COMMERCE DEPARTMENT

February 4, 2019

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-18-749

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 2019 Capital Structure and Permission to Issue Securities.

The petition was filed on December 4, 2018 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/jl
Attachment

Before the Minnesota Public Utilities Commission

Comments of the Minnesota Department of Commerce
Division of Energy Resources

Docket No. G022/S-18-749

I. SUMMARY OF THE UTILITY'S PROPOSAL

On December 4, 2018, Greater Minnesota Gas, Inc. (GMG or the Company) filed a petition (Petition) for approval of its 2019 capital structure and permission to issue securities. The Company is seeking:

- approval of its proposed 2019 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 2019 capital structure to remain valid until the Commission issues a 2019 capital structure order.

Table 1 summarizes GMG's actual capital structure as of September 30, 2018, its projected capital structure on December 31, 2019, and the differences between the two.

Table 1
GMG's Actual and Proposed Capital Structures
($ Millions)

	Actual Sept. 30, 2018		Projected Dec. 31, 2019		
	Amount	Percent	Amount	Percent	Difference
Common Equity	12.7	31.91%	15.6	35.93%	2.8
Preferred Shares	-	0.00%	-	0.00%	-
Short-Term Debt	1.8	4.63%	1.7	3.93%	(0.1)
Long-Term Debt	25.4	63.47%	26.0	60.14%	0.7
Total Capitalization	40.0	100.00%	43.3	100.00%	3.3
Contingency			0.7	1.66%	
Total with Contingency			44.0	101.66%	

Source: Petition, Attachment 3

GMG's proposed capital structure reflects:

- the net issuance of $0.7 million of long-term debt;
- a decrease of $0.1 million in short-term debt; and
- GMG's projected net income for 15 months ending December 31, 2018 of $3.3 million.

Specific provisions for which the Company seeks approval include:

- a total capitalization of $43.3 million, excluding the proposed contingency;
- a total capitalization contingency of $0.7 million, or 1.7 percent;
- an equity ratio floor of 31.59 percent initially, increasing to 34.00 percent by March 31, 2020;
- the ability to issue short-term debt not to exceed 10 percent of total capitalization at any time while the 2019 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 2019 capital structure until the Minnesota Public Utilities Commission (Commission) issues a 2020 capital structure order.

II. FILING REQUIREMENTS AND COMPLIANCE WITH PRIOR COMMISSION ORDERS

Minnesota Rules 7825.1000 – 7825.1500 and the Commission's 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 2019 capital expenditures, including

- $1.7 million for customer additions and main extensions,
- $0.8 million for system replacement and reinforcement,
- $0.3 million for vehicles and office equipment, and
- $0.8 million for an office building.

With respect to Point 3, Attachment No. 9 to GMG's Petition indicates that during 2018, GMG took out two new significant loans, renewed two lines of credit, and refinanced several existing loans. 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) 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 satisfied these reporting requirements for its 2018 debt issuance activity in two compliance filings in May, 2018, and one in August, 2018 in Docket No. G022/S-17-808 (the 2018 Capital Structure Docket).

The Commission's April 17, 2018 Order in the 2018 Capital Structure Docket also imposed a number of requirements on the Company, including a requirement that GMG's 2019 capital-structure filing include a plan that would be expected to result in a 36.50% equity ratio by December 31, 2019, assuming normal weather, or an explanation of why such an increase is not possible. As noted above, the Company's Petition projects an equity ratio of 35.93 percent by December 31, 2019, and on page three of its Petition, GMG explained that changes resulting from the Tax Cuts and Jobs Act (TCJA), a federal law reducing income tax rates for corporations that took effect in 2017, made it impossible for the Company's equity ratio to reach 36.50 percent by the end of the year. The Department discusses this issue in greater detail below.

After review, the Department concludes that GMG complied with all of the requirements imposed by the Commission's Order in the 2018 Capital Structure Docket.

The Commission's May 10, 2017 Order in Docket No. G022/S-16-931 (GMG's 2017 Capital Structure Docket) also imposed a requirement affecting the Company's 2019 capital structure proposal. Specifically, the Order required the Company to increase its equity ratio floor from 31.59 percent to 33.0 percent beginning March 31, 2019. While the GMG did not address this requirement in its Petition, the Company stated in its response to Department information request (IR) 4, that it expects to meet this requirement, barring unforeseen events.[1] Therefore, the Department concludes that GMG has reasonably complied with this Order.

III. 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.

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[1] See Department Attachment No. 1.

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

Table 2
Summary of Change in GMG's Capital Structure During 2018
($ Millions)

	Actual Dec. 31, 2017		Actual Sept. 30, 2018		
	Amount	Percent	Amount	Percent	Difference
Common Equity	12.0	31.26%	12.7	31.91%	0.7
Preferred Shares	-	0.00%	-	0.00%	-
Short-Term Debt*	2.8	7.34%	1.8	4.63%	(1.0)
Long-Term Debt	23.7	61.40%	25.4	63.47%	1.7
Total Capitalization	38.5	100.00%	40.0	100.00%	1.4

Sources and Notes:
2017 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.
2018 data from Petition, Attachment 3.
* Includes current portion of long-term debt

Table 2 above summarizes the changes in GMG's capital structure during the first nine months of 2018. GMG's common equity increased by $0.7 million during this period as a result of its net income, 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 financial statements from recent years and its projections for 2019.

Table 3
Summary of GMG's Recent Financial Performance
($ Millions)

		Actual					Projected
		2014	2015	2016	2017	12 Mos. Ended 9/30/2018	2019
Income Statement Data							
Revenue	[1]	12.1	9.7	10.9	12.3	13.1	14.7
Cost of Sales	[2]	7.5	4.7	4.9	5.9	5.7	6.3
Gross Margin	[3] = [1] - [2]	4.5	5.0	6.0	6.4	7.5	8.4
as % of Revenue	[4] = [3] / [1]	37.6%	51.7%	54.8%	52.3%	56.9%	57.3%
Operating Expenses	[5]	2.7	3.5	3.9	4.0	4.9	5.2
as % of Gross Margin	[6] = [5] / [3]	60.3%	69.1%	64.8%	62.1%	65.1%	61.3%
Pre-Tax Operating Income	[7] = [3] - [5]	1.8	1.5	2.1	2.4	2.6	3.2
as % of Gross Margin	[8] = [7] / [3]	39.7%	30.9%	35.2%	37.9%	34.9%	38.7%
Income Tax Expense/(Benefit)	[9]	0.0	0.2	0.1	0.7	0.7	0.6
Net Utility Operating Income	[10] = [7] - [9]	1.8	1.3	2.0	1.7	1.9	2.7
as % of Gross Margin	[11] = [10] / [3]	39.0%	26.8%	32.8%	26.7%	25.3%	31.6%
Interest Expense	[12]	0.9	1.1	1.2	1.2	1.2	1.3
as % of Gross Margin	[13] = [12] / [3]	19.0%	21.0%	19.9%	19.2%	16.0%	15.1%
Interest Coverage Ratio	[14] = [7] / [12]	2.1	1.5	1.8	2.0	2.2	2.6
Net Income	[15] = [10] - [12]	0.9	0.3	0.8	0.5	0.7	1.4
as % of Gross Margin	[16] = [15] / [3]	20.0%	5.8%	12.9%	7.5%	9.4%	16.5%
Rate of Return							
Net Plant	[17]	27.0	32.1	34.8	36.2	38.8	40.7
Deferred Tax Asset	[18]	1.8	1.6	1.5	0.8	0.8	(0.3)
Approximate Rate Base	[19] = [17] + [18]	28.8	33.7	36.3	37.0	39.5	40.4
Approximate Average Rate Base	[20]	27.0	31.3	35.0	36.7	38.3	40.0
Approximate Pre-Tax Rate of Return	[21] = [7] / [20]	6.7%	4.9%	6.0%	6.6%	6.8%	8.1%
Approximate After-Tax Rate of Return	[22] = [10] / [20]	6.6%	4.3%	5.6%	4.7%	5.0%	6.6%
Average Debt	[23]	17.8	21.7	24.3	25.5	25.9	25.7
Average Debt Cost	[24] = [12] / [23]	4.86%	4.84%	4.92%	4.82%	4.61%	4.93%

Sources and Notes:
2014-2017 data from GMG's audited financial statements. GMG has marked these statements trade secret, and the Department has not included them as attachments.
2018 data and 2019 projected data from Petition, Attachment No. 6
The Department notes that the data presented here was marked trade secret by GMG. However, the Department has included this same data in public comments in several of GMG's prior capital structure dockets without objection from the Company.

As shown in the upper portion of Table 3, GMG's pre-tax financial performance during 2017 and the 12 months ended September 30, 2018 was comparable to its performance in 2016. GMG's after-tax performance, however, was negatively impacted by a one-time tax-related expense of $0.4 million recorded as a result of the TCJA.

Prior to the passage of the TCJA, GMG had a deferred tax asset, meaning that in past years, GMG had tax deductions that it was unable to use due to a lack of taxable income. Because the Company was able to carry those deductions forward and use them to offset taxable income in future years, it recorded a deferred tax asset (DTA) on its balance sheet to reflect the value of the expected future tax savings. By reducing corporate tax rates, the TCJA reduced the value of the future tax savings, which forced GMG to reduce the value of its DTA. The reduction in value of the DTA on GMG's balance sheet was recorded as tax expense on GMG's income statement, reducing the Company's net income and equity balance. Absent this one-time expense, GMG's net income in 2017 would have been 13.2 percent of its gross margin for the year, which is comparable to its level of profitability in 2016.

GMG's interest coverage ratio (pre-tax operating income divided by interest expense) continued its steady increase.

C. REASONABLENESS OF GMG'S PROPOSED CAPITAL STRUCTURE

As shown in Table 1 above, GMG's proposed capital structure reflects an increase in total capitalization of $3.3 million. As noted above, the Company's need for additional capital continues to be driven primarily by its continuing system expansion efforts, although expenditures in this area are expected to be lower in 2019 than in recent years.

Table 4 below presents GMG's current and projected capital structures.

Table 4
Summary of GMG's Actual and Proposed Capital Structures
($ Millions)

	Actual Sept. 30, 2018		Projected Dec. 31, 2019		
	Amount	Percent	Amount	Percent	Difference
Common Equity	12.7	31.91%	15.6	35.93%	2.8
Preferred Shares	-	0.00%	-	0.00%	-
Short-Term Debt					
Line of Credit	0.5	1.31%	-	0.00%	(0.5)
Current Portion of Long-Term Debt	1.3	3.31%	1.7	3.93%	0.4
Total Short-Term Debt	1.8	4.63%	1.7	3.93%	(0.1)
Long-Term Debt	25.4	63.47%	26.0	60.14%	0.7
Total Capitalization	40.0	100.00%	43.3	100.00%	3.3
Contingency			0.7	1.66%	
Total with Contingency			44.0	101.66%	

Source: Petition, Attachment 6, Part 1

As shown, GMG's proposed $3.3 million increase in capitalization is comprised of $2.8 million in equity and $0.6 million in total debt. The small increase in total debt indicates the Company's heavier reliance on equity funding for its system expansion efforts, which results in the projected common equity ratio above 35.93 percent.

The average equity ratio of publicly traded gas utilities with bond ratings from AA- to BBB- is 47.26 percent, significantly higher than both GMG's current and projected equity ratios.[2] Based on this, even with the projected improvement in 2019, the Department remains concerned about GMG's financial health.

As noted above, GMG's proposed equity ratio is less than the 36.5 percent target from the Commission's Order in the 2018 Capital Structure Docket. On page 3 of its Petition, GMG explained that a 36.5 percent equity ratio is not achievable due to the impact of the TCJA, which the Company estimated will reduce its December 31, 2019 equity ratio by 0.81 percent, or 81 basis points. GMG stated that because its proposed equity ratio of 35.93 percent is only 57 basis points below the target equity ratio, it would have proposed an equity ratio that exceeded the Commission's requirement absent the TCJA (i.e. 35.93% + 0.81% = 36.74%).

The Department notes, however, that this 81 basis point reduction is a result of GMG expensing the full reduction of its deferred tax asset in 2017, rather than amortizing that reduction over a five year period as contemplated in the Commission's December 5, 2018 Order in Docket No. E,G999/CI-17-895 (the TCJA Docket), the Commission's investigation into the effects of the TCJA. While that Order does not explicitly state that GMG was required amortize the reduction in its deferred tax asset over five years, the Order does explicitly require GMG to reduce its rates to reflect the $48,258 of savings attributable to the TCJA. That savings estimate reflects a five-year amortization of the $365,000 decrease in GMG's deferred tax asset, indicating that the Commission's intention was for GMG to amortize the reduction.

Had GMG amortized the reduction over a period of five years, rather than recognizing the entire expense in 2017, the impact to its equity ratio as of December 31, 2019, would have been only 56 basis points, meaning the Company's equity ratio proposal for year-end 2019 would have been 36.49 percent.[3]

The Commission may wish to order GMG to revise its accounting to more accurately reflect the Commission's Order in the TCJA Docket by incorporating a five-year amortization of the change in the Company's deferred tax asset. However, the Commission could determine that it is not necessary to order GMG to revise its accounting, for the following reasons. First, while ordering GMG to reflect the five-year amortization period in its books would better reflect the

[2] See Department Attachment No. 2.
[3] See Department Attachment No. 3.

Commission's Order and also result in a higher equity ratio for GMG, it would not change the Company's fundamental economic or financial position. In other words, over time, GMG's revenues, expenses, and equity balances will likely be the same regardless of whether it revises its accounting. Only if GMG files a rate case during the amortization period will rates be affected, and even then, unless GMG includes an adjustment to reflect the unamortized portion of the deferred tax asset and the associated amortization expense, the result will be lower rates. Absent a rate case, the continuing compliance process in the TCJA Docket will ensure that GMG's rates are just and reasonable. For these reasons, the Department does not recommend that the Commission order GMG to revise its accounting to better reflect the Order in the TCJA Docket.

D. REASONABLENESS OF THE PROPOSED CONTINGENCY RANGES

1. Equity Ratio Range

As noted above, GMG has requested an equity ratio contingency range of at least 31.59 percent initially and increasing to 34.0 percent by March 31, 2020. GMG's request is consistent with Order point 8 of the Commission's Order in the 2018 Capital Structure Docket. However, the Department notes that the Commission's May 10, 2017 Order in Docket No. G022/S-16-931 (GMG's 2017 Capital Structure Docket) requires the Company to increase its equity ratio floor from 31.59 percent to 33.0 percent beginning March 31, 2019. As noted above, in its response to Department IR 4, GMG confirmed that, barring unforeseen events, it expects to meet this requirement.

Based on the Commission's Orders in GMG's 2017 and 2018 Capital Structure Dockets, the Department recommends that the Commission approve an equity ratio contingency range of at least 31.59 percent, increasing to 33.0 percent on March 31, 2019. The Department also recommends that the Commission maintain the requirement for GMG to increase its equity ratio floor from 33.0 percent to 34.0 percent by March 31, 2020.

The Commission often allows utilities to violate approved ranges for a period of 60 days without Commission notification. However, in recent years 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.

Additionally, in recent years the Commission required GMG to make monthly compliance filings demonstrating that GMG's equity ratio remained at or above the approved 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 the approved floor at all times.

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 before March 31, 2019, the maximum long-term debt ratio that would keep the Company within the proposed equity range would be 68.41 percent (equal to 100 percent minus 31.59 percent). Beginning March 31, 2019, the maximum long-term debt ratio would decrease to 67.0 percent (100 percent minus 33.0 percent).

GMG's proposal is consistent with its past several capital structure Dockets, and the Department concludes that it is reasonable, with one minor clarification. The Department recommends that the Commission permit the Company to issue long-term debt provided that it remains within its equity contingency range at all times, and remains within its short-term debt contingency range and does not exceed it for more than 60 days.

4. Total Capitalization

In its Petition, GMG requested Commission approval of a total capitalization of $43.3 million, with a contingency of $0.7 million, or 1.7 percent, for a maximum capitalization of $44.0 million. GMG's proposed capitalization contingency is significantly less than the 10 percent capitalization contingency approved by the Commission in GMG's last several 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 $43.3 million with a 10 percent contingency ($4.3 million) for a total of $47.6 million as shown in Table 6 below. The Department reiterates, however, that if GMG uses this total capitalization contingency, its equity ratio must remain above the approved floor.

Table 5
Department Alternative Contingency

	GMG Proposed Capital Structure Dec. 31, 2019		DOC Alternative Capital Structure Dec. 31, 2019		
	Amount	Percent	Amount	Percent	Difference
Common Equity	15.6	35.93%	15.6	35.93%	-
Preferred Shares	-	0.00%	-	0.00%	-
Short-Term Debt					
Line of Credit	-		-		-
Current Portion of Long-Term Debt	1.7		1.7		-
Total Short-Term Debt	1.7	3.93%	1.7	3.93%	-
Long-Term Debt	26.0	60.14%	26.0	60.14%	-
Total Capitalization	43.3	100.00%	43.3	100.00%	-
Contingency	0.7	1.66%	4.3	10.00%	3.6
Total with Contingency	44.0	101.66%	47.6	110.00%	3.6

Source: Petition, Attachment 6, Part 1

E. RECOMMENDATIONS FOR 2019 CAPITAL STRUCTURE FILING

As noted above, the Commission's Orders in the 2017 and 2018 Capital Structure Dockets imposed requirements on future capital structure petitions from GMG. First, both Orders set an increased equity ratio target for GMG to either propose in its subsequent petition or explain why such an increase was not possible. Second, both Orders required specified increases in GMG's equity ratio floor.

The Department recommends that the Commission impose similar requirements on future capital structure filings in this Docket in order to provide GMG with adequate time to plan appropriately to improve its equity ratio in 2020 and 2021. Specifically, the Department recommends that the Commission require GMG:

- to file its next capital structure petition by January 1, 2020;
- to propose in its next capital structure petition a plan that would be expected to result in a 37.0 percent equity ratio by December 31, 2020, assuming normal weather, or explain why such an increase is not possible; and
- to propose in its next capital structure petition a step-increase in its equity ratio floor from 34.00 percent to 35.00 percent beginning March 31, 2021, or explain why such an increase is not possible.

The Department understands that events may transpire between now and the time of GMG's next capital structure filing that make the increases impossible, and thus the Department's recommendations are intended to set expectations with respect to GMG's next filing, but still allow for some flexibility.

V. CONCLUSION AND RECOMMENDATIONS

GMG's financial performance in 2016 and 2017 was somewhat better than 2015, but the Company's equity ratio remains low relative to its peers and the Department remains concerned about the risks associated with GMG's leverage. GMG's proposed 2019 capital structure represents an improvement, and the Department recommends that the Commission approve it and encourage further improvement by imposing requirements for modest increases in GMG's next capital structure filing.

The Department recommends that the Commission:

1. approve GMG's proposed 2019 capital structure;
2. require that GMG maintain at all times an equity ratio contingency range of at least 31.59 percent, increasing to 33.0 percent beginning March 31, 2019;
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 $4.3 million above the estimated 2019 year-end total capitalization of $43.3 million, for a total capitalization of $47.6 million;
6. require GMG to file a new securities issuance and capital structure petition by January 1, 2020;
7. require GMG to propose in its next capital structure petition a plan that:

   a. would be expected to result in a 37.0 percent equity ratio by December 31, 2020, assuming normal weather, or explain why such an increase is not possible; and
   b. reflects the increase in GMG's minimum equity ratio from 33.0 percent to 34.0 percent beginning March 31, 2020, 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 34.0 percent to 35.0 percent beginning March 31, 2021, or explain why such an increase is not possible.

/jl

Minnesota Department of Commerce
Division of Energy Resources
Information Request

Docket Number:	G022/S-18-749	☐Nonpublic ☒Public	
Requested From:	Greater Minnesota Gas, Inc.	Date of Request:	12/11/2018
Type of Inquiry:	Rate of Return	Response Due:	12/21/2018

Requested by: Craig Addonizio
Email Address(es): craig.addonizio@state.mn.us
Phone Number(s): 651-539-1818

Request Number: **4**
Topic: Equity Ratio Floor
Reference(s): Commission Order in Docket No. G022/S-16-931

Request:

The Commission's May 10, 2017 Order in Docket No. G022/S-16-931 required GMG to increase its equity ratio floor to 33.0 percent beginning March 31, 2019. Please explain whether GMG expects to meet this requirement.

GMG RESPONSE:

GMG believes that, assuming no unforeseen events negatively impact it, the Company will meet the increased equity ratio floor of 33.0 percent beginning March 31, 2019. In the event that there is an unforeseen event that adversely impacts GMG, it will provide a discussion of the same at such time.

To be completed by responder

Response Date: December 13, 2018
Response by: Kristine Anderson
Email Address: kanderson@greatermngas.com
Phone Number: 507-665-8657

Capital Structures for Gas Utilities with Bond Ratings from AA- to BBB-

Company	Ticker	Credit Rating	Short-Term Debt Ratio	Long-Term Debt Ratio	Common Equity Ratio	Other Equity Ratio	Total
Atmos Energy Corporation	ATO	A	6.80%	36.89%	56.31%	0.00%	100.00%
National Fuel Gas Company	NFG	BBB	0.00%	52.38%	47.62%	0.00%	100.00%
New Jersey Resources Corporation	NJR	A	5.29%	45.36%	49.35%	0.00%	100.00%
NiSource Inc.	NI	BBB+	9.02%	58.64%	32.33%	0.00%	100.00%
Northwest Natural Holding Company	NWN	AA-	3.44%	49.46%	47.10%	0.00%	100.00%
ONE Gas, Inc.	OGS	A	10.18%	33.99%	55.84%	0.00%	100.00%
South Jersey Industries, Inc.	SJI	BBB	12.66%	43.76%	43.58%	0.00%	100.00%
Southwest Gas Holdings, Inc.	SWX	BBB+	5.57%	47.36%	47.13%	-0.06%	100.00%
Spire Inc.	SR	A-	11.32%	42.42%	46.10%	0.16%	100.00%
Minimum			0.00%	33.99%	32.33%	-0.06%	
Average			7.14%	45.59%	47.26%	0.01%	
Median			6.80%	45.36%	47.13%	0.00%	
Maximum			12.66%	58.64%	56.31%	0.16%	

Department Recalculation of
Impact of 2017 Tax Cuts and Jobs Act on
GMG's 2019 Equity Ratio

Equity - Dec. 31, 2017	12,041,628
Debt	26,776,537
Equity Ratio	31.02%
3/5ths of Deferred Tax Asset*	219,000
Adjusted Equity	12,260,628
Adjusted Equity Ratio	31.41%
2017 Tax Act Ratio	-0.39%
2018 Ordered Rate Refund	48,258
2019 Ordered Rate Adjustment	48,258
Total	96,516
Rate Orders Impact on Equity Ratio	-0.17%
Total Impact on Equity Ratio	-0.56%
PUC Ordered Equity Ratio	36.50%
Tax Act Adjusted Equity Ratio	35.94%

Source: GMG Petition, page 3

* The passage of the TCJA required GMG to reduce its deferred tax asset by $365,000, which the Commission required GMG to amortize over a period of five years, beginning Jan. 1, 2018. Had GMG amortized over five years, by the end of 2019, the Company would have amortized 2/5ths of that amount, or $146,000, meaning $219,000 would remain in its deferred tax asset.

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
Comments

Docket No. G022/S-18-749

Dated this 4th day of February 2019

/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_18-749_S-18-749
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_18-749_S-18-749
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_18-749_S-18-749
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_18-749_S-18-749
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_18-749_S-18-749
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_18-749_S-18-749
Eric	Swanson	eswanson@winthrop.com	Winthrop & Weinstine	225 S 6th St Ste 3500 Capella Tower Minneapolis, MN 554024629	Electronic Service	No	OFF_SL_18-749_S-18-749
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_18-749_S-18-749