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

OAH File No. 71-2500-40492

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

**MINNESOTA DEPARTMENT OF COMMERCE
EXCEPTIONS TO ADMINISTRATIVE LAW JUDGE'S REPORT**

July 31, 2025

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INTRODUCTION

The Minnesota Department of Commerce (“Department”) respectfully submits to the Minnesota Public Utilities Commission (“Commission”) the following exceptions to the Findings of Fact, Conclusions of Law, and Recommendation (“Report”) issued by Administrative Law Judge Jessica Palmer-Denig. The Report recommended that Greater Minnesota Gas, Inc., (“GMG” or “Company”) be allowed to recover its full request on every financial issue, which would increase rates by approximately 7.5%.¹ The Department takes exception to provisions of the Report regarding return on equity, revenue requirement issues, class cost of service, and revenue apportionment. Finally, the Department recommends that the Commission adopt certain conditions for future case filing requirements.

OVERVIEW

The Department appreciates the Report’s recognition that GMG is a small utility that brings natural gas service to rural communities. Such communities are more costly to serve, and would otherwise rely on more expensive options, such as propane or heating oil, without service from GMG. With only 25 employees, it is understandable GMG’s rate case filing would not have the same level of sophistication seen in the filings of larger utilities. None of these factors, however, excuse GMG from its obligations as a rate-regulated utility, nor do they permit the Commission to apply a different burden of proof to GMG’s requested rate increase.² The Report regularly accepts unsupported or challenged claims from GMG at face value, while ignoring relevant and often un rebutted evidence from the Department and the Office of the Attorney General – Residential Utilities Division (“OAG-RUD”).

¹ *In re App. Of Greater Minn. Gas, Inc. for Auth. To Increase Rates for Nat. Gas Util. Serv. in Minn.*, MPUC Docket No. G-022/GR-24-350, SUMMARY OF PUBLIC TESTIMONY, FINDINGS OF FACT, CONCLUSIONS OF LAW, & RECOMMENDATION (July 11, 2025) (“Report”).

² See Minn. Stat. §§ 216B.03, 216B.16 (2024).

This is GMG’s first rate case since 2009, and fourth rate case overall.³ In all of GMG’s prior rate cases, the parties reached a resolution before rebuttal testimony was filed. In each case, the resolution involved the adoption of adjustments and recommendations made by the Department.⁴ At every stage, GMG has insisted that it aimed to resolve this case as early and easily as possible.⁵ GMG’s words, however, do not match its actions. GMG described its initial filing as a “bare-bones” case that omitted “shiny objects” included by other utilities.⁶ Unfortunately, GMG’s filing also omitted critical information such as expert opinions and evidence supporting the requested level of expense recovery.⁷

The Department put substantial effort into correcting objective errors, developing a basic factual record for assessing rate case expenses and revenues, and performing analyses required for new rates to be approved.⁸ In response, GMG expressed “dismay” at the Department’s “fail[ure]” to be “reasonable.”⁹ GMG then introduced information that it had neglected to include not only in its initial filings, but also in its responses to the Department’s discovery requests.¹⁰ Where this late-filed information reasonably supported GMG’s request, the Department dropped its opposition. As one example, the Department not only accepted GMG’s initial gas storage expense,

³ Ex. DOC-201 at 67–68 (Addonizio Direct).

⁴ See Department Initial Br. at 2 (May 8, 2025) (eDocket No. [20255-218733-02](#)).

⁵ See, e.g., GMG Reply Comments at 2 (Nov. 18, 2024) (eDocket No. [202411-212098-01](#)); Ex. GMG-112 at 4 (Palmer Rebuttal); GMG Initial Br. at 1 (May 8, 2025) (eDocket No. [20255-218728-01](#)).

⁶ Ex. GMG-112 at 1 (Palmer Rebuttal).

⁷ See Department Initial Br. at 3.

⁸ See, e.g., Ex. DOC-209 at 17 (Zajicek Surrebuttal); Ex. DOC-216 at 29–31 (Johnson Surrebuttal).

⁹ Ex. GMG-112 at 4 (Palmer Rebuttal).

¹⁰ E.g., compare Ex. DOC-215 at 22–23, AAU-D-1 at 22 (Uphus Direct) (developing an estimated reasonable expense for the repairs and maintenance account based on historic costs because GMG did not support its request its filing, and provided only vague, conclusory assertions in response to the Department’s discovery request) with Ex. GMG-110 at 14 (Burke Rebuttal) (providing basic information on the basis for the magnitude of the requested increase).

but supported a rate base increase of more than \$200,000 once GMG provided basic information underlying its request and explaining its actions.¹¹

Although the Department and GMG were able to reach an agreement on many topics,¹² there are a number of issues which remain contested. In order to prevail on any disputed issue, GMG first must establish the facts that support its position on the issue by a preponderance of the evidence.¹³ A party establishes a fact by a preponderance of the evidence when, taking into account all of the evidence presented, it is more likely than not that the fact is true.¹⁴ If evidence of a fact is equally balanced, then it has not been established by a preponderance of the evidence.¹⁵ The Commission acts in a quasi-judicial capacity when evaluating whether GMG has established such facts.¹⁶ If the company fails to carry this initial burden, the issue must be decided in favor of the company's customers.

¹¹ Compare Ex. GMG-103 at 11 (Burke Direct) (stating that gas storage costs were based on a 13-month average) and Ex. DOC-215 at 30, AAU-D-1 at 4 (Uphus Direct) (explaining the Department's choice to use historic averages after GMG stated in discovery that its 2024 storage costs were unusually high because it was the warmest winter on record, and providing no other explanation) with Ex. GMG-110 at 15–16, Exhibit RDB-REB 4 (Burke Rebuttal) (explaining how GMG's contracts were structured, including information on volumes and pricing, and the benefits of GMG's approach to ratepayers) and Ex. DOC-216 at 8–10 (Johnson Surrebuttal) (agreeing to use GMG's updated gas storage costs—and increasing the revenue deficiency by \$20,380—because those expenses were now supported by the record).

¹² See Ex. Joint-001 (Resolved Issues List).

¹³ Minn. R. 1400.7300, subp. 5 (2023); Minn. Stat. § 216B.16, subd. 4 (2024) (“The burden of proof to show that the rate change is just and reasonable shall be upon the public utility seeking the change.”). The burden of proof encompasses two separate concepts: (1) the burden of producing evidence of a particular fact satisfactory to the judge; and (2) the burden of persuading the trier of fact that the alleged fact is true. *Caprice v. Gomez*, 552 N.W.2d 753, 757 (Minn. Ct. App. 1996).

¹⁴ *In re Appeal by Kind Heart Daycare, Inc.*, 905 N.W.2d 1, 6–7 (Minn. 2017); *State by Humphrey v. Alpine Air Products*, 500 N.W.2d 788, 792 (Minn. 1993).

¹⁵ *City of Lake Elmo v. Metro. Council*, 685 N.W.2d 1, 4 (Minn. 2004) (citing *Netzer v. N. Pac. Ry. Co.*, 57 N.W.2d 247, 253 (Minn. 1953)).

¹⁶ Minn. Stat. § 216A.05, subd. 1 (2020); *Hibbing Taconite Co. v. Minn. Pub. Serv. Comm'n*, 302 N.W.2d 5, 9 (Minn. 1980); *St. Paul Area Chamber of Comm. v. Minn. Pub. Serv. Comm'n*, 251 N.W.2d 350, 358 (Minn. 1977).

Second, GMG must prove, by a preponderance of the evidence, that the rates to be charged to recover costs from customers are just and reasonable as a policy matter. During this inquiry, the Commission operates in a quasi-legislative capacity¹⁷ to determine “whether the evidence submitted, even if true, justifies the conclusion sought by the petitioning utility when considered together with the Commission’s statutory responsibility to enforce the state’s public policy that retail consumers of utility services shall be furnished such services at reasonable rates.”¹⁸

Importantly, there is no burden-shifting in a utility rate proceeding. The burden always remains with the utility to convince the factfinder that its claimed costs will result in just and reasonable rates.¹⁹ It is erroneous to conclude that the company’s position “must prevail” simply because other parties did not produce contradicting evidence or because the company’s proposal appears “prima facie” reasonable to the factfinder.²⁰ Nor are there any exceptions to this statutory requirement based on a utility’s size, the costs to ratepayers of alternative services, or any other factor. The Commission cannot accept the Company’s proposals at face value. Instead, the Commission must engage in the two-step analysis discussed above, guided by the requirement that any doubt as to reasonableness must be resolved in favor of the customer.²¹

¹⁷ *Id.*

¹⁸ *In re Pet. of N. States Power Co. for Auth. to Change Its Schedule of Rates for Elec. Serv. in Minn.*, 416 N.W.2d 719, 726 (Minn. 1987) (*Northern States Power*); *see also In re Appl. of Interstate Power Co. for Auth. to Increase Its Rates for Elec. Serv. in the State of Minn.*, 500 N.W.2d 501, 504 (Minn. Ct. App. 1993) (“A petitioning utility has the burden of proving to the [Commission] that its proposed assets and revenue requirements are accurate, just, and reasonable[.]”).

¹⁹ *Northern States Power*, 416 N.W.2d at 726 (“If there ever existed in this state a presumption to be applied in ratemaking, enactment of Minn. Stat. § 216B.16, subd. 4 (1986) effectively removed any presumption, and placed on the petitioning utility the burden of proving the proposed rate is fair and reasonable.”).

²⁰ *In re Appl. of Minn. Power for Auth. to Increase Rates for Elec. Serv. in Minn.*, MPUC Docket No. E-015/GR-16-664, FINDINGS OF FACT, CONCLUSIONS, & ORDER at 33 (Mar. 12, 2018) (eDocket No. [20183-140963-01](#)) (MP 2016 Rate Case Order).

²¹ Minn. Stat. § 216B.03 (2020).

EXCEPTIONS

I. Return on Equity

The Report recommends allowing GMG to retain its existing return on equity (“ROE”) that was set 15 years ago, with a 15-basis point increase for hypothetical future flotation costs applied to all of the Company’s existing equity.²² The resulting 10.15% ROE recommended by the Report is out of line with authorized ROEs for other Minnesota regulated utilities, even after making appropriate adjustments for GMG’s risk factors. The Report’s recommendation places too much weight on outdated, poorly explained decisions from another jurisdiction, and uses isolated, out-of-context aspects of the Commission’s previous decisions to unreasonably discount the Department’s analysis. The recommendation to adjust the base ROE upwards by 15 basis points for flotation costs is theoretically and mathematically flawed. The Department respectfully requests that the Commission follow its reasoning in past rate cases and authorize a 9.65% ROE based on current economic conditions and the factual record in this case. The Department’s recommended modifications to the Report are shown in Appendix A.

A. The Report’s Emphasis on ROE Decisions in *St. Croix Valley* and *Midwest Natural Gas* Is Unreasonable and Inappropriate.

The Report focuses heavily on the ROE set in two dated Public Service Commission of Wisconsin (PSCW) orders: *St. Croix Valley* and *Midwest Natural Gas*.²³ The Report erroneously found that these April 2023 ROE decisions were returns “generally being made at the same time and in the same general part of the country” that *Bluefield Water Works & Improvement Company*

²² Report ¶ 132.

²³ *In re Appl. of St. Croix Valley Nat. Gas Co., Inc. for Auth. to Increase Rates for Nat. Gas Rates*, Public Service Commission of Wisconsin, Docket No. 5230-GR-109, Final Decision at 3 (Apr. 24, 2023) (*St. Croix Valley Order*); *In re Appl. of Midwest Nat. Gas, Inc. for Auth. to Increase Rates for Nat. Gas Rates*, Public Service Commission of Wisconsin, Docket No. 3670-GR-106, Final Decision at 3 (Apr. 27, 2023) (*Midwest Natural Order*).

v. Public Service Commission of West Virginia instructed should be taken into consideration in setting a utility's authorized ROE.²⁴

The Commission, however, has previously explained that it was not reasonable to set ROEs for years into the future based on data from 2022 and early 2023 because economic conditions at the time were “significantly impacted by a period of peak inflation.”²⁵ Given that the Commission was unwilling to set ROEs based on peak inflation in a rate case that was brought while that inflation was occurring, the Report's decision to anchor its analysis based on ROEs set while inflation was still running hot more than two years later is inexplicable. Neither GMG nor the Report acknowledge, much less offer an explanation, for how decisions from the spring of 2023 fit within a common sense reading of *Bluefield's* instruction to look at returns being earned “at the same time.”

There are additional reasons why the Report's reliance on the PSCW's orders in *St. Croix Valley* and *Midwest Natural Gas* is misplaced. The Commission has explained that orders from other jurisdictions “have limited persuasive value because of the fact-intensive nature of cost-of-equity decision-making.”²⁶ The PSCW did not include any information in its orders about which utilities it considered to be “peers” to St. Croix Valley or Midwest Natural, which financial models—if any—it used in its independent economic analysis, which conditions or factors it took

²⁴ Report ¶ 140, citing *Bluefield Water Works & Improvement Company v. Public Service Commission of West Virginia*, 262 U.S. 679, 690 (1923).

²⁵ *In re Appl. of N. States Power Co., dba Xcel Energy, for Auth. to Increase Rates for Elec. Serv. in the State of Minn.*, MPUC Docket No. E-002/GR-21-630, FINDINGS OF FACT, CONCLUSIONS, AND ORDER at 91 (July 17, 2023) (eDocket No. [20237-197559-01](#)) (Xcel 2021 Rate Case Order).

²⁶ *In re Appl. of Minn. Power for Auth. to Increase Rates for Elec. Serv. in Minn.*, MPUC Docket No. E-015/GR-21-335, FINDINGS OF FACT, CONCLUSIONS, AND ORDER at 45 (Feb. 28, 2023) (eDocket No. [20232-193486-01](#)) (Minnesota Power 2021 Rate Case Order).

into consideration, or what adjustments it made based on those judgments.²⁷ The Report ignored this concern, accepting the conclusory statements in both orders asserting that the PSCW balanced the needs of shareholders and ratepayers, took due consideration of appropriate conditions and factors, and conducted an independent economic analysis at face value.²⁸

There is no explanation for why the PSCW found that the same imputed equity ratio and ROE would be appropriate for both utilities, even though these figures result in a weighted average cost of capital that provides 4.52 times the utility's estimated pre-tax interest expense for St. Croix Valley, but 5.55 times the estimate pre-tax interest expense for Midwest Natural.²⁹ While *Bluefield* calls for returns to be comparable to returns being made at the same time and in the same general part of the country on investments of similar risk, *Bluefield* and *Fed. Power Comm'n v. Hope Nat. Gas Co.* also clearly stated that the return should be "sufficient" to maintain credit and attract capital.³⁰ The PSCW's orders offer no insight into how it weighed the need for sufficient returns against the interests of ratepayers based on the specific facts of each case, sharply limiting the value these orders provide to the Commission here.

While the Report adopts GMG's assertion that the PSCW's ROE decisions "recognize that investing in smaller utilities can present higher risk than other comparable investment opportunities," the PSCW orders themselves do not address this point.³¹ The Department does not

²⁷ Department Reply Br. at 6–8 (May 22, 2025) (eDocket No. [20255-219197-02](#)). See generally St. Croix Valley Order, Midwest Natural Order.

²⁸ Report ¶ 140, fn 141.

²⁹ See generally St. Croix Valley Order, Midwest Natural Order.

³⁰ *Fed. Power Comm'n v. Hope Nat. Gas Co.*, 320 U.S. 591, 630 (1944), *Bluefield*, 262 U.S. at 690.

³¹ See Report ¶ 139, citing Ex. GMG-103 at 9 (Palmer Direct). Instead, the orders state that a higher ROE may be justified if "a given utility has more risk exposure than its peers" before noting in both cases that "[n]o material risk factors unique to the applicant were identified which would support a higher equity ratio or ROE relative to its peers." St. Croix Valley Order at 8; Midwest Natural Gas Order at 8.

dispute that GMG's small size makes it a riskier investment than a larger gas utility, and made an upwards adjustment to its recommended ROE to account for this added risk to shareholders.³² What is disputed, and what is not supported by the PSCW orders, GMG, or the Report, is the specific size of the adjustment warranted by this risk factor. Given the changes in economic circumstances since the orders were issued and the lack of supporting information in the written decisions, *St. Croix Valley* and *Midwest Natural Gas* cases offer little probative value and the ROEs they authorized should be weighed accordingly.

B. The Record Supports an ROE of 9.65%

The Department's recommended 9.65% ROE was developed after extensive financial modeling, adjusted for historical gaps between a utility's cost of equity and authorized ROE as well as GMG's specific risk factors.³³ The Report suggests that the Department did not properly adjust its recommended ROE for all appropriate factors, noting that the recommendation was reached "[a]fter considering *some* of the special risks faced by GMG."³⁴ The Department considered all of the special risks faced by GMG, and recommended an adjustment to the authorized ROE to account for appropriately incorporated risks.³⁵

The Department also established why several of the risk factors that GMG claimed justified higher returns were inappropriate.³⁶ For example, GMG claimed that sales volatility stemming from weather justified a higher return. But investors can protect themselves from the risk of sales volatility stemming from weather by diversifying their holdings, and therefore do not require additional returns for such a risk.³⁷ GMG also argued that it should receive a higher ROE because

³² Ex. DOC-201 at 62 (Addonizio Direct).

³³ Department Initial Br. at 6–16.

³⁴ Report ¶ 144 (emphasis added).

³⁵ See Department Initial Br. at 11–12; Ex. DOC-201 at 49–51, 70–71 (Addonizio Direct).

³⁶ Department Initial Br. at 11–12; Ex. DOC-201 at 70–71 (Addonizio Direct).

³⁷ Ex. DOC-201 at 70 (Addonizio Direct).

it reinvests its earnings in the Company rather than distributing them as dividends. The choice to reinvest earnings, however, allows the Company's rate base to grow faster than it otherwise would, enhancing GMG's ability to pay future dividends.³⁸

GMG did not provide any response to the Department's expert analysis explaining why it was inappropriate to adjust GMG's ROE for diversifiable risk or the reinvestment of the Company's earnings.³⁹ Despite GMG's failure to provide any evidence rebutting the Department's reasoned explanation why these factors should not impact ROE, the Report nevertheless found that they made GMG "significantly riskier" than the proxy group companies.⁴⁰ This finding is unsupported by the record and should be rejected.

The Department put its recommendation in the context of other recent ROE decisions. For example, the Department's recommendation is 40 basis points higher than the Department's recent recommended ROE for CenterPoint Energy, reasonably reflecting GMG's higher risk.⁴¹ The Department's recommendation is also 25 basis points higher than its recommendation in Xcel Energy's most recent gas case, even though the same financial model suggested the cost of equity had dropped by 49 basis points during the time period between the two recommendations.⁴²

GMG argued that the Department's recommendation is unreasonable because the Xcel Energy's gas case was resolved by a settlement that included a 9.60% ROE.⁴³ As the Commission

³⁸ Ex. DOC-201 at 70–71 (Addonizio Direct).

³⁹ See generally Ex. GMG-112 (Palmer Rebuttal).

⁴⁰ Report ¶¶ 153–154.

⁴¹ Ex. DOC-201 at 63 (Addonizio Direct).

⁴² Ex. DOC-203 at 8 (Addonizio Surrebuttal) (explaining that the Department recommended an ROE of 9.4% in the Xcel Energy gas rate case, based on a mean 10-year multi-stage DCF estimate of 9.01%).

⁴³ *In re the Appl. of N. States Power Co., d/b/a Xcel Energy, for Auth. to Increase Rates for Natural Gas Service in Minn.*, MPUC Docket No. G-002/GR-23-413, ORDER ACCEPTING AND ADOPTING AGREEMENT SETTING RATES (Mar. 5, 2025).

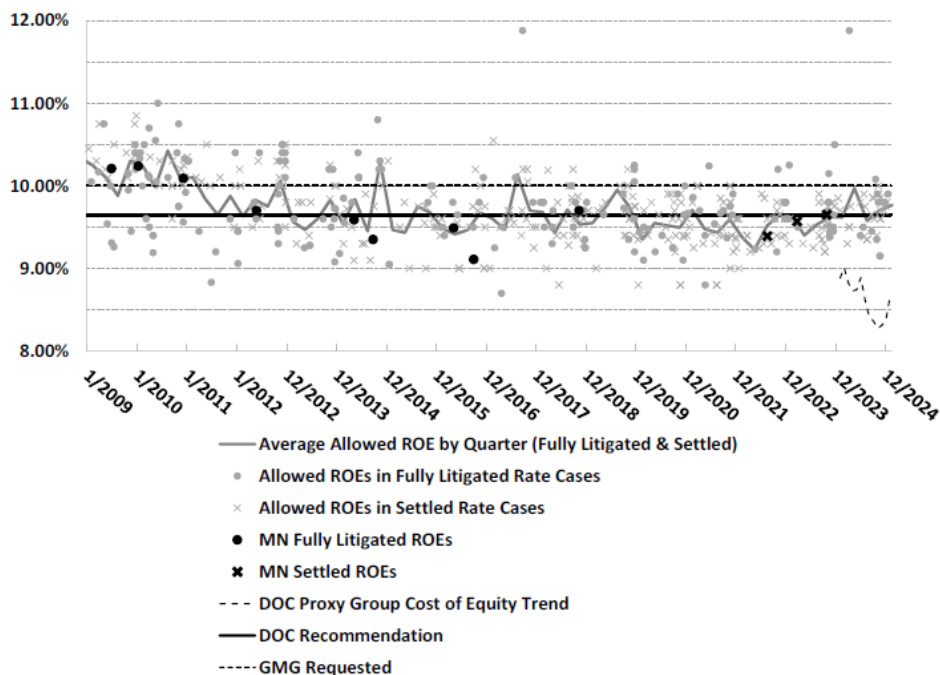
has long recognized, settlements represent compromises between the parties, and should not be taken to represent what a party would find reasonable if the case were litigated.⁴⁴ This argument also ignores the differences in financial conditions at the time each rate case was filed. The Commission has recognized that “it is a given that economic conditions are dynamic” and that each ROE decision “are always made on the basis of the best evidence available,” which changes over time.⁴⁵

The range of returns suggested by GMG, and accepted by the Report, are completely out of line with both the Commission’s decisions and the ROEs awarded to other companies in the Department’s proxy group. The 10.68% and 11.12% “mean average” and “mean high” ROEs produced by the two-growth DCF model at the time of surrebuttal, which GMG and the Report claim are reasonable, greatly exceed anything authorized by the Commission in the past 15 years.

⁴⁴ Ex. DOC-201 at 8 (Addonizio Surrebuttal); *In re the Appl. of the Grand Rapids Pub. Util. Comm’n to Extend its Assigned Serv. Area into the Area Presently Served by Lake Country Power*, MPUC Docket No. E-243, 106/SA-03-896, ORDER DETERMINING COMPENSATION at 8 (Sept. 29, 2005) (eDocket No. [2373348](#)).

⁴⁵ *In re the Application of CenterPoint Energy Resources Corp. d/b/a CenterPoint Energy Minn. Gas for Authority to Increase Natural Gas Rates in Minn.*, MPUC Docket No. G-008/GR-15-424, FINDINGS OF FACT, CONCLUSIONS, AND ORDER at 35 (June 3, 2016) (eDocket No. [20166-121975-01](#)) (CenterPoint Energy 2015 Rate Case Order).

Figure 5
Gas Authorized ROEs 2009-Present and
DOC Proxy Group Cost of Equity



Common sense dictates that these results are not consistent with the Commission’s approach to setting ROE.

The Report’s reliance on the Commission’s decisions in the 2021 Xcel Energy and Minnesota Power electric rate cases ignores crucial context. As an initial matter, the Commission is not bound to strict adherence to its own prior decisions.⁴⁶ Appellate courts have explained that “where evidence in the record differs from previous cases, results may differ as well.”⁴⁷ GMG did not offer any evidence that called into question the empirical and theoretical information the Department used to support its position, instead relying on the decisions the Commission made in cases with substantially different records.⁴⁸

⁴⁶ *Pet. of N. States Power Gas Utility*, 519 N.W.2d 921, 925 (Minn. Ct. App. 1994) (“[T]he agency is not bound to a rigid adherence to precedent[.]”).

⁴⁷ *Id.*

⁴⁸ See Ex. GMG-112 at 12 (Palmer Rebuttal).

While the Report frames the Commission’s decisions as simplistic rejections of the Department’s multi-stage DCF model, the orders reflect the Commission’s practice of considering data from multiple sources and considering the record as a whole when setting ROE.⁴⁹ In Xcel Energy’s 2021 electric rate case, the authorized ROE selected by the Commission matched the Department’s recommendation, which relied most heavily on the results of a multi-stage DCF model.⁵⁰

In Minnesota Power’s 2021 electric rate case, the Commission considered and rejected Minnesota Power’s argument that an ROE below its request would hinder its ability to raise capital because there was no specific information in the record supporting such a finding.⁵¹ Although GMG and the Report have invoked the specter that GMG will be unable to attract necessary capital if it does not receive its requested ROE, there is nothing in the record that contradicts the evidence offered by the Department that GMG was able to raise sufficient capital at a much lower effective ROE.⁵²

C. GMG Is Not Entitled to A Second Recovery On Its Equity Flotation Costs.

Even though GMG has already recovered its flotation costs for its existing equity and has only ill-defined, hypothetical plans to issue future equity, the Report recommends a 15-basis point increase to GMG’s ROE for flotation costs. This recommendation is theoretically and mathematically flawed.

The Commission has previously rejected other utilities’ attempts to recover hypothetical future equity flotation costs from ratepayers. As the Commission has explained, it is inappropriate to authorize flotation costs when there is no evidence in the record on “the nature, amount, and

⁴⁹ See Xcel 2021 Rate Case Order at 89–92.

⁵⁰ See *id.* at 84, 89, 92; Department Initial Br. at 15.

⁵¹ Minnesota Power 2021 Rate Case Order at 45.

⁵² Ex. DOC-201 at 63 (Addonizio Direct).

financial impact of all costs associated with any completed or planned stock issuance” for which the utility is seeking recovery.⁵³ GMG has not offered any evidence into the record about plans for future equity offers or the costs that would be incurred in such an offering.⁵⁴ The Report’s finding that GMG is entitled to recover flotation costs is unsupported by the record and should be rejected.

The Report asserts that GMG’s flotation costs for long-term debt “represent[] the best proxy” for GMG’s future equity flotation costs.⁵⁵ The Report once again omits critical information. The Department explained why GMG’s initially proposed 30-basis point flotation cost adjustment was mathematically incorrect, and would result in the Company recovering the *entire* cost of its capital issuances every year from ratepayers.⁵⁶ Instead, the flotation costs must be spread ratably over the life of the security issuance.⁵⁷ When this necessary step is taken, GMG’s flotation costs for debt was reduced to 15 basis points, and flotation costs for equity was a single basis point.⁵⁸ Even if flotation costs for equity were appropriate in this case, the Report offers no explanation for its rejection of the Department’s evidence regarding the calculation of those costs. GMG’s requested upwards adjustment to ROE for equity flotation costs should be denied.

⁵³ CenterPoint Energy 2015 Rate Case Order at 44.

⁵⁴ See Report ¶ 166.

⁵⁵ Report ¶ 166.

⁵⁶ Ex. DOC-201 at 38 (Addonizio Direct).

⁵⁷ Ex. DOC-201 at 38 (Addonizio Direct).

⁵⁸ Ex. DOC-201 at 38 (Addonizio Direct).

II. REVENUE REQUIREMENTS

A. Revenues – 2025 Sales Forecast

GMG updated its 2025 test-year sales forecast in Rebuttal Testimony to include 2024 year-end actuals, projecting approximately \$18.2 million in total sales.⁵⁹ Although the Department's expert established that GMG did not demonstrate the reasonableness of several assumptions and GMG's forecasted sales leading to an inflated size of test-year revenue deficiency, the Report concluded that annualizing new customers' revenues would not allow GMG a reasonable opportunity to recover the cost of its service.⁶⁰ As explained below, the Commission should ensure GMG's methods in forecasting energy charges accurately reflect GMG's forecasted sales on an ongoing basis.

First, GMG understated its ongoing sales by incorrectly applying a UPC (average monthly use per customer estimates) of 21.6 dekatherms for each new customer in the residential class while existing residential customers use four times as much gas at 86.0 dekatherms.⁶¹ GMG argued that this was a reasonable approach because a great majority of GMG's new customers are added mid-year to late-year and that most customer gas use occurs from January through March.⁶² However, the Company did not provide actual data pertaining to monthly consumption data of new customers as they transition into existing customers over several four-year periods, claiming it would be burdensome to review and produce.⁶³ The Company's use of 21.6 dekatherms for each new customer is invalid and unreasonable, and should be rejected. Customer charge revenues reflect the inputted UPC values.⁶⁴ The Report does not make note of the unreasonableness of the

⁵⁹ Report ¶ 169.

⁶⁰ Report ¶ 182.

⁶¹ Ex. DOC-204 at 16 (Shah Direct).

⁶² Ex. GMG-110 at 2–3 (Burke Rebuttal).

⁶³ Ex. DOC-205 at 8 (Shah Surrebuttal).

⁶⁴ Ex. DOC-204 at 16 (Shah Direct).

Company's assumption that customer charge revenues would only be approximately a third of what the actual amounts ought to be for new customers in a 12-month period. It follows that the Report does not address that GMG understated test-year sales and customer charge revenues subsequently inflating GMG's test-year revenue deficiency.

Second, GMG failed to provide accurate billing data in violation of prior Commission orders. Reasonable forecasting of test-year sales volume is critical for calculating a utility's revenue requirement as sales levels affect both revenues and expenses.⁶⁵ The Commission should note the Company's partial noncompliance with the Commission's 2004, 2006, 2009 rate case orders regarding sales forecast.⁶⁶ The orders direct the Company to provide billing-cycle sales (energy use), billing-cycle number of customers, and billing-cycle weather data (heating degree-days for each customer class).⁶⁷ Yet, the Company did not provide complete details regarding billing cycle details amounting to billing month data nor anything on billing cycle weather data.⁶⁸

The Report does not address how the lack of these details disallowed independent verification of any data used by the Company to in order to analyze the reasonableness of the test-year sales. GMG failed to provide older historic data, claiming it would be unduly burdensome to produce, which hindered the Department's ability to prepare an alternative sales forecast based on statistical weather models.⁶⁹ To help streamline future rate cases and provide reliable, accurate data for use in developing sales forecasts, the Department has recommended that the Commission adopt certain requirements for GMG's retention and production of data related to sales forecasts in future rate cases. These proposed requirements are listed in section IV below.

⁶⁵ Ex. DOC-204 at 5 (Shah Direct).

⁶⁶ Ex. DOC-204 at 7–10 (Shah Direct).

⁶⁷ Ex. DOC-204 at 7–10 (Shah Direct).

⁶⁸ Ex. DOC-204 at 7–10 (Shah Direct).

⁶⁹ Ex. DOC-204 at 14 (Shah Direct).

It remains important to ensure a representative amount of sales and revenues are included so reasonable rates can be set based on a normal 12-month test-year. GMG has not established an adequate basis for deviating from a normal 12-month test-year as it pertains to sales forecasting – especially when new customers stay on the system and continue to use natural gas as existing customers in subsequent years.⁷⁰ GMG bears the burden of proving the reasonableness of its requested recovery from ratepayers, and any doubt as to reasonableness should be resolved in favor of the consumer.⁷¹ The Commission should not adopt the Report’s recommendation and instead should update GMG’s revenue requirement as shown in Appendix A.

B. Operating Expenses

The Report’s findings and recommendations for GMG’s operating expenses are frequently unexplained and unsupported by the record as a whole. The Report frequently states that GMG has “met its burden” without addressing countervailing evidence offered by the Department and OAG-RUD and the statutory requirement that doubt be resolved in favor of ratepayers. The Commission should not adopt the Report’s findings and recommendations on operating expenses, and should instead modify the Report as shown in Appendix A.

1. Performance Pay

GMG offers employees the opportunity to obtain an annual increase in their compensation in the form of performance pay as an addition to their base compensation.⁷² The Company asserted that the performance pay offered is linked to specific aspects of the employee’s job duties and is not contingent on GMG’s earnings or financial performance.⁷³ In 2023, the Commission approved a 15% cap on short-term annual incentive compensation expense, resolving disputed recovery

⁷⁰ Ex. DOC-205 at 9–11 (Shah Surrebuttal).

⁷¹ See Minn. Stat. §§ 216B.03, 216B.16 (2024).

⁷² Ex. GMG-112 at 19 (Palmer Rebuttal).

⁷³ Ex. GMG-112 at 21 (Palmer Rebuttal).

limits for short-term incentive compensation.⁷⁴ The Commission should not accept the Report's recommendation to exempt GMG from this incentive compensation cap for the one employee whose AIP is tied to financial performance.

While GMG is a small company with a total of 25 employees, the record establishes that such a cap is not prohibitive of GMG's ability to retain key personnel. Such a cap supports ratepayer interests since annual performance pay primarily incentivizes employees to act in the interest of shareholders; furthermore, customers paying for annual performance pay end up enduring some of that risk while largely accruing benefits enjoyed by shareholders.⁷⁵ The Commission should uphold their position pertaining to a 15% cap on short-term annual incentive compensation expense when that incentive pay is tied to a utility's financial performance.

2. Retention Agreements

GMG included \$48,300 of long-term compensation ("LTI") in the proposed test year.⁷⁶ Although the Commission has consistently rejected recovery of LTI costs in Minnesota rate cases,⁷⁷ the Report nevertheless recommended that the Commission make an exception for GMG.⁷⁸

The Department maintains its recommendation that the Commission exclude GMG's LTI in the test year per the Commission's long-standing practice of not allowing LTI expense in rate cases. If the Commission determines it reasonable for GMG to include LTI in the test year, the Department recommends the Commission specify that this departure from past precedent is

⁷⁴ Ex. DOC-213 at 19 (Johnson Direct).

⁷⁵ See, e.g., Xcel 2021 Rate Case Order at 18–19.

⁷⁶ Ex. DOC-213 at 20 (Johnson Direct).

⁷⁷ Ex. DOC-213 at 20 (Johnson Direct).

⁷⁸ Report ¶ 226.

specifically due to GMG's LTI plan not including a shareholder-return-based performance element.⁷⁹

3. Administrative Expense – Education and Training

GMG included an administrative expense for education and training of \$10,200 in the test-year, nearly triple its actual 2024 expenses.⁸⁰ Based on historical expenses and the information provided by GMG regarding new anticipated training expenses, the Department recommended a 2025 test year expense of \$6,409, an 83% increase over 2024 expenses.⁸¹ The Report found that GMG's proposed expense was reasonable, pointing to GMG's 2022 expenses.⁸² GMG itself, however, described its 2022 expenses as "a catch-up year" for employees who had not received training since the start of the pandemic.⁸³ The Department's recommendation is reasonable and accounts for the need to provide additional training to GMG's new technician.

4. Administrative Expense – Postage

GMG included a postage expense of \$5,400 for the test year, nearly 50% higher than its 2024 expenses.⁸⁴ GMG's proposed expense was based on its 2022 and 2023 expenses, with no explanation for these expenses decreased or why 2024's actual expenses should not be considered in setting test year expenses.⁸⁵ The Department recommended instead a \$4,431 test year expense. This recommendation was based on an average of recent actual expenses, with an increase to

⁷⁹ Ex. DOC-213 at 24–25 (Johnson Direct).

⁸⁰ Ex. GMG-105, Schedule C-3 at 3; Ex. DOC-216 at 15 (Johnson Surrebuttal).

⁸¹ Ex. DOC-216 at 16 (Johnson Surrebuttal).

⁸² Report ¶¶ 231–232.

⁸³ Ex. DOC-215, AAU-D-1 at 15–16 (Uphus Direct) (GMG Response to DOC IR 123).

⁸⁴ Ex. GMG-105, Schedule C-3 at 3 (Initial Filing – Vol. 3); Ex. DOC-216 at 17 (Johnson Surrebuttal).

⁸⁵ See Ex. DOC-215, AAU-D-1 at 18–19 (Uphus Direct) (GMG Response to DOC IR 126); Ex. DOC-216, MAJ-S-11 at 6 (Johnson Surrebuttal) (GMG Suppl. Response to DOC IR 126).

account for inflation.⁸⁶ The Report found that because postage costs fluctuate, it was reasonable for GMG to set a test year amount near the high end of actual recent experiences. This is contrary to the Commission’s practice of using historical averages for costs that fluctuate from year to year, a practice that allows utilities a reasonable opportunity to recover their costs without violating the statutory requirement to resolve doubt in ratepayer’s favor.⁸⁷

5. Administrative Expense – Repairs and Maintenance

GMG included a repair and maintenance expense for items such as snow removal, lawncare, and office cleaning contracts of \$24,000 in the test year, a 58% increase from its 2024 expenses.⁸⁸ GMG argued that the driver behind this expense is the rise in the cost of several contracts as well as vendor change that the Company asserts were outside of their control.⁸⁹ Specifically, GMG stated that its cleaning service cost increased by 33%, its snow removal and salt application costs increased by 30%, and its lawncare costs increased by 23%.⁹⁰ Based on this information, the Department proposed a 30% inflation rate to arrive at a test-year adjusted expense of \$19,787.⁹¹

The Report found that GMG met its burden to demonstrate the reasonableness of its repair and maintenance expense because it “demonstrated known and quantifiable increases to contract rates.”⁹² The Report’s finding is unreasonable because it did not explain why GMG was entitled

⁸⁶ Ex. DOC-216 at 17–18 (Johnson Surrebuttal).

⁸⁷ See, e.g., *In re Appl. of Minn. Power for Auth. to Increase Rates for Elec. Serv. in Minn.*, No. E-015/GR-16-664, FINDINGS OF FACT, CONCLUSIONS, AND ORDER at 19, 36, 39 (Mar. 12, 2018) (eDocket No. [20183-140963-01](#)).

⁸⁸ Ex. GMG-105, Schedule C-3 at 3 (Initial Filing – Vol. 3); Ex. DOC-216 at 19 (Johnson Surrebuttal).

⁸⁹ Ex. GMG-109 at 14 (Burke Rebuttal).

⁹⁰ Ex. GMG-109 at 14 (Burke Rebuttal).

⁹¹ Ex. DOC-216 at 20 (Johnson Surrebuttal).

⁹² Report ¶ 244.

to an increase in test year expense that is notably higher than the known and quantifiable increase its contracted service rates. The Department's recommended expense reasonably reflects GMG's actual increase in expenses in this area.

6. Administrative Expense – Auto and Truck Expense

GMG included an auto and truck administrative expense of \$138,000 in the test year.⁹³ The main drivers of this expense include the Company's addition of a new vehicle to the fleet that is outfitted with specialized equipment and the Company's anticipation of higher vehicle maintenance costs going forward.⁹⁴ The Department found a 62% increase from 2024 actual to test year expense unreasonable and instead annualized the Company's estimate 2024 expense and applied an inflation rate of 5%, rather than the historical inflation rate of between 2–3% to account for new and increased costs, to arrive at an adjusted expense of \$130,427.⁹⁵ The Department did not change its recommended adjustment when the Company's actual 2024 expenses came in substantially under the Company's projected 2024 expenses.⁹⁶ The Department's methodology is appropriately prudent while being mindful of the Company's reasons for including this expense.

III. RATE DESIGN

A. Class Cost of Service Methodology

The Department takes exception to the Report's recommendation to adopt GMG's class cost of service study (CCOSS). The purpose of a CCOSS is "to identify, as accurately as possible, each customer class's causal responsibility for each cost the utility incurred in providing service."⁹⁷

⁹³ Ex. GMG-105, Schedule C-3 at 3 (Initial Filing – Vol. 3).

⁹⁴ Ex. GMG-103 at 20 (Burke Direct); Ex. DOC-215, AAU-D-1 at 6–7 (Uphus Direct) (GMG Response to DOC IR 116).

⁹⁵ Ex. DOC-215 at 11–12 (Uphus Direct).

⁹⁶ Ex. DOC-216, at 14, MAJ-S-11 at 2 (Johnson Surrebuttal) (GMG Suppl. Response to DOC IR 116).

⁹⁷ *In re Appl. of Otter Tail Power Co. for Auth. to Increase Rates for Elec. Serv. in the State of Minn.*, MPUC Docket No. E017/GR-20-719, FINDINGS OF FACT, CONCLUSIONS, AND ORDER at 40.

GMG stated that the Company intentionally failed to make changes previously ordered by the Commission for the express purpose of manipulating the results to match the Company's preferred revenue apportionment.⁹⁸ These admissions are conspicuously absent from the Report's findings of fact. It defies logic to adopt a CCOSS that was designed to support a predetermined rate design by obscuring each customer class's actual cost of service.

There are unresolved questions surrounding GMG's decision to remove 436,649⁹⁹ MCF of projected consumption from its CCOSS in rebuttal testimony. While GMG provided an itemized list of changes made in its rebuttal CCOSS, it omitted this change from that list.¹⁰⁰ When the Department asked GMG for information on why this change was not disclosed, GMG said that it did not acknowledge this modification because GMG "continues to not support any rate design changes."¹⁰¹ As a result of GMG's failure to be transparent about the changes it was making or provide responsive answers to the Department's discovery request and subsequent informal follow-up, the Department was unable to determine whether the consumption data GMG used in its initial CCOSS or its rebuttal CCOSS was correct.¹⁰² The Report does not acknowledge GMG's lack of transparency or the unresolved questions regarding the removal of 20% of projected consumption from the rebuttal CCOSS.

The Department provided both a Basic Customer Method and Minimum System Method studies because the Commission has repeatedly expressed that it finds multiple CCOSS results

(Feb. 1, 2022) (eDocket No. [2022-182349-01](#)) Although less of a central concern in most rate cases, the CCOSS also informs the Commission's determinations about how rates should be collected from customers classes via the energy, demand, and customer charges. Accuracy is no less important in these considerations.

⁹⁸ Ex. GMG-109 at 25 (Burke Rebuttal).

⁹⁹ MCF is a measure of natural gas equal to 1,000 cubic feet.

¹⁰⁰ See Ex. GMG-109 at 24 (Burke Rebuttal).

¹⁰¹ Ex. DOC-209 at 9, MZ-S-2 (Zajicek Surrebuttal).

¹⁰² See Ex. DOC-209 at 7–11 (Zajicek Surrebuttal).

useful and prefers to have a range of results.¹⁰³ The Report found that the Minimum System Method is a reasonable method for classification of costs in this case. Without any comment on the merits of the Department's thoroughly explained and supported Minimum System Method CCOS, the Report found that GMG's CCOS was reasonable. The Report did not offer any explanation for its implicit rejection of the evidence offered by both the Department and OAG-RUD that GMG's CCOS included significant flaws, such as a lack of demand adjustment and a cost escalator.

The Commission should not adopt the Report's finding that GMG's CCOS is reasonable and instead should find that the range of CCOS results provided by the Department are reasonable, as described in Appendix A.

B. Future Class Cost of Service Study Recommendations

The Department recommended changes GMG should be required to make to its CCOS in future rate cases.¹⁰⁴ These recommendations are made for the purpose of streamlining the regulatory process, producing more accurate results, and minimizing the unnecessary use of resources.¹⁰⁵ GMG asserted that the Department's proposal would require "substantial resources . . . through additional personnel, consultants, [or] modeling software," while at the same time arguing that it had already implemented most of the changes in its initial CCOS before reverting back to its 2009 model.¹⁰⁶ The only recommendation for which GMG identified a problem was tracking meter installation by customer class, arguing that it "would be virtually impossible as customers move between classes."¹⁰⁷

¹⁰³ Ex. DOC-207 at 42 (Zajicek Direct).

¹⁰⁴ Ex. DOC-207 at 46 (Zajicek Direct).

¹⁰⁵ Ex. DOC-207 at 46 (Zajicek Direct).

¹⁰⁶ *Compare* Ex. GMG-109 at 26 *with* Ex. GMG-109 at 22 (Burke Rebuttal).

¹⁰⁷ Ex. GMG-109 at 25 (Burke Rebuttal).

Despite the lack of evidence supporting GMG’s contention that implementing these changes would be unduly burdensome—and GMG’s testimony that it already had implemented many of the ordered changes before rejecting them—the Report found that the costs and benefits of the Department’s proposal should be considered before they are adopted.¹⁰⁸ The Department agrees that the costs and benefits to ratepayers are important and should be taken into account. In this case, however, it was GMG’s refusal to comply with past Commission orders and produce an accurate CCOSS—rather than the requirements GMG previously agreed to—that resulted in the expenditure of significant, unnecessary time and resources.¹⁰⁹ The Commission should adopt the Department’s recommended CCOSS requirements for GMG’s next rate case.

C. Revenue Apportionment

Revenue apportionment seeks to avoid rate shock and unreasonable discrimination against any customer class.¹¹⁰ In this case, GMG “chose to retain” the same revenue apportionment that was approved in GMG’s 2009 rate case.¹¹¹ The Report found that this revenue apportionment was reasonable because it matched the cost of service established in GMG’s CCOSS.¹¹² However, as stated by GMG and described above, GMG’s CCOSS was reverse-engineered to support its desired revenue apportionment.¹¹³ In every rate case, the utility must prove that each component of the proposed rate—including revenue apportionment—is fair and just.¹¹⁴

The Department proposed a revenue apportionment that moves each class closer to its cost of service to minimize discrimination between classes, with changes moderated to avoid rate

¹⁰⁸ Report ¶ 324.

¹⁰⁹ Ex. DOC-209 at 17 (Zajicek Surrebuttal).

¹¹⁰ Minn. Stat. §§ 216B.16, subd. 6, 216B.03, 216B.07 (2024).

¹¹¹ Ex. GMG-109 at 23 (Burke Rebuttal).

¹¹² Report ¶¶ 328, 338.

¹¹³ Ex. GMG-109 at 25 (Burke Rebuttal).

¹¹⁴ *Pet. of N. States Power Co.*, 416 N.W.2d 719, 726 (Minn. 1987).

shock.¹¹⁵ GMG initially argued that the existing rate design should be retained because changes would have an “adverse impact on residential customers.”¹¹⁶ However, after flaws with GMG’s initially provided CCOSS information were discovered, the Department’s CCOSS models suggested that residential customers should face a smaller increase in rates, with large industrial customers seeing a larger increase.¹¹⁷ GMG then argued that its existing rate design should be retained because changes would have an adverse impact on large customers.¹¹⁸ Changing a utility’s revenue apportionment will inherently lead to some customer classes seeing a larger increase than others as revenue apportionment belatedly catches up to changes in the cost of providing service to each class. Although continuity with prior rates to avoid rate shock is one of the factors that the Commission must take into account in setting revenue apportionment, other concerns such as the avoidance of discrimination and unreasonable preference must also be considered.¹¹⁹

In contrast to GMG’s argument that its residential ratepayers achieve 54.0–60.7% savings by using its natural gas service over propane or heating oil—which it supported with data—it did not provide any information comparing the “lower-cost summer transport lots of propane” available to its large industrial customers to their charges for natural gas under GMG’s and the Department’s proposed revenue apportionments.¹²⁰ It is undisputed that large industrial customers may switch back to other fuels if those options are cheaper than natural gas service. GMG,

¹¹⁵ Ex. DOC-210 at 19–21 (Hirasuna Direct); Ex. DOC-212 at 7–9 (Hirasuna Surrebuttal).

¹¹⁶ Ex. DOC-207, MZ-D-6 at 3 (Zajicek Direct Attachments). *See also* Ex. DOC-210 at 19–20 (Hirasuna Direct) (indicating that residential customers were paying less than their cost of service based on CCOSS models developed from the information initially provided by GMG).

¹¹⁷ *See* Ex. DOC-211 at 4–5 (Hirasuna Rebuttal).

¹¹⁸ Ex. GMG-110 at 24 (Burke Surrebuttal).

¹¹⁹ *See* Minn. Stat. §§ 216B.01, .03, .2401; 216C.05; 216B.16, subd. 15; Xcel 2021 Rate Case Order at 111.

¹²⁰ *Compare* Ex. GMG-107 at 2, CJC-SR-1 *with* Ex. GMG-107 at 6 (Chilson Surrebuttal).

however, has offered no evidence of where that tipping point is. Instead, the only objective evidence offered by GMG is that its natural gas service, while notably more expensive than that offered by other utilities in the state, is still more affordable than the alternative fuels available in its service territory.

The Report found a “real risk” that the revenue apportionments proposed by the Department and OAG-RUD would cause large industrial customers to leave GMG’s system.¹²¹ This risk is not adequately supported by the record and does not outweigh the evidence that GMG’s proposed revenue apportionment forces residential and small business customers to unfairly bear costs incurred to serve large industrial customers. The Commission should reject this finding.

The Department is proposing larger revenue increases to larger customer classes and smaller increases to residential and small commercial customers.¹²² The Department’s proposed revenue apportionment is applied through the lens of several principles: allowing the Company a reasonable opportunity to recover its revenue requirement, promoting efficient resource use, limiting consumer rate shock and administering readily understood rates.¹²³ The Department’s updated revenue apportionment is not significantly different from GMG’s proposed revenue apportionment as seen in the table below. Although these differences are relatively modest, the Department believes it is important to move classes closer to their cost of service now to avoid even larger potential gaps between revenue apportionment and cost of service in the future.

¹²¹ Report ¶ 335.

¹²² Report ¶ 329.

¹²³ Ex. DOC-210 at 5 (Hirasuna Direct).

Table 2. Updated Revenue Apportionment (percent).¹⁶

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

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In contrast to the Department's well-supported apportionment, GMG's use of the same general method for rate design as approved in the 2010 Commission Order in the face of relevant changes in economic conditions and their customer market lacks merit.¹²⁵ The Department's proposal seeks to reduce rate shock and is based on a simple, replicable method.¹²⁶ The Commission should not adopt the Report's recommendation and instead should utilize the Department's revenue apportionment as shown in Appendix A.

IV. REQUIREMENTS FOR FUTURE RATES CASES

The Department has recommended that the Commission's order include certain requirements for GMG regarding data retention and preparation of filings in future rate cases.

¹²⁴ Ex. DOC-212 at 8 (Hirasuna Surrebuttal).

¹²⁵ Ex. DOC-212 at 2 (Hirasuna Surrebuttal).

GMG's rate case filing is out of compliance with many requirements the Commission has ordered in GMG's 2004, 2006, and 2009 rate case orders. Contrary to GMG's expressed concerns, these requirements were developed with the aim of reducing, rather than increasing, the regulatory burden on GMG's ratepayers. As has been amply evident in this proceeding, the Company's attempt to cut corners in its filing resulted in added regulatory expense as the Department tracked down required information that has been omitted from the initial filing and re-do its own work after significant errors in the information provided by GMG were uncovered.

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

- Provide a bridging schedule that fully links together the old and new billing systems if GMG updates, modifies, or changes its billing system.
- Retain and provide in future rate cases:
 - all information on the billing cycle sales, cancellations/rebills, customer bills, weather data, adjusted for billing errors in the period(s) in which they occur as opposed to the time period(s) when errors are discovered; and,
 - all of the above information should be in a format to facilitate and allow independent verification of any and all data used by GMG, and to also be used to independently analyze the reasonableness of the test-year sales.
- Meet with the Department at least nine months prior to the Company filing any future rate cases given that the Department is willing to meet with GMG to assist the Company with ensuring that it fully complies with the Commission's GMG 2004 Rate Case Order, GMG

2006 Rate Case Order, GMG 2009 Rate Case Order and the Commission's final Order(s) stemming from this proceeding.

- Split General Plant equally between demand, customer, and capacity costs in future CCOSs or develop a new classification method for General Plant.
- Develop a new CCOS model that includes:
 - a more detailed breakdown of costs by FERC account;
 - the transportation classes as their own classes, rather than included in similar classes;
 - calculation and inclusion of a demand adjust to its Minimum System Method study;
 - aggregation of customers that share the same distribution line for the purposes of allocating distribution costs;
 - breaking out values for meters, regulators, and fittings by each customer class, not grouped into larger buckets; and
 - inclusion of ordered changes from the 2009 Rate Case Order.

The Commission should include the Department's requested requirements in its order. These recommendations are incorporated into the Department's proposed modifications to the Report in the relevant sections.¹²⁷

¹²⁷ The Department's recommended requirements related to billing information and meeting with the Department in advance of filing a rate case are found on page 13 of Appendix A. The Department's recommended requirements related to CCOS are found on pages 27–28 of Appendix A.

CONCLUSION

For the reasons stated above, and consistent with its testimony and post-trial briefs in this matter, the Department respectfully requests that the Commission adopt the Report together with the exceptions, clarifications, and corrections identified herein.

Dated: July 31, 2025

Respectfully submitted,

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ATTORNEYS FOR MINNESOTA
DEPARTMENT OF COMMERCE

Based upon the evidence in the hearing record, the Administrative Law Judge makes the following:

FINDINGS OF FACT

- I. The Parties**
- II. Procedural Background**
- III. Summary of Public Comments**
- IV. Overview of GMG and the Rate Case Filing**
- V. Standards of Review**
- VI. Resolved Issues**
- VII. Cost of Capital**

A. Return on Equity

132. GMG requested to maintain its current base ROE at 10.00 percent, along with a 15-basis point adjustment for flotation costs, for an overall ROE of 10.15 percent.¹³³

133. GMG offered the testimony of its CEO, Palmer, a former President of Viking Gas Transmission and former Chief Financial Officer at Nuclear Management Company, in support of its position. In his Direct Testimony, Palmer:

- (1) pointed to the Company's currently approved ROE of 10 percent;
- (2) examined the ROEs of three large, publicly traded natural gas utilities (Atmos Energy, Nisource and UGI Corporation);
- (3) referenced the ROEs recently approved for two small natural gas utilities with service areas in close proximity to GMG;
- (4) noted ROEs recently approved by the Commission for large publicly traded utilities, and,
- (5) discussed GMG's unique risks and challenges, indicating the need for a higher ROE than those other Minnesota utilities.¹³⁴

134. Palmer noted that, while there are few utilities "comparable" to GMG to look to for guidance on an appropriate ROE, two smaller utilities – St. Croix Valley Natural Gas Company (St. Croix Valley) and Midwest Natural Gas (Midwest Natural Gas) – operate "within 100 miles of GMG's service area."¹³⁵

¹³³ See, Ex. GMG-103 (Palmer Direct); Ex. GMG-112 at 9–18 (Palmer Rebuttal).

¹³⁴ See generally Ex. GMG-103 (Palmer Direct).

¹³⁵ *Id.* at 9.

135. St. Croix Valley serves approximately 8,700 customers in River Falls and Prescott, Wisconsin and nearby rural communities.¹³⁶

136. In an April 2023 recent rate case order, the Public Service Commission of Wisconsin (PSCW) approved a 60 percent equity ratio 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.”¹³⁷

137. Midwest Natural Gas is slightly larger than either St. Croix Valley or GMG, serving approximately 14,500 customers. It also serves smaller communities in Western Wisconsin.¹³⁸

138. The PSCW also approved a 60 percent equity ratio and 11.00 percent ROE for Midwest Natural Gas, using identical language to that used regarding St. Croix Valley.¹³⁹

~~139. The ROE determinations in both St. Croix Valley and Midwest Natural Gas recognize that investing in smaller utilities can present higher risks than other comparable investment opportunities.~~¹⁴⁰

140. The experience of smaller gas utilities serving customers in rural midwestern communities, within 100 miles of the Company’s service area, ~~is~~ could potentially be helpful and instructive. Here, however, ~~Though the PSCW may have different procedures and approaches than the Minnesota Commission,~~¹⁴¹ the recent more than two year old ROE awards to St. Croix Valley and Midwest Natural Gas clearly are not, in the phrasing of *Bluefield*, returns that are “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.”¹⁴²

¹³⁶ *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*).

¹³⁷ *St. Croix Valley* at 2, 9.

¹³⁸ *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 Gas*).

¹³⁹ *Midwest Natural* at 2, 9.

¹⁴⁰ ~~Ex. GMG-103 at 9 (Palmer Direct).~~

¹⁴¹ ~~Both orders indicate that the PSCW was required to balance the needs of the utilities’ equity owners and lenders with those of consumers, with due consideration of economic and financial conditions and public policy considerations, and that PSCW staff performed an independent economic analysis to support the decisions. *St. Croix Valley* at 9; *Midwest Natural Gas* at 9.~~

¹⁴² *Bluefield*, 262 U.S. at 690 (emphasis added).

140a. The Commission has explained that order from other jurisdictions “have limited persuasive value because of the fact-intensive nature of cost-of-equity decision-making.”¹⁴³ The PSCW’s orders in *St. Croix Valley* and *Midwest Natural Gas* did not include any information about which utilities it considered to be “peers” to St. Croix Valley or Midwest Natural, which financial models—if any—it used in its independent economic analysis, which conditions or factors it took into consideration, or what adjustments it made based on those judgments.¹⁴⁴ As a result, those orders hold no persuasive value because they do not provide any fact-specific analysis that would allow a reasoned comparison with the facts of this case.

141. The ~~“corresponding risks and uncertainties” faced by~~ risks arising from St. Croix Valley’s and Midwest Natural Gas’s small size and illiquid investments are more like those of GMG than those faced by Minnesota’s larger, urban natural gas utilities.¹⁴⁵ However, St. Croix Valley and Midwest Natural Gas are not publicly traded, and therefore were not included in either the Department’s or GMG’s proxy groups. ~~Further,~~ Department witness Craig Addonizio (Addonizio) selected a group of publicly-traded proxy companies which are in the same line of business, and therefore likely have similar risks, for comparison to GMG.¹⁴⁶ ~~;~~ ~~but~~

141a. GMG utilized a proxy group of three companies, with two companies overlapping between GMG’s proxy list and the Department’s proxy list.¹⁴⁷ 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.¹⁴⁸ 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.¹⁴⁹

141b. 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. 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.

141c. Addonizio acknowledged that GMG is much smaller than the selected proxy group, is too small for its stock to be traded on a major stock exchange, and has debt that is personally

¹⁴³ *In re Appl. of Minn. Power for Auth. to Increase Rates for Elec. Serv. in Minn.*, MPUC Docket No. E-015/GR-21-335, FINDINGS OF FACT, CONCLUSIONS, AND ORDER at 45 (Feb. 28, 2023) (eDocket No. [20232-193486-01](#)) (Minnesota Power 2021 Rate Case Order).

¹⁴⁴ See generally *St. Croix Valley Order*, *Midwest Natural Order*.

¹⁴⁵ ~~See generally, *St. Croix Valley* at 2-9; *Midwest Natural Gas* at 2-9; see also~~ Ex. DOC-201 at 71 (Addonizio Direct) (recognizing that the two Wisconsin utilities likely “pose similar size and illiquidity risks to investors as GMG”).

¹⁴⁶ Ex. DOC-1 at 16 (Addonizio Direct).

¹⁴⁷ Ex. DOC-1 at 17, 68 (Addonizio Direct).

¹⁴⁸ Ex. DOC-201 at 70 (Addonizio Direct).

¹⁴⁹ Ex. DOC-201 at 70 (Addonizio Direct).

guaranteed by certain stockholders resulting in greater risk and a higher cost of equity.¹⁵⁰ He explained that he increased his recommended ROE for GMG by around 35 to 45 basis points to fairly compensate investors for those risks.¹⁵¹

142. The Department addressed ROE through Addonizio's testimony recommending an ROE of 9.65 percent. In developing his recommendation, Addonizio placed primary reliance on his "multi-stage" discounted cash flow (DCF) analyses. In these calculations, he determined that a "cost of equity for an average risk gas utility is approximately 8.5 percent."¹⁵²

143. However, Addonizio also noted that "recent authorized ROEs have been significantly higher than that for reasons that I cannot fully explain, and setting a gas utility's authorized ROE at 8.5 percent would represent a risky, large, and abrupt change in standard ratemaking practice that may have unintended consequences."¹⁵³

144. Addonizio estimated that for a gas utility of average risk, a reasonable authorized ROE may be around 9.2 or 9.3 percent. After considering ~~some of~~ the special risks faced by GMG, he arrived at the recommended 9.65 percent ROE.¹⁵⁴ Addonizio also explained why some of the reasons GMG identified as supporting its requested ROE were inappropriate to take into account. Sales volatility risks can be mitigated through diversification, so investors do not require additional returns for such a risk.¹⁵⁵ The reinvestment of earnings enhances the Company's ability to pay future dividends, and therefore also does not require increased returns.¹⁵⁶ GMG did not provide any response to the Department's expert analysis explaining why these factors did not justify a higher ROE.¹⁵⁷

145. 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. In 2020, the Commission formally determined:

The Commission finds that the transparency and objectivity of the DCF model make it the strongest, most credible model, and that the most reasonable way to proceed is to use its results as a baseline and to use the results of other models to check, inform, and refine those results.¹⁵⁸

¹⁵⁰ See Ex. DOC-201 at 49–51 (Addonizio Direct).

¹⁵¹ Ex. DOC-201 at 62–63 (Addonizio Direct).

¹⁵² Ex. DOC-201 at 75 (Addonizio Direct).

¹⁵³ *Id.* at 60, 62, 75.

¹⁵⁴ *Id.* at 75.

¹⁵⁵ Ex. DOC-201 at 70 (Addonizio Direct).

¹⁵⁶ Ex. DOC-201 at 70–71 (Addonizio Direct).

¹⁵⁷ See generally Ex. GMG-112 Palmer Rebuttal.

¹⁵⁸ *In re Petition by Great Plains Nat. Gas Co., a Div. of Montana-Dakota Utils., Co., for Authority to Increase Nat. Gas Rates in Minn.*, MPUC Docket No. G-004/GR-19-511, Findings of Fact, Conclusions, and Order at 17 (Oct. 26, 2020); see also Ex. GMG-103 at 7 (Palmer Direct); Ex. GMG-112 at 12 (Palmer Rebuttal).

~~146. The Commission relied on this conclusion in other recent ratemaking matters. In the most recent Xcel Energy electric rate case, for example, the Commission stated:~~

~~The Commission concurs with the Administrative Law Judge 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.¹⁵⁹~~

~~147. In addition, the Commission has specifically considered and expressly rejected prior proposals by the Department to base ROE determinations on a multi-stage DCF analysis. 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 assumptions based upon quantitative market data, and have not been shown to produce unreasonable returns.*¹⁶⁰~~

~~148. The Commission has never based an ROE determination upon the results~~

¹⁵⁹ ~~*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 89 (July 17, 2023); see also *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).~~

¹⁶⁰ ~~*Minnesota Power* at 45 (emphasis added).~~

~~of a multi-stage DCF analysis.~~¹⁶¹

149. The record contains the results of two separate two-growth DCF analyses, both of which Addonizio completed. In his Direct Testimony, 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.¹⁶² Addonizio explained that he no longer relies on this model because equity analysts' long-term earnings growth forecasts overestimate future growth and are unrealistic, supported by citations to research including popular corporate finance textbooks.¹⁶³

150. In Rebuttal Testimony, GMG's witness Palmer agreed with the results of the Department's two-growth DCF analysis. Palmer found the results "reasonable for estimating the cost of capital for large publicly traded utilities and these calculations can inform the determination of an appropriate ROE for GMG."¹⁶⁴ Palmer did not respond to Addonizio's analysis explaining why equity analysts' long-term earnings growth forecasts are unrealistic and produce unreasonable ROEs.¹⁶⁵

151. By the time of Addonizio's Surrebuttal Testimony, and using updated market data, the ~~two-growth multi-stage DCF with 10-year 2nd stage~~ "mean average" and "mean high" ROEs ~~rose~~ decreased slightly, by around 10 to 20 basis points ~~to 10.68 and 11.12 percent, respectively.~~¹⁶⁶

152. 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.¹⁶⁷ ~~Before considering any of GMG's unique risks as compared to the proxy companies, and employing 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.~~¹⁶⁸

¹⁶¹ ~~Evid. Hearing Tr. at 64:5-8 (Addonizio).~~

¹⁶² Ex. DOC-201 at 37 (Addonizio Direct); Ex. DOC-202 at Schedules CMA-D-13 through CMA-D-16 (Addonizio Direct).

¹⁶³ Ex. DOC-201 at 31-34, 37 (Addonizio Direct); Ex. DOC-203 at 8 (Addonizio Surrebuttal).

¹⁶⁴ Ex. GMG-112 at 10 (Palmer Rebuttal).

¹⁶⁵ See Ex. GMG-112 (Palmer Rebuttal).

¹⁶⁶ Ex. DOC-203 at 9 ~~10~~ and Schedules CMA-S-2 through CMA-S-7 ~~CMA-S-8 through CMA-S-13~~ (Addonizio Surrebuttal).

¹⁶⁷ Ex. DOC-201 at 63 (Addonizio Direct).

¹⁶⁸ ~~Ex. GMG-112 at 13 (Palmer Rebuttal).~~

~~153. The hearing record shows that GMG is significantly riskier than the proxy group companies used in these DCF analyses, demonstrating the conservative nature of looking to “mean average” results from the proxy group to determine GMG’s ROE. Specifically:~~

- ~~(1) 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;~~
- ~~(2) because GMG is not publicly traded, it is harder for shareholders to sell their stock if desired, and harder for GMG to issue new equity;~~
- ~~(3) GMG has never paid a dividend, choosing instead to reinvest all earnings in the Company to meet its capital requirements; and~~
- ~~(4) GMG’s revenue streams are closely linked to demand from poultry and grain drying businesses, which adds significant volatility and risk to its business.¹⁶⁹~~

~~154. Each of these factors 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.¹⁷⁰~~

~~155. Even without quantifying the impact of these higher risks with precision, the record supports GMG’s requested ROE because it is well below the ROE indicate by the two-stage DCF analyses.¹⁷¹~~

156. The hearing record demonstrates that the Department’s recommended 9.65% ~~10.00 percent is a conservative~~ return on equity ~~that~~ balances Company and customer interests, and allows an adequate return on investor equity to support its credit and enable GMG to raise the money necessary for the proper discharge of its public duties.¹⁷²

B. Flotation Costs

157. “Flotation costs” are costs incurred by a company to issue debt or equity.¹⁷³

158. These costs include placement fees, appraisal expenses, legal fees, and registration fees. These fees must be paid in order to obtain financing but are not available to the company at the end of the placement.¹⁷⁴

¹⁶⁹ ~~Ex. GMG-103 at 6-8 (Palmer Direct); Ex. GMG-112 at 13-14 (Palmer Rebuttal); Ex. DOC-201 at 49-50 (Addonizio Direct).~~

¹⁷⁰ ~~Ex. GMG-112 at 13-14 (Palmer Rebuttal).~~

¹⁷¹ ~~Id. at 14.~~

¹⁷² ~~Id.~~ Ex. DOC-201 at 61-63 (Addonizio Direct); Ex. DOC-203 at 12-14 (Addonizio Surrebuttal).

¹⁷³ Ex. GMG-103 at 12 (Palmer Direct).

¹⁷⁴ *Id.*

159. 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.¹⁷⁵ However, the parties dispute the need for a flotation cost adjustment to GMG's cost of equity.

160. 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.¹⁷⁶ 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 percent. ~~This request is still below the mean average of the Department's two-growth DCF results.~~

161. The Department objected to inclusion of flotation costs ~~for GMG's equity~~ on the grounds that the Company has expensed the cost of past equity placements, ~~and GMG's request would therefore be charging ratepayers a second time for flotation costs GMG has already recovered.~~ In its view, GMG's "plans for future issuances are largely irrelevant" ~~because "[a] flotation cost adjustment is necessary to fairly compensate investors for flotation costs incurred and deducted from the proceeds of past equity issuances."~~¹⁷⁷

162. GMG acknowledges that, in the past, the Company expensed the cost of equity placements. Those offerings were small, and GMG staff performed a significant amount of the work in advance of the offerings.¹⁷⁸

163. Going forward, however, GMG will not complete future equity offerings in this same manner. Due to GMG's growth and its aging shareholder base, the Company will need to attract "external equity" – which it maintains will be a costly undertaking.¹⁷⁹

163a. ~~As the Commission has explained, it is inappropriate to authorize flotation costs when there is no evidence in the record on "the nature, amount, and financial impact of all costs associated with any completed or planned stock issuance" for which the utility is seeking recovery.~~¹⁸⁰ ~~Because GMG has not offered any such evidence in the record, its request to adjust its ROE for flotation costs is denied.~~

¹⁷⁵ Joint Exhibit 1.

¹⁷⁶ 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) (Xcel 2021 Rate Case Order).

¹⁷⁷ Ex. DOC-201 at 38 (Addonizio Direct), Ex. DOC-203 at 6 (Addonizio Surrebuttal).

¹⁷⁸ Ex. GMG-112 at 17 (Palmer Rebuttal).

¹⁷⁹ *Id.*

¹⁸⁰ *In re the Application of CenterPoint Energy Resources Corp. d/b/a CenterPoint Energy Minn. Gas for Authority to Increase Natural Gas Rates in Minn.*, MPUC Docket No. G-008/GR-15-424,

~~164. Failure to recognize these expenses will limit GMG's ability to attract sufficient capital in the future.¹⁸¹~~

~~165. For this reason, GMG recommended a 15 basis point adjustment to the cost of equity. This addition matches the flotation adjustment that the Department and GMG agree is appropriate when the Company issues new debt.¹⁸²~~

~~166. Because the Company has not raised external equity since 2012, there is no proxy for flotation costs specifically associated with GMG equity offerings.¹⁸³ Under these circumstances, and given GMG's unique financing needs, the cost of acquisition for long-term debt represents the best proxy for GMG's acquisition of equity.~~

~~167. The 15 basis point flotation cost adjustment requested by GMG is reasonable and results in an overall ROE of 10.15 percent. This adjusted figure is still lower than the mean return indicated by the two growth DCF analyses in the record.¹⁸⁴~~

FINDINGS OF FACT, CONCLUSIONS, AND ORDER at 44 (June 3, 2016) (eDocket No. [20166-121975-01](#)) (CenterPoint Rate Case Order).

¹⁸¹ ~~Id.~~

¹⁸² ~~Id.~~

¹⁸³ ~~Id.~~

¹⁸⁴ ~~Id.~~

VIII. Revenue Requirement Issues

A. Revenues – 2025 Sales Forecast

1. New Customer Test Year Sales

173. 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.¹⁷⁸

173a. GMG proposed a 2025 Test Year sales forecast that includes 21.6 dekatherms (Dth) for each new customer.¹⁷⁹

174. GMG generally adds new customers following the summer construction season, often after the customer has converted appliances and heating systems to use natural gas. Typically, new customers are connected and begin using gas in the second half of the year, at the beginning of the heating season.¹⁸⁰

175. GMG stated that this pattern recurs every year. GMG maintains that it is appropriate to acknowledge that new customers to GMG's system use less gas in the year that they are first connected to the system, when compared to customers that were connected on the first day of the year.¹⁸¹

176. The Company showed that it added 4,378 new Residential class customers between 2015 and 2023.¹⁸² Of those 4,378 new customers, 4,041 were added between June and 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 – 2023¹⁸³

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	-	-	-	-	-	-	-	-	-	-	-	-	-

177. 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

¹⁷⁸ Ex. DOC-204 at 5 (Shah Direct).

¹⁷⁹ Ex. GMG-105, Schedule E-1 at 3 (Initial Filing – Vol. 3); Ex. GMG-109 at 2–3 (Burke Rebuttal).

¹⁸⁰ Ex. GMG-109 at 2 (Burke Rebuttal).

¹⁸¹ *Id.* at 3.

¹⁸² Ex. DOC 205, Schedule SS-SR-3 (Shah Surrebuttal).

¹⁸³ *Id.*

up to the billing month data was not provided.¹⁸⁴ 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.¹⁸⁵ The Department disagreed with GMG's use of 21.6 Dth for new customers in the Test Year because "[o]nce added to the system, new customers stay on the system and continue to use natural gas as existing customers."¹⁸⁶

177a. 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.¹⁸⁷ Due to this error, GMG likely understates test-year sales and revenues and inflates the size of GMG's test-year revenue deficiency.¹⁸⁸

~~178.—Sachin Shah (Shah), on behalf of the Department, disputed the new customer sales forecast for calendar year 2025.¹⁸⁹~~

~~179.—The historical sales data demonstrates that most of the gas used by GMG customers occurs from January through March.¹⁹⁰~~

~~180.—GMG added 15 new customers in early 2025. Only a few of these used natural gas during January through March, consuming a total of 159 Dth of natural gas.¹⁹¹~~

~~181.—By contrast, Shah's sales forecast estimates 400 new customers, utilizing 1843 Dth between January and March.¹⁹²~~

~~182.—Annualizing new customers' gas usage in the Test Year to account for their consumption in future years may be appropriate when there is a large one-time addition of a new customers that does not reflect the utility's normal operations. But GMG's customer additions follow a consistent trend year to year: most often customers are connected to GMG's system between June and December. Annualizing such customers' revenues, without also annualizing all of the associated costs, would not allow GMG a reasonable opportunity to recover its cost of service.¹⁹³~~

¹⁸⁴ Ex. DOC-204 at 14 (Shah Direct).

¹⁸⁵ Ex. DOC-204 at 14 (Shah Direct).

¹⁸⁶ Ex. DOC-205 at 11 (Shah Surrebuttal).

¹⁸⁷ Ex. DOC-205 at 13 (Shah Surrebuttal).

¹⁸⁸ Ex. DOC-204 at 16 (Shah Direct).

¹⁸⁹ ~~Ex. GMG 109 at 3 (Burke Rebuttal).~~

¹⁹⁰ ~~Ex. GMG 109 at 3 (Burke Rebuttal).~~

¹⁹¹ ~~Id.~~

¹⁹² ~~Id. at 2-3.~~

¹⁹³ ~~Id. at 3.~~

178. It is important to ensure a representative amount of sales and revenues are included so that reasonable rates can be set going forward.¹⁹⁴ 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.

179. 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.¹⁹⁵ After reviewing and analyzing the new customer installations by month the Department demonstrated these new customer stay on the system and continue to use natural gas as existing customers in subsequent years.¹⁹⁶ The Department maintains that annualizing use is the appropriate approach.¹⁹⁷ Any doubt as to the reasonableness of forecasted sales should be resolved in favor of ratepayers.¹⁹⁸

180. GMG argued that the Department's proposal would annualize new customer revenue without also annualizing all of the associated costs, and therefore would not allow the Company a reasonable opportunity to recover its cost of service.¹⁹⁹ The Department's recommended changes, however, include adjustments to both GMG's cost of gas (an increase of approximately \$143,264) and customer revenues (an increase of approximately \$283,810), resulting in an overall adjustment of approximately \$140,545.²⁰⁰

181. GMG's testimony acknowledged that customer growth allows the Company to spread fixed costs over a larger number of units.²⁰¹ These changes are particularly impactful given GMG's small customer base. The economies of scale provided by customer growth was sufficient to allow the Company to not come in for a rate case for 15 years, including a five-year stretch when GMG's earned ROE was more than double the ROE customer rates were expected to produce when set.²⁰²

183. GMG **has not** met its burden to demonstrate the reasonableness of its Test Year sales forecast for new customers. The Department's recommended sales forecast adjustment should **not** be adopted.²⁰³

¹⁹⁴ Ex. DOC-205 at 6–7 (Shah Surrebuttal).

¹⁹⁵ Ex. GMG-109 at 3 (Burke Rebuttal).

¹⁹⁶ Ex. DOC-205 at 9–1 (Shah Surrebuttal), DOC Initial Br. at 25–26.

¹⁹⁷ Ex. DOC-205 at 11 (Shah Surrebuttal).

¹⁹⁸ Minn. Stat. §§ 216B.16, subd. 4, 216B.03 (2024).

¹⁹⁹ Ex. GMG-109 at 3 (Burke Rebuttal).

²⁰⁰ Ex. DOC-204 at 17 (Shah Direct).

²⁰¹ Ex. GMG-103 at 9 at 6 (Chilson Direct).

²⁰² See Ex. GMG-103 at 9 at 6 (Chilson Direct); Ex. GMG-112 at 7, Table GHP-REB 2 (Palmer Rebuttal).

²⁰³ ~~Id. at 2–3.~~ Ex. DOC-205 at 11 (Shah Surrebuttal).

183a. The Department has recommended that the Commission order GMG to comply with requirements regarding sales forecasts in future rate cases for the purpose of facilitating accurate and efficient review of the Company's filings. Specifically, the Department commended that the Commission order GMG to:

- Provide a bridging schedule that fully links together the old and new billing systems if GMG updates, modifies, or changes its billing system.
- Retain and provide in future rate cases:
 - all information on the billing cycle sales, cancellations/rebills, customer bills, weather data, adjusted for billing errors in the period(s) in which they occur as opposed to the time period(s) when errors are discovered; and,
 - all of the above information should be in a format to facilitate and allow independent verification of any and all data used by GMG, and to also be used to independently analyze the reasonableness of the test-year sales.
- Meet with the Department at least nine months prior to the Company filing any future rate cases given that the Department is willing to meet with GMG to assist the Company with ensuring that it fully complies with the Commission's GMG 2004 Rate Case Order, GMG 2006 Rate Case Order, GMG 2009 Rate Case Order and the Commission's final Order(s) stemming from this proceeding.²⁰⁴

183b. The Department's requested requirements are reasonable.

B. Operating Expenses

1. Employee Compensation

200. No party asserts that the Company pays excessive compensation to its employees and GMG provided information demonstrating that the reasonableness of its overall compensation levels compared to other utilities.²⁰⁷

201. The Department objects to recovery of a portion of one employee's annual performance pay (the short-term incentive compensation offered by GMG) and to recovery of any

²⁰⁴ Ex. DOC-204 at 15, 18–19 (Shah Direct), Ex. DOC-205 at 14 (Shah Surrebuttal).

²⁰⁷ Ex. GMG-112 at 25 (Palmer Rebuttal).

of the annual costs associated with GMG's employee retention agreements (GMG's longer-term incentive compensation).²⁰⁸

a. ~~Performance Pay~~ Annual Incentive Pay Program

202. GMG has only 25 employees and ~~has experienced challenges in~~ is committed to recruitment and retention of well-qualified employees.²⁰⁹

203. GMG offers ~~select~~ employees the ability to obtain an annual increase in their compensation by earning a short-term incentive or "performance pay" addition to their base compensation. GMG's program links the criteria for obtaining these increases to specific aspects of the employee's job duties.²¹⁰ GMG proposed \$92,442 in annual incentive program pay for the test year.²¹²

~~204. As an example, the employee primarily responsible for GMG's energy conservation programs will earn short-term performance pay if certain energy conservation goals are achieved.~~²¹³

205. After the Company's last 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.²¹⁵ GMG identified that \$20,069 of its AIP expense is above the 15% cap.²¹⁶ The Department initially recommended denying the AIP expense included in the test year that is over the 15% cap.²¹⁷ ~~GMG has just one Certified Management Accountant who is qualified to work with auditors to complete the Company's audited financial statements. GMG's short-term performance pay for that individual is paid out in June, after the most critical audit-related tasks for the year are completed. A departure from GMG by that employee before or during the annual audit process, would significantly impact the Company's ability to operate.~~²¹⁸

~~206. None of this performance pay is contingent on GMG's earnings or financial performance. Notwithstanding "poor economic performance by the Company" during the past two years, GMG paid the full amount of short-term performance pay to eligible employees.~~²²⁰

~~207. 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~~

²⁰⁸ Department Initial Br. at 22–23.

²⁰⁹ See Ex. GMG-112 at 20 (Palmer Rebuttal).

²¹⁰ *Id.* at 19.

²¹² Ex. DOC-213 at 19 (Johnson Direct).

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

²¹⁵ Ex. DOC-213 at 19 (Johnson Direct).

²¹⁶ Ex. DOC-213 at 19 (Johnson Direct).

²¹⁷ Ex. DOC-213 at 20 (Johnson Direct).

~~²¹⁸ Ex. GMG-112 at 20 (Palmer Rebuttal).~~

~~²²⁰ *Id.*~~

~~employee's base pay. The proposed cap resulted in a disallowance of more than \$20,000 in compensation expenses.²²²~~

~~208. The Department based this recommended disallowance on Commission decisions applying such a cap to the compensation plans of large utilities, like Xcel Energy.²²⁴~~

~~209. In 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.²²⁷ GMG stated that for all but one employee, GMG's AIP has no connection to any shareholder interests.²²⁸ Following this explanation, the Department reduced its recommended adjustment to GMG's AIP expense to \$11,276, reflecting no AIP cap for all employees whose incentive pay is not connected to shareholder interests.²²⁹~~

~~210. However, the Department continued to recommend applying a 15 percent cap to the performance pay of the one GMG employee whose performance pay has any tie to the financial performance of the Company. This modification lowered the Department's recommended disallowance from approximately \$20,000 to \$11,276.²³⁰~~

~~211. The one employee in question is one of GMG's officers.²³² Department witness Mark Johnson (Johnson) acknowledged that he did not challenge the reasonableness of that officer's total compensation. Moreover, he agreed that GMG's officers "do not spend a significant amount of time on shareholder focused activities, such as increasing earnings per share."²³³~~

~~212. GMG has not met its burden to demonstrate the reasonableness of its performance pay program. Importantly:~~

- ~~(a) the overall reasonable compensation level of GMG's officers is reasonable;~~
- ~~(b) GMG's officers do not spend significant hours on shareholder focused activities;~~
- ~~(c) GMG has paid out its full performance pay during the past two years despite weak earnings; and~~

²²² ~~Ex. DOC-213 at 19-20 (Johnson Direct).~~

²²⁴ ~~Id.~~

²²⁷ ~~Ex. DOC-216 at 21-22 (Johnson Surrebuttal).~~

²²⁸ ~~Ex. GMG-112 at 19 (Palmer Rebuttal).~~

²²⁹ ~~Ex. DOC-213 at 22 (Johnson Surrebuttal).~~

²³⁰ ~~Ex. DOC-216 at 21-22 (Johnson Surrebuttal).~~

²³² ~~Evid. Hearing Tr. at 80-82 (Johnson); Ex. DOC-214 at Schedule MAJ D-5 (Johnson Direct).~~

²³³ ~~Evid. Hearing Tr. at 82 (Johnson); Ex. DOC-216 at 12 (Johnson Surrebuttal).~~

~~(d) GMG has never paid its shareholders a dividend.~~²³⁶

213. Under these circumstances, ~~no~~ the Department's recommended \$11,276 disallowance in the Test Year is appropriate.

b. ~~Retention Agreements~~ Long-Term Incentive Compensation

214. GMG offers retention agreements for certain key employees.²³⁸ ~~GMG included \$48,300 of long-term compensation in the proposed test year.~~²³⁹

215. ~~There is no financial component to these agreements and no financial "trigger" that must be met before payment. To receive long-term incentive compensation,~~ 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.²⁴⁰

~~216.—GMG has structured its compensation package in this manner to support retention of its key personnel to ensure the safe, reliable operation of the business.~~²⁴¹

217. With only 25 total employees, abrupt loss of even one or two key personnel, before the completion of significant work projects, can present significant challenges for the Company. GMG has worked hard to recruit well-qualified employees and retain them for long tenures.²⁴³

218. GMG does not offer the array of benefits offered by larger utilities, such as a defined benefit plan.²⁴⁴

~~219.—GMG tailors the retention agreements to address the Company's operational duties. For example, while GMG's CEO receives no retention agreement as part of his compensation, three Supervisory Gas Technicians do.~~²⁴⁵

~~220.—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.~~²⁴⁷ ~~If one or more of those managing employees left the Company during the construction season, their departure would make completion of the project on time and on budget, more difficult.~~²⁴⁸

²³⁶ ~~See Ex. GMG-103 at 8 (Palmer Direct); Ex. GMG-112 at 7 (Table GHP-REB-2) and 21 (Palmer Rebuttal).~~

²³⁸ Ex. GMG-112 at 19 (Palmer Rebuttal).

²³⁹ Ex. DOC-213 at 20 (Johnson Direct).

²⁴⁰ ~~Id.~~ Ex. GMG-112 at 19, 23 (Palmer Rebuttal).

²⁴¹ ~~Id.~~ at 20.

²⁴³ *Id.*

²⁴⁴ *Id.*

²⁴⁵ ~~See Ex. DOC-214 at Schedule MAJ-D-4 (Johnson Direct).~~

²⁴⁷ ~~Ex. GMG-112 at 21 (Palmer Rebuttal).~~

²⁴⁸ ~~Id.~~ at 21-22.

~~Accordingly, retention pay is paid to these managers in January to encourage them to stay through year-end, when their construction projects are complete.~~²⁴⁹

221. The Department recommended disallowing recovery of any retention agreement payments, based upon “the Commission’s long-standing practice of not allowing long-term incentive compensation expense (LTI) in rate cases.”²⁵³ The Department’s alternative recommendation is that if the Commission finds it is reasonable for GMG to include LTI expenses in the test year, the Commission clearly specify that this is a departure from past precedent due to the fact that, unlike other utilities LTI plans, GMG’s LTI plan does not include a shareholder-return-based performance element.²⁵⁴

222. ~~The Administrative Law Judge disagrees. The Report states that~~ GMG’s ~~retention agreements~~ long-term incentive compensation program is ~~are~~ fundamentally different than the long-term incentive compensation programs disallowed in ~~these~~ 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.²⁵⁵

223. 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.²⁵⁶

224. GMG has not shown that ~~A~~allowing recovery of GMG’s retention agreement costs does not “divert attention from the much longer planning horizons critical to providing safe, reliable, and affordable utility service,” as the Commission noted in the CenterPoint case. ~~Encouraging technical staff to complete that year’s critical tasks focuses, rather than distracts, from the mission of providing safe, reliable, and affordable service.~~²⁵⁷

²⁴⁹ ~~Id. at 22.~~

²⁵³ Ex. DOC-216 at 23 (Johnson Surrebuttal).

²⁵⁴ Ex. DOC-216 at 25 (Johnson Surrebuttal).

²⁵⁵ *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) (CenterPoint Energy).

²⁵⁶ Xcel 2021 Rate Case Order at 15 (emphasis added).

²⁵⁷ ~~Compare generally CenterPoint Energy, at 23.~~

[ALT 224. GMG's LTI compensation is unlike that of other Minnesota rate-regulated utilities because it does not include a shareholder-return-based performance element. Based on the specific facts of this case, including the lack of a shareholder-return-based performance element in GMG's LTI, it is reasonable for GMG to recover this expense from ratepayers.]

225. The Department contends that there is another basis for disallowance, in that it maintains that GMG has not made an adequate showing that its ~~retention~~ long-term compensation pay program offers unique benefits that justify recovery.²⁵⁹ ~~The Administrative Law Judge disagrees with this position as well. GMG has not established that retention agreements are a key component of its efforts to attract and retain personnel in order to the long-term compensation program ensures the provision of provide safe and reliable natural gas service and that the program is uniquely tailored to suit this purpose.~~

226. The record ~~does not~~ supports allowing recovery for GMG's ~~retention pay~~ long-term incentive compensation program.

2. Administrative and Operating Expenses

227. The Company's calculations of certain administrative and general expense items remain in dispute: Education and Training Expense, Postage Expense, Repair and Maintenance Expense, and Auto and Truck Expense.²⁶¹

a. Education and Training Expense

228. GMG projected a Test Year Education and Training Expense of \$10,200.²⁶²

229. 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 one new metering and measurement technician in 2025.²⁶³

231. The Department objected to GMG's Education and Training Expense for 2025, noting that it constitutes a 192% increase over GMG's 2024 expenses in this category. ~~Based on historical expenses and the information provided by GMG regarding new anticipated training expenses, the Department recommended a 2025 test year expense of \$6,409, an 83% increase over 2024 expenses.~~²⁶⁴ ~~The Department recommended using annualized 2024 expenses, rather than GMG's budgeted expenses, resulting in a downward adjustment of just under \$3,800.~~²⁶⁵

²⁵⁹ Ex. DOC-216 at 24 (Johnson Surrebuttal); Department's Initial Brief at 23.

²⁶¹ See generally Department's Initial Brief at 19–22.

²⁶² Ex. GMG-109 at 13 (Burke Rebuttal); Ex. GMG-105, Schedule C-3 at 3 (Initial Filing – Vol. 3).

²⁶³ Ex. GMG-109 at 13 (Burke Rebuttal); Ex. GMG-103 at 20 (Burke Direct)

²⁶⁴ Ex. DOC-216 at 16 (Johnson Surrebuttal).

²⁶⁵ Ex. DOC-216 at 16 (Johnson Surrebuttal).

~~232. — GMG’s proposed increase to the Education and Training Expense accounts relates to specialized training GMG will need to procure from outside sources in order to ensure that the Company’s new employee is trained to current standards.²⁶⁸ GMG’s approach recognizes the increased expense of this employee’s education and training needs, a matter that substantially benefits GMG’s customers.²⁶⁹~~

~~232. While percentage increases may be a relevant guide as to reasonableness in some circumstances; in isolation, the percentage increase in a particular category can be misleading when the underlying base number is fairly small, as is the case here.²⁷⁰ Further, the projected Education and Training Expense is not a lone outlier, as GMG’s actual expense in this category in 2022 was \$13,881, a figure greater than the proposed expense.²⁷¹ GMG’s requested expense is an outlier, with actual expenses in recent years ranging from \$4,668 in 2021 to \$3,493 in 2024.²⁷² The sole exception was the expense of \$13,881 in 2022, which the Company noted was due to “catch-up” training that had been delayed since 2019 due to the pandemic.²⁷³~~

233. GMG’s projected Education and Training Expense reflects the need to train a single new metering and measurement technician, is **not** reasonable, and should **not** be approved. The Department’s proposed adjustment results in a reasonable Education and Training Expense for the test year.

b. Postage Expense

234. The Postage Expense is for general business related postage and GMG projected a Test Year Postage Expense of \$5,400.²⁷⁶

235. 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.²⁷⁸ GMG offered no explanation for why those years should be used rather than 2024, which had lower postage expenses of \$3,623.²⁷⁹

236. The Department ~~objected to GMG’s postage budget for the Test Year and~~ initially contended that **the** postage expense should be set based on 2024 expenses, resulting in an adjustment of approximately \$1,300.²⁸⁰ Later, the Department recommended that the Postage

~~²⁶⁸ Ex. GMG-109 at 13 (Burke Rebuttal).~~

~~²⁶⁹ *Id.*~~

~~²⁷⁰ *Id.*; Ex. GMG-105, Schedule C-3 at 3 (Initial Filing – Vol. 3).~~

~~²⁷¹ See Ex. DOC-215, Schedule AAU-D-1 at 17 (Uphus Direct).~~

²⁷² Ex. DOC-216, MAJ-S-11 at 4 (Johnson Surrebuttal) (GMG Suppl. Response to DOC IR 123).

²⁷³ Ex. DOC-215, AAU-D-1 at 15–16 (Uphus Direct) (GMG Response to DOC IR 123).

²⁷⁶ Ex. GMG-105, Schedule C-3 at 3 (Initial Filing – Vol. 3).

²⁷⁸ Ex. DOC-215, Schedule AAU-D-1 at 19–20 (Uphus Direct).

²⁷⁹ Ex. DOC-215, AAU-D-1 at 18–19 (Uphus Direct) (GMG Response to DOC IR 126); Ex. DOC-216, MAJ-S-11 at 6 (Johnson Surrebuttal) (GMG Suppl. Response to DOC IR 126).

²⁸⁰ ~~*Id.* at 22.~~ Ex. DOC-215, Schedule AAU-D-1 at 19–20 (Uphus Direct).

Expense be based on an average of the actual costs from 2021 to 2024, resulting in a reduction of \$969.²⁸¹

237. ~~GMG's postage expenses between 2021 and 2024 fluctuated from around \$3,700 to just over \$5,600.²⁸⁴ GMG's proposed Test Year amount is within the range of its prior actual costs, accounts for fluctuations, and reflects the fact that postage costs charged by the US Postal Service, United Parcel Service, and FedEx continue to rise.²⁸⁵~~ The Department's adjustment 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 test-year purposes.²⁸⁶ ~~GMG's Postage Expense is reasonable and should be approved/adopted.~~

c. Repair and Maintenance Expense

238. GMG's Repair and Maintenance Expense includes several items, such as snow removal, lawncare, and office cleaning contracts.²⁸⁷ GMG projected a Test Year Repair and Maintenance Expense of \$24,000, ~~a 58 percent increase over its actual 2024 expenses.~~²⁸⁸

239. The primary driver of this expense and the Test Year increase is a significant rise in the cost of the Company's snow removal, lawncare, and office cleaning contracts.²⁸⁹

240. 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. This cost increased by 33 percent in mid-2024.²⁹⁰

241. Similarly, the snow removal and lawncare expenses historically account for about 24 percent of the five-year average of the Repair and Maintenance Expense.²⁹²

242. Due to factors outside of GMG's control, the Company had to change its snow removal and lawncare vendor at the end of 2024. The change resulted in a 23 percent increase to lawncare rates and a 30 percent increase to earlier snow removal and salt application rates.²⁹⁵

243. The Department objected to GMG's budgeted Repair and Maintenance Expense. It recommended annualizing 2024 year-to-date actual expenses ~~and then increasing them by 30~~

²⁸¹ Ex. DOC-216 at 17-18 (Johnson Surrebuttal).

²⁸⁴ ~~Ex. DOC-215, Schedule AAU-D-1 at 19-20 (Uphus Direct).~~

²⁸⁵ ~~Ex. DOC-215, Schedule AAU-D-1 at 19-20 (Uphus Direct).~~

²⁸⁶ Ex. DOC-216 at 17 (Johnson Surrebuttal).

²⁸⁷ Ex. GMG-109 at 13 (Burke Rebuttal).

²⁸⁸ Ex. GMG-105, Schedule C-3 at 3 (Initial Filing – Vol. 3); Ex. DOC-216, at 19 (Johnson Surrebuttal).

²⁸⁹ Ex. GMG-109 at 14 (Burke Rebuttal).

²⁹⁰ ~~Ex. GMG-109 at 14 (Burke Rebuttal).~~

²⁹² ~~Id.~~

²⁹⁵ ~~Id.~~

percent to account for increases in the Company's costs, ~~with an adjustment for inflation~~, resulting in a disallowance of approximately \$4,200.²⁹⁷

244. ~~GMG met its burden to demonstrate the reasonableness of its Repair and Maintenance Expense. GMG demonstrated known and quantifiable increases to contract rates. GMG projects a reasonable Test Year expense that recognizes the actual conditions in which GMG is operating.~~²⁹⁸ The Department's proposed test year adjustment for repair and maintenance expenses is reasonable because it reflects the known and measurable increases in GMG's service contracts.³⁰⁰

d. Auto and Truck Expense

245. GMG projected a Test Year Auto and Truck Expense of \$138,000, a 62% increase over actual 2024 expenses.³⁰¹

246. GMG stated tThe increase over 2023 actual and annualized 2024 year-to-date results from GMG's acquisition of an additional vehicle for its fleet, to be used by its new measurement technician. This vehicle must be outfitted with specialized equipment and will result in regular maintenance and gasoline expenses.³⁰²

247. GMG also anticipates higher maintenance costs on its existing fleet of vehicles going forward. For example, between January 1 and March 24, 2025, GMG incurred over \$9,000 in 2025 vehicle repair expenses.³⁰³

248. The Department objected to GMG's projected Auto and Truck Expense, noting the significant percentage increase GMG projected over 2024 expenses. The Department recommended using annualized 2024 expenses, and applying a five percent rate of inflation, resulting in a recommended disallowance of approximately \$7,500.³⁰⁴ The Department continued to recommend the same adjustment even after GMG provided the Department with actual 2024 expenses that were significantly lower than its expected 2024 expenses (\$85,365 vs. \$113,864).³⁰⁵

²⁹⁷ Ex. DOC-215 at 23 (Uphus Direct); Ex. DOC-216 at 19-20 (Johnson Surrebuttal).

~~²⁹⁸ Ex. GMG-109 at 14 (Burke Rebuttal).~~

³⁰⁰ Ex. DOC-215 at 19 (Johnson Surrebuttal).

³⁰¹ Ex. GMG-105, Schedule C-3 at 3 (Initial Filing – Vol. 3); Ex. DOC-215 at 14 (Johnson Surrebuttal).

³⁰² Ex. GMG-103 at 20 (Burke Direct); Ex. GMG-109 at 10 (Burke Rebuttal).

³⁰³ Ex. GMG-109 at 10 (Burke Rebuttal); Ex. DOC-215, Schedule AAU-D-1 at 6-7 (Uphus Direct).

~~³⁰⁴ Ex. DOC-215 at 11-12 (Uphus Direct).~~

³⁰⁵ Ex. DOC-215, AAU-D-1 at 18–19 (Uphus Direct) (GMG Response to DOC IR 126); Ex. DOC-216, at 14, MAJ-S-11 at 2 (Johnson Surrebuttal) (GMG Suppl. Response to DOC IR 116).

~~249. —GMG demonstrated that it would incur expenses related to outfitting a new truck that is necessary for its new measurement technician, and that it reasonably anticipates ongoing higher costs to maintain its aging vehicle fleet.³⁰⁷~~

~~250. —While percentage increases can sometimes be illuminating, comparing the 2025 Test Year expense to the 2022 expense of \$118,734, GMG's request represents a 16 percent increase.³⁰⁹ —When compared to the 2023 expense of \$121,761, GMG's request is for only a 13 percent increase over this amount.³¹⁰~~

251. ~~Given the addition of a new vehicle, the relatively small base of Auto and Truck Expense, and the clearly identified drivers of the increase, such variations are not unreasonable.~~ GMG~~s~~ GMG has not provided adequate support in the record for its proposed auto and truck test year expense. The Department's ~~projected~~ adjustment for the proposed Auto and Truck Expense should be reflected in the new rates as it is supported and inflation-adjusted.³¹³

³⁰⁷ ~~Ex. DOC-109 at 10 (Burke Rebuttal); Ex. DOC-215, Schedule AAU-D-1 at 2 (Uphus Direct).~~

³⁰⁹ ~~Ex. DOC-216, Schedule MAJ-S-11 (Johnson Surrebuttal).~~

³¹⁰ ~~Id.~~

³¹³ Ex. GMG-103 at 20 (Burke Direct); Ex. GMG-109 at 10 (Burke Rebuttal).

IX. CLASS COST OF SERVICE STUDY

A. CCOSS Methodology

303. Basic ratemaking principles hold that customers should be responsible for their respective service costs.³¹⁵

304. Cost causation studies are performed during a general rate case. A CCOSS is used to identify the costs and revenues associated with each service class *as accurately as possible* ~~and allocate the utility's total revenue requirement among those classes.~~³¹⁶ Although it is appropriate to take policy goals into consideration in setting rates for each customer class, such considerations should be transparently addressed in the rate design step.³¹⁷

305. For the CCOSS in this case, GMG used the same minimum system study method it used in its 2009 rate case.³¹⁸ Although GMG was aware that the Commission's order in the 2009 rate case required GMG to make specified changes to its CCOSS in its next rate case, GMG "intentionally chose to not change its CCOSS or revenue allocation among classes since the fairness of the current revenue allocation was previously settled, and shifting allocations based on new CCOSS methodologies undermines that principle."³¹⁹

~~306. During the last rate case, the parties agreed to the cost classification among rate classes that followed from GMG's minimum system study. GMG continues to view this cost classification method as appropriate.~~³²⁰

307. In the hopes of simplifying and streamlining this case, GMG proposed no change to its CCOSS or revenue allocation.³²¹ GMG notes that it is a small company with a small customer base and limited financial and administrative resources.³²²

308. GMG does not own CCOSS software and did not hire a consultant to develop its CCOSS.³²³ GMG ~~explained~~ *argued* that performing additional CCOSS would require substantial resources that GMG does not have.³²⁴ However, GMG also testified that it had already performed a CCOSS that followed the changes ordered in the 2009 rate case, and did not initially

³¹⁵ See Ex. DOC-206 at 4 (Zajicek Direct).

³¹⁶ *Id.* at 3–4, 14.

³¹⁷ *Id.* at 14.

³¹⁸ Ex. GMG-103 at 21 (Burke Direct).

³¹⁹ Ex. GMG-109 at 25 (Burke Rebuttal).

³²⁰ Ex. DOC-206, Schedule MZ-D-4 (Zajicek Direct).

³²¹ Ex. GMG-109 at 25 (Burke Rebuttal).

³²² *Id.* at 26.

³²³ Ex. GMG-103, Schedule CJC-1 at 6 (Chilson Direct); Ex. DOC-206, Schedule MZ-D-4 (Zajicek Direct).

³²⁴ Ex. GMG-109 at 26 (Burke Rebuttal).

file it or share it with the other parties because GMG did not want to make any changes to its rate design.³²⁵

308a. Since GMG's revenue allocation was last set, "[b]oth the number of GMG's service areas and the number of its customers within each service area have increased dramatically."³²⁶ This growth, however, has not been uniform across different customer classes. For example, from 2008 to 2023, GMG's revenues have increased by 2.37 times for residential customers, 6.62 times for commercial customers, and 99.0 times from firm transportation customers.³²⁷ In light of this dramatic and uneven growth, it is not reasonable to presume that the revenue allocation set in 2009 remains fair and reasonable.

~~309. Because GMG lacks the resources to perform a Zero Intercept study with GMG personnel, GMG chose not to incur the costs to perform such a study.~~³²⁸

~~310. Moreover, because GMG's proposed rate increase is relatively flat across all of its classes, and GMG made no changes to its rate design from that of its prior rate case, it argued that the additional cost studies were unnecessary. GMG maintains that it used its CCOSS simply to verify the fairness of its proposed rate increases across rate classes. The CCOSS was not used to support changes in the rate design.~~³²⁹

~~311. Additionally, GMG is deeply critical of the premises underlying Zero Intercept system studies. It argues that the results of such studies "unfairly impact[] low usage customers...."~~³³⁰

312. Notwithstanding the noncompliance in its initial filings, the Department noted that "it is comfortable proceeding in this case without requiring GMG to comply with all but one of the requirements"³³¹ The sole requirement the Department requested GMG comply with was for an explanatory filing; which GMG later provided.³³²

313. The Department and OAG later ~~argued~~ recommended that the Commission should consider a range of CCOSS results as a starting point for rate design.³³³ ~~This recommendation was~~

³²⁵ Ex. GMG-109 at 22 (Burke Rebuttal).

³²⁶ Ex. GMG-103 at 48 (Burke Direct at 7).

³²⁷ See Ex. GMG-109, RDB-REB 2 (Burke Rebuttal); Ex. DOC-205, SS-SR-1 at 116 (Shah Surrebuttal).

³²⁸ Ex. DOC-206, Schedule MZ-D-4 (Zajicek Direct).

³²⁹ *Id.* at 2.

³³⁰ *Id.* at 1 (Zajicek Direct).

³³¹ Ex. DOC-200 at 3 (Comments of the Minn. Dept. of Commerce).

³³² *Id.*

³³³ Ex. DOC-209 at 14 (Zajicek Surrebuttal); Ex. OAG-303 at 21 (Stevenson Direct).

based, in part, on the Commission's long-standing preference for considering a range of CCOSS results.³³⁴

314. The Department first recommended that the Commission consider a range of CCOSS results built upon two different CCOSS: the Company's Minimum System Study, as modified to include required changes from GMG's 2009 Rate Case Order, and the Department's Basic Customer Method.³³⁵

315. The OAG initially recommended the Commission consider a range of CCOSS results built upon two different CCOSS: the OAG's Basic Customer Method and the OAG's Peak and Average Method.³³⁶

316. The Department and OAG disagreed with GMG's CCOSS for numerous reasons. The Department argued that Commission's previous GMG rate case orders instructed GMG to include features in a future CCOSS that were omitted. The Department maintained that GMG's non-compliance, lack of transparency regarding changes made to its CCOSS in rebuttal testimony, and direct statements that it had made modeling choices for the express purpose of generating results that supported its preferred rate design indicated that its cost studies were flawed.³³⁷ Both the Department and the OAG maintain demonstrated that GMG's Minimum System Study is unreliable because they assert GMG failed to did not actually perform a demand adjustment it had claimed to make.³³⁸ The Department also noted that GMG failed to use a cost escalator.³³⁹ A cost escalator is important for generating accurate results from a Minimum System method study because it normalizes historical costs to account for changes in the value of the dollar and changes in prices over time.³⁴⁰

317. GMG claimed that it updated its model to: (i) establish a separate class for Transportation customers and their corresponding costs and revenues; (ii) reallocate costs to the appropriate rate class using the same methodology as approved in the 2009 rate case; and (iii)

³³⁴ Ex. DOC-206 at 42 (Zajicek Direct). *See also 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); *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).

³³⁵ Ex. DOC-206 at 43 (Zajicek Direct).

³³⁶ Ex. OAG-303 at 35, 41 (Stevenson Direct).

³³⁷ Ex. DOC-207 at 32–34 (Zajicek Direct).

³³⁸ ~~See Department Initial Brief at 34; OAG Initial Brief at 28–29 (eDocket No. 20255-218723-02).~~ See Ex. DOC-206 at 28 (Zajicek Direct); Ex. OAG-303 at 27–28 (Stevenson Direct); Ex. DOC-209 at 3–4 (Zajicek Surrebuttal).

³³⁹ Ex. DOC-206 at 36 (Zajicek Direct).

³⁴⁰ Ex. DOC-206 at 35 (Zajicek Direct).

make additional changes to Capacity, Demand, and Commodity costs that GMG asserts better align the model with accepted cost-causation principles.³⁴¹

317a. In Rebuttal Testimony, GMG removed 436,649 MCF³⁴² of projected consumption from its calculation of Commodity Cost Allocation Factors in its rebuttal CCOSS.³⁴³ Although GMG provided an itemized list of changes it made to its CCOSS in its testimony, it did not acknowledge this change.³⁴⁴ When the Department followed up with GMG to get additional information on why this change was not disclosed, GMG said that it did not address it because GMG “continues to not support any rate design changes.”³⁴⁵ Based on the compressed timeline for the contested case proceedings and GMG’s lack of transparency, the Department was not able to determine whether the removal of 436,649 MCF from projected consumption was appropriate.³⁴⁶ As a result, the Department provided a range of CCOSS results, shown in Table 1 and Table 2 below.³⁴⁷

1

Table 1: Updated DOC CCOSS Range

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

2

³⁴¹ Ex. GMG-109 at 23–25, Schedule RDB-REB-8 (Burke Rebuttal); Ex. GMG-110 at 21–22 (Burke Surrebuttal).

³⁴² MCF is a measure of natural gas equal to 1,000 cubic feet. 436,649 MCF is approximately 20% of GMG’s total projected consumption.

³⁴³ Ex. DOC-209 at 8 (Zajicek Surrebuttal).

³⁴⁴ See Ex. GMG-109 at 24 (Burke Rebuttal).

³⁴⁵ Ex. DOC-209 at 9, MZ-S-2 (Zajicek Surrebuttal).

³⁴⁶ Ex. DOC-209 at 11 (Zajicek Surrebuttal).

³⁴⁷ Ex. DOC-209 at 14 (Zajicek Surrebuttal).

Table 2: Updated DOC CCOSS Range Apportionment Percentages

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

318. There is no single type of CCOSS that the Commission has approved for all cases. Given this record, the range of results between the edited Company rebuttal CCOSS and the Department's basic customer CCOSS ~~Administrative Law Judge finds that the Minimum System method is a reasonable method for classification of costs~~ are a reasonable starting point for revenue allocation in this case.³⁴⁸

319. ~~The Administrative Law Judge also finds that GMG met its burden of demonstrating the reasonableness of its CCOSS, as revised in Rebuttal Testimony.~~³⁴⁹

B. Future CCOSS Recommendations

320. The Department recommended changes GMG should be required to make to its CCOSS in future rate cases. Specifically, the Department requested that the Commission order GMG to provide:

- a more detailed breakdown of costs by FERC account;
- the transportation classes grouped as their own classes, rather than included in a similar class;
- calculation and inclusion of a demand adjustment to its Minimum System Method study;

³⁴⁸ See Ex. GMG-109 at 25–26 (Burke Rebuttal).

³⁴⁹ ~~Id.~~

- aggregation of customers that share the same distribution line for the purpose of allocating distribution costs;
- a break out of meters, regulators, and fittings by each customer class from GMG's larger groupings of these items; and
- inclusion of the required changes from the 2009 Rate Case Order.³⁵⁰

321. GMG argues that during the course of the rate case, it created a separate cost group for Transportation customers and included the required changes from the 2009 rate case in its updated CCOSS. GMG submitted this updated CCOSS in Rebuttal Testimony and agreed that it is appropriate to include these changes in future cost studies.³⁵¹ However, given GMG's lack of transparency regarding the changes it made to its CCOSS, the Department and OAG-RUD were unable to determine GMG's rebuttal CCOSS was accurately performed and in alignment with GMG's description of the CCOSS.³⁵²

322. GMG disagreed that a requirement for GMG to implement further changes beyond the 2009 requirements to its CCOSS in the future was warranted. GMG maintains that the Department's proposal provides uncertain and speculative benefits, and downplays that significant cost impact of these changes.³⁵³

323. GMG's refusal to follow Commission orders and develop on appropriate CCOSS has not saved its ratepayers money, but has resulted in the expenditure of significant unnecessary resources as the Department and OAG-RUD have needed to dig through flawed models, submit information requests, and re-do work after serious errors were uncovered.³⁵⁴ These recommendations are aimed at preventing similar issues from reoccurring. ~~Implementing the proposed changes would require significant resources; quite likely including additional personnel, consultant expense, and licenses for modeling software.³⁵⁵ These rate case expenses would ultimately be borne by GMG's ratepayers.~~³⁵⁶

324. The Department's recommended requirements for GMG to implement into its CCOSS in future rate cases are reasonable and are adopted. ~~The Administrative Law Judge finds that GMG demonstrated the reasonableness of its revised CCOSS in this rate case.³⁵⁷ To the extent that the Commission determines that additional requirements should apply in GMG's future rate cases, the Commission should balance the costs and benefits of such requirements given GMG's small size.~~

³⁵⁰ Ex. DOC-207 at 41–42 (Zajicek Direct).

³⁵¹ Ex. GMG-109 at 26 (Burke Rebuttal).

³⁵² Ex. DOC-209 at 9, MZ-S-2 (Zajicek Surrebuttal); Ex. OAG-305 at 9–10 (Stevenson Surrebuttal).

³⁵³ *Id.*

³⁵⁴ Ex. DOC-209 at 17 (Zajicek Surrebuttal).

³⁵⁵ ~~*Id.* at 26.~~

³⁵⁶ ~~*Id.*~~

³⁵⁷ ~~*Id.* at 27; Ex. GMG-110 at 24 (Burke Surrebuttal).~~

X. REVENUE APPORTIONMENT AND RATE DESIGN

325. 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.³⁴³

A. Revenue Apportionment

326. When apportioning revenue responsibility and designing rates, the Commission must set rates that offer utilities a reasonable opportunity to earn their revenue requirement, promote efficient use of resources, and avoid both “rate shock” and unreasonable discrimination against any customer class.³⁴⁴

327. GMG seeks to retain the same revenue apportionment that was agreed to by the parties and approved by the Commission in GMG’s last rate case [fifteen years ago](#).³⁴⁵

328. ~~GMG proposed roughly equal percentage of margin increases over existing rates across all classes. This allocation balances allocating the cost of service established in GMG’s CCOSS, with each class’s contribution to GMG’s revenue levels. It also reflects important customer impact considerations; such as avoiding rate shock and ensuring residential customers have affordable access to natural gas service.~~³⁴⁶ GMG asserts that changes to its revenue apportionment between classes would be unnecessary, despite seeing significant changes in size and customer base in the last 15 years.³⁴⁷ 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.”³⁴⁸

328a. [It is unreasonable to assume the same rate design remains appropriate despite the Company’s economic profile changing substantially.](#)³⁴⁹

329. 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.³⁵⁰

330. ~~The Department’s proposed revenue apportionment reduces the increase in revenue apportioned to the Residential class from 7.7 percent to 2.1 percent.~~³⁵¹ [reduced the revenue](#)

³⁴³ Id. at 27; Ex. GMG-110 at 24 (Burke Surrebuttal).

³⁴⁴ Minn. Stat. §§ 216B.16, subd. 6, 216B.03, 216B.07 (2024).

³⁴⁵ Ex. GMG-109 at 27 (Burke Rebuttal).

³⁴⁶ ~~Ex. GMG-103 at 32 (Burke Direct); Ex. GMG-109 at 26-27 (Burke Rebuttal).~~

³⁴⁷ Ex. DOC-212 at 2-3 (Hirasuna Surrebuttal). [See Ex. GMG-103 at 73 \(Burke Direct at 32\); Ex. GMG-109 at 26-27 \(Burke Rebuttal\).](#)

³⁴⁸ Ex. DOC-212 at 2 (Hirasuna Surrebuttal).

³⁴⁹ Ex. DOC-212 at 3 (Hirasuna Surrebuttal).

³⁵⁰ ~~Id.~~ Ex. DOC-212 at 9 (Hirasuna Surrebuttal); Ex. OAG-305 at 19 (Stevenson Surrebuttal).

³⁵¹ ~~Ex. 212 at 9, n.17 (Hirasuna Surrebuttal).~~

apportionment in the residential customer class by 2.8 percentage points relative to GMG's revenue apportionment.³⁵³

331. 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.³⁵⁴

332. OAG witness Stevenson contended 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. ~~At the evidentiary hearing, Stevenson acknowledged that he did not evaluate intra-county income trends or where within each county GMG's customers took service.~~³⁵⁵

~~333. GMG argued that its 11,000 customers are a fraction of each county's population, as the counties Stevenson evaluated in his energy burden assessment have a collective population of over 456,000.~~³⁵⁷

334. GMG argued that the Department's and OAG's approach places disproportionate financial burdens on family-owned farms and small businesses; many of which are operating on very thin margins. These customers, GMG contends, are just as susceptible to rate shock as Residential or Small Commercial customers.³⁵⁹

335. GMG argued that ~~T~~there is a real risk that if either the Department's or OAG's recommendations were implemented, they would incentivize GMG's business customers to bypass the GMG system by converting to an alternative fuel source, such as propane, or receive service from another provider.³⁶⁰ Unlike GMG's arguments that its customers save considerable money by using GMG's natural gas service rather than alternative fuels—which it supported with facts—GMG did not provide any objective information comparing the Department's proposed increase for its industrial and transportation classes to their costs for alternate fuels.³⁶¹

~~336. If significant migration away from GMG's system were to occur, the rate design benefits claimed by the Department and OAG would be lost. Out migration from the GMG system~~

³⁵³ Ex. DOC-212 at 8, Table 2 (Hirasuna Surrebuttal).

³⁵⁴ Ex. DOC-212 at 6, 8–9 (Hirasuna Surrebuttal); Ex. OAG-305 at 11, 19 (Stevenson Surrebuttal).

³⁵⁵ ~~Ex. OAG-303 at 68–69, Schedule CS-D-32 (Stevenson Direct); Evid. Hearing Tr. at 103:06–22 (Stevenson).~~

³⁵⁷ ~~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-bytopic/population-data/our-estimates/pop-finder1.jsp>; see also Ex. GMG-103 at 3 (Chilson Direct).~~

³⁵⁹ Ex. GMG-110 at 24 (Burke Surrebuttal); Ex. GMG-113 at 1 (Palmer Witness Statement).

³⁶⁰ Ex. GMG-110 at 24 (Burke Surrebuttal).

³⁶¹ Compare Ex. GMG-107 at 2, CJC-SR-1 with Ex. GMG-107 at 6 (Chilson Surrebuttal).

~~would place additional cost responsibilities on the Residential and Small Commercial customers.~~³⁶³

~~337. Stevenson acknowledged at the evidentiary hearing that “ideally no one would get a 12, 13, 14 percent rate increase” and “that an 11 percent rate increase for that class could cause rate shock” Yet, he did not change his recommendation; a change would require apportioning at least some of those amounts to other rate classes.~~³⁶⁵

338. The ~~Administrative Law Judge finds that the~~ existing revenue apportionment is not reasonable. ~~Carrying forward the existing revenue apportionment results in avoiding a still larger rate increases imposed upon family-owned farms and any class of customer being specially disadvantaged.~~³⁶⁸ The Department’s allocation moves each customer class closer to its cost of service while moderating changes to limit rate shock and is therefore adopted.

~~339. The Administrative Law Judge also finds that the hearing record does not support a finding that GMG’s customers, in particular, are now experiencing energy burden.~~³⁶⁹

³⁶³ ~~Ex. GMG-110 at 24 (Burke Surrebuttal).~~

³⁶⁵ ~~Evid. Hearing Tr. at 105-106 (Stevenson).~~

³⁶⁸ ~~Ex. GMG-110 at 23 (Burke Surrebuttal).~~

³⁶⁹ ~~See Ex. GMG-107 at 3-6 (Chilson Surrebuttal); Evid Hearing Tr. at 103-104 (Stevenson).~~