and its customers, and will return to these basic principles throughout the remainder of this Initial Brief.

#### **A. The Test Year**

The Commission determines just and reasonable rates on the basis of a “test year.” The Commission’s Rules define “test year” as “*the 12-month period selected by the utility for the purpose of expressing its need for a change in rates.*”<sup>52</sup> In this proceeding, GMG chose the projected fiscal year 2025, ending December 31, 2025, as its test year.<sup>53</sup> No party objected to using the projected test year as the basis for setting rates in this proceeding. Thus, the relevant time period for analysis is January 1 through December 31, 2025.

#### **B. Cost Of Capital**

The United States Supreme Court established the hallmarks of a reasonable return on capital, including a reasonable rate of return on common equity, in the landmark cases of *Bluefield* and *Hope*. 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. The return should be reasonably sufficient to assure the confidence in the financial soundness of the utility, and should be adequate, under efficient and economical management, to maintain and support its credit and enable it to raise the money necessary for the proper discharge of its public duties.<sup>54</sup>

The Court also noted:

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<sup>52</sup> Minn. R. 7825.3100, subp. 17 (emphasis added).

<sup>53</sup> Ex. GMG-103 at 4 (Burke Direct).

<sup>54</sup> *Bluefield Water Works & Improvement Company v. Public Service Commission of West Virginia*, 262 U.S. 679, 690 (1923).

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*.<sup>55</sup>

And in *Hope*, the Court further explained:

From the investor or company point of view, it is important that there be enough revenue not only for operating expenses, but also for the capital costs of the business. These include service on the debt and dividends on the stock. (Citation omitted.) By this standard the return to the equity owner should be commensurate with returns on investments in other enterprises having corresponding risks. That return, moreover, should be sufficient to assure confidence in the financial integrity of the enterprise, so as to maintain its credit and to attract capital.<sup>56</sup>

In cases such as *Hibbing Taconite Co. v. Minnesota Public Service Commission*, the Minnesota Supreme Court has noted and adopted the *Bluefield* and *Hope* requirements, including *Bluefield's* command 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.<sup>57</sup>

The *Hibbing* Court further held 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.<sup>58</sup> In weighing that evidence, the ALJ and Commission “*must balance the interests of the utility against the interests of the utility's*

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<sup>55</sup> *Bluefield*, 262 U.S. at 692.

<sup>56</sup> *Federal Power Commission v. Hope Natural Gas Co.*, 320 U.S. 591, 603 (1944).

<sup>57</sup> *Hibbing Taconite Co. v. Minnesota Public Service Commission*, 302 N.W.2d 5, 10 (Minn. 1980), citing *Bluefield*, 262 U.S. at 690.

<sup>58</sup> *Hibbing Taconite Co.*, 302 N.W.2d at 9.

customers.”<sup>59</sup> In so holding, the *Hibbing* Court explicitly rejected and found impermissible a prior Commission policy labeled the “*North Central* doctrine” whereby the Commission focused on the testimony of the witness recommending the lowest rate of return to determine if it was basically sound and capable of being adopted, before considering higher recommendations. The Court observed that this policy was presumably intended to comply with the general statement in Minn. Stat. § 216B.03 that “any doubt as to reasonableness should be resolved in favor of the consumer.” However, the Court found the *North Central* doctrine an impermissible means to achieve that end, finding instead that the Commission must consider the entirety of the evidence and balance the interests of the utility against those of the customer, rather than simply pegging a return on the basis of one expert’s testimony.<sup>60</sup>

Distilling this guidance, a reasonable return on equity for GMG is one that:

- Considers all relevant facts and circumstances of GMG;
- Is comparable to returns on investments in businesses with similar risks and uncertainties and operating in the same general part of the country;
- Is sufficient to assure confidence in GMG’s financial integrity, so that it can maintain its credit and attract capital; and
- Reflects a balancing of the interests of GMG and its customers.

### **C. Rate Base, Revenues And Expenses**

When deciding the “revenue requirements” issues in a rate case, such as establishing the rate base, revenues, and recovery of expenses, Minnesota courts have stated that the

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<sup>59</sup> *Hibbing Taconite Co.*, 302 N.W.2d at 10, citing *Minneapolis Street Railway Co. v. City of Minneapolis*, 86 N.W.2d 657, 676 (Minn. 1957).

<sup>60</sup> *Hibbing Taconite Co.*, 302 N.W.2d at 10-11.

Commission acts in its quasi-judicial capacity.<sup>61</sup> Minnesota courts have further explained that on such issues, “under normal ratemaking policy, a utility is entitled to recover necessary, ongoing expenses incurred in the business of providing utility service.”<sup>62</sup> The cost of furnishing utility service includes items such as labor-related costs, materials and supplies, taxes, insurance, and depreciation.<sup>63</sup>

#### **D. Revenue Apportionment And Rate Design**

Of course, along with determining the Company’s necessary revenues, the ALJ and Commission must provide for the allocation of the revenue responsibilities between customer classes (inter-class rate design) and the appropriate design of the rates within each class (intra-class rate design). Minnesota courts have consistently held that when making rate design decisions, the Commission acts in its “quasi-legislative” capacity, rather than in a “quasi-judicial” capacity, reflecting the policy nature of rate design determinations.<sup>64</sup>

The Commission’s rules and Commission precedent recognize the importance of cost factors as an underlying basis for rate allocation and rate design decisions, for example, by requiring the filing of a class cost of service study.<sup>65</sup> At the same time,

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<sup>61</sup> See, e.g., *St. Paul Area Chamber of Commerce v. Minnesota Public Service Commission*, 251 N.W.2d 350, 358 (Minn. 1977).

<sup>62</sup> *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).

<sup>63</sup> See *Minnegasco v. Minnesota Public Utilities Commission*, 549 N.W.2d 904, 909 (Minn. 1996).

<sup>64</sup> See, e.g., *St. Paul Area Chamber of Commerce v. Minnesota Public Service Commission*, 251 N.W.2d 350, 358 (Minn. 1977).

<sup>65</sup> Minn R. 7825.4300, C.

Commission and Court precedent specify that non-cost factors play a role in such decisions too, along with reasoned judgment.<sup>66</sup> For example, the Court has stated:

The process of establishing rate allocations among diverse customer classes is one requiring both technical expertise on the one hand and a careful balancing of many complimentary and competing interests on the other.<sup>67</sup>

#### **E. Burden Of Proof**

Chapter 216B provides that the burden of proof to show that a rate change is just and reasonable shall be on the public utility seeking the change.<sup>68</sup> For a utility to meet this burden, the utility must demonstrate the facts at issue by a preponderance of the evidence.<sup>69</sup> In this case, the burden is on GMG to demonstrate the reasonableness of its requested rate base, revenues, expenses and cost of capital – the components of its revenue requirements that it seeks to change. Notably, however, GMG seeks no change to its currently approved revenue apportionment or rate design and Minnesota courts have explained that the existing rates, including the existing rate allocation and rate design, are presumed to be just and reasonable.<sup>70</sup>

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<sup>66</sup> *St. Paul Area Chamber*, 251 N.W.2d at 355, 358; *Petition of Inter-City Gas Corp.*, 389 N.W.2d 897, 901 (Minn. 1986).

<sup>67</sup> *St. Paul Area Chamber*, 251 N.W.2d at 354.

<sup>68</sup> Minn. Stat. § 216B.16, subd. 4.

<sup>69</sup> Minn. R. 1400.7300, subp. 5; *In the Matter of the Petition of Minnesota Power and Light Company, d/b/a Minnesota Power, for Authority to Change its Schedule of Rates in Minnesota*, 435 N.W.2d 550, 554 (Minn. Ct. App. 1989) (review denied).

<sup>70</sup> *See, Inter-City Gas Corp.*, 389 N.W.2d at 902. GMG also notes that Minnesota's interim rate statute reflects this presumption of reasonableness by requiring that interim rates reflect "no change in the existing rate design." Minn. Stat. § 216B.16, subd. 3 (b) (3).

A review of the facts in this record, together with a consideration of the law and sound policy, support the Company's proposed rate increase requests, along with its proposal to maintain the existing allocation of revenue responsibilities and rate design.

### **III. COST OF CAPITAL**

A utility's overall weighted average cost of capital, used to determine its overall revenue requirement, is determined by establishing a capital structure (the percentages of overall utility capital represented by equity, long-term debt and short-term debt) and determining the reasonable and appropriate costs for each of those capital components. In this proceeding, parties no longer dispute the capital structure or costs of long-term or short-term debt, as set forth in Joint Exhibit 1. Thus, the only remaining cost of capital issue in this proceeding concerns the reasonable cost of equity to be used in setting rates for GMG.

#### **A. Return On Equity**

GMG requested maintaining its current base return on equity ("ROE") at 10.00 percent, along with a 15 basis point adjustment for flotation costs, for an overall ROE of 10.15 percent and provided the testimony of Mr. Palmer, a former President of Viking Gas Transmission and former Chief Financial Officer at Nuclear Management Company, in support of its position.<sup>71</sup> As the record demonstrates, multiple factors support the reasonableness of Mr. Palmer's recommendation, including: (1) the results of two-growth discounted cash flow ("DCF") analyses; (2) consideration of GMG's unique risk

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<sup>71</sup> See, Ex. GMG-103, entire (Palmer Direct); Ex. GMG-112 at 9-18 (Palmer Rebuttal).

characteristics; (3) recent returns approved for comparable utilities in Wisconsin; and (4) comparison to Minnesota's other natural gas utilities.

First, an analysis of other utilities demonstrates that GMG's requested 10.00 percent base ROE is extremely *conservative* and thus, if anything, tips the requiring balancing of interests in favor of GMG's customers. As Mr. Palmer noted, the Commission has long relied on the results of DCF modeling on a "proxy group" of publicly traded utilities, specifically the two-growth DCF model, to determine a utility's cost of equity.<sup>72</sup> For example, in the most recent Xcel Energy electric rate case, the Commission stated:

The Commission concurs with the ALJ that there is no convincing basis on this record for departing from reliance on the two-growth DCF model. 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 financial integrity and ability to attract investors in light of current as well as expected market conditions.<sup>73</sup>

The record contains the results of two two-growth DCF analyses, both conducted by Department of Commerce ("Department" or "DOC") witness Mr. Addonizio. In his Direct Testimony, filed February 28, 2025, Mr. Addonizio's two-growth DCF analysis indicated a "mean average" ROE for his six company "proxy group" of 10.50 percent and a "mean high" ROE for that proxy group of 10.90 percent.<sup>74</sup> By his Surrebuttal Testimony,

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<sup>72</sup> Ex. GMG-103 at 7 (Palmer Direct); Ex. GMG-112 at 12 (Palmer Rebuttal).

<sup>73</sup> *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).

<sup>74</sup> Ex. DOC-201 at 37 (Addonizio Direct); Ex. DOC-202 at Schedules CMA-D-13 through CMA-D-16 (Addonizio Direct).

filed April 11, 2025 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.<sup>75</sup> Thus, even without considering any of the unique risks of GMG compared to the proxy companies and using the analysis long relied on by the Commission, the most conservative ROE estimate for GMG is 10.50 percent – 50 basis points *above* GMG’s base ROE request.

Second, GMG is significantly riskier than the “proxy group” companies used in these DCF analyses, demonstrating the overly conservative nature of looking to “mean average” results from the proxy group to determine GMG’s ROE. Several facts support the conclusion that an investment in GMG carries more risk than an investment in the “proxy” companies. Specifically:

- Size – GMG is only between 0.3 percent and 1.34 percent the size of the proxy group companies meaning, among other things, less diverse revenue streams;<sup>76</sup>
- Lack of publicly traded stock – Since GMG is not publicly traded, it is harder for shareholders to sell their stock if desired, and harder for GMG to issue new equity;<sup>77</sup>
- Lack of dividends – GMG has never paid a dividend, choosing instead to reinvest all earnings in the Company to meet its capital requirements;<sup>78</sup> and
- Unique customer base – As discussed above, GMG relies heavily on the poultry industry and grain drying for its revenues, resulting in wide swings

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<sup>75</sup> Ex. DOC-203 at 10 and Schedules CMA-S-8 through CMA-S-13 (Addonizio Surrebuttal).

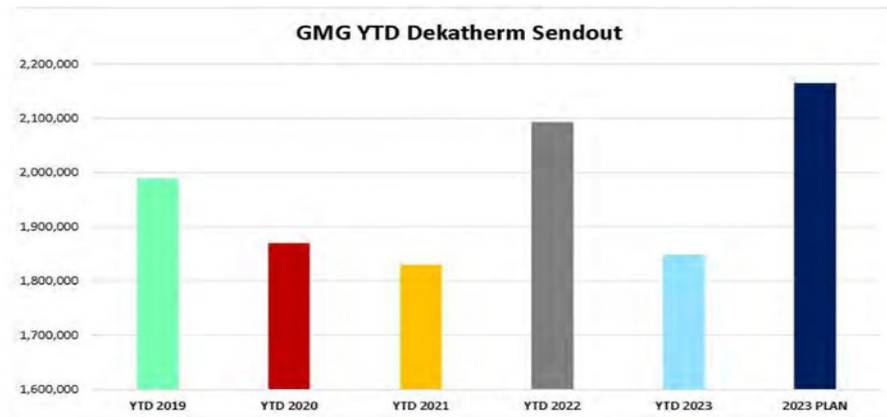
<sup>76</sup> Ex. GMG-103 at 8 (Palmer Direct); Ex. GMG-112 at 13 (Palmer Rebuttal); Ex. DOC-201 at 49-50 (Addonizio Direct).

<sup>77</sup> Ex. DOC-201 at 50 (Addonizio Direct).

<sup>78</sup> Ex. GMG-103 at 8 (Palmer Direct).



in revenues depending on the overall health of the poultry industry and the weather, as shown in Table GHP-1 in Mr. Palmer’s Direct Testimony;<sup>79</sup>



Each of these factors, unique to GMG, indicates that investments in GMG carry more risk than investments in the proxy companies, indicating a higher required ROE to compensate investors for that additional risk.

Third, while there are few utilities “comparable” to GMG to look to for guidance on an appropriate ROE, two such utilities operate in the neighboring state of Wisconsin – St. Croix Valley Natural Gas Company (“St. Croix Valley”) and Midwest Natural Gas (“Midwest Natural”).<sup>80</sup> St. Croix Valley serves approximately 8,700 customers in River Falls and Prescott, Wisconsin and nearby rural communities.<sup>81</sup> In a recent rate case, the Public Service Commission of Wisconsin (“PSCW”) approved a 60 percent equity ratio

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<sup>79</sup> Ex. GMG-103 at 6-8 (Palmer Direct); Ex. GMG-112 at 13-14 (Palmer Rebuttal).

<sup>80</sup> Ex. GMG-103 at 9 (Palmer Direct).

<sup>81</sup> *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 3 (Apr. 24, 2023) (“St. Croix Valley”).

and an 11.00 percent ROE for St. Croix Valley, agreeing with PSCW Staff that an 11.00 percent ROE was “a reasonable level to balance the needs of customers and investors” and “remains reasonable in comparison to the returns authorized for [St. Croix Valley’s] peers.”<sup>82</sup>

Midwest Natural is slightly larger than either St. Croix Valley or GMG, serving approximately 14,500 customers, also in smaller Wisconsin communities and surrounding areas.<sup>83</sup> The PSCW also approved a 60 percent equity ratio and 11.00 percent ROE for Midwest Natural, using identical language to that used in *St. Croix Valley*.<sup>84</sup>

The ROE determinations in both *St. Croix Valley* and *Midwest Natural* recognize the inherently higher risk of investing in smaller companies. Moreover, consistent with the *Bluefield* decision, discussed above, they represent determinations regarding appropriate returns on equity for investments that would generally be made at the same time and in the same part of the country, as both St. Croix Valley and Midwest Natural have service areas within 100 miles of GMG’s service area.<sup>85</sup>

Finally, bringing the focus back to Minnesota, the Commission recently approved an all-party settlement in Xcel Energy’s most recent natural gas rate case that sets Xcel Energy’s rates using a 52.50 percent equity ratio and a 9.60 percent ROE.<sup>86</sup> Xcel Energy’s

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<sup>82</sup> *St. Croix Valley* at 2, 9.

<sup>83</sup> *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 3 (Apr. 27, 2023) (“*Midwest Natural*”).

<sup>84</sup> *Midwest Natural* at 2, 9.

<sup>85</sup> Ex. GMG-103 at 9 (Palmer Direct).

<sup>86</sup> *In the Matter of the Application of Northern States Power Company, d/b/a Xcel Energy, for Authority to Increase Rates for Natural Gas Service in Minnesota*, MPUC Docket No

natural gas business has over a 100 year history and dwarfs GMG in size, providing service to over 500,000 customers, including residential customers in major metropolitan areas such as St. Paul, and business and industrial customers, including gas-fired electric generation facilities. GMG's risk profile, discussed above, and its lower equity ratio (48.87 percent as opposed to 52.50 percent for Xcel Energy) both demonstrate the reasonableness of GMG's requested 10.00 percent base ROE, when compared to the 9.60 percent ROE approved for Xcel Energy.

The Department filed the only other testimony addressing ROE, with Mr. Addonizio recommending a ROE of 9.65 percent – just five basis points above that recently approved for Xcel Energy. However, Mr. Addonizio developed his recommendation by spurning the analysis consistently relied on by the Commission, the two-growth DCF, and instead relied on a methodology never before relied on by the Commission.

Mr. Addonizio has now testified on cost of capital in over a dozen rate cases.<sup>87</sup> As he acknowledged, for the first several of those cases, he too relied on the two-growth DCF.<sup>88</sup> However, beginning in 2021, Mr. Addonizio abandoned his past reliance on the two-growth DCF and embraced a new analysis, the multi-stage DCF.<sup>89</sup> Mr. Addonizio states that he changed his approach due to his belief that models relying on growth estimates by professional equity analysts are biased in utilities' favor and that using such

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G-002/GR-23-413, ORDER ACCEPTING AND ADOPTING AGREEMENT SETTING RATES (Mar. 5, 2025).

<sup>87</sup> Ex. DOC-202, Schedule CMA-D-1 (Addonizio Direct); Tr. at 62:9-15 (Addonizio).

<sup>88</sup> Tr. at 62:16-20 (Addonizio).

<sup>89</sup> Tr. at 62:21-24 (Addonizio).

models would set the ROE inappropriately high and above a utility's actual cost of equity.<sup>90</sup> Indeed, Mr. Addonizio goes so far as to say the Commission and other regulatory agencies have consistently set ROEs higher than utilities' cost of equity for many years, despite the general acceptance that the two should be the same.<sup>91</sup>

While Mr. Addonizio may have changed his view of the appropriate analysis and now disagrees with past Commission decisions, the Commission has not changed *its* view. Instead, the Commission has repeatedly reaffirmed its confidence in the two-growth DCF and has rejected use of a multi-stage DCF such as that proffered by Mr. Addonizio. Regarding the Commission's continued reliance on the two-stage DCF analysis, among recent rate cases only two have been fully litigated – Minnesota Power's 2021 rate case and Xcel Energy 2021 electric rate case.<sup>92</sup> In both, Mr. Addonizio testified on behalf of the Department, supporting his multi-stage analysis.<sup>93</sup> In both, the Commission set the utility's ROE based on the two-growth DCF analyses in those records.

In *Xcel Energy*, the Commission specifically stated that it:

concurs with the ALJ that there is no convincing basis on this record for departing from reliance on the two-growth DCF model. The two-growth DCF model provides a fundamentally sound framework through which to analyze the Company's relative risk in relation to comparable companies,

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<sup>90</sup> See Ex. DOC-201 at 30-31, 52-53 (Addonizio Direct); Tr. at 64:13–65:3 (Addonizio).

<sup>91</sup> Tr. at 64:13–65:3 (Addonizio).

<sup>92</sup> *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; *In the Matter of the Application of Minnesota Power for Authority to Increase Rates for Electric Service in Minnesota*, MPUC Docket No. E-015/GR-21-335.

<sup>93</sup> Ex. DOC-202 at Schedule CMA-D-1 (Addonizio Direct); Tr. at 63:4-25 (Addonizio).

and through which to evaluate the Company's financial integrity and ability to attract investors in light of current as well as expected market conditions.<sup>94</sup>

Similarly, in *Minnesota Power* the Commission stated that it “concurs with the Administrative Law Judge that the Company's [two-growth DCF] methodology is well supported by the record and provides a well-reasoned basis for setting the cost of equity.”<sup>95</sup> In addition, the Commission specifically considered *and rejected* Mr. Addonizio's concerns and his rationale for rejecting the two-growth DCF. As the Commission explained:

The Department's recommended cost of equity of 9.30% is informed by an underlying assumption that the cost of equity and the return on equity are distinct concepts in the sense that utility earnings exceed the cost of equity over time. This understanding, according to the Department, undermines the reliability of earnings' estimates in predicting long-term growth and instead justifies the use of a multi-stage DCF analysis that uses GDP to forecast the long-term cost of equity.

*The Commission does not share this concern.* While general statements about GDP and earnings estimates may offer broad perspectives on their overall usefulness, the parties' positions reflect philosophical and methodological differences that are qualitative in nature. But the Department has not demonstrated inaccuracies in Minnesota Power's earnings estimates in this case to justify dismissing them from consideration. *The investment community relies heavily on earnings estimates, which are rigorously audited to ensure compliance with accounting principles. And in the case of utilities, earnings estimates reflect industry-specific considerations, include*

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<sup>94</sup> *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).

<sup>95</sup> *In the Matter of the Application of Minnesota Power for Authority to Increase Rates for Electric Service in Minnesota*, MPUC Docket No. E-015/GR-21-335, FINDINGS OF FACT, CONCLUSIONS, AND ORDER at 45 (Feb. 28, 2023).

*assumptions based on quantitative market data, and have not been shown to produce unreasonable returns.*<sup>96</sup>

The Commission has rejected the use of multi-stage DCF models or the use of GDP growth rates in other proceedings as well.<sup>97</sup> In fact, in a 2005 CenterPoint Energy rate case, it was not only the Commission but the Department as well that objected to the use of the GDP growth rate in ROE modeling, stating that GDP growth rate “is not a reasonable measure of expected growth for natural gas [utilities].”<sup>98</sup> And as Mr. Addonizio acknowledged, the Commission has never relied on a multi-stage analysis such as his as a basis for setting a utility’s ROE.<sup>99</sup>

For all of the reasons set forth above, and considering the guidance provided by both Commission precedent and case law, the record of this proceeding demonstrates that 10.00 percent is a conservative base return on equity for GMG.

## **B. Flotation Costs**

“Flotation costs” are costs incurred by a company to issue debt or equity.<sup>100</sup> These costs include placement fees, appraisal expenses, legal fees, and registration fees and they must be paid to get the financing but are not available to the company at the end of the

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<sup>96</sup> *Minnesota Power* at 45 (emphasis added).

<sup>97</sup> *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; *In the Matter of the Application of CenterPoint Energy Minnesota Gas, a Division of CenterPoint Energy Resources Corp., for Authority to Increase Natural Gas Rates in Minnesota*, Docket No. G-008/GR-05-1380.

<sup>98</sup> *CenterPoint Energy*, Docket No. G-008/GR-05-1380, FINDINGS OF FACT, CONCLUSIONS AND RECOMMENDED ORDER at Finding 66 (Sept. 8, 2006, adopted by the Commission in its FINDINGS OF FACT, CONCLUSIONS OF LAW, AND ORDER at 31 (Nov. 2, 2006)).

<sup>99</sup> Tr. at 64:5-8 (Addonizio).

<sup>100</sup> Ex. GMG-103 at 12 (Palmer Direct).

placement. Regarding flotation costs associated with GMG debt issuances, the parties agreed to a 15 basis point adjustment to GMG’s cost of long-term debt.<sup>101</sup> However, the parties dispute the need for a flotation cost adjustment to GMG’s cost of equity.

To account for flotation costs associated with equity issuances, in past cases the Commission has included an allowance for “flotation costs” in a utility’s ROE<sup>102</sup> and GMG requests a similar 15 basis point equity flotation costs adjustment as applied to its cost of long-term debt, bringing its final ROE request to 10.15 – still *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.

GMG acknowledges that, in the past, the Company expensed the cost of equity placements, as a large amount of the work was done by internal staff due to the limited size of the offering.<sup>103</sup> However, 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 completed in this same manner.<sup>104</sup> Failure to recognize these expenses will limit GMG’s ability to attract sufficient capital in the future.<sup>105</sup> Since the Company has not raised external equity since 2012, there is not a good proxy for flotation costs associated with

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<sup>101</sup> Joint Exhibit 1; *see* Attachments 1 and 2 to this Initial Brief.

<sup>102</sup> *See, e.g., In the Matter of the Application of Minnesota Power, for Authority to Increase Rates for Electric Service in the State of Minnesota*, MPUC Docket No. E-015/GR-21-335, FINDINGS OF FACT, CONCLUSIONS AND ORDER at 45-46 (Feb. 28, 2023); *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 92 (July 17, 2023).

<sup>103</sup> Ex. GMG-112 at 17 (Palmer Rebuttal).

<sup>104</sup> Ex. GMG-112 at 17 (Palmer Rebuttal).

<sup>105</sup> Ex. GMG-112 at 17 (Palmer Rebuttal).

GMG equity offerings.<sup>106</sup> Therefore, GMG recommends a 15 basis point adjustment to the cost of equity, matching the flotation adjustment for its debt issuances.<sup>107</sup>

While Department witness Addonizio has supported flotation cost adjustments to the cost of equity in past cases, the Department opposes inclusion of any flotation cost adjustment to GMG's ROE.<sup>108</sup> Mr. Addonizio states that no adjustment is necessary, because in the past GMG has expensed any such costs.<sup>109</sup> He states that while flotation costs can be appropriate to recognize costs associated with past equity issuances, "plans for future issuances are largely irrelevant."<sup>110</sup> However, Mr. Addonizio does not deny the GMG has incurred and will incur such costs in the future. Further, while he dismisses costs associated with future equity issuances, the Commission has specifically considered this issue in the past and has tacitly acknowledged that future flotation costs may be recoverable.<sup>111</sup> GMG's proposed 15 basis point adjustment to its cost of equity is reasonable and results in a ROE that appropriately balances the interests of GMG and its customers. Indeed, after including flotation costs, GMG's proposed final ROE of 10.15 percent is still well below the two-growth DCF analyses in the record and even further

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<sup>106</sup> Ex. GMG-112 at 17 (Palmer Rebuttal).

<sup>107</sup> Ex. GMG-112 at 17 (Palmer Rebuttal).

<sup>108</sup> Ex. DOC-201 at 38 (Addonizio Direct), Ex. DOC-203 at 6 (Addonizio Surrebuttal).

<sup>109</sup> Ex. DOC-201 at 38 (Addonizio Direct), Ex. DOC-203 at 6 (Addonizio Surrebuttal).

<sup>110</sup> Ex. DOC-203 at 6 (Addonizio Surrebuttal).

<sup>111</sup> See, *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).



below recent returns awarded to similarly sized natural gas utilities serving similarly rural areas within 100 miles of GMG's service area.

#### **IV. REVENUE REQUIREMENT ISSUES**

##### **A. Employee Compensation**

As noted above, GMG has just 25 total employees, each of whom carries multiple responsibilities. Providing reasonable compensation to these employees is critical, as the loss of even one or two key personnel can put an extreme burden on the Company, particularly if those losses occur at critical times for the Company.<sup>112</sup> In addition, GMG has experienced challenges in both recruitment and retention of well-qualified employees in the past, given its unique circumstances as a very small company.<sup>113</sup> For example, GMG does not have a defined benefit plan as offered by many larger utilities in the Midwest.<sup>114</sup> GMG also lacks some of the career advancement potential of larger utility operations in the Midwest.<sup>115</sup> Given these challenges, GMG has crafted unique and tailored compensation plans for its employees, using both short-term performance pay and longer-term retention agreements as appropriate, to both fairly compensate and best retain its employees, so that it can continue to safe, reliable service to GMG's customers.<sup>116</sup>

No party asserts that the Company pays excessive compensation to its employees – and for good reason. The total compensation for which GMG seeks recovery for its “top

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<sup>112</sup> Ex. GMG-112 at 19-24 (Palmer Rebuttal).

<sup>113</sup> Ex. GMG-112 at 19 (Palmer Rebuttal).

<sup>114</sup> Ex. GMG-112 at 19 (Palmer Rebuttal).

<sup>115</sup> Ex. GMG-112 at 19 (Palmer Rebuttal).

<sup>116</sup> Ex. GMG-112 at 19-24 (Palmer Rebuttal).

ten” paid employees (who constitute 40 percent of GMG’s total workforce) results in an average of under \$100,000 annually per employee, an amount that pales in comparison to the salaries of upper-level employees at other Minnesota utilities.<sup>117</sup>

For example, Dakota Electric Association (“Dakota Electric”), Minnesota’s only rate-regulated cooperative, pays each of its top ten employees an average base pay of over \$217,000 according to its 2023 Form 990 filed with the IRS; and all of Dakota Electric’s top ten most highly paid employees have a base pay above \$150,000.<sup>118</sup> Other Minnesota cooperatives and municipal utilities provide similar total compensation packages.<sup>119</sup> Despite the reasonableness of GMG’s employee compensation, the Department objects to recovery of nearly \$60,000 of these costs based on inapt comparisons to “incentive pay” programs offered by larger utilities. Specifically, 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). Neither objection has merit and disallowance of these reasonable costs would harm the Company, its employees and its customers.<sup>120</sup>

### **1. Performance Pay**

GMG offers employees the ability to earn an annual bump in their compensation by earning a short-term incentive or “performance pay” addition to their base compensation.

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<sup>117</sup> Ex. GMG-112 at 25 (Palmer Rebuttal).

<sup>118</sup> Ex. GMG-112 at 25 (Palmer Rebuttal).

<sup>119</sup> Ex. GMG-112 at 25-28 and Schedule GHP-REB 1 (Palmer Rebuttal).

<sup>120</sup> Ex. GMG-112 at 18-19 (Palmer Rebuttal).

The Company tailors the criteria for achieving this performance pay adder to fit the job. For example, the employee primarily responsible for GMG's energy conservation programs earns short-term performance pay if certain energy conservation goals are met.<sup>121</sup> As a second example, given GMG's small size, the Company has just one Certified Management Accountant who is qualified to work with GMG's auditors to complete the Company's audited financial statements.<sup>122</sup> GMG's short-term performance pay for that individual is paid out in June, after the most critical tasks for the year are completed, because if that employee left the Company mid-audit, it would significantly impact the Company's ability to operate.<sup>123</sup> None of this performance pay is contingent on GMG's earnings or financial performance, as demonstrated by the fact that, "even in the past two years of poor economic performance by the Company, GMG has paid out the full short-term performance pay to its eligible employees."<sup>124</sup>

The Department initially proposed that GMG's recovery of performance pay costs be limited by applying a "cap" on any individual's performance pay equal to 15 percent of that employee's base pay, resulting in a disallowance of over \$20,000 in compensation expenses.<sup>125</sup> The Department based this recommended disallowance on certain past Commission decisions approving such a cap for other large utilities such as Xcel Energy.<sup>126</sup> However, GMG's performance pay plan bears no resemblance whatsoever to the annual

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<sup>121</sup> Ex. GMG-112 at 21 (Palmer Rebuttal).

<sup>122</sup> Ex. GMG-112 at 21 (Palmer Rebuttal).

<sup>123</sup> Ex. GMG-112 at 21 (Palmer Rebuttal).

<sup>124</sup> Ex. GMG-112 at 21 (Palmer Rebuttal).

<sup>125</sup> Ex. DOC-213 at 19-20 (Johnson Direct).

<sup>126</sup> Ex. DOC-213 at 19-20 (Johnson Direct).

incentive pay plans of the larger utilities such as Xcel Energy. For example, in the Xcel Energy rate case relied on by Department witness Mr. Johnson to support applying a 15 percent “cap” to GMG’s performance pay compensation, the Commission found that a 15 percent “cap” was reasonable because Xcel Energy had “not met its burden to demonstrate that it would be just and reasonable for ratepayers to pay more for an incentive compensation tied to an earnings per share threshold that primarily benefits shareholders.”<sup>127</sup> However, the Commission also noted in that case that it had applied other caps to other utilities in past cases. For example, after noting that it applied a 20 percent cap to Minnesota Power, the Commission stated:

The Commission based its decision in Minnesota Power’s case in part on a finding that Minnesota Power’s short-term incentive program was not shown to create *skewed incentives or other public-policy concerns*. Notably, unlike Minnesota Power’s program, Xcel’s AIP program is *subject to a dispositive earnings-per-share threshold* such that no AIP is paid out if earnings per share do not reach the target level, regardless of any other performance metrics.<sup>128</sup>

Finally, in a CenterPoint Energy rate case, the Commission applied a 25 percent cap to any short-term bonus payments, stating:

That cap continues to strike the right balance between the interests of ratepayers and shareholders and between the goals of rewarding solid day-to-day financial management and protecting the long-term thinking vital to good utility management.

The cap responds appropriately to the design of the short-term program. While the program does tie employee compensation in part to performance

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<sup>127</sup> *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 18 (“21-630 Order”) (July 17, 2023) (emphasis added).

<sup>128</sup> 21-630 Order at 19.

goals that directly serve ratepayers—safety and operational efficiency—it *also ties compensation substantially to Company financial performance*.<sup>129</sup>

As discussed above, GMG has no earnings per share threshold that must be met before it provides performance pay to its employees and does not tie compensation substantially to Company performance. In fact, only one employee in the Company has performance pay tied in any way to GMG’s financial performance<sup>130</sup> and GMG’s CEO receives no performance pay whatsoever.<sup>131</sup>

After reviewing GMG’s Rebuttal Testimony, the Department modified its recommendation regarding performance pay, in recognition that GMG’s performance pay lacks a financial “trigger” and does not promote shareholder interests.<sup>132</sup> However, the Department continued to recommend applying a 15 percent cap to the performance pay of the lone employee whose performance pay has *any* tie to the financial performance of the Company, lowering its recommended disallowance from approximately \$20,000 to \$11,276.<sup>133</sup>

At hearing, Department witness Mr. Johnson acknowledged that this one employee is one of GMG’s officers.<sup>134</sup> Mr. Johnson further acknowledged that he did not challenge that officer’s total compensation and that, in fact, he testified that GMG’s officers “do not

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<sup>129</sup> *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) (emphasis added).

<sup>130</sup> Ex. GMG-112 at 21 (Palmer Rebuttal).

<sup>131</sup> See, Ex. DOC-214 at Schedule MAJ-D-4 (Johnson Direct).

<sup>132</sup> Ex. DOC-216 at 21-22 (Johnson Surrebuttal).

<sup>133</sup> Ex. DOC-216 at 21-22 (Johnson Surrebuttal).

<sup>134</sup> Tr. at 80:15–82:8 (Johnson); Ex. DOC-214 at Schedule MAJ-D-5 (Johnson Direct).

spend a significant amount of time on shareholder focused activities, such as increasing earnings per share.”<sup>135</sup> Given this lack of time on shareholder focused activities, the fact that GMG has paid out its full performance pay the past two years despite lackluster earnings,<sup>136</sup> and the fact that GMG has *never* paid shareholder dividends,<sup>137</sup> there is no record basis to conclude that this lone employee has somehow advanced shareholder interests above customer interests, such that a disallowance of performance pay is appropriate. Rather, GMG should be allowed recovery of its full test year performance pay costs.<sup>138</sup>

## **2. Retention Agreements**

GMG also offers certain key employees retention agreements.<sup>139</sup> There is no financial component to these agreements and no financial “trigger” that must be met before payment.<sup>140</sup> 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.<sup>141</sup> GMG needs to structure its compensation to support retention of its key personnel to ensure the safe, reliable operation of the business.<sup>142</sup> As noted above, with only 25 total employees,

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<sup>135</sup> Tr. at 82:9-21 (Johnson); Ex. DOC-216 at 12 (Johnson Surrebuttal).

<sup>136</sup> See Ex. GMG-112 at 7 (Table GHP-REB-2) and 21 (Palmer Rebuttal).

<sup>137</sup> Ex. GMG 103 at 8 (Palmer Direct).

<sup>138</sup> While no disallowance is justified on the basis of this record, GMG notes that if the 25 percent cap applied in the CenterPoint Energy case cited above 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).

<sup>139</sup> Ex. GMG-112 at 19 (Palmer Rebuttal).

<sup>140</sup> Ex. GMG-112 at 19, 23 (Palmer Rebuttal).

<sup>141</sup> Ex. GMG-112 at 19, 23 (Palmer Rebuttal).

<sup>142</sup> Ex. GMG-112 at 20 (Palmer Rebuttal).

loss of even one or two key personnel can present extreme challenges and GMG has worked hard to recruit and retain well-qualified employees.<sup>143</sup> 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.<sup>144</sup>

GMG tailors the retention agreements to meet the needs of the Company and its customers. For example, while GMG's CEO receives no retention agreement adder to his compensation, three Supervisory Gas Technicians do.<sup>145</sup> GMG has some service centers with two or three employees, with just one employee at each location qualified to manage the construction projects for that area.<sup>146</sup> If one or more of those managing employees left the Company during the construction season, their departure would significantly impact the Company's ability to complete the necessary projects to safely and reliably serve GMG's customers.<sup>147</sup> Therefore, those managers' "incentives" are paid out in January, to encourage them to stay through year-end, when their construction projects are complete.<sup>148</sup>

The Department recommends disallowing recovery of any retention agreement payments, based on "the Commission's long-standing practice of not allowing long-term incentive compensation expense ("LTI") in rate cases."<sup>149</sup> However, Mr. Johnson's recommendation ignores the fact the GMG's retention agreements bear *zero* resemblance

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<sup>143</sup> Ex. GMG-112 at 20 (Palmer Rebuttal).

<sup>144</sup> Ex. GMG-112 at 20 (Palmer Rebuttal).

<sup>145</sup> See Ex. DOC-214 at Schedule MAJ-D-4 (Johnson Direct).

<sup>146</sup> Ex. GMG-12 at 21 (Palmer Rebuttal).

<sup>147</sup> Ex. GMG-112 at 21-22 (Palmer Rebuttal).

<sup>148</sup> Ex. GMG-112 at 22 (Palmer Rebuttal).

<sup>149</sup> Ex. DOC-216 at 23 (Johnson Surrebuttal).

to the larger utilities' long-term incentive compensation programs disallowed in those past cases. For example, the Commission denied recovery of CenterPoint Energy's long-term incentive compensation program, finding it:

*is designed chiefly to serve shareholders' interests; its benefits to ratepayers are indirect and could be better served by other means; and its time horizon for rewarding corporate financial performance carries the potential to divert attention from the much longer planning horizons critical to providing safe, reliable, and affordable utility service.*<sup>150</sup>

The Commission has also denied various components of Xcel Energy's long-term incentive compensation program that ties payment to financial performance, stating:

*the shareholder-return-based performance element of the time-based LTI program for non-executives may incentivize employees to prioritize shareholder interests over customer interests in order to increase their potential time-based LTI payout amount.*<sup>151</sup>

Department witness Mr. Johnson acknowledged two key differences between the GMG retention agreements and the LTI plans of utilities such as Xcel Energy or CenterPoint Energy. First, the other utilities have an earnings threshold that must be met before payment of any LTI, while GMG's retention agreements have no such threshold.<sup>152</sup> Second, Mr. Johnson noted that the Commission has also viewed LTI plans of other utilities

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<sup>150</sup> *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)

<sup>151</sup> *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) (emphasis added).

<sup>152</sup> Tr. at 84 (Johnson).



skeptically “given all [the] other benefits [those] utilities provide.”<sup>153</sup> Given these differences, Mr. Johnson appeared to acknowledge it may be reasonable for GMG to recover its necessary retention agreement costs, even though he believes this would be “a departure from past precedents.”<sup>154</sup>

In fact, allowing recovery of GMG’s retention agreement costs would not depart whatsoever from Commission precedent, since the Commission has never opined on the reasonableness of such agreements. The record of this proceeding conclusively demonstrates the uniqueness – and reasonableness – of the “long-term” component of GMG’s compensation payments. The Department’s concerns that allowing recovery of these costs, apparently simply because they can be seen as an “incentive,” are misplaced and no disallowance of these reasonable and necessary costs is appropriate.

## **B. Revenues – 2025 Sales Forecast**

The evidence produced in this proceeding demonstrates that GMG’s proposed Test Year sales forecast is appropriate and should be used to set rates for the 2025 Test Year. GMG’s initial filing on November 1, 2024, included a sales forecast for the January 1 through December 31, 2025 Test Year, projecting approximately \$18.4 million in total sales.<sup>155</sup> GMG updated its sales forecast in Rebuttal Testimony filed on March 23, 2025, to include 2024 year-end actuals, resulting in an update to the 2025 Test Year total sales to

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<sup>153</sup> Tr. at 85 (Johnson).

<sup>154</sup> Ex. DOC-216 at 24-25 (Johnson Surrebuttal).

<sup>155</sup> Ex. GMG-105, Schedule C-2 at 1 (Initial Filing – Vol. 3).

approximately \$18.2 million.<sup>156</sup> In either instance, GMG’s sales forecast is supported by the record evidence and is entirely reasonable.

In fact, when GMG’s sales forecast is compared to the Company’s recent sales history, it is apparent that the forecast is conservative. GMG’s 2024 year-end actual sales were approximately 16.6 million therms.<sup>157</sup> When plotted on the graph Minnesota Office of the Attorney General (“OAG”) witness Mr. Chad Stevenson provided in Direct Testimony showing GMG’s recent annual sales and GMG’s proposed 2025 Test Year sales forecast, the Company’s 2024 actual sales declined to the point that they would plot below Mr. Stevenson’s entire graph.<sup>158</sup> A full and accurate representation of GMG’s sales over the six year period of 2019 through 2024, and using GMG’s revised 2025 sales forecast that reflects the actual customer count as of January 1, 2025, shows the following:<sup>159</sup>

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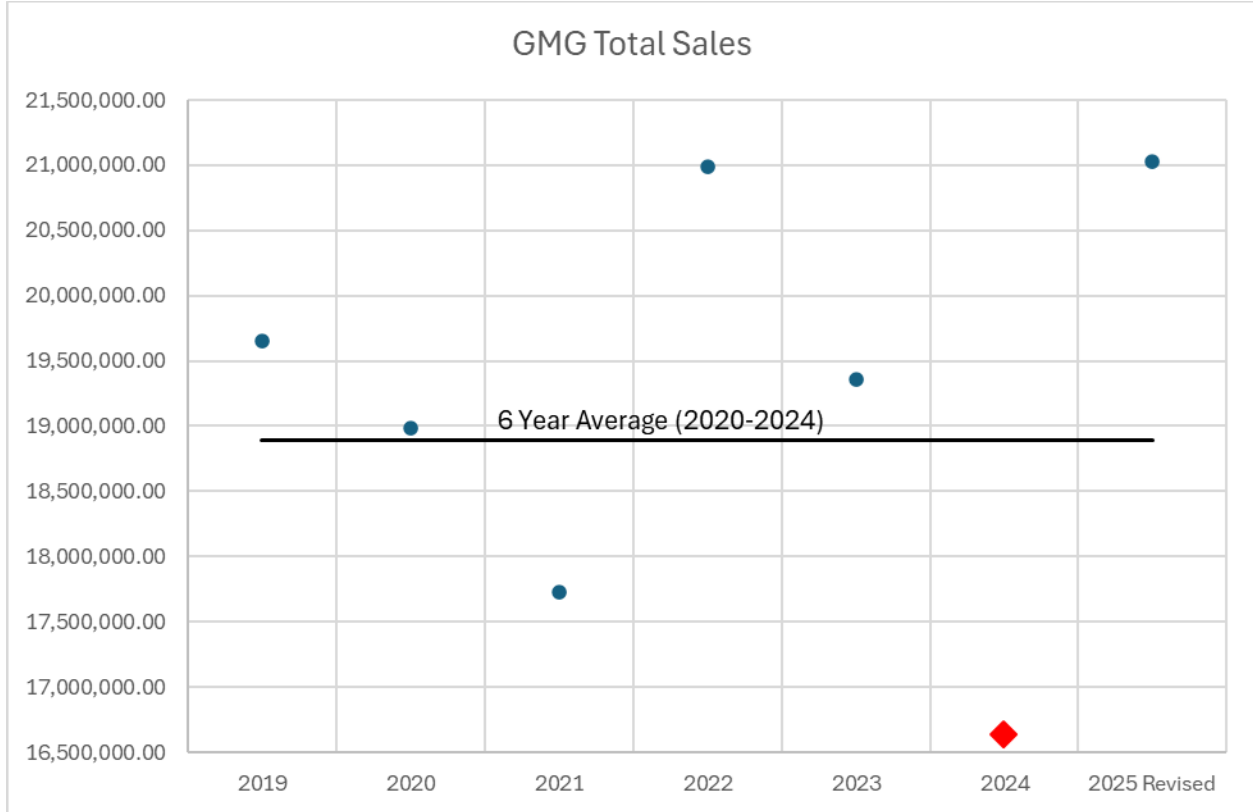
<sup>156</sup> Ex. GMG-109, Schedule RDB-REB 2 (Burke Rebuttal).

<sup>157</sup> Ex. GMG-110, Schedule RDB-SR-3 at 3 (Burke Surrebuttal).

<sup>158</sup> Tr. at 102:5-25 (Stevenson).

<sup>159</sup> Figure 1 adds the following to the graph at Ex. OAG-303 at 5 (Stevenson Direct): (1) 2024 actual sales, Ex. GMG-110, Schedule RDB-SR-3 at 3 (Burke Surrebuttal), (2) the average sales over the six year period from 2019 – 2024 (adding 2024 actual sales to the 2019-2023 sales volumes plotted by Mr. Stevenson and included in the record at Ex. OAG-303 at Schedule CS-D-1 (Stevenson Direct), and (3) GMG’s revised 2025 sales forecast, included in Ex. OAG-305, Schedule CS-S-1 at 12 (Stevenson Surrebuttal).

**Figure 1. GMG Total Sales (in therms)**



As demonstrated by this chart, GMG’s 2025 Test Year sales forecast is greater than each of the past six years’ actual sales, is two million therms greater than the average of the last six years of sales, and is nearly 4.5 million therms greater than sales in the most recent year, 2024. GMG’s 2025 sales forecast projects greater than historic sales, and any further increases in projected sales as a result of the recommendations by the Department or the OAG, discussed below, have no merit. GMG’s 2025 Test Year sales forecast provides a reasonable basis for this rate case.

Nevertheless, there are two remaining issues related to GMG’s proposed 2025 Test Year sales forecast in this proceeding: new customer Test Year sales and the Small Commercial customer count.

## **1. New Customer Test Year Sales**

As discussed above, a “Test Year” is “the 12-month period selected by the utility for the purpose of expressing its need for a change in rates”<sup>160</sup> – in this case, January 1 through December 31, 2025. Due to the unique nature of GMG, its service area, and its addition of new customers, GMG proposed a 2025 Test Year sales forecast that includes 21.6 dekatherms (“Dth”) for each new customer and based that forecast on the Company’s actual historic trends.<sup>161</sup> Specifically, GMG generally adds new customers following the summer construction season, such that new customers are connected and begin using gas in the second half of the year at the beginning of the heating season, frequently after needing to convert appliances and heating systems to use natural gas.<sup>162</sup> It is thus appropriate to acknowledge that new customers connecting to GMG’s system do not use the same amount of gas in the year of initial connection as a customer that has been connected since the first day of the year.<sup>163</sup> And GMG’s experience has been similar year-over-year. GMG incurs costs to extend service during the construction season, customers often must convert their appliances, further delaying actual consumption, and eventually customers begin taking natural gas. Since GMG’s approach to construction and connection of new customers is consistent year-over-year, it is appropriate that the sales forecast in the Test Year reflects GMG’s actual sales revenue timing that recurs annually.<sup>164</sup>

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<sup>160</sup> Minn. R. 7825.3100, subp. 17; Ex. DOC-204 at 5 (Shah Direct).

<sup>161</sup> Ex. GMG-105, Schedule E-1 at 3 (Initial Filing – Vol. 3); Ex. GMG-109 at 2-3 (Burke Rebuttal).

<sup>162</sup> Ex. GMG-109 at 2 (Burke Rebuttal).

<sup>163</sup> Ex. GMG-109 at 3 (Burke Rebuttal).

<sup>164</sup> Ex. GMG-109 at 3 (Burke Rebuttal).

Department witness Mr. Sachin Shah either fundamentally misunderstands GMG's sales forecast methodology for new customers or is theoretically opposed to the methodology despite evidence that GMG's approach is reasonable and consistent. Mr. Shah accurately noted that the purpose of the rate case is "to set just and reasonable rates going forward, based on a normal 12-month test-year."<sup>165</sup> Nevertheless, Mr. Shah disagreed with GMG's use of 21.6 Dth because "[o]nce added to the system, new customers stay on the system and continue to use natural gas as existing customers."<sup>166</sup> It appears to be Mr. Shah's position, then, that GMG's methodology is inappropriate not because GMG's sales forecast inaccurately accounts for the new customers' usage in the 2025 Test Year, but because these customers will be on the system and using natural gas in 2026 and beyond. However, as Company witness Ms. Burke explained in her Rebuttal Testimony, GMG's methodology presents a normal 12-month Test Year, "[s]ince GMG follows the same pattern every year, and since the purpose of a Test Year is to reflect a business year[.]"<sup>167</sup>

Put another way, each year GMG's new customer additions follows the trend GMG used to project the 2025 Test Year sales forecast.<sup>168</sup> This is supported by the number of historical new customer additions that GMG provided to the Department in response to Information Requests from Mr. Shah.<sup>169</sup> As shown in GMG's Responses to the

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<sup>165</sup> Ex. DOC-205 at 11 (Shah Surrebuttal).

<sup>166</sup> Ex. DOC-205 at 11 (Shah Surrebuttal).

<sup>167</sup> Ex. GMG-109 at 3 (Burke Rebuttal).

<sup>168</sup> Ex. GMG-109 at 3 (Burke Rebuttal).

<sup>169</sup> See Ex. DOC 205, Schedule SS-SR-3 (Shah Surrebuttal).

Department's Information Requests, the Company added 4,378 new Residential class customers between 2015 and 2023.<sup>170</sup> Of those new customers, 4,041 were added from June through December. Table 1 provides the five-year average of GMG's new customer additions from 2019 through 2023.

**Table 1. Average New Customer Additions 2019 – 2023<sup>171</sup>**

Average over 5 years from 2019-2023 - DOC														
Rate Class	Code	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
Residential - Firm	RS	1	2	-	3	39	35	40	52	42	64	71	36	385
Small Commercial - Firm	SCS	-	0	0	1	4	4	4	5	6	10	13	5	52
Commercial - Firm	CS	-	-	-	-	-	0	0	-	-	-	-	0	1
Industrial - Firm	MS	-	-	-	-	0	-	0	-	-	-	0	0	1
Industrial - Firm	LS	-	-	-	-	-	-	0	1	0	-	-	-	2
Agricultural - Interruptible	AG	-	-	-	-	0	0	-	1	0	0	-	-	2
Industrial - Interruptible	IND	-	-	-	-	-	-	-	-	-	-	-	-	-

This evidence confirms that GMG's use of a sales forecast that accurately attributes lower usage to new customers is consistent with the purpose of the Test Year concept and provides the most reliable measure of new customer usage on an annual basis.

While Mr. Shah's dispute with the Company is at times difficult to discern, he testified in the Evidentiary Hearing that he disputes the Company's new customer sales forecast for calendar year 2025.<sup>172</sup> To the extent that Mr. Shah actually believes that new customers will use more than 21.6 Dth in calendar year 2025, there is *no* basis in the record for such an assertion and it is a departure from Mr. Shah's arguments in his testimony taking issue with GMG's practice of not annualizing first year sales.

<sup>170</sup> Ex. DOC 205, Schedule SS-SR-3 (Shah Surrebuttal).

<sup>171</sup> Ex. DOC 205, Schedule SS-SR-3 (Shah Surrebuttal).

<sup>172</sup> Tr. at 69:1-11 (Shah).

## **2. Small Commercial Customer Count**

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.<sup>173</sup> New commercial customers, including new Small Commercial customers, resulted primarily from the conversion of existing businesses in these unserved areas to natural gas service from GMG, as opposed to new construction of commercial businesses in existing service areas.<sup>174</sup> GMG is not planning any major main extensions to unserved communities in 2025, and GMG's projected growth in the 2025 Test Year is expected to be a result of infill along existing main.<sup>175</sup> All the developments that GMG has currently identified for future growth are residential developments, not commercial facilities.<sup>176</sup> As a result of these considerations, GMG projected in its initial filing its then-current 946 Small Commercial customers as the same amount that would exist at year-end 2024 and projected no growth in the Small Commercial customer class in the 2025 Test Year in the Company's initial filing.<sup>177</sup> GMG's 2025 Test Year customer count assumptions are reasonable and based on GMG's experience in rural Minnesota.

OAG witness Mr. Stevenson argues that GMG's historical additions of roughly 30 Small Commercial customers annually from 2019 through 2023 compels a different Small Commercial customer count for the 2025 Test Year.<sup>178</sup> However, even Mr. Stevenson

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<sup>173</sup> Ex. OAG-303, Schedule CS-D-5 (Stevenson Direct).

<sup>174</sup> Ex. OAG-303, Schedule CS-D-5 (Stevenson Direct).

<sup>175</sup> Ex. OAG-303, Schedule CS-D-5 (Stevenson Direct).

<sup>176</sup> Ex. OAG-303, Schedule CS-D-5 (Stevenson Direct).

<sup>177</sup> Ex. GMG-105, Schedule E-1 (Initial Filing – Vol. 3).

<sup>178</sup> Ex. OAG-303 at 9 (Stevenson Direct).

recognizes the speculative nature of these projections, stating 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.”<sup>179</sup> GMG does not disagree that its historical growth is relevant. However, that historical growth must be evaluated in the context in which it occurred, and in this case, it is particularly true that the past is not indicative of the future when the reasons for the past customer additions do not exist in the future. In 2025, GMG does not have plans for any large projects to serve new areas, thus eliminating the primary causal growth factor for the historical growth of the Small Commercial customer class.<sup>180</sup> Furthermore, GMG has not identified any new commercial loads to be added along its existing mains.<sup>181</sup>

Further, Mr. Stevenson agrees with GMG that it is reasonable to update the sales forecast with actual 2024 numbers, as long as GMG updates its operating costs and cost of service for the Test Year.<sup>182</sup> Adjusting the sales forecast to utilize the 2024 year-end actual customer counts, the Test Year operating revenue requires a downward adjustment of \$185,507, increasing the Revenue Requirement by \$92,834.<sup>183</sup> GMG requests that this adjustment be reflected in final rates, as the overall forecasted revenue deficiency remains below GMG’s original request.<sup>184</sup>

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<sup>179</sup> Ex. OAG-303 at 9 (Stevenson Direct).

<sup>180</sup> Ex. OAG-305, Schedule CS-S-2 at 2 (Stevenson Surrebuttal).

<sup>181</sup> Ex. OAG-305, Schedule CS-S-2 at 2 (Stevenson Surrebuttal).

<sup>182</sup> Ex. OAG-305 at 4 (Stevenson Surrebuttal).

<sup>183</sup> Ex. GMG-109 at 6 (Burke Rebuttal).

<sup>184</sup> Ex. GMG-109 at 6 (Burke Rebuttal).



Finally, to the extent that the difference between the projected customer counts and 2024 year-end actuals is raised by Mr. Stevenson as an indication that GMG's sales forecast understated Small Commercial customers, GMG acknowledged that its practice of classifying certain new customers as Residential when budgeting customer additions could have led to some discrepancy between the projected 2024 year-end and the actual 2024 year-end Small Commercial customer count.<sup>185</sup> However, this practice does not mean that GMG does not correctly assign new customers to their corresponding rate class, as Mr. Stevenson alleges.<sup>186</sup> Instead, GMG clarified this practice by noting that when it is preparing for a large main extension project, its primary means of customer growth, GMG will contact potential customers in the area.<sup>187</sup> Further, GMG normally already has contracts or service in place with customers that will use substantial amounts of gas, including commercial customers, before GMG approves an extension project.<sup>188</sup> In this way, GMG normally identifies its commercial customers, including Small Commercial customers, prior to budgeting for new customer growth and budgets accordingly.<sup>189</sup> As it relates to the 2025 Test Year, GMG is not anticipating large main extension projects, and the existing infill customers are expected to be overwhelmingly Residential.<sup>190</sup> Nevertheless, GMG has communicated with most of the existing non-residential customers

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<sup>185</sup> Ex. GMG-109 at 5 (Burke Rebuttal).

<sup>186</sup> See Ex. OAG-305 at 2 (Stevenson Surrebuttal).

<sup>187</sup> Ex. OAG-305, CS-S-2 at 1 (Stevenson Surrebuttal).

<sup>188</sup> Ex. OAG-305, CS-S-2 at 1 (Stevenson Surrebuttal).

<sup>189</sup> Ex. OAG-305, CS-S-2 at 1 (Stevenson Surrebuttal).

<sup>190</sup> Ex. OAG-305, CS-S-2 at 1 (Stevenson Surrebuttal).

in the anticipated growth areas.<sup>191</sup> In light of the foregoing, GMG's decision to budget new customers as Residential is reasonable, and is not a widespread practice of misclassification, as Mr. Stevenson suggests.

### **C. Operating Expenses**

GMG's Operating Expenses are reasonably based on GMG's careful consideration of its Base Year and Projected Current Year expenses. In setting its Operating Expenses, GMG first established its Test Year expenses by reviewing its actual expenses for 2023 and 2024 through August 31, 2024, and its projected expenses for the remainder of 2024.<sup>192</sup> The Company then determined whether any necessary adjustments needed to be made to reflect normal utility operations during the Test Year.<sup>193</sup> If such adjustments were necessary, the Company quantified those adjustments and added to the Projected Current Year expenses to establish the Test Year amounts.<sup>194</sup> Due in part to the Company's size, it was able to thoroughly review and revise each expense category to reflect any anticipated changes, such as growth based on forecasting, payroll increases, inflation, taxes, and other factors, instead of relying on a general, one-size-fits-all approach.<sup>195</sup> This tailored approach provides the most accurate and reasonable calculation of expenses in the record.

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<sup>191</sup> Ex. OAG-305, CS-S-2 at 1 (Stevenson Surrebuttal).

<sup>192</sup> Ex. GMG-103 at 19 (Burke Direct).

<sup>193</sup> Ex. GMG-103 at 19 (Burke Direct).

<sup>194</sup> Ex. GMG-103 at 19 (Burke Direct).

<sup>195</sup> Ex. GMG-103 at 19 (Burke Direct).

## **1. Administrative And General Expenses**

The Company's calculations of three Administrative and General Expense items remain in dispute: Education and Training Expense, Postage Expense, and Repair and Maintenance Expense. GMG demonstrated that each of these expenses is appropriately and properly quantified, based on actual and demonstrable changes the Company has incurred or will incur in the Test Year. On the contrary, Department witness Ms. Ashley Uphus applied an inflexible, general approach of annualizing 2024 year-to-date amounts as of November 30, 2024.<sup>196</sup> Ms. Uphus's approach does not capture GMG's specific circumstances or the actual drivers of the Operating Expenses.

### **a. Education And Training Expense**

GMG projected a Test Year Education and Training Expense of \$10,200.<sup>197</sup> The primary driver of this Expense, and the resulting increase over 2023 actuals and annualized 2024 year-to-date, is the Company's addition of a new metering and measurement technician in 2025.<sup>198</sup> GMG's proposed increase to the Education and Training Expense accounts for the specialized training GMG will need to procure from outside sources to ensure the Company's new employee is responsibly trained, in addition to ongoing training needs that will remain higher than in past years.<sup>199</sup> GMG's approach appropriately recognizes the increased expense of this additional employee's education and training

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<sup>196</sup> See, generally, Ex. DOC-215 (Uphus Direct).

<sup>197</sup> Ex. GMG-109 at 13 (Burke Rebuttal); Ex. GMG-105, Schedule C-3 at 3 (Initial Filing – Vol. 3).

<sup>198</sup> Ex. GMG-109 at 13 (Burke Rebuttal); Ex. GMG-103 at 20 (Burke Direct).

<sup>199</sup> Ex. GMG-109 at 13 (Burke Rebuttal).

needs, ensuring the safety of GMG's customers. The Department's approach of annualizing 2024 year-to-date amounts ignores these additional expenses in favor of a general approach.

**b. Postage Expense**

The Postage Expense is for general business-related postage and GMG projected a Test Year Postage Expense of \$5,400.<sup>200</sup> The Company evaluated its Postage Expense actuals from 2022 and 2023 of \$5,623 and \$4,468, respectively, and made assumptions regarding increases to the shipping costs.<sup>201</sup> GMG's practice considers past trends of the Postage Expense across multiple years to account for fluctuations in the expense. GMG, thus, projects a more reliable estimate that acknowledges historical trends in the amount of postage GMG may ship, in addition to the fact that postage costs offered by the USPS, UPS, and FedEx continue to rise.<sup>202</sup> GMG's Postage Expense should be approved and utilized in setting rates.

**c. Repairs And Maintenance Expense**

The Repairs and Maintenance Expense includes several items, such as snow removal, lawncare, and office cleaning contracts.<sup>203</sup> GMG projected a Test Year Repair and Maintenance Expense of \$24,000.<sup>204</sup> The primary driver of this Expense and the Test Year increase is a significant increase to the Company's snow removal, lawncare, and

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<sup>200</sup> Ex. GMG-105, Schedule C-3 at 3 (Initial Filing – Vol. 3).

<sup>201</sup> Ex. DOC-215, Schedule AAU-D-1 at 19-20 (Uphus Direct).

<sup>202</sup> Ex. DOC-215, Schedule AAU-D-1 at 19-20 (Uphus Direct).

<sup>203</sup> Ex. GMG-109 at 13 (Burke Rebuttal).

<sup>204</sup> Ex. GMG-105, Schedule C-3 at 3 (Initial Filing – Vol. 3).

office cleaning contracts.<sup>205</sup> The office cleaning service for GMG's office and southern service center accounts for 47 percent of the five-year average of the Repair and Maintenance Expense, and this cost increased by 33 percent in mid-2024.<sup>206</sup> Similarly, the snow removal and lawncare expenses historically account for about 24 percent of the five-year average of the Repair and Maintenance Expense.<sup>207</sup> Due to factors outside of GMG's control, the Company was required to change its snow removal and lawncare vendor at the end of 2024, resulting in a 23 percent increase to lawncare rates and a 30 percent increase to snow removal and salt application rates.<sup>208</sup>

The Department's recommendation to annualize 2024 year-to-date fails to properly establish a representative Test Year for at least two reasons. First, it would fail to account for these known and quantifiable increases to GMG's Repair and Maintenance Expense. Second, it fails to acknowledge that the actual costs for snow removal in 2024 were lower than normal due to abnormally warm winter weather conditions.<sup>209</sup> GMG's approach, on the other hand, acknowledges the change in contract rates and appropriately projects a reasonable Test Year expense that recognizes the actual conditions in which GMG is operating.

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<sup>205</sup> Ex. GMG-109 at 14 (Burke Rebuttal).

<sup>206</sup> Ex. GMG-109 at 14 (Burke Rebuttal).

<sup>207</sup> Ex. GMG-109 at 14 (Burke Rebuttal).

<sup>208</sup> Ex. GMG-109 at 14 (Burke Rebuttal).

<sup>209</sup> Ex. GMG-109 at 14 (Burke Rebuttal).

#### **d. Auto & Truck Expense**

GMG projected a Test Year Auto & Truck Expense of \$138,000.<sup>210</sup> The increase over 2023 actual and annualized 2024 year-to-date is a result of acquiring an additional vehicle that GMG must outfit with specialized equipment for use by its new measurement technician, in addition to the regular maintenance and gasoline expenses for the new vehicle.<sup>211</sup> Furthermore, GMG anticipates higher maintenance costs on its existing, older vehicles going forward.<sup>212</sup> Such an assumption is currently being borne out, as GMG already incurred over \$9,000 for vehicle repairs in 2025 as of March 24, 2025.<sup>213</sup>

Department witness Ms. Uphus projected GMG's Test Year Auto & Truck Expense by annualizing 2024 year-to-date as of November 30, 2024, and applying a 5 percent rate of inflation.<sup>214</sup> Such an approach may be reasonable for larger utilities with large fleets of vehicles, but should not be used to substitute GMG's analysis of its specific needs when GMG's size permits it to establish more refined and precise calculations.

#### **D. Organizational Dues**

Minnesota Statutes § 216B.16, subdivision 17 provides that “[t]he commission may not allow as operating expenses a public utility’s travel, entertainment, and related employee expenses that the commission deems unreasonable and unnecessary for the provision of utility service,” including organizational dues. GMG requested recovery of

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<sup>210</sup> Ex. GMG-105, Schedule C-3 at 3 (Initial Filing – Vol. 3).

<sup>211</sup> Ex. GMG-103 at 20 (Burke Direct); Ex. GMG-109 at 10 (Burke Rebuttal).

<sup>212</sup> Ex. DOC-215, Schedule AAU-D-1 at 6-7 (Uphus Direct).

<sup>213</sup> Ex. GMG-109 at 10 (Burke Rebuttal).

<sup>214</sup> Ex. DOC-25 at 11-12 (Uphus Direct).

organizational dues related to twelve organizations with a total Test Year budget of the GMG portion of these dues of \$10,016.<sup>215</sup> OAG witness Ms. Shoua Lee recommended the denial of recovery of dues related to the American Gas Association (“AGA”) and the Minnesota AgriGrowth Council, and to amortize the recovery of dues related to the Midwest Region Gas Task Force over a three-year period.<sup>216</sup>

### **1. American Gas Association**

The AGA is the foremost association for natural gas utilities and provides a wealth of information and resources. GMG projected a Test Year expense of \$3,702 for the Minnesota jurisdictional portion of AGA dues.<sup>217</sup> GMG relies on the AGA for technical training, exposure to developing industry and safety issues, best practice guidance, education opportunities from industry experts, and much more.<sup>218</sup> GMG does not have an in-house training department and depends on industry organizations such as the AGA for technical training; including safety, gas storage, engineering, construction and maintenance, gas control, and piping materials; regulatory training; and industry monitoring, including regulatory changes, industry awareness, interstate pipeline matters, and safety and preparatory practices.<sup>219</sup> As such, GMG’s reliance on the AGA for non-lobbying activities is necessary for the provision of natural gas service,<sup>220</sup> and its expenditures to obtain this training and information through its membership is directly

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<sup>215</sup> Ex. GMG-103, Schedule RDB-3 (Burke Direct).

<sup>216</sup> Ex. OAG-302 at 9-18 (Lee Surrebuttal).

<sup>217</sup> Ex. GMG-103, Schedule RDB-3 (Burke Direct).

<sup>218</sup> Ex. GMG-109 at 17 (Burke Rebuttal).

<sup>219</sup> Ex. GMG-109 at 17 (Burke Rebuttal).

<sup>220</sup> Minn. Stat. § 216B.16, subd. 17.

connected to the provision or improvement of utility services.<sup>221</sup> Additionally, GMG provided evidence in the form of the AGA invoice for 2024 which states that the portion of GMG's dues allocable to lobbying is 4.3 percent.<sup>222</sup>

As with many of the issues in this case, GMG's reliance on the AGA for greater-than-usual support in the context of most Minnesota-based investor-owned utilities cannot be overstated. The AGA is GMG's primary resource for training and information. GMG acknowledges that its initial request did not accurately remove the dues allocable to lobbying from the Test Year amount and proposes a downward adjustment to the AGA dues amount of \$159 to account for the 4.3 percent of its dues which the AGA considers attributable to lobbying.

## **2. Minnesota AgriGrowth Council**

The Minnesota AgriGrowth Council is a nonprofit, nonpartisan organization representing the agriculture industry that provides GMG with opportunities to access the Company's target market, engage with potential new agricultural customers, and identify trends and market needs for the rural Minnesota communities that GMG serves.<sup>223</sup> GMG's primary markets for its large customer, industrial, and interruptible rate classes are agricultural customers, including growers of poultry, grain, pork, produce, dairy, and

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<sup>221</sup> Ex. OAG-302 at 13 (Lee Surrebuttal) (citing *In re Application of Otter Tail Power Company for Authority to Increase Rates for Electric Service in the State of Minnesota*, MPUC Docket No. G-017/GR-20-719, FINDINGS OF FACT, CONCLUSIONS, AND ORDER at 24-25 (Feb. 2, 2022)).

<sup>222</sup> Ex. OAG-301, Schedule SL-D-2 at 7 (Lee Direct).

<sup>223</sup> Ex. OAG-301 at 14, and Schedule SL-D-6 (Lee Direct).



hemp.<sup>224</sup> GMG’s participation in this organization allows GMG to engage with potential new agricultural customers and develop solutions to bring natural gas to unserved areas of Minnesota.<sup>225</sup> This, in turn, benefits all of GMG’s ratepayers, as shown in GMG’s CCOSS.<sup>226</sup>

The Minnesota AgriGrowth Council also addresses energy policy from an agricultural perspective, supporting an “‘all of the above’ approach to energy policy transition that includes biofuels, oil, natural gas, and other sources.”<sup>227</sup> The Minnesota AgriGrowth Council provides GMG with opportunity to engage with agricultural producers who are searching for ways to capture methane and may assist GMG in developing a footprint in renewable natural gas.<sup>228</sup> GMG’s membership in this organization directly benefits ratepayers and relates to the provision of natural gas,<sup>229</sup> and GMG should be permitted to recover the projected Test Year expense of \$2,750 for the Minnesota jurisdictional portion of Minnesota AgriGrowth Council dues.<sup>230</sup>

### **3. Midwest Region Gas Task Force**

The Midwest Region Gas Task Force (“Task Force”) is a group of small natural gas companies and municipalities that transport gas on interstate pipeline networks.<sup>231</sup> GMG is a member of the Task Force so that it can share expenses with other small regional gas

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<sup>224</sup> Ex. OAG-301, Schedule SL-D-6 (Lee Direct).

<sup>225</sup> Ex. OAG-301, Schedule SL-D-6 (Lee Direct).

<sup>226</sup> Ex. OAG-301, Schedule SL-D-6 (Lee Direct).

<sup>227</sup> Ex. OAG-301, Schedule SL-D-6 (Lee Direct).

<sup>228</sup> Ex. OAG-301, Schedule SL-D-6 (Lee Direct).

<sup>229</sup> Ex. OAG-301, Schedule SL-D-6 (Lee Direct); Ex. GMG-109 at 18 (Burke Rebuttal).

<sup>230</sup> Ex. GMG-103, Schedule RDB-3 (Burke Direct).

<sup>231</sup> Ex. OAG-301 at 10 (Lee Direct).

utilities to intervene in federal cases brought by the interstate pipeline companies such as Northern Natural Gas and Viking Gas Transmission.<sup>232</sup> As a collaborative, the Task Force members have a stronger voice and significantly lower legal expenses.<sup>233</sup> GMG projected a Test Year dues expense of \$1,100 for the Minnesota jurisdictional portion of Midwest Region Gas Task Force dues.<sup>234</sup>

OAG witness Ms. Lee argued that these dues should not be incurred on an annual basis because costs are not incurred every year, and recommended amortizing the \$1,100 over three years, thus reducing the Test Year expense by two-thirds.<sup>235</sup> Such recommendation is inappropriate for at least two reasons. First, amortizing over three years assumes there is only one interstate transmission company rate case that impacts GMG's ratepayers every three years.<sup>236</sup> Such an assumption ignores the evidence in the record that between 2021 and 2025 there have been or will be costs associated with Task Force membership for four out of the five years.<sup>237</sup> Second, GMG's involvement in the Task Force is to the direct benefit of its ratepayers. Through collaboration in the Task Force, the members have a stronger voice and considerably lower individual legal spending because the expenses are shared.<sup>238</sup> This collaboration should be encouraged, and GMG should be permitted to recover the Test Year dues expense of \$1,100.

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<sup>232</sup> Ex. GMG-109 at 18 (Burke Rebuttal).

<sup>233</sup> Ex. GMG-109 at 18 (Burke Rebuttal).

<sup>234</sup> Ex. GMG-103, Schedule RDB-3 (Burke Direct).

<sup>235</sup> Ex. OAG-301 at 12 (Lee Direct).

<sup>236</sup> Ex. GMG-109 at 18 (Burke Rebuttal).

<sup>237</sup> Ex. OAG-301, Schedule SL-D-5 and SL-D-2 at 3 (Lee Direct).

<sup>238</sup> Ex. GMG-109 at 18 (Burke Rebuttal).

## **E. FERC Accounts 381 And 382**

Meters and Automatic Meter Reading units (“AMRs”) are classed into groups and subject to group depreciation for purposes of determining plant balance.<sup>239</sup> These meter groups are assigned to FERC Accounts for bookkeeping purposes. In its initial filing, GMG inadvertently classed certain meter- and AMR-related amounts into FERC Account 381 that should have been classed into FERC Account 382.<sup>240</sup> GMG corrected this misclassification in the columns related to the 2024 unaudited actual plant balance in its Supplemental Response to Department Information Request 131, and properly classified the meters and AMRs to FERC Account 382.<sup>241</sup> GMG did not, however, correct this misclassification in the columns related to 2023 and to the Projected 2025 Test Year, as GMG noted repeatedly in its Supplemental Response.<sup>242</sup> As a result, in comparing the 2024 unaudited actual plant balance to the Projected 2025 Test Year in GMG’s Supplemental Response, there appears to be an unexplained \$176,834 increase to the plant balance for FERC Account 381 in the 2025 Test Year.<sup>243</sup> This apparent increase is solely a result of the correction made to 2024 without a corresponding correction made to 2025, as GMG noted in its Supplemental Response.<sup>244</sup> Nevertheless, neither GMG’s initial misclassification nor the subsequent correction have any impact on the overall plant

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<sup>239</sup> Ex. GMG-109 at 20 (Burke Rebuttal).

<sup>240</sup> Ex. GMG-109 at 20 (Burke Rebuttal).

<sup>241</sup> Ex. OAG-301, Schedule SL-D-12 at 3-6 (Lee Direct).

<sup>242</sup> Ex. OAG-301, Schedule SL-D-12 at 1, 5-6 (Lee Direct).

<sup>243</sup> Ex. OAG-301, Schedule SL-D-12 at 3-6 (Lee Direct).

<sup>244</sup> Ex. OAG-301, Schedule SL-D-12 at 5-6 (Lee Direct) (“Note: 2025 Test year was not updated in this IR request.”).

balances or depreciation, since the misclassified meters and AMRs were properly depreciated at the correct 50-year rate.<sup>245</sup>

Nonetheless, the discrepancy between the corrected 2024 unaudited actual plant balance and the Projected 2025 Test Year led OAG witness Shoua Lee to conclude in her Surrebuttal Testimony that the \$176,834 is a “plugged amount” – an unsupported placeholder figure.<sup>246</sup> At hearings, Ms. Lee admitted that the amount included in the Projected 2025 Test Year for FERC Account 381—\$520,747—was the same amount GMG included in 2023, confirming that there was no increase to FERC Account 381 for a “plugged amount” between 2024 and 2025.<sup>247</sup> This is confirmed by looking to the combined amounts for FERC Accounts 381 and 382, which show a modest increase from \$4.36 million in 2023 to \$4.6 million in 2024, and \$4.8 million in 2025—an increase which Ms. Lee did not have an objection to when presented as a combined figure of Accounts 381 and 382.<sup>248</sup> As such, if any adjustment to GMG’s 2025 Test Year plant balance is necessary, it is only a reclassification of \$176,834 between FERC Accounts 381 and 382.

## **V. SUMMARY OF REVENUE REQUIREMENTS**

Reflecting GMG’s above-stated positions, and 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, as shown in Attachment 3. This represents a reduction of \$56,191 from its initial request and would result in an approximately 7.5

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<sup>245</sup> Ex. GMG-109 at 20 (Burke Rebuttal); Tr. at 91:18-92:8 (Lee).

<sup>246</sup> Ex. OAG-302 at 6-7 (Lee Surrebuttal).

<sup>247</sup> Tr. at 92:18-24 (Lee).

<sup>248</sup> Ex. OAG-301, Schedule SL-D-12 at 3 (Lee Direct); Tr. at 93:11-94:2 (Lee).

percent increase in rates, as opposed to the originally requested 7.7 percent increase. This 7.5 percent rate increase is just, reasonable and fully supported by the record and applicable law.

## **VI. INCOME TAX RIDER**

As evidenced by the 15 years since GMG's last rate case in 2009, GMG's philosophy is that rate cases should be rare and simple in order to minimize the impact of rate case expenses on GMG's customer base.<sup>249</sup> Based on GMG's business practices, changes to the income tax rate are one of the most likely potential causes of major operating expense changes that could necessitate GMG filing another rate request, but are wholly outside the Company's control.<sup>250</sup> GMG proposed a rider that is adjusted annually based on the Company's actual income tax rate to account for any future changes to the Company's actual tax rate and to avoid the need to file another rate request earlier than may otherwise be needed.<sup>251</sup>

GMG's proposal benefits ratepayers in at least two ways. First, GMG proposed a bidirectional rider.<sup>252</sup> If corporate tax rates decrease, GMG's customers will see immediate benefit without need to wait for a future rate case or other Commission action.<sup>253</sup> Second, GMG's relatively small size means that there is a smaller customer base that bears the costs of a rate case.<sup>254</sup> In the present proceeding, rate case expenses are expected to exceed ten

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<sup>249</sup> Ex. GMG-108 at 1 (Chilson Witness Statement).

<sup>250</sup> Ex. GMG-108 at 1 (Chilson Witness Statement); Ex. GMG-103, Chilson Direct at 10.

<sup>251</sup> Ex. GMG-103, Chilson Direct at 10.

<sup>252</sup> Ex. GMG-103, Chilson Direct at 10.

<sup>253</sup> Ex. GMG-103, Chilson Direct at 10.

<sup>254</sup> Ex. GMG-108 at 1 (Chilson Witness Statement).

percent of the total requested increase.<sup>255</sup> The proposed rider could substantially reduce regulatory expense by providing a mechanism to adjust rates to account for income tax rate changes without a full rate case and the accompanying expenses.<sup>256</sup>

Procedurally, GMG proposed that it would make an annual filing with the Commission on or before November 1 of each year, beginning in 2025, that would identify GMG's income taxes at the then existing tax rate and the tax rate used for the Test Year.<sup>257</sup> The difference in the taxes would be divided by budgeted sendout volume for the forthcoming year to identify the annual rider amount per dekatherm.<sup>258</sup> The resulting annual rider amount would then be applied to customers' bills beginning in January of the following year, either as a charge or a credit.<sup>259</sup>

GMG's proposed income tax rider fairly balances risk to both investors and ratepayers, while protecting ratepayers from additional regulatory costs resulting from otherwise earlier-than-necessary rate case prosecution.

## **VII. CLASS COST OF SERVICE STUDY (CCOSS)**

### **A. CCOSS Methodology**

GMG's CCOSS reasonably represents GMG's cost of service and demonstrates the continued reasonableness of GMG's current rate design. For the CCOSS in this case, GMG used the same minimum system study method used and agreed to in GMG's 2009 rate

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<sup>255</sup> Ex. GMG-108 at 1 (Chilson Witness Statement).

<sup>256</sup> Ex. GMG-108 at 1 (Chilson Witness Statement).

<sup>257</sup> Ex. GMG-103 at 11 (Chilson Direct).

<sup>258</sup> Ex. GMG-103 at 11 (Chilson Direct).

<sup>259</sup> Ex. GMG-103 at 11 (Chilson Direct).

case.<sup>260</sup> GMG relied on the minimum system method for several reasons, but primarily because parties agreed in GMG's last rate case to the cost classification among rate classes based on GMG's minimum system study and GMG continues to view this cost classification method as appropriate.<sup>261</sup> In addition, since the fairness of GMG's current revenue allocation was previously settled, the Company proposed no change to its CCROSS or revenue allocation, in hopes of simplifying and streamlining this case.<sup>262</sup> The result of GMG's minimum system study CCROSS shows that the Residential customer class would not subsidize other rate classes and confirms the reasonableness of GMG's existing revenue allocation.<sup>263</sup>

Additional reasons also motivated GMG's decision to rely on the same CCROSS methodology it used in 2009, including to minimize rate case costs.<sup>264</sup> GMG is a small company with a small customer base and limited resources.<sup>265</sup> GMG does not own CCROSS software and did not hire a consultant for CCROSS so as to avoid increasing costs that ratepayers will ultimately bear, in particular when the Company believes that the minimum system study provides a valid and fair basis for its CCROSS.<sup>266</sup> Performing additional CCROSS, such as is done by larger utilities in Minnesota, would require substantial

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<sup>260</sup> Ex. GMG-103 at 21 (Burke Direct).

<sup>261</sup> Ex. DOC-206, Schedule MZ-D-4 (Zajicek Direct).

<sup>262</sup> Ex. GMG-109 at 25 (Burke Rebuttal).

<sup>263</sup> Ex. GMG-109 at 25-26 (Burke Rebuttal).

<sup>264</sup> Ex. GMG-103 Schedule CJC-1 at 6 (Chilson Direct).

<sup>265</sup> Ex. GMG-109 at 26 (Burke Rebuttal).

<sup>266</sup> Ex. GMG-103, Schedule CJC-1 at 6 (Chilson Direct); Ex. DOC-206, Schedule MZ-D-4 (Zajicek Direct).

resources that GMG does not have.<sup>267</sup> Additionally, as it relates to at least one other CCOSS method, GMG disagrees with the fictional nature of a Zero Intercept system that is the baseline of the Zero Intercept study.<sup>268</sup> As such, GMG chose not to incur additional costs to perform a Zero Intercept study, as GMG lack the resources and capacity to perform it in-house.<sup>269</sup> Finally, GMG notes that neither Minnesota statute or rule requires a specific CCOSS methodology.<sup>270</sup>

Department witness Mr. Zajicek referenced information the Commission's previous GMG rate case orders instructed GMG to include in future CCOSS.<sup>271</sup> Yet, no party objected to the Company's CCOSS or alleged that it was inadequate in their comments on the completeness of the Company's application.<sup>272</sup> In fact, the Department expressly noted that:

The Commission's Order in GMG's 2009 Rate Case adopted as filing requirements a number of Department recommendations related to GMG's class cost of service study (CCOSS). The Company identified these requirements in its compliance matrix, but stated that complying with them would be unduly burdensome and unduly increase rate case expenses. Given the amount of time that has elapsed since GMG's last rate case, and the changes to Department's general approach to CCOSS since 2009, the Department is comfortable proceeding in this case without requiring GMG to comply with all but one of the requirements.<sup>273</sup>

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<sup>267</sup> Ex. GMG-109 at 26 (Burke Rebuttal).

<sup>268</sup> Ex. DOC-206, Schedule MZ-D-4 (Zajicek Direct).

<sup>269</sup> Ex. DOC-206, Schedule MZ-D-4 (Zajicek Direct).

<sup>270</sup> Ex. DOC-206, Schedule MZ-D-4 (Zajicek Direct).

<sup>271</sup> Ex. DOC-207 at 32-34 (Zajicek Direct).

<sup>272</sup> Ex. DOC-200 (Comments of the Minn. Dept. of Commerce); Comments of the Minn. Office of Atty. Gen., MPUC Docket No. G-022/GR-24-350 (Nov. 12, 2024) (eDocket No. 202411-211818-01).

<sup>273</sup> Ex. DOC-200 at 3 (Comments of the Minn. Dept. of Commerce).



The sole requirement for the 2009 Rate Case that the Department requested GMG comply with was for an explanatory filing, and the Department requested that GMG update its Application with a filing satisfying this requirement by December 13, 2024, which GMG provided.<sup>274</sup>

The Department and the OAG (collectively, “Agencies”) had the opportunity to raise their concerns about the completeness of GMG’s CCOS, and thus GMG’s Application, early in the process when GMG could have either resolved the issues by a date agreed upon by the Parties and with consent of the Commission, or the Commission could have rejected GMG’s Application. Yet, despite the Department’s acknowledgement that it could proceed, the Department later took issue with the Company not providing certain information and asked the Company to provide a version of its CCOS with the Department’s requested changes from the 2009 rate case, which the Company provided on November 25, 2024.<sup>275</sup> Thus, both GMG and the Agencies had access to a CCOS with the Department’s requested changes early in this proceeding.

Finally, GMG acknowledged that its original CCOS had room for improvement and updated its model in Rebuttal Testimony.<sup>276</sup> GMG’s updated model included the changes directed by the Commission in the 2009 rate case, in addition to (i) establishing a separate class for Transportation customers and their corresponding costs and revenues,

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<sup>274</sup> Ex. DOC-200 at 3 (Comments of the Minn. Dept. of Commerce).

<sup>275</sup> Ex. DOC-207 at 34 and Schedule MZ-D-6 (Zajicek Direct); Ex. GMG-109 at 22 (Burke Rebuttal).

<sup>276</sup> Ex. GMG-109 at 23-25 and Schedule RDB-REB-8 (Burke Rebuttal); Ex. GMG-110 at 21-22 (Burke Surrebuttal).

(ii) reallocating costs to the appropriate rate class using the same methodology as approved in the 2009 rate case, and (iii) making additional changes to Capacity, Demand, and Commodity costs to better align the model with accepted cost-causation principles.<sup>277</sup>

GMG met its burden of demonstrating the reasonableness of its CCOSS. However, even if other CCOSS proposed by the Agencies are considered, none of the studies presented in this case are sufficient to overcome the presumption that the existing rate allocation and rate design are just and reasonable or that a different allocation is appropriate.<sup>278</sup>

## **B. Future CCOSS Recommendations**

Mr. Zajicek recommended numerous adjustments for GMG to implement into its CCOSS in future rate cases, including:

- a more detailed breakdown of costs by FERC account;
- the transportation classes as their own classes, rather than included in a similar class;
- calculation and inclusion of a demand adjustment to its Minimum System Method study;
- aggregate customers that share the same distribution line for the purpose of allocating distribution costs;
- breaking out values for meters, regulators, and fittings by each customer class, not grouped into larger buckets; and
- inclusion of the required changes from the 2009 Rate Case Order.<sup>279</sup>

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<sup>277</sup> Ex. GMG-109 at 23-25 and Schedule RDB-REB-8 (Burke Rebuttal); Ex. GMG-110 at 21-22 (Burke Surrebuttal).

<sup>278</sup> *Inter-City Gas Corp.*, 389 N.W.2d at 902.

<sup>279</sup> Ex. DOC-207 at 41-42 (Zajicek Direct).

As discussed, GMG created a separate cost group for transportation customers and included the required changes from the 2009 rate case in its updated CCOSS in Rebuttal Testimony, and GMG agrees that it is appropriate to include these changes in future CCOSS.<sup>280</sup> However, a requirement for GMG to implement still further changes to its CCOSS in the future is not warranted at this time. Mr. Zajicek's proposal to prospectively require these changes to GMG's CCOSS in the future provides speculative benefits while ignoring the adverse cost impact.<sup>281</sup> Implementing the proposed changes would require significant resources, including additional personnel, consultants, modeling software, or a combination of the same.<sup>282</sup> These rate case expenses would ultimately be borne by GMG's ratepayers.<sup>283</sup> GMG demonstrated the reasonableness of its revised CCOSS in this rate case, and as such, there is no reason to require GMG to implement additional changes to its CCOSS in future rate cases.

## **VIII. REVENUE APPORTIONMENT AND RATE DESIGN**

GMG did not propose any change to its revenue apportionment or rate design, opting instead to propose a virtually uniform rate increase across all customer classes.<sup>284</sup> Accordingly, the burden lies on the Department and the OAG to demonstrate that the current revenue apportionment and rate design is unreasonable.<sup>285</sup> Neither have carried the burden.

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<sup>280</sup> Ex. GMG-109 at 26 (Burke Rebuttal).

<sup>281</sup> Ex. GMG-109 at 26 (Burke Rebuttal).

<sup>282</sup> Ex. GMG-109 at 26 (Burke Rebuttal).

<sup>283</sup> Ex. GMG-109 at 26 (Burke Rebuttal).

<sup>284</sup> Ex. GMG-109 at 27 (Burke Rebuttal); Ex. GMG-110 at 24 (Burke Surrebuttal).

<sup>285</sup> *Inter-City Gas Corp.*, 389 N.W.2d at 902.

## **A. Revenue Apportionment**

GMG filed this case retaining the same revenue apportionment that was agreed to by the parties and approved by the Commission in GMG's last rate case.<sup>286</sup> GMG proposed generally equal percentage-of-margin increase over existing rates across all classes to achieve a reasonable balance between allocating the cost of service established in GMG's CCOSS, each class's contribution to GMG's present revenue levels, and customer impact considerations, such as avoiding rate shock and ensuring residential customers have affordable access to natural gas service.<sup>287</sup>

Both the Department and OAG propose revenue apportionment strategies that assign a greater rate increase to larger customer classes and a lesser rate increase to Residential and Small Commercial customers.<sup>288</sup> In doing so, the Agencies elevate general theory over GMG's experience with its own customer base, and such an approach may instead cause long-term harm to GMG's ratepayers. Furthermore, the Agencies justify their revenue apportionment strategies with unsupported speculation. For example, OAG witness Mr. Stevenson speculates that GMG's customers *may be* experiencing energy burden because GMG's service area includes counties with average annual incomes lower than the State average.<sup>289</sup> However, in many cases, GMG's customers are but a fraction of each county's population. GMG has approximately 11,000 customers,<sup>290</sup> but the counties

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<sup>286</sup> Ex. GMG-109 at 27 (Burke Rebuttal).

<sup>287</sup> Ex. GMG-103 at 32 (Burke Direct); Ex. GMG-109 at 26-27 (Burke Rebuttal).

<sup>288</sup> Ex. DOC-212 at 8-9 (Hirasuna Surrebuttal); Ex. OAG-305 at 19 (Stevenson Surrebuttal).

<sup>289</sup> Ex. OAG-303 at 68-69, Schedule CS-D-32 (Stevenson Direct).

<sup>290</sup> Ex. GMG-103 at 3 (Chilson Direct).

Mr. Stevenson evaluated in his assessment of potential energy burden have a collective population of over 456,000.<sup>291</sup> Scott County alone has over 156,000 residents.<sup>292</sup> Mr. Stevenson testified that he did not evaluate intra-county income trends or where within each county GMG's customers took service.<sup>293</sup> There is no evidence of GMG's customers' actual incomes as compared to the State average or that GMG's customers are actually experiencing energy burden.

The Agencies' approach places disproportionate financial burdens on large customers,<sup>294</sup> who are primarily family-owned farms and small businesses with margins insufficient to bear a significant increase as a result of subsidizing other rate classes.<sup>295</sup> For example, the OAG's proposed revenue apportionment assigns an 11 percent increase to the Commercial class and reduces the increase in revenue apportioned to the Residential class from 7.7 percent to 6.4 percent.<sup>296</sup> However, these larger customers are just as susceptible to rate shock—the significant hardship caused by large increases in utility rates<sup>297</sup>—as Residential or Small Commercial customers. It is just as likely that the Department or OAG recommendations, if implemented, would incentivize GMG's larger customer classes to

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<sup>291</sup> Ex. OAG-303 at 68 (Stevenson Direct; Minn. Dept. of Administration – Minn. State Demographic Center, *PopFinder for Minnesota, Counties, & Regions*, <https://mn.gov/admin/demography/data-by-topic/population-data/our-estimates/pop-finder1.jsp>).

<sup>292</sup> Minn. Dept. of Administration – Minn. State Demographic Center, *PopFinder for Minnesota, Counties, & Regions*, <https://mn.gov/admin/demography/data-by-topic/population-data/our-estimates/pop-finder1.jsp>.

<sup>293</sup> Tr. at 103:06-22 (Stevenson).

<sup>294</sup> Ex. GMG-110 at 24 (Burke Surrebuttal).

<sup>295</sup> Ex. GMG-113 at 1 (Palmer Witness Statement).

<sup>296</sup> Ex. OAG-305 at 11 (Stevenson Surrebuttal).

<sup>297</sup> Ex. OAG-303 at 81 (Stevenson Direct).

bypass GMG by converting to an alternative fuel source, such as propane, or to an alternative provider.<sup>298</sup> This, in turn, would place additional cost responsibilities on the Residential and Small Commercial customers.<sup>299</sup> Mr. Stevenson testified that “ideally no one would get a 12, 13, 14 percent rate increase” so he “took into consideration that an 11 percent rate increase for that class could cause rate shock,” but ultimately did not change the apportionment because lowering that allocation would have meant apportioning it elsewhere.<sup>300</sup> This reasoning fails to demonstrate that the existing revenue apportionment is unreasonable, in particular when GMG’s proposal to continue using that existing revenue apportionment achieves the OAG’s “ideal” goal of all classes avoiding a larger percentage of rate increase.

## **B. Rate Design**

The Department and the OAG generally do not oppose GMG’s rate design as it relates to distribution charges and facility fees.<sup>301</sup> GMG proposed to increase facility fees by approximately 15 percent for all classes to move each class closer to its cost-of-service and to address the substantial increase in the fixed costs necessary to provide service to GMG’s customers—including costs of materials, supplies, labor, technology, and administrative costs—in the 15 years since GMG’s last rate case.<sup>302</sup> OAG witness Mr. Stevenson noted that, with respect to Residential customers, each customer imposes

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<sup>298</sup> Ex. GMG-110 at 24 (Burke Surrebuttal).

<sup>299</sup> Ex. GMG-110 at 24 (Burke Surrebuttal).

<sup>300</sup> Tr. at 105:19-106:1 (Stevenson).

<sup>301</sup> Ex. DOC-210 at 22-25 (Hirasuna Direct); Ex. DOC-212 at 10 (Hirasuna Surrebuttal); Ex. OAG-303 at 88 (Stevenson Direct); Ex. OAG-305 at 22 (Stevenson Surrebuttal).

<sup>302</sup> Ex. GMG-103 at 5-6 (Burke Direct).

between \$11.55 and \$14.93 in customer-related costs per month, supporting GMG's proposed Residential facility fee of \$9.75.<sup>303</sup> Mr. Stevenson confirmed that GMG's proposed facility fee is reasonable.<sup>304</sup>

However, Mr. Stevenson also recommended that if the Commission authorizes a lower revenue requirement, that GMG should first reduce its facility fee before reducing the distribution charge.<sup>305</sup> There is no justification in this case for lowering the facility fee if a lower revenue requirement is approved. As Mr. Stevenson identified, the facility fee is already considerably lower than each customer's actual customer-related costs.<sup>306</sup> Even with a lower revenue requirement, a facility fee of \$9.75 per month would be less than the customer-related costs and would be a very moderate move towards cost-of-service pricing.<sup>307</sup>

Additionally, the OAG does not agree with GMG's current reconnection fee.<sup>308</sup> First, GMG takes significant efforts to avoid disconnecting its customers in the first instance, and GMG has very few disconnections and reconnections resulting from non-payment.<sup>309</sup> Prior to a disconnection, GMG's Customer Service team attempts to contact the customer numerous times by mail, personal phone calls, and technician visits the location where the customer is taking service to place a pending disconnection notice on

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<sup>303</sup> Ex. OAG-303 at 88 (Stevenson Direct).

<sup>304</sup> Ex. OAG-303 at 88 (Stevenson Direct); Ex. OAG-305 at 22 (Stevenson Surrebuttal).

<sup>305</sup> Ex. OAG-303 at 88 (Stevenson Direct); Ex. OAG-305 at 22 (Stevenson Surrebuttal).

<sup>306</sup> Ex. OAG-303 at 88 (Stevenson Direct).

<sup>307</sup> Ex. GMG-103 at 6 (Burke Direct).

<sup>308</sup> Ex. OAG-303 at 72 (Stevenson Direct); Ex. OAG-305 at 22-24 (Stevenson Surrebuttal).

<sup>309</sup> Ex. GMG-109 at 32 (Burke Rebuttal).

the customer's door known as a door hanger.<sup>310</sup> GMG works with its customers to keep their gas service connected by allowing uniquely crafted payment arrangements and assisting customers to obtain funding, such as helping them find energy assistance, enroll in GMG's Gas Affordability Program, or setting up a payment plan with GMG.<sup>311</sup> As a result of these efforts, GMG only assessed 85 reconnection charges across all customer classes in 2024.<sup>312</sup>

Nevertheless, when GMG must perform a disconnection, it charges a \$75 reconnection fee to restore service.<sup>313</sup> The evidence shows that the reconnection fee is reasonable considering that the average cost of reconnecting GMG's customers is \$87.67 per reconnection.<sup>314</sup> This cost is a reflection of GMG's service area and geographic dispersion of its customer base. A technician spends an average of about 90 minutes to perform a reconnection.<sup>315</sup> GMG's costs of reconnecting its customers demonstrates why comparisons to the reconnection fees of CenterPoint Energy or Xcel Energy are misplaced. These large utilities have considerably different customer bases that are geographically consolidated primarily in metropolitan areas.<sup>316</sup> Thus, technicians performing reconnections incur less travel time.<sup>317</sup>

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<sup>310</sup> Ex. GMG-109 at 32-33 (Burke Rebuttal).

<sup>311</sup> Ex. GMG-109 at 33 (Burke Rebuttal).

<sup>312</sup> Ex. GMG-109 at 33 (Burke Rebuttal).

<sup>313</sup> Ex. GMG-109 at 32 (Burke Rebuttal).

<sup>314</sup> Ex. GMG-109 at 33 (Burke Rebuttal).

<sup>315</sup> Ex. GMG-109 at 33 (Burke Rebuttal).

<sup>316</sup> Ex. GMG-109 at 34 (Burke Rebuttal).

<sup>317</sup> Ex. GMG-109 at 34 (Burke Rebuttal).



## **CONCLUSION**

GMG's rate increase request, its first in 15 years and just third in its history, appropriately addresses and balances the unique needs and interests of GMG, its customers and the communities it serves. 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 8, 2025

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