MINNESOTA DEPARTMENT OF COMMERCE

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December 30, 2015

Daniel P. Wolf
Executive Secretary
Minnesota Public Utilities Commission
121 7th Place East, Suite 350
St. Paul, Minnesota 55101-2147

RE: **Comments of the Minnesota Department of Commerce, Division of Energy Resources**
Docket No. G022/S-15-956

Dear Mr. Wolf:

Attached are the Comments of the Minnesota Department of Commerce, Division of Energy Resources (Department) in the following matter:

In the Matter of the Petition of Greater Minnesota Gas, Inc. for Approval of 2016 Capital Structure and Permission to Issue Securities.

The petition was filed on October 30, 2015 by:

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

The Department recommends **approval, with modifications**, and is available to answer any questions the Minnesota Public Utilities Commission may have.

Sincerely,

/s/ CRAIG ADDONIZIO
Financial Analyst

CA/lt

MINNESOTA DEPARTMENT OF COMMERCE

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

COMMENTS OF THE MINNESOTA DEPARTMENT OF COMMERCE DIVISION OF ENERGY RESOURCES

DOCKET NO. G022/S-15-956

I. SUMMARY OF GREATER MINNESOTA GAS, INC.'S PROPOSAL

On October 30, 2015, Greater Minnesota Gas, Inc. (GMG or the Company) filed a petition (Petition) for approval of its 2016 capital structure and permission to issue securities. The Company is seeking:

- Approval of its proposed 2016 capital structure and total capitalization;
- Approval of its proposed contingency ranges for its equity ratio, short-term debt ratio, and total capitalization;
- Approval to issue securities provided that the Company's capital structure remains within the requested ranges; and
- Approval of its 2016 capital structure to remain valid until the Commission issues a 2017 capital structure order.

II. DETAILS OF GMG'S PROPOSAL

GMG requests approval of its estimated December 31, 2016 capital structure. Table 1 summarizes GMG's actual capital structure as of August 31, 2015, its projected capital structure on December 31, 2016, and the differences between the two.

Table 1:
GMG's Actual and Proposed
Capital Structures

	Actual August 31, 2015		Projected December 31, 2016		
	Amount	Percent	Amount	Percent	Difference
Common Equity	10,005,289	31.13%	11,719,758	32.24%	1,714,469
Preferred Shares	-	0.00%	-	0.00%	-
Short-Term Debt	1,087,250	3.38%	1,187,250	3.27%	100,000
Long-Term Debt	21,046,709	65.49%	23,439,314	64.49%	2,392,605
Total Capitalization	32,139,248	100.00%	36,346,322	100.00%	4,207,074
Contingency			1,153,678	3.17%	
Total with Contingency			37,500,000	103.17%	

Source: Petition, Attachment 3

GMG's proposed capital structure reflects:

- the net issuance of $2.4 million of long-term debt;
- an increase of $0.1 million in short-term debt; and
- GMG's projected net income for 16 months ending December 31, 2015 of $2.4 million.

Specific provisions for which the Company seeks approval include:

- a total capitalization of $36.3 million, excluding the proposed contingency;
- a total capitalization contingency of $1.2 million, or 3.17 percent;
- an equity ratio of 32.24 percent and an equity ratio range of 31.59 percent to 38.61 percent;
- the ability to issue short-term debt not to exceed 10 percent of total capitalization at any time while the 2016 capital structure is in effect;
- the flexibility to issue long-term debt provided that the Company remains within the equity and short-term debt contingency ranges and does not exceed them for more than 60 days; and
- approval of the 2016 capital structure until the Minnesota Public Utilities Commission (Commission) issues a 2017 capital structure order.

III. FILING REQUIREMENTS AND COMPLIANCE WITH PRIOR COMMISSION ORDERS

Minnesota Rules 7825.1000 – 7825.1500 and the Minnesota Public Utilities Commission's (Commission) May 12, 2009 Order in Docket No. E,G999/CI-08-1416 (the 08-1416 Order) contain the filing requirements for capital structure petitions.

The Department of Commerce's (Department) review indicates that GMG's Petition meets the requirements set forth in Minnesota Rules 7825.1000–7825.1500.

Points 1 and 3 of the Commission's Order in Docket No. E,G999/CI-08-1416 state, respectively:

> 1. In addition to the information currently provided, the utilities' annual capital structure filings shall include an exhibit providing a general projection of capital needs, projected expenditures, anticipated sources, and anticipated timing, with the understanding that such exhibit is not intended to require dollar-for-dollar on the uses identified in the exhibit or to limit issuances to project-specific financing. The exhibit need not list short-term, recurring security issuances.
>
> 3. Starting with the utilities' next annual capital structure filings, the utilities shall include a report of actual issuances and uses of the funds from the prior year. The report will be for information purposes only and need not cover short-term, recurring security issuances.

With respect to Point 1 of the Order, GMG stated in its Petition that it plans to issue securities to fund capital expenditures to maintain and reinforce existing plant and invest in new plant to support customer growth. Attachment No. 11 to GMG's Petition contains a summary of GMG's anticipated 2015 capital expenditures, including $550,000 for system replacement and reinforcement, and $3.4 million for customer additions and main extensions.

With respect to Point 3, Attachment No. 9 to GMG's Petition identifies two new loans issued during 2015, totaling $3.9 million. Attachment No. 10 to GMG's Petition summarizes GMG's sources and uses of funds during the prior year.

Ordering Point 4 of the 08-1416 Order requires utilities to provide the following information within 20 days of each non-recurring issuance of securities:[1]

[1] These reporting requirements are also required by Ordering Point 4 of the Commission's May 12, 2009 Order in Docket No. E,G999/CI-08-1416, *In the Matter of a Commission Inquiry into the Review and Approval of Securities Issuances and Capital Structures.*

(1) the specific purposes for individual issuances;
(2) the type of issuances;
(3) the timing of issuances;
(4) the amount of issuances;
(5) issuance costs; and
(6) interest rates.

GMG met this reporting requirement in its May 7, 2015 Compliance Filing in the 2015 Capital Structure Docket.

The Commission's May 26, 2015 Order in the 2015 Capital Structure Docket also imposed a number of requirements on the Company. The Commission's Order:

1. required GMG to file a new securities issuance and capital structure petition by January 1, 2016 with an equity ratio contingency range of 31.59 percent to 38.61 percent (Ordering Point 2);
2. approved an equity ratio contingency range of 31.00 percent to 38.61 percent (Ordering Point 3);
3. required that GMG maintain an equity ratio contingency range of at least 31.00 percent at all times (Ordering Point 4).
4. required GMG to make monthly compliance filings on or before the 15th of each month containing a balance sheet, income statement, and cash flow statement for the first of the prior two months, demonstrating that its equity ratio is at least 31.00 percent, and required the Company to include amounts drawn on its line of credit in its short-term debt total (Ordering Point 5);
5. approved a short-term debt contingency cap of 10 percent (i.e., GMG's short-term debt is not to exceed 10 percent of its total capitalization, including the contingency, for more than 60 days) (Ordering Point 6);
6. approved a total capitalization contingency of $3.4 million above the estimated 2015 year-end total capitalization of $33.7 million, for a total capitalization of $37.1 million (Ordering Point 7).

After review, the Department concludes that GMG complied with all of these requirements.

IV. DEPARTMENT ANALYSIS

A. GMG'S PROPOSED CAPITAL STRUCTURE

Minn. Stat. §216B.49, subd. 3 states that:

> It is unlawful for any public utility organized under the laws of this state to offer or sell any security or, if organized under the laws of any other state or foreign country, to subject property in this state to an encumbrance for the purpose of securing the payment of any indebtedness unless the security issuance of

> the public utility is first approved by the commission, either as an individual issuance or as one of multiple possible issuances approved in the course of a periodic proceeding reviewing the utility's proposed sources and uses of capital funds. Approval by the commission must be by formal written order.

Further, Minn. Stat. §216B.49, subd. 4 states in part that:

> If the commission shall find that the proposed security issuance is reasonable and proper and in the public interest and will not be detrimental to the interests of the consumers and patrons affected thereby, the commission shall by written order grant its permission for the proposed public financing.

Based on the above statutes, the Department discusses the reasonableness of GMG's actual and projected capital structures, as well as its request that the Commission allow the issuance of various securities.

B. SUMMARY OF GMG'S CURRENT CAPITAL STRUCTURE AND 2014 FINANCIAL PERFORMANCE

Table 2:
Summary of Change in GMG's Capital Structure During 2015

	Actual December 31, 2014		Actual August 31, 2015		
	Amount	Percent	Amount	Percent	Difference
Common Equity	9,709,765	33.20%	10,005,289	31.13%	295,524
Preferred Shares	-	0.00%	-	0.00%	-
Short-Term Debt	786,000	2.69%	1,087,250	3.38%	301,250
Long-Term Debt	18,750,655	64.11%	21,046,709	65.49%	2,296,054
Total Capitalization	29,246,420	100.00%	32,139,248	100.00%	2,892,828

Sources and Notes:
2014 data from GMG's audited financial statements, provided in response to Department Information Request No. 1. GMG marked its entire response Trade Secret rather than specifically marking only the Trade Secret information within the document, and the Department has not included it as an attachment. However, the Department does not consider the data in the table above to be trade secret.
2015 data from Petition, Attachment 3.

Table 2 above summarizes the changes in GMG's capital structure during the first eight months of 2015. GMG's net income of $0.3 million during this period caused the observed increase in equity, and the increase in long-term debt is the result of the issuances described above as well as principal payments on outstanding debt.

Table 3 below summarizes selected financial metrics from GMG's actual income statements from recent years and its projected 2015 income statement.

Table 3:
Summary of GMG's Recent Financial Performance

		Actual				Projected
		2012	2013	2014	12 Mos. Ended Aug. 31, 2015	2016
Income Statement Data						
Revenue	[1]	4,238,639	7,652,236	12,081,471	10,785,215	12,798,300
Cost of Sales	[2]	2,040,631	3,912,096	7,542,896	5,304,970	6,328,900
Gross Margin	[3] = [1] - [2]	2,198,008	3,740,140	4,538,575	5,480,245	6,469,400
as % of Revenue	[4] = [3] / [1]	51.9%	48.9%	37.6%	50.8%	50.5%
Operating Expenses	[5]	1,793,718	1,958,503	2,736,228	3,613,105	4,221,400
as % of Gross Margin	[6] = [5] / [3]	81.6%	52.4%	60.3%	65.9%	65.3%
Pre-Tax Operating Income	[7] = [3] - [5]	404,290	1,781,637	1,802,347	1,867,140	2,248,000
as % of Gross Margin	[8] = [7] / [3]	18.4%	47.6%	39.7%	34.1%	34.7%
Income Tax Expense/(Benefit)	[9]	(427,000)	(418,000)	32,000	0	381,900
Net Utility Operating Income	[10] = [7] - [9]	831,290	2,199,637	1,770,347	1,867,140	1,866,100
as % of Gross Margin	[11] = [10] / [3]	37.8%	58.8%	39.0%	34.1%	28.8%
Interest Expense	[12]	571,130	561,171	862,380	844,195	994,500
as % of Gross Margin	[13] = [12] / [3]	26.0%	15.0%	19.0%	15.4%	15.4%
Interest Coverage Ratio	[14] = [7] / [12]	0.7	3.2	2.1	2.2	2.3
Net Income	[15] = [10] - [12]	260,160	1,638,466	907,967	1,022,945	709,600
as % of Gross Margin	[16] = [15] / [3]	11.8%	43.8%	20.0%	18.7%	11.0%
Rate of Return						
Net Plant	[17]	16,466,586	23,407,931	27,038,557	30,780,733	33,770,487
Deferred Tax Asset	[18]	1,248,000	1,664,000	1,790,000	1,790,000	1,408,100
Approximate Rate Base	[19] = [17] + [18]	17,714,586	25,071,931	28,828,557	32,570,733	35,178,587
Approximate Average Rate Base	[20]	15,902,762	21,393,259	26,950,244	28,821,332	33,874,660
Approximate Pre-Tax Rate of Return	[21] = [7] / [20]	2.5%	8.3%	6.7%	6.5%	6.6%
Approximate After-Tax Rate of Return	[22] = [10] / [20]	5.2%	10.3%	6.6%	6.5%	5.5%
Average Debt	[23]	10,470,003	13,738,467	17,753,265	19,051,917	23,380,262
Average Debt Cost	[24] = [12] / [23]	5.45%	4.08%	4.86%	4.43%	4.25%

Sources and Notes:
2011-2014 data from GMG's audited financial statements. GMG has marked these statements trade secret, and the Department has not included them as attachments.
2015 data and 2016 projected data from Petition, Attachment No. 6
The Department notes that the 2014, 2015 and 2016 data presented here was marked trade secret by GMG. However, a representative of GMG confirmed that the Company would not object to its inclusion in the Department's public comments.
Net utility operating income calculated as pre-tax operating income less taxes
Interest coverage ratio calculated as interest expense divided by operating income

As shown in the upper portion of Table 3, GMG's financial performance for the 12 months ended August 31, 2015 was roughly comparable to calendar year 2014. GMG's gross margin continued to increase, but operating expenses increased as well, resulting in a small decrease in net income as a percentage of gross margin.

Additionally, GMG's interest coverage ratio (net utility operating income divided by interest expense) remained relatively constant, and continues to be much higher than it was prior to 2013, which is indicative of GMG's improved ability to meet its debt obligations. The lower portion of Table 3 presents approximate return calculations for GMG, which are largely unchanged from calendar year 2014.

C. REASONABLENESS OF GMG'S PROPOSED CAPITAL STRUCTURE

Table 4 below presents GMG's current and projected capital structures. As shown, GMG's proposed capital structure reflects an increase in total capitalization of $4.2 million, comprised of $2.4 million in equity and $1.8 million in total debt.

Table 4:
Summary of GMG's Actual and Proposed Capital Structures

	Actual August 31, 2015		Projected December 31, 2016		
	Amount	Percent	Amount	Percent	Difference
Common Equity	10,005,289	31.13%	11,719,758	32.24%	1,714,469
Preferred Shares	-	0.00%	-	0.00%	-
Short-Term Debt					
Line of Credit	301,250	0.94%	401,250	1.10%	100,000
Current Portion of Long-Term Debt	786,000	2.45%	786,000	2.16%	-
Total Short-Term Debt	1,087,250	3.38%	1,187,250	3.27%	100,000
Long-Term Debt	21,046,709	65.49%	23,439,314	64.49%	2,392,605
Total Capitalization	32,139,248	100.00%	36,346,322	100.00%	4,207,074
Contingency			1,153,678	3.17%	
Total with Contingency			37,500,000	103.17%	

Source: Petition, Attachment 6, Part 1

The Department notes that GMG's current and proposed equity ratios are significantly lower than the average equity ratio of risk-comparable gas utilities. The year-end 2014 average equity ratio of publicly traded gas utilities with bond ratings from BBB- to A- was 50.9 percent.[2] Thus, as in past capital structure dockets, the Department remains concerned about the financial health of the Company in spite of the improvements observed over the last few years noted above.

[2] See Department Attachment 1.

GMG's need for funds is driven by its continuing system expansion. GMG's planned 2016 capital expenditures, approximately 85 percent of which will go towards customer additions and main extensions, will be lower than in recent years, but still much higher than in 2012 and before.

Table 5:
GMG's Capital Expenditures

Year	Capital Expenditures
2009	558,983
2010	493,031
2011	969,911
2012	2,535,540
2013	8,304,102
2014	4,205,616
2015*	5,300,000
2016*	3,950,000

Sources and Notes:
2009-2014 data from Table 5 of the Department's Mar. 6, 2015 Comments in GMG's 2015 Capital Structure Docket
2015 data from GMG's Petition in 2015 Capital Structure Docket
2016 data from Petition, Attachment 12
* Projected

With respect to its long-term capital expenditure plans GMG stated in its response to Department Information Request No. 5 that it plans to

> …continue striving to serve as many customers as possible without falling below the minimum equity ratio ordered by the Commission and which GMG has agreed to maintain. GMG has not seen any reduction in the level of requests for new service. GMG anticipates that capital requirements will continue to be met with a combination of internal cash generation and new debt.[3]

Thus, as was the case in the 2015 Capital Structure Docket, it is the Department's understanding that GMG does not plan to take actions specifically intended to increase its equity ratio during the next few years. Rather, GMG plans to maintain its highly leveraged

[3] See Department Attachment 2.

capital structure by continuing to issue as much debt as its net income (which is added to equity) will allow while maintaining an equity ratio of at least 31.59 percent in order to fund its capital spending.

GMG's ability to lower its average cost of debt in recent years has played a significant role in its improving financial performance. However, if interest rates rise, GMG will be at risk to the extent it has variable-rate debt or has expiring fixed-rate debt that it will be forced to refinance at higher rates. If GMG were to slow its capital expenditures and allow its equity to build via net income (which would cause its equity ratio to rise), the lower reliance on debt would help protect the Company from the impacts of rising interest rates.

It may be the case that aggressive expansion in the short- and medium-term will turn out to be better for GMG's long-term financial health than a more conservative expansion plan that would improve GMG's equity ratio sooner rather than later. But in the short and medium-terms, GMG's aggressive growth plan is certainly riskier.

In the 2013 and 2014 Capital Structure Dockets, the intention behind the Department's recommendations was to allow GMG some flexibility to pursue its expansion projects while maintaining a minimum degree of financial integrity. The Department's intention remains unchanged in this Docket. Thus, the Department recommends that the Commission approve GMG's proposed capital structure as detailed in Table 4 above. However, given GMG's low equity ratio, the Department recommends that the Commission impose additional restrictions on GMG, described below, in order to ensure that GMG's capital structure does not deteriorate.

D. REASONABLENESS OF THE PROPOSED CONTINGENCY RANGES

1. Equity Ratio Range

As noted above, the Commission's May 26, 2015 Order in the 2015 Capital Structure Docket approved an equity ratio contingency range of 31.00 percent to 38.61 percent, and GMG has complied with this requirement. The Commission's Order also required GMG to file a new capital structure petition by January 1, 2016 with an equity ratio contingency range of 31.59 percent to 38.61 percent. GMG has also complied with this ordering point. On page ten of its Petition, the Company requested approval of the required equity ratio contingency range of 31.59 percent to 38.61 percent. However, the Department notes that GMG's equity ratio as of October 31, 2015 was only 31.26 percent.[4] Thus, if the Commission were to approve GMG's requested contingency range, GMG would immediately become non-compliant absent an improvement in the Company's equity ratio.

The Department notes that in the 2015 Capital Structure Docket, GMG proposed a capital structure with an equity ratio of 31.66 percent. However, in calculating its proposed equity ratio, GMG inappropriately excluded amounts drawn on its line of credit from its total capitalization. The Department recalculated GMG's capital structure with the line of credit

[4] See GMG's December 15, 2015 Compliance Filing in the 2015 Capital Structure Docket.

included, which lowered GMG's proposed equity ratio from 31.66 percent to 31.15 percent, below the 31.59 percent floor proposed in that proceeding, which was the same floor the Commission had approved in GMG's three prior capital structure Dockets.[5] In Reply Comments dated March 16, 2015, the Company stated that it if it were to reflect amounts drawn on its line of credit, it would not be able to achieve an equity ratio of 31.59 percent or higher without canceling some of its planned capital projects. Rather than requiring GMG to adjust its plans, the Commission lowered GMG's equity ratio floor to 31.00 percent. However, the Commission simultaneously required GMG to propose an equity ratio floor of 31.59 percent in it next capital structure petition with the expectation that GMG would be able to raise its equity ratio enough to meet this requirement. GMG has not done so.

In this Docket, the Commission could approve the same equity ratio range that it approved in the 2015 capital structure Docket (31.00 percent to 38.61 percent). The Department recognizes that the difference between the equity ratio floors is small, and the difference in risk presented by equity ratio of 31.26 versus 31.59 percent is negligible. However, the Department is also hesitant to recommend approval of repeated downward revisions, however small, to the 31.59 percent floor that had been in place for a few years prior to the last year, particularly at a time when GMG is capable of increasing its equity ratio by slowing growth.

Therefore, the Department recommends that the Commission approve an equity ratio range of 31.00 percent to 38.61 percent, but with the condition that if GMG's equity ratio is less than 31.59 percent as of December 31, 2016, GMG be required to inject equity to raise it equity ratio to at least 31.59 percent.

Additionally, the Department notes that the Commission often allows utilities to violate approved ranges for a period of 60 days without Commission notification. However, the Commission has not granted that extra flexibility to GMG with respect to its equity ratio, and required GMG to maintain an equity ratio at or above its approved floor at all times. Given GMG's current, low equity ratio and the risks inherent in the Company's expansion strategy, the Department recommends that the Commission impose this same restriction again in this Docket.

In GMG's last three Capital Structure Dockets, the Commission required GMG to make monthly compliance filings demonstrating that GMG's equity ratio remained at or above the approved floor. Given that GMG's current equity ratio is near the proposed floor, the Department recommends that the Commission impose this same requirement on the Company again in this Docket.

2. Short-term Debt Ratio

In its Petition, GMG requested a short-term debt contingency cap of ten percent of its total capitalization. The Department considers this request to be reasonable, but emphasizes that GMG's equity ratio must remain at or above 31.00 percent at all times. Given GMG's

[5] See the Commission's Orders in Docket No. G022/S-12-137, G022/S-12-1370, and G022/S-13-1169.

current equity ratio of 31.26 percent, GMG would have little flexibility to issue short-term debt and as a result, short-term financing needs would have to be met with equity.

The Department recommends that the Commission allow GMG to violate the proposed short-term debt contingency cap of ten percent for up to 60 days, but not the proposed equity ratio floor.

3. Long-term Debt Ratio

In its Petition, GMG did not request a specific contingency range for its long-term debt ratio. Rather, the Company requested the flexibility to issue long-term debt provided that it remains within its equity and short-term debt contingency ranges and does not exceed them for more than 60 days. In other words, if GMG were to reduce its short-term debt ratio to zero, the maximum long-term debt ratio that would keep the Company within the proposed equity range would be 69.00 percent (equal to 100 percent minus 31.00 percent).

GMG's proposal is consistent with its past three capital structure Dockets, and the Department concludes that it is reasonable.

4. Total Capitalization

In its Petition, GMG requested Commission approval of a total capitalization of $36.3 million, with a contingency of $1.2 million, for a maximum capitalization of $37.5 million. The Department notes that the contingency amount of $1.2 million is equal to 3.2 percent of GMG's proposed capitalization, significantly less than the 10 percent capitalization contingency approved by the Commission in GMG's three most recent capital structure Dockets. The Department concludes that a 10 percent contingency is appropriate to protect the Company from unforeseen capital needs. The Department recommends a total capitalization of $36.3 million with a 10 percent contingency ($3.6 million) for a total of $40.0 million as shown in Table 6 below. The Department reiterates, however, that if GMG uses this total capitalization contingency, it must maintain an equity ratio of at least 31.00 percent.

Table 6:
Department Alternative Contingency

	GMG Proposed Capital Structure December 31, 2016		Department Alternative Capital Structure December 31, 2016		
	Amount	Percent	Amount	Percent	Difference
Common Equity	11,719,758	32.24%	11,719,758	32.24%	-
Preferred Shares	-	0.00%	-	0.00%	-
Short-Term Debt					
Line of Credit	401,250		401,250		-
Current Portion of Long-Term Debt	786,000		786,000		-
Total Short-Term Debt	1,187,250	3.27%	1,187,250	3.27%	-
Long-Term Debt	23,439,314	64.49%	23,439,314	64.49%	-
Total Capitalization	36,346,322	100.00%	36,346,322	100.00%	-
Contingency	1,153,678	3.17%	3,634,632	10.00%	2,480,954
Total with Contingency	37,500,000	103.17%	39,980,954	110.00%	2,480,954

Source: Petition, Attachment 6, Part 1

V. CONCLUSION AND RECOMMENDATIONS

The Department recognizes GMG's continued financial improvement, but the Company remains in a precarious financial position. The Department supports GMG's intentions to add profitable, high-volume customers to its system, but as long as the Company continues with its aggressive expansion plan financed in large part with new debt, the Department recommends close scrutiny of GMG's capital structure via monthly compliance filings.

The Department recommends that the Commission:

- approve GMG's proposed 2016 capital structure;
- require GMG to file a new securities issuance and capital structure petition by January 1, 2017;
- approve an equity ratio contingency range of 31.00 percent to 38.61 percent;
- require that GMG maintain an equity ratio contingency range of at least 31.00 percent at all times;
- require GMG make monthly compliance filings on or before the 15th of each month containing a balance sheet, income statement, and cash flow statement for the first of the prior two months, demonstrating that its equity ratio is at least 31.00 percent;

- require GMG, if its equity ratio is less than 31.59 percent on December 31, 2016, to inject equity or make other changes such that its equity ratio is at least 31.59 percent.
- approve a short-term debt contingency cap of 10 percent (*i.e.,* GMG's short-term debt is not to exceed 10 percent of its total capitalization, including the contingency, for more than 60 days); and
- approve a total capitalization contingency of $3.6 million above the estimated 2016 year-end total capitalization of $36.3 million, for a total capitalization of $40.0 million.

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2014 Capital Structures for Gas Utilities
With Bond Ratings from A- to BBB

Company	Stock Ticker Symbol	S&P Debt Rating	Short-Term Debt	Long-Term Debt	Common Equity	Total Capitalization	Equity Ratio
ATMOS ENERGY CORP	ATO	A-	196.7	2,456.0	3,086.2	5,738.9	53.8%
LACLEDE GROUP INC	LG	A-	287.1	1,851.0	1,508.4	3,646.5	41.4%
NATIONAL FUEL GAS CO	NFG	BBB	85.6	1,649.0	2,410.7	4,145.3	58.2%
ONE GAS INC	OGI	A-	42.0	1,201.3	1,794.0	3,037.4	59.1%
SOUTH JERSEY INDUSTRIES INC	SJI	BBB+	395.6	879.2	932.4	2,207.2	42.2%
Average							50.9%
Standard Deviation							7.7%

Source: Research Insight Database

State of Minnesota

DEPARTMENT OF COMMERCE
DIVISION OF ENERGY RESOURCES

Utility Information Request

Nonpublic [ ]
Public [X]

Docket Number: G022/S-15-956 Date of Request: 11/17/2015

Requested From: Kristine A. Anderson, GMG Response Due: 11/27/2015

Analyst Requesting Information: Craig Addonizio

Type of Inquiry:

[X] Financial	[ ] Rate of Return	[ ] Rate Design
[ ] Engineering	[ ] Forecasting	[ ] Conservation
[ ] Cost of Service	[ ] CIP	[ ] Other:

If you feel your responses are trade secret or privileged, please indicate this on your response.

Request No.	
5	Please generally describe GMG's long-term plans for capital expenditures, system expansion, and debt issuance. Does GMG anticipate either a decrease in capital expenditures in future years, or a decrease in the degree to which capital expenditures in future years will be financed with new debt (either of which will allow its equity ratio to increase)?

GMG RESPONSE:

GMG's capital budget is driven by customer requests for service that meet the requirements of GMG's main extension rules. GMG has scaled back its new business expenditures from $4.8 million in 2015 to $3.4 million in 2016 to allow for less stress on GMG's finances and to comply with the Commission's direction to maintain a minimum of 31.59% equity. Where it makes more economic sense, GMG's affiliate, Greater Minnesota Transmission, LLC, partners with other companies to provide unserved rural Minnesotans with accessibility to safe, reliable, and affordable natural gas. GMG will continue striving to serve as many customers as possible without falling below the minimum equity ratio ordered by the Commission and which GMG has agreed to maintain. GMG has not seen any reduction in the level of requests for new service. GMG anticipates that capital requirements will continue to be met with a combination of internal cash generation and new debt.

Response by: Kristine Anderson

List sources of information:

Title: Corporate Attorney

Department:

Telephone: 507-665-8657

CERTIFICATE OF SERVICE

I Marcella Emeott, hereby certify that I have this day, served copies of the following document on the attached list of persons by electronic filing, certified mail, e-mail, or by depositing a true and correct copy thereof properly enveloped with postage paid in the United States Mail at St. Paul, Minnesota.

Minnesota Department of Commerce
Comments

Docket No. G022/S-15-956
Dated this 30th day of December 2015

/s/Marcella Emeott

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