COMMERCE DEPARTMENT

February 16, 2018 **PUBLIC DOCUMENT**

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

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

Dear Mr. Wolf:

Attached are the **PUBLIC** 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 2018 Capital Structure and Permission to Issue Securities.

The Petition was filed on November 15, 2017 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
Attachment

COMMERCE DEPARTMENT

# Before the Minnesota Public Utilities Commission

## PUBLIC Comments of the Minnesota Department of Commerce
## Division of Energy Resources

Docket No. G022/S-17-808

### I. SUMMARY OF THE UTILITY'S PROPOSAL

On November 15, 2017, Greater Minnesota Gas, Inc. (GMG or the Company) filed a petition (Petition) for approval of its 2018 capital structure and permission to issue securities. The Company is seeking:

- approval of its proposed 2018 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 2018 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, 2017, its projected capital structure on December 31, 2018, and the differences between the two.

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

| | Actual Sept. 30, 2017 | | Projected Dec. 31, 2018 | | |
|---|---|---|---|---|---|
| | Amount | Percent | Amount | Percent | Difference |
| Common Equity | 12.1 | 31.90% | 14.3 | 35.40% | 2 |
| Preferred Shares | - | 0.00% | - | 0.00% | - |
| Short-Term Debt | 2.0 | 5.20% | 1.2 | 3.08% | (1) |
| Long-Term Debt | 23.8 | 62.90% | 24.8 | 61.52% | 1 |
| Total Capitalization | 38 | 100.00% | 40 | 100.00% | 2 |
| Contingency | | | 0.7 | 1.72% | |
| Total with Contingency | | | 41.0 | 101.72% | |

Source: Petition, Attachment 3

GMG's proposed capital structure reflects:

- the net issuance of $1.0 million of long-term debt;
- a decrease of $0.7 million in short-term debt; and
- GMG's projected net income for 15 months ending December 31, 2018 of $2.5 million.

Specific provisions for which the Company seeks approval include:

- a total capitalization of $40.3 million, excluding the proposed contingency;
- a total capitalization contingency of $0.7 million, or 1.72 percent;
- an equity ratio floor of 31.59 percent initially, increasing to 33.00 percent by March 31, 2019;
- the ability to issue short-term debt not to exceed 10 percent of total capitalization at any time while the 2018 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 2018 capital structure until the Minnesota Public Utilities Commission (Commission) issues a 2019 capital structure order.

## II. 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 2018 capital expenditures, including $2.8 million for customer additions and main extensions, and $0.7 million for system replacement and reinforcement, and vehicle and office equipment.

With respect to Point 3, Attachment No. 9 to GMG's Petition identifies two new significant loans issued during 2017, totaling $1.9 million. Attachment No. 9 also identifies that GMG opened a new line of credit. 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 met this reporting requirement in various compliance filings in Docket No. G022/S-16-931 (the 2017 Capital Structure Docket). The Company's May 11, 2017 Compliance Filing, in particular, identifies its major debt issuances during the past year.

The Commission's 2017 Order in the 2017 Capital Structure Docket also imposed a number of requirements on the Company. The Commission's Order:

1. approved a total capitalization of up to $43.6 million, including GMG's expected 2016 year-end capitalization of $39.6 million, and a contingency of $4.0 million above that;
2. approved an equity ratio contingency range of 31.59 percent to 38.61 percent;
3. required that GMG maintain an equity ratio of at least 31.59 percent at all times
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 31.59 percent;
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);
6. required GMG to file a new securities-issuance and capital structure petition by January 1, 2018;
7. required GMG to propose in its next capital structure petition a plan that would be expected to result in a 35.00 percent equity ratio by December 31, 2018, assuming normal weather, or explain why such an increase is not possible; and
8. Required GMG to propose in its next capital structure petition a step-increase in its equity ratio floor from 31.59 percent to 33.0 percent beginning March 31, 2019.

After review, the Department concludes that GMG complied with the first seven of these eight requirements. The Department notes that the eighth requirement relates to GMG's minimum equity ratio in 2019, which falls outside of the planning period being considered in this 2018 capital structure docket. GMG did, in the text of its Petition, request that the Commission order it to increase its minimum allowed equity ratio to 33.0 percent by March 31, 2019.

## 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.

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

**Table 2**
**Summary of Change in GMG's Capital Structure During 2017**
**($ Millions)**

| | Actual Dec. 31, 2016 | | Actual Sept. 30, 2017 | | |
|---|---|---|---|---|---|
| | Amount | Percent | Amount | Percent | Difference |
| Common Equity | 11.6 | 31.96% | 12.1 | 31.90% | 0.5 |
| Preferred Shares | - | 0.00% | - | 0.00% | - |
| Short-Term Debt* | 1.5 | 4.15% | 2.0 | 5.20% | 0.5 |
| Long-Term Debt | 23.1 | 63.89% | 23.8 | 62.90% | 0.7 |
| Total Capitalization | 36.2 | 100.00% | 37.8 | 100.00% | 1.6 |

Sources and Notes:
2016 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.
2017 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 2017. GMG's common equity increased by $0.5 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 income statements from recent years and its projected 2018 income statement.

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

| | | Actual | | | | | Projected |
|---|---|---|---|---|---|---|---|
| | | 2013 | 2014 | 2015 | 2016 | 12 Mos. Ended 9/30/2017 | 2018 |
| Income Statement Data | | | | | | | |
| Revenue | [1] | 7.7 | 12.1 | 9.7 | 10.9 | 11.5 | 12.7 |
| Cost of Sales | [2] | 3.9 | 7.5 | 4.7 | 4.9 | 5.0 | 5.5 |
| Gross Margin | [3] = [1] - [2] | 3.7 | 4.5 | 5.0 | 6.0 | 6.4 | 7.1 |
| as % of Revenue | [4] = [3] / [1] | 48.9% | 37.6% | 51.7% | 54.8% | 56.2% | 56.4% |
| Operating Expenses | [5] | 2.0 | 2.7 | 3.5 | 3.9 | 4.3 | 4.6 |
| as % of Gross Margin | [6] = [5] / [3] | 52.4% | 60.3% | 69.1% | 64.8% | 66.8% | 65.0% |
| Pre-Tax Operating Income | [7] = [3] - [5] | 1.8 | 1.8 | 1.5 | 2.1 | 2.1 | 2.5 |
| as % of Gross Margin | [8] = [7] / [3] | 47.6% | 39.7% | 30.9% | 35.2% | 33.2% | 35.0% |
| Income Tax Expense/(Benefit) | [9] | (0.4) | 0.0 | 0.2 | 0.1 | 0.1 | 0.5 |
| Net Utility Operating Income | [10] = [7] - [9] | 2.2 | 1.8 | 1.3 | 2.0 | 2.0 | 2.0 |
| as % of Gross Margin | [11] = [10] / [3] | 58.8% | 39.0% | 26.8% | 32.8% | 31.0% | 28.7% |
| Interest Expense | [12] | 0.6 | 0.9 | 1.1 | 1.2 | 1.1 | 1.2 |
| as % of Gross Margin | [13] = [12] / [3] | 15.0% | 19.0% | 21.0% | 19.9% | 17.6% | 16.8% |
| Interest Coverage Ratio | [14] = [7] / [12] | 3.2 | 2.1 | 1.5 | 1.8 | 1.9 | 2.1 |
| Net Income | [15] = [10] - [12] | 1.6 | 0.9 | 0.3 | 0.8 | 0.9 | 0.8 |
| as % of Gross Margin | [16] = [15] / [3] | 43.8% | 20.0% | 5.8% | 12.9% | 13.4% | 11.9% |
| Rate of Return | | | | | | | |
| Net Plant | [17] | 23.4 | 27.0 | 32.1 | 34.8 | 36.1 | 37.3 |
| Deferred Tax Asset | [18] | 1.7 | 1.8 | 1.6 | 1.5 | 1.5 | 1.0 |
| Approximate Rate Base | [19] = [17] + [18] | 25.1 | 28.8 | 33.7 | 36.3 | 37.6 | 38.4 |
| Approximate Average Rate Base | [20] | 8.9 | 27.0 | 31.3 | 35.0 | 37.0 | 38.0 |
| Approximate Pre-Tax Rate of Return | [21] = [7] / [20] | 20.1% | 6.7% | 4.9% | 6.0% | 5.8% | 6.6% |
| Approximate After-Tax Rate of Return | [22] = [10] / [20] | 24.8% | 6.6% | 4.3% | 5.6% | 5.4% | 0.1 |
| Average Debt | [23] | 13.7 | 17.8 | 21.7 | 24.3 | 24.8 | 25.9 |
| Average Debt Cost | [24] = [12] / [23] | 4.08% | 4.86% | 4.84% | 4.92% | 4.57% | 4.63% |

Sources and Notes:
2013-2016 data from GMG's audited financial statements. GMG has marked these statements trade secret, and the Department has not included them as attachments.
2017 data and 2018 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 financial performance during 2016 and the 12 months ended September 30, 2017 was better than in 2015. GMG's operating expenses as a percentage of gross margin fell and its net operating income as a percentage of gross margin increased, which resulted in higher overall rates of return. GMG's interest coverage ratio (net utility operating income divided by interest expense) increased from 1.5 in 2015 to 1.8 and 1.9 in the following periods.

### *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 $2.5 million. The Company's need for funds is driven by its continuing system expansion efforts. GMG's capital expenditures since 2009 are shown in Table 4. Approximately 80 percent of capital expenditures planned for 2018 will go towards system expansion,[1] as has the majority of GMG's capital expenditures since 2012.

**Table 4**
**GMG's Capital Expenditures**

| Year | Capital Expenditures |
|---|---|
| 2009 | 558,983 |
| 2010 | 493,031 |
| 2011 | 1,028,228 |
| 2012 | 2,303,070 |
| 2013 | 3,907,583 |
| 2014 | 4,212,904 |
| 2015 | 5,854,275 |
| 2016 | 3,045,925 |
| 2017 | 2,603,155 |
| 2018 | 3,410,000 |

Sources and Notes:
2009-2016 data from GMG Financial Statements
2017 from GMG's Jan. 12, 2018 Compliance Filing in Docket No. G022/S-16-931 and represents capital expenditures through Nov.
2018 projected data from Petition, Attachment 12

Table 5 below presents GMG's current and projected capital structures.

[1] See Petition Attachment No. 11.

**Table 5**
**Summary of GMG's Actual and Proposed Capital Structures**
**($ Millions)**

| | Actual Sept. 30, 2017 | | Projected Dec. 31, 2018 | | |
|---|---|---|---|---|---|
| | Amount | Percent | Amount | Percent | Difference |
| Common Equity | 12.1 | 31.90% | 14.3 | 35.40% | 2.2 |
| Preferred Shares | - | 0.00% | - | 0.00% | - |
| Short-Term Debt | | | | | |
| Line of Credit | 0.7 | 1.92% | - | 0.00% | (0.7) |
| Current Portion of Long-Term Debt | 1.2 | 3.28% | 1.2 | 3.08% | - |
| Total Short-Term Debt | 2.0 | 5.20% | 1.2 | 3.08% | (0.7) |
| Long-Term Debt | 23.8 | 62.90% | 24.8 | 61.52% | 1.0 |
| Total Capitalization | 37.8 | 100.00% | 40.3 | 100.00% | 2.5 |
| Contingency | | | 0.7 | 1.72% | |
| Total with Contingency | | | 41.0 | 101.72% | |

Source: Petition, Attachment 6, Part 1

The average equity ratio of publicly traded gas utilities with bond ratings from A to BBB- is 45.7 percent, significantly higher than both GMG's current and projected equity ratios.[2] Based on this, the Department remains concerned about GMG's financial health.

The Company's proposed equity ratio of 35.40 percent, however, represents a notable improvement over its current equity ratio. As shown, GMG's proposed $2.5 million increase in capitalization is comprised of $2.2 million in equity and $0.3 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 35.00 percent, as required by the Commission in the 2017 Order.

Based on the projected improvement in its equity ratio, and its consistency with the 2017 Order, the Department concludes that GMG's proposed capital structure is reasonable.

[2] Department Attachment 1.

*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 during 2018. GMG has also requested that the Commission order the Company to increase its equity ratio floor to 33.0 percent by March 31, 2019. Because GMG's proposal is consistent with the Commission's 2017 Order, and should result in GMG's equity ratio increasing over time, the Department considers it to be reasonable, and recommends that the Commission approve the Company's proposed equity ratio contingency range.

The Department also recommends that the Commission provide GMG with some additional flexibility with respect to its equity ratio for changes in the Company's capital structure that may result specifically from the Tax Cuts and Jobs Act (TCJA) of 2017. The Department discusses this in greater detail below.

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 31.59 percent 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, 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).

GMG's proposal is consistent with its past four 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 $40.3 million, with a contingency of $0.7 million, or 1.7 percent, for a maximum capitalization of $41.0 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 $40.3 million with a 10 percent contingency ($4.0 million) for a total of $44.3 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 31.59 percent.

**Table 6**
**Department Alternative Contingency**

| | GMG Proposed Capital Structure Dec. 31, 2018 | | DOC Alternative Capital Structure Dec. 31, 2018 | | |
|---|---|---|---|---|---|
| | Amount | Percent | Amount | Percent | Difference |
| Common Equity | 14.3 | 35.40% | 14.3 | 35.40% | - |
| Preferred Shares | - | 0.00% | - | 0.00% | - |
| Short-Term Debt | | | | | |
| Line of Credit | - | | - | | - |
| Current Portion of Long-Term Debt | 1.2 | | 1.2 | | - |
| Total Short-Term Debt | 1.2 | 3.08% | 1.2 | 3.08% | - |
| Long-Term Debt | 24.8 | 61.52% | 24.8 | 61.52% | - |
| Total Capitalization | 40.3 | 100.00% | 40.3 | 100.00% | - |
| Contingency | 0.7 | 1.72% | 4.0 | 10.00% | 3.3 |
| Total with Contingency | 41.0 | 101.72% | 44.3 | 110.00% | 3.3 |

Source: Petition, Attachment 6, Part 1

*E. RECOMMENDATIONS FOR 2019 CAPITAL STRUCTURE FILING*

As noted above, the Commission's May 10, 2017 Order in the 2017 Capital Structure Docket (2017 Order) imposed two requirements on future capital structure petitions from GMG. First, the Commission required GMG to propose in its 2018 filing a plan that would be expected to result in a 35.00 percent equity ratio by December 31, 2018 or explain why such an increase is not possible. Second, the Commission required GMG to increase in its equity ratio floor from 31.59 percent to 33.0 percent beginning March 31, 2019. GMG's proposal in its Petition complies with the first of these two requirements, and GMG also requested that the Commission issue an order in this Docket requiring an increase in its equity ratio floor to 33.00 percent by March 31, 2019.

The Department recommends that the Commission impose similar requirements on future capital structure filings in this Docket so that GMG can begin taking steps now to achieve a higher equity ratio by the end of 2019. Specifically, the Department recommends that the Commission require GMG:

- to file its next capital structure petition by January 1, 2019;

- 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
- to propose in its next capital structure petition a step-increase in its equity ratio floor from 33.00 percent to 34.0 percent beginning March 31, 2020, or explain why such an increase is not possible.

Imposing these requirements now on GMG's next capital structure petition will allow the Company to plan appropriately over the next year to meet the modest, 1.00 percentage point increase in the minimum allowed equity ratio, as well as 1.50 percentage point increase in its expected equity ratio.

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.

## *F. IMPACT OF TAX CUT AND JOBS ACT*

### *1. Potential Impact on GMG's Capital Structure*

As a result the change in the corporate tax rate included in TCJA, signed into law on December 22, 2017, the tax rate applied to utilities' income will decrease, resulting in lower annual income taxes. Additionally, the value of deferred tax assets and liabilities currently recorded on utilities' balance sheets will decrease, creating a one-time accounting adjustment. The Commission is currently considering the appropriate ratemaking treatment of these changes in Docket No. E,G999/CI-17-895 (TCJA Docket), which will determine how the adjustments are recorded.

In its February 14, 2018 Compliance Filing in the 2017 Capital Structure Docket, GMG stated that it does not anticipate that tax-related adjustments will adversely impact its ability to meet equity ratio requirements.[3] However, depending on the outcome of the TCJA Docket, there is a chance that GMG's equity ratio will be negatively impacted.

[3] GMG currently has a net tax asset, the value of which will have to be written down pursuant to the TCJA. Depending on the outcome of the TCJA Docket, the write-down could produce a one-time expense for GMG that lowers its equity balance. In Attachment C to its January 30, 2018 Response to Request for Information in the TCJA Docket, GMG estimated that the one-time charge will be **[TRADE SECRET DATA HAS BEEN EXCISED]**, although the final adjustment will not be known until May**.** A charge of that size would lower GMG's equity ratio by **[TRADE SECRET DATA HAS BEEN EXCISED]**, or more if the actual charge turns out to be higher. Thus, GMG's equity ratio may fall below the 31.59 percent floor if the Company is required to treat the change this way. Another possibility

Because the TCJA was outside of GMG's control, and may potentially cause changes to the Company's capital structure that are not indicative of the Company's decision making, the Department recommends that Commission not require GMG to inject equity to maintain a 31.59 percent equity ratio if the TCJA causes it to fall below proposed floor. Rather, the Department recommends the Commission allow GMG to violate the equity ratio floor if the Company can demonstrate that adjustments pursuant to the TCJA are the reason it fell below the floor.

2. *Potential Impact on GMG's Access to Debt*

If, as a result of the TCJA Docket, the Commission were to require GMG to implement a rate adjustment mechanism to reflect the impact of the tax cuts included in the TCJA, effectively lowering GMG's revenues and cash flow, GMG's ability to access debt financing may be negatively impacted. However, with the TCJA Docket still in its beginning stages, it is too early to assess what the potential impacts on GMG might be. As such, the Department recommends that the Commission proceed normally with this Docket, and if any changes to GMG's capital structure or financing plans are required a result of the TCJA, they be handled in the TCJA Docket or a future capital structure petition from GMG.

## 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 GMG's leverage. GMG's proposed 2018 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 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;

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is that GMG may be allowed to record the adjustment to its deferred tax asset as a regulatory asset, rather than an expense, in which case its equity ratio would be unaffected.

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 beginning March 31, 2020, or explain why such an increase is not possible.

/lt

**Capital Structures for Gas Utilities with Bond Ratings from A to BBB**

| Company | Ticker | S&P Debt Rating | Capital Structure Ratios: Short-Term Debt | Long-Term Debt | Equity (Preferred & Common) |
|---|---|---|---|---|---|
| ATMOS ENERGY CORP | ATO | A | 6.0% | 41.4% | 52.6% |
| ENBRIDGE INC | ENB | BBB+ | 1.5% | 64.5% | 34.0% |
| NATIONAL FUEL GAS CO | NFG | BBB | 0.0% | 58.3% | 41.7% |
| ONE GAS INC | OGS | A | 4.5% | 37.0% | 58.5% |
| SOUTH JERSEY INDUSTRIES INC | SJI | BBB+ | 11.3% | 39.6% | 49.1% |
| SPIRE INC | SR | A- | 10.5% | 45.9% | 43.6% |
| WGL HOLDINGS INC | WGL | A | 14.8% | 44.6% | 40.6% |
| Average | | | 7.0% | 47.3% | 45.7% |

Source: Compustat Research Insight Database

31.9%

# 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
Public Comments

Docket No. G022/S-17-808

Dated this 16th day of February 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<br><br>Le Sueur,<br>MN<br>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<br><br>St. Paul,<br>MN<br>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<br>445 Minnesota St<br>St. Paul,<br>MN<br>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<br><br>Saint Paul,<br>MN<br>551012198 | Electronic Service | No | OFF_SL_17-808_S-17-808 |
| Brian | Gardow | bgardow@greatermngas.com | Greater Minnesota Gas, Inc. | PO Box 68<br><br>Le Sueur,<br>MN<br>56058 | Electronic Service | No | OFF_SL_17-808_S-17-808 |
| Nicolle | Kupser | nkupser@greatermngas.com | Greater Minnesota Gas, Inc. | 202 South Main Street<br>P.O. Box 68<br>Le Sueur,<br>MN<br>56058 | Electronic Service | No | OFF_SL_17-808_S-17-808 |
| Greg | Palmer | gpalmer@greatermngas.com | Greater Minnesota Gas, Inc. | PO Box 68<br>202 South Main Street<br>Le Sueur,<br>MN<br>56058 | Electronic Service | No | OFF_SL_17-808_S-17-808 |
| Daniel P | Wolf | dan.wolf@state.mn.us | Public Utilities Commission | 121 7th Place East<br>Suite 350<br>St. Paul,<br>MN<br>551012147 | Electronic Service | Yes | OFF_SL_17-808_S-17-808 |