

STATE OF MINNESOTA
OFFICE OF ADMINISTRATIVE HEARINGS

FOR THE PUBLIC UTILITIES COMMISSION

In the Matter of the Petition by CenterPoint Energy Resources Corp., d/b/a CenterPoint Energy Minnesota Gas for Authority to Increase Natural Gas Rates in Minnesota

**FINDINGS OF FACT,
CONCLUSIONS OF LAW,
AND RECOMMENDATION
REGARDING PARTIES'
SETTLEMENT**

This matter is pending before Administrative Law Judge Ann C. O'Reilly of the Minnesota Office of Administrative Hearings (OAH) pursuant to a Notice of and Order for Hearing issued by the Minnesota Public Utilities Commission (PUC or Commission) on December 28, 2023.

Eric Swanson, Elizabeth Schmiesing, Joseph Windler and Christopher Cerny, Winthrop & Weinstine, P.A., appear on behalf of Applicant CenterPoint Energy Resources Corp., d/b/a CenterPoint Energy Minnesota Gas (CenterPoint or Applicant). Also appearing for CenterPoint is Jason Loos, in-house counsel for CenterPoint.

Richard Dornfeld, Katherine Arnold, and Greg Merz appear on behalf of the Minnesota Department of Commerce's Division of Energy Resources (DOC-DER).

Katherine Hinderlie, Joey Cherney, and Peter Scholtz appear on behalf of the Minnesota Office of the Attorney General, Residential Utilities Division (OAG).

Joseph Sathe, Kennedy & Graven, Chartered, appears on behalf of the Suburban Rate Authority (SRA).

Brian Edstrom, Brandon Crawford, and Olivia Carroll, appear on behalf of the Citizens Utility Board of Minnesota (CUB).

Kevin Pranis, Marketing Manager, appears on behalf of the Laborers District Council of Minnesota and North Dakota (LIUNA).

Charles Sutton appears on behalf of the International Union of Operating Engineers Local 49 (Local 49).

Ashley Marcus, Jorge Alonso, and Jason Bonnett appeared on behalf of the Minnesota Public Utilities Commission.

Procedural Summary

Public hearings were held in Brooklyn Park, Minnesota, on October 16, 2024; in Mankato, Minnesota, on October 17, 2024; in Minneapolis, Minnesota, on October 21, 2024; and in Brainerd, Minnesota, on October 22, 2024. Two virtual public hearings were held on October 18 and 24, 2024. Written comments from members of the public were received through December 20, 2024, and additional comments were filed after the December 20 deadline.

The evidentiary hearing was scheduled to begin on December 18 and continue through December 20, 2024. On October 17, 2024, the Parties¹ met for initial settlement discussions and continued those discussions over the following weeks.

On November 8, 2024, the Parties advised the Administrative Law Judge that, through those discussions, the Parties resolved all issues in this proceeding.

On November 15, 2024, the Administrative Law Judge suspended the evidentiary hearing and instead convened a status conference beginning at 10:00 a.m. via Microsoft Teams, on November 18, 2024. During the settlement conference, the Parties responded to questions from the Administrative Law Judge and from Commission Staff concerning the Settlement. In addition, the Parties' hearing exhibits, consisting of Direct Testimony, Work Papers, attachments, appendices, schedules, and other supporting materials, were stipulated to by all parties without objection, to be received into the record. The Parties set forth the terms of their agreement in a Settlement, filed on November 25, 2024, and attached hereto.

The parties advised the Administrative Law Judge that they have reached a settlement agreement on all issues and submitted a Proposed Findings of Fact, Conclusions of Law, and Recommendation to Accept Settlement on December 18, 2024.

When all parties to a utility rate case reach a settlement, the Administrative Law Judge must present the settlement to the Commission for its consideration.² Accordingly, the Administrative Law Judge cancelled the evidentiary hearing and excused the Parties from any further filings and returns this proceeding to the Commission together with her recommendation to accept the Settlement.

¹ The parties in this proceeding are CenterPoint Energy Resources Corp., d/b/a CenterPoint Energy Minnesota Gas (CenterPoint or Company), the Department of Commerce, Division of Energy Resources (Department or DOC), the Office of the Attorney General--Residential Utilities Division (OAG), the Suburban Rate Authority (SRA), the Citizens Utility Board of Minnesota (CUB), the Laborers District Council of Minnesota and North Dakota (LIUNA), and the International Union of Operating Engineers Local 49 (Local 49) (collectively, the Parties). Constellation NewEnergy – Gas Division, LLC (Constellation) was granted intervenor status with full party rights on June 3, 2024, and subsequently filed a petition to withdraw on September 30, 2024.

² Minn. Stat. § 216B.16, subd. 1a(b) (2024).

The Commission's Notice of and Order for Hearing set forth seven issues to be addressed in these proceedings:³

1. Whether the test year revenue increase sought by the Company is reasonable or will result in unreasonable or excessive earnings.
2. Whether the rate design proposed by the Company is reasonable.
3. Whether the Company's proposed capital structure and return-on-equity are reasonable.
4. Whether the base cost of gas proposed in Docket No. G-008/MR-21-174 needs to be updated.
5. Whether it is appropriate to use the proposed hypothetical capital structure or whether an alternative capital structure should be adopted.
6. Reasons for the significant changes of the following costs since the last rate case:
 - a. Production Expense
 - b. Underground Storage Expense
 - c. Other Storage Expense
 - d. Distribution Expense
 - e. Customer Accounts
 - f. Customer Service
 - g. Administrative & General Expense
 - h. Maintenance Expense
7. How much Top 10 executive compensation costs should be recovered in rates.

FINDINGS OF FACT

The Parties

1. CenterPoint is an operating division of CenterPoint Energy Resources Corp. (CERC), a wholly owned subsidiary of CenterPoint Energy, Inc. (CNP), a publicly traded company.

³ NOTICE OF AND ORDER FOR HEARING (Dec. 28, 2023) (eDocket No. 202312-201627-01).

2. The DOC is a state agency charged by the legislature with enforcing Minnesota Statutes chapters 216A, 216B, and 237, and represents the interests of all ratepayers in related proceedings.⁴

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.⁵

4. The SRA is a municipal joint powers association. Most of the organization's members are municipalities in the suburban Twin Cities area that receive natural gas service from CenterPoint Energy. The SRA acts on behalf of its members and their residents and businesses.⁶

5. CUB is a nonprofit advocate for Minnesota's residential utility consumers. CUB is a resource for Minnesotans on energy and utility issues and advocates for residential utility consumers in energy-related legislative and regulatory proceedings.⁷

6. LIUNA and Local 49 are democratic labor organizations that represent 25,000 construction workers and public employees in Minnesota. LIUNA and Local 49 represent members who earn their living building and maintaining gas distribution infrastructure or are CenterPoint customers.⁸

Procedural Background

7. The Company initiated this proceeding on November 1, 2023, seeking approval for a three-year multi-year rate plan (MYRP). The Company sought a general revenue increase of \$84.6 million, or 6.5 percent, to become effective for January 1, 2024, for the 2024 Test Year, and an incremental \$51.8 million increase, or 3.7 percent, to become effective January 1, 2025, for the 2025 Plan Year, with rates held at the 2025 Plan Year level for calendar year 2026.⁹

8. The Commission issued a Notice of Comment Period on Completeness and Procedures on November 2, 2023.¹⁰

9. On November 17, 2023, CUB petitioned to intervene.¹¹

⁴ Minn. Stat. § 216A.07, subd. 2–4 (2024); Minn. R. 7829.0800, subp. 3 (2023).

⁵ Minn. Stat. § 8.33, subd. 2 (2024).

⁶ Direct Testimony of Jamie M. Toches at 2 (Oct. 7, 2024) (eDocket No. 202410-210790-01).

⁷ Petition to Intervene of the Citizens Utility Board of Minnesota (Nov. 17, 2023) (eDocket No. 202311-200574-01).

⁸ Petition for Intervention by the Laborers District Council of Minnesota and North Dakota and International Union of Operating Engineers Local 49 (Apr. 26, 2024) (eDocket No. 20244-206018-02).

⁹ NOTICE OF AND ORDER FOR HEARING at 1 (Dec. 28, 2023) (eDocket No. 202312-201627-01).

¹⁰ Notice of Comment Period on Completeness and Procedures (Nov. 2, 2023) (eDocket No. 202311-200179-01).

¹¹ Petition to Intervene of the Citizens Utility Board of Minnesota (Nov. 17, 2023) (eDocket No. 202311-200574-01).

10. The DOC and OAG filed comments on November 13, 2023.¹² The Company filed its reply on November 20, 2023.¹³

11. The Commission issued a Notice of and Order for Hearing on December 28, 2023, which, among other things, granted CUB's petition to intervene and referred the case to the OAH for contested case proceedings.¹⁴

12. Also on December 28, 2023, the Commission issued two orders: one which accepted the Company's rate case filing as substantially complete, suspended the Company's proposed rates, and extended the timeline for final determination;¹⁵ and a second order that established interim rates.¹⁶

13. A prehearing status and scheduling conference was held on January 23, 2024, and the Administrative Law Judge issued the First Prehearing Order on February 6, 2024.¹⁷ The First Prehearing Order set forth the timeline and process for the proceeding.¹⁸

14. The SRA moved to intervene at the prehearing conference on January 23, 2024, and was granted intervention at that time.¹⁹

15. On April 26, 2024, LIUNA and Local 49 petitioned to intervene.²⁰ On May 1, 2024, Constellation petitioned to intervene.²¹ These petitions were granted.²²

16. On August 9, 2024, the Administrative Law Judge issued her Second Prehearing Order, including information regarding the public hearings to be held in this matter.²³

¹² Comments of the Minnesota Department of Commerce, Division of Energy Resources (Nov. 13, 2023) (eDocket No. 202311-200438-01); Comments of the Office of the Attorney General--Residential Utilities Division (Nov. 13, 2023) (eDocket No. 202311-200441-01).

¹³ Reply to November 13, 2023 Department of Commerce Comments and Office of the Attorney General Comments (Nov. 20, 2023) (eDocket No. 202311-200619-01).

¹⁴ NOTICE OF AND ORDER FOR HEARING (Dec. 28, 2023) (eDocket No. 202312-201627-01).

¹⁵ ORDER ACCEPTING FILING, SUSPENDING RATES, AND EXTENDING TIMELINE (Dec. 28, 2023) (eDocket No. 202312-201627-01).

¹⁶ ORDER SETTING INTERIM RATES (Dec. 28, 2023) (eDocket No. 202312-201628-01).

¹⁷ FIRST PREHEARING ORDER (Feb. 6, 2024) (eDocket No. 20242-203137-01).

¹⁸ FIRST PREHEARING ORDER (Feb. 6, 2024) (eDocket No. 20242-203137-01).

¹⁹ FIRST PREHEARING ORDER (Feb. 6, 2024) (eDocket No. 20242-203137-01).

²⁰ Petition for Intervention by the Laborers District Council of Minnesota and North Dakota and International Union of Operating Engineers Local 49 (Apr. 26, 2024) (eDocket No. 20244-206018-02).

²¹ Petition to Intervene of Constellation NewEnergy – Gas Division, LLC (May 1, 2024) (eDocket No. 20245-206271-01).

²² ORDER GRANTING PETITIONS TO INTERVENE OF LIUNA, LOCAL 49, AND CONSTELLATION NEWENERGY (June 3, 2024) (eDocket No. 20246-207355-01).

²³ SECOND PREHEARING ORDER (Aug. 9, 2024) (eDocket No. 20248-209402-01).

17. On September 30, 2024, Constellation filed its withdrawal and was no longer a party to these proceedings.²⁴

18. On October 7, 2024, DOC, OAG, SRA, and CUB filed Direct Testimony in this proceeding.

19. On October 17, 2024, the Parties met for initial settlement discussions and continued those discussions over the following weeks.

20. Public hearings were held in Brooklyn Park, Minnesota, on October 16, 2024; in Mankato, Minnesota, on October 17, 2024; in Minneapolis, Minnesota, on October 21, 2024; and in Brainerd, Minnesota, on October 22, 2024. Two virtual public hearings were held on October 18 and 24, 2024.²⁵

21. On November 8, 2024, the Parties advised the Administrative Law Judge that the Parties reached an agreement to resolve all issues and a formal settlement document would be forthcoming.²⁶ In light of the agreement, none of the Parties filed Rebuttal Testimony.

22. On November 13, 2024, the Administrative Law Judge ordered a status conference to be held on November 18, 2024.²⁷

23. On November 19, 2024, the Administrative Law Judge issued the Third Prehearing Order, noting that the Parties anticipated filing a final settlement agreement. The Third Prehearing Order directed the Parties to file Joint Proposed Findings of Fact and Conclusions of Law by December 16, 2024; stayed all deadlines set forth in the Second Prehearing Order; and cancelled the hearing scheduled for December 18, 19 and 20, 2024.²⁸

24. On November 25, 2024, the Parties filed a Settlement memorializing the terms of their agreement.²⁹

25. On December 18, 2024, the Parties filed Proposed Findings of Fact, Conclusions of Law and Recommendation to Accept the Settlement.

Overview of the Company's Application to Increase Rates

26. CenterPoint is Minnesota's largest natural gas distribution company, providing service to approximately 830,000 residential customers and 80,000 commercial and industrial customers.³⁰

²⁴ Withdrawal of Constellation NewEnergy – Gas Division, LLC (Sept. 30, 2024) (eDocket No. 20249-210593-01).

²⁵ No members of the public attended the hearings in Mankato, Minnesota or Brainerd, Minnesota.

²⁶ ORDER FOR STATUS CONFERENCE at 1 (Nov. 13, 2024) (eDocket No. 202411-211894-01).

²⁷ ORDER FOR STATUS CONFERENCE (Nov. 13, 2024) (eDocket No. 202411-211894-01).

²⁸ THIRD PREHEARING ORDER (Nov. 19, 2024) (eDocket No. 202411-212133-01).

²⁹ Settlement and Attachments (Nov. 25, 2024) (eDocket Nos. 202411-212407-01 through 05).

³⁰ CP-12 at 2 (Singleton Direct).

27. The Company initiated this proceeding on November 1, 2023, seeking authority to raise its rates to increase its revenues by \$84.6 million, or 6.5 percent, to become effective for January 1, 2024, for the 2024 Test Year. The Company also sought an incremental \$51.8 million, or 3.7 percent increase, to become effective January 1, 2025, for the 2025 Plan Year, with rates held at the 2025 Plan Year level for the 2026 Plan Year.³¹

28. On January 1, 2024, the Company implemented an annual interim rate increase of \$68.7 million, or 14 percent, for 2024.³² The Commission deferred a decision on the requested incremental interim rate increase for the 2025 Test Year.³³

29. The Company asserted that the primary financial reasons for its rate request are the need for “increased capital investment and associated cost of service increases (including return, depreciation expense, and property taxes).”³⁴

30. The Company’s application proposed to increase rates for every customer class, as follows:³⁵

³¹ NOTICE OF AND ORDER FOR HEARING at 1 (Dec. 28, 2023) (eDocket No. 202312-201627-01).

³² Compliance Filing – Tariff Sheets Interim Rates and Notice to Customers (Jan. 2, 2024) (eDocket No. 20241-201742-01).

³³ ORDER SETTING INTERIM RATES at 3 (Dec. 28, 2023) (eDocket No. 202312-201628-01).

³⁴ CP-1 at 22 (Singleton Direct).

³⁵ CP-7 at 49 (DeMerritt Direct).

2024 Proposed Class Revenue Apportionment			
Rate Class	Operating Revenues at Current Rates	Proposed Revenue Change	Percent Change
Residential	\$763,536,644	\$60,064,677	7.9%
C&I – Rate A	\$26,582,598	\$2,586,435	9.7%
C&I – Rate B	\$58,387,408	\$4,624,134	7.9%
C&I – Rate C Sales	\$335,622,288	\$11,688,449	3.5%
C&I – Rate C Transport	\$2,436,926	\$241,363	9.9%
Small Dual Fuel – A Sales	\$21,519,413	\$564,505	2.6%
Small Dual Fuel – A Transport	\$707,355	\$49,627	7.0%
Small Dual Fuel – B Sales	\$15,821,145	\$371,290	2.3%
Small Dual Fuel – B Transport	\$826,852	\$72,794	8.8%
Large Firm – Sales	\$8,837,437	\$368,007	4.2%
Large Firm – Transport	\$17,328,302	\$1,134,033	6.5%
Large Dual Fuel – Sales	\$37,700,999	\$1,165,918	3.1%
Large Dual Fuel – Transport	\$14,886,857	\$1,699,179	11.4%
Total Company	\$1,304,194,225	\$84,630,413	6.5%

2025 Proposed Class Revenue Apportionment			
Rate Class	Operating Revenues at Current Rates	Proposed Revenue Change	Percent Change
Residential	\$833,084,563	\$26,518,369	3.2%
C&I – Rate A	\$29,340,139	\$1,124,928	3.8%
C&I – Rate B	\$63,614,428	\$2,287,815	3.6%
C&I – Rate C Sales	\$345,678,204	\$14,444,899	4.2%
C&I – Rate C Transport	\$2,658,541	\$295,833	11.1%
Small Dual Fuel – A Sales	\$22,029,109	\$839,093	3.8%
Small Dual Fuel – A Transport	\$761,709	\$73,766	9.7%
Small Dual Fuel – B Sales	\$16,335,360	\$618,222	3.8%
Small Dual Fuel – B Transport	\$906,783	\$119,461	13.2%
Large Firm – Sales	\$9,223,084	\$373,166	4.0%
Large Firm – Transport	\$18,480,672	\$1,222,595	6.6%
Large Dual Fuel – Sales	\$39,227,110	\$1,372,068	3.5%
Large Dual Fuel – Transport	\$16,608,303	\$2,491,679	15.0%
Total Company	\$1,397,948,006	\$51,781,894	3.7%

31. The Company issues each customer a monthly bill that includes both a fixed monthly charge, called the Basic Charge, and a charge for each unit of gas (therm) consumed that month, called the Delivery Charge. The Company proposed increases for each customer class to the Basic Charge, as follows:³⁶

³⁶ CP-7 at 58 (DeMerritt Direct).

2024 Basic Monthly Charge		
Rate Class	Current Monthly Basic Charge	Proposed Basic Monthly Charge
Residential	\$9.50	\$9.50
C&I – Rate A	\$15.00	\$20.00
C&I – Rate B	\$26.00	\$28.00
C&I – Rate C Sales	\$65.00	\$65.00
C&I – Rate C Transport	\$165.00	\$165.00
Small Dual Fuel – A Sales	\$80.00	\$80.00
Small Dual Fuel – A Transport	\$180.00	\$180.00
Small Dual Fuel – B Sales	\$125.00	\$125.00
Small Dual Fuel – B Transport	\$225.00	\$225.00
Large Firm – Sales	\$1,250.00	\$1,550.00
Large Firm – Transport	\$1,350.00	\$1,650.00
Large Dual Fuel – Sales	\$1,250.00	\$1,550.00
Large Dual Fuel – Transport	\$1,350.00	\$1,650.00

2025 Basic Monthly Charge		
Rate Class	Current Monthly Basic Charge	Proposed Basic Monthly Charge
Residential	\$9.50	\$9.50
C&I – Rate A	\$20.00	\$20.00

2025 Basic Monthly Charge		
Rate Class	Current Monthly Basic Charge	Proposed Basic Monthly Charge
C&I – Rate B	\$28.00	\$28.00
C&I – Rate C Sales	\$65.00	\$65.00
C&I – Rate C Transport	\$165.00	\$165.00
Small Dual Fuel – A Sales	\$80.00	\$80.00
Small Dual Fuel – A Transport	\$180.00	\$180.00
Small Dual Fuel – B Sales	\$125.00	\$125.00
Small Dual Fuel – B Transport	\$225.00	\$225.00
Large Firm – Sales	\$1,550.00	\$1,550.00
Large Firm – Transport	\$1,650.00	\$1,650.00
Large Dual Fuel – Sales	\$1,550.00	\$1,550.00
Large Dual Fuel – Transport	\$1,650.00	\$1,650.00

32. The chart below shows the Company's average monthly bill by customer class, calculated using its rates as of December 2021 and its proposed final rates.³⁷

³⁷ CP-3, Notice of Application for Rate Increase (General Rate Petition Summary).

Rate Type (usage in therms)	Average monthly usage in therms	Average monthly bill: current rates	Average monthly bill: 2024 proposed rates	Average monthly bill: 2025 proposed rates
Residential	74	\$75	\$81	\$83
Commercial/Industrial				\$92
- up to 1,499/year	66	\$80	\$87	
- 1,500 to 4,999/year	244	\$231	\$249	\$259
- 5,000 or more/year	1,1526	\$1,263	\$1,307	\$1,339
Small Volume Dual Fuel				\$2,653
- up to 119,999/year	3,757	\$2,459	\$2,562	
- 120,000 or more/year	14,944	\$9,411	\$9,770	\$10,226
Large Volume Dual Fuel	37,597	\$22,216	\$23,038	\$24,131
Large General Firm Sales Service	39,084	\$38,825	\$40,051	\$41,349

Public Comments

Comments Made at Public Hearings

33. Eleven members of the public provided oral comments or asked questions at the public hearings in this matter – four in Brooklyn Park, two in Minneapolis, and five during the virtual public hearings.³⁸ Commenters generally raised concerns regarding the costs of service and proposed rate increases, and asked questions about the factors driving the rate increases.

34. The following comments were received at the October 16, 2024 public hearing in Brooklyn Park:³⁹

- Henry Harrigate was concerned about how the increases would affect him as a renter whose home is not well insulated and who can not

³⁸ Transcripts of public hearings (Oct. 16, 18, 21, 24, 2024).

³⁹ Public Hearing Transcript (Oct. 16, 2024).

afford an increase in expenses. He noted the imbalance of power between the gas company and residential customers who are forced to incur rate increases, despite record profits for the Company. He also noted the effect that the cost-of-gas surcharge from 2021 continues to have on his monthly bill.

- Wendy Anderson asked a number of important questions about service and delivery charges, additional services that the Company will provide, investor profits, executive compensation, new technologies, the Company's innovation plan, and improvements the Company plans to make with the increase rates.
- Tom Steinke and Ryan Schultz asked questions about gas lines and meters, as well as the Company's gas delivery system.

35. Susan Mayer was the only person to present comments at the October 18, 2024 WebEx hearing. She voiced concern about the substantial increase in gas costs that she has experienced in recent years in her small salon. She noted that small businesses will be particularly affected by the rate increase. She noted that rate increases are also coupled with increases in the cost of gas. She wondered how the Commission will be holding the Company responsible for its spending.⁴⁰

36. The following two comments were presented at the hearing in Minneapolis on October 21, 2024:⁴¹

- Lucy Flack, a representative from Action for Climate Emergency (ACE), urged the Commission to support a move away from fossil fuels and more support for renewable and "clean energy." She opposes the Company's professional organization membership fees from being incorporated in the rate base.
- Jiusheng Xu is also a member of ACE and opposed the rate increase. He challenges the idea that rate increases are the only way that the Company can cover its expenses. He noted that Company executives are "getting rich" and ratepayers should not have to pay for the exorbitant compensation paid to these executives. Xu believes that shareholders, not ratepayers, should shoulder that burden. He noted that students at colleges and universities incur rate increases through increase costs of dorms. He urged the Commission to authorize a smaller rate increase.

37. During the WebEx hearing on October 24, 2024, James Porter asked a number of questions about executive compensation, Company cost-cutting measures, interim rates, and the "true-up" mechanism that occurs when rates are finalized. Jackson Bonley talked about the health effects of gas storage facilities and urged the Commission

⁴⁰ Public Hearing Transcript (Oct. 18, 2024).

⁴¹ Public Hearing Transcript (Oct. 21, 2024).

to exclude the American Gas Association membership fees from the rate base. Tess Dornfeld explained that, as a renter, she has no control over energy efficiency in her apartment. She is frustrated by the increase in energy costs and also opposed the inclusion of membership fees from the rate base. Sherry Rinkenberger addressed a matter outside the scope of the hearing and unrelated to the proposed rate increase.⁴²

Written Comments

38. In addition to comments made at the public hearings, the Commission has received over 1,400 written comments regarding the Company's rate increase request, with the overwhelming majority of those comments expressing opposition to any rate increase.⁴³ The comments generally addressed one or more of the following general

⁴² Public Hearing Transcript (Oct. 24, 2024).

⁴³ 20252-215154-01; 20252-214970-01; 20252-214971-01; 20252-214972-01; 20252-214987-01; 20252-214916-01; 20252-214919-01; 202412-213443-01; 202412-213444-01; 202412-213445-01; 202412-213418-01; 202412-213314-01; 202412-213286-01; 202412-213286-02; 202412-213286-03; 202412-213286-04; 202412-213288-01; 202412-213138-01; 202412-213139-01; 202412-213112-01; 202412-212945-01; 202412-212845-01; 202412-212846-01; 202412-212682-01; 202412-212682-02; 202412-212682-03; 202412-212682-04; 202412-212682-05; 202412-212544-01; 202412-212546-01; 202412-212549-01; 202411-212500-01; 202411-212502-01; 202411-212391-01; 202411-212256-01; 202411-212276-01; 202411-212276-02; 202411-212276-03; 202411-212276-04; 202411-212276-05; 202411-212276-06; 202411-212276-07; 202411-212086-01; 202411-211970-01; 202411-211970-02; 202411-211970-03; 202411-211970-04; 202411-211970-05; 202411-211970-06; 202411-211970-07; 202411-211970-08; 202411-211970-09; 202411-211975-01; 202411-211975-02; 202411-211975-03; 202411-211975-04; 202411-211975-05; 202411-211975-06; 202411-211975-07; 202411-211976-01; 202411-211976-02; 202411-211976-03; 202411-211976-04; 202411-212007-01; 202411-212007-02; 202411-212007-03; 202411-212007-04; 202411-212007-05; 202411-211806-01; 202411-211694-01; 202411-211697-01; 202411-211698-01; 202411-211699-01; 202411-211702-01; 202411-211702-02; 202411-211702-03; 202411-211702-04; 202411-211702-05; 202411-211702-06; 202411-211703-01; 202411-211703-02; 202411-211703-03; 202411-211703-04; 202411-211703-05; 202411-211703-06; 202411-211703-07; 202411-211703-08; 202411-211703-09; 202411-211609-01; 202411-211609-02; 202411-211609-03; 202411-211630-01; 202411-211631-01; 202411-211577-01; 202411-211546-01; 202411-211546-02; 202411-211546-03; 202411-211546-04; 202411-211546-05; 202411-211546-06; 202411-211546-07; 202411-211546-08; 202411-211546-09; 202411-211546-10; 202411-211547-01; 202411-211547-02; 202411-211559-01; 202411-211559-02; 202411-211559-03; 202411-211559-04; 202411-211559-05; 202411-211559-06; 202411-211559-07; 202411-211559-08; 202411-211559-09; 202411-211559-10; 202411-211560-01; 202411-211560-02; 202410-211477-01; 202410-211478-01; 202410-211434-01; 202410-211435-01; 202410-211436-01; 202410-211462-01; 202410-211462-02; 202410-211411-01; 202410-211412-01; 202410-211415-01; 202410-211415-02; 202410-211415-03; 202410-211415-04; 202410-211415-05; 202410-211357-01; 202410-211357-02; 202410-211357-03; 202410-211357-04; 202410-211357-05; 202410-211364-01; 202410-211365-01; 202410-211366-01; 202410-211367-01; 202410-211368-01; 202410-211344-01; 202410-211345-01; 202410-211352-01; 202410-211352-02; 202410-211352-03; 202410-211352-04; 202410-211352-05; 202410-211352-06; 202410-211352-07; 202410-211352-08; 202410-211352-09; 202410-211352-10; 202410-211353-01; 202410-211353-02; 202410-211287-01; 202410-211290-01; 202410-211291-01; 202410-211250-01; 202410-211250-02; 202410-211250-03; 202410-211250-04; 202410-211250-05; 202410-211250-06; 202410-211256-01; 202410-211257-01; 202410-211258-01; 202410-211259-01; 202410-211260-01; 202410-211232-01; 202410-211233-01; 202410-211234-01; 202410-211135-01; 202410-211138-01; 202410-211139-01; 202410-211139-02; 202410-211139-03; 202410-211139-04; 202410-211139-05; 202410-211139-06; 202410-211139-07; 202410-211139-08; 202410-211139-09; 202410-211140-01; 202410-211143-01; 202410-211144-01; 202410-211145-01; 202410-211053-01; 202410-211054-01; 202410-211055-01; 202410-211056-01; 202410-211057-01; 202410-211058-01; 202410-211063-01; 202410-211063-02; 202410-211065-01; 202410-211065-02; 202410-211065-03; 202410-210739-01; 202410-

concerns: (1) that inflation is already stretching budgets and making it harder for customers to pay bills; (2) that the rate increase will be particularly difficult for seniors and retirees on fixed incomes; (3) that the Company's earnings (i.e., profits) and executive compensation do not demonstrate a need for a rate increase and that the compensation should be assumed by shareholders, not ratepayers; and (4) that the 2021 cold weather event/cost of gas charges further compound the cost increases to consumers.⁴⁴

39. One commenter described the rate increase as "highway robbery."⁴⁵ Another described an increase as "price gouging" customers, noting the number of rate increases by the Company in recent years.⁴⁶ Many commenters urged the Commission to force the Company to be more efficient, cut spending, and "tighten [its] belt" before increasing rates for consumers.⁴⁷ Many commenters noted that Company earnings and high executive compensation demonstrate an imbalance in shareholder profits and consumer pricing, leaving customers to shoulder the burdens and shareholders to enjoy the profits.⁴⁸ A number of other commenters expressed concern about state "green" or renewable energy initiatives are unnecessarily driving up costs for consumers.⁴⁹

40. Only a small number of commenters indicated an appreciation for the Company's proposed replacement of older gas lines and meters, and the reliability of the services.⁵⁰

41. One commenter addressed the rate-making process itself, writing:⁵¹

This "game" gets played every year and it is so obvious. The gas company, or any utility, comes with a request they know, full well[,] will be denied. There is a public hearing (a "show trial" if you will) and a "compromise" ending in a victory by the Commission. Spare me the nonsense!!!

Legal Standards

42. The Commission must set rates that are just and reasonable:

Rates shall not be unreasonably preferential, unreasonably prejudicial, or discriminatory, but shall be sufficient, equitable, and consistent in

210740-01; 202410-210639-01; 20249-210575-01; 20249-210576-01; 20249-210577-01; 20249-210493-01; 20249-210496-01; 20249-210463-01; 20249-210400-01; 20249-210401-01; 20249-210402-01; 20249-210408-01; 20249-210160-01; 20249-210103-01; 20249-210041-01; 20249-210043-01; 20248-209649-01; 20247-208723-01; 20245-206727-01; 20243-204044-01; 20242-203805-01; 20242-203746-01; 20242-203308-01; 20242-203315-01; 20241-202854-01; 20241-202642-01; 20241-202424-01; 202311-200666-01; 202311-200417-01 (public comments). Most public comments were "batched" or grouped together into separate filings, which contain multiple individual comments.

⁴⁴ *Id.* Due to the large number of comments received, the Judge has summarized the main topics presented.

⁴⁵ 202412-212845-01 (Comments of Sandra Johnson).

⁴⁶ 202412-212682-01 (Comments of Lawrence Kalal).

⁴⁷ See, e.g., 202412-212682-04 (Comments of John Adams).

⁴⁸ See, e.g., 202412-212845-01 (Comments of Matt Mathwig).

⁴⁹ See, e.g., 202412-212845-1 (Comment of Edward Vigilante).

⁵⁰ See, e.g., 202412-212549-01 (Comment of Gerald Poppe).

⁵¹ 202411-212276-01 (Comments of Mary Martenis).

application to a class of consumers. To the maximum reasonable extent, the commission shall set rates to encourage energy conservation and renewable energy use Any doubt as to reasonableness should be resolved in favor of the consumer.⁵²

43. Determining whether rates are just and reasonable requires “balancing the interests of the utility companies, their shareholders, and their customers.”⁵³ Minn. Stat. § 216B.16, subd. 6 (2024), provides guidance for weighing these interests and requires the Commission to consider:

the public need for adequate, efficient, and reasonable service and 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.

44. The Commission must also consider customers’ ability to pay as a factor when setting utility rates.⁵⁴

45. In setting rates, the Commission acts in both a quasi-judicial and quasi-legislative capacity. As a quasi-judicial body, the Commission makes detailed findings of fact. As a quasi-legislative body, the Commission uses its expertise and judgment to resolve issues.

46. The traditional approach for utilities proposing rate increases has been for the utility to select a Test Year and establish its rate base, revenues, expenses, and a reasonable rate of return to demonstrate that its revenue is insufficient to meet its Test Year expenses plus afford the Company’s shareholders an opportunity to earn a reasonable return on their investments. From the Test Year costs, including a reasonable rate of return on rate base, the utility develops its revenue requirement. The utility will conduct a study of the costs of serving each class of customers. The utility proposes how to allocate its revenue requirement among the customer classes, taking into account each class’s cost of service, but also considering other goals such as “equity, justice, and reasonableness; the avoidance of discrimination, unreasonable preference, and unreasonable prejudice; continuity with prior rates to avoid rate shock; revenue stability; economic efficiency; encouragement of energy conservation; customers’ ability to pay; and ease of understanding and administration.”⁵⁵ The last step is the utility’s proposal for how rates should be designed to collect the appropriate revenues from each class. In this process, the Company must comply with Minnesota law as well as prior orders of the Commission.

⁵² Minn. Stat. § 216B.03 (2024).

⁵³ *In the Matter of Interstate Power Rates Change Request*, 574 N.W.2d 408, 411 (Minn. 1998); see also *Federal Power Comm. V. Hope Nat. Gas Co.*, 320 U.S. 591, 603 (1944) (stating that the rate-making process “involves a balancing of the investor and the consumer interests”).

⁵⁴ Minn. Stat. § 216B.16, subd. 15(a) (2024).

⁵⁵ FINDINGS OF FACT, CONCLUSIONS, AND ORDER at 111 (MPUC Docket No. E-002/GR-21-630) (July 17, 2023) (eDocket No. 20237-197559-01).

47. The Company's revenue requirement consists of all of the expenses it prudently incurs to provide natural gas service to its Minnesota customers. These expenses include the Company's operating and maintenance expenses, depreciation on its capital assets, taxes, and a margin sufficient to allow the Company a reasonable opportunity to earn its authorized rate of return. Additionally, all related revenues, including customer sales revenues are also included in determining the overall revenue requirement deficiency. The Company chose a calendar year as its Test Year: January 1, 2024, through December 31, 2024. The Company also chose calendar year 2025 as its 2025 Plan Year.

48. The legislature has assigned the Company the burden of proof to show that its requested rates are just and reasonable.⁵⁶ In contested case proceedings where the applicable substantive law does not assign a different burden or standard, Minn. R. 1400.7300, subp. 5 (2023) provides that the party proposing that a certain action be taken bears the burden of proving the facts at issue by a preponderance of the evidence.

49. Minnesota law encourages parties to settle issues among themselves.⁵⁷ An alternative to contested case proceedings is for the parties to propose a resolution of all disputed issues based upon substantial evidence and which results in just and reasonable rates. The Settlement filed by the Parties is a global accord, reaching and resolving every issue in the case.

50. Minn. Stat. § 216B.16, subd. 1a(b) (2024) provides that:

If the applicant and all intervening parties agree to a stipulated settlement of the case or parts of the case, the settlement must be submitted to the commission. The commission shall accept or reject the settlement in its entirety and, at any time until its final order is issued in the case, may require the Office of Administrative Hearings to conduct a contested case hearing. The commission may accept the settlement on finding that to do so is in the public interest and is supported by substantial evidence. If the commission does not accept the settlement, it may issue an order modifying the settlement subject to the approval of the parties. Each party shall have ten days in which to reject the proposed modification. If no party rejects the proposed modification, the commission's order becomes final. If the commission rejects the settlement, or a party rejects the commission's proposed modification, a contested case hearing must be completed.

51. In summary, if the Commission accepts the Settlement, the case is concluded. If the Commission rejects the Settlement or proposes modifications to the Settlement which are rejected by one or more of the Parties, the Commission must remand the case to the OAH to conduct evidentiary hearings and complete the contested case.

⁵⁶ Minn. Stat. § 216B.16, subd. 4 (2024).

⁵⁷ Minn. Stat. § 216B.16, subd. 1a(a) (2024).

The Settlement

52. As detailed in the Settlement, the Parties were able to resolve all issues in the case. The Settlement states the Parties' positions on each of their applicable issues and explains each issue's resolution. A comparison of the Parties' positions and the terms of the Settlement indicates that compromises were made by all of the Parties to achieve a global settlement.⁵⁸

53. The Administrative Law Judge has reviewed the Settlement, and, based upon the Parties' urging and representations, recommends that the Commission review the settlement and find it to be in the public interest and supported by substantial evidence in the record. The Commission can then determine if the rates that will result from implementing the Settlement are just and reasonable.

54. The Administrative Law Judge finds the Settlement to be comprehensive and that each disputed issue is resolved based on substantial record evidence. The Administrative Law Judge recommends that the Commission review and accept the Settlement. The Parties highlight the following factors for the Commission's consideration.

55. First, instead of the Company's initially-proposed \$84.6 million rate increase for 2024 and \$51.8 million incremental rate increase for 2025, the Settlement proposes an increase of \$60.8 million for 2024 and an incremental increase of approximately \$42.7 million for 2025,⁵⁹ reducing the Company's Test Year revenue deficiency by \$23.8 million for 2024 and reducing the incremental Plan Year increase by \$9.1 million for 2025.

56. Second, the Settlement proposes to recover the revenue deficiency by apportioning a lower share of the increase to the Residential Class than proposed by the Company, addressing concerns from public commenters about the size of the proposed residential increase.⁶⁰

57. Third, the rate design proposed in the Settlement differs by customer class. The Residential, Commercial and Industrial C – Sales and Transport, and Small Volume Dual Fuel A – Sales and Transport classes will see an increase in their Delivery Charge, but their monthly Basic Charge will stay the same. All other classes will have both their Basic Charges and their Delivery Charges increased. The Parties agreed to limit the proposed Commercial and Industrial A class Basic Charge to \$17.00 to address concerns raised by the OAG.⁶¹

58. Fourth, the Settlement's proposed overall cost of capital of 7.07 percent is reasonable and supported by the record. In Direct Testimony, the Company proposed an overall cost of capital of 7.55 percent for the 2024 Test Year and 7.52 percent for the 2025 Plan Year. The DOC provided Direct Testimony and recommended an overall cost

⁵⁸ Settlement Agreement and Attachments A-C (Nov. 25, 2024) (202411-212407-01 to 05).

⁵⁹ Settlement, Attachment A, Schedules A-1, A-9 (Nov. 25, 2024) (202411-212407-01, 03).

⁶⁰ Settlement, Section F, Attachment B (Nov. 25, 2024) (202411-212407-01, 04).

⁶¹ Settlement, Sections F and G, Attachment B (Nov. 25, 2024) (202411-212407-01, 04).

of capital of 7.00 percent for the 2024 Test Year and 6.97 percent for the 2025 Plan Year. CUB provided Direct Testimony on the appropriate return on equity, but did not address the overall cost of capital. The OAG recommended that flotation costs not be included in the Company's cost of capital. The Settlement's proposed overall cost of capital is a reasonable agreement based on the Parties' respective positions, falling within the range of positions advocated by the parties.⁶²

59. Fifth, the Settlement is informed by, but does not endorse, any single Class Cost of Service Study (CCOSS) and the Commission does not need to make any specific finding regarding the Parties' recommendations, as the Parties agree on revenue apportionment and fixed monthly charges. In recent utility cases, the Commission has preferred to consider multiple CCOSSs rather than to base cost classification and allocation upon a single CCOSS. The Parties further agree that the Company will prepare and present a minimum system study in its next rate case using 1¼" mains, but note that the Company's agreement to present this study does not prevent any party from recommending other changes to the minimum system study or recommending another study be used.⁶³

60. Sixth, the disputed financial issues are resolved in a transparently just and reasonable manner. These include updating the beginning plant balance and corresponding updates to rate base, adopting the Company's proposed base cost of gas as filed in MPUC Docket No. G-008/MR-23-174, and adopting multiple other financial adjustments as proposed by the DOC, OAG, and CUB. In reaching the settlement of each of these issues, the Parties have adopted the position proposed by one of the Parties or have reached an agreement between two or more Parties' positions that is reasonable and supported by the record.⁶⁴

61. Seventh, in the Settlement, the Parties agree that the Company's property tax tracker amortization credit should be increased by \$52,000 per year, and that the baseline for the property tax tracker should be set at \$29,685,782 for the 2024 Test year and \$32,910,528 for the 2025 Plan Year (carrying through until the Company's next rate filing).⁶⁵

62. Eighth, the Parties agree to adopt the Company's proposed capital true-up for the 2024 Test Year and 2025 Plan Year.⁶⁶

63. Finally, through the Settlement, the Parties have resolved the remaining disputed issues in a just a reasonable manner. These issues include the revenue decoupling mechanism rider, tariff-related issues, replacement of legacy plastic mains, and intervenor compensation.⁶⁷

⁶² Settlement, Section A (Nov. 25, 2024) (202411-212407-01, 03).

⁶³ Settlement, Section E (Nov. 25, 2024) (202411-212407-01).

⁶⁴ Settlement, Section B (Nov. 25, 2024) (202411-212407-01).

⁶⁵ Settlement, Section B.5 (Nov. 25, 2024) (202411-212407-01).

⁶⁶ Settlement, Section D (Nov. 25, 2024) (202411-212407-01).

⁶⁷ Settlement, Sections H, I, J, K, and L (Nov. 25, 2024) (202411-212407-01).

Specific Issues

64. The Notice of and Order for Hearing set forth seven specific issues to be discussed in this proceeding, each of which is addressed in the Settlement.

65. The Settlement reduces the 2024 Test Year revenue increase from \$84.6 million to \$60.8 million and reduces the 2025 Plan Year incremental revenue increase from \$51.8 million to approximately \$42.7 million.⁶⁸

66. The Settlement modifies the rate design proposed by the Company by apportioning a smaller share of the revenue increase to the Residential class and providing for a smaller increase to the Basic Charge for the Commercial and Industrial A class than proposed by the Company.⁶⁹

67. The Settlement provides for a lower overall cost of capital than requested by the Company.⁷⁰

68. The Settlement provides that the base cost of gas proposed in the Application and in the accompanying “Base Cost of Gas” docket, MPUC Docket No. G-008/MR-21-174 does not require adjustment for base rate purposes.⁷¹

69. By resolving the overall cost of capital, the Settlement obviates the need for a specific finding regarding the Company’s capital structure.⁷²

70. The Parties agreed to a number of specific financial adjustments and to other adjustments, as set forth in the Settlement.⁷³

71. The Settlement addresses the amount of executive compensation costs to be recovered in rates.⁷⁴

General Provisions of the Settlement

72. The Settlement provides for the confidentiality of settlement offers and discussions. Should the Commission reject the Settlement, the agreement provides that it shall not be part of the record and that no party may use it for any purpose in any proceeding.

73. The Settlement, including exhibits, appendices, schedules, and amendment, encompasses the entire agreement between the Parties, and supersedes all previous understandings and agreements between the Parties.

⁶⁸ Settlement, Attachment A, Schedules A-1, A-9 (Nov. 25, 2024) (202411-212407-01, 03).

⁶⁹ Settlement, Section F, Attachment B (Nov. 25, 2024) (202411-212407-01, 04).

⁷⁰ Settlement, Section A (Nov. 25, 2024) (202411-212407-01).

⁷¹ Settlement, Section B.24 (Nov. 25, 2024) (202411-212407-01).

⁷² Settlement, Section A (Nov. 25, 2024) (202411-212407-01).

⁷³ Settlement, Sections B, H, I, J, K, and L (Nov. 25, 2024) (202411-212407-01).

⁷⁴ Settlement, Section B.15 (Nov. 25, 2024) (202411-212407-01).

74. The Settlement implements the provisions of Minn. Stat. § 216B.16, subd. 1a(b) (2024). If the Commission rejects the Settlement, it must remand the case to the OAH to complete the contested case proceedings. If the Commission modifies the Settlement, the Parties have ten days in which to reject the modification. If any party does object, the Commission must remand the case to the Office of Administrative Hearings to complete the contested case proceedings.

75. Should the Commission remand the case to the OAH, the Parties are free to argue their positions as set forth in their pre-filed testimony.

76. The Settlement obligates the Parties to support and defend it in its entirety without modification.

Based on these Findings of Fact, the Administrative Law Judge makes the following:

CONCLUSIONS OF LAW

1. The Minnesota Public Utilities Commission and the Administrative Law Judge have jurisdiction to consider this matter pursuant to Minn. Stat. §§ 14.50, 216B.08 (2024).

2. The public and the Parties received timely and proper notice of the public hearings, and the Company complied with all procedural requirements of statute and rule.

3. As Minn. Stat. § 216B.03 requires, every rate set by the Commission shall be just and reasonable. Rates shall not be unreasonably preferential, prejudicial, or discriminatory, but shall be sufficient, equitable, and consistent in application to a class of consumers. The Commission shall set rates that, to the maximum reasonable extent, encourage energy conservation and renewable energy use and further the goals of Minn. Stat. §§ 216B.164, 216B.241, and 216C.05 (2024).

4. Minn. Stat. § 216B.16, subd. 4 (2024) places the burden of proof to show that a rate change is just and reasonable on the Company. Any doubt as to reasonableness should be resolved in favor of the consumer pursuant to Minn. Stat. § 216B.03 (2024).

5. The record supports the resolution of disputed issues as set out in the Settlement. The Settlement's disposition of disputed issues resolves them consistent with the public interest, as represented by certain of the parties, and on the basis of substantial evidence. The Administrative Law Judge relies heavily upon the interested parties' ability to represent their respective interests and their decision to settle this case, as set forth above.

6. Based upon all Parties' agreements and representations, the Judge recommends that the Commission review the Settlement to determine if the rates set in accordance with the Settlement would be just and reasonable.

7. Any Findings of Fact more properly designated as Conclusions are hereby adopted as such.

Based upon these Conclusions of Law, the Administrative Law Judge makes the following:

RECOMMENDATION

The Administrative Law Judge recommends that the Commission accept the Settlement, review and analyze it to ensure that the rates contained therein are just, reasonable, and supported by the record, and, if so, incorporate it into its Order.

Dated: February 13, 2024



ANN C. O'REILLY
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 timeframes established in the Commission's rules of practice and procedure, Minn. R. 7829.2700, .3100 (2023), unless otherwise directed by the Commission. Exceptions should be specific and stated and numbered separately. Oral argument before a majority of the Commission will be permitted pursuant to Minn. R. 7829.2700, subp. 3. 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.