

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

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

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

**OAH Docket No. 71-2500-40492**

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

**PROPOSED FINDINGS OF FACT, CONCLUSIONS OF LAW,  
AND RECOMMENDATION OF  
GREATER MINNESOTA GAS, INC.**

**May 22, 2025**

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**STATE OF MINNESOTA  
BEFORE THE OFFICE OF ADMINISTRATIVE HEARINGS  
FOR THE MINNESOTA PUBLIC UTILITIES COMMISSION**

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

OAH Docket No. 71-2500-40492  
MPUC Docket No. G-022/GR-24-350

**GREATER MINNESOTA GAS, INC'S PROPOSED FINDINGS OF FACT,  
CONCLUSIONS OF LAW, AND RECOMMENDATION**

The above-entitled matter came before Administrative Law Judge Jessica A. Palmer-Denig for an evidentiary hearing on April 16, 2025 in St. Paul, Minnesota pursuant to a Notice of and Order for Hearing issued by the Minnesota Public Utilities Commission (Commission) on December 11, 2024.

Eric Swanson and Christopher Cerny, Winthrop & Weinstine, P.A., and Kristine Anderson, Corporate Attorney, Greater Minnesota Gas, Inc. (GMG or Company) appeared on behalf of Applicant GMG.

Katherine Arnold and Amrit Hundal, Assistant Attorneys General, appeared on behalf of the Minnesota Department of Commerce, Division of Energy Resources (DOC or Department).

Joey Cherney and Katherine Hinderlie, Assistant Attorneys General, appeared on behalf of the Office of the Attorney General – Residential Utilities Division (OAG).

Jason Bonnett and Justin Andringa appeared on behalf of Commission Staff.

**STATEMENT OF THE ISSUES**

On November 1, 2024, GMG filed an application to increase its natural gas rates in Minnesota to reflect the cost of providing service (Application), including an appropriate return on common equity. GMG requested an increase in natural gas base rate revenues of approximately \$1.4 million, or 7.7 percent to set rates that will recover GMG's cost of service. On December 11, 2024, the Commission issued a Notice of and Order for Hearing, referring the matter to the Office of Administrative Hearings (OAH) for contested case proceedings.

The Notice of and Order for Hearing set forth the following issues to be addressed:

Whether the test year revenue increase sought by the Company is reasonable or will result in unreasonable or excessive earnings.

Whether the rate design proposed by the Company is reasonable.

Whether the Company's proposed capital structure and return-on-equity are reasonable.

Whether the base cost of gas proposed in Docket No. G-022/MR-24-351 needs to be updated.

Reasons for the significant changes of the following costs since the last rate case, including:

- i. 182.8 percent increase in the Cost of Gas Expense
- ii. 739.7 percent increase in the Distribution Expense
- iii. 48.7 percent increase in Customer Accounts
- iv. 318.7 percent increase in General and Administrative Expense
- v. 572.8 percent increase in Depreciation and Amortization
- vi. 259.0 percent increase in Taxes Other than Income
- vii. 200.3 percent increase in Income Taxes

How much Top 10 executive compensation costs should be recovered in rates.

Whether the income tax rider proposal should be adopted.

### **SUMMARY OF CONCLUSIONS**

The hearing record demonstrates that GMG will experience a revenue deficiency of approximately \$1.37 million. GMG is entitled to recover this revenue deficiency through an adjustment of its retail natural gas rates.

The capital structure, cost of debt, and return on equity reflected in the findings below are reasonable and should be used in determining an appropriate overall rate of return.

Providing for recovery of expenses described in the findings and conclusions below is reasonable, appropriate, and supported by the hearing record.

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

## **FINDINGS OF FACT**

### **I. THE PARTIES**

1. GMG is a natural gas distribution company and a wholly owned subsidiary of Greater Minnesota Synergy, Inc., and investor-owned company.<sup>1</sup>

2. The Department is a State agency charged by the legislature with enforcing Minnesota Statutes chapters 216A, 216B, and 237, and represents the interests of the State's ratepayers in related proceedings.<sup>2</sup>

3. The OAG represents the interests of residential and small business utility consumers through participation in matters before the Commission involving utility rates and adequacy of utility services.<sup>3</sup>

### **II. PROCEDURAL BACKGROUND**

4. On November 1, 2024, GMG initiated this rate case seeking authority to raise its retail natural gas rates to increase its gross revenues by \$1.4 million, or 7.7 percent, annually.<sup>4</sup>

5. On November 6, 2024, the Commission issued a Notice of Comment Period on Completeness and Procedures to potentially interested parties, requesting comments on two topics: (i) whether GMG's application complied with the filing requirements of Minn. Stat. § 216B.16, Minn. Rules, parts 7825.3100 through 7825.4400, and relevant Commission Orders, and (ii) whether the Commission should refer the matter to the OAH for a contested case hearing.

6. On November 12, 2024, the Department filed comments recommending that the Commission conditionally accept GMG's rate case filing pending submission of supplemental information on or before December 13, 2024, and refer the matter to the OAH for contested case proceedings. The Department requested supplemental information because it identified two items in GMG's Application that did not conform exactly to the requirements set forth in the Rules, and two items that did not conform to the Commission's Order in the Company's last rate case. The Department also requested GMG explain in reply comments whether it could implement interim rates as a separate

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<sup>1</sup> Ex. GMG-103 at 3 (Chilson Direct).

<sup>2</sup> Minn. Stat. § 216A.07, subds. 2–4; Minn. R. 7829.0800, subp. 3.

<sup>3</sup> Minn. Stat. § 8.33, subd. 2.

<sup>4</sup> NOTICE OF AND ORDER FOR HEARING at 1 (Dec. 11, 2024) (eDocket No. 202412-212923-01).

line item on customer bills and how it can extract interim rate revenue data from its billing system to calculate refunds if necessary.<sup>5</sup>

7. As to GMG's nonconformity with the Rules, the Department noted that GMG's Application was substantially, but not entirely, complete. The Department stated that GMG did not provide calculations of its income deficiencies and revenue requirements for the most recent fiscal year and the projected fiscal year as required by Minn. R. 7825.3900, and did not include the average rate base amounts for the most recent fiscal year. The Department requested that GMG provide this information in a supplemental filing on or before December 13, 2024.<sup>6</sup>

8. As it relates to Commission Orders, the Department noted that GMG's Application was substantially, but not entirely, complete. The Department stated that GMG acknowledged filing requirements related to GMG's class cost of service study (CCOSS) adopted by the Commission in GMG's last rate case in 2009, but that GMG stated in its Initial Filing that complying with these requirements would be unduly burdensome and increase rate case expense. The Department stated that given the amount of time that elapsed since GMG's last rate case, and the changes to the Department's general approach to CCOSS since 2009, the Department was comfortable proceeding in this case without requiring GMG to comply with all but the requirement to provide an explanatory filing identifying and describing each classification and allocation method used in its CCOSS. The Department requested that GMG provide this information in a supplemental filing on or before December 13, 2024.<sup>7</sup>

9. Additionally, the Department noted that GMG acknowledged filing requirements related to GMG's sales forecast data adopted by the Commission in GMG's last rate case, but that GMG stated that providing this data would require GMG to manually compile and review physical paper data due to a change in its billing system. The Department stated that it accepted GMG's explanation and conclude that the more limited five-years of billing/sales data GMG provided is sufficient and did not request any additional information related to billing and sales data in a supplemental filing.<sup>8</sup>

10. Also on November 12, 2024, the OAG filed comments recommending that the Commission refer the matter to the OAH for a contested case hearing, and that the Commission should not narrow the scope of the proceeding in any way from the standard

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<sup>5</sup> Comments of the Minnesota Department of Commerce, Division of Energy Resources (Nov. 12, 2024) (eDocket No. 202411-211833-01).

<sup>6</sup> Comments of the Minnesota Department of Commerce, Division of Energy Resources at 3 (Nov. 12, 2024) (eDocket No. 202411-211833-01).

<sup>7</sup> Comments of the Minnesota Department of Commerce, Division of Energy Resources at 3 (Nov. 12, 2024) (eDocket No. 202411-211833-01).

<sup>8</sup> Comments of the Minnesota Department of Commerce, Division of Energy Resources at 3 (Nov. 12, 2024) (eDocket No. 202411-211833-01).



rate case procedures. The OAG commented that a contested case was appropriate to provide the parties sufficient time to investigate the filing and engage in settlement discussions, and because the factual basis for rates may have changed considerably since GMG's last rate case 2009, including regarding the return on equity.<sup>9</sup>

11. On November 18, 2024, GMG filed reply comments agreeing to provide a supplemental filing with the information requested by the Department by December 13, 2024, and agreeing with the Department's and OAG's recommendation to refer this matter to the OAH. GMG also confirmed that it was able to implement interim rates as a separate line item on its bills and appropriately calculate interim rate refunds, if necessary.<sup>10</sup>

12. On December 2, 2024, GMG filed a supplemental filing to provide the information requested in the comments of the Department.<sup>11</sup>

13. On December 11, 2024, the Commission issued a Notice of and Order for Hearing which, among other things, referred the case to the OAH for contested case proceedings on the issues listed at the beginning of this report.<sup>12</sup>

14. Also on December 11, 2024, the Commission issued a separate Order accepting the Company's filing, suspending the proposed rates, and extending the timeline for its decision. The Commission also issued a third order that established interim rates.<sup>13</sup>

15. A prehearing status and scheduling conference was held on January 15, 2025, and the Judge issued the First Prehearing Order on January 22, 2025. The First Prehearing Order set forth the timeline and process for the proceeding. On January 22, 2025, the Judge also issued a Protective Order.<sup>14</sup>

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<sup>9</sup> Comments of the Office of the Attorney General, Residential Utilities Division (Nov. 12, 2024) (eDocket No. 202411-211818-01).

<sup>10</sup> Reply Comments of Greater Minnesota Gas, Inc. (Nov. 18, 2024) (eDocket No. 202411-212098-01).

<sup>11</sup> Supplemental Filing of Greater Minnesota Gas, Inc. (Dec. 2, 2024) (eDocket No. 202412-212594-01).

<sup>12</sup> NOTICE OF AND ORDER FOR HEARING (Dec. 11, 2024) (eDocket No. 202412-212923-01).

<sup>13</sup> ORDER ACCEPTING FILING, SUSPENDING RATES, AND EXTENDING TIMELINE (Dec. 11, 2024) (eDocket No. 202412-212924-01); ORDER SETTING INTERIM RATES (Dec. 11, 2024) (eDocket No. 202412-212925-01).

<sup>14</sup> FIRST PREHEARING ORDER AND PROTECTIVE ORDER (Jan. 22, 2025) (eDocket No. 20251-214251-01).

16. On February 25, 2025, the Judge issued a Public Hearing Scheduling Order stating that the parties agreed to a schedule for public hearings and set forth the timeline and process for the public hearings.<sup>15</sup>

17. On February 28, 2025, the Department and the OAG filed Direct Testimony in this proceeding.<sup>16</sup>

18. On March 18, 2025, the Judge issued an order cancelling the in-person component of the hybrid public hearing to be held on March 19, 2025.<sup>17</sup>

19. Also on March 18, 2025, the parties met for settlement discussions.

20. Public hearings were held virtually using WebEx technology on March 18, 19, and 20, 2025. Members of the public were able to join the virtual public meetings via an internet or telephone connection. Written comments from members of the public were received through April 17, 2025.

21. On March 19, 2025, the parties submitted a letter requesting the Judge approve an extension of the filing date for rebuttal testimony by one business day to facilitate additional settlement discussions.<sup>18</sup> The Judge issued an order granting the extension on the same day.<sup>19</sup>

22. On March 24, 2025, the parties filed Rebuttal Testimony.<sup>20</sup>

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<sup>15</sup> PUBLIC HEARING SCHEDULING ORDER (Feb. 25, 2025) (eDocket No. 20252-215770-01).

<sup>16</sup> Department Direct Testimony (eDocket Nos. 20252-215903-02, 20252-215903-03, 20252-215903-04, 20252-215903-05, 20252-215903-06, 20252-215903-07, 20252-215903-08, 20252-215903-09, 20252-215903-10, 20252-215903-11, 20252-215903-12); OAG Direct Testimony (eDocket Nos. 20252-215924-02, 20252-215924-03, 20252-215924-04, 20252-215924-05).

<sup>17</sup> AMENDED PUBLIC HEARING SCHEDULING ORDER (Mar. 18, 2025) (eDocket No. 20253-216501-01).

<sup>18</sup> Letter Requesting Extension of Time to File Rebuttal (Mar. 18, 2025) (eDocket No. 20253-216606-01).

<sup>19</sup> ORDER EXTENDING REBUTTAL TESTIMONY FILING DEADLINE (Mar. 18, 2025) (eDocket No. 20253-216611-01).

<sup>20</sup> GMG Rebuttal Testimony (eDocket Nos. 20253-216767-01, 20253-216767-02); Department Rebuttal Testimony (eDocket Nos. 20253-216718-01, 20253-216718-02); OAG Rebuttal Testimony (eDocket No. 20253-216745-02).

23. On April 10, 2025, the OAG filed errata to the Direct Testimony of Chad Stevenson.<sup>21</sup>

24. On April 11, 2025, the parties filed Surrebuttal Testimony.<sup>22</sup>

25. On April 15, 2025, the Judge issued an order changing the location of the evidentiary hearing from the Small Hearing Room at the Commission to the Office of Administrative Hearings due to technical difficulties with the camera in the Small Hearing Room that would impact the ability of witnesses testifying remotely to see the in-person participants while being questioned and see documents displayed during their cross-examination.<sup>23</sup>

26. The evidentiary hearing was held on April 16, 2025 at the Office of Administrative Hearings.<sup>24</sup>

### **III. SUMMARY OF PUBLIC COMMENTS**

27. One written public comment has been received to date. The commenter generally opposed a rate increase.<sup>25</sup>

28. Two people provided oral comments at the three public hearings in this proceeding. One commenter generally opposed a rate increase. Another commenter noted that he understood the need for a rate increase, but was concerned about the 7.7 percent increase requested by the Company.

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<sup>21</sup> OAG Direct Testimony Errata (April 10, 2025) (eDocket Nos. 20254-217488-01, 20254-217488-02, 20254-217488-03).

<sup>22</sup> GMG Surrebuttal Testimony (eDocket Nos. 20254-217553-02, 20254-217553-03); Department Surrebuttal Testimony (eDocket Nos. 20254-217541-02, 20254-217541-03, 20254-217541-04, 20254-217541-05, 20254-217541-06); OAG Surrebuttal Testimony (eDocket Nos. 20254-217540-02, 20254-217540-03, 20254-217540-04).

<sup>23</sup> ORDER CHANGING HEARING LOCATION (Apr. 15, 2025) (eDocket No. 20254-217653-01).

<sup>24</sup> See Evidentiary Hearing Transcript (“Tr.”).

<sup>25</sup> Public Comment of Mike Lesch (Apr. 2, 2025) (eDocket No. 20254-217203-01). A second public comment was filed in the docket, but it appears to relate to CenterPoint Energy and was likely misfiled. Public Comment of Matthew Olson (Jan. 29, 2025) (eDocket No. 20251-214690-01).

#### IV. OVERVIEW OF GREATER MINNESOTA GAS AND THIS RATE CASE FILING

29. GMG was founded 30 years ago for the purpose of bringing affordable, reliable natural gas service to previously unserved areas of the State.<sup>26</sup> And while GMG has grown since its founding, it still serves just 11,000 customers, making it, by far, the smallest rate regulated utility in Minnesota.

30. GMG serves in predominantly small, rural communities that tried unsuccessfully to obtain natural gas service for decades, due to the limited growth opportunities they provide.<sup>27</sup> Therefore, most of GMG's customers affirmatively chose to take service from GMG and made the investment to become GMG customers and convert their homes or businesses from propane or other heating sources to natural gas.<sup>28</sup>

31. Given its rural service area, GMG must invest more per customer than other Minnesota utilities to extend service to its less densely populated service areas. Each of the State's four other rate regulated natural gas utilities has four times or more the number of services per mile of main than GMG.<sup>29</sup> This, coupled with the relative newness of GMG's facilities, leads to GMG's rates being generally higher than other Minnesota natural gas utilities.<sup>30</sup>

32. GMG does not have a significant number of large industrial or institutional loads that can provide a stable revenue base.<sup>31</sup> Instead, GMG's non-residential load is largely associated with the agricultural sector and that sector experiences unique challenges which GMG and its regulators must take into account when considering rate increases or rate design changes. Over six percent of GMG's estimated Test Year sales are to the agricultural grain drying business which is susceptible to significant volatility, based on summer rain conditions, adding risk to GMG's business.<sup>32</sup> Additionally, in 2024 over 30 percent of GMG's market was sales to the poultry industry, which is struggling with issues related to the avian bird flu.<sup>33</sup> As Mr. Chilson explained, poultry "production

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<sup>26</sup> See, *In the Matter of the Application of Greater Minnesota Gas, Inc., a Wholly Owned Subsidiary of Greater Minnesota Synergy, Inc., for Authority to Increase Rates for Natural Gas Service in the State of Minnesota*, MPUC Docket No. G-022/GR-06-1148, ORDER SETTING RATES, ACCEPTING AND ADOPTING ADMINISTRATIVE LAW JUDGE'S RECOMMENDATION, AND REQUIRING COMPLIANCE FILING at 3 (July 30, 2007) ("2006 Rate Case Order").

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

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

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

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

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

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

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

facilities cycle through flocks multiple times per year and each time a new flock needs to be placed on a farm, purchasing entities consider the cost of production of that flock and place them where it is most economical to do so. There are currently more production facilities available than demand for poultry.”<sup>34</sup> These grain dryer customers and poultry-related businesses are critical to the viability of GMG’s communities and to GMG and its residential customers.<sup>35</sup>

33. Despite these challenges, GMG has provided substantial energy cost savings for its customers over the years and will continue to provide its customers with energy cost savings after this rate case as well.<sup>36</sup> The United States Energy Information Administration (“EIA”) publishes the weekly prices of propane and residential heating oil during the heating season (October through March).<sup>37</sup> GMG provided those prices since January 2019 and compared them with GMG’s rates and sales volumes for the same months.<sup>38</sup> This comparison demonstrates that GMG’s residential customers have been billed a total of approximately \$33.5 million for natural gas during the heating seasons since January 2019.<sup>39</sup> An equivalent amount of residential heating oil would have cost the same customers approximately \$85.3 million, and an equivalent amount propane would have cost them about \$72.9 million.<sup>40</sup> So comparing GMG’s natural gas rates to fuel oil and propane prices available during that time, GMG provided 60.7 percent and 54.0 percent, savings respectively.<sup>41</sup>

34. GMG employs just 25 employees, each of whom performs multiple duties.<sup>42</sup> For example, GMG CEO Mr. Palmer explained that he has “hands-on” involvement in the day-to-day operations of the Company, including monitoring gas supply daily for all 365 days a year.<sup>43</sup> Similarly, GMG President Cody Chilson reviews the Company’s engineering designs, cost estimates, and flow modeling and both Mr. Palmer and Mr. Chilson are involved in capacity planning, attend weekly sales and construction scheduling meetings with front-line employees, meet with accounting personnel regularly to review accounts receivable and the Company’s energy conservation program, and even

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

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

<sup>36</sup> Ex. GMG 107 at 2 (Chilson Surrebuttal).

<sup>37</sup> Ex. GMG 107 at 2 (Chilson Surrebuttal).

<sup>38</sup> Ex. GMG 107 at 2, Exhibit CJC-SR-1 (Chilson Surrebuttal).

<sup>39</sup> Ex. GMG 107 at 2, Exhibit CJC-SR-1 (Chilson Surrebuttal).

<sup>40</sup> Ex. GMG 107 at 2, Exhibit CJC-SR-1 (Chilson Surrebuttal).

<sup>41</sup> Ex. GMG 107 at 2, Exhibit CJC-SR-1 (Chilson Surrebuttal).

<sup>42</sup> Ex. GMG-112 at 2 (Palmer Rebuttal).

<sup>43</sup> Ex. GMG-112 at 29 (Palmer Rebuttal).

perform such “non-executive” tasks as salting the sidewalk and parking lot of Faribault’s service center and shoveling the sidewalk after minor snow events, as needed.<sup>44</sup>

35. GMG is not publicly traded, so it does not face quarterly pressure from Wall Street or the investment community to show profits.<sup>45</sup> Rather, the Company’s shareholder group is community-based and has remained constant for many years, with transfers of ownership generally only happening upon shareholder deaths, marriage dissolutions, or similar life events.<sup>46</sup>

36. This is GMG’s fourth rate case filing, with its first case occurring in 2004.<sup>47</sup> In that case, GMG did not request any rate increase despite a revenue deficiency of over \$500,000, but sought simply to use the case as a vehicle for achieving compliance with the relevant statutes and rules.<sup>48</sup>

37. Additional rate cases followed in 2006 and 2009. In the 2006 rate case, recognizing the impact on its customers of its first ever rate increase request, GMG voluntarily moderated its rate increase request, seeking an approximately 7.1 percent, or \$336,500, increase in rates despite a revenue deficiency of over \$1,000,000 and GMG ultimately agreed to an increase of approximately 6.7 percent, which the Commission approved.<sup>49</sup> Similarly, GMG’s 2009 rate increase request did not seek recovery of its full revenue deficiency. Rather, GMG requested, and the Commission approved, a rate increase of approximately \$800,000, or 16.3 percent, despite a revenue deficiency of approximately \$1.2 million.<sup>50</sup>

38. In the current rate case, GMG seeks to set rates that will recover GMG’s cost of service.<sup>51</sup> In GMG’s Initial Filing it requested an increase of approximately \$1.42 million, or 7.7 percent. GMG has since modified its request and seeks an approximately \$1.36 million, or 7.5 percent, rate increase.

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<sup>44</sup> Ex. GMG-112 at 29 (Palmer Rebuttal).

<sup>45</sup> Ex. GMG-112 at 29 (Palmer Rebuttal).

<sup>46</sup> Ex. GMG-112 at 29 (Palmer Rebuttal).

<sup>47</sup> See, *In the Matter of a Petition by Greater Minnesota Gas, Inc. for Authority to Establish Natural Gas Rates in Minnesota*, MPUC Docket No. G-022/GR-04-667, ORDER SETTING RATES, ACCEPTING ADMINISTRATIVE LAW JUDGE’S RECOMMENDATION AND REQUIRING COMPLIANCE FILING (Apr. 13, 2005) (“2004 Rate Case Order”).

<sup>48</sup> 2004 Rate Case Order at 1.

<sup>49</sup> 2006 Rate Case Order at 1, 3.

<sup>50</sup> *In the Matter of the Application of Greater Minnesota Gas, Inc., for Authority to Increase Rates for Natural Gas Service in the State of Minnesota*, MPUC Docket No. G-022/GR-09-962, FINDINGS OF FACT, CONCLUSIONS OF LAW, AND ORDER at 1, 4 (Aug. 19, 2010) (“2009 Rate Case Order”).

<sup>51</sup> Ex. GMG-112 at 3-4 (Palmer Rebuttal); Ex. GMG 103 at 8-9 (Chilson Direct).

## V. APPLICABLE LAW

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

Every rate made, demanded, or received by any public utility . . . shall be just and reasonable. Rates shall not be unreasonably preferential, unreasonably prejudicial, or discriminatory, but shall be *sufficient, equitable, and consistent in application to a class of consumers*.<sup>52</sup>

40. Specifically addressing rate setting and general rate cases such as this proceeding, the Minnesota Supreme Court has explained that, in reviewing and deciding upon rate change requests, “the [Commission’s] charter is broadly defined in terms of *balancing the interests* of the utility companies, their shareholders, and their customers to ensure that rates are ‘just and reasonable’.”<sup>53</sup> In so holding, the Court specifically referenced the requirements of Minn. Stat. § 216B.16, that:

The commission, in the exercise of its powers under this chapter to determine just and reasonable rates for public utilities, shall give due consideration to the public need for adequate, efficient, and reasonable service and to *the need of the public utility for revenue sufficient to enable it to meet the cost of furnishing the service*, including adequate provision for depreciation of its utility property used and useful in rendering service to the public, *and to earn a fair and reasonable return upon the investment in such property*.<sup>54</sup>

41. The Commission determines just and reasonable rates on the basis of a “test year.” The Commission’s Rules define “test year” as “*the 12-month period selected by the utility* for the purpose of expressing its need for a change in rates.”<sup>55</sup> In this proceeding, GMG chose the projected fiscal year 2025, ending December 31, 2025, as its test year.<sup>56</sup> No party objected to using the projected test year as the basis for setting rates in this proceeding. Thus, the relevant time period for analysis is January 1 through December 31, 2025.

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<sup>52</sup> Minn. Stat. § 216B.03 (2012) (emphasis added).

<sup>53</sup> *In the Matter of the Request of Interstate Power Company For Authority To Change Its Rates For Gas Service In Minnesota*, 574 N.W.2d 408, 411 (Minn. 1998) (citing Minn. Stat. § 216B.16, subd. 6).

<sup>54</sup> Minn. Stat. § 216B.16, subd. 6 (emphasis added).

<sup>55</sup> Minn. R. 7825.3100, subp. 17 (emphasis added).

<sup>56</sup> Ex. GMG-103 at 4 (Burke Direct).

42. When deciding the “revenue requirements” issues in a rate case, such as establishing the rate base, revenues, and recovery of expenses, Minnesota courts have stated that the Commission acts in its quasi-judicial capacity.<sup>57</sup> Minnesota courts have further explained that on such issues, “under normal ratemaking policy, a utility is entitled to recover necessary, ongoing expenses incurred in the business of providing utility service.”<sup>58</sup> The cost of furnishing utility service includes items such as labor-related costs, materials and supplies, taxes, insurance, and depreciation.<sup>59</sup>

43. Along with determining the Company’s necessary revenues, the Commission must provide for the allocation of the revenue responsibilities between customer classes (inter-class rate design) and the appropriate design of the rates within each class (intra-class rate design). Minnesota courts have consistently held that when making rate design decisions, the Commission acts in its “quasi-legislative” capacity, rather than in a “quasi-judicial” capacity, reflecting the policy nature of rate design determinations.<sup>60</sup>

44. The Commission’s rules and Commission precedent recognize the importance of cost factors as an underlying basis for rate allocation and rate design decisions, for example, by requiring the filing of a class cost of service study.<sup>61</sup> At the same time, Commission and Court precedent specify that non-cost factors play a role in such decisions too, along with reasoned judgment.<sup>62</sup>

45. Chapter 216B provides that the burden of proof to show that a rate change is just and reasonable shall be on the public utility seeking the change.<sup>63</sup> For a utility to meet this burden, the utility must demonstrate the facts at issue by a preponderance of the evidence.<sup>64</sup> In this case, the burden is on GMG to demonstrate the reasonableness of its requested rate base, revenues, expenses and cost of capital – the components of its revenue

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<sup>57</sup> See, e.g., *St. Paul Area Chamber of Commerce v. Minnesota Public Service Commission*, 251 N.W.2d 350, 358 (Minn. 1977).

<sup>58</sup> *In the Matter of a Request of Interstate Power Company For Authority To Change Its Rates For Gas Service In Minnesota*, 559 N.W.2d 130, 134 (Minn. App. 1997), *affirmed* 574 N.W.2d 408 (Minn. 1998) (emphasis added).

<sup>59</sup> See *Minnegasco v. Minnesota Public Utilities Commission*, 549 N.W.2d 904, 909 (Minn. 1996).

<sup>60</sup> See, e.g., *St. Paul Area Chamber of Commerce v. Minnesota Public Service Commission*, 251 N.W.2d 350, 358 (Minn. 1977).

<sup>61</sup> Minn R. 7825.4300, C.

<sup>62</sup> *St. Paul Area Chamber*, 251 N.W.2d at 355, 358; *Petition of Inter-City Gas Corp.*, 389 N.W.2d 897, 901 (Minn. 1986).

<sup>63</sup> Minn. Stat. § 216B.16, subd. 4.

<sup>64</sup> Minn. R. 1400.7300, subp. 5; *In the Matter of the Petition of Minnesota Power and Light Company, d/b/a Minnesota Power, for Authority to Change its Schedule of Rates in Minnesota*, 435 N.W.2d 550, 554 (Minn. Ct. App. 1989) (review denied).



requirements that it seeks to change. Notably, however, GMG seeks no change to its currently approved revenue apportionment or rate design and Minnesota courts have explained that the existing rates, including the existing rate allocation and rate design, are presumed to be just and reasonable.<sup>65</sup>

## **VI. RESOLVED ISSUES**

### **A. Gross Revenue Conversion Factor**

46. The Gross Revenue Conversion Factor (“GRCF”) is the incremental amount of gross revenue that is required to generate an additional dollar of operating income.<sup>66</sup> GMG proposed a GRCF of 1.40845.<sup>67</sup>

47. The Department revised the Company’s GRCF calculation to 1.403312 to remove the effect of rounding the Federal and Minnesota tax rates to the nearest whole percent, which the Department explained inflated the GRCF.<sup>68</sup>

48. GMG agreed with the Department’s recommendation to use a GRCF of 1.403312 and the resulting income tax adjustment of (\$4,032).<sup>69</sup>

49. The parties’ agreement is reasonable and the Administrative Law Judge recommends approving a GRCF of 1.403312 and the Company’s income tax expense after an adjusted (\$4,032) to account for the change in GRCF.

### **B. Capital Structure**

50. GMG proposed a capital structure of approximately 51.08% common equity, 48.23% long-term debt, and 0.68% short-term debt, including the classification of Small Business Administration (SBA) loans as equity due to personal guarantees provided by certain GMG major shareholders to secure better financing terms.<sup>70</sup>

51. The Department initially recommended denying the proposal to classify the outstanding SBA loans from debt to equity, but ultimately proposed to reclassify half of the SBA loans as equity to balance the interests of GMG’s ratepayers and its shareholders. The Department explained that doing so provided extra compensation for the shareholders who made personal guarantees while recognizing that they are able to invest that capital

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<sup>65</sup> See, *Inter-City Gas Corp.*, 389 N.W.2d at 902. GMG also notes that Minnesota’s interim rate statute reflects this presumption of reasonableness by requiring that interim rates reflect “no change in the existing rate design.” Minn. Stat. § 216B.16, subd. 3 (b) (3).

<sup>66</sup> Ex. DOC-215 at 4 (Uphus Direct).

<sup>67</sup> Ex. GMG-105, Schedule F-2 (Initial Filing – Volume 3).

<sup>68</sup> Ex. DOC-215 at 5-6 (Uphus Direct).

<sup>69</sup> Ex. GMG-109 at 9 (Burke Rebuttal).

<sup>70</sup> Ex. GMG-103 at 3, 10 (Palmer Direct).

elsewhere and earn returns on it. The net impact of this adjustment is an increase in GMG's gross revenue deficiency of approximately \$85,000 per year.<sup>71</sup>

52. GMG agreed that the Department's recommendations gives the Company a reasonable opportunity to maintain the shareholder guarantees and the benefits it provides ratepayers and shareholders, and accepted the recommendation.<sup>72</sup>

53. The parties' agreement is reasonable and the Administrative Law Judge recommends approving the classification of half of the SBA loans as equity and half as debt.

#### **C. Cost Of Long-Term Debt And 15 Basis Points For Flotation On Cost Of Debt**

54. GMG initially proposed a cost of long-term debt of 5.61 percent.<sup>73</sup>

55. The Department recalculated GMG's cost of long-term debt to include its issuance costs by incorporating GMG's annual debt-related amortization expense of \$36,000, and recommended the Commission use the resulting in a cost of long-term debt of 5.76 percent. Part of this calculation included removing a 33 basis point adjustment GMG included for flotation costs on the cost of capital and adding this 15 basis point adjustment to the Company's long-term cost of debt.<sup>74</sup>

56. GMG agreed to incorporate issuance costs in the cost of long-term debt, to remove the 33 basis points that GMG added for flotation to the cost of capital, and that the cost of long-term debt should be increased by 15 basis points to 5.76 percent.<sup>75</sup>

57. The parties' agreement is reasonable and the Administrative Law Judge recommends approving the cost of long-term debt of 5.76 percent.

#### **D. Cost Of Short-Term Debt**

58. GMG proposed a cost of short-term debt of 8.00 percent based on its annualized daily borrowing rate of 8.25 percent at the time it prepared its Initial Filing.<sup>76</sup>

59. The Department concluded that GMG's proposed short-term cost of date was reasonable, based on the negligible difference between 8.00 and 8.25 percent with a capital structure including less than one percent short term debt. The Department also concluded

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<sup>71</sup> Ex. DOC-203 at 3-5 (Addonizio Surrebuttal).

<sup>72</sup> Tr. at 35:1-7 (Palmer).

<sup>73</sup> E. GMG-105, Schedule D-1 (Initial Filing – Volume 3).

<sup>74</sup> Ex. DOC-202 at 21-22 (Addonizio Direct).

<sup>75</sup> Ex. GMG-112 at 16-18 (Palmer Rebuttal); Ex. DOC-203 at 2 (Addonizio Surrebuttal).

<sup>76</sup> Ex. GMG-103 at 12 (Palmer Direct).

that GMG's proposed use of its annualized daily borrowing rate as a basis for its short term debt was reasonable.<sup>77</sup>

60. The parties' agreement is reasonable and the Administrative Law Judge recommends approving a cost of short-term debt of 8.00 percent.

#### **E. Bad Debt Expense**

61. A bad debts expense account is used to estimate the amount the Company will lose from customers that do not pay their bills.<sup>78</sup> GMG proposed a Test Year bad debt expense of \$21,600 based on trends the Company observed in 2024.<sup>79</sup>

62. The Department initially proposed requiring GMG to forecast bad debt expense based on a four-year average bad debt rate from the total residential and commercial facility fees and sales dollars, which is then applied to 2025 Test Year forecasted sales revenue, resulting in a reduction of \$4,900 to the bad debt expense.<sup>80</sup>

63. GMG disagreed with the Department's approach and explained that it based the bad debt expense on the 2024 amount because it is most reflective of the current economic circumstances of GMG's customers. GMG argued that it was not possible to confirm why bad debt expenses were lower in 2021 through 2023, and that it could be attributable to general economic factors, substantial stimulus payments to families, and increased energy assistance and other assistance programming.<sup>81</sup>

64. The Department acknowledged that although it believes the historical average is more reliable during periods of variability, it recognized that the periods in its proposed bad debt analysis included the impacts of the COVID-19 pandemic. The Department agreed with GMG that the 2024 bad debt expense is more reflective of the current economic circumstances of customers and agreed with GMG's 2025 Test Year bad debt expense of \$21,600.<sup>82</sup>

65. The parties' agreement is reasonable and the Administrative Law Judge recommends approving a Test Year bad debt expense of \$21,600.

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<sup>77</sup> Ex. DOC-202 at 22 (Addonizio Direct).

<sup>78</sup> Ex. DOC-215 at 13 (Uphus Direct).

<sup>79</sup> Ex. GMG-105, Schedule C-3 at 2 (Initial Filing – Volume 3); Ex. DOC-215, Schedule AAU-D-1 at 28 (Uphus Direct).

<sup>80</sup> Ex. DOC-215 at 14-15 (Uphus Direct).

<sup>81</sup> Ex. GMG-109 at 10-11 (Burke Rebuttal).

<sup>82</sup> Ex. DOC-216 at 4 (Johnson Surrebuttal).

## **F. Late Fees**

66. GMG noted in the Base Cost of Gas Docket No. G-022/MR-24-351 that it did not include late fee revenues in the 2025 Test Year because it did have much historical late fee data due to not charging late fees during the COVID-19 pandemic and for several months in 2024 after the conversion of its billing system.<sup>83</sup> The Department asked GMG to provide its late fee data for 2021 through 2024 in Rebuttal Testimony.<sup>84</sup>

67. GMG provided its late fees for 2021 through 2024, and proposed including late fee revenues of \$6,273 based on the 2023 level because abnormal events skewed the amount of late fees in recent years.<sup>85</sup>

68. The Department disagreed with GMG's proposal and recommended using a simple average of the actual late fees from 2021 through 2024 to levelize the fluctuations and provide a reasonable estimate of late fees. Using this methodology, the Department recommended that GMG include late fee revenues of \$13,435 in the Test Year.<sup>86</sup>

69. At the evidentiary hearing, counsel for GMG noted that GMG agreed with the Department's recommendation to reflect late fee revenues of \$13,435.<sup>87</sup>

70. The parties' agreement is reasonable and the Administrative Law Judge recommends approving Test Year late fee revenues of \$13,435.

## **G. Sales Expense – Salary**

71. The salary-sales account reports the wages for technicians working with potential customers.<sup>88</sup> GMG proposed a Test Year salary-sales expense of \$18,000 based on 2023 actuals.<sup>89</sup>

72. The Department initially disagreed with GMG's proposal and recommended using the annualized 2024 salary-sales balance of \$14,395 for a downward adjustment of \$3,605.<sup>90</sup>

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<sup>83</sup> Greater Minnesota Gas' Request to Implement a New Base Cost of Gas, Docket No. G-022/MR-24-351, Reply Comments of Greater Minnesota Gas, Inc. at 1 (Nov. 13, 2024) (eDocket No. 202411-211899-01).

<sup>84</sup> Ex. DOC-213 at 24 (Johnson Direct).

<sup>85</sup> Ex. GMG-109 at 8-9 (Burke Rebuttal).

<sup>86</sup> Ex. DOC-216 at 26 (Johnson Surrebuttal).

<sup>87</sup> Tr. at 13:15-24.

<sup>88</sup> Ex. DOC-213, Schedule AAU-D-1 (Uphus Direct).

<sup>89</sup> Ex. DOC-213, Schedule AAU-D-1 (Uphus Direct).

<sup>90</sup> Ex. DOC-213 at 17 (Uphus Direct).

73. GMG disagreed with the Department's methodology because the sales expenses are direct expenses taken from activities identified on employees' timecards. Thus, even if a GMG employee was not incurring these expenses, that employee would be performing other work and the employee's labor costs would still be incurred by the Company. Any downward adjustment to the salary-sales expense would need to be accompanied by an offsetting upward adjustment to the Administrative and General Labor expense.<sup>91</sup>

74. The Department agreed that any adjustment to salary-sales would need an offsetting adjustment to the Administrative and General expense and would just be offset to another wages account. The Department agreed with GMG's proposed salary-sales expense.<sup>92</sup>

75. The parties' agreement is reasonable and the Administrative Law Judge recommends approving GMG's Test Year salary-sales expense of \$18,000.

#### **H. Rebates Expense**

76. The rebates conversion expense account is used to track rebates for customers who convert from propane to natural gas. GMG proposed a 2025 Test Year rebates expense of \$2,700 based on 2023 actuals.<sup>93</sup>

77. The Department disagreed with basing GMG's proposed 2025 Test Year rebates conversion expense on 2023 actuals and instead proposed using the annualized 2024 year-to-date amount, resulting in an estimated expense of \$1,800. The Department proposed reducing GMG's proposed 2025 Test Year rebates conversion expense by \$900.<sup>94</sup>

78. GMG accepted the Department's proposed adjustment, noting that it is difficult to predict future expenditures of this kind and the economic drivers of customer behavior likely have less impact in this category than in other expense categories.<sup>95</sup>

79. The parties' agreement is reasonable and the Administrative Law Judge recommends approving the Department's downward adjustment of \$900 to GMG's proposed rebate conversion expense.

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<sup>91</sup> Ex. GMG-109 at 12 (Burke Rebuttal).

<sup>92</sup> Ex. DOC-216 at 5-6 (Johnson Surrebuttal).

<sup>93</sup> Ex. GMG-105, Schedule Ex. DOC-215, Schedule AAU-D-1 at 13 (Uphus Direct).

<sup>94</sup> Ex. DOC-215 at 18-19 (Uphus Direct).

<sup>95</sup> Ex. GMG-109 at 12 (Burke Direct).

## **I. Advertising Expenses**

80. GMG proposed 2025 Test Year advertising expenses of \$69,600 broken up under operating expenses, with \$60,000 of distribution expense, \$6,000 of customer services and information expense, and \$3,600 of administrative and general expense.<sup>96</sup>

81. The Department initially recommended a 2025 Test Year advertising expense of \$67,000 based on a historical average advertising expense from 2021 to 2024, for a downward adjustment of \$2,600 to GMG's proposed expense.<sup>97</sup>

82. GMG disagreed with the Department's proposal, stating that using a historical average is not appropriate because the vast majority of GMG's advertising expenses are related to complying with pipeline safety requirements and involve customer mailings. These costs increase as GMG's customer base increases, and relying on a historical average does not capture current customer counts and postage rates. GMG reiterated that Test Year expenses should be based on more recently incurred advertising expenses that are more reflective of the current state of the pipeline safety requirements and GMG's service territories.<sup>98</sup>

83. GMG also provided updated, unaudited actual advertising expenses for 2024 that were \$2,609 greater than GMG's original 2024 estimate. The Department agreed to eliminate its recommended downward adjustment of \$2,600 because GMG's proposal is only a 3 percent increase in advertising expenses from 2024 to 2025.<sup>99</sup>

84. The parties' agreement is reasonable and the Administrative Law Judge recommends approving GMG's advertising expenses of \$69,600.

## **J. Gas Storage Inventory**

85. Gas storage inventory are costs for gas storage services that help mitigate rate fluctuation for ratepayers. GMG contracts with storage suppliers and purchases gas when it is sold at a lower rate, typically during summer months, and can store the gas for future use. When the customer demand is higher in the cold winter months, GMG can withdraw the gas in storage, keeping the cost of gas lower for its ratepayers.<sup>100</sup>

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<sup>96</sup> Ex. GMG-105, Schedule C-3 (Initial Filing – Vol. 3); Ex. GMG-103 at 36 (Burke Direct); Ex. DOC-215 at 25 (Uphus Direct).

<sup>97</sup> Ex. DOC-215 at 26 (Uphus Direct).

<sup>98</sup> Ex. GMG-109 at 7 (Burke Direct).

<sup>99</sup> Ex. DOC-216 at 7 (Johnson Surrebuttal).

<sup>100</sup> Ex. DOC-215 at 29 (Uphus Direct).

86. GMG included gas storage inventory of \$487,157 in rate base for 2025 based on a thirteen month average balance used to calculate the value of GMG's gas storage, which was then used to project the 2025 Test Year costs for gas storage inventory.<sup>101</sup>

87. The Department initially disagreed with GMG and proposed using a historical average of gas storage inventory balances from 2021 through 2024, and recommended a \$32,106 downward adjustment to GMG's proposed gas storage inventory balance.<sup>102</sup>

88. GMG disagreed with the Department's recommendation and explained that its gas storage inventory is not based on historical data but is based on existing contracts. GMG contracted volumes and pricing for injections into storage connected to the Northern Natural Gas System. The volumes and costs for those injections will not vary from the Company's Test Year budget.<sup>103</sup>

89. GMG also noted that it is dependent on market prices for its Michigan storage accounts. The seven-month strip for locking in gas prices (which is the basis for projecting those costs) for those injection requirements has risen from the time those cost were projected for the Test Year. GMG revised its inventory balance to reflect this change. This resulted in an updated gas storage inventory of \$709,397, an increase of \$222,239.<sup>104</sup>

90. The Department agreed that GMG's calculation was reasonable and recommended eliminating the Department's recommended adjustment to reduce GMG's 2025 gas storage inventory by \$32,106, and agreed to increase gas storage inventory by \$222,239.

91. The parties' agreement is reasonable and the Administrative Law Judge recommends approving GMG's gas storage inventory of \$709,397.

#### **K. Top Ten Paid Officers And Employees**

92. The Department recommended that compensation for GMG's top ten officers and employees over \$150,000 be removed from the Test Year. The Department recognized that this could impact, at most, two officers of the Company.<sup>105</sup>

93. GMG disagreed with the Department's recommendation. GMG explained that its top ten employees constitute 40 percent of its workforce and results in an average of under \$100,000 per employee, annually. Additionally, GMG explained that each of the

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<sup>101</sup> Ex. GMG-103 at 11 (Burke Direct).

<sup>102</sup> Ex. DOC-215 at 30 (Uphus Direct).

<sup>103</sup> Ex. GMG-109 at 15-16 (Burke Rebuttal).

<sup>104</sup> Ex. GMG-109 at 15-16 (Burke Rebuttal).

<sup>105</sup> Ex. DOC-213 at 23 (Johnson Direct).

two officers' spent roughly eight hours annually on shareholder-focused activities, and that no element of their jobs as executives is related to soliciting new investors.<sup>106</sup>

94. Based on this testimony, the Department agreed that GMG's two officers do not spend a significant amount of time on GMG's shareholder activities, and no longer proposed an adjustment for the top ten paid officers and employees compensation.<sup>107</sup>

## VII. COST OF CAPITAL

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

96. The United States Supreme Court established the hallmarks of a reasonable return on capital, including a reasonable ROE, in the landmark cases of *Bluefield* and *Hope*. The *Bluefield* Court stated that a reasonable return should be:

equal to that generally being made at the same time and in the same general part of the country on investments in other business undertakings which are attended by corresponding risks and uncertainties. The return should be reasonably sufficient to assure the confidence in the financial soundness of the utility, and should be adequate, under efficient and economical management, to maintain and support its credit and enable it to raise the money necessary for the proper discharge of its public duties.<sup>108</sup>

97. The *Bluefield* Court also noted:

What annual rate will constitute just compensation *depends upon many circumstances* and must be determined by the exercise of a fair and enlightened judgment, *having regard to all relevant facts*.<sup>109</sup>

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<sup>106</sup> Ex. GMG-112 at 25, 29-30 (Palmer Rebuttal).

<sup>107</sup> Ex. DOC-216 at 11-12 (Johnson Surrebuttal).

<sup>108</sup> *Bluefield Water Works & Improvement Company v. Public Service Commission of West Virginia*, 262 U.S. 679, 690 (1923).

<sup>109</sup> *Bluefield*, 262 U.S. at 692.



98. And in *Hope*, the Court further explained:

From the investor or company point of view, it is important that there be enough revenue not only for operating expenses, but also for the capital costs of the business. These include service on the debt and dividends on the stock. (Citation omitted.) By this standard the return to the equity owner should be commensurate with returns on investments in other enterprises having corresponding risks. That return, moreover, should be sufficient to assure confidence in the financial integrity of the enterprise, so as to maintain its credit and to attract capital.<sup>110</sup>

99. The Minnesota Supreme Court has noted and adopted the *Bluefield* and *Hope* requirements, including *Bluefield's* command that:

Rates which are not sufficient to yield a reasonable return on the value of the property used, at the time it is being used to render the service, are unjust, unreasonable, and confiscatory, and their enforcement deprives the public utility company of its property in violation of the Fourteenth Amendment.<sup>111</sup>

100. The *Hibbing* Court further held that the establishment of a rate of return is a quasi-judicial function, wherein the Administrative Law Judge and Commission act as a fact-finder and weigh the evidence as would a judge in a court trial.<sup>112</sup> In weighing that evidence, the Administrative Law Judge and Commission “*must balance the interests of the utility against the interests of the utility’s customers.*”<sup>113</sup>

101. These cases require that, in setting a reasonable ROE for GMG, the Commission must consider all relevant facts and circumstances of GMG and provide a return that: (1) is comparable to returns on investments in businesses with similar risks and uncertainties and operating in the same general part of the country; (2) is sufficient to assure confidence in GMG’s financial integrity, so that it can maintain its credit and attract capital; and (3) reflects a balancing of the interests of GMG and its customers.

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

102. GMG requested maintaining 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 and provided the testimony of Mr. Palmer, a former President of Viking Gas Transmission

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<sup>110</sup> *Federal Power Commission v. Hope Natural Gas Co.*, 320 U.S. 591, 603 (1944).

<sup>111</sup> *Hibbing Taconite Co. v. Minnesota Public Service Commission*, 302 N.W.2d 5, 10 (Minn. 1980), citing *Bluefield*, 262 U.S. at 690.

<sup>112</sup> *Hibbing Taconite Co.*, 302 N.W.2d at 9.

<sup>113</sup> *Hibbing Taconite Co.*, 302 N.W.2d at 10, citing *Minneapolis Street Railway Co. v. City of Minneapolis*, 86 N.W.2d 657, 676 (Minn. 1957).

and former Chief Financial Officer at Nuclear Management Company, in support of its position.<sup>114</sup>

103. In his Direct Testimony, Mr. Palmer supported the reasonableness of GMG's requested 10.00 percent ROE by (1) referencing the Company's currently-approved ROE, (2) examining the ROEs of three large, publicly-traded natural gas utilities, (3) referencing the ROEs recently approved for two similarly situated small natural gas utilities with service areas in close proximity to GMG, (4) noting ROEs recently approved by the Commission for large publicly traded utilities, and (5) discussing GMG's unique risks and challenges, indicating the need for a higher ROE than those other Minnesota utilities.<sup>115</sup>

104. Mr. Palmer noted that, while there are few utilities "comparable" to GMG to look to for guidance on an appropriate ROE, two such utilities operate in the neighboring state of Wisconsin – St. Croix Valley Natural Gas Company ("St. Croix Valley") and Midwest Natural Gas ("Midwest Natural").<sup>116</sup>

105. St. Croix Valley serves approximately 8,700 customers in River Falls and Prescott, Wisconsin and nearby rural communities.<sup>117</sup> In a recent rate case, 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."<sup>118</sup>

106. Midwest Natural is slightly larger than either St. Croix Valley or GMG, serving approximately 14,500 customers, also in smaller Wisconsin communities and surrounding areas.<sup>119</sup> The PSCW also approved a 60 percent equity ratio and 11.00 percent ROE for Midwest Natural, using identical language to that used in St. Croix Valley.<sup>120</sup>

107. The ROE determinations in both St. Croix Valley and Midwest Natural recognize the inherently higher risk of investing in smaller companies. Moreover, consistent with the *Bluefield* decision, they represent determinations regarding appropriate

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<sup>114</sup> See, Ex. GMG-103, entire (Palmer Direct); Ex. GMG-112 at 9-18 (Palmer Rebuttal).

<sup>115</sup> Ex. GMG-3 (Palmer Direct), entire.

<sup>116</sup> Ex. GMG-103 at 9 (Palmer Direct).

<sup>117</sup> *Application of St. Croix Valley Natural Gas Company, Inc. for Authority to Increase Rates for Natural Gas Rates*, Public Service Commission of Wisconsin Docket No. 5230-GR-109, FINAL DECISION at 3 (Apr. 24, 2023) ("*St. Croix Valley*").

<sup>118</sup> *St. Croix Valley* at 2, 9.

<sup>119</sup> *Application of Midwest Natural Gas, Inc. for Authority to Increase Rates for Natural Gas Rates*, Public Service Commission of Wisconsin Docket No. 3670-GR-106, FINAL DECISION at 3 (Apr. 27, 2023) ("*Midwest Natural*").

<sup>120</sup> *Midwest Natural* at 2, 9.

returns on equity for investments that would generally be made at the same time and in the same part of the country, as both St. Croix Valley and Midwest Natural have service areas within 100 miles of GMG's service area.<sup>121</sup>

108. Regarding ROEs approved by the Commission, Mr. Palmer noted that the Commission recently approved an all-party settlement in Xcel Energy's most recent natural gas rate case that sets Xcel Energy's rates using a 52.50 percent equity ratio and a 9.60 percent ROE.<sup>122</sup> Xcel Energy's natural gas business has over a 100 year history and dwarfs GMG in size, providing service to over 500,000 customers, including residential customers in major metropolitan areas such as St. Paul, and business and industrial customers, including gas-fired electric generation facilities.

109. In Rebuttal Testimony, Mr. Palmer agreed with the results of the Department's discounted cash flow ("DCF") modeling, specifically the Department's two-growth DCF analysis, finding them "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."<sup>123</sup>

110. The Department filed the only other testimony addressing ROE, with Mr. Addonizio recommending a ROE of 9.65 percent. In developing his recommendation, Mr. Addonizio placed primary reliance on his "multi-stage" DCF analyses, which he determined indicated a "cost of equity for an average risk gas utility is approximately 8.5 percent."<sup>124</sup> However, Mr. 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." Therefore, Mr. Addonizio estimated that for a gas utility of average risk, a reasonable authorized ROE may be around 9.2 or 9.3 percent. After then also attempting to account for GMG's unique risks, he arrived at recommended 9.65 percent ROE.<sup>125</sup>

111. 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

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<sup>121</sup> Ex. GMG-103 at 9 (Palmer Direct).

<sup>122</sup> *In the Matter of the Application of Northern States Power Company, d/b/a Xcel Energy, for Authority to Increase Rates for Natural Gas Service in Minnesota*, MPUC Docket No G-002/GR-23-413, ORDER ACCEPTING AND ADOPTING AGREEMENT SETTING RATES (Mar. 5, 2025).

<sup>123</sup> Ex. GMG-112 at 10 (Palmer Rebuttal).

<sup>124</sup> Ex. DOC-201 at 75 (Addonizio Direct).

<sup>125</sup> Ex. DOC-201 at 75 (Addonizio Direct).

utility's cost of equity.<sup>126</sup> For example, in the most recent Xcel Energy electric rate case, 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.<sup>127</sup>

112. Similarly, in the Minnesota Power electric rate case, the Commission stated that it "concurs with the Administrative Law Judge that the Company's [two-growth DCF] methodology is well supported by the record and provides a well-reasoned basis for setting the cost of equity."<sup>128</sup> In addition, the Commission specifically considered and rejected Mr. Addonizio's proposal to instead base the ROE determination 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*

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<sup>126</sup> Ex. GMG-103 at 7 (Palmer Direct); Ex. GMG-112 at 12 (Palmer Rebuttal).

<sup>127</sup> *In the Matter of the Application of Northern States Power Company, dba Xcel Energy, for Authority to Increase Rates for Electric Service in the State of Minnesota*, MPUC Docket No. E-002/GR-21-630, FINDINGS OF FACT, CONCLUSIONS OF LAW AND ORDER at 89 (July 17, 2023).

<sup>128</sup> *In the Matter of the Application of Minnesota Power for Authority to Increase Rates for Electric Service in Minnesota*, MPUC Docket No. E-015/GR-21-335, FINDINGS OF FACT, CONCLUSIONS, AND ORDER at 45 (Feb. 28, 2023).

*assumptions based on quantitative market data, and have not been shown to produce unreasonable returns.*<sup>129</sup>

113. The Commission has never based a ROE determination on the results of a multi-stage DCF analysis.<sup>130</sup>

114. The record contains the results of two two-growth DCF analyses, both conducted by Department of Commerce (“Department” or “DOC”) witness Mr. Addonizio. In his Direct Testimony, filed February 28, 2025, Mr. Addonizio’s two-growth DCF analysis indicated a “mean average” ROE for his six company “proxy group” of 10.50 percent and a “mean high” ROE for that proxy group of 10.90 percent.<sup>131</sup> By his Surrebuttal Testimony, filed April 11, 2025 and using updated market data, the two-growth DCF “mean average” and “mean high” ROEs had increased slightly, to 10.68 and 11.12 percent, respectively.<sup>132</sup> Thus, before considering any of the unique risks of GMG compared to the proxy companies and using the analysis long relied on by the Commission, the most conservative ROE estimate for GMG is 10.50 percent – 50 basis points above GMG’s base ROE request.

115. The record demonstrates 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;<sup>133</sup> (2) since GMG is not publicly traded, it is harder for shareholders to sell their stock if desired, and harder for GMG to issue new equity;<sup>134</sup> (3) GMG has never paid a dividend, choosing instead to reinvest all earnings in the Company to meet its capital requirements;<sup>135</sup> and (4) GMG relies heavily on the poultry industry and grain drying for its revenues, resulting in wide swings in revenues depending on the overall health of the poultry industry and the weather.<sup>136</sup>

116. 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

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<sup>129</sup> *Minnesota Power* at 45 (emphasis added).

<sup>130</sup> Tr. at 64:5-8 (Addonizio).

<sup>131</sup> Ex. DOC-201 at 37 (Addonizio Direct); Ex. DOC-202 at Schedules CMA-D-13 through CMA-D-16 (Addonizio Direct).

<sup>132</sup> Ex. DOC-203 at 10 and Schedules CMA-S-8 through CMA-S-13 (Addonizio Surrebuttal).

<sup>133</sup> Ex. GMG-103 at 8 (Palmer Direct); Ex. GMG-112 at 13 (Palmer Rebuttal); Ex. DOC-201 at 49-50 (Addonizio Direct).

<sup>134</sup> Ex. DOC-201 at 50 (Addonizio Direct).

<sup>135</sup> Ex. GMG-103 at 8 (Palmer Direct).

<sup>136</sup> Ex. GMG-103 at 6-8 (Palmer Direct); Ex. GMG-112 at 13-14 (Palmer Rebuttal).

investors for that additional risk. However, the Commission need not attempt to quantify the impact of these higher risks, since GMG's requested ROE is already well *below* the ROE indicated by the two-stage DCF analyses in the record.

117. The record of this proceeding demonstrates that 10.00 percent is a conservative base return on equity for GMG and therefore reasonably balances Company and customer interests.

## **B. Flotation Costs**

118. "Flotation costs" are costs incurred by a company to issue debt or equity.<sup>137</sup> These costs include placement fees, appraisal expenses, legal fees, and registration fees and they must be paid to get the financing but are not available to the company at the end of the placement. Regarding flotation costs associated with GMG debt issuances, the parties agreed to a 15 basis point adjustment to GMG's cost of long-term debt.<sup>138</sup> However, the parties dispute the need for a flotation cost adjustment to GMG's cost of equity.

119. To account for flotation costs associated with equity issuances, in past cases the Commission has included an allowance for "flotation costs" in a utility's ROE<sup>139</sup> and GMG requests a similar 15 basis point equity flotation costs adjustment as applied to its cost of long-term debt, bringing its final ROE request to 10.15, still below the mean average two-growth DCF results.

120. The Department objected to inclusion of flotation costs, since the Company expensed the cost of past equity placements and he opined that "plans for future issuances are largely irrelevant."<sup>140</sup>

121. GMG acknowledged that, in the past, the Company expensed the cost of equity placements, as a large amount of the work was done by internal staff due to the limited size of the offering.<sup>141</sup> However, the Company explained that due to GMG's growth and its aging shareholder base, the Company will need to attract additional capital and future equity offerings will not be completed in this same manner.<sup>142</sup> Failure to recognize

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<sup>137</sup> Ex. GMG-103 at 12 (Palmer Direct).

<sup>138</sup> Joint Exhibit 1.

<sup>139</sup> See, e.g., *In the Matter of the Application of Minnesota Power, for Authority to Increase Rates for Electric Service in the State of Minnesota*, MPUC Docket No. E-015/GR-21-335, FINDINGS OF FACT, CONCLUSIONS AND ORDER at 45-46 (Feb. 28, 2023); *In the Matter of the Application of Northern States Power Company, dba Xcel Energy, for Authority to Increase Rates for Electric Service in the State of Minnesota*, MPUC Docket No. E-002/GR-21-630, FINDINGS OF FACT, CONCLUSIONS AND ORDER at 92 (July 17, 2023).

<sup>140</sup> Ex. DOC-201 at 38 (Addonizio Direct), Ex. DOC-203 at 6 (Addonizio Surrebuttal).

<sup>141</sup> Ex. GMG-112 at 17 (Palmer Rebuttal).

<sup>142</sup> Ex. GMG-112 at 17 (Palmer Rebuttal).

these expenses will limit GMG's ability to attract sufficient capital in the future.<sup>143</sup> Since the Company has not raised external equity since 2012, there is not a good proxy for flotation costs associated with GMG equity offerings.<sup>144</sup> Therefore, GMG recommended a 15 basis point adjustment to the cost of equity, matching the flotation adjustment for its debt issuances.<sup>145</sup>

122. The 15 basis point flotation cost adjustment requested by GMG is reasonable and results in an overall ROE of 10.15 percent, which is still lower than the return indicated by the two-growth DCF analyses in the record.

## **VIII. REVENUE REQUIREMENT ISSUES**

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

123. GMG's initial filing on November 1, 2024, included a sales forecast for the January 1 through December 31, 2025 Test Year, projecting approximately \$18.4 million in total sales.<sup>146</sup> GMG updated its sales forecast in Rebuttal Testimony filed on March 23, 2025, to include 2024 year-end actuals, resulting in an update to the 2025 Test Year total sales to approximately \$18.2 million.<sup>147</sup>

124. GMG's updated sales forecast reflects historically high sales for the Company. A graphic representation of GMG's sales over the six year period of 2019 through 2024, and using GMG's revised 2025 sales forecast that reflects the actual customer count as of January 1, 2025, shows the following:<sup>148</sup>

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<sup>143</sup> Ex. GMG-112 at 17 (Palmer Rebuttal).

<sup>144</sup> Ex. GMG-112 at 17 (Palmer Rebuttal).

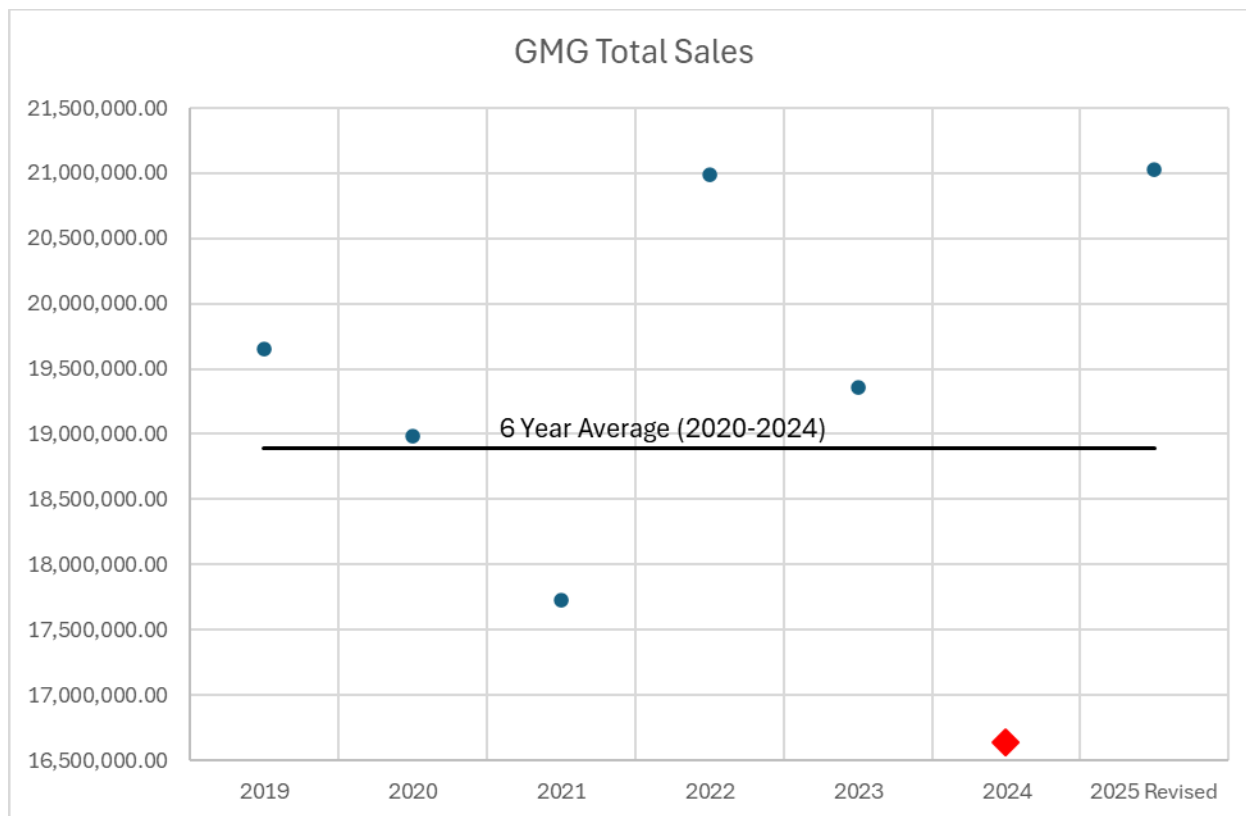
<sup>145</sup> Ex. GMG-112 at 17 (Palmer Rebuttal).

<sup>146</sup> Ex. GMG-105, Schedule C-2 at 1 (Initial Filing – Vol. 3).

<sup>147</sup> Ex. GMG-109, Schedule RDB-REB 2 (Burke Rebuttal).

<sup>148</sup> Figure 1 adds the following to the graph at Ex. OAG-303 at 5 (Stevenson Direct): (1) 2024 actual sales, Ex. GMG-110, Schedule RDB-SR-3 at 3 (Burke Surrebuttal), (2) the average sales over the six year period from 2019 – 2024 (adding 2024 actual sales to the 2019-2023 sales volumes plotted by Mr. Stevenson and included in the record at Ex. OAG-303 at Schedule CS-D-1 (Stevenson Direct), and (3) GMG's revised 2025 sales forecast, included in Ex. OAG-305, Schedule CS-S-1 at 12 (Stevenson Surrebuttal).

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



125. Two aspects of GMG’s sales forecast remain contested – forecasted sales volumes for new customers to be added in the test year and GMG’s Small Commercial customer count.

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

126. Due to the unique nature of GMG, its service area, and its addition of new customers, GMG proposed a 2025 Test Year sales forecast that includes 21.6 dekatherms (“Dth”) for each new customer and based that forecast on the Company’s actual historic trends.<sup>149</sup> GMG explained that it generally adds new customers following the summer construction season, such that new customers are connected and begin using gas in the second half of the year at the beginning of the heating season, frequently after needing to convert appliances and heating systems to use natural gas.<sup>150</sup>

127. GMG stated that this pattern recurs every year, so stated that it is appropriate to acknowledge that new customers connecting to GMG’s system do not use the same

<sup>149</sup> Ex. GMG-105, Schedule E-1 at 3 (Initial Filing – Vol. 3); Ex. GMG-109 at 2-3 (Burke Rebuttal).

<sup>150</sup> Ex. GMG-109 at 2 (Burke Rebuttal).



amount of gas in the year of initial connection as a customer that has been connected since the first day of the year.<sup>151</sup>

128. GMG demonstrated this consistent historical pattern, which it reflected in its test year forecast. The Company demonstrated that it added 4,378 new Residential class customers between 2015 and 2023.<sup>152</sup> Of those new customers, 4,041 were added from June through December. Table 1 provides the five-year average of GMG’s new customer additions from 2019 through 2023.

**Table 1. Average New Customer Additions 2019 – 2023<sup>153</sup>**

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

129. 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.”<sup>154</sup> The Department sales forecast witness also stated that disputes the Company’s new customer sales forecast for calendar year 2025.<sup>155</sup>

130. There is no basis in the record to question GMG’s forecasted test year sales of 21.6 Dth. Thus, the only question is whether the test year forecast should assume sales that will occur outside the test year, by “annualizing” sales to these customers.

131. GMG met its burden to demonstrate the reasonableness of its test year sales forecast for new customers. Annualizing these customers’ gas usage in the Test Year to account for their consumption in future years may be appropriate in an instance where there is a large one-time addition of a new customers, or if the projected pattern of customer additions is irregular, and thus not a representative slice of the utility’s normal operations. GMG provided unrefuted evidence that its customer additions follow a consistent trend year-to-year and are connected to GMG’s system from June through December. Annualizing such customers’ revenues, without also annualizing all associated costs, would not allow GMG a reasonable opportunity to recover its cost of service. Therefore, the Department’s recommended sales forecast adjustment should not be adopted.

<sup>151</sup> Ex. GMG-109 at 3 (Burke Rebuttal).

<sup>152</sup> Ex. DOC 205, Schedule SS-SR-3 (Shah Surrebuttal).

<sup>153</sup> Ex. DOC 205, Schedule SS-SR-3 (Shah Surrebuttal).

<sup>154</sup> Ex. DOC-205 at 11 (Shah Surrebuttal).

<sup>155</sup> Tr. at 69:1-11 (Shah).

## 2. Small Commercial Customer Count

132. Historically, GMG's growth from 2009 through 2023 resulted from the Company's extension of natural gas service to rural markets that were previously unserved by a natural gas utility.<sup>156</sup> New commercial customers, including new Small Commercial customers, resulted primarily from the conversion of existing businesses in these unserved areas to natural gas service from GMG, as opposed to new construction of commercial businesses in existing service areas.<sup>157</sup>

133. GMG is not planning any major main extensions to unserved communities in 2025, and GMG's projected growth in the 2025 Test Year is expected to be a result of infill along existing main.<sup>158</sup> All the developments that GMG has currently identified for future growth are residential developments, not commercial facilities.<sup>159</sup>

134. In 2025, GMG stated that it has no plans for large projects to serve new areas, thus eliminating the primary causal growth factor for the historical growth of the Small Commercial customer class.<sup>160</sup> Further, GMG stated that it has not identified any new commercial loads to be added along its existing mains.<sup>161</sup> As a result of these considerations, GMG projected in its initial filing its then-current 946 Small Commercial customers as the same amount that would exist at year-end 2024 and projected no growth in the Small Commercial customer class in the 2025 Test Year in the Company's initial filing.<sup>162</sup>

135. The OAG argues that GMG's historical additions of roughly 30 Small Commercial customers annually from 2019 through 2023 compels a different Small Commercial customer count for the 2025 Test Year.<sup>163</sup> At the same time, the OAG acknowledged that "it is possible GMG's theory that it has exhausted all opportunities to add small commercial customers is true," and that the "past is not always indicative of the future."<sup>164</sup>

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<sup>156</sup> Ex. OAG-303, Schedule CS-D-5 (Stevenson Direct).

<sup>157</sup> Ex. OAG-303, Schedule CS-D-5 (Stevenson Direct).

<sup>158</sup> Ex. OAG-303, Schedule CS-D-5 (Stevenson Direct).

<sup>159</sup> Ex. OAG-303, Schedule CS-D-5 (Stevenson Direct).

<sup>160</sup> Ex. OAG-305, Schedule CS-S-2 at 2 (Stevenson Surrebuttal).

<sup>161</sup> Ex. OAG-305, Schedule CS-S-2 at 2 (Stevenson Surrebuttal).

<sup>162</sup> Ex. GMG-105, Schedule E-1 (Initial Filing – Vol. 3).

<sup>163</sup> Ex. OAG-303 at 9 (Stevenson Direct).

<sup>164</sup> Ex. OAG-303 at 9 (Stevenson Direct).

136. The OAG also agreed with GMG that it is reasonable to update the 2025 sales forecast with actual 2024 year-end customer count numbers, as long as GMG updates its operating costs and cost of service for the Test Year.<sup>165</sup>

137. Adjusting the sales forecast to utilize the 2024 year-end actual customer counts, the Test Year operating revenue requires a downward adjustment of \$185,507, increasing the Revenue Requirement by \$92,834.<sup>166</sup>

138. GMG has met its burden to demonstrate the reasonableness of its updated sales forecast, based on actual year-end 2024 customer counts. GMG has also met its burden to demonstrate the reasonableness of its forecasted addition of no new commercial customer accounts in the test year.

## **B. Expenses**

139. In setting its test year operating expenses, GMG first established its Test Year expenses by reviewing its actual expenses for 2023 and 2024 through August 31, 2024, and its projected expenses for the remainder of 2024.<sup>167</sup> The Company then determined whether any necessary adjustments needed to be made to reflect normal utility operations during the Test Year.<sup>168</sup> If such adjustments were necessary, the Company quantified those adjustments and added to the Projected Current Year expenses to establish the Test Year amounts.<sup>169</sup> Due in part to the Company's size, it was able to thoroughly review and revise each expense category to reflect any anticipated changes, such as growth based on forecasting, payroll increases, inflation, taxes, and other factors, instead of relying on a general, one-size-fits-all approach.<sup>170</sup>

140. The only disputed expense items in this proceeding concern a portion of GMG's employee compensation, certain administrative and general expenses, and certain organizational dues expenses.

### **1. Employee Compensation**

141. 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.<sup>171</sup> However, the Department objects to recovery of a portion of one employee's annual performance pay (the short-term

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<sup>165</sup> Ex. OAG-305 at 4 (Stevenson Surrebuttal).

<sup>166</sup> Ex. GMG-109 at 6 (Burke Rebuttal).

<sup>167</sup> Ex. GMG-103 at 19 (Burke Direct).

<sup>168</sup> Ex. GMG-103 at 19 (Burke Direct).

<sup>169</sup> Ex. GMG-103 at 19 (Burke Direct).

<sup>170</sup> Ex. GMG-103 at 19 (Burke Direct).

<sup>171</sup> Ex. GMG-112 at 25 (Palmer Rebuttal).

“incentive” compensation offered by GMG) and it objects to recovery of any of the annual costs associated with GMG’s employee retention agreements (GMG’s longer-term “incentive” compensation).

**a. Performance Pay**

142. GMG offers employees the ability to earn an annual bump in their compensation by earning a short-term incentive or “performance pay” addition to their base compensation. GMG demonstrated that it tailors the criteria for achieving this performance pay adder to fit the job. For example, the employee primarily responsible for GMG’s energy conservation programs earns short-term performance pay if certain energy conservation goals are met.<sup>172</sup> And given GMG’s small size, the Company has just one Certified Management Accountant who is qualified to work with GMG’s auditors to complete the Company’s audited financial statements.<sup>173</sup> GMG’s short-term performance pay for that individual is paid out in June, after the most critical tasks for the year are completed, because if that employee left the Company mid-audit, it would significantly impact the Company’s ability to operate.<sup>174</sup>

143. None of this performance pay is contingent on GMG’s earnings or financial performance, as demonstrated by the fact that, “even in the past two years of poor economic performance by the Company, GMG has paid out the full short-term performance pay to its eligible employees.”<sup>175</sup>

144. The Department initially proposed that GMG’s recovery of performance pay costs be limited by applying a “cap” on any individual’s performance pay equal to 15 percent of that employee’s base pay, resulting in a disallowance of over \$20,000 in compensation expenses.<sup>176</sup> The Department based this recommended disallowance on certain past Commission decisions approving such a cap for other large utilities such as Xcel Energy.<sup>177</sup>

145. 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.<sup>178</sup> 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.

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<sup>172</sup> Ex. GMG-112 at 21 (Palmer Rebuttal).

<sup>173</sup> Ex. GMG-112 at 21 (Palmer Rebuttal).

<sup>174</sup> Ex. GMG-112 at 21 (Palmer Rebuttal).

<sup>175</sup> Ex. GMG-112 at 21 (Palmer Rebuttal).

<sup>176</sup> Ex. DOC-213 at 19-20 (Johnson Direct).

<sup>177</sup> Ex. DOC-213 at 19-20 (Johnson Direct).

<sup>178</sup> Ex. DOC-216 at 21-22 (Johnson Surrebuttal).

This modification lowered the Department's recommended disallowance from approximately \$20,000 to \$11,276.<sup>179</sup>

146. At hearing, Department witness Mr. Johnson agreed that the one employee in question is one of GMG's officers.<sup>180</sup> Mr. Johnson further acknowledged that he did not challenge that officer's total compensation and that, in fact, he testified that GMG's officers "do not spend a significant amount of time on shareholder focused activities, such as increasing earnings per share."<sup>181</sup>

147. Given the overall reasonable compensation level of GMG's officers, this GMG's officer's lack of time on shareholder focused activities, the fact that GMG has paid out its full performance pay the past two years despite weak earnings,<sup>182</sup> and the fact that GMG has *never* paid shareholder dividends,<sup>183</sup> there is no record basis to conclude that the one officer whose compensation is at issue has advanced shareholder interests above customer interests. Rather, GMG has met its burden to demonstrate the reasonableness of its performance pay and no disallowance is appropriate.

#### **b. Retention Agreements**

148. GMG also offers certain key employees retention agreements.<sup>184</sup> There is no financial component to these agreements and no financial "trigger" that must be met before payment.<sup>185</sup> Rather, the employee simply needs to continue to be employed by GMG, with payment of the additional compensation made on the third anniversary of the agreement.<sup>186</sup>

149. GMG stated that it needs to structure its compensation to support retention of its key personnel to ensure the safe, reliable operation of the business.<sup>187</sup> With only 25 total employees, loss of even one or two key personnel can present extreme challenges and GMG has worked hard to recruit and retain well-qualified employees.<sup>188</sup> GMG stated that the retention agreements provide a key tool in that regard, as GMG does not offer the array of benefits offered by larger utilities, such as a defined benefit plan.<sup>189</sup>

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<sup>179</sup> Ex. DOC-216 at 21-22 (Johnson Surrebuttal).

<sup>180</sup> Tr. at 80:15–82:8 (Johnson); Ex. DOC-214 at Schedule MAJ-D-5 (Johnson Direct).

<sup>181</sup> Tr. at 82:9-21 (Johnson); Ex. DOC-216 at 12 (Johnson Surrebuttal).

<sup>182</sup> See Ex. GMG-112 at 7 (Table GHP-REB-2) and 21 (Palmer Rebuttal).

<sup>183</sup> Ex. GMG 103 at 8 (Palmer Direct).

<sup>184</sup> Ex. GMG-112 at 19 (Palmer Rebuttal).

<sup>185</sup> Ex. GMG-112 at 19, 23 (Palmer Rebuttal).

<sup>186</sup> Ex. GMG-112 at 19, 23 (Palmer Rebuttal).

<sup>187</sup> Ex. GMG-112 at 20 (Palmer Rebuttal).

<sup>188</sup> Ex. GMG-112 at 20 (Palmer Rebuttal).

<sup>189</sup> Ex. GMG-112 at 20 (Palmer Rebuttal).

150. GMG also demonstrated that it tailors the retention agreements to meet the needs of the Company and its customers. For example, while GMG's CEO receives no retention agreement adder to his compensation, three Supervisory Gas Technicians do.<sup>190</sup> GMG has some service centers with two or three employees, with just one employee at each location qualified to manage the construction projects for that area.<sup>191</sup> If one or more of those managing employees left the Company during the construction season, their departure would significantly impact the Company's ability to complete the necessary projects to safely and reliably serve GMG's customers.<sup>192</sup> Therefore, those managers' "incentives" are paid out in January, to encourage them to stay through year-end, when their construction projects are complete.<sup>193</sup>

151. The Department recommended disallowing recovery of any retention agreement payments, based on "the Commission's long-standing practice of not allowing long-term incentive compensation expense ("LTI") in rate cases."<sup>194</sup> However, review of those prior proceedings demonstrates that GMG's retention agreements are fundamentally different than the larger utilities' long-term incentive compensation programs disallowed in those past cases. For example, the Commission denied recovery of CenterPoint Energy's long-term incentive compensation program, finding it:

*is designed chiefly to serve shareholders' interests; its benefits to ratepayers are indirect and could be better served by other means; and its time horizon for rewarding corporate financial performance carries the potential to divert attention from the much longer planning horizons critical to providing safe, reliable, and affordable utility service.*<sup>195</sup>

152. 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*

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<sup>190</sup> See Ex. DOC-214 at Schedule MAJ-D-4 (Johnson Direct).

<sup>191</sup> Ex. GMG-12 at 21 (Palmer Rebuttal).

<sup>192</sup> Ex. GMG-112 at 21-22 (Palmer Rebuttal).

<sup>193</sup> Ex. GMG-112 at 22 (Palmer Rebuttal).

<sup>194</sup> Ex. DOC-216 at 23 (Johnson Surrebuttal).

<sup>195</sup> *In the Matter of the Application of CenterPoint Energy Resources Corp. d/b/a CenterPoint Energy Minnesota Gas for Authority to Increase Natural Gas Rates in Minnesota*, MPUC Docket No. G-008/GR-15-424, FINDINGS OF FACT, CONCLUSIONS, AND ORDER at 23 (June 3, 2016).

*shareholder interests* over customer interests in order to increase their potential time-based LTI payout amount.<sup>196</sup>

153. Allowing recovery of GMG's retention agreement costs would not depart from Commission precedent, as the Commission has never opined on the reasonableness of such agreements. The record of this proceeding demonstrates both the uniqueness and reasonableness of the "long-term" component of GMG's compensation payments and no disallowance of these reasonable and necessary costs is appropriate.

## **2. Administrative And General Expenses**

154. The Company's calculations of three Administrative and General Expense items remain in dispute: Education and Training Expense, Postage Expense, and Repair and Maintenance Expense.

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

155. GMG projected a Test Year Education and Training Expense of \$10,200.<sup>197</sup> The primary driver of this Expense, and the resulting increase over 2023 actuals and annualized 2024 year-to-date, is the Company's addition of a new metering and measurement technician in 2025.<sup>198</sup>

156. GMG's proposed increase to the Education and Training Expense accounts for the specialized training GMG will need to procure from outside sources to ensure the Company's new employee is responsibly trained, in addition to ongoing training needs that will remain higher than in past years.<sup>199</sup> GMG's approach recognizes the increased expense of this additional employee's education and training needs, ensuring the safety of GMG's customers.

157. 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. The Department recommended using annualized 2024 expenses, rather than GMG's budgeted expenses, resulting in a test year adjustment of approximately \$3800.<sup>200</sup>

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<sup>196</sup> *In the Matter of the Application of Northern States Power Company, dba Xcel Energy, for Authority to Increase Rates for Electric Service in the State of Minnesota*, MPUC Docket No. E-002/GR-21-630, FINDINGS OF FACT, CONCLUSIONS AND ORDER at 15 (July 17, 2023) (emphasis added).

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

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

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

<sup>200</sup> Ex. DOC-216 at 16 (Johnson Surrebuttal).

158. While percentage increases may be a relevant guide as to reasonableness for certain utilities or certain expenses, percentage increase alone are of little value when the base number is quite small, as is the case with GMG's Education and Training Expense.

159. GMG's projected Education and Training Expense, reflecting the need to train a new metering and measurement technician, is reasonable and should be approved.

**b. Postage Expense**

160. The Postage Expense is for general business-related postage and GMG projected a Test Year Postage Expense of \$5,400.<sup>201</sup> The Company evaluated its Postage Expense actuals from 2022 and 2023 of \$5,623 and \$4,468, respectively, and made assumptions regarding increases to the shipping costs.<sup>202</sup>

161. The Department objected to GMG's postage budget for the test year and argued that postage expense should be set equal to 2024 expenses, resulting in an adjustment of approximately \$1,000.

162. GMG's practice considers past trends of the Postage Expense across multiple years to account for fluctuations in the expense. GMG, thus, projects a more reliable estimate that acknowledges historical trends in the amount of postage GMG may ship, in addition to the fact that postage costs offered by the USPS, UPS, and FedEx continue to rise.<sup>203</sup> GMG's Postage Expense should be approved and utilized in setting rates.

**c. Repairs And Maintenance Expense**

163. GMG's Repairs and Maintenance Expense includes several items, such as snow removal, lawncare, and office cleaning contracts.<sup>204</sup> GMG projected a Test Year Repair and Maintenance Expense of \$24,000.<sup>205</sup> The primary driver of this Expense and the Test Year increase is a significant increase to the Company's snow removal, lawncare, and office cleaning contracts.<sup>206</sup> The office cleaning service for GMG's office and southern service center accounts for 47 percent of the five-year average of the Repair and Maintenance Expense, and this cost increased by 33 percent in mid-2024.<sup>207</sup> Similarly, the snow removal and lawncare expenses historically account for about 24 percent of the five-year average of the Repair and Maintenance Expense.<sup>208</sup> Due to factors outside of GMG's

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<sup>201</sup> Ex. GMG-105, Schedule C-3 at 3 (Initial Filing – Vol. 3).

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

<sup>203</sup> Ex. DOC-215, Schedule AAU-D-1 at 19-20 (Uphus Direct).

<sup>204</sup> Ex. GMG-109 at 13 (Burke Rebuttal).

<sup>205</sup> Ex. GMG-105, Schedule C-3 at 3 (Initial Filing – Vol. 3).

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

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

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



control, the Company was required to change its snow removal and lawncare vendor at the end of 2024, resulting in a 23 percent increase to lawncare rates and a 30 percent increase to snow removal and salt application rates.<sup>209</sup>

164. The Department's objected to GMG's budgeted Repairs and Maintenance Expense and again recommended annualizing 2024 year-to-date actual expenses, with a small adjustment for inflation, resulting in a disallowance of approximately \$4,200.<sup>210</sup>

165. GMG met its burden to demonstrate the reasonableness of its Repairs and Maintenance Expense. GMG demonstrated both known and quantifiable increases to contract rates and accounts for abnormally low snow removal expenses in 2024. GMG projects a reasonable Test Year expense that recognizes the actual conditions in which GMG is operating.

**d. Auto And Truck Expense**

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

167. The Department objected to GMG's projected Auto and Truck Expenses, noting the significant percentage increase GMG projected over 2024 expenses. The Department recommended annualizing 2024 year-to-date as of November 30, 2024, and applying a five percent rate of inflation, resulting in a recommended disallowance of approximately \$7,500.<sup>214</sup>

168. GMG demonstrated that it will 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 this new truck and its aging vehicle fleet.<sup>215</sup> While percentage increases can sometimes be illuminating, comparing the 2025 Test Year

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

<sup>210</sup> Ex. DOC-215 at 23 (Uphus Direct); Ex. DOC-216 at 19-20 (Johnson Surrebuttal).

<sup>211</sup> Ex. GMG-105, Schedule C-3 at 3 (Initial Filing – Vol. 3).

<sup>212</sup> Ex. GMG-103 at 20 (Burke Direct); Ex. GMG-109 at 10 (Burke Rebuttal).

<sup>213</sup> Ex. GMG-109 at 10 (Burke Rebuttal); Ex. DOC-215, Schedule AAU-D-1 at 6-7 (Uphus Direct).

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

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

expense to the 2022 expense of \$118,734, GMG's request would only be a 16 percent increase.<sup>216</sup> And if compared to the 2023 expense of \$121,761, GMG's request is only a 13 percent increase.<sup>217</sup> Such variation is not unreasonable, given the addition of a new vehicle, the need to outfit such vehicle, and the aging of GMG's vehicle fleet are identified drivers of the increase to this expense in 2025. GMG's projected Auto and Truck Expense should be reflected in rates.

### **3. Organizational Dues**

169. Minnesota Statutes § 216B.16, subdivision 17 provides that “[t]he commission may not allow as operating expenses a public utility’s travel, entertainment, and related employee expenses that the commission deems unreasonable and unnecessary for the provision of utility service,” including organizational dues. GMG requested recovery of organizational dues related to twelve organizations with a total Test Year budget of the GMG portion of these dues of \$10,016.<sup>218</sup>

170. The OAG recommended the denial of recovery of dues related to the American Gas Association (“AGA”) and the Minnesota AgriGrowth Council, and to amortize the recovery of dues related to the Midwest Region Gas Task Force over a three-year period.<sup>219</sup>

#### **a. American Gas Association**

171. GMG projected a Test Year expense of \$3,702 for the Minnesota jurisdictional portion of AGA dues.<sup>220</sup> GMG relies on the AGA for technical training, exposure to developing industry and safety issues, best practice guidance, education opportunities from industry experts, and much more.<sup>221</sup> GMG does not have an in-house training department and depends on industry organizations such as the AGA for technical training; including safety, gas storage, engineering, construction and maintenance, gas control, and piping materials; regulatory training; and industry monitoring, including regulatory changes, industry awareness, interstate pipeline matters, and safety and preparatory practices.<sup>222</sup>

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

<sup>217</sup> Ex. DOC-216, Schedule MAJ-S-11 (Johnson Surrebuttal).

<sup>218</sup> Ex. GMG-103, Schedule RDB-3 (Burke Direct).

<sup>219</sup> Ex. OAG-302 at 9-18 (Lee Surrebuttal).

<sup>220</sup> Ex. GMG-103, Schedule RDB-3 (Burke Direct).

<sup>221</sup> Ex. GMG-109 at 17 (Burke Rebuttal).

<sup>222</sup> Ex. GMG-109 at 17 (Burke Rebuttal).

172. OAG objected to recovery of any AGA dues, stating that GMG failed to remove that portion of its AGA dues attributable to lobbying and that GMG did not demonstrate that the payments of these dues should be recovered from ratepayers.<sup>223</sup>

173. As a small company, GMG reasonably relies on AGA for technical training and information on safety and other best practices issues and its AGA dues are thus directly connected to the provision or improvement of utility services. However, that portion of its AGA dues attributable to lobbying are not appropriate for recovery from customers.

174. GMG provided evidence in the form of the AGA invoice for 2024 which states that the portion of GMG's dues allocable to lobbying is 4.3 percent.<sup>224</sup>

175. GMG has acknowledged that its initial request did not accurately remove the dues allocable to lobbying from the Test Year amount and proposes a downward adjustment to the AGA dues amount of \$159 to account for the 4.3 percent of its dues which the AGA considers attributable to lobbying.

176. GMG's organizational dues expense should be reduced by \$159, to remove that portion of its AGA dues attributable to lobbying.

#### **b. Minnesota AgriGrowth Council**

177. The Minnesota AgriGrowth Council ("MAC") is a nonprofit, nonpartisan organization representing the agriculture industry that provides GMG with opportunities to access the Company's target market, engage with potential new agricultural customers, and identify trends and market needs for the rural Minnesota communities that GMG serves.<sup>225</sup> GMG's primary markets for its large customer, industrial, and interruptible rate classes are agricultural customers, including growers of poultry, grain, pork, produce, dairy, and hemp.<sup>226</sup>

178. GMG stated that its participation in this organization allows GMG to engage with potential new agricultural customers and develop solutions to bring natural gas to unserved areas of Minnesota, benefitting all GMG customers.<sup>227</sup>

179. MAC also addresses energy policy from an agricultural perspective, supporting an "'all of the above' approach to energy policy transition that includes biofuels, oil, natural gas, and other sources."<sup>228</sup>

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<sup>223</sup> Ex. 301, SL-D-3 at 2 (Lee Direct).

<sup>224</sup> Ex. OAG-301, Schedule SL-D-2 at 7 (Lee Direct).

<sup>225</sup> Ex. OAG-301 at 14, and Schedule SL-D-6 (Lee Direct).

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

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

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

180. OAG objected to any recovery of MAC dues stating that GMG failed to remove any portion of dues related to lobbying activities and questioning the benefit of GMG's membership to GMG's customers.<sup>229</sup>

181. Membership in MAC provides GMG with opportunity to engage with agricultural producers who are searching for ways to capture methane and may assist GMG in developing a footprint in renewable natural gas.<sup>230</sup> GMG's membership in this organization directly benefits ratepayers and relates to the provision of natural gas,<sup>231</sup> and GMG should be permitted to recover the projected Test Year expense of \$2,750 for the Minnesota jurisdictional portion of Minnesota AgriGrowth Council dues, less any amount attributable to lobbying activities.<sup>232</sup>

182. MAC estimates that 25 percent of its membership dues may support lobbying activities.<sup>233</sup>

183. GMG has acknowledged it did not remove that portion of MAC dues that may be attributable to lobbying from its Initial Request. Therefore, GMG's organization dues should be reduced by \$687.50 to account for any such lobbying expenses.

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

184. The Midwest Region Gas Task Force ("Task Force") is a group of small natural gas companies and municipalities that transport gas on interstate pipeline networks.<sup>234</sup> GMG is a member of the Task Force so that it can share expenses with other small regional gas utilities to intervene in federal cases brought by the interstate pipeline companies such as Northern Natural Gas and Viking Gas Transmission.<sup>235</sup> As a collaborative, the Task Force members have a stronger voice and significantly lower legal expenses.<sup>236</sup> GMG projected a Test Year dues expense of \$1,100 for the Minnesota jurisdictional portion of Midwest Region Gas Task Force dues.<sup>237</sup>

185. OAG did not dispute recovery of these costs but argued that these dues should not be incurred on an annual basis because costs are not incurred every year, and

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<sup>229</sup> Ex. OAG-301 at 14-17 (Lee Direct).

<sup>230</sup> Ex. OAG-301, Schedule SL-D-6 (Lee Direct).

<sup>231</sup> Ex. OAG-301, Schedule SL-D-6 (Lee Direct); Ex. GMG-109 at 18 (Burke Rebuttal).

<sup>232</sup> Ex. GMG-103, Schedule RDB-3 (Burke Direct).

<sup>233</sup> Ex. OAG-301, Schedule SL-D-2 at 10 (Lee Direct).

<sup>234</sup> Ex. OAG-301 at 10 (Lee Direct).

<sup>235</sup> Ex. GMG-109 at 18 (Burke Rebuttal).

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

<sup>237</sup> Ex. GMG-103, Schedule RDB-3 (Burke Direct).

recommended amortizing the \$1,100 over three years, thus reducing the Test Year expense by two-thirds.<sup>238</sup>

186. GMG explained that amortizing over three years assumes there is only one interstate transmission company rate case that impacts GMG's ratepayers every three years.<sup>239</sup> GMG demonstrated that between 2021 and 2025 there have been or will be costs associated with Task Force membership for four out of the five years.<sup>240</sup> GMG's test year expenses for the Task Force is reasonable and GMG should be permitted to recover the Test Year dues expense of \$1,100.

### **C. Rate Based – Customer Meters In FERC Accounts 381 And 382**

187. Meters and Automatic Meter Reading units ("AMRs") are classed into groups and subject to group depreciation for purposes of determining plant balance.<sup>241</sup> These meter groups are assigned to FERC Accounts for bookkeeping purposes. In its initial filing, GMG inadvertently classed certain meter- and AMR-related amounts into FERC Account 381 that should have been classed into FERC Account 382.<sup>242</sup> However, this misclassification had no impact on the Company's revenue requirements, as these two FERC Accounts have the same depreciation schedule.<sup>243</sup>

188. During the course of this proceeding, GMG corrected this misclassification in the columns related to the 2024 unaudited actual plant balance in its Supplemental Response to Department Information Request 131, and properly classified the meters and AMRs to FERC Account 382.<sup>244</sup> GMG did not, however, correct this misclassification in the columns related to 2023 and to the Projected 2025 Test Year, as GMG noted repeatedly in its Supplemental Response.<sup>245</sup>

189. As a result of correcting only one column in its Information Request Response, when comparing the 2024 unaudited actual plant balance to the Projected 2025 Test Year in GMG's Supplemental Response, there appears to be an unexplained \$176,834 increase to the plant balance for FERC Account 381 in the 2025 Test Year.<sup>246</sup> This apparent

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<sup>238</sup> Ex. OAG-301 at 12 (Lee Direct).

<sup>239</sup> Ex. GMG-109 at 18 (Burke Rebuttal).

<sup>240</sup> Ex. OAG-301, Schedule SL-D-5 and SL-D-2 at 3 (Lee Direct).

<sup>241</sup> Ex. GMG-109 at 20 (Burke Rebuttal).

<sup>242</sup> Ex. GMG-109 at 20 (Burke Rebuttal).

<sup>243</sup> Ex. GMG-109 at 20 (Burke Rebuttal); Tr. at 91:18-92:8 (Lee).

<sup>244</sup> Ex. OAG-301, Schedule SL-D-12 at 3-6 (Lee Direct).

<sup>245</sup> Ex. OAG-301, Schedule SL-D-12 at 1, 5-6 (Lee Direct).

<sup>246</sup> Ex. OAG-301, Schedule SL-D-12 at 3-6 (Lee Direct).

increase is solely a result of the correction made to 2024, after filing the rate case, without a corresponding correction made to 2025, as GMG noted in its Supplemental Response.<sup>247</sup>

190. Neither GMG’s initial misclassification nor the subsequent correction have any impact on the overall plant balances or depreciation, since the misclassified meters and AMRs were properly depreciated at the correct 50-year rate.<sup>248</sup>

191. The OAG recommends that GMG’s plant balance be reduced by \$176,834, stating that this figure is a “plugged amount” – an unsupported placeholder figure.<sup>249</sup>

192. At hearing, OAG witness Ms. Lee acknowledged that the amount included in the Projected 2025 Test Year for FERC Account 381—\$520,747—was the same amount GMG included in 2023, confirming that there was no increase to FERC Account 381 for a “plugged amount” between 2024 and 2025.<sup>250</sup>

193. The reasonableness of GMG’s combined meter plant balances is confirmed by looking to the combined amounts for FERC Accounts 381 and 382, which show a modest increase from \$4.36 million in 2023 to \$4.6 million in 2024, and \$4.8 million in 2025—an increase which the OAG did not object to when presented as a combined figure of Accounts 381 and 382.<sup>251</sup>

194. GMG’s projected customer meter plant balances are reasonable and no adjustment is appropriate.

## **IX. SUMMARY OF REVENUE REQUIREMENTS**

195. Reflecting GMG’s above-stated positions, and incorporating the issues no longer disputed between the parties, GMG respectfully requests the Administrative Law Judge and Commission find the GMG’s revenue deficiency is \$1,366,240, as shown in Attachment 3. This represents a reduction of \$56,191 from its initial request and would result in an approximately 7.5 percent increase in rates, as opposed to the originally requested 7.7 percent increase. This 7.5 percent rate increase is just, reasonable and fully supported by the record and applicable law.

## **X. INCOME TAX RIDER**

196. Based on GMG’s business practices, changes to the income tax rate are one of the most likely potential causes of major operating expense changes that could

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<sup>247</sup> Ex. OAG-301, Schedule SL-D-12 at 5-6 (Lee Direct) (“Note: 2025 Test year was not updated in this IR request.”).

<sup>248</sup> Ex. GMG-109 at 20 (Burke Rebuttal); Tr. at 91:18-92:8 (Lee).

<sup>249</sup> Ex. OAG-302 at 6-7 (Lee Surrebuttal).

<sup>250</sup> Tr. at 92:18-24 (Lee).

<sup>251</sup> Ex. OAG-301, Schedule SL-D-12 at 3 (Lee Direct); Tr. at 93:11-94:2 (Lee).

necessitate GMG filing another rate request, but are wholly outside the Company's control.<sup>252</sup> GMG proposed a rider that is adjusted annually based on the Company's actual income tax rate to account for any future changes to the Company's actual tax rate and to avoid the need to file another rate request earlier than may otherwise be needed.<sup>253</sup>

197. GMG's argued that its proposal benefits ratepayers in at least two ways. First, GMG proposed a bidirectional rider.<sup>254</sup> If corporate tax rates decrease, GMG's customers will see immediate benefit without need to wait for a future rate case or other Commission action.<sup>255</sup> Second, GMG's relatively small size means that there is a smaller customer base that bears the costs of a rate case.<sup>256</sup> In the present proceeding, rate case expenses are expected to exceed ten percent of the total requested increase.<sup>257</sup> The proposed rider could substantially reduce regulatory expense by providing a mechanism to adjust rates to account for income tax rate changes without a full rate case and the accompanying expenses.<sup>258</sup>

198. Procedurally, GMG proposed that it would make an annual filing with the Commission on or before November 1 of each year, beginning in 2025, that would identify GMG's income taxes at the then existing tax rate and the tax rate used for the Test Year.<sup>259</sup> The difference in the taxes would be divided by budgeted sendout volume for the forthcoming year to identify the annual rider amount per dekatherm.<sup>260</sup> The resulting annual rider amount would then be applied to customers' bills beginning in January of the following year, either as a charge or a credit.<sup>261</sup>

199. Both the Department and OAG objected to GMG's proposed Income Tax Rider. The Department argued that without a foreseeable impact or known and measurable change the Rider would be inappropriate and undermine the rate case construct.<sup>262</sup> The OAG argued that the Commission lacks the authority to approve the Rider, absent express legislative approval and because there is uncertainty as to whether there will be any change in tax rates.<sup>263</sup>

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<sup>252</sup> Ex. GMG-108 at 1 (Chilson Witness Statement); Ex. GMG-103, Chilson Direct at 10.

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

<sup>254</sup> Ex. GMG-103, Chilson Direct at 10.

<sup>255</sup> Ex. GMG-103, Chilson Direct at 10.

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

<sup>257</sup> Ex. GMG-108 at 1 (Chilson Witness Statement).

<sup>258</sup> Ex. GMG-108 at 1 (Chilson Witness Statement).

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

<sup>260</sup> Ex. GMG-103 at 11 (Chilson Direct).

<sup>261</sup> Ex. GMG-103 at 11 (Chilson Direct).

<sup>262</sup> Ex. DOC-215 at 9 (Uphus Direct).

<sup>263</sup> Ex. OAG-301 at 18-22 (Lee Direct).

200. While there is no statute expressly providing the Commission authority to approve an “income tax tracker,” the Commission has broad authority to ensure just and reasonable rates and GMG’s proposed income tax rider is similar to the property tax trackers approved for other Minnesota utilities that also had no specific enabling legislation.

201. GMG’s proposed Income Tax Tracker fairly balances risk to both shareholders and customers, while protecting customers from additional regulatory costs resulting from otherwise earlier-than-necessary rate case filings. As such, the tracker is a reasonable rate-making tool that can and should be approved.

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

### **A. CCOSS Methodology**

202. Basic ratemaking principles hold that customers should be responsible for their respective service costs. 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 and allocate the utility’s total revenue requirement among those classes.<sup>264</sup>

203. For the CCOSS in this case, GMG used the same minimum system study method used and agreed to in GMG’s 2009 rate case.<sup>265</sup> GMG relied on the minimum system method for several reasons, but primarily because parties agreed in GMG’s last rate case to the cost classification among rate classes based on GMG’s minimum system study and GMG continues to view this cost classification method as appropriate.<sup>266</sup> Since the fairness of GMG’s current revenue allocation was previously settled, the Company proposed no change to its CCOSS or revenue allocation, in hopes of simplifying and streamlining this case.<sup>267</sup>

204. GMG noted that it is a small company with a small customer base and limited resources.<sup>268</sup> GMG does not own CCOSS software and did not hire a consultant for CCOSS so as to avoid increasing costs that ratepayers will ultimately bear.<sup>269</sup> GMG explained that performing additional CCOSS would require substantial resources that GMG does not have.<sup>270</sup> Additionally, GMG stated that it disagrees with the fictional nature of a Zero

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<sup>264</sup> Ex. DOC-206 at 3-4, 14 (Zajicek Direct).

<sup>265</sup> Ex. GMG-103 at 21 (Burke Direct).

<sup>266</sup> Ex. DOC-206, Schedule MZ-D-4 (Zajicek Direct).

<sup>267</sup> Ex. GMG-109 at 25 (Burke Rebuttal).

<sup>268</sup> Ex. GMG-109 at 26 (Burke Rebuttal).

<sup>269</sup> Ex. GMG-103, Schedule CJC-1 at 6 (Chilson Direct); Ex. DOC-206, Schedule MZ-D-4 (Zajicek Direct).

<sup>270</sup> Ex. GMG-109 at 26 (Burke Rebuttal).



Intercept system that is the baseline of the Zero Intercept study.<sup>271</sup> GMG chose not to incur additional costs to perform a Zero Intercept study, as GMG lack the resources and capacity to perform it in-house.<sup>272</sup>

205. The Department and OAG argued that the Commission should consider the range of CCOSS results as a starting point for rate design.<sup>273</sup>

206. The Department initially recommended the Commission consider a range of CCOSS results built upon two different CCOSS: the Company's Minimum System Study, as modified to include the required changes from the 2009 Rate Case Order, and the Department's Basic Customer Method.<sup>274</sup>

207. 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 & Average Method.<sup>275</sup>

208. The Department and OAG disagreed with GMG's CCOSS for numerous reasons.

209. The Department argued that information the Commission's previous GMG rate case orders instructed GMG to include in future CCOSS was omitted and this was an indication that GMG's CCOSS was non-compliant and flawed.<sup>276</sup>

210. Yet, no party objected to the Company's CCOSS or alleged that it was inadequate in their comments on the completeness of the Company's application.<sup>277</sup> In fact, the Department expressly noted that:

The Commission's Order in GMG's 2009 Rate Case adopted as filing requirements a number of Department recommendations related to GMG's class cost of service study (CCOSS). The Company identified these requirements in its compliance matrix, but stated that complying with them would be unduly burdensome and unduly increase rate case expenses. Given the amount of time that has elapsed since GMG's last rate case, and the changes to Department's general approach to CCOSS since 2009, the

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<sup>271</sup> Ex. DOC-206, Schedule MZ-D-4 (Zajicek Direct).

<sup>272</sup> Ex. DOC-206, Schedule MZ-D-4 (Zajicek Direct).

<sup>273</sup> Ex. DOC-209 at 14 (Zajicek Surrebuttal); Ex. OAG-303 at 21 (Stevenson Direct).

<sup>274</sup> Ex. DOC-206 at 43 (Zajicek Direct).

<sup>275</sup> Ex. OAG-303 at 35, 41 (Stevenson Direct).

<sup>276</sup> Ex. DOC-207 at 32-34 (Zajicek Direct).

<sup>277</sup> Ex. DOC-200 (Comments of the Minn. Dept. of Commerce); Comments of the Minn. Office of Atty. Gen., MPUC Docket No. G-022/GR-24-350 (Nov. 12, 2024) (eDocket No. 202411-211818-01).

Department is comfortable proceeding in this case without requiring GMG to comply with all but one of the requirements.<sup>278</sup>

211. The sole requirement for the 2009 Rate Case that the Department requested GMG comply with was for an explanatory filing, and the Department requested that GMG update its Application with a filing satisfying this requirement by December 13, 2024, which GMG provided.<sup>279</sup>

212. The Department and the OAG had the opportunity to raise their concerns about the completeness of GMG's CCOSS and GMG's Application early in the process when GMG could have either resolved the issues by a date agreed upon by the Parties and with consent of the Commission, or the Commission could have rejected GMG's Application. Despite the Department's acknowledgement that the rate case could proceed, the Department later took issue with the Company not providing certain information and asked the Company to provide a version of its CCOSS with the Department's requested changes from the 2009 rate case, which the Company provided on November 25, 2024.<sup>280</sup> Thus, GMG, the Department, and the OAG had access to a CCOSS with the Department's requested changes early in this proceeding.

213. In response to Department and OAG concerns, GMG also 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) make additional changes to Capacity, Demand, and Commodity costs to better align the model with accepted cost-causation principles.<sup>281</sup>

214. The Administrative Law Judge finds that the Minimum System method is a reasonable method for classification of costs. The Administrative Law Judge also finds that GMG met its burden of demonstrating the reasonableness of its CCOSS, as revised in Rebuttal Testimony. The Administrative Law Judge also finds that, even if other CCOSS proposed by the Department and OAG are considered, none of the studies presented in this case are sufficient to overcome the presumption that the existing rate allocation and rate design are just and reasonable or that a different allocation is appropriate.<sup>282</sup>

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<sup>278</sup> Ex. DOC-200 at 3 (Comments of the Minn. Dept. of Commerce).

<sup>279</sup> Ex. DOC-200 at 3 (Comments of the Minn. Dept. of Commerce).

<sup>280</sup> Ex. DOC-207 at 34 and Schedule MZ-D-6 (Zajicek Direct); Ex. GMG-109 at 22 (Burke Rebuttal).

<sup>281</sup> Ex. GMG-109 at 23-25 and Schedule RDB-REB-8 (Burke Rebuttal); Ex. GMG-110 at 21-22 (Burke Surrebuttal).

<sup>282</sup> *Inter-City Gas Corp.*, 389 N.W.2d at 902.

## **B. Future CCOSS Recommendations**

215. The Department recommended numerous adjustments for GMG to implement into its CCOSS in future rate cases, including:

- a more detailed breakdown of costs by FERC account;
- the transportation classes as their own classes, rather than included in a similar class;
- calculation and inclusion of a demand adjustment to its Minimum System Method study;
- aggregate customers that share the same distribution line for the purpose of allocating distribution costs;
- breaking out values for meters, regulators, and fittings by each customer class, not grouped into larger buckets; and
- inclusion of the required changes from the 2009 Rate Case Order.<sup>283</sup>

216. 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 in Rebuttal Testimony. GMG agreed that it is appropriate to include these changes in future CCOSS.<sup>284</sup>

217. GMG disagreed that a requirement for GMG to implement further changes to its CCOSS in the future was warranted at this time, and argued that the Department's proposal to prospectively require these changes to GMG's CCOSS in the future provides speculative benefits and ignored the adverse cost impact.<sup>285</sup> Implementing the proposed changes would require significant resources, including additional personnel, consultants, modeling software, or a combination of the same.<sup>286</sup> GMG explained that these rate case expenses would ultimately be borne by GMG's ratepayers.<sup>287</sup>

218. The Administrative Law Judge finds that GMG demonstrated the reasonableness of its revised CCOSS in this rate case, and as such, there is no reason to require GMG to implement additional changes to its CCOSS in future rate cases at this time.

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

219. 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

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<sup>283</sup> Ex. DOC-207 at 41-42 (Zajicek Direct).

<sup>284</sup> Ex. GMG-109 at 26 (Burke Rebuttal).

<sup>285</sup> Ex. GMG-109 at 26 (Burke Rebuttal).

<sup>286</sup> Ex. GMG-109 at 26 (Burke Rebuttal).

<sup>287</sup> Ex. GMG-109 at 26 (Burke Rebuttal).

classes.<sup>288</sup> Accordingly, the burden lies on the Department and the OAG to demonstrate that the current revenue apportionment and rate design is unreasonable.<sup>289</sup> The Administrative Law Judge finds that neither have carried the burden.

### **A. Revenue Apportionment**

220. In 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 resource, and avoid “rate shock” and unreasonable discrimination against any customer class.<sup>290</sup>

221. GMG filed this case retaining the same revenue apportionment that was agreed to by the parties and approved by the Commission in GMG’s last rate case.<sup>291</sup> GMG proposed generally equal percentage-of-margin increases over existing rates across all classes to achieve a reasonable balance between allocating the cost of service established in GMG’s CCOSS, each class’s contribution to GMG’s present revenue levels, and customer impact considerations, such as avoiding rate shock and ensuring residential customers have affordable access to natural gas service.<sup>292</sup>

222. 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. For example, the OAG’s proposed revenue apportionment assigns an 11 percent increase to the Commercial class and reduces the increase in revenue apportioned to the Residential class from 7.7 percent to 6.4 percent. The Department’s proposed revenue apportionment reduces the increase in revenue apportioned to the Residential class from 7.7 percent to 2.1 percent.<sup>293</sup>

223. OAG witness Mr. Stevenson argued 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. However, Mr. Stevenson testified that he did not evaluate intra-county income trends or where within each county GMG’s customers took service.<sup>294</sup>

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<sup>288</sup> Ex. GMG-109 at 27 (Burke Rebuttal); Ex. GMG-110 at 24 (Burke Surrebuttal).

<sup>289</sup> *Inter-City Gas Corp.*, 389 N.W.2d at 902.

<sup>290</sup> Minn. Stat. §§ 216B.16, subd. 6, 216B.03, 216B.07.

<sup>291</sup> Ex. GMG-109 at 27 (Burke Rebuttal).

<sup>292</sup> Ex. GMG-103 at 32 (Burke Direct); Ex. GMG-109 at 26-27 (Burke Rebuttal).

<sup>293</sup> Ex. DOC-212 at 6, 8-9 (Hirasuna Surrebuttal); Ex. OAG-305 at 11, 19 (Stevenson Surrebuttal).

<sup>294</sup> Ex. OAG-303 at 68-69, Schedule CS-D-32 (Stevenson Direct); Tr. at 103:06-22 (Stevenson).

224. GMG argued that its customers are but a fraction of each county's population. GMG has approximately 11,000 customers,<sup>295</sup> but the counties Mr. Stevenson evaluated in his assessment of potential energy burden have a collective population of over 456,000.<sup>296</sup> Scott County alone has over 156,000 residents.<sup>297</sup>

225. GMG argued that the Department and OAG elevate general theory over GMG's experience with its own customer base, and such an approach may instead cause long-term harm to GMG's ratepayers. The Department's and OAG's approach places disproportionate financial burdens on large customers,<sup>298</sup> who are primarily family-owned farms and small businesses with margins insufficient to bear a significant increase as a result of subsidizing other rate classes.<sup>299</sup> However, these larger customers are just as susceptible to rate shock—the significant hardship caused by large increases in utility rates<sup>300</sup>—as Residential or Small Commercial customers. It is just as likely that the Department or OAG recommendations, if implemented, would incentivize GMG's larger customer classes to bypass GMG by converting to an alternative fuel source, such as propane, or to an alternative provider.<sup>301</sup> This, in turn, would place additional cost responsibilities on the Residential and Small Commercial customers.<sup>302</sup>

226. OAG witness Mr. Stevenson testified that “ideally no one would get a 12, 13, 14 percent rate increase” so he “took into consideration that an 11 percent rate increase for that class could cause rate shock,” but ultimately did not change the apportionment because lowering that allocation would have meant apportioning it elsewhere.<sup>303</sup>

227. The Administrative Law Judge finds that the Department's and OAG's arguments fail to demonstrate that the existing revenue apportionment is unreasonable, in particular when GMG's proposal to continue using that existing revenue apportionment results in all classes avoiding a larger percentage of rate increase as compared to the other proposed revenue apportionment. The Administrative Law Judge also finds that there is no

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<sup>295</sup> Ex. GMG-103 at 3 (Chilson Direct).

<sup>296</sup> Ex. OAG-303 at 68 (Stevenson Direct; Minn. Dept. of Administration – Minn. State Demographic Center, *PopFinder for Minnesota, Counties, & Regions*, <https://mn.gov/admin/demography/data-by-topic/population-data/our-estimates/pop-finder1.jsp>.

<sup>297</sup> Minn. Dept. of Administration – Minn. State Demographic Center, *PopFinder for Minnesota, Counties, & Regions*, <https://mn.gov/admin/demography/data-by-topic/population-data/our-estimates/pop-finder1.jsp>.

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

<sup>299</sup> Ex. GMG-113 at 1 (Palmer Witness Statement).

<sup>300</sup> Ex. OAG-303 at 81 (Stevenson Direct).

<sup>301</sup> Ex. GMG-110 at 24 (Burke Surrebuttal).

<sup>302</sup> Ex. GMG-110 at 24 (Burke Surrebuttal).

<sup>303</sup> Tr. at 105:19-106:1 (Stevenson).

evidence of GMG's customers' actual incomes as compared to the State average or that GMG's customers are actually experiencing energy burden.

## **B. Rate Design**

228. GMG proposed increasing all facility fees and distribution charges for all rate classes by the same percentage rate.<sup>304</sup> GMG proposed to increase facility fees by approximately 15 percent for all classes to move each class closer to its cost-of-service and to address the substantial increase in the fixed costs necessary to provide service to GMG's customers—including costs of materials, supplies, labor, technology, and administrative costs—in the 15 years since GMG's last rate case.<sup>305</sup>

229. The Department and the OAG generally do not oppose GMG's rate design as it relates to distribution charges and facility fees.<sup>306</sup>

230. OAG witness Mr. Stevenson noted that, with respect to Residential customers, each customer imposes between \$11.55 and \$14.93 in customer-related costs per month, supporting GMG's proposed Residential facility fee of \$9.75.<sup>307</sup> Mr. Stevenson confirmed that GMG's proposed facility fee is reasonable.<sup>308</sup>

231. Mr. Stevenson also recommended that if the Commission authorizes a lower revenue requirement, that GMG should first reduce its facility fee before reducing the distribution charge.<sup>309</sup>

232. The Administrative Law Judge finds that there is no justification in this case for lowering the facility fee if a lower revenue requirement is approved. As Mr. Stevenson identified, the facility fee is already considerably lower than each customer's actual customer-related costs.<sup>310</sup> Even with a lower revenue requirement, a facility fee of \$9.75 per month would be less than the customer-related costs and would be a very moderate move towards cost-of-service pricing.<sup>311</sup>

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<sup>304</sup> Ex. GMG-103 at 12 (Burke Direct).

<sup>305</sup> Ex. GMG-103 at 5-6 (Burke Direct).

<sup>306</sup> Ex. DOC-210 at 22-25 (Hirasuna Direct); Ex. DOC-212 at 10 (Hirasuna Surrebuttal); Ex. OAG-303 at 88 (Stevenson Direct); Ex. OAG-305 at 22 (Stevenson Surrebuttal).

<sup>307</sup> Ex. OAG-303 at 88 (Stevenson Direct).

<sup>308</sup> Ex. OAG-303 at 88 (Stevenson Direct); Ex. OAG-305 at 22 (Stevenson Surrebuttal).

<sup>309</sup> Ex. OAG-303 at 88 (Stevenson Direct); Ex. OAG-305 at 22 (Stevenson Surrebuttal).

<sup>310</sup> Ex. OAG-303 at 88 (Stevenson Direct).

<sup>311</sup> Ex. GMG-103 at 6 (Burke Direct).

233. Additionally, the OAG does not agree with GMG's current reconnection fee of \$75 and argued that it should be reduced to \$50 and split over multiple months.<sup>312</sup>

234. GMG argued that it takes significant efforts to avoid disconnecting its customers in the first instance, and GMG has very few disconnections and reconnections resulting from non-payment.<sup>313</sup> Prior to a disconnection, GMG's Customer Service team attempts to contact the customer numerous times by mail, personal phone calls, and technician visits the location where the customer is taking service to place a pending disconnection notice on the customer's door known as a door hanger.<sup>314</sup> GMG works with its customers to keep their gas service connected by allowing uniquely crafted payment arrangements and assisting customers to obtain funding, such as helping them find energy assistance, enroll in GMG's Gas Affordability Program, or setting up a payment plan with GMG.<sup>315</sup> As a result of these efforts, GMG only assessed 85 reconnection charges across all customer classes in 2024.<sup>316</sup>

235. GMG explained that when it must perform a disconnection, it charges a \$75 reconnection fee to restore service.<sup>317</sup> GMG presented evidence showing that the reconnection fee is reasonable considering that the average cost of reconnecting GMG's customers is \$87.67 per reconnection.<sup>318</sup> This cost is a reflection of GMG's service area and geographic dispersion of its customer base. A technician spends an average of about 90 minutes to perform a reconnection.<sup>319</sup> GMG's costs of reconnecting its customers demonstrates why comparisons to the reconnection fees of CenterPoint Energy or Xcel Energy are misplaced. These large utilities have considerably different customer bases that are geographically consolidated primarily in metropolitan areas.<sup>320</sup> Thus, technicians performing reconnections incur less travel time.<sup>321</sup>

236. The Administrative Law Judge finds that GMG's reconnection fee of \$75 is reasonable and supported by the record. The Administrative Law Judge recommends rejecting the OAG's

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<sup>312</sup> Ex. OAG-303 at 72 (Stevenson Direct); Ex. OAG-305 at 22-24 (Stevenson Surrebuttal).

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

<sup>314</sup> Ex. GMG-109 at 32-33 (Burke Rebuttal).

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

<sup>316</sup> Ex. GMG-109 at 33 (Burke Rebuttal).

<sup>317</sup> Ex. GMG-109 at 32 (Burke Rebuttal).

<sup>318</sup> Ex. GMG-109 at 33 (Burke Rebuttal).

<sup>319</sup> Ex. GMG-109 at 33 (Burke Rebuttal).

<sup>320</sup> Ex. GMG-109 at 34 (Burke Rebuttal).

<sup>321</sup> Ex. GMG-109 at 34 (Burke Rebuttal).

## CONCLUSIONS OF LAW

1. The Commission has general jurisdiction over GMG under Minn. Stat. §§ 216B.01 and 216B.02. The Commission has specific jurisdiction over the rate changes requested by the Company under Minn. Stat. § 216B.16.
2. The Commission and the Administrative Law Judge have jurisdiction to consider this matter pursuant to Minn. Stat. §§ 14.50 and 216B.08.
3. The case was properly referred to the Office of Administrative Hearings under Minn. Stat. §§ 14.48–14.62 and Minn. R. 1400.0200, et seq.
4. The public and parties received proper and timely notice of the hearing and the Commission and GMG complied with all procedural requirements of statute and rule.
5. Every rate set by the Commission shall be just and reasonable. Rates shall not be unreasonably preferential, unreasonably prejudicial or discriminatory, but shall be sufficient, equitable and consistent in application to a class of consumers. To the maximum reasonable extent, the Commission shall set rates to encourage energy conservation and renewable energy use and to further the goals of Minn. Stat. §§ 216B.164, 216B.241 and 216C.05.<sup>322</sup>
6. The burden of proof is on the public utility to show that a rate change is just and reasonable.<sup>323</sup> Any doubt as to reasonableness should be resolved in favor of the consumer.<sup>324</sup>
7. Rates set in accordance with this Report would be just and reasonable.
8. Any findings of fact more properly designated as conclusions of law are hereby adopted as such.

Based upon these Conclusions of Law, and for the reasons explained in the accompanying Memorandum, the Administrative Law Judge makes the following:

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<sup>322</sup> Minn. Stat. § 216B.03.

<sup>323</sup> Minn. Stat. § 216.16, subd. 4.

<sup>324</sup> Minn. Stat. § 216B.03.



## **RECOMMENDATIONS**

1. The Company is entitled to increase gross annual revenues in accordance with the terms of this Report.
2. The text of the Findings and Conclusions should govern the mathematical and computational aspects of the Findings and Conclusions. The computations should be adjusted so as to conform to the conclusions of the Report.
3. The Commission adopt the recommendations set forth in the Findings above.

Dated: \_\_\_\_\_

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JESSICA A. PALMER-DENIG  
Administrative Law Judge

## **NOTICE**

Notice is hereby given that exceptions to this Report, if any, by any party adversely affected must be filed under the time frames established in the Commission's rules of practice and procedure, Minn. R. 7829.2700 and 7829.3100, unless otherwise directed by the Commission. Pursuant to Minn. R. 7829.2700, subp. 3, the parties will be granted an opportunity for oral argument before the Commission prior to its decision. The Commission will make the final determination of the matter after the expiration of the period for filing exceptions, or after oral argument, if an oral argument is held. The Commission may, at its own discretion, accept, modify, or reject the Administrative Law Judge's recommendations. The recommendations of the Administrative Law Judge have no legal effect unless expressly adopted by the Commission as its final order.