Greater Minnesota Gas, Inc.
A Minnesota Corporation

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September 26, 2013

VIA ELECTRONIC FILING

Dr. Burl W. Haar
Executive Secretary
Minnesota Public Utilities Commission
121 7th Place East, Suite 350
St. Paul, Minnesota 55101-2147

RE: Reply Comments
Docket No. G022/M-13-730

Dear Dr. Haar:

Attached hereto, please find Greater Minnesota Gas, Inc.'s Reply Comments for filing in the above-referenced docket.

All individuals identified on the attached service list have been electronically served with the same.

Thank you for your assistance. Please do not hesitate to contact me should you have any questions or concerns or if you require additional information. My direct dial number is (507) 665-8657 and my email address is kanderson@greatermngas.com.

Sincerely,

GREATER MINNESOTA GAS, INC.

/s/
Kristine A. Anderson
Corporate Attorney

Enclosure

cc: Service List

STATE OF MINNESOTA

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

Beverly Jones Heydinger	Chair
David C. Boyd	Commissioner
Nancy Lange	Commissioner
J. Dennis O'Brien	Commissioner
Betsy Wergin	Commissioner

In the Matter of the Petition of Greater Minnesota Gas, Inc., for Approval of Changes in Contract Demand Entitlements

MPUC Docket No. G022/M-13-730

REPLY COMMENTS

OVERVIEW

Greater Minnesota Gas, Inc. ("GMG") submitted a filing to the Minnesota Public Utilities Commission ("Commission") to notify the Commission of a change in contract demand entitlements on August 15, 2013. Prior to filing its Petition, GMG met with Department analysts to discuss changes in GMG's approach to determining its demand entitlement needs given its recent growth. Given the early submission of its Petition, GMG and the Department agreed that GMG would supplement its Petition closer to heating season. On September 16, 2013, the Minnesota Department of Commerce, Division of Energy Resources ("Department"), filed Comments of the Minnesota Department of Commerce Division of Energy Resources ("Comments") in response to GMG's Petition. Both as a result of securing a supply option that was not available at the time GMG filed its Petition, and in response to some concerns identified by the Department, GMG has supplemented its available supply as reflected herein. This submission constitutes GMG's Reply to the Department's Comments.

ISSUE SUMMARY

In its Comments, the Department indicated that additional information regarding GMG's reserve margin and total entitlement level would be helpful. Consequently, the Department recommended that the Minnesota Public Utilities Commission ("Commission") withhold its decision on GMG's Petition subject to GMG providing the following additional information:

- Additional explanation regarding GMG's estimation of the prospective natural gas consumption by its new customers converting from propane usage.
- Details regarding whether the Viking Zone 1 and Delivery Contract line items identified in Attachment C to GMG's Petition relate to Project 2.
- An hypothetical example of GMG's ability would operate its fully integrated system with delivery to Project 2 at peak day capacity.

- Further discussion of the reasonableness of GMG's proposed reserve margin given its entitlement issues during the 2012-2013 heating season and GMG's continued growth.
- Additional discussion of how GMG would serve its firm customers if peak day consumption exceeded GMG's planned reserve margin, along with the estimated cost therefore.
- Discussion of the current availability of additional entitlements if deemed necessary.

GMG addresses the Department's concerns herein. In addition, GMG concurs that its original plan to submit a supplemental filing on or about November 1, 2013 is appropriate, as GMG will have more accurate numbers about how many new customers have secured service going into the heating season and, as a result, GMG will be able to provide a more definite reserve margin analysis.

DISCUSSION IN REPLY

GMG recognizes that its demand entitlement request is substantially larger than it was in prior years. Additionally, while GMG operated without exceeding its reserve margin during the 2012-2013 heating season, it recognizes that its unexpected growth could have threatened its reserve limits. Consequently, GMG believes that the methodology it used to forecast design day needs for its customers during the 2013-2014 heating season is sound, particularly when combined with the additional capacity reflected herein. Therefore, GMG respectfully requests that the Commission approve its Petition after thorough consideration of the all of the information, including the additional explanation provided herein.

1. GMG's Estimated Gas Usage for its New Customers Converting rrom Propane is Based on an Accepted Industry Conversion Rate and GMG's Historical Usage Data.

The Department requested additional discussion supporting GMG's calculations and assumptions regarding its estimate of natural gas usage for those new customers converting from propane. GMG based its calculations on the new customers' reported propane usage, a standard propane to natural gas conversion factor, and historical data comparing design day requirements to annual load.

As its Petition indicates, GMG anticipates that it will have a number of new customers for the upcoming heating season from each of its two new areas of service, identified in the Petition as Project 1 and Project 2. Those customers are converting from propane use to natural gas and, as such, there is not historic gas usage data to incorporate into statistical modeling. In order to ascertain the likely needs of those customers, GMG obtained information from each customer about the customer's historic average propane consumption. As explained in its Petition, GMG then used a standard industry calculation to translate reported propane use to anticipated natural gas use, estimating propane use at 91,500 BTUs per gallon and multiplying reported propane use by .0915 to arrive at each new customer's anticipated annual Dth use.[1]

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[1] . The United States Department of Energy's Office of Energy Efficiency and Renewable Energy publishes a Representative Average Unit Cost of Energy table annually in the Federal Register. Recent published conversion

GMG analyzed its own historical data to determine the average level of gas consumption on a peak day; and, in its Comments, the Department concurred that it is appropriate to estimate future usage based on historical data. Although the Department's Comments state that GMG did not provide evidence supporting what it referred to as GMG's "assumption" that peak day use is approximately one percent of annual load, that is not the case. Attachment B to GMG's Petition includes a chart that details the average peak day send-out per customer for the past 17 years. As Attachment B shows, the average peak day send-out per customer over that time frame is 0.8953. To be prudently conservative in its calculations, GMG rounded up to employ a 1% figure in its design day calculations. Consequently, GMG did not rely on assumption when estimating the likely natural gas consumption of its new customers from Project 1 and Project 2. Its analysis relied on both qualitative and quantitative to be as comprehensive and accurate as possible.

2. The Capacity Provided by the Viking Zone 1 and Delivery Contracts is Integrated Into GMG's Entire System Rather than Being Restricted to a Particular Project.

The Viking Zone 1 and Delivery Contract line items are not restricted to use on Project 2. Rather, GMG continues to strive for a fully integrated delivery system. The 2000 Dth transported to North Branch for Viking Zone 1 can be used anywhere on GMG's system if it is not used to supply Project 2. With regard to the Delivery Contract, the 950Dth can be transported to North Branch for delivery into the Northern Natural line and redelivery to GMG's southern market. GMG specifically designed those supply contracts to be flexible such that the supply can be used throughout the GMG system, thus contributing to ensuring both reliability and cost-effectiveness for GMG's customers.

3. GMG Can Operate its System in a Fully Integrated Manner, Including Delivery to Project 2, Under Hypothetical Design Day Conditions.

GMG's system is designed to be fully integrated, thus being able to provide sufficient, reliable supply on design day. For example, based on the supply contracts identified in its Petition, GMG could hypothetically supply its system as follows to meet design day requirements:

- GMG anticipates the design day requirement of the entirety of Project 2 to be 2,642 Dth. Of that, 2,417 Dth comes from the estimated large commercial customer additions, as shown in GMG's Petition. The remaining 225 Dth comes from anticipated residential customers.[2]
- GMG would supply 950 Dth of that need through the forward-haul Delivery Contract on the Viking line.
- The remaining 1,692 Dth would be supplied through backhauling on the Viking line from the Viking Zone 1 Contract.

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factors consistently equate 1 therm of natural gas to .91333 of propane. Other industry standard measures identify the conversion factor at .915 and .916.

[2] . Anticipated residential customer needs were incorporated into GMG's regression analysis reflected in its Petition.

- The remaining 308 Dth of supply from the Viking Zone 1 Contract would be available either for reserve purposes or for use on the Northern Natural system to supply GMG's other customers under design day conditions.

Similarly, based on the contract changes identified herein, GMG could hypothetically meet its design day requirements as follows:

- As detailed above, GMG anticipates the design day requirement of Project 2 to be 2,642 Dth.
- GMG would supply 950 Dth of that need through the forward-haul Delivery Contract on the Viking line.
- GMG would supply an additional 1,300 of Dth through forward-haul from the Emerson Contract.
- The balance of the required supply, 390 Dth, would be supplied through backhauling on the Viking line from the Viking Zone 1 Contract.
- The remainder of supply for the Viking Zone 1 Contract would be available either for reserve purposes or for use in Zone EF on the Northern Natural system to supply GMG's other customers.

GMG's system is both balanced and integrated to successfully supply all of its customers reliably and cost-effectively while providing assurance that design day conditions can appropriately be met.

4. GMG'S Proposed Reserve Margin Provides Reasonable and Cost-Effective Protection for GMG's Firm Customers.

GMG believes that the reserve margin proposed in its Petition is sufficient to assure that design day needs can be met in the highly unlikely event they occur. Indeed, the very purpose of a design day analysis is to afford a gas supplier the ability to meet firm customer needs on a day with historically low temperatures rather than on an average day. GMG recognizes that its unprecedented and unanticipated growth led to an uncomfortably close dip into its reserve margin to supply peak day send-out during the 2012-2013 heating season. Both GMG and the Department have historically acknowledged the impact of substantial growth on the reserves of a small company like GMG. Thus, for the 2013-2014 heating season, GMG has taken steps to more accurately assess its likely level of growth and the likely load impact of the new customers. Therefore, GMG believes that the uncertainty presented by growth has been accounted for to the greatest extent possible in determining its proposed reserve margin.

However, in light of the Department's Comments and GMG's significant expansion, GMG has entered into an agreement to increase its reserve margin, which is detailed herein. A previously unforeseeable supply of low cost capacity release gas was available to GMG on short notice, and GMG has secured its availability. Therefore, GMG was able to temporarily increase its reserve margin without significant cost to its rate payors.

5. GMG Will Be Able to Serve Firm Cutomers in the Extremely Unlikely Event that Peak Day Consumption Exceeds its Reserve Margin.

As discussed above, design day conditions are based on the coldest day, and therefore highest usage day, in recent decades. Necessarily, design day weather is a very rare occurrence. Nonetheless, GMG recognizes that there is a slim possibility that design day conditions could occur again and it is ready to meet its customer needs through its reserve margin. In fact, GMG has agreed that a temporary increase in that reserve margin is appropriate to mitigate the risk of exceeding reserve margin capacity.

Given the rarity of design day conditions occurring and GMG's methodology for calculating its design day requirements and reserve margin, the likelihood of peak-day consumption exceeding GMG's reserve margin is even more minimal. GMG has multiple options to secure supply from both Viking and Northern Natural, and the system integration makes transport throughout the system a realizable possibility. To the extent that additional release could not be secured, GMG may ultimately have to secure default penalty gas. However, the integration of GMG's system helps minimize any adverse impact of having to secure such gas. It is impossible to estimate the cost of additional gas that might be needed, because there is no way to predict what additional needs might be should they exceed both design day requirements and the additional reserve margin. However, given the anticipated cost-savings reflected in GMG's proposed demand entitlement levels, the cost associated with the unlikely procurement of penalty gas would be less impactful for its customers.

6. GMG has Supplemented the Supply Reflected in its Original Petition to Slightly Increase its Reserve Margin.

As referenced throughout its Reply Comments, GMG was able to secure additional capacity, thereby increasing its available supply and reserve margin, on short notice. The details and impact of GMG's new contract demand entitlement proposal are reflected below.

[Balance of page intentionally left blank to accommodate table size.]

Proposed Demand Profile Submitted With Original Petition		
2013 - 2014 Heating Season	Quantity (Dth)	Change in Quantity (Dth)
TF-7 (Summer - Apr. - Oct.)	**-**	**(300)**
TF 12 (Nov. - Oct.)	**630**	**420**
TFX-7 (Oct. - Apr.)	**665**	**-**
TFX-5 (Nov. - Mar.)	**6,844**	**2,600**
Viking Zone 1	**2,000**	**2,000**
TFX-5 (Nov. - Mar.)	**270**	**180**
Delivery Contract	**950**	**950**
Capacity Release - Non-recallable	**-**	**-**
SMS	1,300	**-**
Heating Season Total Capacity	9,359	4,150
Non-Heating Season Total Capacity	630	120
Total Entitlement @ Peak	9,359	4,150
Total Annual Transportation	-	-
Total Season Transportation	9,359	4,150
Total Percent Summer Vs. Winter	6.7%	
Total Percent Seasonal	100.0%	

	Revised Proposed Demand Profile Reflecting Supplemental Capacity		
	2013 - 2014 Heating Season	Quantity (Dth)	Change in Quantity (Dth)
	TF-7 (Summer - Apr. - Oct.)	**-**	**(300)**
	TF 12 (Nov. - Oct.)	**210**	**-**
(1)	**TFX-7 (Oct. - Apr.)**	**665**	**-**
	TFX-5 (Nov. - Mar.)	**6,344**	**2,100**
	Viking Zone 1	**2,000**	**2,000**
	TF-5 (Nov. - Mar.)	**90**	**-**
	Viking Forward Haul/Emerson	**1,300**	**1,300**
	Delivery Contract	**950**	**950**
	Capacity Release - Non-recallable	**-**	**-**
	SMS	1,300	**-**
	Heating Season Total Capacity	9,539	4,350
	Non-Heating Season Total Capacity	210	(300)
	Total Entitlement @ Peak	9,539	4,350
	Total Annual Transportation	-	-
	Total Season Transportation	9,539	4,350
	Total Percent Summer Vs. Winter	2.2%	
	Total Percent Seasonal	100.0%	

In addition, a revised illustrative PGA, attached hereto as Attachment A, reflects the rate impact of the supplemental capacity. A comparison of the revised illustrative PGA demonstrates that, under GMG's new proposal, the demand cost for customers further decreased from the previously proposed $0.91 to $0,83.

REQUEST FOR COMMISSION ACTION

GMG's proposed contract demand entitlement is sound and based on the best information available to GMG, both quantitatively and qualitatively. It protects GMG's customers by providing an integrated system to meet their firm needs even in the most drastic weather conditions. Accordingly, in light of the foregoing, and based upon the entirety of docket records in this matter, GMG respectfully requests that the Commission approve Petition for a Change in Contract Demand Entitlement.

Dated: September 26, 2013

Respectfully submitted,

/s/ Kristine A. Anderson
Corporate Attorney
Greater Minnesota Gas, Inc.
202 South Main Street
P.O. Box 68
Le Sueur, MN 56058

ATTACHMENT A
FOR ILLUSTRATIVE PURPOSES ONLY

Greater Minnesota Gas, Inc.
Purchased Gas Adjustment (PGA) Calculation

Effective date of implementation: Natural gas usage on and after **November 1, 2013** **Illustrative Only--Revised**

Reason for change: Change in cost of gas due to an estimated Decrease in the market price of natural gas from October 2013.

This PGA is based on the following Northern Natural Gas Tariffs:
- 5th Revised Sheet No. 50
  - Issued: 2/1/13
  - Effective: 4/1/13
- 5th Revised Sheet No. 51
  - Issued: 2/1/13
  - Effective: 4/1/13
- Original Sheet No. 55
  - Issued: 9/24/10
  - Effective: 9/24/10

I. Greater Minnesota Gas, Inc. - Base Cost of Gas				**November 1, 2010**			
Approved in Docket No. G022/MR-10-949							
						Rate/CCF	
All Customer Sales Rate Classes - Demand		MCF	x Months	x Tariff Rate	Equals	Firm	Interruptible
	TFX - 7	300	7	$5.6830	11,934	$0.002773	
	TFX-5	4,244	5	$15.1530	321,547	$0.074711	
	SMS Demand	50	7	$2.1800	763	$0.000177	
		1,300	8	$2.1800	22,672	$0.005268	
	Total Capacity Cost				$356,916		
	Rate Case 2009 Firm Sales Service Volume - CCF			4,303,890			
	Demand Base Cost of Gas / CCF					**$0.082929**	**$0.000000**
All Customer Sales Rate Classes - Commodity							
	All Classes Commodity				$ 2,808,142		
	Rate Case Total Sales Service Volume - CCF			4,775,650			
	Commodity Base Cost of Gas/CCF					**$0.588013**	**$0.588013**
	Total Base Cost of Gas/CCF				$3,165,058	**$0.670942**	**$0.588013**
II. Greater Minnesota Gas, Inc. Rates - Current Cost of Gas Effective				**November 1, 2013**			
	Commodity Cost of Gas				$0.385610	WACOG	
III. Annual Sales Volume - 2009 Rate Case Sales Service Volume - CCF				**4,775,650**	**Budget Volume**		
Sales Service Volume - CCF			4,303,890		**8197780**		
Interruptible Service Volume - CCF			471,760		**866810**		

IV. Greater Minnesota Gas, Inc.'s -- Current Cost of Gas Effective				November 1, 2013					
							Rate/CCF		
All Customer Sales Rate Classes		MCF	x Months	x Tariff Rate		Equals	Firm	Ag Interr	Gen Interr
	Viking Zone 1	2,000	12	$3.4671		83,210	$0.010150		
	Viking Zone 1	1,300	4	$3.4671		18,029	$0.002199		
	TFX - 5	6,344	5	$15.1530		480,653	$0.058632		
	TF - 12	210	5	$10.2300		10,742	$0.001310		
	TF - 12	210	7	$5.6830		8,354	$0.001019		
	TF - 5	90	5	$15.1530		6,819	$0.000832		
	TFX - 7	665	5	$15.1530		50,384	$0.006146		
	TFX - 7	665	2	$5.6830		7,558	$0.000922		
	SMS Demand	50	7	$2.1800		763	$0.000093		
		1,300	5	$2.1800		14,170	$0.001729		
	Current Demand Cost of Gas					$680,682	**$0.083032**	**$0.000000**	**$0.000000**
	Current Commodity Cost of Gas/CCF			% of Total	73%	**$1,841,538**	**$0.385610**	**$0.385610**	**$0.385610**
	Total Cost of Gas/CCF					**$2,522,220**	**$0.468642**	**$0.385610**	**$0.385610**

Summary of Cost

All Customer Sales Rate Classes (/CCF)

	Firm Sales				Agricultural Interruptible				General Interruptible			
	Total Demand	Total Commodity	True-up	**Total**	Total Demand	Total Commodity	True-up	**Total**	Total Demand	Total Commodity	True-up	**Total**
1) Base Rate	$0.082929	$0.588013	$0.000000	**$0.670942**	$0.000000	$0.588013	$0.000000	**$0.588013**	$0.000000	$0.588013	$0.000000	**$0.588013**
2) Prior PGA	$0.017508	($0.167523)	$0.004070	**($0.145945)**	$0.000000	($0.167523)	$0.224950	**$0.057427**	$0.000000	($0.167523)	($0.031450)	**($0.198973)**
3) Current Adj	($0.017405)	($0.034880)	$0.000000	**($0.052285)**	$0.000000	($0.034880)	$0.000000	**($0.034880)**	$0.000000	($0.034880)	$0.000000	**($0.034880)**
4) PGA Billed (2+3)	$0.000103	($0.202403)	$0.004070	**($0.198230)**	$0.000000	($0.202403)	$0.224950	**$0.022547**	$0.000000	($0.202403)	($0.031450)	**($0.233853)**
5) Average Cost of Gas	$0.083032	$0.385610	$0.004070	**$0.472712**	$0.000000	$0.385610	$0.224950	**$0.610560**	$0.000000	$0.385610	($0.031450)	**$0.354160**

	Prior Cumulative Adjustments	Demand & Commodity Change Filed Herein	True-up Adjustment Factor Change Eff. September 1, 2012 (G022/AA-12-___)	Current PGA Adjustment
All Firm Sales Rate Classes (/CCF)	($0.150015)	($0.052285)	$0.004070	**($0.198230)**
Ag Inter. Sales Rate Classes (/CCF)	($0.167523)	($0.034880)	$0.224950	**$0.022547**
Gen. Inter. Sales Rate Classes (/CCF)	($0.167523)	($0.034880)	($0.031450)	**($0.233853)**

November 1, 2013		1	2	3	4	5	7
Rate Class	Tariff Rate Designation	Non-gas Commodity Margin ($/CCF)	Commodity Cost ($/CCF)	Demand Other PGA Expenses ($/CCF)	Total Cost of Gas ($/CCF) (2)+(3)+(4)	True-up Factor ($/CCF)	Total Billing Rate ($/CCF)
Residential	RS1	$0.444330	$0.385610	$0.083032	$0.468642	$0.004070	$0.917042
Small Commercial CS1	SCS1	$0.426330	$0.385610	$0.083032	$0.468642	$0.004070	$0.899042
Commercial CS1	CS1	$0.396330	$0.385610	$0.083032	$0.468642	$0.004070	$0.869042
Commercial/Industrial MS1	MS1	$0.376330	$0.385610	$0.083032	$0.468642	$0.004070	$0.849042
Commercial/Industrial LS1	LS1	$0.361330	$0.385610	$0.083032	$0.468642	$0.004070	$0.834042
Agricultural - Interruptible	AG1	$0.231310	$0.385610	$0.000000	$0.385610	$0.224950	$0.841870
General Interruptible	IND1	$0.251310	$0.385610	$0.000000	$0.385610	-$0.031450	$0.605470
General Interruptible - Flex	IND1 - FL	$0.030000	$0.385610	$0.000000	$0.385610	-$0.031450	$0.384160

Estimated Gas Volumes -July, 2013 110,660 Ccf

CERTIFICATE OF SERVICE

I, Kristine Anderson, hereby certify that I have this day served a true and correct copy of the following document to all persons at the addresses indicated on the attached list by electronic filing, electronic mail, or by depositing the same enveloped with postage paid in the United States Mail at Le Sueur, Minnesota:

Greater Minnesota Gas, Inc.'s Reply Comments

Docket No. G022/M-13-730

filed this 26th day of September, 2013.

/s/ Kristine A. Anderson

First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
Julia	Anderson	Julia.Anderson@ag.state.mn.us	Office of the Attorney General-DOC	1800 BRM Tower 445 Minnesota St. St. Paul, MN 551012134	Electronic Service	No	GEN_SL_Greater Minnesota Gas, Inc._Official Service List
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Sharon	Ferguson	sharon.ferguson@state.mn.us	Department of Commerce	85 7th Place E Ste 500 St. Paul, MN 551012198	Electronic Service	No	GEN_SL_Greater Minnesota Gas, Inc._Official Service List
Burl W.	Haar	burl.haar@state.mn.us	Public Utilities Commission	Suite 350 121 7th Place East St. Paul, MN 551012147	Electronic Service	No	GEN_SL_Greater Minnesota Gas, Inc._Official Service List
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