

**BEFORE THE MINNESOTA OFFICE OF ADMINISTRATIVE HEARINGS  
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ST. PAUL, MINNESOTA 55101**

**FOR THE MINNESOTA PUBLIC UTILITIES COMMISSION  
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<b>In the Matter of the Application of Greater Minnesota Gas, Inc. for Authority to Increase Rates for Natural Gas Utility Service in Minnesota</b>	OAH File No. 71-2500-40492  MPUC Docket No. G-022/GR-24-350
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**PROPOSED FINDINGS OF THE MINNESOTA  
DEPARTMENT OF COMMERCE**

May 22, 2025

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## FINDINGS OF FACT

### I. COST OF CAPITAL – RATE OF RETURN

1. To determine just and reasonable rates, the Commission must consider, among other things, the utility’s need to earn a fair and reasonable return on its investment in “property used and useful in rendering service to the public.”<sup>1</sup>

2. In addressing reasonable returns for utilities, Minnesota has adopted the approach taken by the U.S. Supreme Court in two seminal cases, *Hope* and *Bluefield*.<sup>2</sup> Broadly, a public utility is entitled to rates that will permit it to earn a return equal to investments with corresponding risks and uncertainties.<sup>3</sup> “Rates which enable the company to operate successfully, to maintain its financial integrity, to attract capital, and to compensate its investors for the risks assumed” are reasonable.<sup>4</sup>

3. But a public utility has “no . . . right to profits such as are realized or anticipated in highly profitable enterprises or speculative ventures.”<sup>5</sup> The rate of return for a public utility “may be reasonable at one time and become too high” by changes in the economic environment.<sup>6</sup>

4. Fundamentally, determining just and reasonable rates involves balancing investor and consumer interests.<sup>7</sup>

#### A. Capital Structure

5. GMG’s rate of return (ROR) includes both the cost of long-term and short-term debt and return on equity (ROE).<sup>8</sup>

6. Because the cost of financing varies with the type of financing, determining a reasonable ROR requires that the Commission determine a reasonable ratio of each type of financing the utility uses—referred to as the utility’s capital structure.<sup>9</sup>

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<sup>1</sup> Minn. Stat. § 216B.16, subd. 6 (2024).

<sup>2</sup> *Hibbing Taconite Co. v. Minnesota Public Service Commission*, 302 N.W.2d 5, 10 (Minn. 1980) (citing *Fed. Power Comm’n v. Hope Nat. Gas Co.*, 320 U.S. 591 (1944); *Bluefield Water Works & Improvement Co. v. Pub. Serv. Comm’n of W. Va.*, 262 U.S. 679 (1923)).

<sup>3</sup> *Hope*, 320 U.S. at 314; *Bluefield*, 262 U.S. at 693.

<sup>4</sup> *Hope*, 320 U.S. at 605; see also *Nw. Bell Tel. Co. v. State*, 216 N.W.2d 841, 846 (Minn. 1974) (“[A] fair rate of return . . . will provide earnings to investors comparable to those realized in other business which are attended by similar risks, will allow the company to attract new capital as required, and will maintain the company’s financial integrity.”).

<sup>5</sup> *Bluefield*, 262 U.S. at 692–93.

<sup>6</sup> *Bluefield*, 262 U.S. at 692–93.

<sup>7</sup> *Hope*, 320 U.S. 591 at 603; see also *Hibbing*, 302 N.W.2d at 10 (“[T]he PSC must balance the interests of the utility against the interests of the utility’s customers.”)

<sup>8</sup> Ex. DOC-201 at 10 (Addonizio Direct).

<sup>9</sup> Ex. DOC-201 at 14–15 (Addonizio Direct).

7. Generally, equity financing costs the company more than either short term or long term debt.<sup>10</sup> All things being equal, a company's financial risk is inversely related to its ratio of equity to debt. In other words, the higher the equity ratio, the lower the financial risk.<sup>11</sup>

8. GMG proposed a capital structure consisting of 51.08% equity, 48.23% long term debt, and 0.68% short term debt for its proposed test year.<sup>12</sup> The 51.08% equity in GMG's proposed capital structure included 46.66% in actual equity and 4.42% in loans from the Small Business Administration (SBA).<sup>13</sup> The Company requested the SBA loans be treated as equity because they required personal guarantees from certain major shareholders.<sup>14</sup>

9. GMG's proposed equity ratio (without deeming the SBA loan as equity) is relatively close to the average capital structure of the Department's proxy group of comparable regulated companies, though it has an equity ratio that is roughly three percentage points higher than the average, which is a sign that it might be slightly less risky.<sup>15</sup> The Department found GMG's actual capital structure was reasonable, and initially recommended that the Commission adopt the capital structure for purposes of calculating ROR.<sup>16</sup>

10. The Department agreed that the personal guarantees for the SBA loan exposed those shareholders to greater risk than is typical for equity investors, and recommended accounting for this risk by making an upward adjustment to GMG's authorized return on equity.<sup>17</sup> In rebuttal testimony, GMG shared that the SBA loan was subordinated to the Company's other debt.<sup>18</sup> Based on this additional information, the Department proposed that the SBA loan be deemed half equity, half long-term debt for purposes of setting GMG's capital rate. This split was proposed to compensate those shareholders who took on additional risk by providing the guarantee, while also recognizing that the shareholders can invest the funds backing the loan elsewhere and earn a second return.<sup>19</sup>

11. All parties now agree on the capital structure proposed in the Department's surrebuttal of 50.44% long-term debt, 0.68% short-term debt, and 48.87% equity.<sup>20</sup>

12. The ALJ finds that the proposed capital structure is reasonable and recommends that the Commission adopt it for the purpose of setting GMG's rates in this docket.

## **B. Cost of Debt**

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<sup>10</sup> Ex. DOC-201 at 10 (Addonizio Direct).

<sup>11</sup> Ex. DOC-201 at 11 (Addonizio Direct).

<sup>12</sup> Ex. GMG-104 at 30 (Initial Filing – Vol. 3, Schedule D-1).

<sup>13</sup> Ex. GMG-103 at 35 (Palmer Direct at 10).

<sup>14</sup> Ex. GMG-103 at 35 (Palmer Direct at 10).

<sup>15</sup> Ex. DOC-201 at 20 (Addonizio Direct).

<sup>16</sup> Ex. DOC-201 at 20 (Addonizio Direct).

<sup>17</sup> Ex. DOC-201 at 19 (Addonizio Direct).

<sup>18</sup> Ex. GMG-112 at 15 (Palmer Rebuttal).

<sup>19</sup> Ex. DOC-203 at 4–5 (Addonizio Surrebuttal).

<sup>20</sup> Ex. Joint-001 at Issue 2 (Resolved Issues List).

13. GMG's proposed cost of debt is largely a function of the Company's existing debt, which has known interest rates that will not change during the test year.<sup>21</sup> However, at the time of filing, GMG had one note that would mature in April 2025, and which it expected to reset at a 7% interest rate.<sup>22</sup>

14. The Department reviewed GMG's supporting calculations and assumptions for its proposed costs of long-term and short-term debt, and concluded that they were reasonable, other than flotation costs.<sup>23</sup>

15. Flotation costs are the costs that a company incurs to issue debt or equity.<sup>24</sup> The Company calculated its placement costs for a recent debt issuance, and proposed applying that cost to all of GMG's capital.<sup>25</sup>

16. The Department reviewed GMG's proposed adjustment for flotation costs, and found it to be unreasonable because it would result in GMG recovering its total flotation costs for all of its capital each and every year.<sup>26</sup> Instead, flotation costs should be collected ratably over the life of a security issuance. For debt, that means that flotation costs should be accounted for over the term of the debt. The Department calculated an appropriate flotation cost adjustment for the Company's debt to be 15 basis points.<sup>27</sup>

17. All parties now agree on a long-term costs of debt of 5.76% and a short-term cost of debt of 8.0%, inclusive of flotation costs.<sup>28</sup>

18. The ALJ finds that the parties' proposed costs of long-term and short-term debt are reasonable and recommends that the Commission adopt it for the purpose of setting rates in this docket.

### **C. Return on Equity**

19. Although the terms are often used interchangeably, "cost of equity" and "return on equity" identify distinct concepts. The cost of equity is the minimum return that investors require to invest in a company's stock and is a long-run concept. For a regulated utility, the authorized return on equity is a value determined by the regulator to represent a return sufficient "to assure 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>29</sup>

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<sup>21</sup> Ex. DOC-201 at 21 (Addonizio Direct).

<sup>22</sup> Ex. GMG-103 at 36 (Palmer Direct at 11).

<sup>23</sup> Ex. DOC-201 at 21–22 (Addonizio Direct).

<sup>24</sup> Ex. GMG-103 at 37 (Palmer Direct at 11).

<sup>25</sup> Ex. GMG-103 at 37–38 (Palmer Direct at 11).

<sup>26</sup> Ex. DOC-201 at 71–72 (Addonizio Direct).

<sup>27</sup> Ex. DOC-201 at 72 (Addonizio Direct).

<sup>28</sup> Ex. Joint-001 at Issues 3–5 (Resolved Issues List).

<sup>29</sup> *Bluefield*, 262 U.S. at 693.

20. The Commission should exercise its judgment to appropriately balance the interests of the Company's investors and its ratepayers.<sup>30</sup> There is no single "correct" allowed ROE, rather a range of possible allowed ROES that are reasonable and the Commission must exercise its judgment to determine the limits of that zone.<sup>31</sup>

21. The allowed ROE has a substantial financial impact on the utility's revenue requirement and, therefore, on what consumers must pay. In this case, the difference between GMG's requested return on equity and the Department's recommended return on equity is equal to around 10% of GMG's claimed revenue deficiency.<sup>32</sup>

## **1. The Parties' Positions**

22. GMG requested an ROE of 10.15%.<sup>33</sup> GMG asserted that its proposed ROE is reasonable because it is a conservative estimate of the minimum premium necessary to attract equity investment.<sup>34</sup>

23. GMG tripled its rate base between 2010 and 2017, during a time when its earned ROE was well below the Department's recommended ROE.<sup>35</sup> GMG did not offer any evidence that it has been unable to attract external capital.

23. The Department recommended that the Commission adopt an ROE of 9.65%. The Department developed this recommendation by conducting a multi-stage discounted cash flow analysis and then adjusting the results based on risk factors unique to GMG.<sup>36</sup>

## **2. Proxy Groups**

24. One standard method for estimating the cost of equity for a private company like GMG is to develop a proxy group of publicly-traded companies that pose risks to equity investors similar to the investment risks the non-public company poses and then apply cost models to the members of the proxy group to infer the non-public company's cost of equity.<sup>37</sup>

25. To develop an appropriate proxy group for estimating GMG's cost of equity, the Department first compiled a list of all U.S. companies categorized as gas utilities by Value Line, a well-known investor service.<sup>38</sup> The Department then applied various screens designed to make sure the proxy group companies were reasonably comparable to GMG. Eliminating companies from the proxy group as a result of these screens produced a list of 6 companies.<sup>39</sup>

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<sup>30</sup> Ex. DOC-201 at 59 (Addonizio Direct).

<sup>31</sup> Ex. DOC-201 at 59 (Addonizio Direct).

<sup>32</sup> See Ex. DOC-216, MAJ-S-1 (Johnson Surrebuttal), GMG Initial Brief Attach. 3.

<sup>33</sup> Ex. GMG-112 at 17 (Palmer Rebuttal).

<sup>34</sup> Ex. GMG-103 at 32 (Palmer Direct at 9).

<sup>35</sup> See Ex. DOC-201 at 63 (Addonizio Direct), Ex. GMG-112 at 7 (Palmer Rebuttal).

<sup>36</sup> Ex. DOC-203 at 13 (Addonizio Surrebuttal).

<sup>37</sup> Ex. DOC-1 at 16 (Addonizio Direct).

<sup>38</sup> Ex. DOC-1 at 16 (Addonizio Direct).

<sup>39</sup> Ex. DOC-1 at 17 (Addonizio Direct).

26. GMG utilized a proxy group of three companies, with two companies overlapping between GMG's proxy list and the Department's proxy list.<sup>40</sup>

27. The third company, UGI Corporation, included in GMG's proxy list typically earns less than 20 percent of its annual operating income from regulated retail utility operations and thus presents a significantly different risk profile than GMG.<sup>41</sup>

28. Three other companies similar to GMG in risk profile were not included in GMG's proxy list but were included in the DOC proxy list.<sup>42</sup>

29. The ALJ finds that the members of the Department's proxy group of price-regulated companies are reasonably comparable to GMG with respect to investment risk and, accordingly, the proxy group provides a reasonable basis for estimating GMG's cost of equity.

30. The ALJ finds that GMG has failed to show that the companies making up its proposed proxy group present investment risks comparable to those of GMG and that the three companies included in DOC's proxy group but missing from GMG's proxy list should not be used to estimate GMG's cost of equity.

### **3. The Department's Methodology for Estimating GMG's Cost of Equity**

31. The Discounted Cash Flow ("DCF") model is a cost equity model that is commonly used to estimate a company's cost of equity. The DCF model is applied to a group of publicly traded proxy companies to reasonably approximate the utility's cost of equity. The DCF model is based on the financial theory that the current price of a stock equals the present value of all expected future dividends in perpetuity discounted by the appropriate cost of equity (*i.e.*, the compensation for the risks associated with owning the stock).<sup>43</sup>

32. The DCF model estimates a company's cost of equity using a company's known stock price and its most recent dividend, which are directly observable, and the company's expected future dividend growth rate.<sup>44</sup>

33. To estimate the cost of equity of a non-publicly owned company, the Department applied a variation of the DCF model to its proxy group to estimate the cost of equity for each proxy group company and an average for the group.<sup>45</sup>

34. The Department estimated GMG's cost of equity by applying a refinement of the DCF model—called a multi-stage Discounted Cash Flow analysis—to its proxy group. The Department's multi-stage DCF has three stages. In the first stage—years one through five—the model assumes that dividends grow at the forecasted growth rates predicted by equity analysts for the proxy group companies. In the second stage, a proxy company's dividend growth rate moves

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<sup>40</sup> Ex. DOC-1 at 17, 68 (Addonizio Direct).

<sup>41</sup> Ex. DOC-201 at 70 (Addonizio Direct).

<sup>42</sup> Ex. DOC-201 at 70 (Addonizio Direct).

<sup>43</sup> Ex. DOC-201 at 23 (Addonizio Direct).

<sup>44</sup> Ex. DOC-201 at 24 (Addonizio Direct).

<sup>45</sup> Ex. DOC-201 at 23 (Addonizio Direct).

linearly from the equity analyst growth rate to projected growth of GDP (*i.e.*, the value of the total output of goods and services in the national economy).<sup>46</sup> In the third stage, the model assumes that dividends for the proxy group companies grow at the same rate as GDP. The Department used two different intervals for the second stage transition period: 10 years and 20 years.<sup>47</sup>

35. In surrebuttal testimony, the Department updated the stock prices, dividends, and forecasted growth used as modeling inputs to reflect changes in market conditions. The table below summarizes the Department’s updated multi-stage DCF analysis, adjusted to include flotation costs (*i.e.*, costs to issue new shares of common stock, such as legal fees and costs of underwriting).<sup>48</sup>

**Summary of Updated Multi-Stage DCF Results  
Adjusted for Flotation Cost**

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

36. In addition to the multi-stage DCF discussed above, the Department checked its results against the results from three other cost models: a constant growth DCF analysis, a two-growth DCF analysis, and a Capital Asset Pricing Model (CAPM) analysis.<sup>49</sup>

37. The Department relied primarily on the 10-year multi-stage DCF model rather than the constant growth and two-growth versions of the DCF model because the constant growth and two-growth DCF use growth rates that are not sustainable over the long term.<sup>50</sup>

38. The CAPM’s basic premise is that through diversification, investors can effectively eliminate the effects of any company-specific risks. CAPM has flaws that make it an unreliable tool for ratemaking due to the variations between analysts in estimates of any one of the three inputs to CAPM. The subjectivity of these judgments means there can be significant variation between analysts in their estimations of several inputs, which are compounded when the inputs are combined in the CAPM.<sup>51</sup> As a result, the Department uses CAPM as a “sanity check,” but does not rely on it to generate a recommended ROE.<sup>52</sup>

<sup>46</sup> Ex. DOC-201 at 29 (Addonizio Direct).

<sup>47</sup> Ex. DOC-201 at 29 (Addonizio Direct).

<sup>48</sup> Ex. DOC-203 at 9 (Table 1) (Addonizio Surrebuttal).

<sup>49</sup> Ex. DOC-201 at 26–27, 37, 45, (Addonizio Direct).

<sup>50</sup> Ex. DOC-201 at 37 (Addonizio Direct).

<sup>51</sup> Ex. DOC-201 at 40 (Addonizio Direct).

<sup>52</sup> Ex. DOC-201 at 31, 37 (Addonizio Direct).

39. In addition to the results of equity cost models, the Department also considered other cost-of-equity evidence as part of his analysis. These additional “real world” data points confirmed the general reasonableness of the Department’s multi-stage DCF analysis.<sup>53</sup> This additional evidence included cost of equity estimates for U.S. equities generally from a number of well-known, highly regarded investment managers and a well-known annual survey of professors, analysts, and corporate managers and a survey conducted by the Richmond Federal Reserve Bank of Chief Financial Officers.<sup>54</sup> These estimates were for U.S. equities generally and not specific to utility stocks. Because utility stocks are generally considered less risky, on average, these estimates likely overstate the expected returns for utility stocks.<sup>55</sup>

#### **4. GMG’s Methodology for Estimating Its Cost of Equity and ROE Recommendation**

40. To estimate GMG’s cost of equity, it provided a cost of equity analysis for identified public companies using constant growth discounted cash flow.<sup>56</sup>

41. GMG noted the cost of equities for GMG’s proxy group range between 7.25% and 9.98%, with an average cost of 8.23%.<sup>57</sup> GMG highlighted four factors to account that make it riskier than the three companies in its proxy group to justify its request for an ROE that falls outside of this range: lack of current dividends, market risk, small size, and equity ratio.<sup>58</sup> The Company recommended in direct testimony the Commission authorize an ROE (including flotation costs) of 10.30%.<sup>59</sup>

42. GMG did not update its modeling in its rebuttal testimony. After updating its flotation adjustment from 30 basis points to 15 basis points, GMG recommended that the Commission authorize an ROE of 10.15%.<sup>60</sup>

#### **5. Analysis of the Parties’ Methodologies for Estimating GMG’s Cost of Equity**

##### **a. Analysis of GMG’s Methodology**

43. GMG’s ROE recommendation is based on incomplete analysis as three comparable companies were left out of its proxy list.<sup>61</sup>

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<sup>53</sup> Ex. DOC-201 at 29 (Addonizio Direct).

<sup>54</sup> Ex. DOC-201 at 45-49 (Addonizio Direct).

<sup>55</sup> Ex. DOC-201 at 45-49 (Addonizio Direct).

<sup>56</sup> Ex. GMG-103, GHP-1 (Palmer Direct).

<sup>57</sup> Ex. GMG-103 at 33 (Palmer Direct at 8).

<sup>58</sup> Ex. GMG-103 at 34 (Palmer Direct at 9).

<sup>59</sup> Ex. GMG-103 at 28, 38 (Palmer Direct at 3, 13).

<sup>60</sup> Ex. GMG-112 at 17 (Palmer Rebuttal).

<sup>61</sup> Ex. DOC-201 at 70 (Addonizio Direct).

44. Consistent with its past practices, GMG has not performed a separate, stand-alone ROE analysis.<sup>62</sup>

45. GMG's requested ROE does not represent a reasonable balancing of the interests of investors and ratepayers.

46. The Administrative Law Judge finds that GMG's request to set ROE at 10.15% will not result in rates that are just and reasonable.

#### **b. Analysis of the Department's methodology**

47. The Department estimated GMG's cost of equity using the DCF model applied to a group of proxy companies with risks similar to GMG.<sup>63</sup>

48. The Department modeled GMG's growth using multi-stage DCF analyses.<sup>64</sup>

49. The Department explained why it does not rely on alternative methods such as the two-stage DCF model, the constant growth DCF model, and the CAPM model to set its recommended ROE, but instead uses them as a 'sanity check' on its results.<sup>65</sup>

50. The Department compared its results against general estimates of the cost of equity for U.S. equities generally.<sup>66</sup>

51. In surrebuttal, the Department updated its financial modeling.<sup>67</sup> The Department explained that it gave less weight to the changes in the constant growth and two-growth DCF results because the 3–5 year earnings growth rate forecasts are now even less consistent with long-term GDP forecasts.<sup>68</sup>

52. The Department ran several models and utilized sanity checks to provide a well-supported reasonable ROE analysis.

### **6. The Department's ROE Recommendation**

53. The Department conducted financial modeling to estimate the cost of equity and then adjusted its results to account for factors specific to GMG.

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<sup>62</sup> Ex. GMG-103 at 45 (Burke Direct at 4).

<sup>63</sup> Ex. DOC-201 at 60–63 (Addonizio Direct).

<sup>64</sup> Ex. DOC-201 at 31 (Addonizio Direct).

<sup>65</sup> Ex. DOC-201 at 26–27, 37, 40 (Addonizio Direct).

<sup>66</sup> Ex. DOC-201 at 45 (Addonizio Direct).

<sup>67</sup> Ex. DOC-201 at 9 (Addonizio Surrebuttal).

<sup>68</sup> Ex. DOC-201 at 12–13 (Addonizio Surrebuttal).

54. The Department made additional upwards adjustments to its recommended ROE to account for risk factors specific to GMG – such as size, the illiquidity of stock, and personal guarantees of its SBA loan by certain equity owners.<sup>69</sup>

55. The Department explained why it was inappropriate to make additional adjustments for factors such as lack of current dividends, market risk to agricultural customers, and GMG’s equity ratio.<sup>70</sup>

56. Based on the results of its 10-year multi-stage DCF model and the additional adjustments made for risk factors unique to GMG, the Department recommended an ROE of 9.65%. In choosing this recommended ROE, the Department noted that this was 40 basis points higher than the Department’s recommendation in another recent gas rate case, reflecting GMG’s higher risk. The Department also considered that GMG had been able to triple its rate base between 2010 and 2017, despite having agreed to an effective ROE of 4.24% in its last rate case, leading the Department to conclude that an ROE of 9.65% would pose no issues with respect to GMG’s ability to attract capital.<sup>71</sup>

57. The ALJ finds that the record supports the Department’s recommended authorized ROE of 9.65%.

#### **D. Overall ROR**

58. The Department recommends an overall rate of return of 7.68%.<sup>72</sup>

**Table 4**  
**DOC Proposed Overall Rate of Return for GMG**

	Proposed Capital Structure	Proposed Allowed Return	Weighted Average Rate of Return
	[1]	[2]	[3]=[1]x[2]
Long-term Debt	50.44%	5.76%	2.91%
Short-term Debt	0.68%	8.00%	0.05%
Common Stock Equity	48.87%	9.65%	4.72%
<b>Total</b>	<b>100.00%</b>		<b>7.68%</b>

59. GMG proposes an overall ROR of 7.82% and ROE of 10.15%.<sup>73</sup>

60. The ALJ recommends that the Commission approve an overall ROR as proposed by the Department, based on the Department’s recommended ROE of 9.65%.

<sup>69</sup> Ex. DOC-201 at 62 (Addonizio Direct).

<sup>70</sup> Ex. DOC-201 at 70–71 (Addonizio Direct).

<sup>71</sup> Ex. DOC-201 at 63 (Addonizio Direct).

<sup>72</sup> Ex. DOC-201 at 15, Table 4 (Addonizio Surrebuttal).

<sup>73</sup> Ex. GMG-112 at 17–18, Table GHP-REB 3 (Palmer Rebuttal).

## **II. REVENUE, EXPENSES, AND RATE BASE ITEMS—RESOLVED ISSUES**

### **A. Advertising Expense.**

61. In its 2025 test year, GMG estimated that it would spend \$69,600 on advertising. The company estimated that approximately \$60,00 would be spent on distribution, \$6,000 on customer services and information expense, and \$3,600 on administrative and general expense.<sup>74</sup>

62. Because the figure appeared inconsistent with recent historical spending, the Department concluded that the GMG's forecasted expense was inflated.<sup>75</sup> To arrive at a more reasonable figure, the Department recommended that GMG's advertising expense be set based on historical average advertising expense from 2021 to 2024. Using that methodology, the Department recommended a 2025 test year advertising expense of \$67,000, or \$2,600 less than GMG's proposal of \$69,600.<sup>76</sup>

63. GMG objected to the Department's proposed methodology. It explained that most of its advertising expenses are attributable to pipeline safety requirements and involve customer mailings. And as its customer base increases, it will be mailing materials to more customers, and postage costs continue to increase. As a result, GMG asserted that relying on a historical average does not capture current customer counts and postage rates.<sup>77</sup>

64. In response to GMG's concerns, the Department considered updated, unaudited advertising figures that GMG subsequently provided. Those figures established that GMG's actual advertising expenses for 2024 amounted to \$67,353. That updated 2024 figure was \$2,609 more than GMG's original 2024 estimate. Given that this updated figure was only 3% less than GMG's proposed 2025 test year amount, the Department concluded that GMG's test year advertising expense was reasonable. After reaching this conclusion, the Department agreed to drop its recommended \$2,600 adjustment.<sup>78</sup>

65. The Administrative Law Judge finds the resolution of this issue reasonable.

### **B. Bad Debt Expense.**

66. As part of its rate case application, GMG proposed to recover a representative amount of bad debt expense – an estimate the amount the Company will lose from customers that do not pay their bills – in customer rates.<sup>79</sup> In its 2025 test year, GMG estimated its bad debt expense to be \$21,600.<sup>80</sup> The company stated that it based this estimate on trends observed during 2024.<sup>81</sup>

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<sup>74</sup> Ex. GMG-105, Sch. C-3 (Initial Filing, Vol. 3)

<sup>75</sup> Ex. DOC-215 at 26 (Uphus Direct).

<sup>76</sup> Ex. DOC-215 at 26 (Uphus Direct).

<sup>77</sup> Ex. GMG-109 at 14 (Burke Rebuttal).

<sup>78</sup> Ex. DOC-216 at 7 (Johnson Surrebuttal).

<sup>79</sup> Ex. DOC-215 at 13 (Uphus Direct).

<sup>80</sup> Ex. GMG-105, Sch. C-3, page 2 of 3, line 23 (Initial Filing, Vol. 3).

<sup>81</sup> Ex. DOC-215, AAU-D-1 at 28 (Uphus Direct).

67. In response, the Department raised concerns that GMG had changed its methodology for forecasting bad debt expense. In GMG's prior rate case, the forecasted bad debt expense was calculated as a percentage of the total test year residential and small commercial facility fees and sales dollars. GMG calculated a four-year average bad debt rate from small commercial facility fees and sales dollars.<sup>82</sup> The Department also concluded that GMG's proposed test-year amount appeared inflated given historical fluctuations.<sup>83</sup>

68. Given its concerns, the Department recommended that test-year bad debt expense be based on a four-year average bad debt rate from the total residential and commercial facility fees and sales dollars applied to 2025 test year forecasted sales revenue.<sup>84</sup> Applying this methodology, the Department recommend that GMG's 2025 test-year bad debt expense be reduced by \$4,900.<sup>85</sup>

69. GMG disagreed with the Department's approach. The company asserted that basing the test-year amount on 2024 was appropriate because 2024 amount is most reflective of the current economic circumstances of GMG's customers, and thus it is more likely to accurately estimate 2025 bad debt levels.<sup>86</sup> As evidence of its conservative request, GMG stated its actual bad debt expense in 2024 was approximately 0.22% of revenues, while the Test Year bad debt expense is budgeted at 0.20%.<sup>87</sup>

70. In response, the Department reiterated that it generally believes that historical averages provide an appropriate proxy for test-year amounts during periods of variability. But recognizing that the periods reflected in this bad debt analysis include the impacts of the COVID-19 pandemic, the Department agreed to accept GMG's original test-year amount.<sup>88</sup>

### **C. Gas Storage Inventory**

71. Gas storage inventory are costs for gas storage services that help mitigate rate fluctuation for ratepayers. GMG contracts with storage suppliers and purchases gas when it is sold at a lower rate, typically during summer months, and can store the gas for future use. When the customer demand is higher in the cold winter months, GMG can withdraw the gas in storage, keeping the cost of gas lower for its ratepayers.<sup>89</sup>

72. In its 2025 test year, GMG included gas storage inventory of \$487,157 in rate base.<sup>90</sup> GMG based this figure on a thirteen-month average balance to calculate the value of the

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<sup>82</sup> Ex. DOC-215 at 13–14 (Uphus Direct).

<sup>83</sup> Ex. DOC-215 at 14 (Uphus Direct).

<sup>84</sup> Ex. DOC-215 at 14 (Uphus Direct).

<sup>85</sup> Ex. DOC-215 at 14–15 (Uphus Direct).

<sup>86</sup> Ex. GMG-109 at 10 (Burke Rebuttal).

<sup>87</sup> Ex. GMG-109 at 10 (Burke Rebuttal).

<sup>88</sup> Ex. DOC-216 at 4 (Johnson Surrebuttal).

<sup>89</sup> Ex. DOC-215 at 29 (Uphus Direct).

<sup>90</sup> Ex. GMG-105, Sch. B-8 (Initial Filing, Vol. 3).

Company's gas storage. This thirteen-month average was then used to project the 2025 test year costs for gas storage inventory, adjusting for anticipated seasonal injections and withdrawals.<sup>91</sup>

73. The Department objected to GMG's test-year figure because the 2024 gas storage inventory balance was abnormally high relative to other recent years. GMG's gas storage inventory balance decreased from 2021 to 2023 before spiking in 2024. GMG stated the 2024 balance was due to 2024 being "the warmest winter on record, thus resulting in a decrease in customer usage."<sup>92</sup> Based on the balance trending downward, with the year 2024 as an outlier, the Department concluded that the 2025 project test year balance for gas storage inventory was overstated.<sup>93</sup>

74. Given its conclusion that the balance was overstated, the Department recommended using a historical average of the gas storage inventory balances from 2021 to 2024. Using this methodology, the Department recommended a 2025 test year gas storage inventory balance of \$455,051, or \$32,106 less than GMG's proposal of \$487,157.<sup>94</sup>

75. GMG disputed the Department's approach to calculating a reasonable gas storage inventory balance. The company asserted that its gas storage inventory is not budgeted based on historical data but, rather, is projected based on GMG's existing gas contracts that cover the projection period and GMG's normal storage injection and withdrawal amounts.<sup>95</sup> Additionally, GMG updated its estimate to reflect a 13-month average of \$709,397, resulting in a \$222,239 adjustment to rate base.<sup>96</sup>

76. After GMG provided contract details establishing the accuracy of its test-year amount, the Department agreed that the company's updated test-year figure was reasonable and withdrew its adjustment.<sup>97</sup>

#### **D. Gross Revenue Conversion Factor**

77. GMG took several steps to estimate its 2025 test-year income taxes. First, the Company estimated the operating revenues and operating expenses for 2025. The estimated operating revenues less the estimated operating expenses results in the Company's net operating income before taxes. Second, to calculate the taxable income for 2025, the Company excluded interest expense, management fees, and miscellaneous other expenses, while adding back miscellaneous other income. The resulting taxable income is multiplied by the Company's gross revenue conversion factor (GRCF), ultimately calculating the estimated 2025 test year income taxes.<sup>98</sup>

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<sup>91</sup> Ex. GMG-103 at 11 (Burke Direct).

<sup>92</sup> Ex. DOC-215, AAU-D-1 at 4 (Uphus Direct).

<sup>93</sup> Ex. DOC-215 at 30 (Uphus Direct).

<sup>94</sup> Ex. DOC-215 at 30 (Uphus Direct).

<sup>95</sup> Ex. GMG-109 at 15 (Burke Rebuttal).

<sup>96</sup> Ex. GMG-109 at 16 (Burke Rebuttal).

<sup>97</sup> Ex. DOC-216 at 8 (Johnson Surrebuttal).

<sup>98</sup> Ex. GMG-105, Sch. C-5 (Initial Filing, Vol. 3).

78. A gross revenue conversion factor (GRCF) is the incremental amount of gross revenue that is required to generate an additional dollar of operating income.<sup>99</sup> The GRCF is calculated by dividing one by one less the Federal and Minnesota income tax rates.<sup>100</sup>

79. For the 2025 test year, GMG calculated the applicable GRCF to be 1.40845.<sup>101</sup>

80. The Department objected to GMG's calculation because the Company rounded the Federal and Minnesota tax rates up to the nearest whole percent. By doing so, the GRCF is inflated, resulting in a higher income tax expense.<sup>102</sup> After identifying this concern, the Department re-ran the calculation as shown in the table below.

**Department's Recommended 2025 GRCF  
Compared to GMG's Proposal**

Line No.	Description	DOC	GMG
1	Federal Tax Rate (21% x (100% less 9.8%))	18.94%	19%
2	Minnesota Tax Rate	9.80%	10%
3	Total Tax (Line 1 plus Line 2)	28.74%	29%
4	Operating Income Percent (100% less Line 3)	71.26%	71.00%
5	Gross Revenue Conversion Factor (1 Divided by Line 4)	1.403312	1.408451

81. Applying the more accurate GRCF, the Department calculated that GMG's 2025 test year income tax would drop by \$4,032.

82. After reviewing the Department's recommendation, GMG agreed to a GRCC of 1.403312 for calculations and agreed that the resulting income tax adjustment of (\$4,032) is appropriate.<sup>103</sup>

**E. Late Fees.**

83. As part of its rate case application, GMG did not include late fees in its rate base calculations or revenue requirements. GMG did not charge late fees during Covid-19 and did not charge late fees for several months in 2024 due to following the conversion of its billing system. As a result, GMG stated that there is not much historical late fee data.<sup>104</sup>

84. At the Department's request, GMG provided late fee data in rebuttal testimony, as shown in the table below. GMG stated if late fees are included in Test Year calculations, it is most

<sup>99</sup> Minn. R. 7825.3100, subp. 7 (2024).

<sup>100</sup> Ex. DOC-215 at 4 (Uphus Direct).

<sup>101</sup> Ex. GMG-105, Sch. F-2 (Initial Filing, Vol. 3).

<sup>102</sup> Ex. DOC-215 at 5 (Uphus Direct).

<sup>103</sup> Ex. GMG-109 at 9 (Burke Rebuttal).

<sup>104</sup> Ex. DOC-213 at 24 (Johnson Direct).

appropriate to use the 2023 level for that budget inclusion because of abnormal events skewing the amount of late fees collected higher and lower in recent years.<sup>105</sup>

**GMG's 2021-2024 Late Fee Collections<sup>106</sup>**

Year	Late Fees
2021	\$4,377
2022	\$17,871
2023	\$6,723
2024	\$24,768

85. In response to GMG's proposal to use the 2023 late fee amount of \$6,723 as the 2025 test year amount, the Department concluded that amount seemed too low especially in light of the Company's more recent 2024 actuals of \$24,768. As a result, the Department recommended using a simple average of actual late fees from 2021 to 2024. In the Department's view, this approach leveled these fluctuations and provides a reasonable estimate of late fees going forward. Applying this approach, the Department recommended that GMG include late fee revenues of \$13,435 in the test year, which is based on the average of GMG's actual late fee revenues from 2021 through 2024.<sup>107</sup>

86. After considering the Department's position, GMG agreed to accept the \$13,435 adjustment.<sup>108</sup>

**F. Rebate Sales Expenses.**

87. GMG tracks rebates for customers who convert from propane to natural gas service.<sup>109</sup> For the purposes of its 2025 test-year, GMG proposed to set conversion rebate balance based on 2023 actual figures.<sup>110</sup>

88. The Department objected to reasonableness of using 2023 figures to set the 2025 amount. Instead, the Department recommended that the test-year figure be set based on an annualized amount for 2024. Using this approach, the Department recommended that GMG's conversion rebate balance be set at \$1,800 instead of \$2,700 as the company originally proposed. This would reduce GMG's proposed 2025 rebates conversion expense balance by \$900.<sup>111</sup>

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<sup>105</sup> Ex. GMG-109 at 8–9 (Burke Rebuttal).

<sup>106</sup> Ex. GMG-109 at 8 (Burke Rebuttal).

<sup>107</sup> Ex. DOC-216 at 27 (Johnson Surrebuttal).

<sup>108</sup> Evid. Hrg. Tr. at 13-15:24.

<sup>109</sup> Ex. DOC-215, AAU-D-1 at 13 (Uphus Direct).

<sup>110</sup> Ex. DOC-215, AAU-D-1 at 13 (Uphus Direct).

<sup>111</sup> Ex. DOC-215, AAU-D-1 at 14 (Uphus Direct); Ex. DOC-215 at 19 (Uphus Direct).

89. In response, GMG agreed to accept the Department's recommended adjustment. The company explained that the adjustment was reasonable because it is difficult to predict future expenditures, and the economic drivers of customer behavior likely have less impact in this category than in other expense categories.<sup>112</sup>

#### **G. Salary Sales Expenses.**

90. In its salary-sales account, GMG reports the wages specifically for technicians working with potential customers. For the 2025 test year, GMG proposed to use 2023 actual figures – \$18,000 – as a representative proxy.<sup>113</sup>

91. The Department objected to GMG's use of the 2023 figures as a basis for setting the test-year amount. Instead the Department recommended using an annualized 2024 figure. Based on this methodology, the Department came up with an updated estimated balance for 2024 of \$14,395.<sup>114</sup> Using this figure, the Department recommend reducing GMG's proposed 2025 salary-sales expense balance by \$3,605.4.<sup>115</sup>

92. GMG disputed the Department's recommended adjustment. The Company stated that the sales expenses are direct expenses taken from activities identified on employees' timecards. Therefore, even if a GMG employee was not incurring these expenses, that employee would be performing other work and the employee's labor costs would still be incurred by the Company. Thus, any downward adjustment to sales expenses must be accompanied by an offsetting upward adjustment to the Admin and General Labor expense.<sup>116</sup>

93. After reviewing GMG's explanation, the Department agreed that any adjustment made to sales salaries would need an offsetting adjustment to the administrative and general labor expense. Since the sales salaries expense is allocated based on employee timecard activities, any wages paid would just be offset to another wages account. As a result, the Department withdrew its recommended adjustment.<sup>117</sup>

#### **H. Top Ten Employee Compensation**

94. Consistent to the Commission's order in Docket 21-630 to cap recovery of executive compensation at \$150,000 per executive, the Department recommended that amounts over \$150,000 be removed from the test year.<sup>118</sup> This recommendation reduced test-year general

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<sup>112</sup> Ex. GMG-109 at 12 (Burke Rebuttal).

<sup>113</sup> Ex. DOC-215, AAU-D-1 at 10 (Uphus Direct); Ex. GMG-105, Sch. C-3 (Initial Filing, Vol. 3).

<sup>114</sup> Ex. DOC-215 at 17 (Uphus Direct).

<sup>115</sup> Ex. DOC-215 at 17 (Uphus Direct).

<sup>116</sup> Ex. GMG-109 at 14 (Burke Rebuttal).

<sup>117</sup> Ex. DOC-216 at 5–6 (Johnson Surrebuttal).

<sup>118</sup> Ex. DOC-213 at 22 (Johnson Direct).

and administrative expenses by \$60,102.<sup>119</sup> However, the Department also asked GMG to provide additional details about the job duties of the two employees who exceeded the \$150,000 cap.<sup>120</sup>

95. In response, GMG objected to the Department's recommended reduction. First, the company noted that the Commission's order in Docket 21-630 was a limitation on base pay and not total compensation. Second, GMG explained that only one employee receives base pay exceeding \$150,00 and that employee received no incentive, long-term retention, or short-term performance pay of any kind. Given that employee's functions and lack of any additional incentive or performance pay, GMG asserted that the base pay of \$164,451 was reasonable and should be recoverable – as it has been for non-executive employees that perform similar tasks in other utilities.<sup>121</sup>

96. GMG also noted that the Commission decision to cap recovery of executive compensation at \$150,000 per executive in Docket 21-630 had recently been reversed and remanded by the Minnesota Court of Appeals.<sup>122</sup>

97. In response to the Department's request, GMG additionally provided information on the duties of the two employees with compensation in excess of \$150,000. The company explained that those employees spend approximately 8 hours on the annual shareholder meeting, which is the only shareholder-focused task performed by either of one of them.<sup>123</sup>

98. Given that GMG's two officers do not spend a significant amount of time on shareholder- focused activities, such as increasing earnings per share, and the Minnesota Court of Appeals decision to reverse and remand the issue back to the Commission, the Department withdrew its proposed adjustment.<sup>124</sup>

### **III. REVENUE, EXPENSES, AND RATE BASE ITEMS—CONTESTED ISSUES**

#### **A. Test Year Increase to Auto and Truck Expense.**

99. For the 2025 test-year, GMG proposed a 14% increase in auto and truck expenses, from an estimated \$120,951 in 2024 to \$138,000 in 2025.<sup>125</sup>

100. GMG later provided the Department with updated actual auto and truck expenses of \$85,365 for 2024.<sup>126</sup> GMG is proposing a 62% increase from 2024 to 2025.<sup>127</sup> According to

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<sup>119</sup> Ex. DOC-213 at 24 (Johnson Direct).

<sup>120</sup> Ex. DOC-213 at 23 (Johnson Direct).

<sup>121</sup> Ex. GMG-112 at 25 (Palmer Rebuttal).

<sup>122</sup> Ex. GMG-112 at 26 (Palmer Rebuttal).

<sup>123</sup> Ex. GMG-112 at 29–30 (Palmer Rebuttal).

<sup>124</sup> Ex. DOC-216 at 11–12 (Johnson Surrebuttal).

<sup>125</sup> Ex. GMG-104, Vol. 3-Sch. C-3, page 2 of 3, line 7.

<sup>126</sup> Ex. DOC-216 MAJ-S-11 at 2 of 12 (Johnson Surrebuttal).

<sup>127</sup> Ex. DOC-216 at 14 (Johnson Surrebuttal).

GMG, the 2025 test year increase is needed to account for the new company vehicle needed for the additional technician hired by the Company.<sup>128</sup>

101. GMG's 2025 forecast includes maintenance and gasoline costs for an additional vehicle. It also assumes higher maintenance costs on older vehicles.<sup>129</sup>

102. To generate a reasonable 2025 test year amount, the Department started by updating GMG's 2024 estimate based on actual expenses known at that time.<sup>130</sup> This updated estimate amount came to \$124,216, increasing GMG's 2024 estimated expense amount by \$3,264.<sup>131</sup>

103. The Department then applied an inflation rate of 5% to its updated 2024 estimate, encompassing the historical inflation rate between 2–3% and additional maintenance and gasoline expenses for the new vehicle.<sup>132</sup> Based on this method, the Department's 2025 expense estimate came to \$130,427.<sup>133</sup> This recommendation results in a 2025 expense estimate 7.8% over GMG's estimated 2024 expense estimate.<sup>134</sup>

104. GMG disagreed with the Department's methodology. GMG maintained that their 2025 proposed auto and truck expenses of \$138,000 were appropriate.<sup>135</sup> As evidence of GMG's increased costs, it noted that two vehicle repairs totaling \$9,292 had already been incurred in 2025.<sup>136</sup> GMG did not explain the nature of those repairs.

105. The Department was not persuaded by GMG. GMG's actual 2024 auto and truck expenses were \$85,365, GMG was proposing an increase of 62% increase.<sup>137</sup> The Department concluded GMG's requested increase was unreasonable even after considering the information provided in rebuttal testimony.<sup>138</sup> The Department continued to recommend a reduction of \$7,573 to the 2025 test year expense, from \$138,000 to \$130,427.<sup>139</sup>

106. The Administrative Law Judge finds that GMG has not provided adequate support in the record for its proposed auto and truck test year expense. The Department's recommendation is supported and inflation-adjusted. The Administrative Law Judge recommends adopting the Department's recommended auto and truck test year expense of \$130,427.

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<sup>128</sup> Ex. GMG-103 at 61 (Burke Direct at 20).

<sup>129</sup> Ex. DOC-215, AAU-D-1 at 7 (Uphus Direct).

<sup>130</sup> Ex. DOC-215 at 11 (Uphus Direct).

<sup>131</sup> Ex. DOC-215, AAU-D-1 at 8 (Uphus Direct).

<sup>132</sup> Ex. DOC-215 at 12 (Uphus Direct).

<sup>133</sup> Ex. DOC-215 at 12 (Uphus Direct).

<sup>134</sup>  $130,427/120,951=1.07835$ .

<sup>135</sup> Ex. GMG-109 at 10 (Burke Rebuttal).

<sup>136</sup> Ex. GMG-109 at 10 (Burke Rebuttal).

<sup>137</sup> Ex. DOC-216 at 14 (Johnson Surrebuttal).

<sup>138</sup> Ex. DOC-215 at 11 (Uphus Direct).

<sup>139</sup>  $(138,000-85,365)/85,365=.62$ ; Ex. DOC-216 at 14 (Johnson Surrebuttal).

## **B. Test Year Increase to Education and Training Expense**

107. GMG initially proposed an education and training expense of \$10,200 for the test year, which appeared to be based off of GMG's \$10,299 budget for 2024.<sup>140</sup>

108. GMG provided a "2024 YTD" amount of \$5,875 on December 23, 2024.<sup>141</sup>

109. Given the significant difference between GMG's actual spending and the 2025 test-year amount, the Department annualized the 2024 year-to-date amount and came up with an updated estimated balance for 2024 of \$6,409.<sup>142</sup>

110. The Department recommended using the annualized 2024 education and training budget of \$6,409 as the 2025 test year instead of GMG's proposed \$10,200 because it was more representative of GMG's actual needs.<sup>143</sup> This reduced GMG's proposed budget for education and training by \$3,791.<sup>144</sup>

111. After direct testimony was filed, GMG provided the Department with its actual 2024 education and training expenses of \$3,493.<sup>145</sup> Therefore, GMG is proposing a 192% increase from 2024 to 2025, from \$3,493 to \$10,200.<sup>146</sup>

112. According to GMG, the 2024 budget included a training that went unutilized, and the test year budget includes training for new technicians including specialized training for a new measurement technician.<sup>147</sup>

113. The Department was not persuaded by GMG's new explanation because even with additional training needs, a 192% increase is excessive.<sup>148</sup> The Department's recommended test year expense of \$6,409 represents an 83% increase from the GMG's actual amount in 2024 of \$3,791.<sup>149</sup>

114. The Administrative Law Judge recommends adopting the Department's test year recommendation of \$6,409 for education and training expenses. The Administrative Law Judge finds reasonable the Department's recommendation based on annualizing the 2024 estimated expenses.

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<sup>140</sup> Ex. GMG-104, Vol.3-Sch. C-3, page 3 of 3, line 49.

<sup>141</sup> Ex. DOC-215, AAU-D-1 at 17 of 30 (Uphus Direct) (GMG Response to DOC IR 123).

<sup>142</sup> Ex. DOC-215 at 20 (Uphus Direct).

<sup>143</sup> Ex. DOC-215 at 21 (Uphus Direct).

<sup>144</sup> Ex. DOC-215 at 21 (Uphus Direct); Ex. DOC-216 at 15 (Johnson Surrebuttal).

<sup>145</sup> Ex. DOC-216, MAJ-S-11 at 4 (Johnson Surrebuttal).

<sup>146</sup>  $(10,200 - 3,493) / 3,493 = 1.92$ .

<sup>147</sup> Ex. DOC-215, AAU-D-1 at 16 of 30 (Uphus Direct) (GMG Response to DOC IR 123).

<sup>148</sup> Ex. DOC-216 at 16 (Johnson Surrebuttal).

<sup>149</sup>  $(6,409 - 3,493) / 3,493 = .83$ .

### C. Test Year Increase to Postage Expense

115. The Company proposed a test year budget of \$5,400 for postage expenses.<sup>150</sup> The 2024 budget for postage expenses was \$4,039. This is an increase of 34%.<sup>151</sup>

116. GMG asserted that the increase was justified by higher shipping costs and the company's increase in the volume of shipments.<sup>152</sup>

117. The Department received GMG's 2024 year-to-date amount of \$3,727.<sup>153</sup> The Department annualized this amount to produce an updated estimated balance for 2024 of \$4,065.<sup>154</sup>

118. The Department proposed using the 2024 annualized postage balance as the 2025 test year instead of the 2022 and 2023 actuals as proposed by GMG.<sup>155</sup> In the Department's view, this amount was more representative because it reflected GMG's recent spending.<sup>156</sup> The Department's proposal would reduce GMG's test-year proposal by \$1,335.<sup>157</sup>

119. Later GMG provided the 2024 actual postage expense amount of \$3,623.<sup>158</sup> GMG is proposing a 49% increase from 2024 to 2025, from \$3,623 to \$5,400.<sup>159</sup>

120. In response to the Department's recommendation, GMG took the position that the Department should consider fluctuations in postage expenses in recent years.<sup>160</sup>

121. Based on this feedback, the Department adjusted its approach.<sup>161</sup> The Department's updated recommendation for the test year is the average of the actual postage expenses in the years 2021–2024, \$4,431.<sup>162</sup> This represents a \$969 reduction to GMG's original test year proposal and a \$366 increase in the Department's original proposed adjustment to postage expense.<sup>163</sup>

122. The Administrative Law Judge finds that the Department's updated test year postage balance is supported and reasonable because it is accurate to look at postage expense historically and take an average to determine a reasonable level of expense for purposes of the test year.<sup>164</sup> The Administrative Law Judge adopts the Department's recommendation.

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<sup>150</sup> Ex. GMG-104, Vol.3-Sch. C-3, page 3 of 3, line 61.

<sup>151</sup>  $(5,400-4,039)/4,039 = .34$ .

<sup>152</sup> Ex. DOC-215, AAU-D-1 at 19 of 30 (Uphus Direct) (GMG Response to DOC IR 126).

<sup>153</sup> Ex. DOC-215, AAU-D-1 at 19 of 30 (Uphus Direct) (GMG Response to DOC IR 126).

<sup>154</sup> Ex. DOC-215 at 22 (Uphus Direct).

<sup>155</sup> Ex. DOC-215 at 22 (Uphus Direct).

<sup>156</sup> Ex. DOC-215 at 22 (Uphus Direct).

<sup>157</sup>  $5,400-4,065 = 1,335$ ; Ex. DOC-215 at 22 (Uphus Direct).

<sup>158</sup> Ex. DOC-216, MAJ-S-11 at 6 of 12 (Johnson Surrebuttal) (GMG Response to DOC IR 126).

<sup>159</sup>  $(5,400-3,623)/3,623 = .49$ ; Ex. DOC-216 at 17 (Johnson Surrebuttal).

<sup>160</sup> Ex. GMG-109 at 13 (Burke Rebuttal).

<sup>161</sup> Ex. DOC-216 at 17 (Johnson Surrebuttal).

<sup>162</sup> Ex. DOC-216 at 18 (Johnson Surrebuttal).

<sup>163</sup> Ex. DOC-216 at 18 (Johnson Surrebuttal).

<sup>164</sup> Ex. DOC-216 at 17 (Johnson Surrebuttal).

#### **D. Test Year Increase to Repair and Maintenance**

123. GMG initially proposed a test year balance of \$24,000 for repair and maintenance expenses.<sup>165</sup> GMG cited increased costs in maintenance such as vegetation removal, snow removal, building cleaning costs for the 2025 budget proposal.<sup>166</sup>

124. The Department annualized GMG's year-to-date amount, \$16,467, and applied a 4% inflation rate producing a proposed test year amount of \$18,683.<sup>167</sup> According to the Department this was a more reasonable test-year figure because it was based off of the most recent actual expense data.<sup>168</sup>

125. In response to the Department's objections, the Company cited a vendor change, increases in snow removal and lawncare contracts as well as increased cost for cleaning services as justifications for their proposed test year expense of \$24,000.<sup>169</sup> The Company also stated its methodology provided a more realistic projection, as the Department relied heavily on 2024 estimates which was a warm winter year.<sup>170</sup>

126. After filing direct testimony, GMG provided the Department with updated, actual repair and maintenance expenses for 2024 which totaled \$15,220.<sup>171</sup> GMG is proposing a 58% increase from 2024 to 2025.<sup>172</sup>

127. The Department adjusted its test year recommendation by applying a 30% inflation rate, in light of the increased service contracts, to the 2024 actuals, resulting in a proposed 2025 test year balance of \$19,787.<sup>173</sup> This is a \$4,213 reduction to GMG's proposed 2025 test year expense of \$24,000.<sup>174</sup>

128. The Administrative Law Judge finds that the Department's proposed test year adjustment for repair and maintenance expenses is reasonable because it updated its methodology to incorporate an inflation rate that reflects the increase in GMG's service contracts.<sup>175</sup>

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<sup>165</sup> Ex. GMG-104, Vol.3-Sch. C-3, page 3 of 3, line 64.

<sup>166</sup> Ex. DOC-215, AAU-D-1 at 22 of 30 (Uphus Direct) (GMG Response to DOC IR 127).

<sup>167</sup> Ex. DOC-215 at 23 (Uphus Direct).

<sup>168</sup> Ex. DOC-215 at 24 (Uphus Direct).

<sup>169</sup> Ex. GMG-109 at 14 (Burke Rebuttal).

<sup>170</sup> Ex. GMG-109 at 14 (Burke Rebuttal).

<sup>171</sup> Ex. DOC-216, MAJ-S-11 at 12 (Johnson Surrebuttal).

<sup>172</sup>  $(24,000 - 15,220) / 15,220 = .58$ .

<sup>173</sup> Ex. DOC-216 at 19-20 (Johnson Surrebuttal).

<sup>174</sup> Ex. DOC-216 at 19-20 (Johnson Surrebuttal).

<sup>175</sup> Ex. DOC-215 at 19 (Johnson Surrebuttal).

## **E. Annual Incentive Pay Program**

129. Annual incentive program (AIP) expense is a short-term incentive compensation offered to select employees for the prior year based on performance. GMG proposed \$92,442 in annual incentive program pay for the test year.<sup>176</sup>

130. After the Company's last gas rate case, the Commission approved a 15% cap of the employee's base salary on short-term annual incentive compensation expense in several Minnesota rate cases.<sup>177</sup> GMG identified that \$20,069 of its AIP expense is above the 15% cap.<sup>178</sup> The Department recommended denying the AIP expense included in the test year that is over the 15% cap.<sup>179</sup>

131. The Company stated that there was a misunderstanding regarding the term incentive; these "compensation additions are actually simple retention agreements designed to help GMG keep its key employees with the Company."<sup>180</sup>

132. GMG stated that for all but one employee, GMG's AIP has no connection to any shareholder interests.<sup>181</sup> Given this explanation, the Department recommended that GMG's AIP expense be reduced by \$11,276 instead of \$20,069 to reflect the one employee whose AIP is tied to financial performance.<sup>182</sup>

133. The Administrative Law Judge accepts the Department's proposed recommendation as it pertains to GMG's AIP expense adjustment.

## **F. Long Term Incentive Compensation**

134. GMG included \$48,300 of long-term compensation in the proposed test year.<sup>183</sup>

135. The Commission has consistently disallowed recovery of long-term compensation in Minnesota rate cases.<sup>184</sup>

136. The Department recommends exclusion of GMG's long-term compensation in the test year.<sup>185</sup> This would reduce GMG's test-year general and administrative expenses by \$48,300.

137. If the Commission determines it reasonable for GMG to include long-term compensation expenses in the test year, the Department recommends the Commission to specify

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<sup>176</sup> Ex. DOC-213 at 19 (Johnson Direct).

<sup>177</sup> Ex. DOC-213 at 19 (Johnson Direct).

<sup>178</sup> Ex. DOC-213 at 19 (Johnson Direct).

<sup>179</sup> Ex. DOC-213 at 20 (Johnson Direct).

<sup>180</sup> Ex. GMG-112 at 19 (Palmer Rebuttal).

<sup>181</sup> Ex. GMG-112 at 19 (Palmer Rebuttal).

<sup>182</sup> Ex. DOC-213 at 22 (Johnson Surrebuttal).

<sup>183</sup> Ex. DOC-213 at 20 (Johnson Direct).

<sup>184</sup> Ex. DOC-213 at 20 (Johnson Direct).

<sup>185</sup> Ex. DOC-213 at 21 (Johnson Direct).

this is a departure from past precedents since, unlike other utilities, GMG's long-term incentive plan does not include a shareholder-return-based performance element.<sup>186</sup>

138. The Administrative Law Judge finds the Department's recommendation appropriate and reasonable because it follows Commission precedent.

#### **G. Sales Forecast Methodology.**

139. Test-year sales volume is a crucial factor in calculating a utility's revenue requirement as sales levels affect both revenues and expenses. As a result, it is important that test-year sales be forecasted in a reasonable way.<sup>187</sup>

140. In this case, GMG used two steps to calculate its test-year sales estimates, using billing data from the years 2019 to 2023.<sup>188</sup> First, the Company calculated average monthly use per customer estimates ("UPC").<sup>189</sup> Second, GMG used the average historical UPC multiplied by the projected customer counts to estimate for various rate classes.<sup>190</sup>

141. The Department expressed concern over the Company not fully complying with the Commission's 2004, 2006, 2009 rate case orders, such that requisite billing cycle details summing up to the billing month data was not provided.<sup>191</sup> GMG's decision to replace its prior billing system coupled with its failure to produce older historic data (which it claimed would be unduly burdensome to produce) hindered the Department's ability to not only independently verify the data but to also prepare and provide an alternative forecast, for example, one based on statistical models involving weather.<sup>192</sup> The Department noticed that the Company incorrectly applied a UPC of 21.6 dekatherms for each new customer when it has projected a UPC value of 86.0 dekatherms.<sup>193</sup>

142. The Department also identified an error in the customer charge revenues (using \$13,005 instead of \$40,000). The Department explained that it is appropriate for a test year to reflect annualized sales to new customers.<sup>194</sup> Due to this error, GMG likely understates test-year sales and revenues and inflates the size of GMG's test-year revenue deficiency.<sup>195</sup>

143. Given these discrepancies, the Department requested actual data regarding monthly consumption data across several four-year periods.<sup>196</sup> The Company claimed it did not have this

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<sup>186</sup> Ex. DOC-213 at 24-25 (Johnson Direct).

<sup>187</sup> Ex. DOC-204 at 5 (Shah Direct).

<sup>188</sup> Ex. DOC-204 at 12 (Shah Direct).

<sup>189</sup> Ex. DOC-204 at 12 (Shah Direct).

<sup>190</sup> Ex. DOC-204 at 12 (Shah Direct).

<sup>191</sup> Ex. DOC-204 at 14 (Shah Direct).

<sup>192</sup> Ex. DOC-204 at 14 (Shah Direct).

<sup>193</sup> Ex. DOC-204 at 16 (Shah Direct).

<sup>194</sup> Ex. DOC-205 at 13 (Shah Surrebuttall).

<sup>195</sup> Ex. DOC-204 at 16 (Shah Direct).

<sup>196</sup> Ex. DOC-205 at 8 (Shah Surrebuttall).

data readily available and that it would be burdensome to produce and review.<sup>197</sup> The Department recommends the Commission order GMG to retain and provide all information on billing cycle sales and related information in a format to facilitate and allow independent verification and to be used to independently analyze the reasonableness of the test-year sales in the future.<sup>198</sup> Specifically, GMG should retain and provide in future rate case filings all information on the billing cycle sales, cancellations/rebills, customer bills, and weather data, adjusted for billing errors in the period(s) in which they occur as opposed to the time period(s) when the billing errors are discovered.<sup>199</sup>

144. It is important to ensure a representative amount of sales and revenues are included so that reasonable rates can be set going forward.<sup>200</sup> The Commission has recognized that the rates based on test year information remain in place until the Commission approves new rates in a subsequent rate case, and therefore the sales forecast should reflect the annualized effects of the new customer's usage and customer charge revenues, since the purpose of this proceeding is to set just and reasonable rates going forward, based on a normal 12-month test-year. GMG stated its sales forecast was reasonable because new customers do not use the same amount of gas in the year they join GMG's system as established customers since the majority of new customers do not start using gas until relatively late into the year.<sup>201</sup> After reviewing and analyzing the new customer installations by month the Department demonstrated these new customers stay on the system and continue to use natural gas as existing customers in subsequent years.<sup>202</sup> The Department maintains that annualizing use is the appropriate approach.<sup>203</sup> Any doubt as to the reasonableness of forecasted sales should be resolved in favor of ratepayers.<sup>204</sup>

145. The Department's recommended changes increase GMG's cost of gas by approximately \$143,264, and increase revenues by approximately \$283,810, resulting in an overall adjustment of approximately \$140,545.<sup>205</sup>

146. The Administrative Law Judge finds that the Department's methodology is appropriate as a representative 12-month period is necessary to set reasonable rates going forward. This is because in a rate case the test year will help set rates moving forward.

## **H. Sales Forecast Adjustment.**

147. In rebuttal testimony, GMG sought to update its test-year sales forecast by incorporating the 2024 actual customer counts.<sup>206</sup> According to the Company, this change would

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<sup>197</sup> Ex. DOC-205 at 8 (Shah Surrebuttal).

<sup>198</sup> Ex. DOC-204 at 18 (Shah Direct).

<sup>199</sup> Ex. DOC-204 at 15, 18-19 (Shah Direct), Ex. DOC-205 at 14 (Shah Surrebuttal).

<sup>200</sup> Ex. DOC-205 at 6-7 (Shah Surrebuttal).

<sup>201</sup> Ex. GMG-109 at 3 (Burke Rebuttal).

<sup>202</sup> Ex. DOC-205 at 9-11 (Shah Surrebuttal), DOC Initial Br. at 25-26.

<sup>203</sup> Ex. DOC-205 at 11 (Shah Surrebuttal).

<sup>204</sup> Minn. Stat. §§ 216B.16, subd. 4, 216B.03 (2024).

<sup>205</sup> Ex. DOC-204 at 17 (Shah Direct).

<sup>206</sup> Ex. GMG-209 at 6 (Burke Rebuttal).

reduce test-year operating revenue by \$185,507.<sup>207</sup> GMG added this would increase its revenue requirement by \$92,834.<sup>208</sup>

148. GMG argued this late change was justified by stating this increase to the Company's revenue requirement was still below its initial request of \$1,422,431.<sup>209</sup>

149. However, this proposed adjustment of \$92,834 increases the revenue deficiency by the same amount instead.<sup>210</sup>

150. The Department objected to GMG's proposal to update its sales forecast by incorporating 2024 actual customer counts because the Company had not updated other cost categories to 2024 actuals that may have benefited customers.<sup>211</sup>

151. The Administrative Law Judge finds that GMG's adjustment is unreasonable and unsupported. The Administrative Law Judge recommends the Commission adopt the Department's adjustment regarding sales forecast projections and revenues, no further changes will be made to revenue deficiency.

## **I. GMG's Request for an Income Tax Rider**

152. GMG requested an income tax rider due to uncertainty about future corporate income tax rates at the time of its initial filing, noting that both majority party candidates for president were campaigning on changing corporate tax rates.<sup>212</sup>

153. The presidential candidate that proposed an increase in corporate tax rates in the election year of 2024 did not win the election, as verified by the Company at the evidentiary hearing.<sup>213</sup>

154. GMG argued that if corporate tax rates decreased, ratepayers would automatically benefit from the tax savings without needing to wait for the next rate case.<sup>214</sup> However, the last time corporate tax rates decreased, the Commission order initiated an investigation that resulted in an order directing utilities to refund over-recovery of taxes to their ratepayers.<sup>215</sup>

155. As there is not currently a valid concern in the corporate tax rates increasing, the Administrative Law Judge finds there is no need for an income tax rider and GMG's request should be denied.

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<sup>207</sup> Ex. GMG-209 at 6 (Burke Rebuttal).

<sup>208</sup> Ex. GMG-209, RDB-REB 2 (Burke Rebuttal).

<sup>209</sup> Ex. GMG-209 at 6 (Burke Rebuttal); Ex. GMG 103 at 12 (Chilson Direct at 9).

<sup>210</sup> See Ex. GMG-109, RDB-REB 3 (Burke Rebuttal).

<sup>211</sup> DOC Initial Br. at 26-27.

<sup>212</sup> Ex. GMG-103 at 13 (Chilson Direct at 10).

<sup>213</sup> Evid. Hrg. Tr. at 18 (Chilson).

<sup>214</sup> Ex. GMG-103 at 13 (Chilson Direct at 10).

<sup>215</sup> Ex. DOC-215 at 9 (Uphus Direct).

## V. RATE DESIGN

156. The purpose of rate design is to allocate GMG’s revenue requirement among the company’s various customer classes. The first step in this process is to perform a Class Cost of Service Study (CCOSS) that provides insight into the actual costs of serving particular customer classes. These study results can then be used inform decisions about revenue apportionment and, ultimately, the rates that customers pay for utility service.<sup>216</sup>

### A. Class Cost of Service

157. According to the National Association of Utility Commissioners, a CCOSS has three steps: (1) cost functionalization, (2) cost classification, and (3) cost allocation. In the first step, costs are typically separated by function: (a) production or purchased power-related, (b) transmission-related, (c) distribution-related, (d) customer service and facility-related, and (e) administrative.<sup>217</sup> In the second step, once costs are separated by function, they are divided, or “classified,” based on the utility service components facilitated by that cost. At this stage, the relevant inquiry is whether the cost: (a) is demand-related, (b) is commodity-related, or (c) is customer-related.<sup>218</sup> In the third step, these functionalized and classified costs are “allocated” to specific customer classes using specific parameters known as “allocation factors.”<sup>219</sup>

158. One of the most contentious aspects of performing a CCOSS is the classification of distribution facilities. GMG’s CCOSS is based on a Minimum System Method.<sup>220</sup> The Minimum System method classifies distribution mains as primarily customer-related costs with the remainder as demand-related.<sup>221</sup> The two other methods are the Zero-Intercept method and the Basic Customer method; GMG did not provide these studies.<sup>222</sup>

159. Because these different methodologies can produce widely different results, the Commission has taken a holistic approach and indicated a preference for reviewing multiple methods for classifying distribution plant.<sup>223</sup> The Commission has explained, “No single cost-study method can be judged superior to all others in all contexts, and the choice among methods involves disputes over assumptions, applications, and data.”<sup>224</sup>

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<sup>216</sup> Ex. DOC-206 at 3 (Zajicek Direct).

<sup>217</sup> Ex. DOC-206 at 6 (Zajicek Direct).

<sup>218</sup> Ex. DOC-206 at 6 (Zajicek Direct).

<sup>219</sup> Ex. DOC-206 at 9–10 (Zajicek Direct).

<sup>220</sup> Ex. DOC-206 at 26 (Zajicek Direct).

<sup>221</sup> Ex. DOC-206 at 26–28 (Zajicek Direct).

<sup>222</sup> Ex. DOC-206 at 30–31 (Zajicek Direct).

<sup>223</sup> Ex. DOC-206 at 42 (Zajicek Direct); *In re Appl. of N. States Power Co. for Auth. to Increase Rates for Elec. Serv. in the State of Minn.*, Docket No. E-002/GR-15-826, FINDINGS OF FACT, CONCLUSIONS, & ORDER at 44–45 (June 17, 2017) (eDocket No. [20176-132748-01](#)) (Xcel 2015 Rate Case Order).

<sup>224</sup> *In re Appl. of Otter Tail Power Co. for Auth. to Increase Rates for Elec. Serv. in the State of Minn.*, Docket No. E-017/GR-20-719, FINDINGS OF FACT, CONCLUSION, & ORDER at 44 (Feb. 1, 2022) (eDocket No. [20222-182349-01](#)) (OTP 2022 Rate Case Order).

160. The Department generally believes the Minimum System Method produces results most consistent with cost causation.<sup>225</sup> However, the Company did not perform a demand adjustment which likely overallocated costs as customer costs.<sup>226</sup> There was a large shift in costs between the Company's original CCOSS and the Rebuttal CCOSS due to the Company removing 436,649 MCF<sup>227</sup> from its Test Year Projected Consumption.<sup>228</sup> GMG did not provide an explanation beyond a statement regarding unwillingness to change rate design.<sup>229</sup>

161. The Company has failed in abiding by the Commission's order to do several things including providing an explanatory filing identifying, and describing, each classification and allocation method used in the CCOSS and detailing the reasons for concluding that each method is appropriate and superior to alternative methods.<sup>230</sup> GMG stated that while they had the capability to change inputs in its CCOSS model, they chose not to due to adverse impact on residential customers.<sup>231</sup> An accurate CCOSS should reflect up-to-date cost causation considerations.<sup>232</sup> Other considerations can be addressed in the rate design process – which is distinct from the CCOSS process.<sup>233</sup>

162. The lack of transparency and possible inaccuracy of information provided by the Company prompted the Department's concern regarding the usefulness of GMG's CCOSS for informing rate design and the ability of the Department to make informed recommendations about CCOSS results. Since the Department's witness did not have the necessary time to determine the accuracy of the Company's CCOSS, the updated DOC CCOSS is a basic customer CCOSS model.<sup>234</sup> Below are the updated DOC CCOSS range results and CCOSS range apportionment percentages.<sup>235</sup>

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<sup>225</sup> Ex. DOC-210 at 45 (Zajicek Direct).

<sup>226</sup> Ex. DOC-210 at 28 (Zajicek Direct).

<sup>227</sup> MCF is a measure of natural gas equal to 1,000 cubic feet.

<sup>228</sup> Ex. DOC-212 at 8 (Zajicek Surrebuttal).

<sup>229</sup> Ex. DOC-212 at 8–9 (Zajicek Surrebuttal).

<sup>230</sup> Ex. DOC-210 at 32 (Zajicek Direct).

<sup>231</sup> Ex. DOC-211, MZ-D6 page 3 of 10 (Zajicek Direct Attachments, GMG Response to DOC IR 702).

<sup>232</sup> Ex. DOC-210 at 14 (Zajicek Direct).

<sup>233</sup> Ex. DOC-210 at 14 (Zajicek Direct).

<sup>234</sup> Ex. DOC-212 at 15 (Zajicek Surrebuttal).

<sup>235</sup> Ex. DOC-212 at 14, Table 1 (Zajicek Surrebuttal).

**Table 1: Updated DOC CCOSS Range**

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

**Table 2: Updated DOC CCOSS Range Apportionment Percentages**

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

163. The Department recommends the rate design fall somewhere in the range between the edited Company rebuttal CCOSS and the above basic customer CCOSS.<sup>236</sup>

<sup>236</sup> Ex. DOC-212 at 15 (Zajicek Surrebuttal).

164. The Administrative Law Judge finds the CCOSS results produced by the Department in Table 1 and Table 2 of Department witness Michael Zajicek’s surrebuttal testimony to be reasonable.

## **B. Revenue Responsibility Apportionment and Rate Design.**

### **1. Revenue Apportionment.**

165. Revenue apportionment describes the assignment of the utility’s approved revenue requirement to the various customer classes. In apportioning revenue responsibility and designing rates, the Commission must balance competing principles and policies.<sup>237</sup> Rates should offer utilities a reasonable opportunity to earn their revenue requirements.<sup>238</sup> They should promote efficiency and conservation.<sup>239</sup> They also should promote renewable energy use.<sup>240</sup> And, they should avoid “rate shock” and unreasonable discrimination against any customer class.<sup>241</sup> In balancing these priorities, the Commission must resolve any doubts in favor of consumers.<sup>242</sup>

166. GMG asserted that changes to its revenue apportionment between classes would be unnecessary, despite having endured changes in size and customer base in the last 15 years.<sup>243</sup> GMG stated that since its last rate case was filed in 2009, the Company has “tripled its number of customers, doubled the number of employees, and increased its net utility plant by approximately \$35 million.”<sup>244</sup>

167. The Department finds it unreasonable to assume the same rate design remains appropriate despite the Company’s economic profile changing substantially.<sup>245</sup>

168. GMG’s proposed revenue requirement is \$19.8 million.<sup>246</sup>

169. The Department cited moved the revenue share for each class from shares implies by current rates to shares closer to corresponding cost.<sup>247</sup> Three types of revenue shares were assigned based upon where their current allocation of revenue compares with the range of CCOSS

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<sup>237</sup> Ex. DOC-210 at 7 (Hirasuna Direct).

<sup>238</sup> Ex. DOC-210 at 8 (Hirasuna Direct); Minn. Stat. § 216B.16, subd. 6.

<sup>239</sup> Ex. DOC-210 at 8 (Hirasuna Direct); Minn. Stat. §§ 216B.03.

<sup>240</sup> Minn. Stat. § 216C.05, subd. 1 (2024).

<sup>241</sup> Ex. DOC-210 at 7-8 (Hirasuna Direct); Minn. Stat. §§ 216B.03, .07.

<sup>242</sup> Minn. Stat. § 216B.03 (2024).

<sup>243</sup> Ex. DOC-212 at 2–3 (Hirasuna Surrebuttal). *See* Ex. GMG-103 at 73 (Burke Direct at 32); Ex. GMG-109 at 26–27 (Burke Rebuttal).

<sup>244</sup> Ex. DOC-212 at 2 (Hirasuna Surrebuttal).

<sup>245</sup> Ex. DOC-212 at 3 (Hirasuna Surrebuttal).

<sup>246</sup> Ex. DOC-210 at 12 (Hirasuna Direct).

<sup>247</sup> Ex. DOC-210 at 17 (Hirasuna Direct).

estimates.<sup>248</sup> Additional transportation demand costs, not included in GMG's initially filed CCOS were apportioned.<sup>249</sup> The updated revenue apportionment is below.<sup>250</sup>

Table 2. Updated Revenue Apportionment (percent).<sup>16</sup>

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

170. The Department reduced the revenue apportionment in the residential customer class by 2.8 percentage points relative to GMG's revenue apportionment. This was balanced by an increase in apportionment to the large industrial class including an apportionment of the transport demand costs, resulting in a 2.7 percentage point increase in revenue apportioned to the large industrial class.<sup>251</sup>

171. The Administrative Law Judge finds the Department's recommendation to be reasonable. GMG's lack of change to their revenue apportionment despite seeing substantial change to their economic profile is not acceptable. The Department's allocation is efficient at reducing rate shock and is therefore adopted.

<sup>248</sup> Ex. DOC-210 at 17–18 (Hirasuna Direct).

<sup>249</sup> Ex. DOC-212 at 7 (Hirasuna Surrebuttal).

<sup>250</sup> Ex. DOC-212 at 8 (Hirasuna Surrebuttal).

<sup>251</sup> Ex. DOC-212 at 9 (Hirasuna Surrebuttal).

## CONCLUSIONS OF LAW

1. The Commission and the ALJ have jurisdiction to consider this matter pursuant to Minn. Stat. § 14.50 and Minn. Stat. §§ 216B.08, .09, .15, and .16 (2024).

2. The public and the parties received proper and timely notice of the requested rate increase, the public and evidentiary hearings, and the public comment period.

3. GMG has provided all information required by Minn. R. ch. 7825 (2023).

4. GMG has complied with all procedural requirements of statute and rule.

5. Every rate made, demanded, or received by any public utility shall be just and reasonable.<sup>252</sup> Rates shall not be unreasonably preferential, unreasonably prejudicial, or discriminatory, but rather, shall be sufficient, equitable, and consistent in application to a class of customers. In addition, to the maximum reasonable extent, the commission shall set rates to encourage energy conservation and renewable energy use and to further the goals of Minn. Stat. §§ 216B.164, 216B.241, and 216C.05 (2024).<sup>253</sup>

6. The utility bears the burden to show that the rate change is just and reasonable.<sup>254</sup> The utility must prove the facts required to sustain its burden by a fair preponderance of the evidence.<sup>255</sup> But the fair preponderance of the evidence standard applied in rate-case proceedings differs from that applied by courts in civil cases.<sup>256</sup> It is insufficient for the produced evidence to simply sustain the utility's position. The utility's position also must be consistent with the Commission's statutory responsibility to ensure just and reasonable rates for customers.<sup>257</sup> The utility always retains the burden of proving the reasonableness of the proposed rate change. No rebuttable presumption of reasonableness is created by a utility's submission of evidence on an issue.<sup>258</sup>

7. When determining the just and reasonable rates for public utilities, Minn. Stat. § 216B.16, subd. 6 directs the Commission to give due consideration to (a) the public need for adequate, efficient, and reasonable service; (b) the public utility's need 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 (c) the public utility's need to earn a fair and reasonable return upon the investment in such property.

8. In determining the rate base upon which the utility is allowed to earn a fair rate of return, the Commission shall give due consideration to (a) evidence of the cost of the property when first devoted to public use; (b) prudent acquisition costs to the public utility less appropriate

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<sup>252</sup> Minn. Stat. § 216B.03.

<sup>253</sup> Minn. Stat. § 216B.03.

<sup>254</sup> Minn. Stat. § 216B.16, subd. 4.

<sup>255</sup> *In re N. States Power Co.*, 416 N.W.2d 719, 722 (Minn. 1987).

<sup>256</sup> *In re N. States Power Co.*, 416 N.W.2d 719, 722 (Minn. 1987).

<sup>257</sup> *In re N. States Power Co.*, 416 N.W.2d 719, 722 (Minn. 1987).

<sup>258</sup> *In re N. States Power Co.*, 416 N.W.2d 719, 725–26 (Minn. 1987).

depreciation on each; (c) construction work in progress; (d) offsets in the nature of capital provided by sources other than the investors; and (e) to other expenses of a capital nature.<sup>259</sup>

9. For purposes of determining rate base, the Commission shall consider the original cost of utility property included in the base and shall make no allowance for its estimated current replacement value.<sup>260</sup>

10. The record supports the resolution of the settled, resolved, and uncontested matters set forth in this Report. These matters have been resolved in the public interest and are supported by substantial evidence.<sup>261</sup>

11. After the hearing, if the Commission finds the utility's proposal not to be just and reasonable, the Commission must determine what rates will be charged and applied by the utility.<sup>262</sup>

12. In determining just and reasonable rates, the Commission must consider the following:

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>263</sup>

13. Any of the forgoing Findings of Fact more properly designated as Conclusions of Law are hereby adopted as such.

## **RECOMMENDATIONS**

Based on the foregoing Findings of Fact and Conclusion of Law it is recommended that the Commission:

1. Determine that GMG is entitled to increase gross annual revenues in the manner and in the amount consistent with the Findings and Conclusions of this Report.

2. The text of the Findings and Conclusions should govern the mathematical and computational aspects of the Findings and Conclusions. The computations should be adjusted to conform to the conclusions of the Report.

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<sup>259</sup> Minn. Stat. § 216B.16, subd. 6.

<sup>260</sup> Minn. Stat. § 216B.16, subd. 6.

<sup>261</sup> Minn. Stat. § 216B.16, subd. 1a.

<sup>262</sup> Minn. Stat. § 216B.16, subd. 5.

<sup>263</sup> Minn. Stat. § 216B.16, subd. 6.