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June 11, 2015

VIA ELECTRONIC FILING

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

RE: Petition for Change in Contract Demand Entitlement
Docket No. G022/M-15-285

Dear Mr. Wolf:

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

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-15-285

filed this 11th day of June, 2015.

/s/ Kristine A. Anderson
Kristine A. Anderson, Esq.
Corporate Attorney
Greater Minnesota Gas, Inc.

First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
Kristine	Anderson	kanderson@greatermngas.com	Greater Minnesota Gas, Inc.	202 S. Main Street Le Sueur, MN 56058	Electronic Service	No	OFF_SL_15-285_M-15-285
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Daniel P	Wolf	dan.wolf@state.mn.us	Public Utilities Commission	121 7th Place East Suite 350 St. Paul, MN 551012147	Electronic Service	Yes	OFF_SL_15-285_M-15-285

STATE OF MINNESOTA

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

Beverly Jones Heydinger	Chair
Nancy Lange	Commissioner
Dan Lipschultz	Commissioner
John Tuma	Commissioner
Betsy Wergin	Commissioner

MPUC Docket No. G022/M-15-285

In the Matter of Greater Minnesota Gas, Inc.'s Petition for Change in Contract Demand Entitlement for 2015-2016 Heating Season

REPLY COMMENTS

OVERVIEW

Greater Minnesota Gas, Inc. (“GMG”) submitted a filing to the Minnesota Public Utilities Commission (“Commission”) requesting approval of its Petition for Change in Contract Demand Entitlement on March 25, 2015. The Petition requests that the Commission approve GMG’s proposed demand entitlement for the 2015-2016 heating season which will enable it to provide natural gas to its customers while ensuring both reliability and affordability. On June 2, 2015, 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. This submission constitutes GMG’s Reply to the Department’s Comments.

ISSUE SUMMARY

In its Comments, the Department recommended approval of GMG’s proposed level of demand entitlements, subject to possible changes before the beginning of the heating season. It also requested additional discussion regarding GMG’s storage contract and associated cost recovery; and, it requested changes to GMG’s design-day modeling in the future. While GMG does not generally object to the Department’s suggestions, GMG provides additional information herein regarding the following aspects of the Petition and Comments in order to clarify and supplement the record:

- Clarification of the actual impact of the storage contract on customer’s bills.
- Proposed restructuring of storage contract cost recovery.
- Discussion of future modeling and regression analysis.

DISCUSSION IN REPLY

GMG and the Department share the common goal of ensuring that GMG's customers receive reliable, cost-effective natural gas service. GMG appreciates the Department's recommendation that its proposed level of demand entitlements be approved; and, GMG is confident that, given its proposed cost recovery contained herein, the Department's concerns have been addressed. Additionally, while GMG does not generally object to the Department's suggestion that its future modeling incorporate multiple components, GMG respectfully requests that it be permitted to continue using consistent modeling methods until sufficient historical data exists to provide meaningful modeling results.

1. GMG's Customers Will Directly Experience a Substantial Cost Savings as a Result of the Storage Contract Because Commodity Cost Savings Will Offset Storage Costs.

GMG believes that the ultimate bottom-line rate impact of its storage contract may not be well understood and it appreciates the opportunity to add clarity to the record in that regard. The Department stated that GMG's proposed entitlement level would substantially increase customer bills and it discussed GMG's PGA cost recovery proposal beginning on page 17 of its Comments. The Department noted that GMG identified an annual bill increase of approximately 43.97 percent for the average customer. However, the 43.97 percent increase referred to is not an actual increase to GMG's customer bills. Rather, that figure reflected the percentage change in the demand cost of gas, as shown in Petition Attachment D at page 1. However, that same attachment also identified that the average annual total cost of gas to GMG's customers would increase by only 0.86%. The demand cost increase would be almost entirely offset as a practical matter due to the reduction in commodity cost resulting from the storage contract. Focusing on the increased demand charge identified in GMG's Petition does not consider the ultimate impact of the storage contract on GMG's customers. By way of example, in April, 2015, the MichCon index was \$2.71 per dekatherm; and, in May, 2015, it was \$2.73 per dekatherm. GMG began purchasing gas for storage in April. Ergo, GMG is buying gas at lower rates and its commodity cost is at that cost, as compared to buying day gas in the winter at a substantially higher cost. Attachment E of GMG's Petition shows that the cost of daily spot gas is high; and, even during the relatively warm winter, it soared to approximately \$11.00 per dekatherm at one point. The storage contract will at least offset the demand charge with a negligible impact on a customer's bill; and, it may actually result in a savings to the customer.

The option of utilizing a storage contract was not available to GMG even two years ago, because GMG was not in a position to be purchasing storage gas during the summer months. GMG can only do so now due to its growth and access to the Viking Emerson line. Nonetheless, purely from a cash flow perspective, buying and storing gas is not in GMG's best interest. It presents a financial challenge because it ties up GMG's working capital and customers will not begin repaying GMG for the gas until well into the heating season. However, the storage contract was obtained for the sole purpose of improving reliability and cost effectiveness for GMG's customers and is a tangible example of GMG's ongoing commitment to provide its customers with exceptional service at a reasonable cost.

2. The Cost Recovery Proposal Contained Herein Adequately Balances Cost Sharing for the Storage Contract by Distributing Cost Recovery Among Customers Benefitting from Availability of Stored Gas During the Heating Season.

GMG understands the Department's expressed concerns regarding cost recovery related to the storage contract. GMG originally believed that it was inappropriate to require its interruptible customers with primarily summer-only loads, such as asphalt and gravel companies, to share in the cost of a storage contract that those customers would not be using. Nonetheless, GMG recognizes the Department's concern, and that voiced by the Commission in other dockets, that some interruptible customers might ultimately use stored gas and fairness dictates that they share in storage costs. Hence, GMG has revised the cost-recovery proposal from that filed in its Petition and believes the cost-recovery proposal contained herein addresses the Department's concerns.

Essentially, GMG and the Department agree on the principle that if a customer (including an interruptible one) benefits from the use of stored gas, that customer should share in the cost of the storage contract. Therefore, GMG proposes that the cost of the storage contract be shifted from the demand charge into the commodity portion of GMG's gas rates. For purposes of calculating an annualized cost recovery, GMG assumes that it would withdraw gas in a given month in a manner that is reflective of how GMG has used spot gas in a winter with normal weather conditions. Therefore, GMG assumes that it would withdraw stored gas for 10 days in November; 25 days each in December, January, and February; and, 15 days in March. Accordingly, it would increase its commodity rate by that corresponding amount for each of those months. Consequently, to the extent that an interruptible customer uses gas during any of the months that stored gas is withdrawn, that customer will pay its proportionate cost of the storage agreement because it will be included in the commodity WACOG; and, the storage cost is removed from the demand charge altogether. A revised illustrative PGA Attachment D Page 1 reflects the changes and the impact on the customer's cost of gas.

By incorporating the storage cost into the commodity charge, all customers using gas during the heating season share responsibility for the cost of stored gas from which they directly benefit. Hence, the revised cost recovery proposal contained herein satisfies the Department's concerns and allows GMG to recover the cost of the storage contract without unduly burdening GMG's customers.

3. GMG's Regression Analysis is Appropriate on Until Sufficient Historical Data Exists to Provide a Meaningful Segregated Analysis.

The objective of design day analysis is to forecast anticipated firm customer demand at design temperatures to predict the necessary level of firm resources to sufficiently serve customers in the unlikely event that design day weather occurs. GMG historically relied on a single econometric model to forecast its supply needs for each upcoming heating season. However, in predicting its needs for the 2013-2014 heating season, GMG employed both quantitative and qualitative indicators in its forecast due to the unique new customer mix and substantial new

customer conversion rate anticipated for that year. In 2014, GMG returned to employing the single econometric modeling that it had used in the past; and, it applied the same modeling strategy in the current docket. GMG strives to make prudent distribution system and peak capacity planning decisions in order to ensure satisfaction of firm customer demand on the coldest days.

The Department reiterated its concern that, by using a single set of customer usage data for its regression analysis rather than performing a separate regression analysis for each type of load profile, the regression analysis results may underestimate actual firm usage. GMG concurs that separating residential and industrial/commercial customers for purposes of regression analysis is appropriate. In fact, GMG acknowledged that in both its contract demand entitlement petition for 2014-2015 (Docket No. G022/M-14-651 Petition for Change in Contract Demand Entitlement for 2014-2015 Heating Season, p. 3, ft. 2) and in its Petition herein; and, GMG has repeatedly noted its intent to separate its customer classes for regression analysis purposes when it has the basis to do so. However, there is simply not enough history to perform a meaningful regression analysis at this time. Hence, GMG respectfully requests that it continue to utilize its current methodology until it has three solid years of data upon which to calculate viable usage data by load profile and baseload consumption estimates.

REQUEST FOR COMMISSION ACTION

GMG remains confident that its proposed contract demand entitlement and cost recovery proposal, as amended, is reasonable and will benefit the interests of GMG's customers. Hence, GMG respectfully requests that the Commission approve its Petition for Change in Contract Demand Entitlement for the 2015-2016 Heating Season.

Dated: June 11, 2015

Respectfully submitted,

/s/

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