202 S. Main Street
Le Sueur, MN 56058
Toll Free: (888) 931-3411
Fax (507) 665-2588
www.greatermngas.com

June 17, 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-12-1279.

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) 665-8652 and my email address is nkupster@greatermngas.com.

Sincerely,

GREATER MINNESOTA GAS, INC.

/s/
Nikki Kupser
Compliance & Regulatory Administrator

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-12-1279

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. The filing was inadvertently submitted as a compliance filing under an old docket number rather than as a new petition under a new docket number. In response to communication from the Minnesota Department of Commerce, Division of Energy Resources ("Department"), GMG resubmitted the information in a Contract Demand Entitlement Petition ("Petition") on March 25, 2013. Subsequently, GMG provided certain documents to the Department on May 3, 2013. Following two requests for an extension of time to comment, the Department filed Comments of the Minnesota Department of Commerce Division of Energy Resources ("Comments") on June 7, 2013 in response to GMG's Petition. This submission constitutes GMG's Reply to the Department's Comments.

ISSUE SUMMARY

In its Comments, the Department made three basic recommendations; namely, that the Minnesota Public Utilities Commission ("Commission") take the following actions:

- Withhold its decision on GMG's total entitlement level until GMG provided what the Department called "sufficient support" for its request "given the issues identified by the Department regarding design-day capacity."
- Allow GMG's proposed recovery of associated demand costs effective November 1, 2012.
- Require GMG to provide a detailed explanation of how it currently prepares regulatory filings and what steps GMG is taking to ensure timely submission of future filings.

In addition to addressing the Department's concerns, GMG also presents two suggestions for the Commission's consideration regarding a cooperative effort between the Department and GMG to establish approaching reserve margin needs and regarding further investigation into the state of the provision of natural gas service to rural Minnesota.

DISCUSSION IN REPLY

At the outset, GMG is pleased that the "Department conclude[d] that [GMG's] proposed recovery of overall demand costs is reasonable." GMG also appreciates that the Department has implicitly recognized that GMG does need to increase its demand entitlement to assure a sufficient reserve margin, albeit with concerns about the GMG regression analysis. Additionally, GMG appreciates the position that the Commission is in with regard to its obligation to balance the sometimes-competing objectives of public safety, public policy, and cost effectiveness. GMG is confident that its design day study is statistically valid and that its demand request is properly supported. Although replete with technical analysis, the situation can be reduced to a very basic observation: GMG sustained tremendous growth surpassing even its own goals by bringing natural gas benefits to more Minnesotans; and, in order to continue to be able to provide effective service to the people of rural Minnesota, GMG needs to be able to increase its reserve margin to an adequate level demanded by the growth. Therefore, GMG respectfully requests that the Commission approve its Petition.

1. **GMG's Design Day Analysis is Sound.**

GMG supported its request for a change in its demand entitlement level contract with an ordinary least squares linear regression analysis. OLS regression is a statistically valid and widely accepted model for analyzing need where there is a strong correlation between two variables: in this case, extremely cold weather and natural gas usage. The regression analysis equations are detailed in the materials previously submitted by GMG; and, as indicated in the Petition, are based on usage history from July, 2009 through June, 2012 (which, at the time this process was started, included the most recent winter data). Despite the explanation of the basis for GMG's calculations, the Department attempted to indict GMG's analysis based on not including peak-day sendout over the last two winters. Yet, the Department failed to articulate how that data would have improved GMG's ultimate projected need for an increased reserve margin given two important factors: 1) the winter of 2011-2012 was the warmest on record and, therefore, the peak-day sendout would be of little help in capturing a worst-case scenario for likely usage on the coldest day; and 2) GMG's customer mix has both increased dramatically and changed in content to such a degree that previous peak-day sendout data would not improve the integrity of the projections.

While statistical modeling is an important and useful tool, sometimes the entire situation is easier to understand when looking at the picture as a whole. The Department is concerned because, based on its own statistical analysis method (different from, but not necessarily better than, GMG's), GMG's recent reserve margin was smaller than it was projected to be. That is true. However, when one considers the fact that the firm's customer growth was projected to be roughly a 600 customer equivalent increase and was, in actuality, a roughly 900 customer equivalent increase, it is easy to understand why the reserve margin was too narrow. It is also critical to note that, while GMG nearly reached the capacity of its reserve margin during the 2012-2013 season, it did not, despite its exponential growth. Moreover, to the extent that the reserve margin would have been exceeded, it would not have resulted in customers automatically losing access to gas had the modeled design day come to pass. Rather, gas would have continued to flow and customers would have continued to have heat; but, GMG would have sustained an economic penalty from the interstate pipeline as a result. The bottom line, however, is that public safety was not impacted.

Interestingly, all parties and decision makers know what actually happened in the 2012-2013 winter heating season; yet, the Department has asked the Commission to withhold approval of the demand entitlement increase for that period so that more numbers for more statistical analysis can be used, despite the fact that those numbers would also create an artificial projection. As a practical matter, that makes no sense. By virtue of its own analysis, the Department concedes that GMG's reserve margin was too narrow for the 2012-2013 winter. The discussion could realistically end there. It seems a highly inefficient use of Department, Commission, and GMG resources to require continued speculative statistical modeling when empirical data is actually available.

Nonetheless, GMG is happy to provide the additional information requested by the Department. During the 2010-2011 heating season, the peak-day send out occurred on January 21, 2011 and the sendout was 3,905 Dth. Similarly, during the 2011-2012 heating season, the peak-day send out occurred on January 19, 2012 and the sendout was 3.710 Dth. Even during the 2012-2013 heating season, which is currently in question in this proceeding, GMG was able to operate within its reserve margin despite unprecedented growth. During that heating season, the peak-day sendout occurred on January 31, 2013 and the sendout was 5,038 Dth; and, while minimal, GMG still a very small amount of capacity available for increased use in its reserve margin before it would have been penalized by the interstate pipeline. The actual evidence demonstrates that GMG had more than an adequate supply of natural gas for its customers with minimum reserve margin costs. In order to maintain the ability to continue to operate within its reserve margin, GMG must be permitted to increase its demand entitlement to a level that will protect the firm's customers without unduly burdening them.

2. **GMG Should Be Permitted To Recover Demand Costs.**

There is no dispute on this issue, as the Department concurs that the Commission should allow GMG's to recover the associated demand costs effective November 1, 2012. GMG values the Department's insight in this regard.

3. **GMG and the Department Should Partner for Future Design Day Analysis During GMG's Continued Growth Pattern.**

As noted above, GMG acknowledges the Department's concern that it had less reserve margin than desirable. Public safety was not, as a practical matter, in any jeopardy because in actuality, the desired reserve margin for GMG is less than the real meter error margin at some of the larger

Town Border Stations in Minnesota; but, GMG agrees with the Department that utilities should plan for an adequate reserve margin and GMG concurs that, given its growth, its reserve margin needs to be higher. The attached graph (GMG Exhibit 1) shows the history of GMG customer growth between 2008 and 2013. As previously discussed, the reason that GMG's reserve margin was less than originally expected is because GMG added the equivalent of 313 more new customers than it anticipated. While a large utility may be able to absorb that deviation as insignificant, for a company of GMG's size, the deviation was an additional 50% of forecasted growth and, as a result, it pierced GMG's reserve margin. One would expect the same phenomena in a large utility if it incurred proportionally similar growth in a one year period. By its own admission in its Comments, the Department acknowledged precisely the scenario that created the very situation that the Department is concerned about when it said, ". . .since [GMG} is a small utility, unexpected customer additions can have a significant impact on throughput."

The Department's request that GMG continue to provide information about historic use and employ that in statistical modeling as a prediction for future requirements is short-sighted given the totality of GMG's circumstances. GMG agrees that the Department's approach (and, indeed, GMG's historic approach) is a good model for a static system; however, it may not be sound methodology for a system that is continuing to grow exponentially. GMG's throughput is growing at 25% as a result of last year's substantial customer growth which included both additional customers and a substantial change in the customer mix. Just as the Department's preferred statistical analysis could not have accurately predicted the necessary reserve margin for the 2012-2013 heating season, similar modeling is not likely to be helpful in determining the needs of GMG's customers for the 2013-2014 heating season.

Accordingly, rather than focusing on GMG's 2012-2013 usage portfolio and traditional design day regression analysis, GMG invites a partnered approach to determining an appropriate demand entitlement contract level for the upcoming heating season. As a result, GMG respectfully requests that the Commission order the Department and GMG (and, if desired, Commission staff) to review GMG's current circumstances and anticipated growth and work together to determine the appropriate level of demand entitlement contract needed for the upcoming 2013-2014 heating season. There could be no better use of resources to assure that the Commission's goal balancing needs are met and prevent wasting resources on an after-the-fact debate. Neither the Department nor GMG is effectively protecting the public interest or efficiently serving the Commission's goals by engaging in analysis with data that is not suited to accurately predict future needs as a result of GMG's growth. However, by working together to leverage the Department's knowledge base and GMG's growth activity, all parties can effectively and efficiently balance the needs of the broader public interest concerns to serve rural Minnesota's natural gas customers and prevent any worst-case scenario weather event from exceeding GMG's reserve margins.

4. **GMG is Addressing its Regulatory Filing Needs to Curtail Filing Missteps.**

The Department accurately identified a shortfall in GMG's performance with respect to meeting regulatory filing requirements. While GMG regrets the problems that have befallen it in the past, GMG assures the Commission that is taking steps to address the situation. While major utility companies often have entire staffs and outside counsel dedicated to maintaining regulatory compliance, GMG is very small entity and has not been able to muster the same type of resources afforded a major or multi-state utility in that regard. Nonetheless, GMG recognizes the importance of timely and accurate regulatory filings and is undertaking methods to remedy its past performance issues.

By way of background, GMG Exhibit 2 is the GMG organizational chart. The only people involved in and responsible for preparation of GMG's regulatory filings are Mr. Palmer, Mr. Emmers, and Ms. Kupser. As the organizational chart demonstrates, each of those individuals has multiple responsibilities. As an example, GMG was required to obtain permits and approvals from over 30 government agencies for its 2013 projects. The same three people were responsible for addressing the permit requirements of all 30 agencies; and, in addition to that, they are responsible for the tasks necessitated by the day to day operation of the business. As a result of GMG's small size and staffing limitations, its responsiveness to the Department has admittedly been lacking.

Luckily, along with growth comes the ability to improve staffing ratios. GMG has just acquired an in-house corporate attorney whose primary job responsibilities will include meeting the regulatory mandates required by the Department. GMG is confident that by dedicating that individual to meeting regulatory needs, its performance will improve and its timeliness issues will ultimately be resolved.

5. **GMG Provides a Vitally Important Benefit to Rural Minnesota.**

It is a well-settled fact that many rural areas in Minnesota are not served by Minnesota's major natural gas utilities. That scenario results in those members of the public, both individual and commercial, being deprived of the economic, environmental, and reliability benefits of natural gas enjoyed by metropolitan Minnesotans. GMG is concerned that, because there are so few regulated rural providers, the Department and the Commission run the risk of examining GMG's performance through the same lens used to view the major utility companies and comparing GMG to those major companies out of habit without regard for the actual circumstances of GMG and its customers.

While GMG recognizes the importance of regulation and its compliance therewith, GMG also maintains that the expectations for a small utility provider should be suited to its authentic business environment and unique situations. It would be easy to view GMG with regard only to isolated problems, and some of the Department's comments in this docket and other proceedings suggest that may have happened. However, GMG should also be viewed in light of the benefit that it provides to the State at large. Anecdotally, a compressed natural gas pump near Owatonna, Minnesota depicts a price per gallon of $1.79, which is approximately half the cost of gasoline, as seen in GMG Exhibit 3, which is illustrative of the difference in cost between natural gas and liquid fuels. Similar savings are also possible in the home and business markets. GMG's customers expect to save between 30% and 50% on their energy bills. As a result of GMG's 2013 expansion efforts, Minnesota homes and business will receive between $1.5 million and $3 million per year in energy cost savings. The availability of natural gas reduces emissions and enhances the reliability of rural businesses. The broader benefits to the Minnesota community offered by GMG should not be overshadowed by the minutia of details that often bog down docket proceedings; and, GMG is hopeful that the Commission recognizes that in the grand scheme of natural gas supplied to Minnesota, GMG's shortcomings are far outweighed by its successes.

6. Rural Minnesota Natural Gas Provision Warrants Further Investigation.

GMG clearly recognizes the multiple public policy issues that must be addressed by the Commission. Unfortunately, the current system essentially binds the Department's ability to exercise discretion or be flexible with regard to changing rules and adapting policy to meet the changing needs of rural utility providers. Nonetheless, as a rural provider, GMG has concerns that the Department may not be in a position to help it and other rural providers meet the natural gas needs of rural Minnesota.

GMG is certain that it is not the intent of the State to deny natural gas service to rural Minnesota, especially given its economic and environmental benefits. Likewise, GMG does not believe that it was the State's intent to create a regulatory system that inadvertently promotes the disingenuous use of corporate structures to circumvent regulation. However, GMG believes that both are consequences of the current system. Therefore, GMG proposes that the Commission order a study relative to the provision of natural gas service in rural Minnesota. From GMG's perspective, there are five issues of particular import, namely:

1. Review of those portions of rural Minnesota that do not currently have natural gas service;
2. Determination of whether it serves the public interest to expand the provision of natural gas service to those areas;
3. Examination of how new natural gas utility companies in Herron Lake, Minnesota and seven communities near Clara City, Minnesota are structured to avoid state regulation;
4. Deliberation about whether any regulatory changes would assist with extending natural gas service in Minnesota if extension would serve the public interest; and,
5. Consideration of whether an advocate should be appointed to promote and foster the expansion of natural gas service to rural areas while balancing the many public policy concerns that must be addressed.

GMG believes that such a study would benefit both the public interest and in the interests of the entities charged with representing the public interest.

REQUEST FOR COMMISSION ACTION

GMG's design day analysis is valid and based on sound information. Despite the pressure of unanticipated growth, GMG has been able to operate within its reserve margin to this point. However, given its recent growth, both GMG and the Department recognize the need for an increased reserve margin. Moreover, a new approach can help ensure that rural Minnesota receives the highest level of natural gas service possible. Accordingly, GMG respectfully requests that the Commission take the following four steps:

1. Approve its Contract Demand Entitlement Petition and permit GMG to increase its demand entitlement to assure sufficient reserve margins.
2. Allow the proposed recovery of associated demand costs effective November 1, 2012. (The Department concurs with this request.)
3. Order the Department to work cooperatively with GMG and, if appropriate, with Commission staff to determine the appropriate reserve margin for the approaching 2013-2014 heating season.
4. Order a study of rural Minnesota natural gas needs and how the current regulatory system meets those needs.

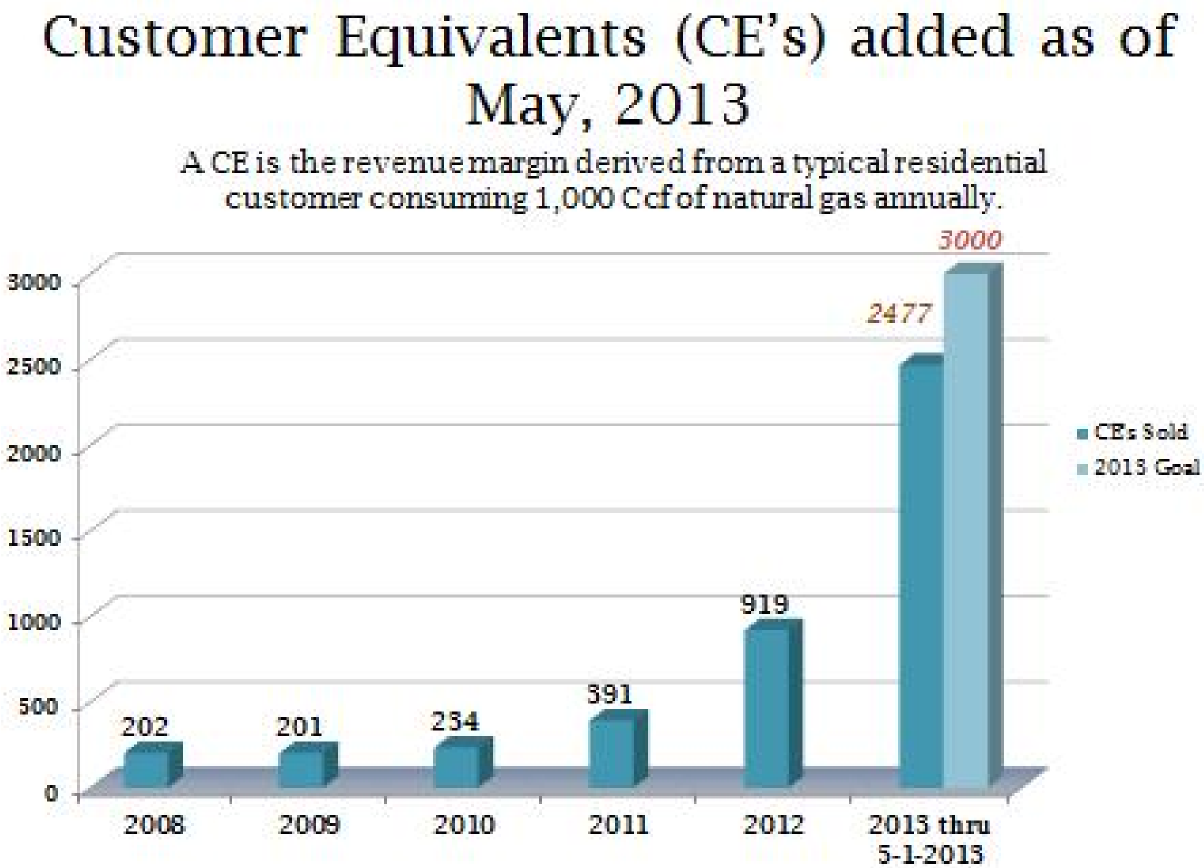
GMG appreciates the Commission's consideration of its Petition and this Reply. In light of the foregoing, and based upon the entirety of docket records in this matter, GMG respectfully requests that the Commission approve its requests.

Dated: June 17, 2013

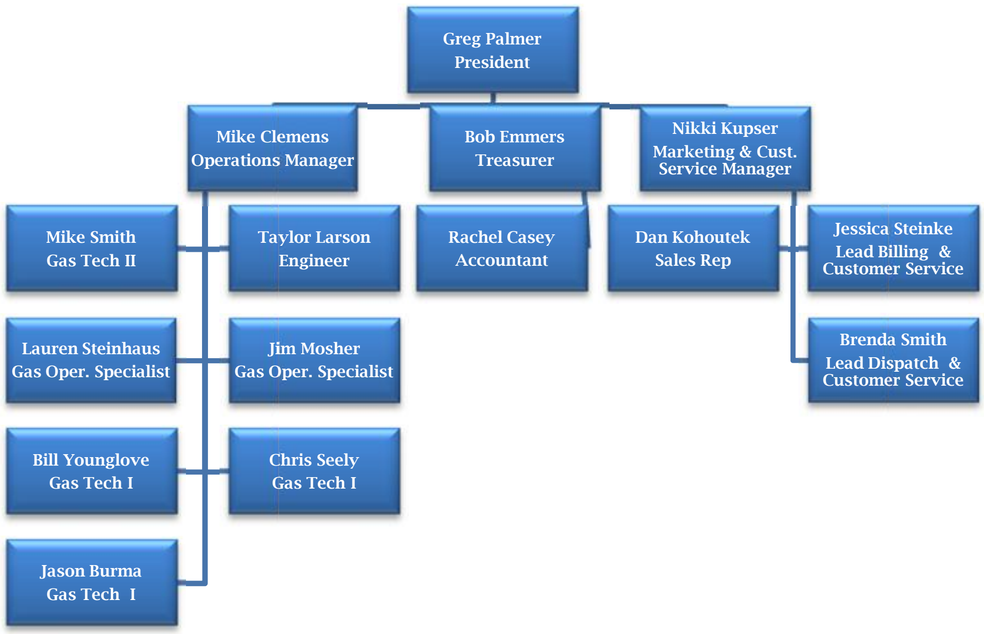
Respectfully submitted,

/s/
Nikki Kupser
Compliance & Regulatory Administrator
Greater Minnesota Gas, Inc.
202 S. Main Street
Le Sueur, MN 56068
Phone: 888-931-3411
Fax: 507-665-2588

GMG Exhibit 1



Greater Minnesota Gas
Organizational Chart 2013



GMG Exhibit 3

CERTIFICATE OF SERVICE

I, Nikki Kupser, 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-12-1279

filed this 17th day of June, 2013.

/s/ NIKKI KUPSER

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	Yes	OFF_SL_12-1279_M-12-1279
Sharon	Ferguson	sharon.ferguson@state.mn.us	Department of Commerce	85 7th Place E Ste 500 Saint Paul, MN 551012198	Electronic Service	No	OFF_SL_12-1279_M-12-1279
Burl W.	Haar	burl.haar@state.mn.us	Public Utilities Commission	Suite 350 121 7th Place East St. Paul, MN 551012147	Electronic Service	Yes	OFF_SL_12-1279_M-12-1279
Nicolle	Kupser	nkupser@greatermngas.com	Greater Minnesota Gas, Inc.	202 South Main Street P.O. Box 68 Le Sueur, MN 56058	Electronic Service	No	OFF_SL_12-1279_M-12-1279
John	Lindell	agorud.ecf@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_12-1279_M-12-1279
Greg	Palmer	gpalmer@greatermngas.com	Greater Minnesota Gas, Inc.	PO Box 68 202 South Main Street Le Sueur, MN 56058	Electronic Service	No	OFF_SL_12-1279_M-12-1279
Eric	Swanson	eswanson@winthrop.com	Winthrop Weinstine	225 S 6th St Ste 3500 Capella Tower Minneapolis, MN 554024629	Electronic Service	No	OFF_SL_12-1279_M-12-1279