

March 8, 2018

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

RE: **Letter from the Minnesota Department of Commerce, Division of Energy Resources**
Docket No. G022/S-17-808

Dear Mr. Wolf:

On November 16, 2017, Greater Minnesota Gas, Inc. (GMG), filed its *Petition for Approval of 2018 Capital Structure and Permission to Issue Securities*.

On February 16, 2018, the Minnesota Department of Commerce (Department), filed Comments recommending approval of GMG's proposed 2018 capital structure, and also recommended that the Minnesota Public Utilities Commission (Commission) impose additional requirements on future capital structure petitions from GMG. Specifically, the Department recommended that the Commission:

- require GMG to propose in its next capital structure petition a plan that would be expected to result in a 36.50 percent equity ratio by December 31, 2019, assuming normal weather, or explain why such an increase is not possible; and
- require GMG to propose in its next capital structure petition a step-increase in its equity ratio floor from 33.0 percent to 34.0 percent beginning March 31, 2020, or explain why such an increase is not possible.¹

On February 23, 2018, GMG filed Reply Comments and proposed modifications to the Department's proposed future filing requirements.

With respect to the Department's recommendation that GMG be required to propose a plan that would be expected to result in a 36.50 percent equity ratio by the end of 2019, GMG proposed that the Department's recommendation be modified to account for GMG's expectation of the impact the Tax Cut and Jobs Act (TCJA), signed into law in late 2017, will have on its capital structure. GMG stated that it expects the TCJA to reduce its equity ratio by 0.6 of a percentage point, and therefore requested that the Department's proposed 2019 target be reduced from 36.5 percent to 35.9 percent.

¹ The Department notes that while the recommendation presented here is identical to the recommendation as it appears on page 14 of the Department's February 16, 2018 Comments, in the list of final recommendations on pages 15 and 16 of those Comments, the words "to 34.0 percent" were inadvertently omitted from recommendation number 8.

However, the appropriate treatment of the TCJA and its impacts is currently the subject of the ongoing Commission Investigation in Docket No. E,G999/CI-17-895 (TCJA Docket). As GMG acknowledged in its Reply Comments, “the actual impact of the recent federal tax changes are still unknown.” Because of this, the Department considers any adjustments to reflect the TCJA’s predicted impact to be premature. As noted above, the Department’s recommendation is for GMG to propose a 2019 year-end equity ratio of 36.5 percent, *or explain why such an increase is not possible*. If the outcome of the TCJA Docket renders unattainable a 36.5 percent equity ratio, GMG will have the opportunity to explain that in its next capital structure filing, and the Department will consider GMG’s explanation within the context of that docket and make its recommendations accordingly.

With respect to the Department’s proposal that GMG be required to increase its equity ratio from 33.0 percent to 34.0 percent beginning March 31, 2020, GMG proposed that:

rather than establishing an arbitrary requirement to increase the equity ratio floor approximately two years from now, the Commission consider what constitutes an appropriate 2020 equity ratio floor in conjunction with GMG’s 2019 capital structure petition.

The timing of the Department’s recommendation to impose an increase in GMG’s equity ratio floor effective on March 31, 2020 is based on GMG’s position in Docket No. G022/S-16-931 (the 2017 Capital Structure Docket). In that Docket, GMG made it clear that significant changes to its proposed capital structure for the current planning year (in that Docket, 2017) would force it to alter its plans and potentially cancel planned projects, causing undue hardship for the Company. GMG also made it clear that, in its opinion, imposing an increase in its equity ratio floor in the subsequent planning year (*i.e.* 2018), would also present significant challenges. As a result, the Commission imposed a requirement on GMG’s capital structure filing two planning periods in the future (*i.e.* 2019).

GMG’s proposal in this Docket to wait until the 2019 capital structure petition to make a decision about its 2020 equity floor directly contradicts the position it took in the 2017 Capital Structure Docket regarding the timing of increases, and it is unclear what, if anything, has changed in the last year.

In any event, the Department emphasizes, again, that its recommendation is intended only to set a starting point for future capital structure petitions, not an ending point. 34.0 percent is a soft target, not a hard target. If a 34.0 percent equity ratio floor turns out to be an impossible goal, GMG will have an opportunity to explain why in future filings, and the Department will consider GMG’s explanation in making its recommendations in those dockets.

The Department’s recommendations are unchanged from its February 16, 2018 Comments. The Department recommends that the Commission:

1. approve GMG's proposed 2018 capital structure;
2. require that GMG maintain an equity ratio contingency range of at least 31.59 percent at all times, unless it can demonstrate that adjustments resulting from the Tax Cuts and Jobs Act of 2017 caused its equity ratio to fall below 31.59 percent;
3. 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;
4. 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);
5. approve a total capitalization contingency of \$4.0 million above the estimated 2018 year-end total capitalization of \$40.3 million, for a total capitalization of \$44.3 million;
6. require GMG to file a new securities issuance and capital structure petition by January 1, 2019;
7. require GMG to propose in its next capital structure petition a plan that would be expected to result in a 36.50 percent equity ratio by December 31, 2019, assuming normal weather, or explain why such an increase is not possible; and
8. require GMG to propose in its next capital structure petition a step-increase in its equity ratio floor from 33.0 percent to 34.0 percent beginning March 31, 2020, or explain why such an increase is not possible.

The Department is available to answer any questions the Commission may have.

Sincerely,

/s/ CRAIG ADDONIZIO
Financial Analyst

CA/lt

CERTIFICATE OF SERVICE

I, Sharon Ferguson, 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
Letter**

Docket No. G022/S-17-808

Dated this 8th day of March 2018

/s/Sharon Ferguson

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_17-808_S-17-808
Generic Notice	Commerce Attorneys	commerce.attorneys@ag.state.mn.us	Office of the Attorney General-DOC	445 Minnesota Street Suite 1800 St. Paul, MN 55101	Electronic Service	Yes	OFF_SL_17-808_S-17-808
Ian	Dobson	residential.utilities@ag.state.mn.us	Office of the Attorney General-RUD	1400 BRM Tower 445 Minnesota St St. Paul, MN 551012130	Electronic Service	Yes	OFF_SL_17-808_S-17-808
Sharon	Ferguson	sharon.ferguson@state.mn.us	Department of Commerce	85 7th Place E Ste 280 Saint Paul, MN 551012198	Electronic Service	No	OFF_SL_17-808_S-17-808
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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_17-808_S-17-808