BEFORE THE MINNESOTA OFFICE OF ADMINISTRATIVE HEARINGS
600 North Robert Street
St. Paul, Minnesota 55101

FOR THE MINNESOTA PUBLIC UTILITIES COMMISSION
121 7th Place East
Suite 350
St. Paul, Minnesota 55101-2147

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

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

INITIAL BRIEF OF THE OFFICE OF THE ATTORNEY GENERAL— RESIDENTIAL UTILITIES DIVISION

May 8, 2025

TABLE OF CONTENTS

INTRODUCTION

Greater Minnesota Gas requests an increase in revenues of more than $1.4 million or 7.7 percent with across-the-board increases to each customer class. As a public utility, Greater Minnesota Gas carries the burden of proving that its request would result in just and reasonable rates. Any doubt must be resolved in ratepayers favor. However, the evidence GMG submitted in support of both the increase amount and the proposed apportionment of the revenue increase is self-contradictory and ultimately insufficient to justify its entire request.

Evidence provided by the Office of the Attorney General—Residential Utilities Division (OAG) shows that the Commission should limit GMG's rate increase by adjusting GMG's forecasted expenses and rate base, and by adjusting its sales forecast. The Commission should also adopt the OAG's revenue apportionment and rate design recommendations, which align better with reasonable measures of cost-causation and longstanding ratemaking principles than GMG's proposal. Whereas GMG largely failed to support its request, the OAG's recommendations are grounded in strong methodology and analysis, and will produce a just and reasonable result for ratepayers and GMG alike.

I. LEGAL STANDARD

The Legislature determined that corporations "furnishing at retail" natural gas service to the public will be considered a public utility and will be subject to rate regulation once it furnishes services to a sufficient number of customers.[1] The Public Utilities Commission is tasked with

[1] *See* Minn. Stat. § 216B.02, subd. 4 (defining "public utilities" and providing exceptions); Minn. Stat. § 216B.16, subd. 1 ("[N]o public utility shall change a rate which has been duly established under this chapter"); Minn. Stat. § 216B.16, subd. 12 (providing exemptions for gas utilities with less than 5,000 total customers and less than 650 customers in a single municipality upon filing a resolution with the Commission).

ascertaining the reasonableness of retail natural gas rates for all public utilities.[2] In doing so, the Commission must "balanc[e] the interests of the utility companies, their shareholders, and their customers."[3]

As a public utility, GMG has the burden to prove by a preponderance of the evidence that its request to increase rates is just and reasonable before it may charge those rates to customers.[4] Doubts must be resolved in favor of the consumer.[5] The Minnesota Supreme Court has emphasized that to meet its burden, a public utility cannot "merely show[] that it has incurred, or may hypothetically incur, expenses."[6] Instead, many times the focus of the dispute is on whether ratepayers or shareholders should bear the costs the utility claims it will incur.[7] The Commission may both decide disputed facts about whether a utility will incur costs and draw its own inferences and arrive at its own conclusions from undisputed facts.[8] When a utility fails to prove the reasonableness of costs, the Commission may either deny including them in rates, or may substitute a more reasonable amount to include in rates.[9]

II. AS A REGULATED UTILITY, GMG IS LEGALLY REQUIRED TO PRODUCE RELIABLE EVIDENCE THAT ITS RATE REQUEST WOULD RESULT IN JUST AND REASONABLE RATES

GMG is no novice to the regulatory structure it has agreed to work under. It first became regulated over 20 years ago, when it informed the Commission that it was large enough to come

---

[2] Minn. Stat. §§ 216A.05, subd. 2(2); 216B.01, 216B.03, 216B.16.
[3] *In re Request of Interstate Power Co.*, 574 N.W.2d 408, 411 (Minn. 1998).
[4] Minn. Stat. § 216B.16, subd. 4; see also Minn. Stat. § 216B.03.
[5] Minn. Stat. § 216B.03.
[6] *In re N. States Power Co.*, 416 N.W.2d 719, 722-23 (Minn. 1987).
[7] *Id.* at 723.
[8] *Id.*
[9] *Id.* at 726 (holding that Commission could substitute a hypothetical capital structure for the utility's actual but unreasonable capital structure).

under the Commission's jurisdiction.[10] The Commission's first order regarding GMG required it to backfile certain missed regulatory filings and to file its first rate case in 2004.[11] The instant rate case is GMG's fourth, and it has been advised by some of the most experienced utility law legal counsel in the State for all four cases.[12] Likewise, its leadership are experienced utility professionals. Its current president has worked for utilities regulated by the Commission since 2008,[13] its CEO has worked in the energy industry for over 40 years,[14] and its Corporate Controller worked in the natural gas industry for 18 years before joining GMG.[15] GMG has a wealth of experience and knowledge it can draw from in conducting a rate case.

Yet despite its long history of regulation and decades of combined regulatory experience amongst its leadership, GMG has failed to support many aspects of its case. Key facts informing the testimony in its initial filing were left out, and in some instances not clarified until rebuttal testimony or later despite ample opportunities to explain earlier in discovery. Some of GMG's statements made in testimony have been modified or contradicted by its own discovery responses.

GMG has made much of what it believes is its "unique" nature among Minnesota utilities, arguing that the OAG and the Department of Commerce "seem to be treating the Company as if" it was a "typical investor-owned utility."[16] GMG expressed "dismay" that the case was not resolved before rebuttal testimony as its prior rate cases had been.[17] However, because all utilities

---

[10] *In re Greater Minnesota Gas, Inc. Extending Service to More than 2,000 Customers and Becoming Subject to Minn. Laws, Ch. 216B*, MPUC Docket No. G-022/M-03-117, ORDER AUTHORIZING RATES, REQUIRING GENERAL RATE CASE AND OTHER FILINGS at 1 (Aug. 28, 2003) (eDocket No. 1555490).
[11] *Id.* at 3.
[12] *See generally* MPUC Docket Nos. G-022/GR-04-667, G-022/GR-06-1148, G-022/GR-09-962.
[13] Ex. 103 at 1-3 (Chilson Direct).
[14] Ex. 103 at 1-2 (Palmer Direct).
[15] Ex. 103 at 1 (Burke Direct).
[16] Ex. 112 at 5 (Palmer Rebuttal).
[17] Ex. 112 at 4 (Palmer Rebuttal).

are required to prove that their requested rate increases are just and reasonable, resolving the case without clear answers to important questions raised by GMG's inconsistent discovery responses and testimony would have deprived the Commission of a record basis upon which to approve a settlement. Nevertheless, GMG's CEO suggested that requests that GMG support its case and provide the Commission with greater transparency would require "investing in more personnel…solely for the purpose of meeting regulatory requirements."[18]

This resistance to regulation has been manifested in GMG's actions from the outset. For example, even though in its previous rate case the Commission ordered GMG to make changes to its Class Cost of Service Study (CCOSS), GMG simply filed its previous CCOSS as part of its initial filing, arguing that making the required updates would be too burdensome.[19] Similarly, the Commission had previously ordered GMG to file weather data in its rate cases and GMG failed to comply, stating simply that it does not use weather data.[20] The Commission approved the initial filing, finding that it "substantially complies" with statute, but it made no finding as to compliance with past orders and made clear that it was "a finding as to form only; it implies no judgment on the merits of the application."[21] In fact, GMG had agreed to numerous compliance requirements in all three of its past cases, which the Commission then adopted by order, and GMG simply ignored several of them.[22]

---

[18] Ex. 112 at 6 (Palmer Rebuttal).

[19] Ex. 103, CJC-1 at 6 (Chilson Direct). GMG also cited as a reason for noncompliance that it does not own CCOSS-related software, even though CCOSSs, including GMG's, are often performed in Excel. *See, e.g.,* Ex. 303, CS-D-15 (Stevenson Direct).

[20] Ex. 103, CJC-1 at 5 (Chilson Direct).

[21] ORDER ACCEPTING FILING, SUSPENDING RATES, AND EXTENDING TIMELINE at 2 (Dec. 11, 2024) (eDocket No. 202412-212924-01).

[22] Ex. 205 at 2-5 (Shah Surrebuttal); Ex. 204 at 7-11 (Shah Direct).

Additionally, GMG had not been making other statutorily-required filings in over a year. All utilities are required by law to file monthly reports with information regarding disconnections, reconnections, and arrears, among other metrics in the yearly MPUC docket E, G-999/PR-YR-02.[23] Utilities must also file weekly reports between October 15 and April 31 each year stating the number of disconnected customers they have, unless they have none.[24] After GMG asserted that it had not seen any "unusual spikes in accounts receivable or in customers not paying their bills,"[25] the OAG attempted to verify the number of disconnections with the required filings in dockets PR-23-02 and PR-24-02.[26] Instead, the OAG discovered that GMG had not filed any of these reports since at least January 1, 2024, including no filings in PR-25-02.[27]

GMG's witnesses referred to its small size, arguing that the Commission must "consider[] substance over form, facts and impact over labels, and GMG on its own merits[.]"[28] GMG may be the smallest rate-regulated utility in Minnesota, but its business is not small. On the contrary, GMG ended 2024 with over $44 million[29] in average rate base assets and had operating revenues last year of $15.77 million.[30] At the end of 2024, GMG served over 11,000 households and businesses in three different regions across the state, "substantial[ly]" more than it had during its previous rate case.[31] In short, it does substantial enough business to have investors and to be regulated by the Commission. GMG's status as a public utility brings with it certain responsibilities, such as providing sufficient information to assess whether its proposed increase would result in just and

[23] Minn. Stat. § 216B.091.
[24] Minn. Stat. § 216B.096, subd. 11.
[25] Ex. 107 at 3 (Chilson Surrebuttal).
[26] Ex. 305 at 3 (Stevenson Surrebuttal).
[27] Ex. 305 at 3 (Stevenson Surrebuttal).
[28] Ex. 112 at 8 (Palmer Rebuttal).
[29] Ex. 301, SL-D-12 at 2 (Lee Direct).
[30] Ex. 109, RDB-REB 2 (Burke Rebuttal).
[31] Ex. 112 at 7 (Palmer Rebuttal).

reasonable rates.[32] If it fails to fulfill its responsibility, the consequence is to have its proposed increase reduced or denied.

III. THE COMMISSION SHOULD REDUCE GMG'S TEST YEAR EXPENSES AND RATE BASE

GMG's revenue requirement should be reduced by removing $7,185 of membership dues expense that GMG failed to prove reflected a normal level of annual expense, would benefit ratepayers, or was connected to the provision of gas service. In addition, $176,834 should be removed from GMG's asset balance for the AMR units in FERC Account 381 because GMG failed to demonstrate the basis on which it inflated that balance.

A. MEMBERSHIP DUES FOR THREE ORGANIZATIONS SHOULD BE REMOVED FROM THE TEST YEAR BECAUSE GMG FAILED TO JUSTIFY WHY RATEPAYERS SHOULD PAY FOR THEM

GMG requests rate recovery of $10,016 in dues expenses to pay for its membership in trade associations and other organizations.[33] However, GMG failed to justify $7,185 of that across three organizations: the Midwest Region Gas Task Force (MRGTF), American Gas Association (AGA), and Minnesota Agrigrowth Council (AgriGrowth Council). GMG's request for the MRGTF dues should be reduced to reflect a normal level of annual spending. Dues for the AGA should be excluded because GMG failed to carry its burden to establish that the portion of dues that pay for lobbying has been removed and failed to establish the benefit to ratepayers of membership in the AGA. Dues for the AgriGrowth Council should be removed because GMG failed to establish that ratepayers benefitted from this membership or that the membership is even related to the provision of natural gas service.

[32] Minn. Stat. § 216B.16, subd. 4.
[33] Ex. 103, RDB-3 (Burke Direct).

1. Dues expense for the Midwest Region Gas Task Force should be amortized over three years because it is not incurred every year

MRGTF dues are not incurred every year, so inclusion of the full single-year dues amount in the test year would not be just and reasonable. Costs that are included in the test year are locked into rates and recovered every year. If a test year cost is only incurred in some years and not in others, GMG would be taking that money from ratepayers and pocketing it, effectively charging ratepayers for nothing. Thus, when a test year cost is not incurred every year, the proper treatment of that cost is to amortize it over a number of years so the test year includes a more representative amount.[34]

GMG requests annual recovery of the full $1,100 cost of membership in the MRGTF, even though it does not pay this amount to MRGTF every year.[35] On the contrary, GMG explained that it incurs membership dues to MRGTF only “in years where there are interstate pipeline rate case activities.”[36] GMG paid MRGTF $550 in 2021, $0 in 2022, and $1,100 in 2023 and 2024.[37] While GMG does anticipate a transmission pipeline rate case in 2025, resulting in $1,100 in dues expense for that year, GMG could not demonstrate that it would incur MRGTF dues expense in the following years, stating that “it is reasonable to assume [a rate case] will be filed prior to 2029…[and] rate cases have been filed on a roughly three-year schedule.”[38] GMG later changed its answer, stating that “impl[ying] that there is only one interstate transmission company rate case

[34] Ex. 301 at 13 (Lee Direct).
[35] Ex. 103, RDB-3 (Burke Direct).
[36] Ex. 301, SL-D-2 at 2 (Lee Direct).
[37] Ex. 301 at 12 (Lee Direct).
[38] Ex. 301, SL-D-5 at 1-2 (Lee Direct).

every three years…does not comport with reality,"[39] despite GMG being the party to first state that, indeed, interstate transmission companies file these cases roughly every three years.[40]

Operating expenses in GMG's test year should be reduced by $733 to reflect a three-year amortization of MRGTF dues. GMG has amortized other one-time expenses in the test year, such as rate case expense, over three years, demonstrating that GMG estimates it will be three years before its next rate case.[41] If the one-time MRGTF dues expense is amortized over three years, GMG will be fully reimbursed for the expense within the three years before its next estimated rate case.

GMG's methodology would result in GMG over-recovering its dues for MRGTF from ratepayers. If $1,100 is included in rates in the 2025 test year, GMG would recover $3,300 from ratepayers by the end of three years. But if it only incurs these costs in years when there is an interstate pipeline rate case and these rate cases fit the historical standard of occurring once every three years, GMG will only pay $1,100 to MRGTF in those three years. GMG would therefore pocket the extra $2,200 in dues expense. Under the OAG's recommendation, including $367 in the test year allows GMG to receive $1,100 ($367*3 years) from ratepayers for the dues expenses it is likely to incur.

In sum, the OAG's recommendation is a standard rate case normalization and allows GMG to recover its likely costs for these dues, no more and no less.

---

[39] Ex. 109 at 18 (Burke Rebuttal).
[40] Ex. 301, SL-D-5 at 2 (Lee Direct) ("[B]ased on Northern Natural Gas's recent pattern, rate cases have been filed on a roughly three-year schedule…Viking has historically followed a similar timeline pattern.").
[41] Ex. 301 at 12-13 (Lee Direct).

2. American Gas Association (AGA) dues should be removed entirely

AGA dues should be removed entirely from the test year because GMG failed to remove the portion of AGA dues attributable to lobbying-related activities and failed to support its allegation that AGA membership benefits ratepayers. Lobbying-related activities are improper to include in rates when the utility has not shown that the lobbying advances ratepayer interests.[42] Similarly, when a utility fails to demonstrate how membership in an organization actually benefits ratepayers, dues for that organization should be excluded from the test year.[43]

The AGA is a trade organization of natural gas companies whose stated mission is to "develop[] and advocate[] for informed, innovative, and durable policy that fulfills our nation's energy needs, environmental aspirations and economic potential."[44] The AGA places great emphasis in its publications on its efforts to influence both legislation and policymaking at state and federal agencies.[45] In an acknowledgement of its lobbying activities, its invoices list a percentage of their dues that are attributable to "lobbying" as defined by the IRS.[46] However, while the AGA suggests that the portion of dues attributable to lobbying ranges from 3.4 percent to 5.1 percent,[47] neither it nor GMG provides any information justifying how such a low percentage could cover the organization's primary mission of developing and advocating for policy. The AGA publishes vast quantities of material for use in lobbying-related activities alongside its reports

---

[42] *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 27 (Jun. 3, 2016) (eDocket No. 20166-121975-01).

[43] Ex. 301, SL-D-3 at 2 (Lee Direct); *see also In re Application of Otter Tail Power Company for Authority to Increase Rates for Electric Service in the State of Minnesota*, MPUC Docket No. G-017/GR-20-719, FINDINGS OF FACT, CONCLUSIONS, AND ORDER at 24-25 (Feb. 2, 2022) (eDocket No. 20222-182349-01).

[44] Ex. 301 at 5 (Lee Direct).

[45] Ex. 301 at 6 (Lee Direct).

[46] Ex. 301 at 6-8 (Lee Direct).

[47] Ex. 301, SL-D-3 at 4-7 (Lee Direct).

celebrating the legislative and policy wins it personally achieves each year.[48] It is therefore reasonable to conclude that a far greater portion of dues pays for lobbying-related activities than is represented by the small amount attributed to IRS-defined "lobbying."

In any case, GMG failed to remove any lobbying-related portion of AGA dues from the $3,702 it requested in the test year, even those designated as lobbying by the IRS.[49] After the OAG demonstrated in direct testimony that GMG failed to do so, GMG responded in rebuttal that it had "already deducted that portion of AGA dues."[50] GMG's witness is mistaken. First, GMG admitted in discovery that it had not made any reduction to AGA membership dues, directly contradicting its own testimony.[51] Second, OAG witness Lee reviewed GMG's actually incurred total AGA dues expenses for 2024 and found that GMG had included the same amount in the 2025 test year.[52] This shows that GMG did not remove the lobbying-related expenses from the test year amount because the 2024 actual incurred expense was the total amount GMG paid to AGA, including lobbying-related expenses. Because GMG has the burden of proof and doubts must be resolved in the ratepayers' favor, the failure to remove lobbying-related expenses leaves the Commission unable to determine what portion of AGA dues is recoverable and what portion is not. The full AGA dues request should therefore be removed.

In addition to failing to remove any, and certainly not all, lobbying expenses, GMG failed to show that its AGA membership provides a ratepayer benefit. While GMG attempts to justify recovery of AGA dues by pointing to the possibility of some ratepayer benefit, it failed to demonstrate what portion of dues is attributable to that benefit. GMG alleges that it relies on the

---

[48] Ex. 301 at 7-8 (Lee Direct).
[49] Ex. 103, RDB-3 (Burke Direct).
[50] Ex. 109 at 17 (Burke Rebuttal).
[51] Ex. 301, SL-D-4 (Lee Direct).
[52] Ex. 302 at 10 (Lee Surrebuttal).

AGA for various training and education opportunities, but did not provide any evidence regarding the extent to which its dues pay for these opportunities or the extent to which GMG actually takes advantage of these opportunities.[53]

The Commission has found that utilities need to show how "membership dues connect to the provision or improvement of utility services" and that an itemized accounting of activities and costs allocated to each service would be necessary for recovery in some instances.[54] It is GMG's responsibility to demonstrate the connection between the dues expense it requested and the benefit to ratepayers; merely showing that some undefined portion of AGA membership benefits ratepayers is insufficient to justify recovery, especially when it is clear that another portion of GMG's request funds nonrecoverable lobbying-related activities. Having failed to demonstrate that it is only requesting dues expense that provide a benefit to ratepayers, GMG's request for AGA dues should be denied and $3,702 should be removed from test year operating expenses.

3. Minnesota AgriGrowth Council dues should be removed entirely

AgriGrowth Council dues of $2,750 should be removed from the test year because there is no legitimate connection between membership in this organization and the provision of gas service and because lobbying-related expenses have not been removed. When an organization does not provide a benefit to ratepayers, dues to that organization should be removed from the test year.[55] The AgriGrowth Council is an association that represents businesses in the agricultural industry.[56]

---

[53] Ex. 109 at 17 (Burke Rebuttal).
[54] *In re Application of Otter Tail Power Company for Authority to Increase Rates for Electric Service in the State of Minnesota*, MPUC Docket No. G-017/GR-20-719, FINDINGS OF FACT, CONCLUSIONS, AND ORDER at 24-25 (Feb. 2, 2022) (eDocket No. 20222-182349-01).
[55] *In re Petition by Great Plains Natural Gas Co., a Division of Montana-Dakota Utilities, Co., for Authority to Increase Natural Gas Rates in Minnesota*, MPUC Docket No. G-004/GR-19-511, FINDINGS OF FACT, CONCLUSIONS, AND ORDER at 9 (Oct. 26, 2020) (eDocket No. 202010-167656-01).
[56] Ex. 301 at 15-16 (Lee Direct).

It lists its "public policy priorities" as being related to workforce concerns in Minnesota's food and agricultural industries, farm technologies, investment in the food and agricultural sectors, and tax and energy policy to support Minnesota farmers.[57] None of these priorities relate to the provision of natural gas service and there is no indication that the AgriGrowth Council's activities benefit GMG's ratepayers.

GMG's argument in support of its request for AgriGrowth Council dues is speculative and tenuous. GMG suggests that membership in the AgriGrowth Council provides it with "networking opportunities" that might result in new customers.[58] GMG did not provide any evidence that it has ever received any sales leads, much less actual new customers, through these "networking opportunities." It also failed to provide any analysis demonstrating that new revenues from one of these speculative customers would exceed the costs of serving the new customer.

GMG also suggests that the AgriGrowth Council provides it with insight into the agricultural industry, to which some of its large customers belong.[59] GMG argues that these insights facilitate "exchange of knowledge and strategies to address…challenges" faced by the agricultural industry.[60] GMG failed to demonstrate that this exchange of knowledge about a different industry has affected GMG's natural gas operations in any way, instead stating generally that GMG would learn about regulations and policies that impact its customers, which "could" impact GMG in turn.[61] The connection to provision of natural gas services is far too tenuous to justify charging ratepayers for this membership.

[57] Ex. 301 at 16 (Lee Direct).
[58] Ex. 109 at 18-19 (Burke Rebuttal).
[59] Ex. 109 at 18 (Burke Rebuttal).
[60] Ex. 109 at 19 (Burke Rebuttal).
[61] Ex. 109 at 19 (Burke Rebuttal).

Additionally, the AgriGrowth Council engages in lobbying-related activities that benefit its agribusiness constituency. This is evident both from its publicly-available materials and from its invoices.[62] Including dues to this organization in the test year would therefore result in ratepayers being forced to pay for lobbying-related activities. Similar to AGA, GMG failed to demonstrate that it removed the lobbying-related portion of these dues from the test year, so including AgriGrowth Council dues in rates would result in ratepayers paying for nonrecoverable lobbying-related activities.[63] The full dues request should thus be removed to prevent that unjust and unreasonable outcome.

B. GMG Did Not Support $176,834 for Automatic Meter Reading (AMR) Unit Rate Base

The Commission should reduce the 2025 rate base balance for GMG's older AMR units because GMG increased it without justification. GMG represented in its initial filing that its 2024 and 2025 balances for its older AMR units would be the same.[64] Once 2024 ended, it provided to intervenors an update to the initial filing with 2024 actuals, which were lower for that account than in the initial filing.[65] In the update, it also added an "adjustment" of $176,834 back to that account so that the 2025 balance would remain what it was in the initial filing.[66] GMG failed to justify this adjustment, so it should be removed.

---

[62] Ex. 301 at 16-17 (Lee Direct).

[63] GMG's argument that the lobbying-related portion of AgriGrowth Council dues should not be removed because the AgriGrowth Council engages in lobbying for the agricultural sector only further supports removing these dues from the test year. Ex. 109 at 19 (Burke Rebuttal). This underscores the lack of connection between AgriGrowth Council dues and natural gas. Furthermore, lobbying in an entirely different industry does not benefit ratepayers in any way. Thus, GMG's failure to remove lobbying-related expenses further supports removing AgriGrowth Council dues entirely from the test year.

[64] Ex. 105, Sched. B-1 at 3 (Initial Filing – Volume 3).

[65] Ex. 301, SL-D-12 at 4 (Lee Direct).

[66] Ex. 301, SL-D-12 at 4 (Lee Direct).

GMG reads its gas meters with AMR technology.[67] GMG's original meters, which it installed between 1996 and 2009,[68] did not have AMR capability, so GMG installed AMR units on these older meters in 2015.[69] The original meters were recorded as part of GMG's rate base in FERC Account 381.[70] GMG does not use FERC Account 381 for any new meters, so this balance should not increase from year to year.[71]

When GMG filed its rate case, it projected that the remaining balance of these meters in FERC Account 381 at the end of 2024 would be $520,747.[72] GMG applied a $0 adjustment to this balance, so the 2025 test year balance was also $520,747.[73] This is shown in Figure 1 on line 6.

Figure 1: Summary of Rate Base Component Adjustments[74]

			Asset			Accumulated Depreciation			Accumulated Salvage			Net Utility Plant		
Line No.	Description	FERC Account	Projected 2024	Adjustment	Projected 2025	Projected 2024	Adjustment	Projected 2025	Projected 2024	Adjustment	Projected 2025	Projected 2024	Adjustment	Projected 2025
1	Distribution Plant													
2	Land & Land Rights	374	$ 77,539	$ -	$ 77,539	$ -	$ -	$ -	$ -	$ -	$ -	$ 77,539	$ -	$ 77,539
3	Mains	376	$ 36,163,633	$ 787,500	$ 36,951,133	$ 8,165,543	$ 732,342	$ 8,897,885	$ 1,559,211	$ 200,882	$ 1,760,093	$ 26,438,879	$ (145,724)	$ 26,293,155
4	Measuring & Reg. Station Equip. - General	378	$ 4,741,276	$ 250,000	$ 4,991,276	$ 762,805	$ 109,654	$ 872,459	$ 134,850	$ 24,956	$ 159,807	$ 3,843,621	$ 115,389	$ 3,959,010
5	Services	380	$ 12,814,964	$ 735,000	$ 13,549,964	$ 2,653,798	$ 263,651	$ 2,917,449	$ 846,875	$ 108,410	$ 955,285	$ 9,314,291	$ 362,940	$ 9,677,231
6	Meters	381	$ 520,747	$ -	$ 520,747	$ 256,570	$ 17,358	$ 273,928	$ -	$ -	$ -	$ 264,177	$ (17,358)	$ 246,819
7	Meter Installations	382	$ 4,062,076	$ 237,500	$ 4,299,576	$ 903,340	$ 114,894	$ 1,018,233	$ 218,991	$ 31,324	$ 250,315	$ 2,939,746	$ 91,283	$ 3,031,028
8	House Regulators	383	$ 74,345	$ -	$ 74,345	$ 42,812	$ 1,871	$ 44,683	$ 9,229	$ 620	$ 9,848	$ 22,305	$ (2,491)	$ 19,814
9	Other Equipment	387	$ 339,206	$ 65,000	$ 404,206	$ 307,510	$ 11,932	$ 319,442	$ -	$ -	$ -	$ 31,695	$ 53,068	$ 84,763
10	Subtotal Distribution Plant		$ 58,793,786	$ 2,075,000	$ 60,868,786	$ 13,092,377	$ 1,251,702	$ 14,344,079	$ 2,769,156	$ 366,191	$ 3,135,347	$ 42,932,253	$ 457,107	$ 43,389,360

Then, after 2024 had ended, GMG provided financial schedules in discovery that were updated to show the actual balances of each account at the end of 2024.[75] These updated schedules demonstrated that the actual balance for FERC Account 381 at the end of 2024 was $343,913.[76] Nevertheless, GMG kept the 2025 FERC Account 381 balance at $520,747, changing the original

[67] Ex. 301, SL-D-9 at 1-2 (Lee Direct).
[68] Ex. 301, SL-D-10 at 2 (Lee Direct).
[69] Ex. 301, SL-D-9 at 1 (Lee Direct).
[70] Ex. 301, SL-D-10 at 1-2 (Lee Direct).
[71] Ex. 301 at 28 (Lee Direct).
[72] Ex. 105, Sched. B-1 at 3 (Initial Filing – Volume 3).
[73] Ex. 105, Sched. B-1 at 3 (Initial Filing – Volume 3).
[74] Ex. 105, Sched. B-1 at 3 (Initial Filing – Volume 3) (highlight added).
[75] Ex. 301, SL-D-12 at 4 (Lee Direct).
[76] Ex. 301, SL-D-12 at 4 (Lee Direct).

$0 adjustment to $176,834 to plug the gap between the actual 2024 balance and the test year balance.[77] This is shown on line 6 of Figure 2.

Figure 2: Summary of Rate Base Component Adjustments Updated with 2024 Actuals[78]

			Asset			Accumulated Depreciation			Accumulated Salvage			Net Utility Plant		
Line No.	Description	FERC Account	2024 Unaudited	Adjustment	Projected 2025 *	2024 Unaudited	Adjustment	Projected 2025 *	2024 Unaudited	Adjustment	Projected 2025 *	2024 Unaudited	Adjustment	Projected 2025 *
1	Distribution Plant													
2	Land & Land Rights	374	$ 77,539	$ -	$ 77,539	$ -	$ -	$ -	$ -	$ -	$ -	$ 77,539	$ -	$ 77,539
3	Mains	376	$ 35,953,651	$ 997,482	$ 36,951,133	$ 8,154,218	$ 743,667	$ 8,897,885	$ 1,535,068	$ 225,026	$ 1,760,093	$ 26,264,365	$ 28,790	$ 26,293,155
4	Measuring & Reg. Station Equip. - General	378	$ 4,491,276	$ 500,000	$ 4,991,276	$ 760,305	$ 112,154	$ 872,459	$ 133,600	$ 26,206	$ 159,807	$ 3,597,371	$ 361,639	$ 3,959,010
5	Services	380	$ 12,298,813	$ 1,251,151	$ 13,549,964	$ 2,643,726	$ 273,723	$ 2,917,449	$ 828,805	$ 126,479	$ 955,285	$ 8,826,282	$ 850,948	$ 9,677,231
6	Meters	381	$ 343,913	$ 176,834	$ 520,747	$ 247,346	$ 26,582	$ 273,928	$ -	$ -	$ -	$ 96,567	$ 150,252	$ 246,819
7	Meter Installations	382	$ 4,273,462	$ 26,115	$ 4,299,576	$ 908,060	$ 110,173	$ 1,018,233	$ 214,480	$ 35,835	$ 250,315	$ 3,150,922	$ (119,893)	$ 3,031,028
8	House Regulators	383	$ 74,345	$ -	$ 74,345	$ 42,812	$ 1,871	$ 44,683	$ 9,229	$ 620	$ 9,848	$ 22,305	$ (2,491)	$ 19,814
9	Other Equipment	387	$ 336,151	$ 68,054	$ 404,206	$ 307,271	$ 12,172	$ 319,442	$ -	$ -	$ -	$ 28,881	$ 55,882	$ 84,763
10	Subtotal Distribution Plant		$ 57,849,151	$ 3,019,635	$ 60,868,786	$ 13,063,737	$ 1,280,342	$ 14,344,079	$ 2,721,182	$ 414,166	$ 3,135,347	$ 42,064,232	$ 1,325,128	$ 43,389,360

In other words, after GMG's 2024 actual plant balance in FERC Account 381 was lower than originally projected, rather than revising its test year balance downward to reflect reality, GMG added $176,834 to the plant balance without justification.

OAG witness Lee asked GMG to explain why it initially did not have an adjustment to Account 381 and what the justification was for the new adjustment after GMG's 2024 actuals were lower than projected.[79] GMG did not even answer the question, instead discussing the depreciation methodology it applied to its meters in FERC Accounts 381 and 382.[80] GMG stated that it accidentally placed some meters into FERC Account 381 that should have been in FERC Account 382, but that the total plant balance remains the same regardless of where the meters are placed.[81]

This misses the point entirely. OAG's point is that the 2025 test year FERC Account 381 plant balance was originally the same as the 2024 (and 2023)[82] plant balances, but after the 2024 plant balance turned out to be lower, GMG added $176,834 back to the account to keep the 2025

[77] Ex. 301, SL-D-12 at 4 (Lee Direct).
[78] Ex. 301, SL-D-12 at 4 (Lee Direct) (highlight added).
[79] Ex. 302 at 8 (Lee Surrebuttal).
[80] Ex. 109 at 20 (Burke Rebuttal).
[81] Ex. 109 at 20 (Burke Rebuttal).
[82] Ex. 105, Sched. B-1 at 2 (Initial Filing – Volume 3).

test year balance higher. It provided zero explanation or justification for why the 2025 test year balance should still be the higher number, nor did it demonstrate that GMG had invested $176,843 in meters it put into service. Instead, the conclusion to be drawn from the record is that GMG simply wanted to keep its 2025 test year balance for FERC Account 381 at $520,747, and the "adjustment" it made was exclusively to its spreadsheet, adding whatever amount was necessary to get from the 2024 actual balance to the 2025 test year balance.

IV. GMG'S INCOME TAX RIDER PROPOSAL IS INAPPROPRIATE AND SHOULD BE REJECTED

GMG's Income Tax Rider proposal has no legal basis, is not reasonable, and should be rejected. A rider is a cost recovery mechanism whereby utilities can recover costs outside of a normal rate case proceeding.[83] According to the Commission, riders are "a creation of the Minnesota Legislature," meaning that a rider cannot be used without a statute authorizing the Commission to establish it.[84]

There is no statute authorizing creation of a rider for income tax expense. Riders are authorized by specific statutory provisions, and none of them refer to income taxes in any way.[85] The Commission has not allowed the creation of any income tax riders for any utility in at least the past 15 years.[86] Given the lack of statutory authorization, as well as any indication that a tax rider is an appropriate method of addressing taxation of utilities, the Commission should reject GMG's tax rider proposal.

Even if there were a statutory basis for an Income Tax Rider, GMG has failed to meet its burden to demonstrate the necessity of one. GMG explained that its desire for this rider stemmed

[83] Ex. 301 at 18 (Lee Direct).
[84] Ex. 301 at 18 (Lee Direct).
[85] *See, e.g.,* Minn. Stat. § 216B.1635; Minn. Stat. § 216B.16, subd. 7b; Minn. Stat. § 216B.1691; Minn. Stat. § 216B.1696.
[86] Ex. 301 at 21 (Lee Direct).

from the 2024 presidential election and GMG's perception that its tax rate may change as a result of the election.[87] In the words of GMG's president, a change in its taxes "seems likely," and GMG wanted the ability to adjust its rates in response without filing a rate case.[88] GMG did not provide further information or testimony regarding its Income Tax Rider proposal.

This is wholly insufficient to justify creation of a novel recovery mechanism. GMG argued that its tax rate may change, and that this may necessitate filing a new rate case. It did not provide any other information about what the changes might entail or facts about how they would impact the cost of service. These are important details that the Commission would need in order to evaluate the impact of a new rider. Additionally, many costs of running a business can change from year to year, and GMG failed to explain why its taxes should receive this special treatment as compared to any other cost, the proper evaluation of which occurs through the rate case process.

Moreover, if there were a significant change in the tax code that affected utilities, the Commission has demonstrated that it is able to address such a situation. In 2017, the federal Tax Cuts and Jobs Act was passed, reducing corporate taxes.[89] The Commission opened an investigation to determine what the impact would be on the cost of service for each Minnesota rate-regulated utility company.[90] That proceeding allowed the Commission to address the changes to the cost of service for all of Minnesota's utilities at once.[91] This ensured "a consistent approach to reviewing the impact…on all Minnesota rate regulated utilities,"[92] and was likely more efficient

[87] Ex. 301 at 21 (Lee Direct).
[88] Ex. 103 at 10 (Chilson Direct).
[89] Ex. 301 at 20 (Lee Direct).
[90] Ex. 301 at 20 (Lee Direct).
[91] Ex. 301 at 20 (Lee Direct).
[92] Ex. 301 at 20 (Lee Direct).

than creating riders for each utility, as further significant changes to the tax code have not occurred since then.

GMG proposed its Income Tax Rider because it wanted to avoid the need to file another rate case soon after this one has concluded. However, GMG failed to provide any legal or factual support justifying creation of a new rider, which is properly only created by the Legislature. GMG's Income Tax Rider request must therefore be denied.

V. GMG'S FAULTY SALES FORECAST MUST BE ADJUSTED TO REFLECT HISTORICAL REALITIES

GMG's test year sales forecast is based on multiple faulty methodological choices that cast serious doubt on its reliability. Most significantly, GMG chose to treat all of its growth as growth in the residential class regardless of the actual classes that may be the cause of future growth. In addition, GMG failed to perform any of the basic forecasting techniques that would provide stakeholders with greater confidence in the accuracy of the forecast. The result of these failures is a sales forecast unable to reliably guide the Commission in setting rates.

A. GMG's Forecast Methodology Lacks Any Reasonable Foundation

GMG's approach to forecasting its customer count is troublingly unempirical. In its initial filing, GMG projected that it would add 400 new residential customers in the test year, and no other customers in any other customer class.[93] Adding 400 customers to the residential class appears relatively reasonable, as GMG added an average of 429 residential customers per year between 2008 and 2023, and a lower average of 389 residential customers per year in recent years.[94]

[93] Ex. 303, CS-D-3 at 5 (Stevenson Direct).
[94] Ex. 303 at 8 (Stevenson Direct).

However, the OAG observed in direct testimony that forecasting zero customer growth in other classes, particularly the small commercial class, is unreasonable given GMG's past growth, including in the recent past. From January 2019 to December 2023, GMG added approximately 30 small commercial customers each year.[95] In 2023 alone, it added 56.[96] And between January 1, 2024 and the end of October 2024, it had added 46 small commercial customers.[97] The OAG therefore recommended that GMG's hypothetical test year sales forecast include 990 small commercial customers rather than 946.[98] This properly balanced the historical reality of GMG's growth with GMG's concern that it might not see the same amount of small commercial growth it had seen previously.[99]

After the OAG highlighted the weaknesses in GMG's forecast, GMG revealed in rebuttal testimony that it already "accounted for" small commercial customer additions but had chosen to miscategorize them as residential customers.[100] GMG explained that "when GMG budgets for customer additions, it simply identifies all of [them] as residential customers unless there is a very specific reason to identify other customer types[.]"[101] GMG did not further justify this disregard for accuracy or explain why it took this approach when it has had consistent small commercial customer growth every year. GMG also failed to explain why it had not revealed this unique methodological choice anywhere in its initial filing or in its responses to discovery requests.

[95] Ex. 303 at 9 (Stevenson Direct).
[96] Ex. 303 at 9 (Stevenson Direct).
[97] It had 970 customers in October 2024. Ex. 303, CS-D-6 at 4 (Stevenson Direct). It ended 2023 with 924 customers. Ex. 105, Sched. G-1 at 1 (Initial Filing – Volume 3).
[98] Ex. 303 at 10 (Stevenson Direct).
[99] Ex. 303 at 10 (Stevenson Direct).
[100] Ex. 109 at 5-6 (Burke Rebuttal).
[101] Ex. 109 at 5 (Burke Rebuttal).

GMG's methodology is entirely inappropriate for a rate case forecast. Its admission that it chose to incorrectly categorize new customers despite clear historical data trends casts doubt on the accuracy of its entire sales forecast. Different classes have different sales, so incorrectly categorizing customers will result in incorrect projected revenues for each class.[102] In this case, small commercial customers use more gas on average than residential customers, so categorizing them as residential customers reduces forecasted sales, thereby increasing GMG's revenue deficiency, thus making it appear that GMG needs to increase its rates more than it actually does.[103]

GMG's decision is also likely to result in inaccurate analysis of the costs of service. Just as different classes have different sales, they also have different class-specific costs, such as the cost of meters and services.[104] As will be discussed further below, several elements of GMG's CCOSS depend on total customer counts and customer consumption, so cost allocation between customer classes is also affected by placing customers into the wrong class.[105] Together, inaccurately categorizing new customers results in multiple vectors for inaccuracy and uncertainty in the CCOSS, making each class's revenue deficiency uncertain, which could lead analysts to base their revenue apportionment recommendations on incorrect conclusions.[106]

Ultimately, GMG has the burden to prove that its sales forecast is reliable, and doubts must be resolved in favor of consumers.[107] Placing the burden on GMG is just because only GMG has access to the requisite data; intervenors and the Commission rely on it to provide accurate data in order to make sound decisions based on a factual record. Here, however, GMG provided a sales

---

[102] Ex. 305 at 2 (Stevenson Surrebuttal).
[103] Ex. 305 at 3 (Stevenson Surrebuttal).
[104] Ex. 305 at 3 (Stevenson Surrebuttal).
[105] Ex. 305 at 3 (Stevenson Surrebuttal).
[106] Ex. 305 at 3 (Stevenson Surrebuttal).
[107] Minn. Stat. § 216B.16, subd. 4; Minn. Stat. § 216B.03.

forecast with inaccurate customer count forecasts due to its conscious choice to place all new customers into the residential class. GMG's customer projection methodology is unreasonable. Thus, the Commission should adopt the OAG's recommendation to increase the small commercial customer count in the hypothetical test year sales forecast in accordance with historical realities.

B. GMG Should Be Required to Conduct a More Robust Sales Forecast For Its Next Rate Case

In addition to GMG's knowing miscategorization of its customer additions, GMG's forecast lacks statistical support. Because sales vary from year to year due to changes in the weather – warmer years mean customers don't need to heat their premises as much – constructing a model to "weather normalize" sales in past years allows utilities to more accurately forecast sales in the test year.[108] In addition, utilities can use a variety of demographic and economic data to better inform their sales forecasts.[109] Using these methods takes time, which is why the OAG recommends their use in the next rate case rather than this one.[110] However, these methods are not excessively complicated, nor has GMG shown that it would be unable to perform them; on the contrary, OAG's witness testified that GMG could use Microsoft Excel, the same program that GMG used for many documents in this case, to perform a more robust forecast.[111] Although OAG's witness also noted other forecasting tools that were available, the OAG is not recommending they be used.[112] The OAG's recommendation that GMG conduct a more robust sales forecast is all the more important given the lack of confidence that can be placed in the forecast in the current rate case. The Commission should require that GMG conduct a more robust forecast in its next rate case.

---

[108] Ex. 303 at 13 (Stevenson Direct).
[109] Ex. 303 at 13 (Stevenson Direct).
[110] Ex. 303 at 16 (Stevenson Direct).
[111] Ex. 303 at 16 (Stevenson Direct).
[112] Ex. 303 at 16 (Stevenson Direct).

VI. THE COMMISSION SHOULD ORDER GMG TO CHANGE HOW IT TREATS INTERRUPTIBLE CUSTOMERS

GMG has interruptible customers who receive lower rates in exchange for agreeing not to use gas during periods of peak usage across GMG's distribution system.[113] Interruptible customers theoretically provide a benefit to the system because customers willing to curtail use during system peaks result in a lower peak, meaning the utility does not need to incur the cost of building a larger system to accommodate greater use and can reduce capacity-related contracts.[114] It also does not need to purchase gas as much gas during peaks, when gas is most expensive.[115] However, if interruptible customers do not interrupt their use or would not have used gas during system peaks in the first place, they are free-riders, receiving a monetary benefit paid for by other ratepayers without providing any benefit in return.

Many of GMG's interruptible customers do not curtail their usage during system peaks, and GMG needs to address this problem so that they pay their fair share. Minnesota law requires that rates "shall not be unreasonably preferential, unreasonably prejudicial, or discriminatory."[116] If an interruptible customer never curtails its usage, it is receiving the same firm service as other customers for a lower price without justification. Over the past five years, GMG has had an average of 90 interruptible customers each year.[117] GMG has never called on more than nine customers to curtail.[118] Moreover, no more than four customers have ever actually curtailed at one time.[119] The end result is that GMG's interruptible customers are receiving firm service at unreasonably preferential rates.

---

[113] Ex. 303 at 58-59 (Stevenson Direct).
[114] Ex. 303 at 59 (Stevenson Direct).
[115] Ex. 303 at 59 (Stevenson Direct).
[116] Minn. Stat. § 216B.03.
[117] Ex. 303 at 60 (Stevenson Direct).
[118] Ex. 303 at 60 (Stevenson Direct).
[119] Ex. 303 at 60 (Stevenson Direct).

GMG makes three arguments against addressing the unreasonable discount many of its interruptible customers currently receive. First, GMG asserts that it would need to incur more costs to lay more pipes if it moved interruptible customers to firm service.[120] However, the fact that the overwhelming majority of its interruptible customers do not currently curtail their use demonstrates that GMG's system is, in fact, already able to handle their usage. Otherwise, GMG would need more than between 1 and 8 percent[121] of its interruptible customers to curtail. This raises the possibility that GMG actually already overbuilt its system and is charging firm customers for a rarely-used benefit.[122] The change that the OAG is advocating for would not require expansion of its physical distribution system.

Second, GMG argues that seasonal interruptible customers provide a benefit to the system because "most of them are exclusively using gas at a time when the system is not otherwise being fully utilized."[123] It appears to believe that these customers should receive the interruptible discount because they do not use the system at all during heating season. However, these customers already save money by using the system seasonally: they are allocated fewer costs in the Class Cost of Service Study and they don't pay distribution charges or the cost of gas at all during months of non-use.[124] They also pay lower monthly customer charges in months they do not use gas.[125] Giving seasonal interruptible customers a further interruptible discount when they are never asked to interrupt their usage amounts to preferential treatment. It gives preference to these customers both within their customer class—because other class members receive the same service but pay

[120] Ex. 109 at 29 (Burke Rebuttal).
[121] Ex. 303 at 61 (Stevenson Direct).
[122] Ex. 305 at 16 (Stevenson Surrebuttal).
[123] Ex. 109 at 29 (Burke Rebuttal).
[124] Ex. 303 at 63 (Stevenson Direct).
[125] Ex. 303 at 63 (Stevenson Direct).

more—and between classes, because there are likely residential customers whose use is seasonal, but who do not receive any comparable discount.

Finally, GMG argues that seasonal interruptible users provide a subsidy to other customer classes and that requiring seasonal interruptible ratepayers to pay non-preferential rates might result in these ratepayers using other sources of energy.[126] GMG describes this "subsidy" as "sharing in the cost of the system without needing it at peak times."[127] However, again, because these customers are already allocated proportionally fewer costs than other classes and have lower charges during months of non-use, GMG overstates the benefit to other customer classes.[128] Interruptible customers receive a discount in exchange for providing the system benefit of curtailing their use when necessary. If a customer does not use gas during peaks anyway, it does not need the lower distribution charge to incentivize curtailment. Thus, rather than a subsidy to other ratepayers, other ratepayers are subsidizing GMG's preferential treatment of these non-interrupting interruptible customers to the tune of $700,000, and the true benefit that these customers provide is additional revenue to GMG.[129]

Furthermore, GMG did not provide evidence supporting its allegation that its seasonal customers might use other forms of energy if they did not receive preferential treatment. It could have produced information about the relative costs and prices of different forms of energy, which would allow the Commission to evaluate the likelihood of losing these customers. Instead, GMG raised the specter of losing revenue if it was forced to charge nonpreferential rates, without data to back it up.

[126] Ex. 109 at 29-30 (Burke Rebuttal).
[127] Ex. 109 at 29 (Burke Rebuttal).
[128] Ex. 303 at 63 (Stevenson Direct).
[129] Ex. 305 at 16-17 (Stevenson Surrebuttal).

The OAG recommends that the Commission order GMG to end its practice of offering interruptible service to seasonal users who will never need to interrupt. The OAG also recommends that the Commission order GMG to either move some of its interruptible customers to firm rates, interrupt those customers' service more often, or change its demand entitlement process to reflect the fact that GMG rarely uses its interruptible customers.

Regarding the customers who do stay on interruptible rates, the OAG recommends requiring GMG to inform those customers that they could be required to curtail usage if the price of gas spikes.[130] GMG's tariff states customers must curtail "whenever requested by the Company."[131] Although GMG has not felt the need to curtail customers due to a gas price spike in the past, this could change, as it estimates that it will purchase roughly 28 percent of GMG's test year gas volumes from the spot market, which can experience price volatility.[132] To ensure that customers are not surprised by unexpected curtailments, GMG should clearly communicate with its interruptible customers prior to the 2025-2026 hearing season that economic curtailment may occur.

VII. THE COMMISSION SHOULD ADOPT THE OAG'S REVENUE APPORTIONMENT TO AVOID THE SIGNIFICANT FLAWS IN GMG'S PROPOSAL

The Commission must determine how recovery of the utility's revenue requirement will be apportioned among its customer classes, or the total amount of money the utility will recover from each class.[133] The Commission must also determine the utility's rate design, or how each class's rate will be structured.[134] With both revenue apportionment and rate design, the

[130] Ex. 303 at 64-65 (Stevenson Direct).
[131] Ex. 303 at 63 (Stevenson Direct).
[132] Ex. 303 at 64 (Stevenson Direct).
[133] *Hibbing Taconite Co. v. Minn. Pub. Serv. Comm'n*, 302 N.W.2d 5, 9 (Minn. 1980).
[134] Ex. 303 at 82 (Stevenson Direct).

Commission acts in a "legislative" capacity, "balancing both cost and non-cost factors and making choices among public policy alternatives" to determine the revenue apportionment and rate design most consistent with public interest.[135]

A class cost of service study (CCOSS) is an analysis of a utility's business operation to determine how all of the costs of providing utility service arise.[136] More specifically, a CCOSS attempts to determine which classes of customers cause which costs; a class's cost of service less the forecasted sales revenues for the class then yields the class's "revenue deficiency."[137] CCOSSs are a somewhat subjective exercise: there are multiple ways to conduct a CCOSS and different choices by an analyst conducting a CCOSS will produce different results.[138] That said, a CCOSS should be conducted using the best data available and all choices must have an analytical foundation.[139]

In addition to the "cost factors" that a CCOSS helps analyze, longstanding utility ratemaking principles require the Commission to consider "non-cost factors" in setting rates.[140] These include statutorily required non-cost factors, such as ratepayers' ability to pay[141] and avoiding unreasonable preference,[142] as well as numerous policy considerations such as equity, justice, avoiding rate shock, encouraging energy conservation, and others.[143] In other words, cost

[135] *St. Paul Area Chamber of Commerce v. Minn. Pub. Serv. Comm'n*, 251 N.W.2d 350, 358 (Minn. 1977).
[136] Ex. 303 at 17-18 (Stevenson Direct).
[137] Ex. 303 at 3 (Stevenson Direct).
[138] Ex. 303 at 21 (Stevenson Direct).
[139] *See* Ex. 303 at 21 (Stevenson Direct); *see also* Ex. 206 at 14 (Zajicek Direct).
[140] *St. Paul Area Chamber of Commerce v. Minn. Pub. Serv. Comm'n*, 251 N.W.2d 350, 358 (Minn. 1977)
[141] Minn. Stat. § 216B.16, subd. 15(a).
[142] Minn. Stat. § 216B.03.
[143] *See, e.g.*, *In re Appl. of Minn. Power for Auth. to Increase Rates for Elec. Serv. in Minn.*, Docket No. E-015/GR-21-335, FINDINGS OF FACT, CONCLUSIONS OF LAW, AND ORDER at 50 (Feb. 28, 2023) (eDocket No. 20232-193486-01).

causation is a starting point for setting rates, not the ending point; indeed, a failure to consider non-cost factors in setting rates would be legally insufficient.

In the rest of this section, the OAG will break down revenue apportionment. First, the OAG describes how GMG's preferred CCOSS is deeply flawed and therefore unfit to guide class revenue apportionment. Second, the OAG explains why, to the extent that CCOSSs are used to guide revenue apportionment in this case, the Commission should consider the results of multiple CCOSS methodologies. Third, the OAG discusses important state policies that should guide the Commission in apportioning revenue. Fourth, the OAG presents its recommended revenue apportionment, which moderates the Residential class increase while still proposing increases for all customer classes. Finally, the OAG recommends two actions for GMG's next rate case.

A. THE ALJ AND COMMISSION SHOULD NOT RELY ON GMG'S FLAWED CCOSS TO GUIDE REVENUE APPORTIONMENT

Numerous flaws in both the methodology and data underlying GMG's CCOSS undermine its credibility, casting doubt on its ability to provide the Commission with valid insights about cost causation. First, GMG made a massive change to its CCOSS when it filed rebuttal testimony that it did not discuss in its testimony, depriving intervenors of the ability to investigate the change. Second, GMG asserted in discovery that it had made a demand adjustment to its CCOSS, which is necessary for the type of CCOSS it performed, but witnesses from both the OAG and the Department found no indication of such an adjustment. And beyond these two primary flaws, there are several other methodological flaws that further decrease the quality of GMG's CCOSS.

1. GMG made a last-minute change that caused a massive shift in class cost responsibility, but failed to mention it in testimony

GMG made multiple changes to its CCOSS in its rebuttal testimony, but it did not even mention a change that had one of the largest impacts, which was to remove sales to its transport customers from its commodity cost allocator.[144] This one change increased commodity costs for the residential class by over $700,000 and for the small commercial class by over $100,000.[145] Because GMG did not mention the change, intervenors only discovered it when they received the original spreadsheet version of GMG's changed CCOSS in discovery on April 4.[146] The last day on which intervenors could have sent follow-up discovery to understand the change and why it wasn't made earlier was March 28, a week before the change was revealed. In response to a Department email asking why GMG failed to mention that it made this change, GMG stated that it did not mention the change because the change did not support its position.[147]

This casts doubt on all of GMG's CCOSS. A CCOSS is only as reliable as the underlying data, which GMG is the gatekeeper of. Failing to discuss a change because the result of the change may be adverse to GMG's position raises the possibility that there are other important facts or data that GMG chose not to disclose to intervenors and the Commission. The change itself is also extremely difficult to assess because GMG prevented intervenors from learning anything other than that it occurred. Taken together with the requirement that doubts be resolved in favor of the consumer, this one issue is enough for the Commission to reject GMG's CCOSS. It is not the only issue, however.

2. GMG failed to perform a demand adjustment on its minimum system CCOSS, but alleged that it did

GMG asserted to the OAG in discovery that it had performed a demand adjustment on its CCOSS,[148] but it did not actually perform this adjustment.[149] GMG used a minimum system

[144] Ex. 305 at 8-9 (Stevenson Surrebuttal).
[145] Ex. 305 at 8 (Stevenson Surrebuttal).
[146] Ex. 209, MZ-S-2 at 1-2 (Zajicek Surrebuttal).
[147] Ex. 209, MZ-S-2 at 1 (Zajicek Surrebuttal).
[148] Ex. 303, CS-D-11 (Stevenson Direct).
[149] Ex. 303 at 27-28 (Stevenson Direct); Ex. 209 at 2-3 (Zajicek Surrebuttal).

CCOSS, which structurally overstates customer-related costs.[150] A demand adjustment is necessary to correct this shortcoming of the minimum system approach; without a demand adjustment, the minimum system CCOSS will over-classify shared distribution costs as customer-related.[151] This, in turn, will overstate the revenue deficiency of the residential class, which is by far the most numerous. The fact that GMG did not perform a demand adjustment makes its CCOSS structurally unreliable, and the fact that GMG nevertheless alleged it did perform such an adjustment only casts further doubt on the reliability of GMG's CCOSS overall.

3. Additional flaws in GMG's CCOSS

GMG's CCOSS contains numerous other methodological flaws that undermine its usefulness in guiding revenue apportionment.

First, GMG's treatment of transportation customers potentially continued to skew the results of the CCOSS even after GMG followed the OAG's recommendation to move them to their own class. GMG did move transportation customers, which it designates TR-1 and TR-2, to their own class.[152] However, it appears that GMG failed to include the sales to TR-2 customers in its demand allocator.[153] This means that the costs caused by TR-2 customers remained in the classes they were assigned to under GMG's original CCOSS, resulting in artificially high revenue deficiencies for those classes and an artificially low revenue deficiency for transportation customers.[154]

Second, GMG does not collect specific data about its own system to inform the CCOSS, which makes the CCOSS more approximate. The OAG observed that GMG's approach to

---

[150] Ex. 303 at 27 (Stevenson Direct).
[151] Ex. 303 at 27 (Stevenson Direct).
[152] Ex. 109 at 23 (Burke Rebuttal); Ex. 109, RDB-REB 8 (Burke Rebuttal).
[153] Ex. 305 at 9 (Stevenson Surrebuttal).
[154] Ex. 305 at 10 (Stevenson Surrebuttal).

allocating customer-related costs lacked specificity due to GMG's lack of accessible data regarding the installation costs of its meters and services.[155] Then GMG revealed in rebuttal that it not only selects meters based on a customer's load, but it uses some meters for multiple classes, suggesting that its meters were incorrectly classified as entirely customer-related, when they actually should be partially energy-related.[156]

Third, GMG allocated demand-related costs using consumption data from January 2024, whereas the OAG advocated for using both January and February of the three most recent years, plus the test year.[157] GMG constructed its demand allocator using each customer class's share of peak demand usage at the coldest time of the most recent heating season, which occurred in January 2024.[158] However, the coldest days have occurred in February in four of the past five years and five of the past ten years.[159] To reduce the chances that January 2024 was anomalous, thus resulting in a demand allocator that does not reflect GMG's actual system in its test year, GMG should have computed its demand allocator using January and February consumption data from at least three prior years and the test year.[160]

Fourth, GMG excluded its interruptible customers from the demand allocator for the demand cost of gas even though it rarely interrupts them. "The demand cost of gas is the money a utility spends to reserve enough transportation capacity on pipelines for it to meet firm customer demand during a system peak."[161] In theory, interruptible customers should not pay for this because they receive a discount in exchange for not using gas during a peak event, and GMG

---

[155] Ex. 303 at 51-53 (Stevenson Direct).
[156] Ex. 305 at 10-11 (Stevenson Surrebuttal).
[157] Ex. 303 at 49-50 (Stevenson Direct).
[158] Ex. 303 at 49-50 (Stevenson Direct).
[159] Ex. 303 at 50 (Stevenson Direct).
[160] Ex. 303 at 50-51 (Stevenson Direct).
[161] Ex. 305 at 11 (Stevenson Surrebuttal).

therefore does not need to purchase as much capacity.[162] However, given that GMG does not interrupt the vast majority of its interruptible customers, the capacity GMG is purchasing covers interruptible customers as well. Not including them in the demand allocator means costs are overallocated to other rate classes.

Fifth, GMG classified its general plant costs as entirely customer-related even though they do not vary with the number of customers or clearly relate to any specific aspect of its business.[163] The problem here can be illustrated by the example of an office chair, which is an item of general plant. General plant includes the items of rate base that are general to the business: land, office furniture, transportation equipment and the like.[164] Customer-related costs vary as the number of customers changes.[165] General plant does not vary directly with the number of customers; GMG needs office chairs regardless of whether it serves 5,000 or 10,000 customers. General plant also does not vary directly with aggregate energy usage or peak demand;[166] again, GMG needs office chairs regardless of how much gas it sells overall and on a peak day. Changes to customer count, volume of gas sold, and peak demand could all require staffing changes, which could change the number of office chairs the company needs. But because general plant is not clearly customer-related, energy-related, or demand-related, it is more reasonable to split its classification among the three than to classify it as entirely customer-related, which may unjustly inflate the revenue deficiency for the residential class.[167]

---

[162] Ex. 305 at 11 (Stevenson Surrebuttal).
[163] Ex. 303 at 53-54 (Stevenson Direct).
[164] Ex. 303 at 53 (Stevenson Direct).
[165] Ex. 303 at 20 (Stevenson Direct).
[166] Energy-related costs vary with aggregate customer usage and demand-related costs vary with peak demand. Ex. 303 at 20 (Stevenson Direct).
[167] Ex. 305 at 10 (Stevenson Surrebuttal).

B. The Commission Should Consider Multiple CCOSS Methodologies to Fully Understand Cost Causation

To the extent that the Commission relies on cost of service to inform revenue apportionment in spite of the doubts regarding the integrity of GMG's data, the Commission should continue its historical practice of considering multiple cost classification methods. There is substantial value in considering multiple CCOSS methodologies, because there are many contestable determinations that analysts must make when performing a CCOSS, and each decision can potentially shift very large amounts of money between customer classes.[168] The Commission has repeatedly recognized the value of considering multiple CCOSSs, stating in 2023 that

> The Commission has long held that no single cost study method can be judged superior to all others in all contexts, and the choice among methods involves disputes over assumptions, applications, and data. This conclusion is supported by the fact that the NARUC Manual identifies a variety of methods for allocating cost. While evaluating data from a variety of studies will not eliminate any study's weaknesses, it provides a broader range of perspectives from which to evaluate each study and can reduce the impact of any particular study's flaws.[169]

The OAG performed two alternative CCOSSs to GMG's minimum system CCOSS. The problem with all minimum system CCOSSs is that they assume that the addition of customers is the main driver of distribution system costs, whereas it is more accurate to say that costs vary with the need to meet demand.[170] Another problem with the minimum system approach is that it is based on a hypothetical system that would carry no capacity but whose costs are calculated using a utility's actual costs for its smallest system components, which do still carry capacity.[171] This

[168] Ex. 303 at 21 (Stevenson Direct).
[169] *In re Appl. of Minn. Power for Auth. to Increase Rates for Elec. Serv. in Minn.*, Docket No. E-015/GR-21-335, FINDINGS OF FACT, CONCLUSIONS OF LAW, AND ORDER at 58 (Feb. 28, 2023) (eDocket No. 20232-193486-01).
[170] Ex. 303 at 24-25 (Stevenson Direct).
[171] Ex. 303 at 27 (Stevenson Direct).

can be addressed with a demand adjustment, but as discussed above, GMG never performed a demand adjustment.

The first alternative CCOSS that the OAG performed was a Basic Customer CCOSS. Rather than making a default assumption that some minimum amount of shared distribution-system costs are customer-related the way that the minimum system does, the default assumption of the Basic Customer CCOSS is that shared costs are demand-related because the utility must design its distribution system to serve peak demand.[172] GMG agrees that meeting peak demand is one of the objectives driving the design of a distribution system.[173] This CCOSS is represented by the OAG's recommendation to classify shared distribution costs as 100 percent demand-related. The results of this CCOSS are shown in Figure 3.

Figure 3: The OAG's Revised Basic Customer CCOSS[174]

Rate Class	Total	Present Rates - Total	Activation Fees/Reconnect Fees	Revenue (Shortfall) Overage	Percent Increas
Total	$ 19,826,519.26	$ 18,369,386.42	$ 34,700.00	$ (1,422,432.84)	7.74%
Residential	$ 10,774,557.10	$ 9,879,302.28	$ 34,700.00	$ (860,554.82)	8.71%
Small Commercial	$ 1,361,461.00	$ 1,270,892.85	$ -	$ (90,568.15)	7.13%
Commercial	$ 549,742.81	$ 451,074.16	$ -	$ (98,668.65)	21.87%
Medium Industrial	$ 517,430.57	$ 488,439.56	$ -	$ (28,991.01)	5.94%
Large Industrial	$ 3,459,446.97	$ 3,294,180.45	$ -	$ (165,266.52)	5.02%
Interruptible Industrial	$ 456,187.51	$ 587,390.13	$ -	$ 131,202.62	-22.34%
Interruptible Agricultural	$ 801,187.78	$ 871,592.80	$ -	$ 70,405.02	-8.08%
Transport	$ 1,906,505.52	$ 1,526,514.18	$ -	$ (379,991.34)	24.89%

The other alternative CCOSS is the OAG's peak and average CCOSS. This approach classifies shared distribution costs as partially demand-related and partially energy-related, as the distribution system distributes gas not only during peaks but at all other times.[175] Under this approach, the portion of a distribution main that is built to meet customer need throughout the year

[172] Ex. 303 at 32 (Stevenson Direct).
[173] Ex. 103 at 24-25 (Burke Direct).
[174] Ex. 305 at 13 (Stevenson Surrebuttal).
[175] Ex. 303 at 36 (Stevenson Direct).

is energy-related and the additional costs of increasing the size of the main to meet peak demand is demand-related.[176] This CCOSS is represented by the OAG's recommendation to classify distribution costs as 68.2 percent demand-related and 31.8 percent energy-related. The results of this CCOSS are shown in Figure 4.

Figure 4: The OAG's Revised Peak & Average CCOSS[177]

Rate Class	Total	Present Rates - Total	Activation Fees/Reconnect Fees	Revenue (Shortfall) Overage	Percent Increase
Total	$ 19,826,519.26	$ 18,369,386.42	$ 34,700.00	$ (1,422,432.84)	7.74%
Residential	$ 10,950,001.37	$ 9,879,302.28	$ 34,700.00	$ (1,035,999.09)	10.49%
Small Commercial	$ 1,376,693.16	$ 1,270,892.85	$ -	$ (105,800.32)	8.32%
Commercial	$ 565,229.26	$ 451,074.16	$ -	$ (114,155.10)	25.31%
Medium Industrial	$ 529,781.50	$ 488,439.56	$ -	$ (41,341.94)	8.46%
Large Industrial	$ 3,498,861.22	$ 3,294,180.45	$ -	$ (204,680.77)	6.21%
Interruptible Industrial	$ 562,513.09	$ 587,390.13	$ -	$ 24,877.05	-4.24%
Interruptible Agricultural	$ 985,456.81	$ 871,592.80	$ -	$ (113,864.00)	13.06%
Transport	$ 1,357,982.85	$ 1,526,514.18	$ -	$ 168,531.33	-11.04%

In both of its CCOSSs, the OAG also made adjustments that correct for many of the flaws in GMG's CCOSS discussed above. The main OAG adjustments are:

1. Estimating the sales to TR-2 customers and adding that amount to the demand allocator to remove TR-2 costs from other rate classes;[178]
2. Recalculating the demand allocator using the historical January and February data;[179]
3. Allocating some of the demand cost of gas to interruptible customers;[180]
4. Classifying general plant as one third customer-related, one third demand-related, and one third energy-related.[181]

[176] Ex. 303 at 36 (Stevenson Direct).
[177] Ex. 305 at 14 (Stevenson Surrebuttal).
[178] Ex. 305 at 12 (Stevenson Surrebuttal).
[179] Ex. 303, CS-D-16 at 5 (Stevenson Direct).
[180] Ex. 305 at 12 (Stevenson Surrebuttal).
[181] Ex. 303, CS-D-16 at 4 (Stevenson Direct).

C. THE COMMISSION SHOULD CONSIDER IMPORTANT POLICY OBJECTIVES IN REVENUE APPORTIONMENT

Besides the cost factors that the CCOSSs address, the Commission must also consider non-cost factors when apportioning revenue.[182] The OAG's revenue apportionment is informed by the statutory requirement that the Commission consider ratepayers' ability to pay in setting utility rates, with a particular focus on energy burden, the relative ability of classes to pass through costs, and rate shock.[183] Given that the sales forecast and CCOSSs are all based on questionable data from GMG, these non-cost policy considerations carry particular weight in guiding revenue apportionment in this case.

1. Energy burden is likely high in GMG's service territory

The Commission should consider the average residential energy burden in GMG's service territory in setting rates. Analyzing energy burden gives a more detailed picture of affordability than the Commission would get just by looking at rates or bills alone. Rather, energy burden is the proportion of a household's income that is spent on energy costs, meaning it looks at the relative impact of rates on a household's bottom line.[184] The OAG demonstrated that the average incomes in the regions that GMG serves are all lower than the statewide average income.[185]

Additionally, GMG's own data suggests that its customers may be struggling to afford their lives. The average past due balance increased significantly in 2024, rising to the highest level in at least five years.[186] Late fees and reconnection fees also spiked to the highest level in that time period.[187] This was despite 2024 being a warmer year than 2023, which translates into less gas

[182] *St. Paul Area Chamber of Commerce v. Minn. Pub. Serv. Comm'n*, 251 N.W.2d 350, 358 (Minn. 1977).
[183] Minn. Stat. § 216B.16, subd. 5(a).
[184] *See* Ex. 303 at 66 (Stevenson Direct).
[185] Ex. 303 at 68 (Stevenson Direct).
[186] Ex. 303 at 70 (Stevenson Direct).
[187] Ex. 303 at 70-71 (Stevenson Direct).

usage, which means lower bills.[188] In other words, even though bills should have gone down, indicators of economic stress went up. While GMG asserted that it had not seen "unusual spikes in accounts receivable or in customers not paying their bills" since interim rates went into effect on January 1, 2025,[189] it was comparing the first four months in 2025 to 2024[190]—the worst year for affordability metrics in at least five years.

GMG argues that the Commission should not be as concerned about affordability because, unlike more urban utilities, it serves customers who previously used propane or fuel oil, which are more expensive sources of heat than gas.[191] However, GMG's customers should not be penalized for living in rural areas; just because its customers could be even more energy burdened than they are does not mean that their ability to pay is irrelevant. GMG's customers no longer use propane or fuel oil, meaning their budgets have been shaped around natural gas service at the existing rate. GMG's commitment to serving these customers who other gas companies failed to serve requires that its rates stay reasonable, which requires consideration of customers' ability to pay.

2. Residential ratepayers and small businesses are uniquely vulnerable to rate increases

Another non-cost factor to consider is the fact that residential ratepayers and small businesses are uniquely vulnerable to increases in utility bills. This is because, as the Minnesota Supreme Court has long recognized, large businesses can pass along the cost of a rate increase through the prices of its goods or services in a way that residential customers usually cannot.[192]

---

[188] Ex. 303 at 71 (Stevenson Direct).
[189] Ex. 107 at 3 (Chilson Surrebuttal).
[190] Evidentiary Hearing Transcript at 22-25 (Chilson).
[191] Ex. 107 at 2-3 (Chilson Surrebuttal).
[192] *St. Paul Area Chamber of Com. v. Minn. Pub. Serv. Comm'n*, 251 N.W.2d 350, 355 (Minn. 1977) ("[i]t is not a leap of logic to then say that for the most part commercial users of electricity are more 'able to pay' a rate increase then residential users.").

Smaller businesses can pass on costs in theory, but if they are in more competitive markets or deal in goods or services with elastic demand, they are less able to pass on cost increases than larger businesses.[193] The specific effects of cost increases and abilities of customers to pass them on are difficult to predict,[194] but the Commission should keep this theoretical framework in mind when apportioning rates.

GMG argues in support of its proposed revenue apportionment that many of its business ratepayers may struggle to compete if the OAG's revenue apportionment were adopted.[195] But again GMG does not provide any data to support its claims. For example, it states that its commercial customers may compete with businesses in areas with cheaper natural gas, meaning that a cost increase could be difficult for them, but did not specify which commercial customers or how many.[196] This claim also seems contrary to GMG's position that its customers are spread out in rural areas "where market fluctuations and financial conditions continue to impact business stability and expansion," suggesting that GMG's existing commercial customers may not have many direct competitors.[197]

GMG did state that "over 30% of GMG's market is related to the poultry industry" and stated the poultry industry is currently struggling.[198] However, there is no other information, such as which classes these customers belong to, how many there are, and what GMG means by "related to the poultry industry." GMG refers to "family-owned farms" in the same paragraph but does not identify their size, class, quantity, or even whether they are poultry farms. And GMG itself

[193] Ex. 303 at 77 (Stevenson Direct).
[194] Ex. 303 at 78 (Stevenson Direct).
[195] Ex. 107 at 4 (Chilson Surrebuttal).
[196] Ex. 107 at 4 (Chilson Surrebuttal).
[197] Ex. 109 at 7 (Burke Rebuttal).
[198] Ex. 107 at 4 (Chilson Surrebuttal).

assigned a higher 11.32 percent increase to interruptible agricultural customers,[199] which may include these "family-owned farms," although it is impossible to tell. This undermines the contention that the OAG's revenue apportionment could result in rate shock to GMG's business customers, particularly because the highest increase that the OAG apportioned in its final recommendation is the same 11.32 percent for interruptible agricultural customers.[200]

These are all important questions to ask. Unfortunately, the record could not be developed because GMG waited until surrebuttal to respond to the OAG's testimony on this issue, thereby avoiding any discovery on it and depriving the Commission of the ability to vet any of its claims. Thus, GMG's claims that its non-residential customers are so price sensitive that they may go out of business[201] if they receive a rate increase of a few percentage points more than residential customers should be viewed with healthy skepticism.

3. The Commission should aim to limit rate shock

The OAG took care to limit rate shock for all customers in its recommended apportionment.[202] "Rate shock is the concept that large increases in utility rates can cause significant hardship for ratepayers."[203] For the reasons discussed above, residential and small commercial customers may be more susceptible to rate shock than other customer classes.

Initially, the OAG apportioned residential and small business customers a substantially greater rate increase than the OAG's CCOSSs indicated was their cost share.[204] The OAG's goal was to limit the rate increase for each class to ten percent or less, and the residential and small

---

[199] Ex. 303 at 81 (Stevenson Direct).
[200] Ex. 305 at 19 (Stevenson Surrebuttal).
[201] Ex. 107 at 4 (Chilson Surrebuttal).
[202] Ex. 303 at 81 (Stevenson Direct).
[203] Ex. 303 at 81 (Stevenson Direct).
[204] Ex. 303 at 35, 41, 80-81 (Stevenson Direct).

commercial rates needed to be above cost to avoid rate shock to other customer classes.[205] However, even with higher residential and small customer increases, some larger customer classes saw mid-double digit increases because the OAG could not justify moving any more of the larger customers' costs onto other classes.[206]

GMG's last-minute change to the commodity cost allocator required the OAG to make significant changes to its revenue apportionment in surrebuttal.[207] Although there are significant doubts about GMG's commodity cost allocator change, the OAG acknowledges that, if accurate, GMG's change would increase the revenue deficiency for the residential and small commercial classes.[208] Accordingly, the OAG worked to incorporate the new forecast into its revenue apportionment.[209] The resulting OAG revenue apportionment actually moderates the increase to some non-residential classes as compared to the OAG's initial proposal, with the highest increase now the interruptible agricultural class's at 11.32 percent—the same increase that GMG apportioned to that class.[210]

D. THE OAG'S REVENUE APPORTIONMENT INCORPORATES POLICY CONSIDERATIONS AND INSIGHTS FROM MULTIPLE CCOSSS TO ARRIVE AT JUST AND REASONABLE RATES.

The Commission should adopt the OAG's revenue apportionment. The OAG's revenue apportionment does the best job of handling the problems with GMG's sales forecast and CCOSS, while incorporating important affordability-related policy concerns to arrive at a revenue apportionment that is just and reasonable. The OAG's revenue apportionment is shown in Figure 5.

---

[205] Ex. 303 at 81 (Stevenson Direct).
[206] Ex. 303 at 81 (Stevenson Direct).
[207] *See* Ex. 305 at 18-19 (Stevenson Surrebuttal).
[208] Ex. 305 at 18-19 (Stevenson Surrebuttal).
[209] Ex. 305 at 19 (Stevenson Surrebuttal).
[210] Ex. 303 at 81 (Stevenson Direct).

Figure 5: The OAG's Revised Revenue Apportionment Recommendation[211]

Rate Class	Present Rates - Total	Activation Fees/Reconnect Fees	Revenue (Shortfall) Overage	Base Rate increase	Final Revenue
Total	$ 18,369,386.42	$ 34,700.00	$ (1,422,432.84)	7.74%	$ 19,826,543.77
Residential	$ 9,879,302.28	$ 34,700.00	$ (845,128.49)	6.40%	$ 10,546,277.63
Small Commercial	$ 1,270,892.85	$ -	$ (88,109.58)	7.00%	$ 1,359,855.35
Commercial	$ 451,074.16	$ -	$ (97,546.88)	11.00%	$ 500,692.32
Medium Industrial	$ 488,439.56	$ -	$ (63,588.99)	10.50%	$ 539,725.71
Large Industrial	$ 3,294,180.45	$ -	$ (156,233.98)	9.00%	$ 3,590,656.69
Interruptible Industrial	$ 587,390.13	$ -	$ 133,113.08	8.50%	$ 637,318.29
Interruptible Agricultural	$ 871,592.80	$ -	$ 67,215.46	11.32%	$ 970,257.11
Transport	$ 1,526,514.18	$ -	$ (372,153.46)	10.17%	$ 1,681,760.67

This revenue apportionment assumes that GMG receives its full requested revenue requirement.[212] If the Commission approves a lower revenue requirement, each class's increase should be reduced proportionally, with one caveat. If the Commission adopts the OAG's recommendation to increase small customer sales in the forecast, the Commission should first lower the small commercial class's increase by that amount before reducing all classes proportionally.[213]

E. Considerations for the Next Rate Case

The OAG also makes two recommendations regarding the CCOSS in GMG's next rate case. First, the Commission should order GMG to put transportation customers into their own class, rather than grouping them into the underlying rate classes like GMG initially did in this case.[214] Second, the Commission should consider whether to order GMG to collect meter and service data by class to provide a more accurate CCOSS.[215]

[211] Ex. 305 at 19 (Stevenson Surrebuttal).
[212] Ex. 305 at 19 (Stevenson Surrebuttal).
[213] Ex. 305 at 19-20 (Stevenson Surrebuttal).
[214] Ex. 303 at 56-57 (Stevenson Direct); Ex. 305 at 26 (Stevenson Surrebuttal).
[215] Ex. 303 at 52-53 (Stevenson Direct); Ex. 305 at 26 (Stevenson Surrebuttal).

VIII. RATE DESIGN AND RECONNECTION FEES

The Commission should adopt the OAG's recommendations regarding GMG's monthly facility fee and its reconnection fee. The OAG found that GMG's increase to the residential facility fee could be reasonable if GMG's full revenue requirement were approved, but recommends that GMG apply any reduction in the revenue requirement to reduce the proposed increase to the facility fee before reducing the proposed increase to the volumetric rate.[216] The OAG's recommendation for GMG's reconnection fee is to lower the fee and split it up into multiple months to lower the barrier to reconnecting.[217]

A. ANY REDUCTION TO THE REVENUE REQUIREMENT SHOULD BE APPLIED TO THE RESIDENTIAL FACILITY FEE BEFORE THE VOLUMETRIC RATE.

If the Commission reduces GMG's revenue requirement, it should reduce the proposed increase to the residential facility fee before reducing the residential volumetric rate to encourage conservation. GMG's residential base rates have two parts: a monthly fixed customer charge or "facility fee" that does not vary with customer consumption and a distribution charge that depends on how much gas a customer consumes.[218] GMG proposes raising its facility fee by approximately 15 percent, from $8.50 to $9.75 per month.[219]

The OAG analyzed GMG's costs and found that increasing the facility fee could be reasonable in terms of cost causation if GMG received its full revenue requirement. The OAG's calculations suggested that a residential customer imposes more than $8.50 in costs each month, although due to the lack of high-quality data, the calculation is only an estimate.[220] Thus, an increase in the facility fee would likely comport with cost-causation principles.

---

[216] Ex. 303 at 88 (Stevenson Direct).
[217] Ex. 305 at 24 (Stevenson Surrebuttal).
[218] Ex. 303 at 82-83 (Stevenson Direct).
[219] Ex. 103 at 5 (Burke Direct).
[220] Ex. 303 at 86-88 (Stevenson Direct).

However, increasing the facility fee could have an adverse impact on conservation. A higher facility fee would mean a relatively lower distribution fee.[221] The distribution fee is charged on a per-CCF basis, so a customer's bill is lower if they use less gas.[222] If the distribution fee is lower, customers have less of an incentive to conserve because each CCF of conservation provides less savings than if the distribution fee is higher.[223] This also means that the cost of using more gas is lower, potentially encouraging greater use.[224]

The standard for rate design is the same as for revenue apportionment, meaning that the Commission must balance cost and non-cost factors in choosing among policy alternatives.[225] Regarding increasing GMG's facility fee, these factors pull in opposite directions. On one hand, increasing the fee would be sound under cost-causation principles. On the other hand, Minnesota law requires that the Commission set rates to encourage conservation "to the maximum reasonable extent."[226] Thus, the OAG recommends that the Commission only increase the residential facility fee if it grants GMG its entire requested rate increase. However, if GMG does not receive its entire rate increase, the Commission should require it to reduce the residential facility-fee increase before reducing the increase to the residential distribution fee in order to encourage conservation.

B. THE COMMISSION SHOULD REDUCE GMG'S RECONNECTION FEES.

The Commission should reduce GMG's reconnection fee and split payment of reconnection fees across multiple months to remove this barrier to reconnection. GMG charges

[221] Ex. 303 at 85 (Stevenson Direct).
[222] Ex. 303 at 85 (Stevenson Direct).
[223] Ex. 303 at 85-86 (Stevenson Direct).
[224] Ex. 303 at 85-86 (Stevenson Direct).
[225] *St. Paul Area Chamber of Commerce v. Minn. Pub. Serv. Comm'n*, 251 N.W.2d 350, 358 (Minn. 1977).
[226] Minn. Stat. § 216B.03.

$75 before it will restore gas service to a customer.[227] This is much higher than other regulated Minnesota gas utilities and presents a significant barrier to customers who rely on gas service to heat their homes.[228] While GMG has relatively low disconnections compared to other utilities, 2024 saw it disconnect the most customers since 2015.[229]

GMG argues that its reconnection fee should remain $75 because it costs more than $75 to reconnect a customer.[230] There are two issues with this argument. First, as long as a customer is disconnected, they are not paying for gas, meaning GMG is missing out on that revenue. Reconnecting a customer thus pays for itself over time through a reconnected customer's distribution fee.[231]

The other issue with GMG's argument is that a reconnection fee should not be entirely cost-based. GMG's residential customers rely on it to heat their homes, which they likely cannot do with alternative fuels anymore after connecting to GMG's system. When customers have been disconnected for nonpayment, they likely face economic hardship that makes $75 too great a barrier to this basic need. The reconnection fee should be set at a level that is not prohibitively expensive for customers in these circumstances.

Accordingly, the OAG recommends reducing GMG's reconnection fee to $50, which is still higher than other Minnesota gas utilities' reconnection fees. To make paying the fee less of a barrier and hardship, the Commission should require GMG to allow customers to pay their reconnection fees over the course of two months, $30 the first month, and $20 the next month.[232]

---

[227] Ex. 303 at 72 (Stevenson Direct).
[228] Ex. 303 at 72 (Stevenson Direct).
[229] Ex. 305 at 23 (Stevenson Surrebuttal).
[230] Ex. 109 at 33 (Burke Rebuttal).
[231] Ex. 305 at 24 (Stevenson Surrebuttal).
[232] Ex. 305 at 24 (Stevenson Surrebuttal).

If the Commission does not reduce GMG's reconnection fee, it should still require GMG to allow customers to pay the reconnection fee in installments of $30 the first month, $25 the second month, and $20 the third month.[233] That way, struggling customers will never have an upfront payment of greater than $30.

CONCLUSION

For all of the reasons detailed in this Brief, the ALJ and the Commission should protect residential and small-business customers by adopting the OAG's recommendations.

Dated: May 8, 2025

Respectfully submitted,

KEITH ELLISON
Attorney General
State of Minnesota

/s/ **Joey Cherney**
JOEY CHERNEY
Assistant Attorney General
Atty. Reg. No. 0403219

445 Minnesota Street, Suite 600
St. Paul, Minnesota 55101-2131
(651) 300-7569 (Voice)
(651) 296-9663 (Fax)
Joey.Cherney@ag.state.mn.us

ATTORNEYS FOR MINNESOTA OFFICE
OF THE ATTORNEY GENERAL—
RESIDENTIAL UTILITIES DIVISION

[233] Ex. 305 at 24 (Stevenson Surrebuttal).