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February 23, 2018

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 Approval of 2018 Capital Structure and Permission to Issue Securities
Docket No. G022/S-17-808

Dear Mr. Wolf:

Attached hereto, please find Greater Minnesota Gas, Inc.'s Reply Comments for filing in the above-referenced docket.

All individuals identified on the attached service list have been electronically served with the same.

Thank you for your assistance. Please do not hesitate to contact me should you have any questions or concerns or if you require additional information. My direct dial number is (507) 665-8657 and my email address is kanderson@greatermngas.com.

Sincerely,

GREATER MINNESOTA GAS, INC.

/s/

Kristine A. Anderson
Corporate Attorney

Enclosure

cc: Service List

CERTIFICATE OF SERVICE

I, Kristine Anderson, hereby certify that I have this day served a true and correct copy of the following document to all persons at the addresses indicated on the attached list by electronic filing, electronic mail, or by depositing the same enveloped with postage paid in the United States Mail at Le Sueur, Minnesota:

**Greater Minnesota Gas, Inc.'s Reply Comments
Docket No. G022/S-17-808**

filed this 23rd day of February, 2018.

/s/ Kristine A. Anderson
Kristine A. Anderson, Esq.
Corporate Attorney
Greater Minnesota Gas, Inc.

| First Name | Last Name | Email | Company Name | Address | Delivery Method | View Trade Secret | Service List Name |
|----------------|--------------------|--------------------------------------|------------------------------------|--|--------------------|-------------------|------------------------|
| Kristine | Anderson | kanderson@greatermngas.com | Greater Minnesota Gas, Inc. | 202 S. Main Street Le Sueur, MN 56058 | Electronic Service | No | OFF_SL_17-808_S-17-808 |
| Generic Notice | Commerce Attorneys | commerce.attorneys@ag.state.mn.us | Office of the Attorney General-DOC | 445 Minnesota Street Suite 1800 St. Paul, MN 55101 | Electronic Service | Yes | OFF_SL_17-808_S-17-808 |
| Ian | Dobson | residential.utilities@ag.state.mn.us | Office of the Attorney General-RUD | 1400 BRM Tower 445 Minnesota St St. Paul, MN 551012130 | Electronic Service | Yes | OFF_SL_17-808_S-17-808 |
| Sharon | Ferguson | sharon.ferguson@state.mn.us | Department of Commerce | 85 7th Place E Ste 280 Saint Paul, MN 551012198 | Electronic Service | No | OFF_SL_17-808_S-17-808 |
| Brian | Gardow | bgardow@greatermngas.com | Greater Minnesota Gas, Inc. | PO Box 68 Le Sueur, MN 56058 | Electronic Service | No | OFF_SL_17-808_S-17-808 |
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| Daniel P | Wolf | dan.wolf@state.mn.us | Public Utilities Commission | 121 7th Place East Suite 350 St. Paul, MN 551012147 | Electronic Service | Yes | OFF_SL_17-808_S-17-808 |

STATE OF MINNESOTA

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

Nancy Lange
Dan Lipschultz
Matt Schuerger
Katie Sieben
John Tuma

Chair
Commissioner
Commissioner
Commissioner
Commissioner

MPUC Docket No. G022/S-17-808

**In the Matter of Greater Minnesota
Gas, Inc.'s Petition For Approval Of
2018 Capital Structure And
Permission To Issue Securities**

REPLY COMMENTS

OVERVIEW

Greater Minnesota Gas, Inc. (“GMG”) submitted a filing to the Minnesota Public Utilities Commission (“Commission”) requesting approval of its 2018 capital structure and permission to issue securities on November 15, 2017. The Petition requests that the Commission approve GMG’s proposed 2018 capital structure which will enable it to provide natural gas to areas of rural Minnesota that are currently unserved. On February 16, 2018, the Minnesota Department of Commerce, Division of Energy Resources (“Department”), filed Comments of the Minnesota Department of Commerce Division of Energy Resources (“Comments”) in response to GMG’s Petition. This submission constitutes GMG’s Reply to the Department’s Comments.

ISSUE SUMMARY

In its Comments, the Department recommended approval of GMG’s capital structure, subject to proposed requirements for future years, and discussed several issues. GMG shares the desire of the Department and the Commission to promote an increased equity ratio and it does not object to the general idea of the same. That said, GMG proposes that the Department’s suggestions be slightly modified as discussed below. Ergo, GMG provides additional information herein regarding the following aspects of the Comments in order to clarify the record and address the Department’s suggestions:

- Discussion regarding raising the target equity ratio.
- Discussion regarding the appropriate timing and record to consider GMG’s future equity ratio floor.

DISCUSSION IN REPLY

GMG appreciates the Department's recommendation that its capital structure be approved; and, as GMG has indicated in previous dockets and by its 2018 proposed capital structure, GMG is also interested in continuing the development of a financially strong utility that can provide quality service to rural Minnesota and expand the benefits of natural gas to unserved areas. GMG accepts the Department's contention that it should continue to increase its target equity ratio and believes that its proposal herein regarding subsequent capital structure design provides a balanced approach to meet mutual GMG, Department, and Commission goals while ensuring that the Commission's decisions and GMG's planning are based on a complete record.

1. GMG's Future Equity Ratio Target Should Be Both Realistic and Adjusted for Likely Consequences of the 2017 Federal Tax Act.

The Department recommended that the Commission require GMG, as a condition of approval of its 2018 capital structure, to develop a plan that, assuming normal weather conditions, results in an equity ratio of 36.5% by December 31, 2019, which reaches into a future year's requirements. The Department acknowledged that its proposed target did not incorporate any adjustment for consequences of the 2017 Federal Tax Act. GMG's service area is experiencing normal weather conditions during the 2017-2018 season; but, nothing is known about future weather conditions and the preceding two heating seasons have exhibited considerably warmer than normal conditions. Nonetheless, given the normal weather conditions for the 2017-2018 heating season, GMG believes that it will likely be possible to achieve an equity ratio of 35.9% by December 31, 2019 if normal weather conditions continue, which is approximately 1% above the capital structure proposed in GMG's petition with an adjustment for the impact of the tax act.

GMG recognizes that its proposed equity ratio target for the end of 2019 represents a 0.6% difference from that recommended by the Department. The primary reason for the difference is that GMG is currently assuming that its equity will be reduced by 0.6% as a result of the 2017 Federal Tax Act. GMG believes that, given normal weather conditions and a normal grain drying season, the goal proposed by the Department is a stretch but is possible to meet if it is adjusted for the anticipated shortfall caused by Tax Act changes.

GMG has worked very hard to increase its equity ratio by approximately 1.4% over an 18 month window that includes two heating seasons. GMG does not think that it is feasible to consistently increase its equity ratio by one percent or more in a one-year period without raising its rates. Many of GMG's customers have signed up for service within recent years; and, it is important to maintain stable rates to retain the trust GMG's consumers have shown in the Company. Moreover, as the Department recognized, the actual impact of the recent federal tax changes are still unknown. Consequently, GMG proposes that, if a requirement for its 2019 target equity ratio is established in the instant docket, it be set at 35.9%, assuming normal weather, with an opportunity to explain why the target cannot be met if the increase is not possible based on actual circumstances.

2. The Level of GMG's Equity Ratio Floor Requirement Should Be Established in GMG's 2019 Capital Structure Docket.

After having an equity ratio floor requirement of 31.59% for several years, one year ago the Commission required GMG to step its equity ratio floor up to 33% by March 31, 2019. Consequently, GMG's proposed 2018 capital structure is designed to reach that level. The Department recommended that GMG be required to propose an additional step increase in its equity ratio floor in its 2019 capital structure petition as a condition of approving its 2018 proposed capital structure.

GMG recalls the Department's remarks at the meeting during which the Commission considered GMG's 2017 capital structure petition wherein the Department explained that, at a high level, its goal in requiring increases in the equity ratio floor is to compel GMG to make incremental improvements to its equity ratio by placing expectations for future years based on the idea that the improvements will be achievable through earnings from operations. GMG understands the Department's motivation and recognizes the parallel intent underlying the Department's recommendation this year. However, GMG submits that requiring it to increase its equity ratio floor well into the future when future conditions cannot be predicted is neither appropriate nor good public policy.

GMG proposes that, rather than establishing an arbitrary requirement to increase the equity ratio floor approximately two years from now, the Commission consider what constitutes an appropriate 2020 equity ratio floor in conjunction with GMG's 2019 capital structure petition. By the time of GMG's next capital structure filing, the actual impact of the 2017 Federal Tax Act will be reflected in GMG's books; the 2017-2018 heating season will have concluded and the 2018-2019 heating season will likely have begun; and, GMG will have a rough sense of the impact of the 2018 grain drying season on its earnings. GMG maintains that all parties will be better served by considering what equity ratio floor is possible based on GMG's earnings when there is at least some concrete information in the record. Moreover, GMG's increased equity ratio target will keep it on track for improving the Company's financial health, so the Department's goal of compelling GMG to improve its financial picture will still be served.

Waiting to establish the 2020 equity ratio floor until the 2019 capital structure petition is considered will allow GMG, the Department, and the Commission to assess the 2019 capital structure proposal based on actual knowledge of how the variables developed and their impact on GMG's ability to achieve its planned equity ratio. The result assures the Commission that GMG's equity ratio can improve over time while balancing that with GMG's ability to continue providing natural gas access to rural Minnesota and a realistic assessment of the conditions that impact financial performance analysis.

REQUEST FOR COMMISSION ACTION

GMG's proposed capital structure is reasonable and will benefit the interests of GMG's customers, both existing and new. Hence, GMG respectfully requests that the Commission approve its 2018 proposed capital structure and grant permission to issue securities in accordance with the limits and contingencies identified in the Department's Comments. With regard to its 2019 capital structure petition requirements, GMG agrees that it will propose a plan that would result in a year-end equity ratio of 35.9%, assuming normal weather, or explain why that is not possible. Further, GMG respectfully requests that, rather than imposing an additional equity ratio floor increase for 2020 without a record to do so, the Commission consider GMG's future equity ratio with its 2019 capital structure petition based on the most complete information then available.

Dated: February 23, 2018

Respectfully submitted,

/s/
Kristine A. Anderson
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