Greater Minnesota Gas, Inc.
A Minnesota Corporation

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

November 12, 2015

VIA ELECTRONIC FILING

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

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

Dear Mr. Wolf:

The above-identified matter will be considered by the Commission at its November 19, 2015 hearing. Greater Minnesota Gas, Inc. ("GMG") appreciates the input provided by both the Department and Commission Staff in this docket. In light of information provided in the Commission Staff's Briefing Papers filed this morning, GMG believes that some responsive and illustrative information will assist the Commission in being fully prepared to consider the issue next week and will clarify some apparent confusion. Accordingly, GMG respectfully requests that the information included herewith be considered. This letter addresses four main areas: GMG's planning and projections have resulted in relatively flat demand costs over time; GMG has met its commitment to the Commission to ensure adequate reserve margins given its growth; GMG's contract demand entitlement is warranted from a long-term holistic perspective; and, GMG clarifies actual customer count versus use of customer equivalent ("CE") modeling.

First, as the graph in Attachment A demonstrates, GMG's demand entitlement cost per therm has essentially remained flat over the last four years, despite its substantial system growth and increased demand entitlement. The November, 2015 rate identified on the graph includes all costs associated with GMG's proposed demand entitlement for the 2015-2016 heating season. Attachment A illustrates that GMG's ratepayers are not being adversely affected by GMG's contract demand entitlement levels; and, given the security that GMG's demand entitlement level provides to its customers, its ratepayers have actually benefitted from its demand entitlement planning over time.

Second, GMG's demand entitlement level assures that there is adequate reserve margin for its customers. For several years, the Commission and the Department have identified concerns that GMG might not have sufficient reserve to provide enough firm load to meet its customers' needs given GMG's substantial growth. When considering GMG's demand entitlement petitions for the 2012-13 and the 2013-14 heating seasons, the Department explained its concerns in detail. As a result of the Department's expressed concerns, GMG met with Department staff on August 1, 2013 as it was developing its contract demand proposal for the then-approaching heating season. The concerns about balancing projected growth with firm supply were weighed by all involved. When those dockets were considered by the Commission at its

April 24, 2014 meeting, substantial discussion was had regarding the impact of projected growth on GMG's reserve margin because the Department was troubled that GMG had underestimated its growth and ultimately had too narrow a reserve as a practical matter. At that meeting, Department representative Adam Heinen responded to a question from Commissioner Lipschultz about GMG's underestimate of its growth for the 2012-2013 heating season; and, Mr. Heinen stated that, "If they [GMG] had a reasonable suspicion that this [very substantial growth] might happen, then I would certainly have wanted to see those projections put into the filing." The Department proposed that GMG file its petition for demand entitlement early in the year based on its reasonably projected growth; but, if additional capacity was necessary, GMG would supplement its filing and request additional capacity at the beginning of November. GMG made a commitment to the Department and the Commission that it would ensure sufficient reserve was available despite making its demand entitlement filings earlier in the year.

In the instant docket, GMG filed its Petition based on its planned and reasonable growth projections. Its Petition was based on projects and growth consistent with those on which its capital structure proposal was predicated; and, the growth projections were reasonably supported by GMG's market and project research. Growth and economic forecasting is not an exact science, and GMG uses the best information available to it at the time to make its projections. GMG's modeling that supported its contract demand entitlement level in the instant docket was precisely what Mr. Heinen requested: projections based on GMG's reasonable suspicion about its growth. Moreover, GMG plans to add approximately 1,000 CEs in 2016; and, GMG will analyze whether it needs to add additional contract or can maintain its current contract demand level for next year based, in part, on actual usage from the current heating season. With respect to the requests for additional information identified on page 7 of the Briefing Papers, GMG offers the following:

- GMG believes that it did not reach its projected growth due, in large part to a combination of two factors. First, propane prices decreased to their lowest level in recent years and a number of conversion customers opted to wait to obtain gas service until after the main installation was complete rather than facing conversion during the heating season. Second, significant levels of rain in the Mankato area delayed some new construction that, consequently, affected the number of actual new customers in that area.
- As discussed in more detail below and throughout this docket, GMG's projected customer increase reflected CEs. GMG added approximately 1,450 CEs so far this year. GMG anticipates adding approximately 1,000 CEs during 2016; so, to the extent that there is excess contract, new CEs in 2016 will exceed that amount and GMG will likely be required to take additional contract to meet its reserve margin needs next year.
- GMG's firm customers include residential, commercial, and industrial customers.
- GMG's use of CEs is explained in various places throughout this docket and others, including later herein. It is important that GMG utilize CEs for its modeling and forecasting because, given its small size and relative infancy of system and growth, there can be significant variations in use and, therefore, impact on modeling, based on customer type. The use of CEs has allowed GMG to improve its accuracy for financial and growth modeling purposes.

GMG's business decisions are also based on industry factors. GMG promised the Commission and the Department that it would ensure the existence of an adequate reserve margin. Consequently, it is incumbent on GMG to consider transport availability when making contract decisions. For example, GMG considers changes in available pipeline capacity which can be very limited or not available. Northern Natural Gas currently has virtually no capacity, as reflected in Attachment B, which is taken from Northern Natural's website regarding capacity availability. Similarly, during late 2014, Viking had virtually no capacity available to contract for because it had to decrease its pressure due to pipeline operating restrictions. As explained in GMG's prior filings, when Viking posted an open season for a very short three day window in late January, 2015, after PHMSA lifted its restrictions, as shown in Attachment C, GMG opted to act. GMG made a determination, based on its reasonable projections at the time, to acquire contract on the high side, knowing that the availability to adjust upward may not be an option as the heating season approached. Since Viking capacity trades at about 80% of the cost of Northern Natural Gas capacity, GMG opted to protect its customers—both in terms of reliability and affordability—and to maintain its commitment to the Commission to ensure sufficient reserve despite high growth projections by taking extra contract when it was available.

Third, GMG's contract demand entitlement level is appropriate, both from short-term and long-terms perspectives. As GMG indicated in its October 29, 2015 letter, its CEs additions were calculated as of October 23, 2015. Since that time, GMG has added approximately 20 additional CEs; and GMG estimates that it will ultimately fall approximately 300 CEs short of its original projection. Staff noted that GMG did not provide an estimated timeline as to when the new CEs will go in service. The vast majority of GMG's new CEs come from conversion customers. It is difficult to predict precisely when conversion customers will begin burning gas. Some have already converted and others are using up the propane that they have left in their tanks before they convert. Nonetheless, for design day calculation purposes, GMG must assume that all new customers will be burning gas in order to ensure sufficient capacity is obtained. GMG believes that from a long-term perspective, given its continued growth and tight pipeline availability, having a higher reserve margin is warranted to ensure that GMG's firm customers have sufficient gas supply in the event that a design day weather event occurs.

Finally, it seems that there is some confusion regarding GMG's use of CEs in its modeling. GMG employs the use of CEs for all of its modeling, as has been illuminated in this docket as well as numerous previous dockets. GMG's October 29, 2015 letter included both actual customer additions and CE additions for one reason only. The Commission's September 23, 2015 Order required GMG to file an informational letter identifying the total number of new customers for 2015 and its impact on GMG's estimated reserve margin. As directed, GMG provided the actual number of new customers. In addition, however, as explained in that letter, because GMG uses CEs in its modeling, GMG included information about the number of new CEs, believing that it would provide the Commission with consistency for comparative purposes. The earlier filings in this docket were predicated on CEs, as identified in Attachment C (Petition at page 6; Comments at page 14; Briefing Papers for September 17, 2015 meeting at page 8). GMG was doing its best to be responsive to the Commission's prior order by identifying actual customers, but also to aid in comparative analysis by providing CE analysis consistent with its modeling and forecasting already in the record. GMG certainly did not intend to misdirect anyone's analysis and it apologizes for any confusion that Staff may have had with regard to GMG's use of CEs.

GMG remains steadfast in its belief that its current demand entitlement level is appropriate, given the totality of the circumstances. Nonetheless, in the event that the Commission wishes to engage in further consideration of whether its proposed reserve margin is appropriate, GMG is hopeful that it would be able to receive clear guidance from the Commission within the next two to three months before decisions about additional contract demand entitlement need to be made.

GMG respectfully requests that the Commission find that GMG's contract demand entitlement and reserve margin are appropriate and that it refrain from making any changes to its September 23, 2015 Order.

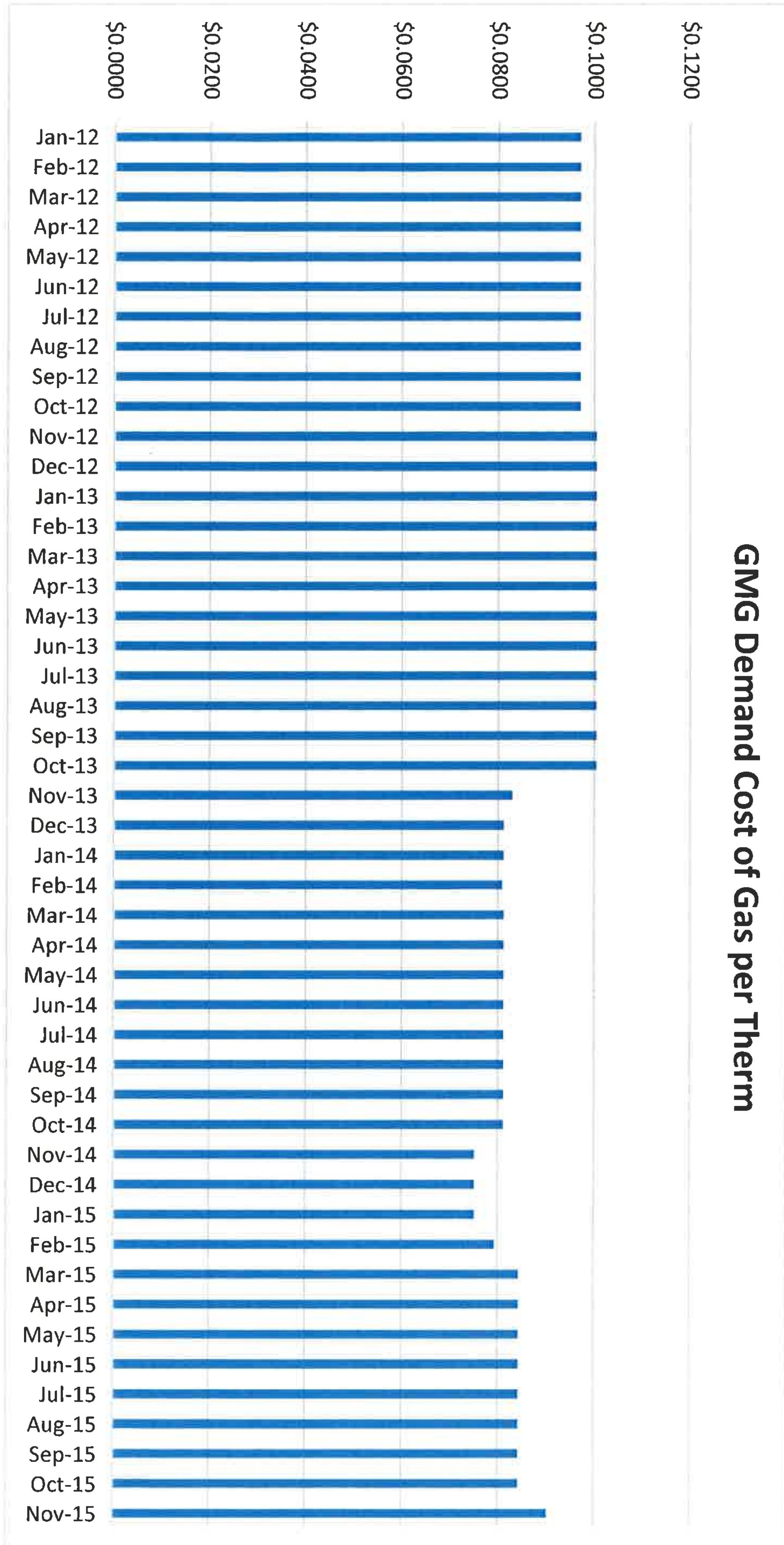
All individuals identified on the attached service list have been electronically served with a copy of this letter. Thank you for your assistance. Please do not hesitate to contact me should you have any questions or concerns or if you require additional information. My direct dial number is (507) 665-8657 and my email address is kanderson@greatermngas.com.

Sincerely,

GREATER MINNESOTA GAS, INC.

/s/
Kristine A. Anderson
Corporate Attorney

cc: Service List


GMG Demand Cost of Gas per Therm
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Attachment B
Transporation Availability

TSP Name	Loc Prop	Loc Name	11/2015 Unsub Cap	12/2015 Unsub Cap	1/2016 Unsub Cap	2/2016 Unsub Cap	3/2016 Unsub Cap	Post Date/Time
Northern N	230	VENTURA NORTH	1434	1434	1434	1434	1434	11/9/2015 5:40
Northern N	607	Ventura South	115883	111526	112789	112789	115826	11/9/2015 5:40
Northern N	104	WATERLOO EAST	11250	11250	10643	10643	10643	11/9/2015 5:40
Northern N	233	WELCOME NORTH	0	0	0	0	0	11/9/2015 5:40
Northern N	829	WTG AND MIDMAR MARTIN COUNTY	174000	174000	174000	174000	174000	11/9/2015 5:40

From: vgtemailprod@oneok.com [mailto:vgtemailprod@oneok.com]
Sent: Monday, January 26, 2015 4:04 PM
To: Greg Palmer
Subject: Non-Critical, TSP Cap Offer, 2015/01/26, VGT, 609166673

Title: Open Season currently available capacity begining February 1, 2015

Notice Status: Initiate
Notice Effective Date/Time: 26-JAN-15
Notice End Date/Time: 28-FEB-15
Critical Notice: No
Notice Type: TSP Cap Offer

Notice Text: Viking Gas Transmission Company, L.L.C. (Viking) is posting Firm capacity under Rate Schedule FT-A. This is currently available capacity not subject to a Right of First Refusal which was previously restricted by the reduction in the Maximum Allowable Operating Pressure (MAOP) directed by the Pipeline and Hazardous Materials Safety Administration (PHMSA). Viking anticipates the PHMSA MAOP restriction to be removed and operational adjustments completed to allow for the return to service of the capacity noted below by 9:00 a.m. CCT, Thursday, January 29, 2015. The availability of the capacity for Firm Schedule FT-A service subscription pursuant to this open season is contingent on the PHMSA MAOP restriction being lifted as anticipated and the completion of required operational adjustments to execute returning to 877 MAOP.

Rate Schedule: FT-A
Available Maximum Daily Quantity: 40,121 Dth/d
Term: Beginning February 1, 2015
Primary Rec. Point: Any
Primary Del. Point: Any
Reservation Rate: Rates up to maximum, pursuant to Rate Schedule FT-A of Viking's tariff.

The available capacity described above will be subject to an open bidding process. Bids for the Firm capacity described above will be accepted beginning 9:00 a.m. CCT, Tuesday, January 27, 2015 and ending at 5:00 p.m. CCT, Thursday, January 29, 2015. Bids for this capacity will be accepted via email to a Commercial representatives listed below.

Viking will award capacity based on Net Present Value (NPV) calculation pursuant to Viking's FERC Gas Tariff General Terms & Conditions subsection 22.7. In the event equal NPV bids are received, Viking will allocate capacity on a pro-rata basis. A Shipper must indicate in its bid whether it is willing to accept a lesser quantity in the event such capacity is awarded on apro-rata basis due to equal bids.

Although Viking does not anticipate a change in timing for the subject service availability, shippers submitting a bid for capacity acknowledge that the start date of service may be delayed in the event the anticipated removal of the PHMSA MAOP restriction and operational adjustments are delayed beyond 9:00 a.m. CCT February 1, 2015. Shippers submitting a bid agree to a start date as of the date the capacity becomes available if such date is delayed beyond 9:00 a.m. CCT February 1, 2015.

Questions concerning this posting may be directed to the following Viking representatives:

Kyle Keener: (918) 591-5074 or Kyle.Keener@oneok.com
Kurt Wood: (918) 591-5077 or Kurtis.Wood@oneok.com
Glen Richars: (918) 591-5171 or Glen.Richars@oneok.com

STATE OF MINNESOTA

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

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

MPUC Docket No. ____________

PETITION FOR CHANGE IN CONTRACT DEMAND ENTITLEMENT FOR 2015-2016 HEATING SEASON

OVERVIEW

Greater Minnesota Gas, Inc. ("GMG") submits this filing to the Minnesota Public Utilities Commission ("Commission") to notify the Commission of a change in contract demand entitlement effective November 1, 2015. GMG will include the rate impact of these changes in GMG's Purchased Gas Adjustments effective November 1, 2015, pending Commission approval.

GMG's analysis demonstrates that with the proposed changes, GMG will have sufficient capacity to serve its firm customers during the 2015-2016 heating season without subjecting its ratepayers to paying unduly high amounts for maintaining its reserve. GMG's anticipated growth for purposes of this Petition is consistent with its anticipated growth reflected in its capital structure filing for 2015. In light of the early filing of this Petition and its expectation of new customer growth, GMG anticipates informally reviewing its projections, demand entitlement, and reserve margin immediately prior to the heating season to ensure that adequate capacity will be available to meet projected peak day demand and design day conditions. In the event that an adjustment of its contract demand request is necessary at that time, GMG will undertake appropriate action to address that scenario.

Minnesota Rule 7825.2910 Subp. 2 requires GMG to identify four things when filing for a change in demand, namely: discussion of the factors contributing to the need for changing demand; GMG's design day demand analysis; a summary of GMG's customers' winter and summer usage for all customer classes; and, a description of GMG's design day gas supply from all sources under it proposed level. This Petition addresses each of the requisite four areas based on GMG's analysis of its current customer usage and patterns, the impact GMG's current and anticipated growth on the upcoming heating season, and forecasting the size and expected load of new and recently acquired customers. GMG notes that, given the early filing of this Petition, to adequately predict growth, it does use a conservative approach. Empirical evidence suggests that, when GMG brings natural gas to a previously unserved area, many new customers ultimately avail themselves of the benefits that come with converting to gas use. Hence, actual throughput exceeds forecasted needs. That phenomena supports GMG's continued use of a conservative reserve margin. GMG considered a mathematical analysis based on actual throughput as the Department suggested. As shows in Attachment A, Page 3, GMG's peak day occurred on February 18, 2015 at 70 HDD and resulted in a firm sales throughput of 8,369 Dth/Day. The firm customer count on that date was 5,582, and the resulting use per customer was 1.430 Dth. GMG's customer additions for 2015 are projected to be 1747. GMG applied the following analysis:

90/70	(to adjust for 90 HDD)
x 8,369	actual peak day throughput
= 10,760	peak day if 90 HDD
+ 1,747	additional CEs based on residential usage of 1 Dth/Day
= 12,507	projected peak day requirement

GMG's analysis for additional customer equivalents is predicated on modeling peak day use of 1 Dth per day, which is consistent with the budget modeling that GMG employs. It is based on residential customer equivalents. GMG does not assume that actual customer additions will be a linear increase of its precise customer mix. GMG's mathematical analysis confirms that its requested demand entitlement will provide sufficient reserve.

3. The Summary of Winter Versus Summer Usage for All GMG Customer Classes Supports a Change in Demand Entitlement.

A summary of GMG's customer usage for both the winter and summer seasons is provided below, broken down by customer class. Due to the early filing of this Petition, the summary is based on usage for the twelve month period ending December 31, 2014.[4]

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[4] . GMG notes that previous demand entitlement dockets incorporated data for the twelve month period ending June 30th of the filing year. However, since this Petition is being submitted prior to June 30th, GMG utilized seasonal customer usage data for the 2014 calendar year.

MINNESOTA DEPARTMENT OF COMMERCE

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

COMMENTS OF THE MINNESOTA DEPARTMENT OF COMMERCE DIVISION OF ENERGY RESOURCES

DOCKET NO. G022/M-15-285

I. BACKGROUND

Pursuant to Minnesota Rules 7825.2910, subpart 2, Greater Minnesota Gas, Inc. (Greater Minnesota, GMG, or the Company) filed a *Petition for Approval of Changes in Contract Demand Entitlements* (*Petition*) on March 25, 2015 with the Minnesota Public Utilities Commission (Commission). The Company proposed that the changes in its demand entitlements be effective on November 1, 2015. The filing date of March 25, 2015 is prior to August 1; as such, it complies with Ordering Point No. 3 of the Commission's April 25, 2014 *Order* in Docket No. G022/M-13-730 which required the Company to file demand entitlements by August 1 of each year.

In its *Petition*, Greater Minnesota requested that the Commission accept the following changes in the Company's overall level of contracted capacity.

Table 1: Greater Minnesota's Proposed Total Entitlement Changes

Type of Entitlement	Proposed Changes Increase (decrease) (Dekatherms (Dth))[1]
Delivery Contract	(950)
FT-A Capacity Release, Non-recallable	2,600

The Company's proposal in the instant docket would add to GMG's proposed level of firm supplies in Docket No. G022/M-14-651 (Docket 14-651), which has not yet been brought to the Commission for resolution.[2] Specifically, GMG's proposal in the instant docket would increase the Company's proposed design-day (winter) capacity by 1,650 Dth/day from 10,859 Dth/day to 12,509 Dth/day. GMG's proposed base entitlement level, 10,859 Dth/day, includes both the 100 Dth/day that GMG requested and the Department

[1] Dekatherms (Dth).

[2] The Commission has scheduled this docket for the agenda meeting on June 12, 2015.

Although only four years of historical data exists since increased expansion began on the Greater Minnesota system, the Company has generally under-forecasted customer growth and, during the 2014-2015 heating season, actual growth was relatively close, within 10 percent, of original projections. If estimated customer growth of 1,888 for the 2015-2016 heating season does not materialize, and the difference in growth is similar to the 2014-2015 heating season, on a percentage basis, it is unlikely that the over-projection of customer growth will result in rates that are unreasonably high for existing customers, especially when considering the design-day analysis in Section B above.

In addition, the Department requested clarifying information from the Company in an informal information request regarding its planned customer additions prior to the 2015-2016 (DOC **Trade Secret** Attachment 5). The Company noted that the expected customer growth is derived from several large projects. Despite the large nature of the projects, Greater Minnesota further stated that it strives to protect its ratepayers from risk by conducting thorough market analysis and working with community and business leaders prior to predicting growth. The Company also noted that its customer figures are based on a customer equivalent (CE) calculation, which it uses in nearly all of its modeling and regulatory filings. Greater Minnesota explained that its CEs are based on the average revenue margin for a residential customer. For example, if an industrial or commercial customer is added to the system, the Company treats this new load, from a modeling standpoint, as a group of residential customers.

The amount of customers, or more appropriately CEs, Greater Minnesota anticipates adding prior to the 2015-2016 heating season is significant and, if growth projections do not reach expectations, there is a risk of unreasonably higher costs to existing firm ratepayers. However, since growth has increased on the Company's system, actual customer additions have exceeded or been relatively close to forecasted customer additions so the risk to existing customers does not appear significant at this time. As such, the Department concludes that the projected customer additions do not appear unreasonable at this time. Further, the Company's use of CEs may also explain the change in peak day use per customer noted in Section B above. As noted above, the CEs are based on annual residential non-gas revenue. Hypothetically speaking, over the course of a year, a commercial or industrial "customer" may use the equivalent of 50 residential customers; however, on a peak day, these commercial or industrial CEs may use more than residential customers because, all else being equal, commercial and industrial load tends to be more constant.

As discussed in Section B above, the Department recommends that the Company explore segregating its linear regression modeling into two components, for larger and smaller firm customers.

Minnesota Public Utilities Commission

Staff Briefing Papers

Meeting Date:	**September 17, 2015**	***Agenda Item 6**

Company: Greater Minnesota Gas Company (GMG)

Docket No. **G-022/M-15-285**
In the Matter of a Petition by Greater Minnesota Gas Company (GMG) for Approval of Changes in Contract Demand Entitlements for the 2015-2016 Heating Season Supply Plan effective November 1, 2015.

Issue: Should the Commission approve Greater Minnesota Gas Company's (GMG) proposed demand entitlement capacity (levels) and cost changes to meet its Design Day and Reserve Margin requirements as described in the listed docket, effective November 1, 2015?

Staff: Bob Brill 651-201-2242

Relevant Documents

G-022/M-15-285

GMG Initial Petition	March 25, 2015
Department of Commerce (Department) Comments and Attachments	June 2, 2015
GMG Reply Comments	June 11, 2015
GMG Letter	June 23, 2015
Department Response to Reply Comments	July 28, 2015[1]

The attached materials are workpapers of the Commission Staff. They are intended for use by the Public Utilities Commission and are based upon information already in the record unless otherwise noted.

This document can be made available in alternative formats (e.g., large print or audio) by calling 651-296-0406 (voice). Persons with hearing loss or speech disabilities may call us through their preferred Telecommunications Relay Service.

[1] This document was received in the eDockets system on July 29, 2015.

3. Allow GMG to recover associated demand costs through the monthly Purchased Gas Adjustment effective November 1, 2015; and

4. In its future AAA reports, GMG should attempt to match any under- or over-recoveries of storage costs as equitably as possible to the customer classes and to explain fully how GMG has accomplished this.

PUC staff reviewed GMG's 2015-2016 demand entitlement petition and appreciates the parties' comments. PUC staff believes that for this docket, the majority of the issues have been resolved.

PUC staff generally agrees with the Department's July 28, 2015 GMG recommendations, but offers additional discussion and decision alternatives for the Commission to consider.

Design Day and Demand Entitlement Modelling

GMG

In this docket, GMG stated that it employed its single ordinary least square regression analysis methodology to predict its DD requirements, similar to what it used in Docket 14-651 (GMG's 2014-2015 demand entitlement petition).[26] Further, GMG used a combination of analytical tools to verify its proposed statistical regression analysis DD requirements that included a combination of its existing customer data, projected growth information, and budget year analysis.[27]

GMG's justification for using a single regression analysis was that it did not have sufficient historical data since a large percentage of its customer load did not go in-service until 2013. In this docket, GMG proposed to continue calculating its DD using its single regression analysis methodology until it has three solid years of data necessary to incorporate the Department's two-stage methodology.[28]

In its June 11, 2015 *Reply Comments*, GMG agreed with the Department that separating residential and industrial/commercial customer's regression analysis is appropriate when sufficient historical data becomes available. GMG requested that it be permitted to continue to use its current methodology until it has three years of data available to determine viable load profile usage data and baseload consumption estimates.

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[26] GMG's employs four separate regression models for Mankato, Fairbault, Shakopee, and Swanville.

[27] GMG analysis was completed by using historical firm sales volume data and actual temperature data for the heating season periods from November 2011 through February 2015. The firm sales volume data was correlated to geographic weather data by assigning town border station locations geographically to weather sites. Employing widely-accepted statistical analysis, a linear equation was derived from the linear regression model that was used to calculate the design day usage per customer. The forecasted number of firm customers for the 2015-2016 heating season was then multiplied by the design day usage per customer to derive the design day requirements. GMG's analysis for additional customer equivalents is predicated on modeling peak day use of 1 Dth per day, which is consistent with the budget modeling that GMG employs. It is based on residential customer equivalents. GMG does not assume that actual customer additions will be a linear increase of its precise customer mix. GMG's mathematical analysis confirms that its requested demand entitlement will provide sufficient reserve. See Docket No. 15-285, Attachment A - details of GMG regression analysis calculations.

[28] See Docket No. 15-285, GMG *Initial Petition*, pp. 3-6.